

Inclusion of the Value Chain in International Development

In 2006, Russia banned the import of all Georgian wines, effectively eliminating all exports of Georgian wine. Until 2006, over 80% of the 50 million bottles of Georgian wine produced annually had traveled across Georgia's northern border into Russia. The Russian Ministry of Health claimed Georgian wine had unhealthy levels of chemicals in the wine, and that Georgian wines were being counterfeited with foreign grapes and mislabeling in Georgia, while some foreign wines were being labeled as Georgian. While Georgians considered the ban to be a political move by Russia, the effect of the ban was potentially devastating to the Georgian economy and even more devastating for individual producers.

Georgia is thought to be the oldest wine making region in the world; evidence of Georgian wine has been found dating as far back as 7000-5000BC. Wine makers in Georgia use a unique process, burying earthen jugs of juice to allow fermentation for up to 50 years. The jugs, known as kvevri, are filled with fermented juice from the grape harvest, covered with a wooden top, and then buried underground.

The Georgian wine market is comprised of a large number of grape and wine producers. Most producers are small, family owned businesses or farms who use traditional Georgian wine production techniques. Few producers have large operations, creating little consistency in flavor, texture, or appearance across the industry.

To make wine and other industries more competitive, the Georgian government has consistently made efforts to deregulate markets. As Georgia attempts to remove itself from the influence of Russia, the country's growth has exceeded 10% in terms of GDP in some years. The US sees Georgia as an important trading partner. As such, the US Agency for International Development (USAID) in 2006 proposed a project to import wine to the US. The effort was intended to "[support] the Government of Georgia's reform efforts to improve the policy and operating environment for business, thereby accelerating the development and growth of private enterprises to generate employment."

USAID Georgian Wine Project

USAID awarded the contract for the Georgian wine project to Chemonics and ADCI|Voca. When Jim Krigbaum, President of the 2020 Development Company (2020DC), was brought on as a subcontractor in 2006, he made a number of recommendations he believed would make the project successful. First, he wanted to include the entire wine value chain from the US in a trip

to Georgia. That value chain includes an alcohol importer, a wholesaler/distributor, and a retailer. Alcohol is unique in that all three levels of the value chain are required by US law to get imported alcohol from its international source to US consumers.

Jim's second recommendation was to include the press in the trip to Georgia. The press would provide an opportunity to inform consumers and create domestic demand for Georgian wines. The third recommendation was to identify, screen, and open a dialogue with domestic wine buyers in order to find credible sales leads while using tradeshow simply as a way to increase visibility.

The wine project began in 2006 and was split into two parts. The first part consisted of activities to address Georgian producers' needs including educational seminars, determining production costs, and identifying potential buyers. The second part of the project entailed promoting Georgian wines in the US through trade shows, and a trip to Georgia to expose buyers to the culture of Georgian wine. These and other tasks are listed in Appendix C.

Organizing Supply

Jim was brought in to conduct the educational seminars with Georgian wine makers. The seminars focused on the US market and what Georgian winemakers could expect when exporting to the US.

“Because the wine market is demand driven, it wasn't about how much the Georgian's could produce or what price they could produce it at, it was about identifying how they can meet existing demand, how much they could sell and how to sell it. At first, they had unrealistic expectations of the US market and what they could do in it, in terms of price, quantity and how to enter the market. We wanted to manage their expectations by teaching them about the market, showing them other examples of wines in the US and what other exporters do, like Australia, for example. We wanted to teach them what US consumers expect so they could meet that demand, and not just through the end of this project, but to develop a system that assures success in the future. “

Building Demand

Inclusion of the Value Chain

Upon completion of the seminars in Georgia, Jim returned to the US to start building demand among buyers. While he found interest from a few, the overwhelming responses he received were ignorance about Georgian wines and aversion to the risk of purchasing a product largely

unknown to US consumers. Other deterrents were the rare grape varieties used in Georgian wine and the hard to pronounce wine names—hard sells to US consumers. Jim determined that the best way to grow interest in Georgian wine was to educate buyers while eliminating the risk associated with a new venture.

“I encouraged use of the entire demand chain primarily because of the risk involved in new ventures. The risk for importers is the highest along this particular chain. They are not likely to bring in a new product if they don’t know that there is a wholesaler interested in distributing the product. And likewise, wholesalers aren’t likely to take on that risk if they don’t have retailers interested in the product. Bringing an importer, a wholesaler, and a retailer to the source lowered the risk and led to some decisions being made that wouldn’t otherwise have been made. It became a collaborative process to get the wine to the markets, allowing them to share the risk.”

