The Australian winemaker in the global market: Understanding where we are in the global market

Tony Royal
Portavin S.A. Pty Ltd

The Australian domestic wine market is saturated, providing little scope for volume sales growth in coming years as evidenced by per capita consumption data. Global export growth over the past 20 years has catapulted Australia to being the fourth largest wine exporting country in the world, despite accounting for only 4% of global production. The value of Australia’s total wine exports are approaching A$3 billion per year and it is expected that total wine export sales will reach A$4 billion over the next three to five years (Table 1, Figure 1).

The United Kingdom and the United States continue to be Australia’s largest export markets with two-thirds of total wine shipments sent to these markets. The UK continues to be Australia’s largest customer in both volume and value, purchasing 39% of Australian exported wine by volume in 2004–05. The value of Australian wine exports to the UK continues to show strong growth and has increased nearly threefold in the past 10 years with wine sales predicted to reach A$1 billion this year, up from A$376 million 10 years ago, despite a decline in value per litre of these exports (Figure 2).

The ever-changing operating environment continues to present a challenge with increased global competition. There continues to be every reason to be positive about the future, although nothing should be taken for granted as it is certain that over the next 10 years in an increasingly tougher operating environment, sales growth will be harder to achieve than in the past 10 years. New World wine producers are targeting the Australian wine industries’ success and Old World wine producers simply want their shelf space back.

Global wine trade data for 2003 shows that the world wine trade grew 4% by volume and 21% by value. Exports by the top five EU wine producing nations declined whilst there was increase in New World exports. Australia was the 4th largest exporter and continued to be the largest exporter of bottled wine amongst the top five New World countries; namely, the USA, Chile, South Africa and Argentina.

Given the size of the Australian national vineyard, Australia as a wine-producing nation is the most export-reliant wine producer in the world coupled with being the furthest away from its two largest export markets, the UK and USA. The global market has no patience for excuses such as lead times or shipping time. In order to continue to compete on the international stage and to continue to compete strongly with the other emerging New World producers, the Australian wine industry requires the best quality wines at every price point to guarantee success as well as the most innovative marketing, low-cost, highly efficient wine producers and supply chain providers.

Comparisons of international competitors’ costs have highlighted the significance of the impact of labor costs on bottling lines and more importantly in the provision of low cost dry goods.

For example, Argentinian labour costs are US$1.50 per hour with manning levels of 20 people per shift working 24 hours per day, five days per week. In comparison, for the same size bottling and packaging line in Australia, fully factored labour costs are A$25

Table 1. A decade of export success for Australia.

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<th></th>
<th>1996</th>
<th>2006</th>
<th>% Change</th>
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<tbody>
<tr>
<td>Number of wine companies</td>
<td>892</td>
<td>2000</td>
<td>+124%</td>
</tr>
<tr>
<td>Wine grape bearing hectares under vine</td>
<td>65,000 hectares</td>
<td>154,000 hectares</td>
<td>+137%</td>
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<tr>
<td>Total grape crush</td>
<td>883,000 tonnes</td>
<td>1.82 million tonnes</td>
<td>+106%</td>
</tr>
<tr>
<td>Export sales (Value)</td>
<td>$551 million</td>
<td>$2.8 billion</td>
<td>+408%</td>
</tr>
<tr>
<td>Export sales (Volume)</td>
<td>148 million litres</td>
<td>702 million litres</td>
<td>+374%</td>
</tr>
<tr>
<td>Average price per litre for export wine ($A FOB)</td>
<td>$3.72</td>
<td>$3.98</td>
<td>+7%</td>
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per hour with manning levels of five people per shift. And who is
the Argentinean winemaker bottling for? UK supermarkets Tesco
and Sainsbury.

Similarly, labour rates for unskilled labour in China range be-
tween 35 and 70 cents AUD per hour. This clearly highlights the
pressure the Australian wine industry will face given the distance
from major export markets and the cost of production. Ensuring
that every step in the supply chain meets the level of the world’s best
practice will not be an option – it will mean survival.

**Meeting expectations: the changing role of the
Australian winemaker**

Buyers are demanding. They demand that they deal with winemakers
who are able to:

- Be quality focussed, who pay attention to detail
- Be on time, i.e. Now
- Provide market support
- Show flair and passion – ‘The Credible Story’
- Be reliable and honest; and
- Work to low prices with healthy margins

Australian winemakers are no longer creative artists or technocrats
– today's successful winemakers are multi-skilled business people.
They need to be equipped with a thorough understanding of world
markets, competitors, supply chain logistics, wine styles and wine
quality at a price point.

