



GROWTH POTENTIAL OF WINE INDUSTRY IN NASHIK DISTRICT OF MAHARASHTRA

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Abstract

The Indian wine industry is on an upswing with an impressive annual growth. Maharashtra is in the forefront with Nashik as the main wine hub. There has been a proliferation of vineyards and wineries in Dindori, Niphad, Igatpuri and Deolatalukas of Nashik. Winemaking has become an important industry in this region. However the growth witnessed so far has not been a balanced one. The industry's participants have become largely polarized wherein the bulk of the production is controlled by the winemaking majors. Consequently small scale wineries have been struggling to establish themselves in the market. In the absence of any well organised marketing channel or efficient distribution network and economies of scale their future seems bleak. At present, several such small winemakers of Nashik valley have shut their business or entered into contract winemaking for the top producers. Sustaining the industry's high growth rate may become difficult in near future if these smaller wineries are not competitively positioned in the market. The paper initially studies the Indian wine industry with special emphasis on the global wine market segmentation model, highlights the ground realities of this business and eventually suggests the urban micro winery model as a viable alternative for the small scale wineries to remain in operation. The information collected during field surveys is summarised, focusing on the relationship between market forces of demand and supply. The findings support the view that the urban business model would give a new boost to the small scale winemaking units.

Key words: winery model, viticulture, contract winemaking, urban winery, winery wastewater.

Introduction :

The Indian wine industry is still emerging which is primarily oriented towards the domestic market and less towards exports. It is chiefly driven by positive consumer trends induced by rise in discretionary spending potential. Traditionally wine does not figure prominently in the Indian potation and the preferences are still bent towards liquors like whisky and rum. However, it is expected that in the coming years wine would supplement rather than replace these spirits (Truong, 2012). Gradually Indians are developing a taste for wine and there has been a steady rise in the consumption of domestically produced wines. The fast expanding consumer base, rising levels of disposable incomes, the desire for the new upper class to experiment with new tastes and more luxury lifestyles, frequent travels abroad, international research on health benefits of wine - all have given the necessary fillip to the domestic wine industry apart from the fact that good quality wines are now available in the market. The constructive policy measures by the government in states like Maharashtra have helped in sustaining the existing momentum of the indigenous wine industry (Jacob, 2008).

The Indian wine industry is still in its nascent stage but growth opportunities abound in the emerging markets of Mumbai, New Delhi, Bangalore, Goa, Pune, Kolkata and several other city-areas of the country. Also, risks loom large in the form of a protectionist regime of alcohol control and taxation, an underdeveloped supply and distribution channel that puts the product integrity at stake, and most importantly, a sizeable Indian population that perceives alcohol consumption a taboo (Gore, 2008). Poor warehousing and inadequate transport facilities are the major hindrances to wine marketing in our country. Other constraints are the lack of promotional activities for wine

consumption as advertising wine or any other alcoholic beverage is prohibited in India (Karibasappa et al. 2006). However, the indigenous wine industry has shown a robust annual growth rate in recent times. The per capita consumption rates of wine are on a steady rise, particularly the consumption of the homegrown wines. In India, the growth in consumption of wine is expected to come mainly from the 300 million in the emerging upper class (Truong, 2012). The present scenario represents the country as a vast unexploited market ready to be tapped.

Being in the early stages of growth, the industry enjoys the support of the state governments of Maharashtra and Karnataka which provide preferential treatment to this business by liberalizing their excise regime through reduction or complete exemption of excise duties, provision of infrastructure facilities such as wine parks and wine institutes and several other hosts of benefits. The industry is in the midst of expansion with several new entries ranging from small wine grape growers and boutique wineries to national level beverage majors. The wine sector is expected to evolve further with increased competition and heavy investments. This would eventually mark its transition to the new phase from its new emerging stage during which the latent demand for wine has been initiated (Jacob, 2008). According to the global wine market segmentation model (2011), which evaluates the market conditions by its stage of evolution India stands in the new emerging stage. The global wine market segmentation model was the brainchild of Halstead, Howard and Rastegar, developed to provide a framework for assessing wine markets across the globe on the basis of a universal criterion (stage of evolution) which cuts across all geographic and traditional marketing boundaries. This stage-of-evolution market model established a yardstick for the various international wine markets and helped in tracking the markets as they traversed from one phase to another while evolving. Nearly 40 international wine markets were taken into consideration from the consumer viewpoint focussing on issues like current status of wine in the market, grape-based wine within the beverages repertoire, consumer relationship with the wine category, openness to new and imported product, and discretionary spending potential. These were the key drivers from a consumer perspective (Halstead et al., 2011). The market dynamics suggested certain underlying resemblances which were used to group the world wine markets under common themes. Eventually the wine market grouping gave rise to the five different stages of wine market evolution from the consumer standpoint. The various stages of wine market evolution were new emerging market, emerging market, high growth established market, mature established market and traditional established market.

