The Australian Wine Sector and its Global Success

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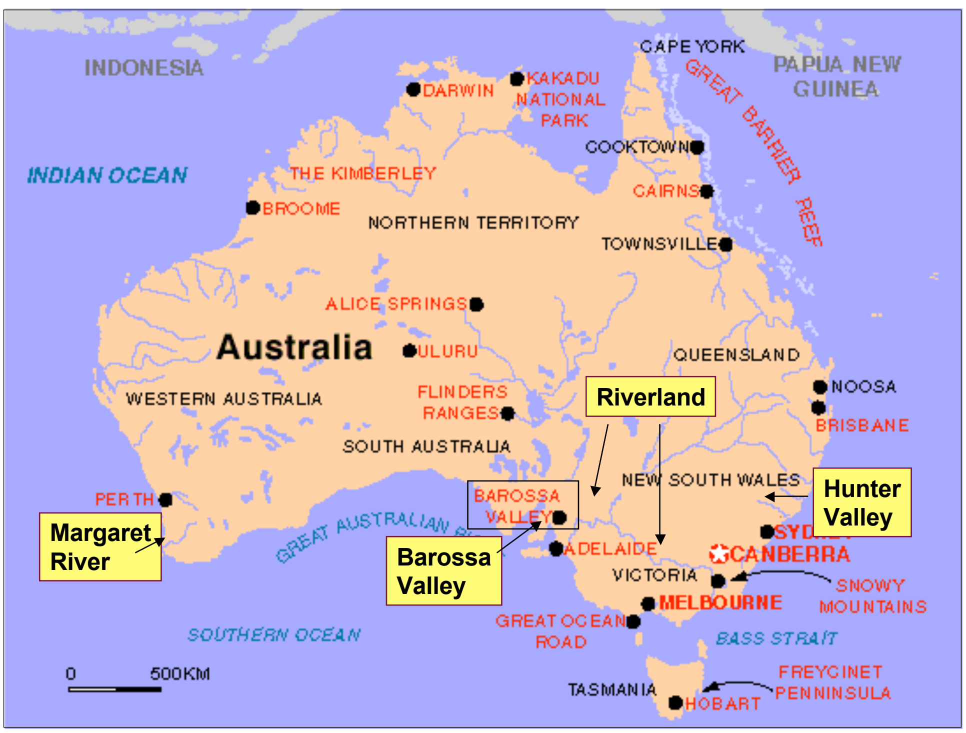


Introduction

- A very brief history of the Australian wine industry
- A few statistics
- World statistics
- Australia's export growth
- Reasons for success in the global market
- Challenges facing wine producers

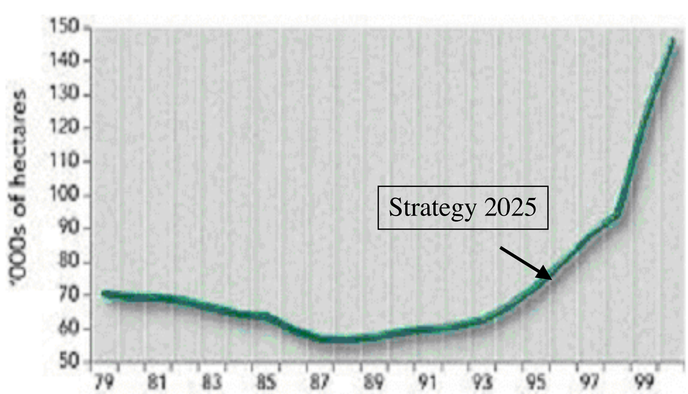
Brief History of Australia's Wine Sector

- Began early 1800s, but no wine specialists
- Settlement of regions by mainly German and British
- Development of the 'Show System' very early
- Depended on regions and blending
- Responded to UK market and tax pressures
- Ownership by consumer products companies in the 1970s and 1980s.
- Industry collaboration - Strategy 2025, etc.

