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Samples of Georgian and American wine presented at a wine tasting ceremony, part of a recent seminar conducted for representatives of Georgian wine companies on entering the U.S. market.

MARKETING GEORGIAN WINE

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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 places 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. 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 Georgian wines. The lack of Georgian industry and governmental controls on the export of wines labeled as products from Georgia led to deterioration in the reliability of Georgian wines.

In Georgia, wine is produced both using traditional methods as well as with modern “European” techniques. Therefore the use of traditional technology and state-of-the-art technology exists side by side throughout Georgia. These varied production styles contribute to 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 customers. The dominating position Russia had as a buyer of Georgian wines has provided the Georgians with very limited experience in marketing their wine to other international markets.

The Georgian Wine industry faces the following difficulties:

1. Lack of experience with 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 costs of production that discourage the wineries from lowering their costs to compete in the global market
6. Low vineyard yields resulting in high production costs
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. Maintaining this premium in new markets requires significant investment in marketing which has not occurred in the past.

Given the importance of the wine industry to the Georgian economy, USAID has provided technical assistance to the Georgian wine industry. To date this assistance has included: a) Meetings with individual wine producers and tours of factories/vineyards and wine tastings to provide a basis for assessing Georgia's potential competitiveness on US and other international markets; b) Exploring various options for introducing Georgian wine to US markets (see "Marketing," page 9); and c) Providing a one-day seminar to industry representatives, government officials, and other donors actively supporting the wine sector. In the framework of the first activity, nine wineries were visited and interviews taken from the management representatives to gather first hand information about the industry, products, technologies applied and to identify opportunities for exports to the new markets. The information gathered from this activity and the feedback received from US market representatives formed the basis for the seminar delivered in December of 2006 in Tbilisi, which was attended by 52 individuals. During the course of the seminar, attendees reviewed characteristics of the US market and consumer preferences, participated in a wine tasting to compare the most popular US wines at various price points with Georgian wines, and discussed current obstacles to entering the US market. In addition, initial recommendations for penetrating US markets were vetted with participants, and their feedback was used in finalizing the recommendations below. A copy of the PowerPoint presentation utilized in the seminar 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 that could be supported by USAID, other Donors, the GOG, and the Georgian wine industry. This report is designed to be a blueprint for further activities to achieve success in establishing Georgian wine exports to the U.S.. 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 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 establishing a wine export infrastructure and standards for exported wine from Georgia; and (2) develop markets in the U.S. 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.

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 significant success in the U.S. market have done so in major part by relying on an industry-wide Export Control and Promotion Board (ECPB). It is the recommendation of the author, which was unanimously agreed with by attendees during a straw ballot at the training course held in Tbilisi in December that Georgia establishes an ECPB with the following objectives:

1. Establish standards for product to be exported. These should include:
 - a. Standards for product identity and characteristics
 - b. Standards for labeling – identifying origin, variety and production 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 U.S. and other international markets.
5. Hire and manage appropriate export promotion support services inside of Georgia and in the U.S.A.

Some of these activities may already be the responsibility of various government agencies. It is my recommendation, and those attending the seminar, 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 within a regulatory framework that promotes competitiveness and provides appropriate governmental guidance and support. The blending of resources and support suggested above is documented as best practices by other countries with similar wine promotion activities that have succeeded in making significant inroads into US markets.

EXTERNAL ACTIVITIES TO STRENGTHEN EXPORTS

Establish a Wine Promotion office in the U.S.

To establish a Georgian wine presence in the U.S. market it is imperative that the *industry* have a representative office in the U.S.. 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.

A necessary first step is an organizational meeting be held in Tbilisi during the first quarter of 2007. This organizational meeting should include all primary and secondary stakeholders, including 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 U.S. 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 U.S. advisor (funding to be determined)
3. Develop a funding scheme and secure funding from various entities
4. Adopt an action plan for the ECPB

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

Specific activities

Following are the specific activities required to implement the recommendations in this report, which will require collaboration by the Georgian wine industry, Government of Georgia, and donors:

- ***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 U.S. 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 scheduled to coincide with release of standards at or prior to the June Wine Expo in Tbilisi.

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

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 Georgian airlines, hotels, tourism agency, etc.)
- Include participation from Georgian dance troop
- Include participation from Georgian celebrities such as National Basketball Association players
- Include high level Georgian officials or U.S. officials whose presence can draw an audience.

The objectives of this visit are to:

- Introduce Georgian wineries to U.S. importers, distributors and end users;
- Expand the visibility of Georgian wines in targeted U.S. markets;
- Generate press coverage that will help stimulate demand for Georgian wines; and,

- Educate Georgian wineries further on the U.S. market
- ***Tour of U.S. wine buyers and journalists to Georgia.*** Getting U.S. 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 consume Georgian wine. This event will be a follow-up to the tour of Georgian wineries in the U.S.. 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 U.S. 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, it 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 U.S. travel and food related channels, and to use at promotion activities.*** This would be a Global Development Alliance (GDA) style activity. The owners of the series have already, in principle, agreed to pay all development and production costs if the travel costs and in-country costs are covered by donors, the GOG, or 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 Traveler. 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 Georgian wines.

- ***Establish a wine Ambassador in the U.S. market and support wine promotion teams.*** The success of Georgian wines in the U.S. will be greatly enhanced through the establishment of a wine promotion office in the U.S.. All other major wine exporters to the U.S. 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 U.S.. These individuals would be strategically located geographically 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.* In particular, health benefits should be investigated for 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 U.S. 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 widespread belief prevalent among Georgian wine producers that their wines have more of the heart health-promoting ingredients than wines from other countries, 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 U.S.. 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:

- 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 described above, and is the avenue to work with the Wine Traveler team for the video and TV episode on Georgia.

EBI 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 consume the 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 U.S. 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" 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 consume; (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 U.S..

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 seminar conducted 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 U.S. 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 the end consumer who purchases the wine for consumption. If the distributor and importer are confident that they can make a profit on the wine, they will purchase it. Therefore, when targeting importers who will buy Georgian wines, 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 the existing great market potential, I would recommend that the industry work with distributors who work with retailers like those identified in the text box at right.

Annex 3 to this report contains contact information for several potential wine importers that could be approached for this effort and should be contacted by the wine marketing association.

**List of U.S. Retailers
Likely to be Open to Georgian Wine**

- **National Chains:** Whole Foods, Trader Joes, 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, Kan.
- **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.
- **Wisconsin:** Jim Metz, Lounge Around, Medford, Wis.
- **Wyoming:** Mike Moser, The Cloud 9, Cheyenne, Wyo.

SUMMARY

There is significant opportunity for the Georgian wine industry in the U.S. To capitalize on these opportunities will require that the industry collaborates to improve quality, develop standards, and develop a cooperative strategy for marketing Georgian wine. Support from the GoG and 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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US Wine Industry – Perspectives for The Georgian Wine Industry



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Time Required:
8 hours Total time
2 15-minute breaks
Lunch
Reverse Wine tasting
Supper



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Introductions

- Introduce yourself to the table
 - Each table choose a Captain
 - Each table choose a name for use in breakout sessions



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First, some preliminary remarks

- Material is based on a general review of the Georgian and US wine industries – Today's material does not address the profit potential but is rather focused on the market and marketing.
- Define terms
 - 1 US gallon (gal) = 3,79 liters (l)
 - Hectoliter (hl) = 100 liters = 26,4 US gallons
 - Case of wine – 12 bottles, each of 0,75 liters



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What factors determine if an importer is going to purchase your wine?



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Why should the customer buy your product over any other in the world?



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What factors determine how aggressively a importer, distributor, and retailer market your wine?



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What factors discourage an importer from purchasing your wine?



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Conclusion of importers' decision triggers

- Importer: reasonable profit with a reasonable risk.
- Distributor: retail or foodservice customers.
- Retailer or foodservice: end consumers.



