An Analysis of the Attractiveness of the Armenian Wine Business

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**Armenia the ‘cradle of wine production’**
- oldest ‘winery’ in the world
- peak during Soviet time
- anti-alcohol policy and transition time lead to a decrease

**Revitalization of the wine culture in Armenia**
- last couple of years new wineries
- new wine bars
- increase in domestic wine consumption
- New dynamics in the Armenian wine business
Aim
- Presentation of the Armenian wine sector
- Porter’s Five Forces to describe the
  -> attractiveness of the Armenian wine business
Soviet time
- private farms were dissolved and the ‘Ararat wine trust’ was found in 1920
- focus on brandy production
-> 37 100 ha in 1978

Decline starting mid 1980s
- anti-alcohol policy
- transition time; vines were used as fire wood
-> 13 000 ha in 2003
Recent developments

- Mid 2000 first Diaspora Armenians start to invest
- Around 30 professional wineries are operating
- Over 10 wine bars have opened in the last three years
- Home production is decreasing

-> 16 000 ha in 2012
Attractiveness of the Armenian wine sector

Framework: Porter’s Five Forces

- Threat of new entrants
- Rivalry among existing competitors
- Threat of substitute products or services
- Bargaining power of suppliers
- Bargaining power of buyers
Rivalry among Existing Competitors

- Increasing number of wineries
- Modernization is ongoing
- Branding starts; varietal wines
- High level of investments by market leaders (exit barriers)
- Price increases due to increase of taxes

-> Still competition is not extremely high, however increasing
Threats of Substitutes

- Fruit wines (pomegranate) is very popular
- Imported with are considered to be of higher quality
- Home produced wine declining but still popular and cheap
- Beer consumption is increasing
- Beer bars are opening
- Beer and Spirit brands are already established
- Beer and Vodka is much cheaper

-> Due to low switching costs the threat of substitutes is quite high
Attractiveness of the Armenian wine sector

Threats of new Entrants

- High investments are needed (Land of Rocks; equipment has to be imported (see suppliers))
- High barriers to entry (long time until the beginning of operation)
- Knowledgeable staff hard to find (but education is increased)
- Foreigners hard to motivate
- Diaspora has already started to invest into the wine business
- Unstable political situation

-> Threat of substitutes is quite low
Bargaining Power of Buyers

- Young Armenians have increased interest in modern wines
- Limited number of food retailers (oligarchs)
- Limited number of specialized wine shops / bars
- Limited on-trade consumption besides wine bars

-> Bargaining power of the buyers is high; special situation because of oligarchs
Bargaining Power of Suppliers

- Limited number of importers (oligarchs)
- Grapes are produced for brandy production
- Only limited technical grapes for still wine production

-> Bargaining power of the suppliers is high; special situation because of oligarchs
Conclusion

Attractiveness

- Competition is not extremely among the existing wineries
- Increasing interest by younger Armenians (end consumer)
- The other forces have a strong (negative) influence (oligarchs)
- Overall, attractiveness is not very high

Ongoing study

- This summer field work:
  - Interviews with wineries
  - Interviews with retailer
  - Expert interviews