India leads the new emerging market segment in terms of market volume, induced by high levels of consumption of homegrown wines. The Indian market scenario is characterized by significant growth arising from a negligible base and is also showing high degree of instability. Per capita consumption of wine is relatively marginal, the population mostly preferring domestic wines. Wine drinking culture is mostly limited in the city-areas and the Indian potation is still dominated by other spirits.

Traditional Established	Mature Established	High growth Established	Emerging	New Emerging
Wine producing countries with high residual per capita consumption, but stable or declining	Markets with strong historical growth which is tailing off	Markets where wine is becoming a mainstream product and is experiencing above-trend growth	Markets where wine is experiencing rapid growth from a relatively low base	Markets where wine is still a relatively new unknown beverage
Argentina Croatia France Germany Italy Portugal Spain	Denmark Belgium Ireland Japan Netherlands Switzerland UK	Australia Canada Finland New Zealand Norway Sweden USA	China Brazil Hong Kong Russia Singapore South Africa South Korea	India Malaysia Nigeria Taiwan Thailand UAE

Source: The five different stages of wine market evolution, Wine Intelligence 2011

As wine drinking culture is gaining momentum in the country, the demand for domestic wine is on the rise. This has led to a proliferation of wineries in Nashik district as the vintners realise the potential for profitability in the wine business. Winemaking as an industry is indeed lucrative but only for the liquor majors. The smaller wineries run by farmers who walked into the business with their homegrown grapes failed to factor in the huge marketing expenses. This paper studies the present scenario of the Nashik wineries, specifically drawing attention to the plight of the small scale wineries that are faced with severe marketing problems. It also proposes solution in terms of the urban micro winery model which places the winery near the urban markets through locational shift from rural countryside to urban or semi-urban zones. The paper would be of help to the wine grape growers and small wineries for proper management of their available resources. The discussions highlighted can also help the policy makers to boost grape processing and wine industry by bringing about the necessary improvements.

Study Area

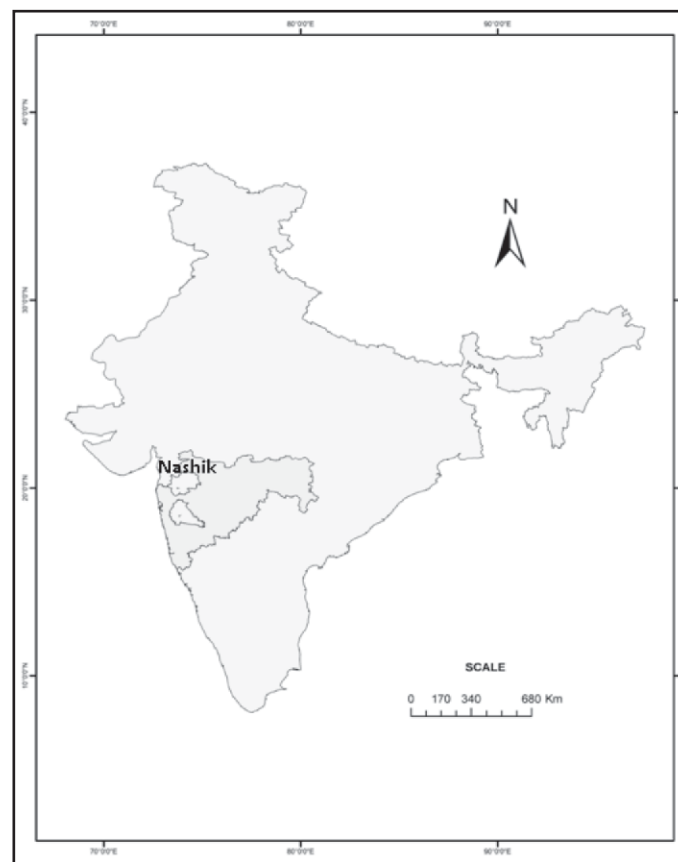
For the proposed study Nashik district is selected as study area for certain reasons:

