THE ECONOMICS OF WINE IN AUSTRALIA: SUPPLY, DEMAND AND PRODUCT DIFFERENTIATION

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University of Queensland, Brisbane, Australia

Outline

• Introduction
• Current challenges
• Facts and figures
• Market concentration
• Marketing Australian wine
• Concluding comments

The Golden Years...

<table>
<thead>
<tr>
<th>Australian wine grapes</th>
<th>1982</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area Under Vine (‘000 ha)</td>
<td>60</td>
<td>163</td>
</tr>
<tr>
<td>Production (‘000 tonnes)</td>
<td>500</td>
<td>1,730</td>
</tr>
<tr>
<td>Exports (million litres)</td>
<td>8</td>
<td>764</td>
</tr>
</tbody>
</table>

Became 4th largest wine exporter (behind Italy, France and Spain)
The Australian invasion...

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Grape Varieties

<table>
<thead>
<tr>
<th>Red Grapes</th>
<th>%</th>
<th>White Grapes</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shiraz</td>
<td>45</td>
<td>Chardonnay</td>
<td>45</td>
</tr>
<tr>
<td>Cabernet Sauvignon</td>
<td>26</td>
<td>Sauvignon Blanc</td>
<td>11</td>
</tr>
<tr>
<td>Merlot</td>
<td>15</td>
<td>Semillon</td>
<td>10</td>
</tr>
<tr>
<td>Pinot Noir</td>
<td>4</td>
<td>Colombard</td>
<td>7</td>
</tr>
<tr>
<td>Petit Verdot</td>
<td>2</td>
<td>Muscat Gordo Blanco</td>
<td>8</td>
</tr>
<tr>
<td>Grenache</td>
<td>2</td>
<td>Pinot Gris</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Riesling</td>
<td>4</td>
</tr>
<tr>
<td>other red varieties</td>
<td>6</td>
<td>other white varieties</td>
<td>8</td>
</tr>
</tbody>
</table>


Recent Demand-side Factors

- Australian Dollar increased from $0.56 USD in 2003 to over $1 USD in 2012
- Export market competition:
  - From emerging Chile, Argentina and South Africa
  - From revitalized France, Spain and Italy
- Export marketing focus on “Brand Australia” instead of regional branding?
- Import market competition:
  - From New Zealand, EU, etc.
- Australian retail market:
  - Supermarket duopoly has 77% of retail market
  - Supermarket duopoly “own-brands” now 8% of market
**Recent Supply-side Factors**

- Tax incentives
  - for planting vineyards, orchards, forests, etc
  - write off investments in 3 years
  - “Management Investment Schemes”
- Grape growers under pressure
  - Few formal contracts for grape growers
  - Grape prices of $300-$400/tonne not unusual
  - Climatic events led to shortage of irrigation water and higher water prices

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**Facts and Figures**

- Exchange rate
- Exports
- Imports
- Production
- Consumption
- Prices

**Exchange Rate**

$USD/$AUD

Source: RBA
Wine Demand

**Exhibit 2: Illustration of wine demand by quality/price segment**

2012 volume (Millions of ltr) and value ($AUD millions)

<table>
<thead>
<tr>
<th>Segment definitions</th>
<th>Domestic retail</th>
<th>Export FOB</th>
<th>Domestic Australian wine</th>
<th>Domestic Imports</th>
<th>Exports</th>
<th>Volume (M)</th>
<th>Value (Millions)</th>
<th>Value (Millions)</th>
<th>Total volume (Mt)</th>
<th>Total value (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A ($5 or less)</td>
<td>11%</td>
<td>21%</td>
<td>13%</td>
<td></td>
<td></td>
<td>12%</td>
<td>4.5</td>
<td>7.6</td>
<td>102</td>
<td>2.8</td>
</tr>
<tr>
<td>B ($1-$5)</td>
<td>7%</td>
<td>13%</td>
<td>18%</td>
<td></td>
<td></td>
<td>24%</td>
<td>10.5</td>
<td>16.5</td>
<td>84</td>
<td>577</td>
</tr>
<tr>
<td>C ($6-$10)</td>
<td></td>
<td>7%</td>
<td>13%</td>
<td>26%</td>
<td></td>
<td>33%</td>
<td>19.5</td>
<td>33.5</td>
<td>731</td>
<td>3,813</td>
</tr>
<tr>
<td>D ($11-$20)</td>
<td>5%</td>
<td></td>
<td>12%</td>
<td></td>
<td>26%</td>
<td>27%</td>
<td>9.6</td>
<td>27.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E ($20 or more)</td>
<td></td>
<td></td>
<td>7%</td>
<td></td>
<td>13%</td>
<td>37%</td>
<td>15.0</td>
<td>56.9</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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**Five Largest Wine Companies**

