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Context
This document is the summary of a series of interviews undertaken during the middle of 2006 of leaders across the wine sector.

It is prepared specifically for the Future Leaders – Succession for the Australian Wine Sector Program 2006 as a guide to the range of issues presently emerging in the industry which will require leadership on behalf of the sector.

It has been slightly updated for the 2007 Future Leaders’ Program however participants now have access to the ‘Directions to 2025’ materials and reports not available at the time of writing the original version of this document.

“The Directions to 2025 process represents the best opportunity to secure the future of Australian wine through economic prosperity, environmental sustainability, technological innovation and social responsibility”

Additionally, the Wine Grape Growers Association produced their own complimentary research which was integrated into the Directions Project. The reports will be supplied as reading for the program.

It is not intended to be an inclusive analysis but a snapshot diagnostic to inform the Future Leaders; no doubt they will also hold perspectives on these and other “Emerging Themes”.

We invite the Future Leaders to build this document into a resource for the Sector by adding their own perspectives and leadership of emerging issues.
World consumption declining, Australian wine production going up

- Directions identified the potential for the Australian wine sector to sell an extra $4 billion worth of wine over the next five years – lifting cumulative domestic and export sales.
- The gains will come through a combination of new marketing focused on regional and fine wines, a clearer definition of niche market opportunities, and a focus on business sustainability at an individual winery level.
- The majority of wine sales are in the lower price point (29%) with only 11% share at the higher price point. Australian wine is concentrated in the middle range where it outperforms world markets.
- Australia underperforms in the higher price point also.
- Unrealistic to contemplate ongoing global growth unless emerging markets in Asia are expanded.
- Need to discern emerging markets and preferences and establish early presence in these markets – China, Russia, India and South Korea.
- Need to reflect different palates and preferences rather than merely produce to our preference and assume the world will follow – wine style, flavours, marketing, packaging, demographics etc. (Yellow Tail is a good example of matching product to the market approached).
- Global oversupply occurring.
- Domestic consumption is at 2-3% i.e. higher than our population growth, thus not sustainable.
- Export growth compounded at 10+%, whilst still growing growth rates not sustainable.

The Directions to 2025 consumer trends analysis combined global research and industry feedback to identify:
- trends influencing beverage production, packaging and marketing decisions medium term and
- the implications for the wine industry
- potential target groups for wine producers and marketers
- wine consumption trends in key markets.

Retail consolidation linked to globalisation of the Industry worldwide

- Global retail consolidation occurring rapidly with major implications for market access and shelf space
- Retail through restaurants still possible but requires a different distribution system or shoe leather
- In Australia, many wineries very dependent upon two major retailers
- Require to build ‘fantastic’ relationships with retailers in international markets, including products their markets, fruit that isn’t costing twenty dollars per bottle,
- Two global retailers with 60% of the domestic sales

The ‘Directions to 2025’ project developed a response to these trends it can be found in the Directions to 2025 report and on the AWBC website:


Globalisation of the Industry resulting in:

- Need to be represented on global governance infrastructure e.g. New World Wine Producers
- Emerging global standards and the application as protectionist practices
- Industry moving from arts-and-craft-style to truly industrialised sector
- Global skill base catching up rapidly
- Global companies operating on the basis of global risk analysis
- Pressure from the increase in the Australian dollar
- Need to be well briefed and informed - ISO fourteen thousand
- Globalisation result in the growth of technocracy – marketing specialists, brand developers, etc rather than the ‘all purpose producer’
- May result in global brands and an erosion of Australian industry focus
- The ‘dig or grow’ culture is alive amongst the globals as they extract value across the value chain
- Globalisation also requires of us global perspectives rather than inward looking only e.g. what happens when Spain get’s it together, or the French decide they don’t want to lose more market share, or the US has an abundant vintage and produce quality $4 bottles of wine
There’s now a whole lot more working for global competitiveness
Also requires global connectedness to influence global policy contexts and global markets e.g. trade barriers and this helps the little guys who follow in the space created by the big guys
Global technology transfers are really fast
The pretty label will win in the battle for shelf space as wine makers can go all over the world these days
The best distribution systems will also win
Internationalisation is about being a global company rather than being impacted by globalisation
An increasing number of ‘born global’ companies; those who within six months establish strong international markets and subsequently trade back into Australia

A study was undertaken for the Directions to 2025 Process on the impact of globalization on the wine industry over the next five to ten years; this is available on the AWBC portal.