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Profile of the U.S. Consumer

- Label/packaging
- Knowledge of wine, winery or origin
- Price
- Occasion
- Taste
- Third-party recommendations.
- Wine Consumers on the Edge of Trends



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On-premises (restaurant) motivators

- Nearly three in four purchases (74 percent) of wine purchases are by the glass.
- “Safe adventure” concept.

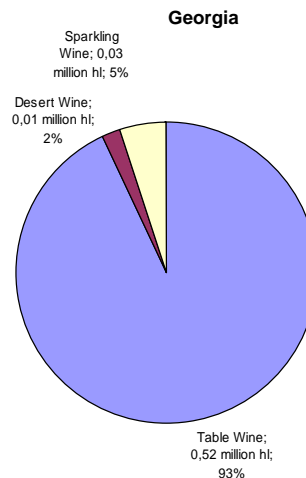
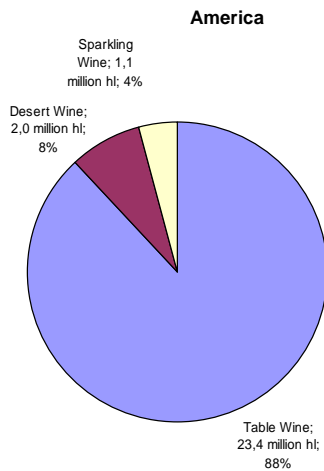


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Preferred Wines

Table wine accounts for nearly 90 percent of consumption

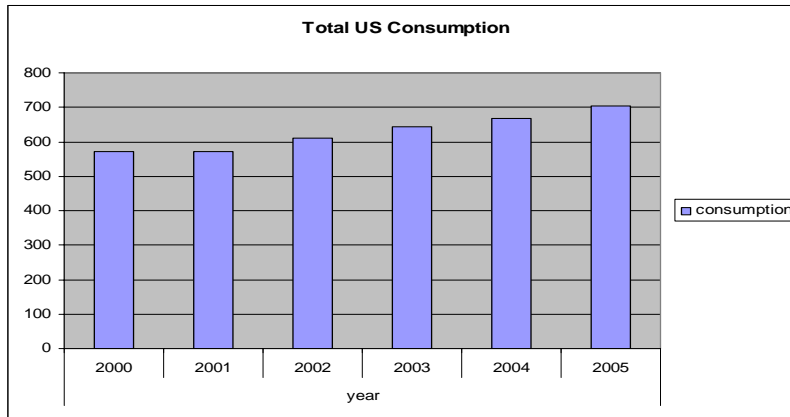




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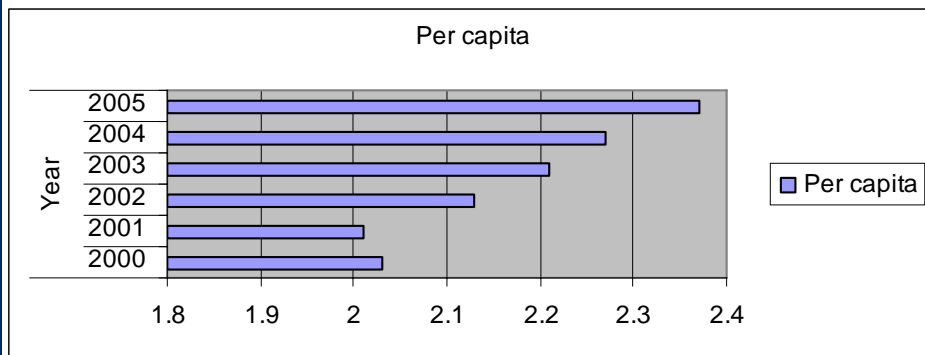
Total U.S. wine consumption, in Million Gallons



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Per-capita Wine Consumption in the United States



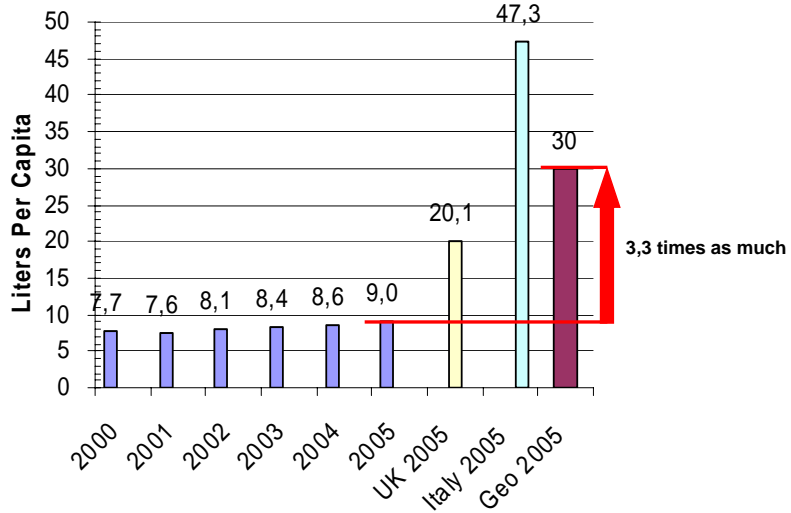


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Size Of Market

On the other hand, Georgians drink two times as much wine as do Americans



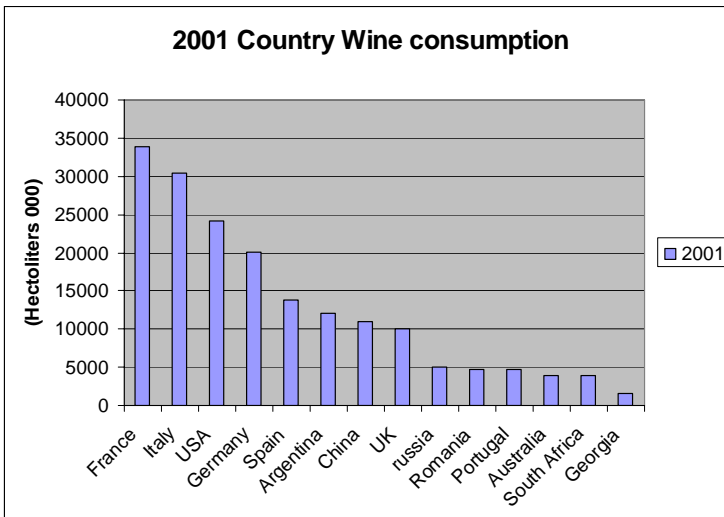
200%



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2001 Country Wine consumption

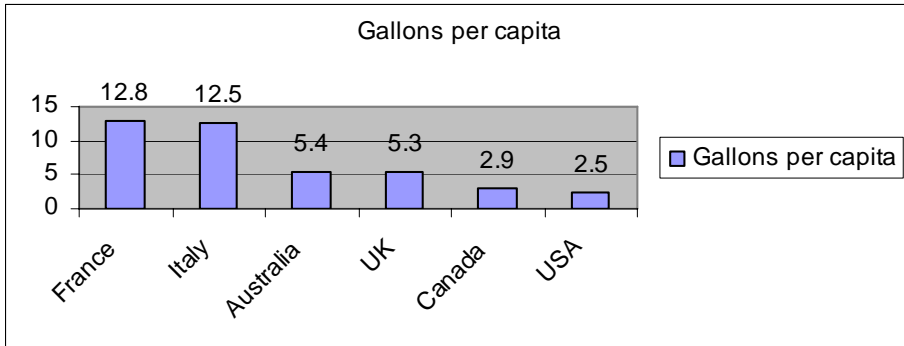




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Wine Consumed, Gallons Per Capita



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On-premise wine consumption in the United States

- 22 percent of case volume and nearly 50 percent of dollar value.
- 15 companies control 77 of the top 100 brands and 86 percent of on-premise sales.
- Dominated by **Constellation** and **E&J Gallo**.



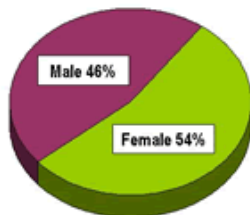
Current restaurant trends

- “Animal brands” or “fun brands”
- Wine sales in U.S. restaurants rose from approximately 58 to 59 million cases.
- U.S. wines from the United States account for 67 of the “Top 100” wine brands sold in restaurants.
- The U.S. holds 67 brands in the “Top 100.”