*Table 3: Wine Manufacturers: Market shares (%)*

<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>Market share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accolade Wines Holdings Australia Pty Limited</td>
<td>11.5</td>
</tr>
<tr>
<td>Treasury Wine Estates</td>
<td>10.5</td>
</tr>
<tr>
<td>Premium Wine Brands Pty Ltd</td>
<td>10.0</td>
</tr>
<tr>
<td>Casella Wines Pty Limited</td>
<td>6.6</td>
</tr>
<tr>
<td>Australian Vintage Limited</td>
<td>4.5</td>
</tr>
<tr>
<td>Other</td>
<td>56.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>


**Market Concentration**

- Grape production
  - 6,213 producers
  - Mostly small family-owned farms
- Wine production
  - 2,572 producers
  - 5 companies have 43% of market
- Retail sales
  - Supermarket duopoly of Coles and Woolworths have 77% of wine market
Large Wine Companies

Largest Processing Facilities

<table>
<thead>
<tr>
<th>Rank</th>
<th>Processing facility</th>
<th>Tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Yenda (Casella Wines)</td>
<td>250,000</td>
</tr>
<tr>
<td>2</td>
<td>Berri Estates Winery, Berri (Accolade Wines)</td>
<td>200,000</td>
</tr>
<tr>
<td>3</td>
<td>Buronga Hill Winery, Buronga (Australian Vintage)</td>
<td>135,000</td>
</tr>
<tr>
<td>4</td>
<td>Lindemans Karadoc Winery (Treasury Wine Estates)</td>
<td>105,000</td>
</tr>
<tr>
<td>5</td>
<td>De Bortoli Winery, Bilbul (De Bortoli Wines)</td>
<td>100,000</td>
</tr>
<tr>
<td>6</td>
<td>Loxton (The Wine Group)</td>
<td>90,000</td>
</tr>
<tr>
<td>6</td>
<td>Kingston-on-Murray (Kingston Estate)</td>
<td>90,000</td>
</tr>
<tr>
<td>8</td>
<td>Buronga (Accolade Wines)</td>
<td>55,000</td>
</tr>
<tr>
<td>9</td>
<td>Wolf Blass Winery, Nurioopta (Treasury Wine Estates)</td>
<td>55,000</td>
</tr>
<tr>
<td>10</td>
<td>Richmond Grove, Tanunda (Premium Wine Brands)</td>
<td>50,000</td>
</tr>
</tbody>
</table>


Casella Winery

Source: Casellawines.com

Source: Google Maps, 2013
Machine Harvesting


Small Wineries

Source: twistedgum.com.au

Retail Market Shares

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Marketing Australian Wine?

- Past growth mostly driven by:
  - High volume wines from large companies
  - Low to medium price points (US $5-$10)
  - Reliable good quality for the price point
- Our competitors have caught up
- A decrease in the exchange rate will help – but not solve the problem
- Future growth:
  - Promote the wine regions of Australia
  - Promote more high quality wines
  - Select and promote quality indicators?