1. Maharashtra is the largest producer of wine in the country and the bulk of the production is concentrated in its Nashik district.
2. There is a distinct clustering of the country's vineyards and wineries in Dindori, Niphad, Igatpuri, Deola, Satana, Sinnar, Malegaon talukas of Nashik.
3. The district is home to some of India's winemaking majors.
4. This entire region is agro-climatically suitable for wine grape production and there is a

particular emphasis on wine grape cultivation among the farmers.

Often referred to as the “Nepa Valley of India”, Nashik has positioned itself as the wine capital of our country (Fig. 1). A host of factors like Nasik's cool climate, well drained soils, drip irrigation, cheap agricultural labour both skilled and unskilled, adoption of scientific production technology such as use of root stocks, availability of institutional credit, excellent infrastructure both in terms of good connectivity and easy accessibility, farmer friendly State Government policies - all have led to the success of wine grape cultivation and its rise as the most important grape cluster of the country.

Fig. 1: Location of Study Area



Objectives

The prime objectives set for this study are:

1. To study the present scenario of the wine industry in Nashik district.
2. To trace the potential areas of expansion of the wineries in and around Nashik.

Methodology

The paper is based on both primary and secondary sources of data. The wine producing talukas of

Nashik have been chosen as the spatial unit of study. A total of 25 wineries were surveyed which are spread over 5 talukas of Nashik district during the period between September 2012 and November 2012. The random sampling method was employed for collecting data regarding wineries. The total sample size was 25 which were believed to be sufficiently representative of the entire population. Primary data were collected from intensive winery surveys with the help of well framed questionnaires. Face to face interviews and focus group discussion with small scale wine producers were also conducted. The data generated through questionnaire survey were analyzed quantitatively with the aid of descriptive statistical procedures. This was accompanied by qualitative analysis of data generated through field observation during frequent visits.

Secondary data related to the present study were collected from various sources such as the Indian Grape Processing Board, National Research Centre for Grapes, agriculture and horticulture departments, journals, company publications, newspapers and several government and non-government agencies. Articles of Association of American Geographers were referred to understand the concept of 'urban micro winery'. A critical evaluation of the urban micro winery model was made resorting to web based sources.

Results and Discussions :

While tracing the growth of the Indian wine industry it has been observed that the major players of this business are controlling the bulk of the production. In the smaller wineries the volumes are low and production costs are high as a result of which their wines are priced relatively higher. Under such circumstances they often fail to establish their brand recognition and are left with a meagre share in the market.

The present scenario of the wine industry in the study area shows a dismal environment for the small scale wine producers. Most of them have become suppliers to the larger wine companies. Several others have closed down their business. Table 1 gives the details of the main wine producing talukas in the study area. Traditionally Dindori had the largest concentration of wineries. However 50% of the total closed wineries of the surveyed area are from Dindori. This talukas also has the largest percentage of wineries engaged in contract winemaking services (66.7%) in the surveyed area. Niphad has a considerable proportion of operating wineries (41.7%) as well as quite a few units providing contract winemaking services (33.3%). This is probably due to the presence of the MIDC Wine Park at Vinchur which provides excellent infrastructural facilities to medium and small scale wine producers. Wineries located outside the wine park have also been performing well in this talukas. A fair percentage of operating wineries are still in Igatpuri (16.7%) and Nashik (8.3%) while Sinnar has none left operational. Fig. 2 substantiates this inference with Dindori, Niphad, Igatpuri and Nashik still sustaining the business while no growth prospects have been observed in Sinnar.