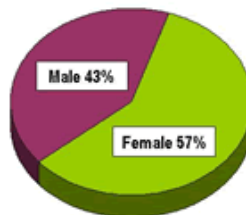


Who buys the wine for the family?

Consumer Segments by Gender - 2005



Core



Marginal



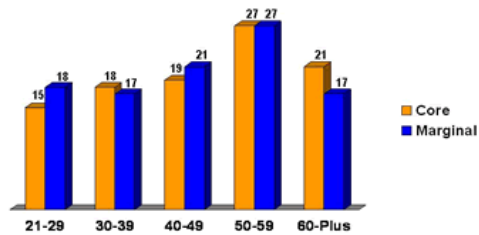
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What age group is purchasing the wine?

Consumer Segments by Age

(Percentage in 2005)



Source: Merrill Research

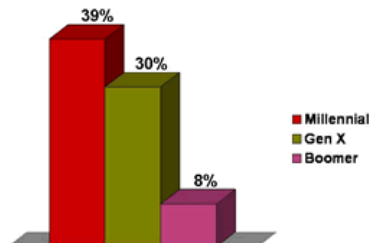


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Younger Generations Drive New Growth

(Net percent "drinking more wine" by generation)

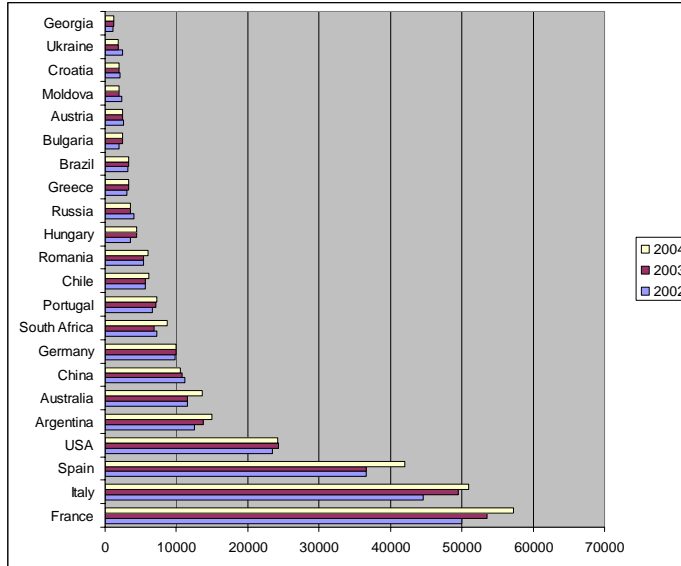


Source: Merrill Research



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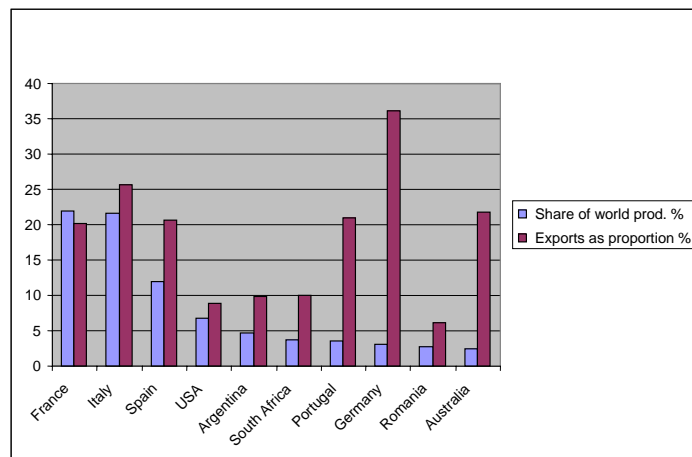
Worldwide Wine Production, Hectoliters



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Share of World Production

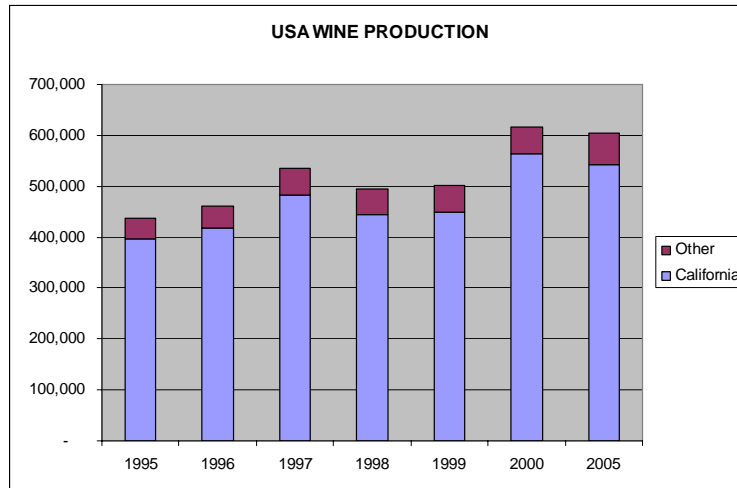




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U.S. Wine Production in Thousands of Gallons



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California Wine Industry

- More than 2,000 brick-and-mortar wineries. The majority are family-owned and operated.
- More than 60,000 different labels registered for sale in the United States.
- Nearly two out of three bottles of wine sold in the United States originates in California.



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California wine sales

- In 2005, California wine sales in the U.S. reached a record high of 441 million gallons, retailing for \$16.5 billion
- Total California winery shipments to all markets reached 532 million gallons
- California produces more than 90 percent of all U.S. wine. If California were a nation, it would be the fourth leading wine-producing country in the world.



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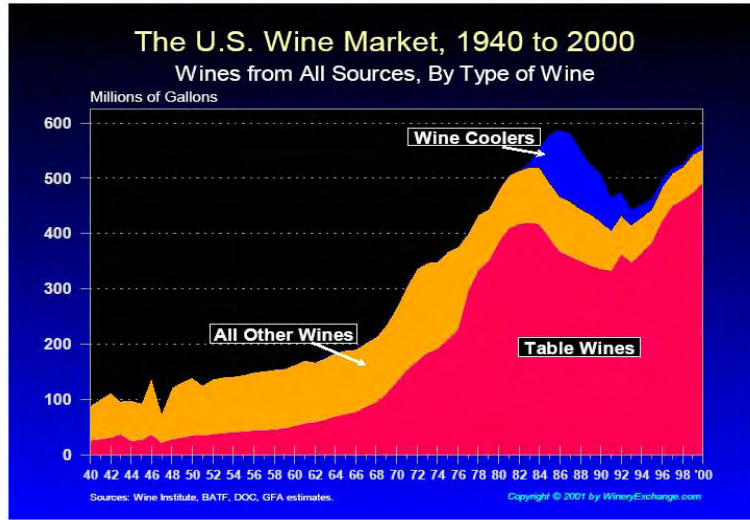
California wine industry

- Three-quarters of U.S. wine consumers describe the state's wine characteristics as: an easy to enjoy taste, versatile, appropriate for many occasions, ***a good value, and consistent***. No other region comes close to matching California's rankings on these key purchase criteria.
- However, the research also finds that while California is well-positioned with U.S. wine consumers in general, the state's wine industry can benefit from developing a more distinctive image and from capitalizing on the positive association with California's wine country landscape, tourism and the distinct personalities of its regions.



