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GIULI KESHELASHVILI
Ivane Javakhishvili Tbilisi State University, Georgia

GENERAL STRATEGIES OF GEORGIAN WINEMAKING COMPANIES' MANAGEMENT IN THE CONDITIONS OF INTEGRATED DEVELOPMENT

Abstract:

Work offers study of wine market development trends in the world and in Georgia. It analyses Georgian wine export and import and indentifies the sector problems. The role and significance of economic, organizational and managerial relations in wine production and management is discussed. The organizational-economic factors impacting Georgian wine production. The measures for creation of European-type farmer cooperatives are specified. On the example of Georgia the work demonstrates that effective management of vine growing and winemaking requires coordination of the European funds policies with the development and planning instruments to maximize effectiveness of the state support policies in this sector. The recommendations for Georgian winemaking companies' development are provided.

Keywords:

Winemaking Companies; Strategies; Export; Import

JEL Classification: M21

Introduction

Winemaking is the most ancient and significant sector of agriculture in Georgia and it is the subject of national pride. It is one of the important sources of strengthening of the country's export potential. Therefore, the state pays great attention to development of winemaking. The ancient traditions of Georgian winemaking provides basis for its international recognition. This is that advantage that could not be acquired by the competitors. It is widely accepted in the scientific circles that Georgia is the country where the wine originates from and some scientists associate the international word "vino" denoting wine with Georgian etymology.

History of the vine culture is closely linked with the history of Georgian nation. Creative nature of our people and their special love to the vine and wine was expressed in Georgian culture, traditions, architecture, ornaments, punchwork, painting, poetry, songs and other arts. Georgia is regarded as one of the first centers of origin of the cultural vine (Vitis viniferal). Vine selection has been taking place since 6000-4000 BC. Cultural vine has spread in the Mediterranean basin, Near East and finally in America. The grape seeds were discovered in Iran, Turkey, Syria, Lebanon and Jordan. The researches show that vine growing and winemaking have commenced in Georgia as early as 7000 BC. In 1965, joint expedition from S. Janashia State History Museum and Tbilisi State University to Shulaveri Meadow has discovered the ancient settlement, where there was great quantity of botanical materials. Among discovered materials the grape seeds were of particular interest. As a result of analysis, Georgian and foreign scientists have established that this were the seeds of cultural grapes dated by 5000-70000 BC and they are the oldest ones not only in Georgia but all over the world. The ancient grape seeds discovered in Shulaveri evidence that at that time, in the Kura River gorge, south and central Georgia, there was well developed culture of winemaking. The ancient wine cellar, clay vessels for wine storage, golden, silver and bronze bowls, pottery dated by 4^{th} – 3^{rd} – 2^{nd} millennia, ceramic items of Bagineti confirm that Georgia is the country of origination of viticulture and winemaking.

When St Nino came to Georgia, she held a cross made of vine and fastened with her hair, Vine became the symbol of Georgian Orthodox Christian Church. Doors of Georgian churches were often made of vine. Cine ornaments were used as decoration ion construction of the monasteries.

In the ancient times, viticulture was one of the leading sectors of Georgian agriculture. Georgian wines were exported into the neighboring countries [https://ka.wikipedia.org/wiki/ Viticulture and Winemaking in Georgia].

For the centuries Georgian people has created culture and traditions of vine growing and wine consumption. It has developed technologies for making of dry, naturally sweet and semi-sweet table wines, as well as the dessert and sparkling wines, those of Kaktetian and Imeretian types. Kvevri wine is made in Georgia only. Academician Sergo Durmishidze has extracted "PP" vitamin from the wines made by Kakhetian technology. This vitamin is good for blood circulation in human body. French scientist, Professor Burdzensi has studied the composition of rkatsiteli wine made in the kvevri and extracted the new group of phenol compounds – pro-cyanides. He has found out that pro-cyanides prevent development of cardiac infarction processes [Enotherapy, http://www.qvevriwines.com/enotherapy.html].