Strategy 2025 (1996)

- Industry vision -
  - by the Year 2025, the Australian wine industry will achieve $4.5 billion in annual sales by being the world's most influential and profitable supplier of branded wines, pioneering wine as a universal first choice beverage
  - Already exports are $2.76 billion and domestic $1 billion
- Delphi method
- Constraints
  - Capital and water resources
  - Vineyards and processing
  - Skills
- 30 strategies to achieve

Total Vineyard Area 1979-2000



- Already planted 75% of the 30 year plan

Marketing Decade (2000)

- Mission 2010
  - Grow the consumer franchise for Australian wine to achieve 2010 sales of 4.5 billion at a higher average margin with enhanced brand values
- Committee-based analysis for marketing the increased plantings
  - Key analysis of supply and demand
- Domestic market
- International market
  - Necessary export quantities
  - Classification of export markets
  - Market by market analysis of potential and programs to achieve
- Action plan for Wine Brand Australia

Benefits of Collaboration

- Critical mass for gaining attention:
  - Media
  - Trade and other gatekeepers
  - Category legitimacy in the trade
  - Category acceptance by the consumers
  - Growth of individual brands through reach and penetration
- Cost efficiency
- Harnessing efforts into category expansion rather than destructive competition
- Ability to provide entry for small companies who otherwise would not gain market access

Australian Wine and Brandy Corporation

Established: 1980, statutory body
Focus: regulatory administration of statutory requirements
Funding: by statutory levy and fee for service
Activities:
Export administration including licenses;
International Trade and Technical Advisory Committee;
Label Integrity Program;
Geographic Indications Committee;
Wine Practices Committee - Compliance Monitoring;
Residue monitoring

Australian Wine Export Council

Established: 1992
Focus: generic wine export promotion
Funding: AWBC, industry contribution, government grant
Activities:
A committee of AWBC;
Export marketing development,
Collaborative promotion;
Offices in London, New York, Toronto,
Frankfort, Stockholm, Tokyo

Grape and Wine Research Development Corporation

- Strategic research in science, technology, marketing, economics to increase effectiveness and competitiveness of the Australian wine sector
- Industry levy + matching government monies
- Board of government and industry members
- Set priorities for research and fund them
  - Mainly academic institutions
  - Australian Wine Research Institute
  - Cooperative Research Centre for Viticulture

Industry Structure

- 1800+ wineries
  - 70+% of production among 4 companies
  - 95% of branded wine produced by the 20 largest
- 164,000 hectares
- 1.8 million tons in the 2005 vintage

Distribution of Wineries by Size

	1998	2004
Less than 20 tonnes	293	582
20 to 49 tonnes	211	414
50 to 99 tonnes	145	254
100 to 249 tonnes	142	211
250 to 499 tonnes	50	106
500 to 999 tonnes	31	57
1,000 to 2,499 tonnes	44	45
2,500 to 4,999 tonnes	19	40
5,000 to 9,999 tonnes	16	24
10,000 or more	34	43
Total	998	1,798

- 70% crush less than 100 tons~ 7000 cases

Largest Australian Wineries

	Tons 2004
BRL Hardy(Constellation)	331,900
Southcorp	227,749
McGuigan Simeon	245,000
Orlando Wyndham	160,436
Casella Wines	115,810
Beringer Blass	106,724
De Bortoli	82,000
Evans & Tate	57,866
McWilliams Wines	42,000

Rank by Sales of Branded Wines
Hardy Wines
Southcorp Wines
Orlando Wynham
McGuigan Simeon
Casella Wines
Beringer Blass
De Bortoli
McWilliams
Yalumba Wines

Southcorp brands:

- Lindemans
- Penfolds
- Rosemont
- Seppelt
- Wynns
- Edwards & Chaffey
- Kaiser Stuhl
- Seaview
- Tollana
- Woodley
- Coldstream Hills
- Killawarra
- Tulloch
- Great Western
- Matthew Lang
- Queen Adelaide
- Leo Buring
- Devil's Lair
- Hungerford Hill

Domestic Market: White Grapes

Variety	1999 Hectares	2000 Hectares	2004 Hectares	% Change 99 to 04
Chardonnay	16,855	18,526	28,008	40%
Sultana	13,639	13,042	8,570	-59%
Semillon	6,044	6,832	6,278	4%
Riesling	3,347	3,658	4,255	21%
Sauvignon Blanc	2,413	2,706	3,425	30%
Colombard		2,053	2,819	100%
Muscat Gordo Blanc	3,005	3,196	2,400	-25%
Verdehlo		1,507	1,618	100%
TOTAL White	54,990	59,595	65,891	17%