Table 2 presents an overall view of the status of wineries in the surveyed area. It shows that less than half of the total wineries surveyed are operational (48%) while a significant proportion is providing contract winemaking services (36%). It also shows a sizeable proportion of the surveyed wineries have closed down indicating that the growth prospects are bleak in the present scenario. Fig. 3 validates this view which shows the emergence of a substantial contract winemaking sector in this industry. Also the proportion of closed wineries is significant while those still operational are only a handful.

It is evident that currently only a few large wine producers are doing brisk business while the small winemakers are unable to cope up with the stiff competition. These small scale wineries need the boost to strike back competitively in the trade. A feasible option could be the more entrepreneurial winemakers seeking locations beyond the traditional wine producing areas of the

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countryside. Since grapes are highly portable, it is not a necessity that wineries be located near the vineyards. Vintners starting new wineries with limited capital resources may choose an urban location near main markets which in turn would provide easy access to potential customers (McKinsey, 2008). They may opt to locate the winemaking facilities in the light industrial zones or warehousing districts in and around Mumbai, Pune (these cities are the main markets of the Nashik wineries) or any other urban centres which would incur a reasonable transport cost. This locational shift from the traditional rural estate settings near the vineyards to the urban/suburban settings (new wine hubs) amidst the markets could provide a fresh boost to the state's wine industry and help sustain its high growth rate by creating new wine hubs. The small scale wineries would be particularly benefitted as setting up urban wineries does not require huge capital outlay unlike their rural counterparts. With this perspective in mind the feasibility of the 'urban micro winery model' in the Indian context may be considered.

Traditionally, our vineyard owners have been the vintners who followed the traditional estate winery model where they planted a vineyard, built a winery, started making wine to sell in the market under their label. All these winemaking majors are based in Nashik – the established wine hub of our country. Breaking this established norm of the indigenous wine industry and placing the winery in an urban/suburban setting would require two prime considerations namely procurement of wine grapes in fresh conditions and transport cost. Cities areas like Mumbai and Pune have tremendous potential to transform into new wine hubs of our country. These are located within easy drivable distance from the wine grape growing areas of Nashik as a result the wine grapes could be quickly trucked to these urban micro wineries in climate control vans which maintain temperatures of 0°C ($\pm 1^\circ\text{C}$) and relative humidity of 90% to 95%. In addition sheets of grape guards containing sulphur impregnated pads could also be used in packaging to retain berry freshness and protect from berry shattering or stem decay. Such practices are being widely used by the table grape industry and can be effectively employed for wine grape transportation as well.

Greater connectivity and better accessibility of the urban wineries facilitates quick collection of wine grapes and better distribution of the wines (Crowley, 2012). Winery waste disposal particularly winery wastewater discharge is also done efficiently as much of the infrastructure is already built into city operations and is well-organized because it operates on a larger scale. Most urban wineries' discharge meets the specifications of the wastewater processor and requires no treatment (McKinsey, 2008). The urban wineries mostly operate on small or medium scale often using several common facilities such as warehousing, bottling and packaging. This shared space economizes the cost of equipment for small-production winemakers and offers visitors the opportunity to taste a wide variety of wines under a single roof.

Conclusion

While tracing the growth of the Indian wine industry it has been observed that the major players of this business are controlling the bulk of the production. In the smaller wineries the volumes are low and production costs are high as a result of which their wines are priced relatively higher. Under such circumstances they often fail to establish their brand recognition and are left with a meagre share in the market. A considerable percentage of the small winemaking units in Dindori, Igatpuri and Sinnar have shut down or on the brink of closure. Niphad still has several operating wineries. There is also the emergence of the contract winemaking sector in Dindori and Niphad. All these wineries were unable to factor in the high marketing expenses. An effective solution may be found through the application of the urban micro winery model which places the winery near the urban markets through locational shift from rural countryside to urban or semi-urban zones.