One litre of white Kakhetian wine made in kvevri contains over 4 grams of phenol compounds, while the white wines of European type contain no more than 0.4 grams of these compounds. Kakhetian type red wine contains over 6 grams of phenol compounds while in European red wines their content is two times lowed [Wine – unique remedy [http://www.mkurnali.ge/rchevebi90/1131-ghvino-unikaluri-mkurnali.html].

There are known up to 4000 vine species all over the world. In Georgia, there are 450 local species, 62 of which are included into the standard range, including 29 wine species and 9 table ones. Academician Iv. Javakhishvili, in his book "Economic History of Georgia" has mentioned 413 species of vine. He wrote: "wide ampelography and viticulture terminology, abundance of vine and grape species, as well as the talent of observations, demonstrated in their names, together with the high qualities of Georgian vines and grapes lead the researchers to the conclusion that viticulture was very well developed in ancient Georgia" [http://icode.ge/2010/05/01/].

In thirties of the 20th century, in Georgia, new stage of viticulture and winemaking development has commenced. New vineyards were arranged and winemaking became a powerful industry, wide scientific-practical work has commenced and this has provided solid basis for further rehabilitation and development of this sector. In eighties of the past century, total area of the vineyards in Georgia was over 150 thousand hectares, wineries consumed about 500-700 thousand tons of grapes annually. While in 90-ies, heavy political and socioeconomic situation, wars in Abkhazia and Samachablo have caused severe damages to viticulture and winemaking. Consequently, the industrial-economic potential of agriculture has reduced significantly. One of the ways to overcome this reduction was diversification of the sector. As it is mentioned by Kharaishvili (2016)

,,In particular, diversification of farms is one of the conceptual issues for modern Georgia as diversification of farms can make changes in the sectoral composition of the economy" [Kharaishvili, E. 2016].

Research results

France and Italy are the leaders among world's ten largest wine producers (France, Italy, Spain, USA, Argentina, Australia, Germany, South African Republic, Portugal and Chile). In 2014, these countries have produced 16.54% and 15.85% of total world output, respectively. Georgia is rated 25th among wine producing countries and its share at world market is 0.35%.

Table 1. Wine production in the world and in Georgia, in 2011-2014 (thousand litres)[1]

	Countries	2011	2012	2013	2014	2014, % in world production	2014, % compared with 2011
1	France	4977800	4047700	4107500	4670100	16.54%	5.4%
2	Italy	4277200	4082900	5402900	4473900	15.85%	(4.3%)
3	Spain	3339700	3150000	3123300	3820400	13.53%	8.1%

[1] Wine Intitute, World Statistics, http://www.wineinstitute.org/resources/statistics

4	USA	2692400	2981100	3114600	3021400	10.70%	12.2%
5	Argentina	1547000	1177800	1498400	1519700	5.38%	(1.8%)
6	Australia	1109000	1187000	1250000	1200000	4.25%	8.2%
25	**Georgia**	**90000**	**95,000**	**105,000**	**98,000**	**0.35%**	**8.9%**
	Total, world	**26543800**	**27629000**	**27885400**	**28230400**	**100.00%**	**6.4%**

Natural-climatic conditions provide the best environment for development of high quality viticulture and winemaking in Georgia. Due to drastic differences in viticulture and winemaking, our territory is divided into two parts: Eastern and Western Georgia, including six regions: Kakheti, Kartli, Meskheti, Imereti, Racha-Lechkhumi and Black Sea Coastal zone. Among these regions, Kakheti Region is at leading position. In this Region, wine types, by grape species and color are as follows [National Wine Agency, [http://georgianwine.gov.ge/geo/]:

Table 2. Wines and grape species in Kakheti Region, Georgia[2]

Wine sort	Grape species	Color
Tsinandali	Rkatsiteli	Sparkling, rose
Vazisubani		Yellowish, steaw
Napareuli		Red dry
Kardenakhi		
Mukuzani	Saperavi	Dark red
Kindzmarauli		Cornel-red
Vakirula	Hynrid - vakirula	Red, cornel-red

In addition to Kakheti Region, there are numerous viticulture micro-zones in Georgia, where local climate adds to given wine species unique taste and properties. Wines made of the grapes from such micro-zones are named after the locations and in accordance with Georgian legislation, these wines are subject to the most strict quality control, for example Khvanchkara in Racha, Kindzmarauli, Akhasheni and Tsinandali in Kakheti.