The ‘Directions to 2025’ Project developed a response to these trends it can be found on the AWBC website:


There are also international Agreements which will inform an understanding of the political context of global wine markets, these can be found on:


For information pertaining to the regulation and legislation re viticulture access:


Rise of corporate social responsibility

Corporate social responsibility issues will be experienced by the big companies first – this will be experienced through global retail chains such as Tesco etc.
Health issues will become more prominent as policy influencing issues e.g. alcohol abuse
World Health Organisation emerging as major international player in wine consumption, pricing and labelling policy
Environmental impacts (especially water and wastes)
Issues of transparency e.g. environmental issues, brand authenticity and originality, labelling
Health issues will be used as a surrogate for protectionism in international markets
Authenticity issue: what is a grape, its component parts and how these are combined to make products within ‘old world’ markets
Food safety issues arising as a global issue
Worker and community safety issues
Different cultural perspectives and priorities
Emerging social responsibility perspectives informing use of investment funds for infrastructure and capital investments

Strategies such as the Sustaining Success: The Australian Wine Industry’s Environmental Strategy and the national reporting process of the Australian Wine Industry Stewardship (AWIS) program are contributing to Australia’s lead in the environmental stakes.

Corporatisation of the Industry
- Rise of technologists with no historic Industry culture – their skills will be in producing the same wine every year regardless of the source of the grapes

Conflicting perceptions of the regions
- Regions are expensive, cumbersome and competitive rather than flexible, adaptive and collaborative
- Regions are useful in technology diffusion and infrastructure assembly and aggregation
- Regions must improve their efficiency and grapple with the huge communication issues
- Geographic differentiation valuable
- The best things regions do is produce interesting different wines
- They also work well at within region collaboration – but less well between regions
- Different perceptions of regions – Australia as a region or the regions within Australia – depends upon where you sit either being impacted by globalisation or a global company with an international context
- Regions need to be plugged into the national network rather than building separate empires
Governance
A study of the future governance of the Sector, including regions, has been instituted by the AWF and AWBC following the Directions to 2025 process where it was proposed that there needed to be rationalisation of the existing governance arrangements.

The Industry has addressed the need to better reflect the diversity of size within its governance by structural representation of small, medium and larger companies.

Unity is the discernable difference in the Industry
- a special asset that needs to encouraged, preserved, supported, and I think one of the best ways to do that is through an inclusive planning process and a good communication network
- unity can be unraveled by people treating wine as another beverage and decisions are made purely on the bottom line - if that happens then the whole issue of industry unity will unravels and then the lose of a whole lot of benefits including collective R&D and marketing

Brand management and market positioning
- May need to adopt the French position – higher priced, quality wines that tap into the ‘scarcity’ mindset and attraction to the elite wine culture
- New marketing effort will not be driven by the current icons, it will rely upon the next generation of wine warriors – and they are scarce
- Need to determine what position in the world market our wines should be targeting – commercial or boutique
- Existing Governance infrastructure is tied to the global corporates and therefore is unable to do much for the SME’s who may need to market for themselves collectively
- Need to SME’s to build stronger collaborative marketing as you can’t be heard on your own in export markets
- May need to experiment with region brands within the European market as it works for the French, Spanish and Italian wines – we’ve not done it as we “Brand Australia”
- Currently at risk of being eroded i.e. diminished brand value by supermarkets
- Brand Australia has been a great thing and one of the reasons is because of our export inspection system and all the rest which guarantee the quality to a certain level of Brand Australia, it’s been fantastic
It is inspirational to watch people building a true brand pyramid.

In Australia we’ve built a brand foundation but haven’t used it effectively – so it places pressure on the SME’s.

Consumer linkages must be innovative and consumer responsive.

The Directions to 2025 project identified four market segments for brand management: Brand Champions, Generation Next, Regional Heroes and Landmark Australia. Each of these represent the four value segments respectively: accessibility, interest, innovation and aspiration. Extensive details regarding these segments is available in the Resource Kit on the website http://www.wineaustralia.com/Australia/Default.aspx?tabid=3821

**SME leverage**

- Routes to market narrowing
- SME’s will need to tell a story differently based on authenticity
- Consumers demand product that is variable and differentiated, particularly in the higher price point of the market. Consumers quite deliberately seek out products that aren’t made by the larger companies and the larger companies tend to try and adopt strategies that are about making themselves look small.

