Title
An Analysis of the Competitiveness of the Armenian Wine Business

I want to submit an abstract for:
Conference Presentation

Corresponding Author
Jon Hanf

E-Mail
jon.hanf@hs-gm.de

Affiliation
University Geisenheim

Co-Author/s
<table>
<thead>
<tr>
<th>Name</th>
<th>E-Mail</th>
<th>Affiliation</th>
</tr>
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<tbody>
<tr>
<td>Artur Grigoryan</td>
<td></td>
<td>International Center for Agribusiness Research and Education (ICARE), Yerevan</td>
</tr>
<tr>
<td>Zaruhi Muradyan</td>
<td></td>
<td>EVN Wine Academy, Yerevan</td>
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</tbody>
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Keywords
Porters' Five Forces, market attractiveness, Armenia

Research Question
Based on Porters' Five Forces the paper aims to estimate the level of competitiveness of the Armenian still wine market.

Methods
We conduct a field survey in Armenia i.e having in-depth interviews with different experts and managers of the Armenian wine business. As there are about 30 wineries operating we will

Results
still in progress

Abstract
Armenia, as a transition country, has undergone tremendous structural changes since its independence. The move from a planned economy towards privatization has affected every field of business. State controlled prices, trade and value chains in agriculture and in other commodity chains were removed, so that a transformation in all economical sectors is noticeable. Due to that, business environments changed greatly since independence and strong influences on markets in terms of modernization and developments take place. The local economies, food markets as well as demographic structures were influenced by economic growth. It leads to a growth of wealth, new orientation of customers’ needs and an increased inflow of investment within the country and from abroad. Impacts are mirrored in a transformed production environment. Producers in Armenia face new challenges, as
market needs change. Still, the overall importance of the agricultural sector in Armenia remains high, so does the importance of grape production and processing. In times of the planned economy Armenia distributed most manufactured goods, such as: chemical products, textiles and others to the markets of the Soviet Union. Also great amounts of fruits and especially grapes were sold, fresh as well as dried for further processing purposes. In exchange Armenia received energy resources and raw materials as well as agricultural and food products. (KHACHATRYAN and OPPEN, 1999). During Soviet time focus was put on brandy production, where else in Georgia and Moldova wine production was emphasized. 80-90% of all grapes produced were used for brandy production, still figures show same shares. (Aramyan, 2011) As one of the earliest Soviet Republics in Armenia private farms were dissolved and integrated in the big “Ararat Wine Trust” starting around 1920. Later this trust established within Russia and the Ukraine a net of wine processing firms. The changes resulted in a growth of viticultural area to 16.300ha in 1940, 104.800hl of wine and 6.600hl of brandy were made at that time. (ROBINSON, 1999) The growth continued after the Second World War as vines were planted on fallow land and specialized collective farms were founded. In times of the Soviet Union Armenia had around 35.000ha of vineyards. During 1985 in Moscow, Mikhail Gorbachev started an anti-alcohol-campaign, which lead to wide destruction of vineyards (also fruit plantations that were used for spirit production) (SCANNELL, 2002). Also, a rise of cost for vine plantations and a wide disappearance of the “bulk purchasing system” were cause to the decrease. (GASPARYAN, 2003). At the time, when the Soviet Union fell, producers faced difficulties in adapting to privatization and newly emerged markets. Many vineyards were replanted with wheats, many wine growers as well as wineries completely stopped production processes. This development in the wine growing sector is mirrored in the total plantation size of vineyards and the output of processed brandy and wine.

Figure 1 - Armenia's plantation sizes of vineyards
(based upon ARMENIANWINEPRODUCERSASSOCIATION, 2011)

Around 90% of the grapes produced in Armenia are processed to brandy. The Armenian brandy is of world wide high reputation and has great shares of the exports that make 80% of the “processed exports”. (USAID, 2010) According to ARAMYAN (2011) for now, around 30 wine factories exist in Armenia in addition to many small home made producers. Therefore, most of the grapes grown are used for brandy produce. Viticulture is not set for wine grape growing, strong investments are needed in this sector. Wine production often is based upon a “cheaper grape”, which does not interest brandy makers. Also, because brandy sales are more profitable, producers are financially stronger and can pay higher prices. (Aramyan, 2011) In fact, many companies are distinguished by a diversified production, often keeping spirit production to ensure incomes and to be able to afford wine production as a sideline. (ALEXANYAN, 2011; MANASERYAN, 2011) USAID (2010, p.13) summed up the issues of the Armenian wine industry and stated that its only hope is “to complete an overhaul from top to bottom”. As far as producers attitudes and will to implement changes exist, a period of 10-15 years to reach competitiveness is estimated.

In order to estimate the level of competition and thereafter the attractiveness of the industry often Porter five forces are being used. This analysis is a framework that attempts to analyze the level of competition within an industry. It draws upon industrial organization economics to derive five forces that determine the competitive intensity and therefore attractiveness of an Industry. Attractiveness in this context refers to the overall industry profitability. (Porter 1985)

Based on Porters’ Five Forces the paper aims to estimate the level of competitiveness of the Armenian still wine market. Therefore, we conduct a field survey in Armenia i.e having in-depth interviews with different experts and managers of the Armenian wine business. As there are about 30 wineries operating we will try to conduct interviews with all of them.