2 National Wine Agency; http://georgianwine.gov.ge

In Georgia, grapes are used for production and consumption purposes. For production purposes the grapes are procured by both, winemaking companies and households. Tens of companies procure 96-67% of grapes yields for winemaking and production of the other alcohol drinks and only 3-4% is consumed as table grapes.

Currently, the most notable winemaking companies of Georgia are as follows: Teliani Veli, Georgian Wines and Spirits (GWS), Telavi Wine Cellas (TWC), Sameba, Tbilgvino, Vaziani etc. They have material-technological bases complying with the world standards ensuring high quality of their products. Here, ancient Georgian winemaking traditions are combined with the today's technological achievements. These companies mostly sell their products at Russian market.

After Russian embargo against Georgian wines the issue of gaining of new markets was put on agenda. Table 3 shows decrease of Georgian wine exports from 2006, after Russian embargo in 2006. In 2006, Georgian wine exports has halved compared with year 2005, comprising $41 million and in 2007, this figure has fallen even lower, to $29 million. From 2008 the situation started to recover. Year 2014 was of particular significance for Georgian wine export, for last decade. On one hand, in 2013, UNESCO has awarded the status of immaterial cultural monument to the ancient winemaking method in kvevri and on the other – releasing of Russian embargo against Georgian wine has impacted significantly export figures and in year 2014, these were 3.7 times higher than in 2006.

Table 3. Georgian wine exports in 2001-2014 period (USD million)[3]

Year	Wine exports, $ million	% compared with the previous year	% compared with year 2001
2001	32	-	-
2002	33	103,1	103,1
2003	43	130,3	134,4
2004	49	125,3	153
2005	81	165,3	253,1
2006	41	50,6	128,1
2007	29	70,7	90,6
2008	37	127,6	115,6
2009	32	86,5	100
2010	41	128,1	128,1
2011	54	131,7	168,7
2012	65	120,4	203,1

3 Table is based on the data from GeoStat http://geostat.ge/index.php?action=page&p_id=136&lang=geo

2013	128	196,9	400
2014	180	140,6	562,5

According to the data from the National Wine Agency, incomes from sales of wines exported in 2014, were 30% higher than in 2013 [http://georgianwine.gov.ge]. See. Fig. 1. It should be noted that in addition to Russian market, Georgian wines are successfully sold in Ukraine, Baltic states, Japan, USA, the Netherlands and other countries.

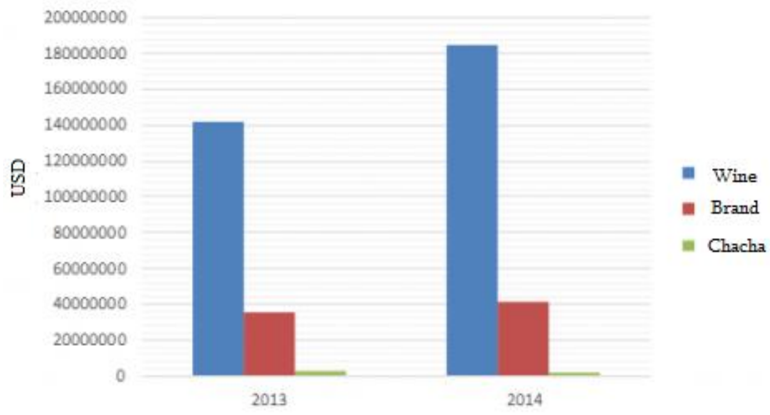


Fig. 1. Revenues from Georgian wine exports in 2013-2014 (USD)

Top ten export countries include former socialist (Kazakhstan, Belarus, Latvia, Estonia) and Eastern European (Poland) countries, as well as China, being one of the world's growing markets, also Germany. In year 2014, there was observed the trend of exports reduction in Ukraine, due to the political situation there (see Table 4), though, Ukraine is still one of the most significant export states for Georgia. Export reduction trend was observed also in USA, Hong-Kong and Lithuania. Turkey, Mongolia, and Russia could be regarded as growing markets for Georgian wines, though currently these countries do not significantly change the quantitative pattern of sales.