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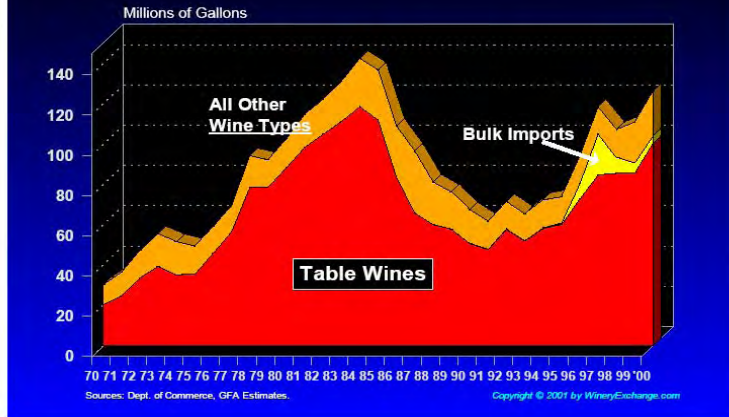
U.S. Wine Imports



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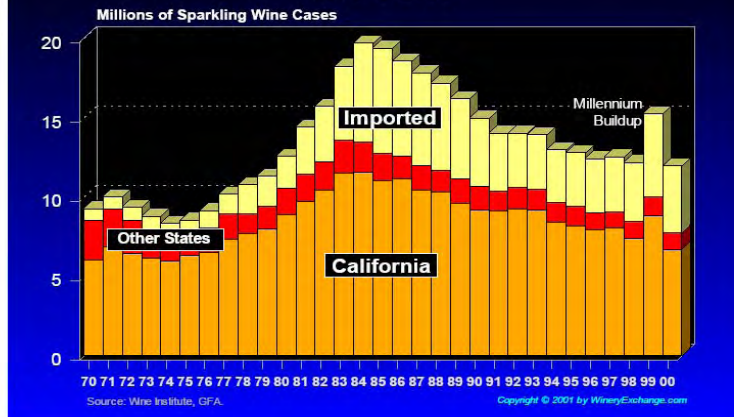
Wines Imported to the U.S. Market, 1970 to 2000



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Sparkling Wine Shipments to the U.S. Market 1970 to 2000





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Imports in the U.S. Market

- 21 percent of total market case volume, 26 percent of dollar sales.



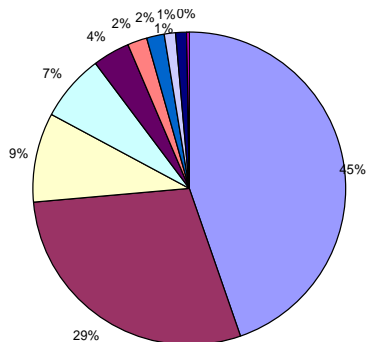
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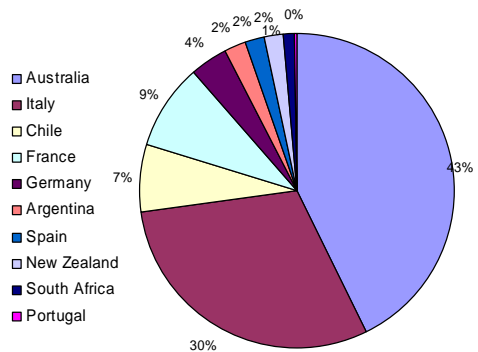
Preferred Wines

US Wine Imports

Volume



Value





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U.S. Wine-distribution System

- Importers
 - 1,500 importers.
 - Top 5 percent import more than 50 percent of the wine.
- Wholesalers
 - 350 wholesalers in the U.S.
 - Six control over 50% of the market



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What price do you think your wine should sell at retail for?



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Lunch Break

Did you know?

- It takes about six to eight clusters, or approximately 600 to 800 wine grapes (2.4 lbs), to make a bottle of wine.
- One barrel of wine contains 740 pounds of grapes, equivalent to 59 gallons or 24.6 cases of wine.



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Price Points

PRICE SEGMENT NAME		PRICE POINT
Everyday Wines	Jug Wine	Below \$3
	Extreme Value Wines	\$2 To \$3
	Popular Premium	\$3 To \$7
Premium Wines	Super-Premium	\$7 To \$14
	Ultra-Premium	\$14 To \$25
	Luxury	Over \$25

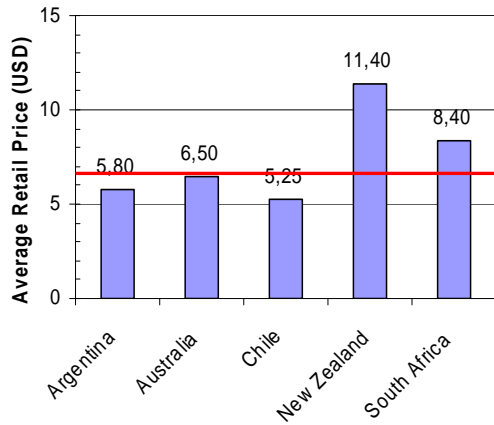
Currently Georgian wine in the US is in this price range



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These low price points are not just “high-volume California wine”; the average retail price for imported wine is 6.73 USD

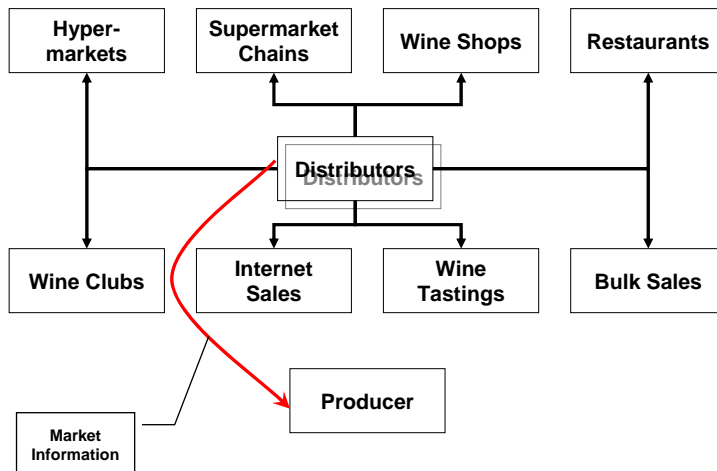


The average price includes all French and other “premium imports”



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Three tier system in the USA

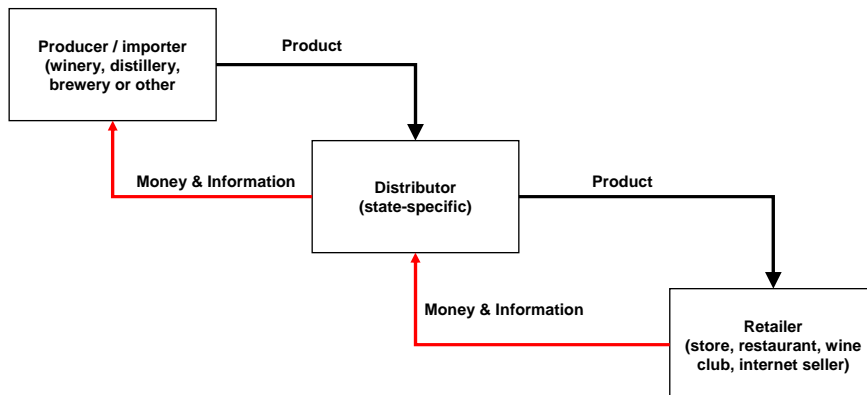
- Importer
- Distributor
- Retailer



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Three-Tier System



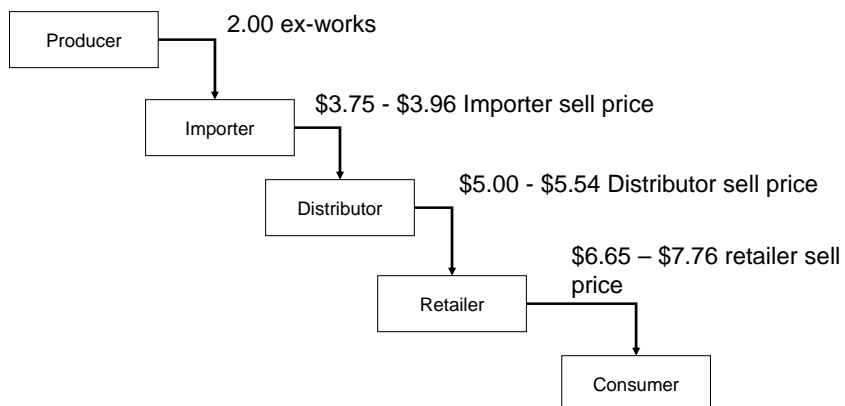


Wine Price Markup Percentages

- Freight and taxes: \$10.00 per case estimate
.83 per bottle
- Typically an importer, distributor, and retailer would have markups of 33-40 percent of the duty paid CNF price.