Domestic Market: Red Grapes

Variety	1999 Hectares	2000 Hectares	2004 Hectares	% Change 99 to 04
Shiraz	25,596	32,327	39,182	35%
Cabernet Sauvignon	21,169	26,674	29,313	28%
Merlot	6,387	8,575	10,804	41%
Pinot Noir	2,996	3,756	4,424	32%
Grenache	2,255	2,756	2,292	2%
Ruby Cabernet	1,202		1,998	40%
Petit Verdot	370	970	1,623	77%
Mataro	866	1,147	1,040	17%
Cabernet Franc	687	1,008	742	7%

Domestic Consumption

- 61% of population drink wine
  - US less than 40%
- 31% drink once or more per week
- 417 million litres in 2004
  - 21 + litres per capita
  - Approx 52% : 48% ; cask : bottle by volume

Global Wine Market Facts (OIV, Impact)

- Sales of 2.52 Billion (9 litre cases)
- High concentration in the selling of wine
- Low concentration in production (10 largest = 14% of global production),
- Growth is 0.6% per annum in 2003.
- International trade is static
- Growth is confined to the commercial sector (table and branded wines)
- AOC/DOC (appellation wines) are losing share
- Significant surpluses in the New World too (2 Buck Chuck).

Concentration of Production in the Global Wine Sector

(Source: Rabobank)

	Top 5's share of national wine production (%)	Average wine sales of top 5 (US$m)
U S	80	750
New Zealand	80	na
Australia	85	310
Argentina	50	97
Chile	47	90
France (not Champagne)	13	330
Spain	10	190
Italy	5	125

Change in Concentration in Retailing in Selected Markets

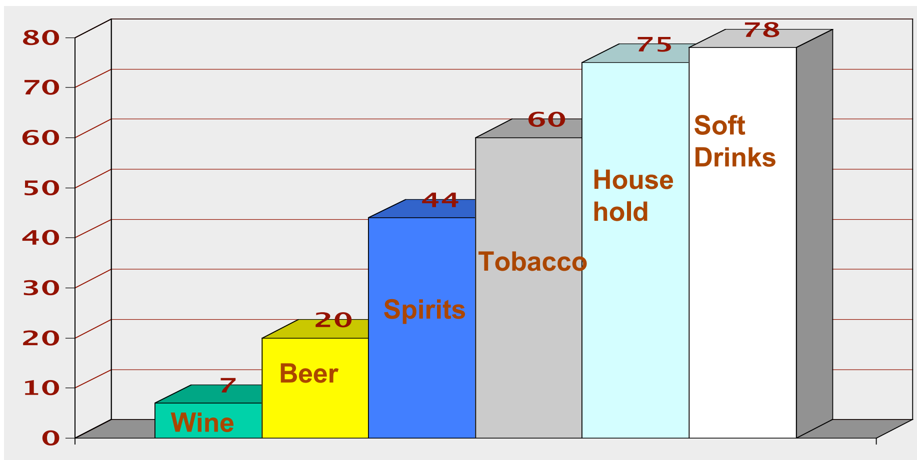
(source: Euromonitor 2004,1998)

Percentage of retail wine sales by type of outlet

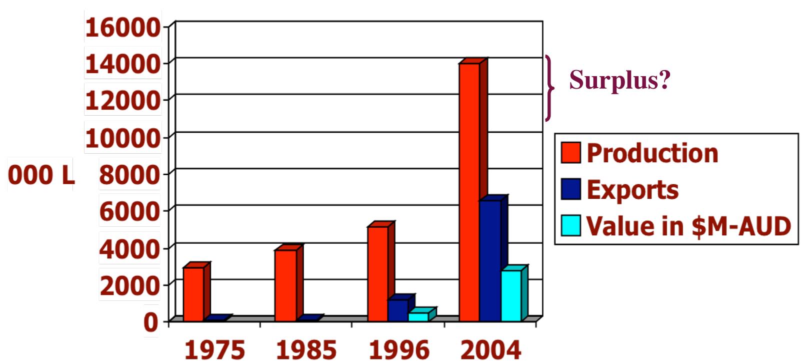
Country	**2003**		**1991**	
	Supermarket and Discount	**Specialist**	**Supermarket and Discount**	**Specialist**
France	82	9	41	19
UK	80	15	71	29
Germany	74	7	40	12
Spain	71	17		
US	67	22	49	36
Brazil	64	33		
Japan	57	43		
China	65	10		
Australia	~40% by value owned by Woolies and Coles			