Table 1: Distribution of wineries by surveyed talukas

Talukas	Status of Wineries					
	Operating Wineries		Closed Wineries		Wineries providing contract winemaking services	
	No	%	No	%	No	%
Dindori	4	33.3	2	50	6	66.7
Niphad	5	41.7	0	0	3	33.3
Igatpuri	2	16.7	1	25	0	0
Nashik	1	8.3	0	0	0	0
Sinnar	0	0	1	25	0	0
Total	12	100	4	100	9	100

Source: Field Survey (2012)

Table 2: Status of wineries in the surveyed area

Status of Wineries	No	%
Operating Wineries	12	48
Closed Wineries	4	16
Wineries providing contract winemaking services	9	36
Total	25	100

Source: Field Survey (2012)

Fig. 2: Distribution of wineries by surveyed talukas

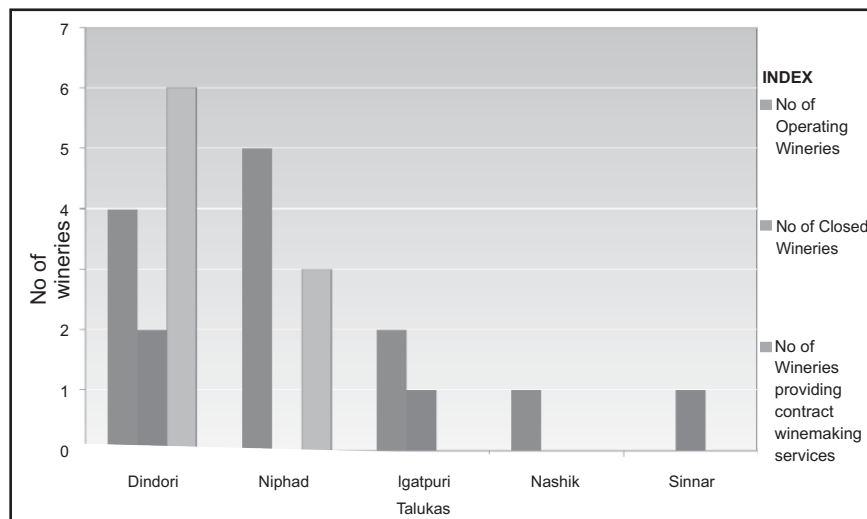
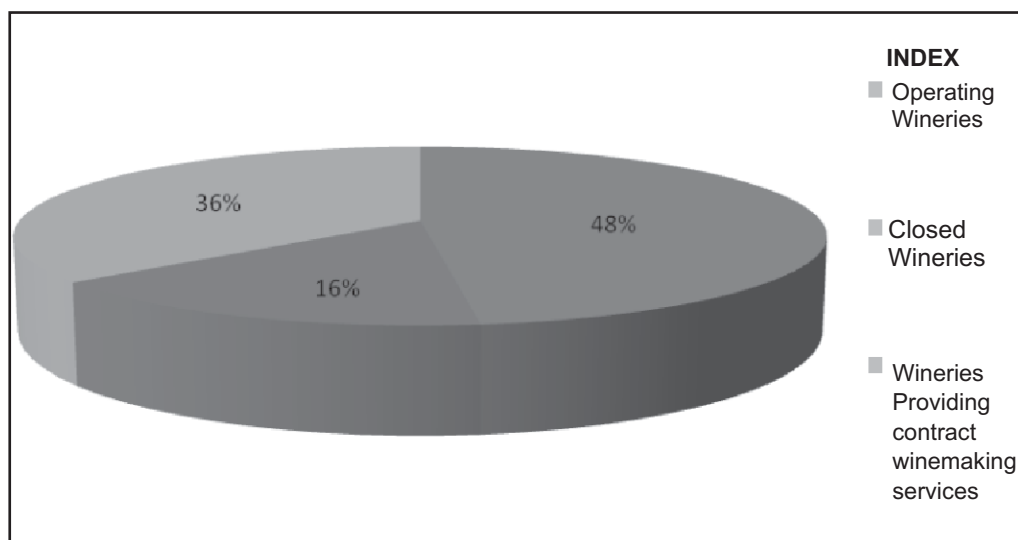


Fig. 3: Status of wineries in the surveyed area



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