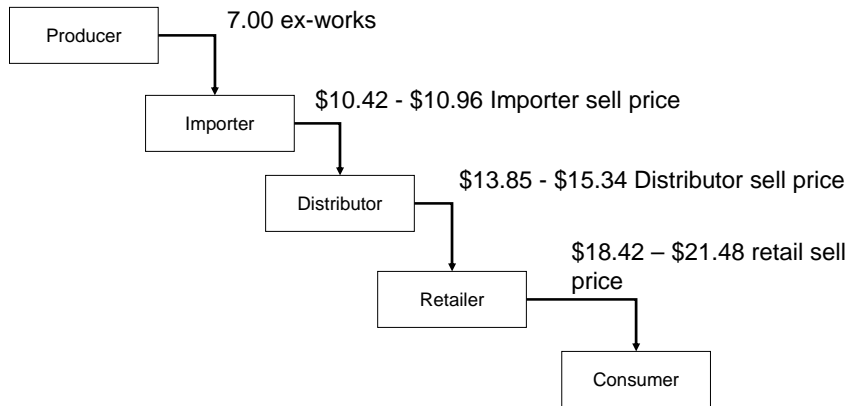


Import wines have another player in the distribution chain which adds to the cost and slows down the flow of inventory.





Import wines have another player in the distribution chain which adds to the cost and slows down the flow of inventory.



Average Import Retail Price

- The average retail price for a bottle of imported wine is currently \$6.73 per 750 ml bottle.
- Typically, lower margins are on higher-moving products.
- Importers, distributors and retailers sell products that provide the greatest return on their total investment.

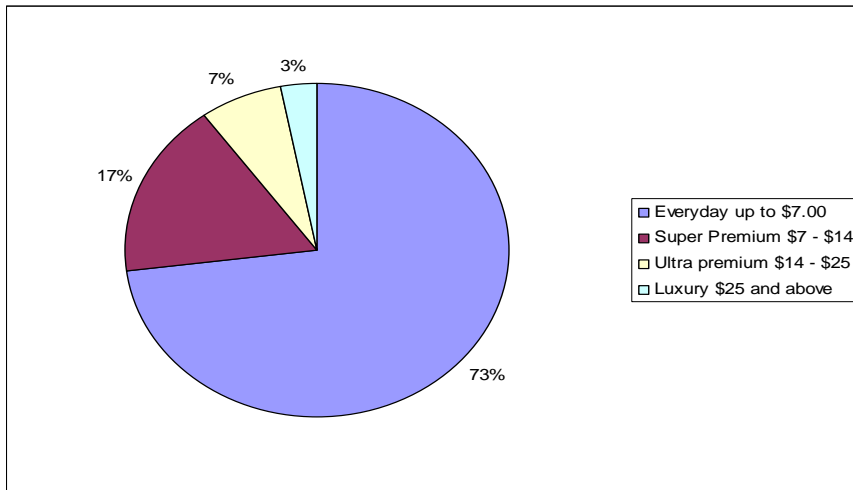


Estimated 2005 California Table Wine Shipments (By Price Segment)

Retail Price	Price Segment	Nine-Liter Cases Sold (Millions)	Percent of Total	Winery Sales Revenues (Millions)	Percent of Total
Over \$14	Ultra-premium	20.5	12%	\$2,640	35%
\$7 up to \$14	Super-premium	37.6	23%	\$2,350	31%
\$7 and Over	Subtotal Premium	58.1	35%	\$4,990	66%
\$3 up to \$7	Popular Premium	54.5	33%	\$1,740	23%
\$2 to \$3	Extreme Value Wines	6.6	4%	\$120	2%
Below \$3	Jug Wine	45.9	28%	\$730	9%
Up to \$7	Subtotal Everyday Wine	107.0	65%	\$2,590	34%



California Wine Shipments, by category





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“Production increases around the globe have resulted in scores of creative, value-oriented wines. The availability of more approachable, easy drinking ‘user-friendly’ wines with memorable labels and affordable prices has made wine more interesting and attractive to greater numbers of American adults.”

- Fredrikson

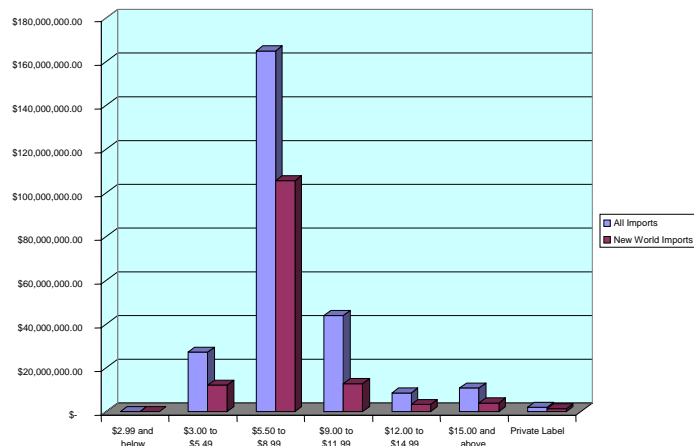
Source http://www.wineinstitute.org/industry/statistics/2006/wine_sales.php



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Import Dollar Sales Per Price Category May 2005 – May 2006



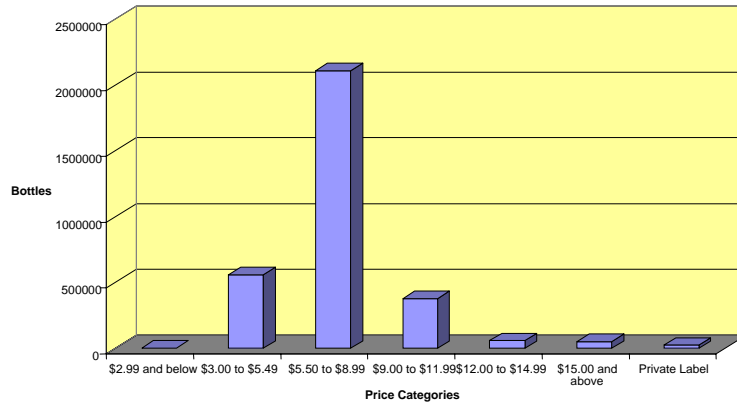


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Volume of Sales of New World Imports, Per Price Category

May 2005 – May 2006



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Imports by Price Point

The under-\$7.00 segment makes up 75 percent of the case volume sold in food stores.

“Few domestic producers can make a profit at the low end. Thankfully there are exceptions to that, so we are going toe-to-toe with imports in that \$5.00-\$6.00 range.” said Fredrikson.

“The fight is really at that first tier; right at that \$10.00 range is a huge battle between imports and American wines.”



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Wines Under \$6.00 Dominate the Marketplace

"Frankly, in the under-\$6.00 category, what is happening is \$4.00-\$6.00 bottles of wine are becoming more popular. It's consistent with the overall macro trend in pricing...."

- Lewin

Source: <http://www.winebusiness.com/html/MonthlyArticle.cfm?dataId=43171>



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Could/should Georgia Maintain a Higher Price like New Zealand?

"New Zealand exported roughly 1.5 million cases to the U.S. [last year] while in California alone there are maybe 20 wineries that produce that much. We can't compete in volume with California or Australia. Where we do have our niche, though, is that the wines are distinct, the quality is very high and it's going to be at a premium level."

- **David Strada of New Zealand Wine Growers**



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Keep in mind that ...

Eighty-six percent of consumers believe they can
buy good wine without spending a lot of money.

- Merrill Research 2005 survey



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Do you sell what you can produce?

or

Do you produce what you can sell?