Regions and Quality Indicators in France

- Regions are well known internationally:
  - Bordeaux, Burgundy, Champagne, Alsace, etc.
- Quality categories from 2012:
  - Vin de France, essentially replacing Vin de Table
  - Indication Géographique Protégée (IGP), an intermediate category essentially replacing Vin de Pays.
  - Appellation d'Origine Protégée (AOP), the highest category essentially replacing AOC wines.
- At different quality levels there are restrictions on grape variety, yields, irrigation, wine making methods, etc.
**Selected Regions**
- Margaret River (Cabernet/Merlot, Chardonnay)
- Barossa (big Shiraz)
- Coonawarra (savoury Cabernet)
- Eden Valley (Riesling)
- Hunter Valley (Semillon)
- Mornington Peninsular (Pinot Noir)
- Granite Belt (Verdelho, spicy Shiraz)
- Many more...

**Marketing progress?**
- Very slow so far...
- Large wine companies have significant influence
- Brian Croser describes the situation well... ➔

**Brian Croser 2010 Paper**

**PROSPECTS FOR AUSTRALIAN SMALLER “FINE WINE” PRODUCERS**  
By Brian Croser, Tapanappa Wines  
January 2010  

**About Brian Croser**
- Innovative winemaker and educator for 40 years
- Deputy Chancellor of the University of Adelaide for 8 years
- Past President of the Winemakers Federation of Australia
- Chairman of Adelaide, Sydney and Canberra wine shows
- Was made an Officer of the Order of Australia for his contribution to research and education and for service to the Australian wine industry
- In 2004 Croser was made Man of the Year by Decanter magazine
**Brian Croser Paper (#1 of 3)**

“INTRODUCTION
There are two distinct and separate segments of Australian wine, the fine wine community of more than 2000 committed and regionally diverse producers and the branded commodity wine industry dominated by less than 10 very large multi-region operators.
Both have commercial legitimacy but the past success, the dimension and the political and financial gravitas and the highly visible current tragedies of the latter dominate and obscure the former in world wine trade.”

**Brian Croser Paper (#2 of 3)**

“The biggest problem for the fine wine community of Australia is the negative and deteriorating image problem created for all Australian wine by the behaviour and travails of the branded commodity wine industry.
The biggest challenge for the Australian fine wine community is to bridge the gap between the increasingly poor external perception of Australian wine and the realities of Australia’s vibrant fine wine community as it exists in the more than 60 fine wine regions of Australia, 24 of which are as cool or cooler than Bordeaux in France.”

**Brian Croser Paper (#3 of 3)**

“The establishment of the authenticity and relevance of Australian fine wine in the global wine trade would unlock potential competitive advantages which would feed into price, profit and investment in quality improvement, most urgently into the quality of Australia’s fine wine vineyards and viticultural practices.
Both domestic and global fine wine-markets are likely to continue to grow with increasing population, affluence and wine knowledge around the globe. The traditional fine wine suppliers of Europe are a finite resource with population pressures imposing costs on production.
Unlocking Australia’s fine wine potential is the challenge for the Australian wine community for the next decades leading to 2030.”

**Winemakers Federation of Australia**

Released 7 point *Action Agenda* on 28/8/2013:
1. Grow the Demand Opportunity
2. Hasten the Supply Correction
3. Maximise Open and Fair Domestic Competition
4. Reform the WET Rebate
5. Monitor the Future of Wine Tax Arrangements
6. Continue to Engage in the Wine and Health Debate
7. Secure Funding for the Action Agenda
• "The global A+ Australian Wine brand is the umbrella brand that underpins all Wine Australia’s education activities."
• "The A+ Australian Wine education brand aims to communicate that our wines are of a high quality and exhibit a sense of place, region and style diversity."

Source: Wine Australia

**Marketing Challenges**

• Encouraging larger companies to increase their focus on regional wines – eg:
  – Penfolds Bin 138 Barossa Valley GMS
  – Penfolds Bin 51 Eden Valley Riesling, etc.
• Engaging smaller wineries to tell their story on the international stage
• Educating export markets about our wine regions and styles
• Developing an accepted set of high quality indicators? – eg: maximum yields, no irrigation, hand picked, single vineyard, etc.

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**Concluding Comments**

• Challenging economic conditions at present
• Exchange rate decrease will not solve all
• Many distinct Australian wine regions
• And various quality grades
• Product differentiation the key in future marketing
List of References


And if you are in Australia be sure to drop by ...