The Australian winemaker must be able to sell into domestic and
export markets ably assisted by packaging service providers, industry
regulators, and key suppliers of labels, glass and packaging.

Winemakers need to be able to detail the timeline and planning
required to be the fastest and best prepared wine producer, able to
respond to orders irrespective of the customer and destination.

They also need to have a strong command of:

- Planning and logistics to reduce mistakes and gain efficiencies
- Developing good relationships with customers and suppliers

**Critical issues for supply in the global market**

Traditionally, focus has been on improvements to grapegrowing and
winemaking, however there is a broader range of issues facing the
Australian wine industry in the global market. At a recent workshop
of the Wine Industry Strategy Development Group, eight key issues
were identified as critical to supply success in export markets. The
group undertook a risk assessment process, ranking each of the
issues in order of importance and/or urgency (Table 2).

**Impact of globalisation on Australian wine exports**

In a relatively short period of time, the Australian wine industry has
been transformed from a predominantly family-owned industry in
the late 1970s to its current makeup of foreign ownership, publicly
listed producers, large family producers and hundreds of small to
medium-sized wine producers. This shift in ownership has come
about during unprecedented growth for the industry, and this has
caused some confusion over what is controlled by the industry and
what is out of the industry’s control.

Approximately 75% of Australian wine is produced as
commercial product annually. These wines and brands are owned
and controlled by foreign interests, publicly listed and large family
wine companies numbering between 20 to 25 producers. Growth
and profitability in this Australian commercial wine sector is largely
regulated by pressures of costs, economies of scale and external
competition. Other factors that will continue to influence this
sector include exchange rate trends, freight rates, consolidation of
sea freight service providers, oil prices, and the consolidation in the
retail sector (domestic and export). This sector of the market has
the tightest margins, and future decisions regarding production and
location for packaging sites/premises will be determined by market
forces.

Marketing strategy, production and distribution of these
commercial wines will remain largely influenced by The GateKeepers
– a group of approximately 25 influential domestic and international
buyers which includes senior buyers from our two major Australian
retailers; senior buyers from each of the leading UK retailers;
continental European retail buyers; US retail buyers; Scandinavian
and Canadian provincial and state buyers and influential international
wine commentators.

The remaining 25% of Australian wine production represents
the fine or premium wine category. It is this category over which the
Australian wine industry does exercise control, and our future brand
image and reputation will grow from its success.

**Strategies for success in the global market**

1. **Support our commercial wine producers: their success is the Australian wine industry success!**

It is fundamental that the role of the 25 biggest Australian wine
producers is recognised by the industry as a whole, because all the
industry has a stake in its ongoing success. This group of producers
buys the majority of the grapes, pays the majority of the levies for
research and development, funds the majority of the international
sales and marketing programs and employs most of the university-
trained graduates. In addition, this group of producers has a vested
interest in the other 25% of the industry as each produces fine,
premium wines.

For the Australian wine industry to continue to succeed, it may
be useful to recount some of the factors that have helped get the
industry to where it is today:

- What did we say in the 1980s and 90s? The Australian wine
sector in the UK…
  - Represented value for money
  - Was customer and consumer focused
  - Turned ‘English speaking countries’ into ‘English speaking
markets’
  - Did not take itself too seriously – empowered the customer – ‘if
you like it, drink it!’
  - Used varietals as a sign post – demystifying wine for the
consumer
  - Was energetic and hungry – winemakers and wine marketers

The Australian brand image in export markets has plateaued as
a result of our competition fighting back to regain lost market
share. Despite this, the industry has opportunity awaiting, soundly
supported by strong mature distribution and relationships in major
export markets – the doors are open and most of the hard ground
work has been done. These commercial brands have achieved
distribution, economies of scale and opened doors for the rest of the Australian wine industry. These are the brands that have to remain successful and will be instrumental in ensuring the success of the remaining fine wine category of the Australian wine industry market.

2. Branding and image: the importance of promoting regionality

Australia produces premium wines and has the advantages of vineyard age and regional definition without the restrictions of appellation. One of the keys to growth in the premium wine category will be the development of strong regional identities – both wine styles and wine makers. Regionality enables Australian wine to move up through the price tree – i.e. trading up and not trading out of the Australian category. It is now time for the Australian wine industry to more clearly match our regions with varieties and to clearly differentiate our product offering and importantly sell the story to the market.