Table 4. Exports of Georgian wines by countries, in 2013-2014 (US$ million)[4]

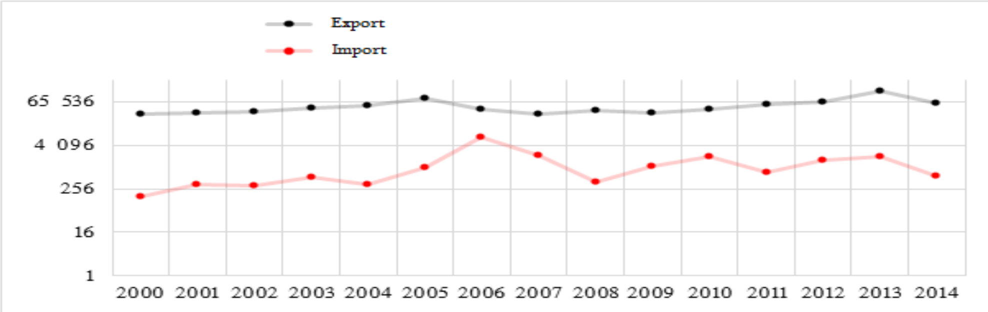
Country	Year		Deviation %
	2013	2014	
Russia	23	37,6	64
Ukraine	11,8	7,7	-35
Kazakhstan	4,5	5,4	20

[4] Table is based on the data from GeoStat http://geostat.ge/index.php?action=page&p_id=136&lang=geo

Belarus	**1,6**	**1,8**	**13**
Poland	**1,3**	**1,5**	**15**
China	**0,9**	**1,2**	**33**
Latvia	**0,9**	**1,1**	**22**
Lithuania	**0,8**	**0,6**	**-25**
Estonia	**0,3**	**0,3**	**0**
Germany	**0,2**	**0,3**	**50**
Azerbaijan	**0,2**	**0,3**	**50**
USA	**0,22**	**0,19**	**-14**
Mongolia	**0,065**	**0,133**	**105**
Japan	**0,1**	**0,13**	**30**
Canada	**0,1**	**0,1**	**0**
Kyrgyzstan	**0,11**	**0,10**	**-9**
England	**0,06**	**0,08**	**33**
Turkey	**0,02**	**0,06**	**200**
Turkmenia	**0,04**	**0,05**	**25**
Hong-Kong	**0,1**	**0,05**	**-50**

In the same period, Georgian wine exports to 26 countries amounted to 18.965.119 bottles, 180% higher than in the similar period in year 2013. See Fig. 2.

Fig. 2. Export and import of Georgian natural grape wines, (2014*: January-April; logarithmic scale 4, thousand bottles)[5]



As a result of Georgian wine market micro-environment study conducted by Georgian scientists: E. Kharaishvili, M. Chavleishvili and M. Natsvaladze, it was established that large winemaking enterprises own only 10% of vineyards while the other 90% are owned by the household economies, 150 of which are represented as small and medium enterprises and the remained households make wine for their own consumption [E. Kharaishvili, M. Chavleishvili, M. Natsvaladze, 2014]. Among Georgian wines, kindzmarauli is the first, with respect of sales revenues, followed by tsinandali, mukuzani and akhasheni.

The stratum of winemakers with wineries equipped with low capacity though state-of-art material-technological basis, with adequate raw materials supply is formed in Georgia. Wines produced by them are distinguished with fine quality and they are successfully sold at domestic and foreign markets. For entry of Georgian wine to international market, it is necessary to assess their competitiveness. Competitiveness assessment performed by Georgian scientists by ex-post and ex-ante methods [Weindlmaier 1999, S.2] showed that Georgian wines are highly competitive [E. Kharaishvili, 2011, pp. 90-91].

We have basically used for analysis the data obtained from the managers of Georgian winemaking companies. Studies showed that improvement of the products' quality, compliance with the international standards and prices' positioning are significant factors for the companies' development.