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Produce what you can sell. Do not sell what you can produce!

“It doesn’t matter what you like, it matters what your customer likes.”

- Variety
- Flavor
- Brix
- Acidity
- tannin
- Color
- Size/Units per bottle



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Follow The Market Leader

Guerrilla Marketing:

Find out what the market demands and produce to meet it.

- Figure out ways to get into the market without having to spend a ton of money.
- Emulate those who have market experience.
- Find out what game is being played.
- Learn the rules of the game.
- Beat the market leader at their own game.



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- In matters of principle stand like a rock in matters of taste swim with the current.



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What is the Preference of U.S. consumers on the variety of the wine they buy?

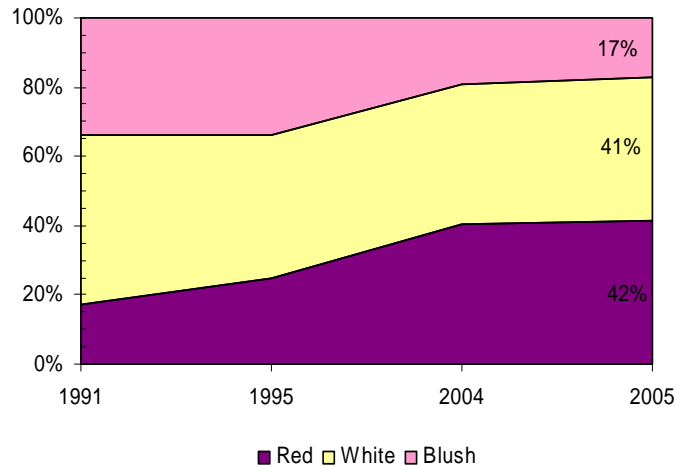


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Preferred Wines

Over the past 15 years American consumers have come to prefer white and red wines equally



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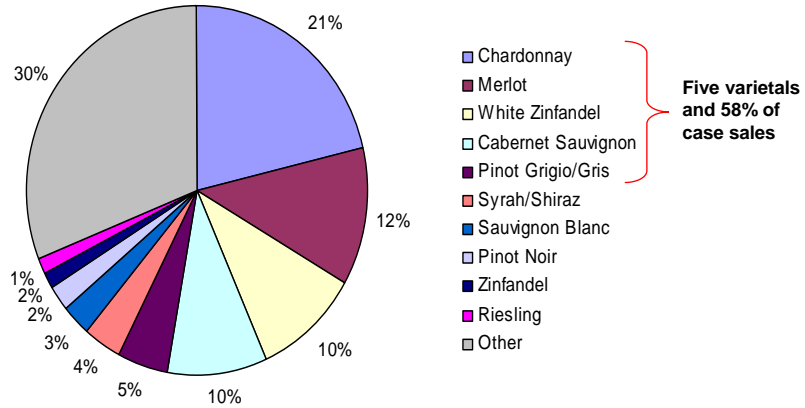
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What's on top in 2005?

- Chardonnay, with 95,000 acres, is the wine type variety with the most acreage planted in California.
- Cabernet Sauvignon was the second most planted wine grape in California with 76,800 total acres.
- The red wine category for the second year in recent history edged out white wine by volume in food stores in 2005. Red held a 41.7 percent market share; white, a 41.0 percent share; and blush accounted for 17.4 percent share of case volume.
- Chardonnay remained the leading varietal wine, followed by Merlot, White Zinfandel and Cabernet Sauvignon. Together these four varietals made up over half (55 percent) of the wine sales in food stores.



Five varietals (chardonnay, merlot, white zinfandel, cabernet and pinot grigio represent nearly 60 percent of case sales



Reverse Wine Tasting



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What niches are available to you?

- Where the wine is produced
- How the grapes are grown
- How the wine is processed
- How the wine is packaged



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Where the Grapes are Grown

Promote Georgia as an origin

Strengths	Weaknesses



How the Grapes are Grown

Organic, biodynamic, family farm,
community farm....

Strengths	Weaknesses



Sell Green

- Forty-six percent of the U.S. population is concerned about the environment and would purchase “green” products over others if it didn’t require much effort.
- Seventy percent of consumers indicate that knowing a company is mindful of their impact on the environment and society makes them more likely to buy their products or services.
- It is no small surprise that increasing numbers of businesses are building sustainability into their company philosophies and producing products that appeal to “green buying” customers.



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Organic

- California has nearly 8,000 wine type acres that are certified organic, namely, grapes grown without synthetic fertilizers, pesticides, herbicides, or fungicides for at least three years.
- Labels for “Organic” and “made with organically grown grapes” are approved both by the U.S. Tax and Trade Bureau and FDA's National Organic Program.



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Biodynamic

- Biodynamic agriculture is a holistic system where soil is nurtured through natural remedies. Planting, harvesting, and bottling take place according to the positions of the planets and lunar phases.
- Natural animal and vegetable matter is applied to soil to strengthen it, and various homeopathic herbal help the soil maximize light and heat for photosynthesis.



How is the Wine Processed?

What is unique about the process?

Strengths	Weaknesses



How the wine is packaged

Options	Strength	Weakness
Cultural packaging		
Gift box		
Aseptic package		
375 ml bottle		
Screw top		
Bulk		



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Who is going to make more money?



The fine artist or the house painter?

Which style is right for your organization?

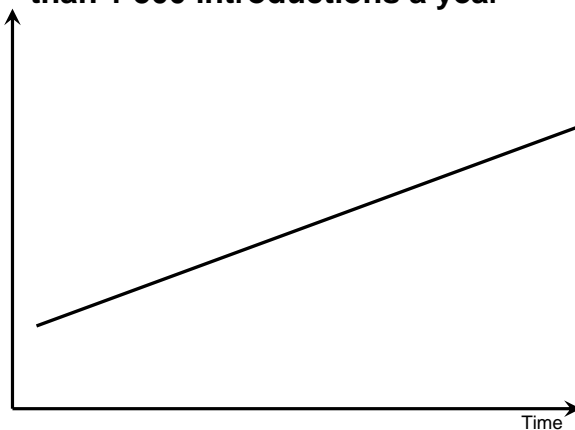


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Important Market Trends

The number of wines in the US is increasing; more than 1 500 introductions a year



- Number of wines
- 60 000 labels
- 1 500 new ones each year

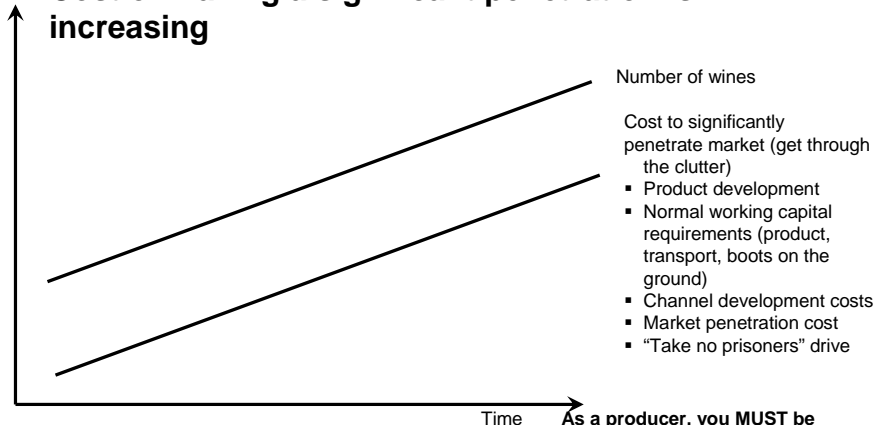


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Important Market Trends

Cost of making a significant penetration is increasing



As a producer, you MUST be concerned about market penetration costs for the entire channel