**Rationalisation of the industry globally – scope scale and focus**

- Collaboration will be maintained
- Collaboration will need nourishment and is always vulnerable
- Large companies value the supply chain as SME’s provide effulgence factor of the Industry

**Research & Development, Productivity and Innovation**

- These three terms are different yet often confused as the same
- Unlike most industries, the large companies are the major source of innovation in the Wine Industry with significant investment in R & D
- Majority of R&D is commercial focused due to the fact that the bigger wineries fund the majority of research
- SME need to collaborate more in regards to R&D to be able to sustain innovation levels across the value chain
- We have for a long time, not done research for research sake but research to improve the bottom line of wineries or
vineyards, and we have been very, very good in the uptake of that research to affect the production side of things

- Australia is where the major R&D work is occurring and is most quickly adopted
- The Australian Wine Industry will need to identify new innovation triggers – individual aspirations (the thrill of chasing something that ‘can’t be done’) or business triggers (meeting new emerging markets, differentiations in markets, survival or value creation)
- Incremental enhancement is a valid form of innovation adapting to market trends and perspectives
- The people factors are increasingly key to innovation
- However we are losing our edge quickly - there are universities in South Africa and places around the world now that are just as good as the Waite campus and the AWRI and doing just as innovative things

The ‘Directions to 2025’ Project developed a response to these trends it can be found on the AWBC website: http://www.gwrdc.com.au/default.asp

**Diversity within the Industry is not optimised**

- Very few women in key governance roles
- Perception is that is difficult to get women to accept governance roles, yet women indicate that it is the male iconic models that deter them
- The governance issues reflecting the diversity of size of companies within the Industry have recently been addressed

**Conflicting perspectives on consumer responsiveness**

- Most in the Industry believe it to be highly consumer responsive
- Few can explain how the Yellowtail phenomenon did not occur ten times over during the past ten years if it is so consumer responsive
- Few are using the new social networking mediums to engage with consumers

**Export Growth a Success Story**

Wine is a real Australian success story. We are now the fourth largest wine exporting nation after France, Italy and Spain and our wines are drunk in more than 100 countries. Every day, about 2.5 million bottles of Australian wine head overseas. In a year, that’s worth about $2.8 billion to the national economy.
The US and the UK are the dominant markets but Canada is expanding and is firmly in third spot. Australia is the biggest wine exporter to the UK, second only to Italy in the US, and third in Canada. We also are making inroads into Japan, Scandinavia and Europe, and beyond that other markets in Asia, Africa, Central and South America, eastern Europe and Russia offer potential export opportunities.

This is the full top 12, with dollar figures as at April 2007. More detailed information about wine exports can be found in the Corporation’s monthly Wine Export Approval Reports.

- United States $963m
- United Kingdom $958m
- Canada $252m
- New Zealand $101m
- Germany $67m
- Ireland $64m
- Netherlands $58m
- Sweden $51m
- Denmark $50m
- Japan $47m
- China $46m
- Singapore $42m

To maintain the quality and integrity of its wine exports, Australia has introduced a comprehensive compliance regime that requires all wines to be inspected and approved. See Exporting wine

**AUSTRALIAN wine exports rose to new records in value and volume in the 2006/07 financial year.**

Wine exports were valued at $2.99 billion, with 798 million litres exported in the 12-month period, the Australian Wine and Brandy Corporation said today.

The corporation’s Wine Export Approval report revealed the value of exports rose 7 per cent from the previous financial year.

But volume growth dropped three per cent to eight per cent, despite setting the new record.
The UK consolidated its position as the top export market for Australian wine in both value and volume in 2007/08.

Australia exported some 281 million litres of wine, valued at $974m, to the UK in the 12 months to the end of June.

The UK figures were slightly ahead of the United States, which was the next most lucrative market with 220 million litres valued at $960m.

Canada (49 million litres at $266m) was ranked third.

The corporation's information and analysis manager, Lawrie Stanford, said China was the second largest contributor to the value and volume growth.

Wine exports to China rose a whopping 90 per cent to 23 million litres and value grew 136 per cent to $49m in the financial year.

Mr Stanford said the UK was the largest contributor to volume growth and the US the biggest contributor to value growth.

The Netherlands also made a notable contribution, importing some 22 million litres valued at $65m – up $20m and seven million litres from the previous financial year.

Ireland also was a major factor, with value growing 30 per cent to $70m and volume up 28 per cent to 15 million litres.

Mr Stanford said there were three key drivers of the record exports: an easing of bulk shipments growth; a resurgence of growth in bottled shipments and; a rise in the average price of bottled shipments.

“All are positive trends for the Australian wine sector after a period of supply and price pressures, albeit early in their development,” he said.


**Governance of the Sector**

The current governance of the sector is reflected in the attached chart; a review of the governance structures is presently being undertaken.

Further details of the current structures can be found at:

For more information please contact:

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