Comparing Consolidation across Product Categories

% Global Market Share of Top 4 Players in each Category



The Rise of Australia



	1988	1998	2004
Value of exports in $A per litre	$1.79	$4.44	$4.19
Global market share by value	1.5%	5.1%	9.1%

Evolution of New World Wine 2003

Global Wine Statistical Compendium 1961-2003

Country	1997 Prod mil litres	2003 Prod mil litres	% Increase /decrease
Australia	617	1085	+75.8 %
United States	2200	2350	+6.8 %
Chile	455	575	+26.3 %
Argentina	1350	1180	- 12.6
South Africa	881	761	-13.7%
New Zealand	46	55	+ 19.5%

Australian Export Markets April 2005

MARKET	VALUE ($ AUD)	% INC (YEAR)
1. UK	$963M	14%
2. USA	$908M	2%
3. Canada	$243M	20%
4. NZ	$97M	0.4%
5. Germany	$77M	15%
6. Ireland	$59M	26%
7. Japan	$49M	43%
8. Netherlands	$44M	18%
9. Sweden	$41M	16%
10. Denmark	$40M	16%

} 68% of all exports up from 18% in 1985

Asia was 5 of 10 top markets in 1985

Price Points of Australian Exports in the Top 5 Markets

Percentage of exports per price point

Value/litre	UK	US	Canada	Germany	New Zealand
<$2.50	28% (+)	8% (+)	16% (+)	53% (0)	28% (-)
$2.50-$4.99	54% (0)	65% (+)	21% (+)	41% (+)	46% (0)
$5.00-$7.49	15% (+)	18% (-)	44% (+)	4% (-)	17% (+)
$7.50-$9.99	2% (+)	6% (-)	15% (-)	1% (-)	7% (+)
>=$10	1% (+)	4% (-)	5% (0)	1% (+)	2% (+)

Australia's Strength is Low to Mid Involvement Buyers

- Excellent wine
- Innovative packaging
- Not too serious
- Suits the fastest growing consumer segments
- Branded by name and country

Reasons for Australia's Export Success

- Large companies able to deal with large retailers and wholesalers
- Brand management developed in the 1970s
- Multi-regional and varietal blends allow for minimal variation
- Technical innovation and diffusion of innovation
- Cultural link to the UK & US
- Collaboration between wineries
  - Relaunch of 'Brand Australia'
- Luck

Future of Australian wine in the US

- Exchange rates provide short term problem
  - Focus is on lower priced, low margin wines
- US companies selling 'Australian' brands
- Market complexity (3 tier system) makes it difficult for medium and smaller wineries
- Low growth in higher priced wines

Future of Australian wines in UK

- Will continue to grow sales with little value increase in supermarkets
- Starting to focus on-premise, competition, but will progress
- Growing value/higher prices will be very difficult

Future of Australian wine elsewhere

- Progress in Scandinavia, Holland, Belgium, Japan
- Growth in traditional Europe, but at low prices
- New opportunities
  - India
  - Japan, Taiwan, Korea, Thailand- some growth
  - Singapore, Hong Kong - maintain position
  - China - ??
- Domestic growth necessary

Marketing Outcomes

- Planting a vine is a marketing decision
  - Variety
  - Location (climate, soil, awareness)
  - Management
- 'Fit for use' (must be communication between grower and the market with the winery in the middle)
  - Margins for the wine affect the management techniques for the grapes
  - Differs for large exporting winery and tourist focused winery

The Haves and the Have-Nots

- The haves
  - Large wineries with beginnings of quality payments systems and FMCG management (brands and logistics)
  - Smaller vineyard/wineries with known region and quality
  - Competent and focused channel representation
- The have-nots
  - Larger wineries with weak 'brands' and logistics
  - Smaller wineries with unknown region or poor marketing
  - Adversarial channel relationships
- Competition between supply chains is the global arena
- **There is no evidence of size influencing success**