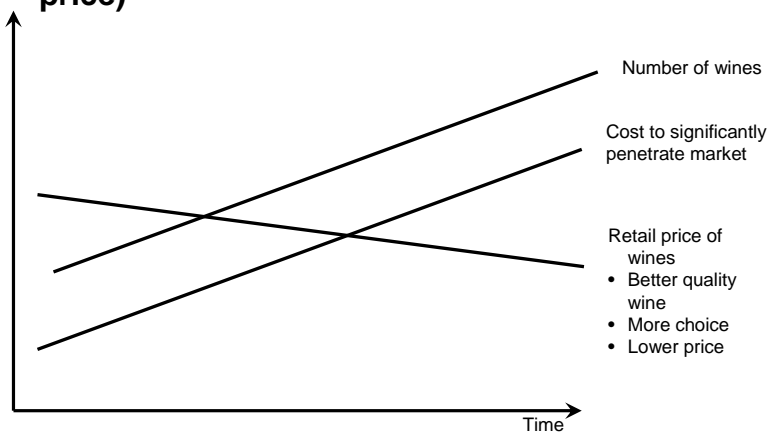


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Important Market Trends

Prices points are falling (same quality wine, lower price)



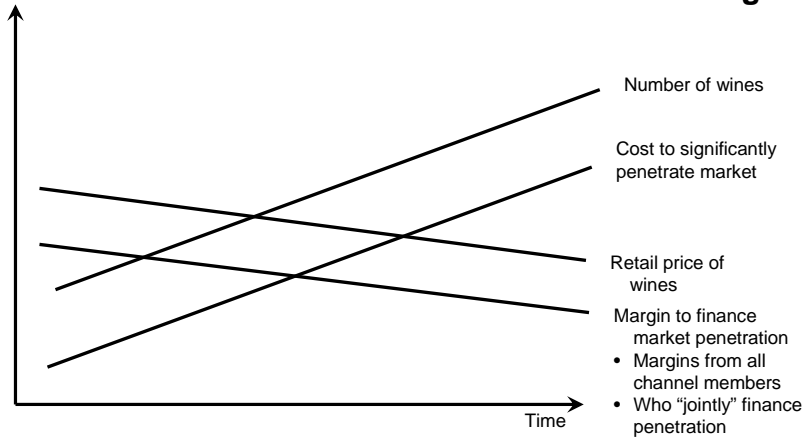


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Important Market Trends

Margins are falling; prices are falling faster than costs and some wineries are failing

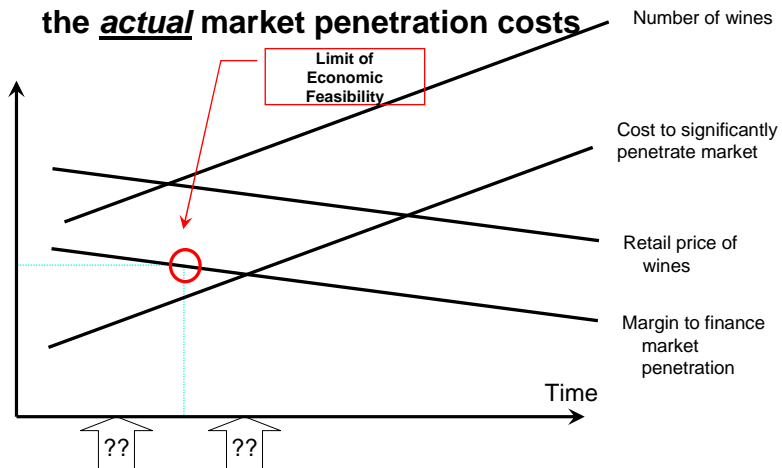


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Limit Of Economic Feasibility

There is a point beyond which the potential margins to be earned would never be sufficient to finance the actual market penetration costs

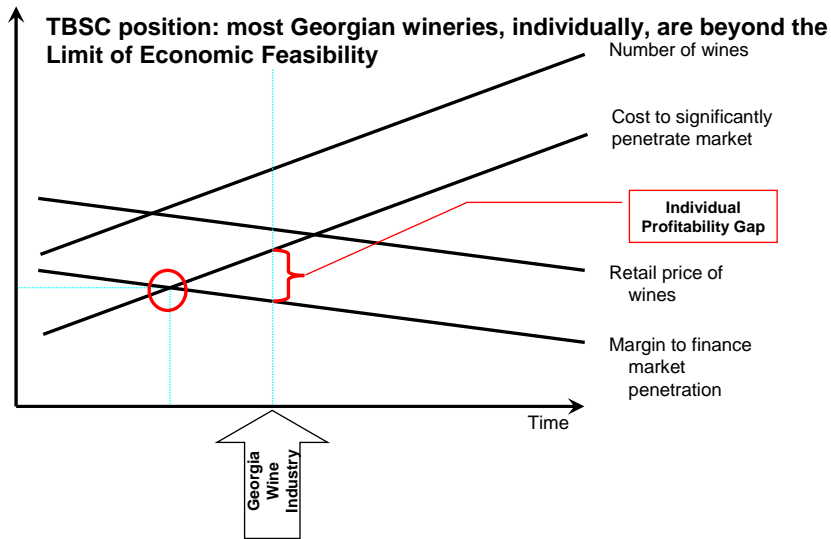




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Limit Of Economic Feasibility



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Limit Of Economic Feasibility

Why might individual Georgian wineries reach the Limit of Feasibility before wineries in other countries

- Cost to significantly penetrate the US market are higher for Georgian wineries
- Georgian wines will not command premium prices in the US market
- Margin available to finance market penetration is lower for Georgian wineries than for many other wine producers



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What do other countries do? Wine Trade Associations and other trade organizations



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California Wine Institute

Association of 887 California wineries and affiliated businesses whose members account for 85 percent of U.S. wine production and 95 percent of U.S. wine exports.

“Providing our member wineries with research, information and tools is one of our top priorities.”

“By better understanding our consumer, as well as our strengths and the areas where we can improve, California wineries will be more successful both individually and collectively in the future.”

- Robert P. Koch, President and CEO



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Wine Market Council

A non-profit association of grape growers, wine producers, importers, wholesalers, and other affiliated businesses and organizations. The council's mission is to establish the widespread acceptance of wine as a rewarding part of American culture and to encourage the responsible enjoyment of wine by current and future generations of adults in the United States.



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Argentine Wine Associations

Maintain quality standards, establishing prices and accounting for the needs of member companies.

Bodegas de Argentina supports national efforts to regulate wine production and the market on behalf of the government. It organizes wine tastings throughout the world. This activity is helping to establish brand recognition. Instituto Nacional de Vitivinicultura (INV) is a government body empowered to control all aspects of the growing and production sides of the industry; it loosely helps in marketing. INV is also the link with international associations.



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"On a price-value relationship, nobody beats Australia"
Karen MacNiel Chair Professional Wine Studies, Culinary Institute of America

"The main attributes of Australian wines are that they are simply made and stylishly presented with bright fruit, balance and early drinkability"
- Beverage Dynamics, Feb 2004

"French wine is just not in my vocabulary. I love Australian wines. You can go to Price Club and get a giant bottle of Yellowtail for nine bucks. For a day-in, day-out drink, you can't beat it. It tastes great."
- U.S. consumer quoted in USA Today July 2003



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Wine Tourism

- Wineries and vineyards are the second most popular tourist destination in California after Disneyland. A total of 14.8 million tourists visit the state's wine regions each year.

Press Release

Room for Georgia at the USA Wine Market

On December 15, 2006 at the conference hall of Bomound Garden Hotel Georgian National Investment Agency, USAID Business Climate Reform and Tbilisi Business Service Centre (TBSC) will hold a seminar on **US Wine Industry –Perspectives for the Georgian Wine Industry.**

James Krigbaum, an international expert in the field of marketing and sales will conduct the seminar. He will provide information on the US wine market and discuss industry trends relating to the market, imports and wine prices.

On his first trip Mr. Krigbaum visited nine Georgian wine producers in Kakheti and Kartli regions and in Tbilisi. He toured factories and vineyards, obtained information about production processes, technologies applied and product, and tasted different variety wines. Therefore, the visit helped him to gain understanding of the Georgian wine industry and export opportunities.