Consider the New Zealand wine industry as an example: New Zealand has been a leader in building regional identity. The success of Brand New Zealand wines is largely based upon the success of Sauvignon Blanc from Marlborough, and more recently the Pinots and Cabernets in the North Island.

The Australian wine industry has created regional wines with regional stories and now needs to more clearly draw the attention of our export markets to their quality and diversity.

3. Wine Australia: refreshing the image and brand

In building our own brands internationally, we look to the Australian Wine & Brandy Corporation’s Wine Development Division which now operates globally as Wine Australia to provide the platform from which we can launch. The refreshed programs on offer for 2006/07 provide newly developed international marketing initiatives based around promotion of regional brand personalities. These initiatives are focussed on brand management and development whilst developing awareness of regionality with varietal choice and style dictated by a distinct sense of place...wine from somewhere rather than wine from anywhere.

4. Review of the Australian wine awards system: ongoing relevance of the national wine show circuit

The role of our national wine show circuit as played over the past decades has definitely provided us with wines of international standing and consistency. The Australian wine show circuit is the envy of many of our New and Old World wine producing competitors. The time has come, however, to take a good hard look at our national wine show circuit.

In a crowded international market place, we need to ensure that our Australian awards have relevance and profile. The national wine judging system is well developed, with clearly defined regional wine shows, as well as the National Wine Show held in Canberra. The shows that sit in the middle, namely the capital city wine shows, are no longer clearly defined and all have grown substantially in exhibit numbers over the past two decades in parallel with the unprecedented growth of the Australian wine industry. The problem that has arisen – because all royal agricultural society capital city wine shows accept national entries with some also including exhibits from New Zealand – is that the capital city shows every year replicate the judging of the same wines many times over.

The wine judging process has become somewhat onerous and many of the results have lost relevance for the exhibitor and consumer. There are too many awards to confuse the consumer, hence diluting the commercial impact and potential. We need to overhaul the current wine show circuit and direct the outcomes towards regional recognition. These results then need to feed back into the Australian Wine and Brandy Corporation’s framework to reinforce and promote regionality within our export strategies.

5. Ensuring quality packaging and supply chain processes

We need to ensure that we enhance our ability to fill the supply chains. Being able to respond effectively to the challenges of an increasingly competitive retail environment, both within Australia and in export markets, will be a key factor in the future success of the Australian wine sector.

‘Made and produced in Australia’ serves as a quality stamp of endorsement within the world wine market providing authenticity and integrity of finished goods. Maintaining quality during the packaging operation and the partnership between winemaker and production will become increasingly important.

Ensuring our premium wine is produced and packaged in Australia enables the industry to further endorse the expertise of our world-renowned winemakers and technicians. As evidenced by the highly successful New Zealand dairy industry with sales of product into the UK and USA, value adding in the country of origin creates the opportunity to ‘upsell’ based on expertise and perceived quality. A few products that fit this model include Cognac, Scotch Whiskey, Champagne, Swiss Watches and French Oak, to name a few.

In summary, the past decade has seen the evolution of the Australian winemaker in the global market. The large wine companies have been trailblazers, the small to medium-sized producers have added personality and persistence and all have contributed to the success the industry has experienced to date in the international market place. The challenge going forward will be to continue the good work of the past, whilst continually improving all aspects of the supply chain from grape to market. Established distribution and economies of scale will assist, however the determining factors will be our ability to continually improve quality at each price point, sell our regional wine stories, build stronger relationships with the ‘GateKeepers’ and play to the major and often overlooked strength of the Australian wine industry – UNITY.

To continue to succeed in the challenging, everchanging and highly competitive environment of the world market place, we will need winemakers who have innovation, passion, leadership and hunger.

In times of undersupply, the Australian winemaker can survive by being a ‘technocrat’...however, the era of the winemaker and viticulturist in an era of oversupply transforms to the new wine businessperson – the winemaker / marketer / salesperson / and accountant. Perhaps we should be changing our frame of reference for the ASVO to the Australian Society of Viticulture, Oenology and Business (ASVOB)?

References

Australian Wine and Brandy Corporation, Annual Report 2004/05. Figures from Winemakers’ Federation of Australia and Australian Bureau of Statistics. Dollar amounts are in reported-year values.