USAID agreed to bring representatives of each level of the US wine demand chain to Georgia. Jim extended invitations to importers, wholesalers, and retailers, representatives of the three levels of the alcohol value chain. Ultimately, he found one of each to accompany him on the second trip to Georgia. This trip focused on educating US buyers about Georgian wine, winemaking processes, and Georgian culture.

The efforts in this project were unique in taking the entire demand chain to the source. By including all levels of the demand chain, the individuals involved had the power to make purchasing decisions as a group. While most projects include consultants who make recommendations about next steps, this project included those who could make the decision at that moment about whether or not to buy. That inclusion reduces the number of steps that suppliers must take to sell their products.

Due to the complicated nature of importing alcohol to the US, importers take on a large amount of risk when choosing new products. While all expenses were paid for members of the value chain, USAID did not pay a consultant fee to any of the private sector participants. In this case, USAID subsidized the trips of the importer, the wholesaler, and the retailer, and reduced the amount of risk that each had to take on to get the wine to market. Each of the participants from the value chain confirmed that had the risk not been reduced in some way, none would have made the trip to Georgia on their own.

- 1) Subsidization of opportunities for private sector value chain participants can minimize risk. This is helpful in international development for projects that want to use markets

to enhance development in a given area. Including the private sector in development can reduce the time to get goods from the source to market.

Inclusion of the Press

Jim's second recommendation to build demand was to include members of the press who could educate the broader US public about Georgian wines. His idea was to reach wine drinkers and potential customers through frequently read publications across the country.

2020DC's job was not just to educate the companies buying and selling the wine, but to create demand from US consumers. Jim believed that due to the saturated wine market, full of domestic and imported wines from all over the world, US consumers already had too many choices. 2020DC needed to differentiate Georgian wines from the other bottles before customers got to the store.

On this project, an inexperienced consultant was put in charge of attracting writers and other relevant press members. Of the writers she invited, most were inexperienced as wine critics or did not reach an appropriate demographic. Another issue that arose was availability of writers. The consultant failed to invite them early enough—most schedules of top tier writers were already booked.

After the project, little follow-up was done to keep the press involved or interested. A few articles were written about the wine when it arrived at the stores. Those stories created short-term demand for the wine from the readers of those stories. However, later articles and pieces in other publications would likely reach other readers, creating more long-term demand.

The experience with the press in this case gives insight into what can be improved. While many members of the press were included and offered a well-rounded and varied customer base, it is apparent that a number of improvements can be made to make inclusion of the press more effective for other projects.

- 1) Include members of the press who have an area of expertise or a readership that is related to the project. Depth and breadth of the customer base is important and should be addressed through as many avenues as possible. But while luxury travel may be related to the wine that people drink on a vacation, it is likely that a writer who focuses solely on travel will get little from a trip focused primarily on wine, not hotels, transportation, or other travel related topics.
- 2) Plan ahead: many members of the press have stories planned months in advance and are not able to jump on a plane with little notice.

- 3) Follow up should include press releases to update the press on progress with the project, new varieties coming soon, and other information that will help to create dynamic and sustainable demand.

Tradeshows

For this project, Jim's third recommendation was disregarded in favor of the use of tradeshows as a sales building tactic. A number of tradeshows were attended including the Fancy Food Show in Chicago, 2007. The budget for the shows was relatively high, with expenses going to glasses, furniture, sample shipments, travel and lodging, and a large booth (20'x20'). There was little work done to contact potential buyers before the tradeshows, either to engage them in sales or let companies know the product would be at the tradeshow. The tradeshow attendees had little tradeshow experience and no training beforehand. Ultimately, this project's experience shows a number of ways to improve results.

The key to trade shows is that they are not necessarily for finding clients, customers, or buyers. Tradeshow participants should definitely not expect large numbers of sales from a tradeshow floor. Before attending a tradeshow, attendees must determine their objective: if public relations, image, or visibility are the priority then tradeshows are a good venue. If sales are the objective, tradeshows are often not the right forum (arts and handicrafts where each product is unique is one exception to this generality). From the Georgian wine project, most people involved with the tradeshows expressed dissatisfaction with the results. Expectations for most were that sales would be bolstered by attending the shows; results were the opposite.

- 1) Tradeshow training for participants
- 2) Selection of the right show, with an appropriate sized booth and expenses
- 3) Preshow visit – not simply public relations but rather a visit to the country of the show. That visit should include face-to-face meetings with identified and screened companies, with whom a prior dialogue has been established.
- 4) Post show follow-up – dedicated support for the companies to follow up with the leads at the show. This includes technical support but also support in funding to get samples to the customers before and after the show.