Mr. Krigbaum is in contact with potential buyers in the U.S. to build interest in Georgian wines and identify those key issues to be addressed by Georgian companies in the course of possible business negotiations. He is also exploring scientific tests to explore whether the health-related characteristics of Georgian wine are superior to those of other countries.

The seminar will cover the issues concerning

- The profile of the U.S. Consumer
- Wine sales and consumption review
- Comparative wine production
- The importance of California
- USA wine distribution system
- Pricing in the US market. etc

At 3:45 – 4:45 hour the media is invited at the tasting ceremony of wines sold in the USA. The goal of this activity is to help set a benchmark for what the competition is doing.

Address: 6a, Marshal Gelovani Ave.

For further information, please contact Maka Tevdoradze, USAID Business Climate Reform trade specialist (995 32) 91-61-55; (893) 23 90 43;

Georgian winemakers learn about US market

By Ana Datiashvili

The Georgian National Investment Agency, USAID Business Climate Reform and Tbilisi Business Service Centre (TBSC) held a seminar about the prospects for Georgian wine on the US wine market on December 15, 2006.

An international expert in the field of marketing and sales James Krigbaum organized the seminar.

At the seminar Krigbaum said that Georgia has to decide whether it wants to produce and market very expensive, elite wines or if it wants to produce a less expensive product and target wines for the average consumer. In both cases, he emphasized, quality should come first.

The seminar covered issues like the profile of a US customer, comparative wine production, the US

wine distribution system and pricing in the US markets.

Krigbaum is in contact with potential buyers in the US to construct interest in Georgian wines and make out those key subjects and to be addressed by Georgian companies in the course of possible business collaboration.

Later the media was invited to a wine taste-testing event of US wines. The point was for Georgians to better understand the "competition" in the US market.

On several trips to Georgia, Krigbaum has visited a total of nine Georgian wineries in the Kakheti and Kartli regions as well as in Tbilisi including Teliani Valley, Badagoni and GVS. Krigbaum has collected information about production methods and technologies applied. He has tasted a wide variety of Georgian wines.



US pushing Georgian Wine to American market

FINANCIAL Writer

Georgian National Investment Agency, USAID Business Climate Reform and Tbilisi Business Service Centre (TBSC) helping Georgian wine producers to enter US market. On December 15, 2006 at the conference hall of Bomound Garden Hotel organizers held a seminar on US Wine Industry – Perspectives for the Georgian Wine Industry.

“The seminar for Georgian wine producers conducted by James Krigbaum, an international expert in the field of marketing and sales, had two different aims, to inform Georgian wine producers about American wine market and the taste of Americans. Second, to give to Georgian wine makers an opportunity to taste many samples of the most popular wines in

USA,”- President of Tbilisi Business Center, Paul Clark told the Financial.

First step for introducing Georgian wine to American market was made in Summer. On his first trip Krigbaum visited nine Georgian wine producers in Kakheti and Kartli regions and in Tbilisi. He toured factories and vineyards, obtained information about production processes, technologies applied and product, and tasted different variety of wines.

“During the summer we took 35 kinds of Georgian wine to USA. Through six months they were being tasted through experts and wine distributors. The good news is that about 30-35% of them were found to be suitable for US market, no changes are needed. It is a good news, that there are wine making skills in Georgia for making wines for American market.

Continued on p. 4

US pushing Georgian Wine to American market

Continued from p. 3

Second and more difficult part is actually to find ways to enter the market, and for many wine producers in Georgia that will be really difficult. Georgian wine producers should manage it by cooperating, I think in this way it is completely possible for Georgian wine to become significant in USA", Paul Clark said.

Entering new markets is a necessity for Georgian Wine Producers since the Russian market closed:

"A lot is changed since the Russian market closed. I can say that everything bad is a beginning of something good. The fact that the biggest export market was closed for us made us more alert in seeking entrance into new markets. It was a successful attempt and actually our production entered several markets," President of JSC Corporation Kindzmarauli, Tamaz Konchoshvili said.

Entering new markets is much more difficult than growing the sales on the market where the brand is already known:

"The major difference between selling wine on Russian market and entering new markets is that for selling wine on other markets requires completely different approach. Selling wine on Russian market was much easier. In Russia the customers knew about Georgian wine and the only thing needed was to find the place where customers can buy it. Completely different is the situation in USA, UK and in many countries where Georgian wine simply is not known, and where it should be promoted completely in a different way," - Paul Clark said.

"In US market the price is determined by the market. Premium wines start from \$8 the largest price segment is \$7-11. If Georgia wants to sell a lot of wine in US, wine should be in this price range. There's nothing embarrassing for Georgian wine to be sold in this price range. It is a market where millions can be earned. But it requires change in thinking, because Georgians tend to overestimate the wine," - Paul Clark said.

Americans want to taste something sophisticated and adventurous, that's what Georgian wine can offer them:

"Becoming more sophisticated and adventurous that's what Americans expect from wine and that is all good for Georgian wine. The wine market is growing more and more quickly, and the choice is just incredible, in big shops you can buy about 4 000 different wines in one place. There is no question that Georgian wine producers should work in the direction of American market; American market is the third wine market in the world it would be mistake to Georgia not to be there", Paul Clark said.

Georgian wine producers are trying hard don't to make a mistake and to be represented on American market.

Author can be contacted at:

keti@financial.ge

Letter to Editor: editor@financial.ge

TABLE OF U.S. WINE IMPORTERS

#	Importer	Address	Tel / Fax /Web site	Chief Executive	Firm Began	Employees
1	BARSAC, INC.	440 Talbert St. Daly City, CA 94014	415 467-0130 (Tel) 415 467-0133 (Fax) www.barsac.com	MERRICK DOWSON, President	1979	16
2	GLOBAL VINEYARD IMPORTERS	801 Camelia Street Suite A Berkeley, CA 94710	510 527-5877 (Tel) www.globalvineyard.com	JIM POWERS, President	2001	2
3	AIG WINE & SPIRITS IMPORT CO, INC. LIQUID INTERNATIONAL PREMIUM SPIRITS	334 E 74th St. Apt 6B New York, NY 10021	212 717-2901 (Tel) www.lipsimport.com	AVERY GOLDBERG, President	1990	10
4	ARBOR INTERNATIONAL FOODS, LLC.	783 Rio Del Mar Blvd. Suite 65 Aptos, CA 95003	831 662-3933 (Tel) 410 884-9470 (Fax)	PETER MCGINN	1999	4
5	A.V. IMPORTS, INC.	6450 Dobbin Rd. Suite G Columbia, MD 21045	410 884-9463 (Tel) 410 884-9470 (Fax) www.avimports.com	F. RONALD WOLLMAN, CH BD-CEO	1986	73
6	CONSTELLATION BRANDS, INC.	370 Woodcliff Dr. Suite 300 Fairport, NY 14450	585 218-3600 (Tel) 585 218-3601 (Fax) www.cbrands.com	RICHARD SANDS PHD, CHB-CEO	1945	7,900
7	CRILLON IMPORTERS LTD.	80 E State St. Rt. 4 Paramus, NJ 07652	201 368-8878 (Tel) 201 843-2015 (Fax) www.crillonimporters.com	MICEL ROUX, CHB	1998	10
8	JOSHUA TREE IMPORTS	1801 Highland Ave. Duarte, CA 91010	626 358-6600 (Tel)		2006	UNDETER MINED
9	PATERNO WINES INTERNATIONAL	2401 Waukegan Rd Deerfield, IL 60015	847 444-5500 (Tel) www.paternoimports.com	ANTHONY J. TERLATO, CEO-CH BD	1946	170
10	VINE CONNECTIONS	1750 Bridgeway B104 Sausalito, CA 94965	415 332-8466 (Tel) www.vineconnections.com	NICOLAS RAMKOWSKY, PRES	1995	3
11	WHOLE FOODS MARKET, INC.	550 Bowie St Austin, TX 78703	512 435-0110 (Tel)	JOHN MACKEY, CEO	1993	110