Significant part of Georgian companies at the European market (JSC Telavi Wine Cellar, Georgian Wine House, JSC Tbilghvino, Georgian Wines and Spirits Ltd., Dugladze Wine Company Ltd., JSC Teliani Veli, Georgian Wine House Ltd., Badagoni Ltd., Georgian Representation Office of Georgian Wines from Mukhranis Marani LLC, Tiflisski Vinni Pogreb Ltd., Gruzvinprom Ltd., GWS, Askaneli Brothers, Geowine, Shumi, Vaziani Company, Chelti, Kakhetian Traditional Winemaking, Chateau Mukhrani, Winery Khareba) has found their niches. These companies pay significant attention to introduction of the innovative processes and technologies, development of human capital, arrangement of the trainings and professional development activities, development of sound competition, increase of exports. Key players at European market are French, Italian and German winemaking companies holding the high-end niches with the wine prices starting from EURO 15-17,

[5] Data source: Geostat http://geostat.ge/

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wines from Moldova and Adriatic countries are relatively cheap, within EURO 8-12. Georgian wines have taken the niche between them, within Euro 12-14 and attempt to compete with the powerful players at European market relying on the unique properties and high quality of their products.

Kakhetian kvevri wine is distinguished from the wines all over the world with its unique properties. It is used for treatment of such diseases as cardiovascular diseases and tumors. In the kvevri wine technology the vine grape stems play particular role, providing the taste and aroma characteristic for Kakhetian wines, that are absent in wines made without grape stems. Kvevri wine made with traditional method is rich with the organic and inorganic compounds contained in the grapes and required for vital processes in human body. This is the advantage of traditional Kakhetian kvevri wine, compared with the wines made by the European technologies, i.e. without chacha.

In our opinion, international expansion of Georgian wine should be provided simultaneously with promotion of Georgian grape species. Attention should be focused on the unique and ancient traditions of Georgian winemaking, with particular emphasis on the fact that Georgia is the place of origin of the vine. In this respect, it is significant to attend international wine symposia. 12 Georgian companies have attended international exhibition of the wines and alcohol beverages - Vinexpo Bordeaux 2015, arranged in 2015, in Bordeaux, France. These companies are as follows: Besini, Telavi Wine Cellar, HWS, Askaneli Brothers, Geowine, Shumi, Vaziani Company, Chelti, Tbilghvino, Kakhetian Traditional Winemaking, hateau Mukhtani and Winery Khareba [http://www.ipress.ge/new/8350-qartuli-ghvinis-mtsarmoebeli-12-kompania-saertashoriso-gamofenaze-Vinexpo-Bordeauxze-tsarsdga].

Conclusions: based on the analysis of our research outcomes, we can make the following conclusions:

- Wine cellar of 4^{th} – 3^{rd} – 2^{nd} millennia, discovered in the territory of Georgia as a result of archeological researches, he clay kvevris, golden, silver and bronze bowls and pottery confirm that Georgia is the country of origin of viticulture and winemaking;
- Winemaking is the oldest sector of Georgian agriculture and one of the most significant sources for improvement of the country's export potential;
- Kvevri wine has unique medicinal properties and it is produced only in Georgia;
- Georgia is 25^{th} among winemaking countries of today's world and its has 0.35% market share;
- 96-97% of grape yields in Georgia is used for production of wines and other alcohol beverages, while other 3-4% is consumed as table grapes;
- Georgian companies: Teliani Veli, Georgian Wines and Spirits (GWS), Telavi Wine Cellar (TWC), Sameba, Vaziani, Askaneli Brothers, Geowine, Shumi, Chelti, Kakhetian Traditional Winemaking. Chateau Mukhrani etc., have the material-technological basis complying with international standards ensuring high quality of their products;
- Georgian wines, such as kindzmarauli, tsinandali, mukuzani and akhasheni are at the top of sales list;
- Russia, Ukraine, Kazakhstan, Belarus, Poland, China, Baltic states, Germany, Azerbaijan and USA are the top countries where Georgian wines are exported;
- Georgian kvevri wines have number of advantages compared with the wines made with European technology;

- Georgian government should develop the policies promoting international exports to expand the companies' participation in international wine exhibitions;
- International market entry strategies are determined by grapes species' composition and therefore, we regard that it would be reasonable to substitute the vineyard areas with the low quality vines with those with the high quality species.

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