

Victorian Wine Industry Association

“STATE OF THE NATION 2006” FORUM

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Summary prepared by

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Summary of the
VWIA “STATE OF THE NATION 2006” FORUM

Congratulations must go to the Victorian Wine Industry Association (VWIA) for organising an outstanding panel session to accompany its 2006 Annual General Meeting.

The panel session brought together the heads of the Australian Wine & Brandy Corporation, the Winemakers Federation of Australia and Wine Grape Growers Australia (Sam Tolley, Steven Strachan, and Mark McKenzie respectively). There was no danger of this being a “love-in”, as these three were joined on the panel by Brian Croser.

Please note that the following summaries are not intended as an exhaustive precis of each presentation; they are simply the elements that struck me as being of interest (and which I was quick enough to write down in my longhand). I apologise in advance if there are any wrong interpretations, as these summaries are based on my notes, and not on any written papers.

Steven Strachan (WFA)

Steve noted that the increase in grape supply since 2001 has been some 40%; the previous increase by this much had taken 30 years.

The problem is that we have not been able to grow demand for branded product by the same 40%, resulting in the increased sale of bulk and cleanskin wine.

Much of the additional planting has been targeted at the > \$15 price point. If growers and wineries are targeting a price of > \$15, there is bound to be a surplus of fruit at that price/quality. This then puts downward pressure on the fruit supply below that level.

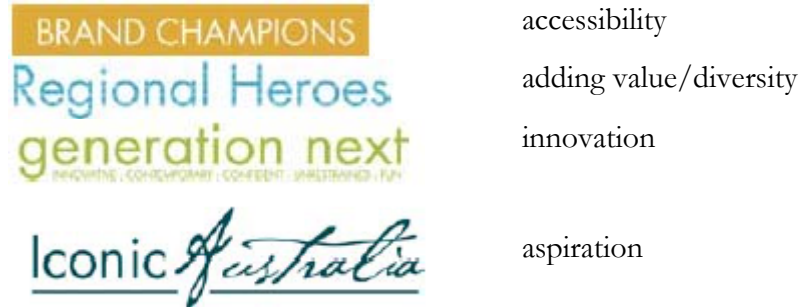
Therefore, the critical challenge is to build the image of Australian wine at > \$15. The Federation is developing programs to assist wineries with business skills to allow them to compete at this level; e.g. marketing and promotion training, winery tourism etc. He said that the Federation is not looking at “exit assistance” at the moment.

In the longer term, the focus will be on:

- Innovation and R&D – looking at a collaborative approach, and engaging with key agencies to tap into their skills and expertise.
- Leadership – without wanting it to be seen as a criticism of the current Board, Steve would like to see a “regeneration” of the Board, with the “Future Leaders” program being a part of this.
- Relationships between growers and wineries;
- Risk management;
- Long term planning.

Sam Tolley (AWBC)

Sam spoke about the new strategic direction for “Wine Australia” (the brand). For those of you who have not seen this presentation it has a 4 point focus:



Sam also showed the new television advertisement for the promotion of Australian wine.

The advertisement led to some heated discussion during the open forum/question session at the end. Questions were raised as to whether the advertisement has relevance to the “regionality” or “fine wine” segments of the Australian Wine Market.

The research behind the advertising program was based, in part, on research done by the Australian Tourism Commission. The primary outcome for the wine industry was that although competitors (i.e. other countries) can copy a lot of what we do, they cannot copy our “Australian-ness” – the story we need to tell is about our people, and our people’s stories.

He noted that consumers are more “promiscuous” and prepared to change their purchases readily.

Mark McKenzie (WGGA)

Mark provided a summary of the feedback which has come from the first stage of the “Taking Stock and Setting Directions” industry review.

Similar reviews have been conducted for other agricultural industries (apples and pears, rice, summer fruits, and prawn industries), and it is believed to be the first time that such an in-depth assessment has been done for the winegrape growing industry.

Mark noted that it is very hard for people at the coal-face to step back and look at the long term issues, so it is critical that peak bodies like WGGA do this.

Some of the issues to come out of the “Taking Stock” part of the review have been:

- Growers are concerned that wineries have been:
 - under-investing in accessing /targeting premium markets; and
 - holding stocks of past vintages without writing down the value of it/disposing of it, thereby depressing prices for current vintages.
- It seems about 40% of growers are out of contract, either partly or in whole;
- There is concern about quality assessment (QA) being used to reject fruit – and this issue is being considered in terms of a possible Voluntary Code of Conduct;
- There is a view that effort and risk should be shared more equitably between growers and producers;
- There is a concern that retailers are “dumbing down” consumers and conditioning them to discounts.

Mark noted that the Association would be critically interested in the branding of products.

Mark emphasized the need to stay positive, but said that the industry is getting to a stage of ‘have’s and have not’s’. He also believes that the cool climate regions will start suffering soon as well.

Brian Croser

Brian Croser was, well, Brian Croser – and thank goodness the industry has people with the intelligence and experience to be able to challenge the status quo and the proposed strategies with well thought out, well argued and well supported propositions. (Which is not to say that I agreed with everything that Brian said).

Brian’s presentation was titled “Australia’s fine wine industry – irrelevant or neglected?”

Brian pointed out that, as with all “commodity” markets (and he considers wine at the “commercial” level to be a commodity), the boom/bust cycle is exaggerated. He said that, even though their margins should be better in a shortage situation, commodity purveyors seem to prefer oversupply.

Brian produced some interesting statistics – using the total crush in litres to illustrate that the requirements of the industry are currently about 1.54 million tonnes p.a., ncreasing by about 96,000 tonnes p.a. He said that the last 3 vintages have averaged about 1.75 million tonnes of wine grapes – but due to seasonal/climate issues the ’07 vintage could be as low as 1.4 million tonnes.

Brian had a wonderful illustration of the “Manic-Depressive Wheel of Fortune” to demonstrate various elements of the boom bust cycle of the wine industry.

Brian then looked at the dichotomy of the Australian industry.

He said that the 2,000 odd small winemakers have “no chance of fishing where the fish are” -in terms of the market sectors experiencing the most growth for Australian wine; i.e. less than £5 in the UK.

He recognized that the fees which pay for the industry bodies come predominantly from the majors and from their “commodity” brands. He said that it is because of this that the “hybrid” model prevails, i.e. because the piper has to be paid.

He complained that it is not just marketing that has been focusing at the commodity level. He believes that research is also only addressing “big end” issues, such as the lowering of costs, or how to make cheap wine better and /or cheaper. He bemoaned that nothing is being done in R&D “how to make the best wine”.

He also presented some slides entitled “The Blame View – v – The Real View”, examining the source of fruit by splitting Australian regions into three categories:

- (1) “Cool climate” – defined by having a MJT of less than 20°C;
- (2) “Traditional” cool climate (e.g. Barossa Valley); and
- (3) Warm/hot irrigation.

On the basis of a MJT of less than 20°C, 36 of 72 Australian regions fall into the “cool climate” category.

The percentage of fruit grown in the regions is 21%, 17.7% and 61.3% respectively.

Based on case sales, fruit from the cool climate and traditional growing areas have been blended to commodity/bulk wine to 18 million cases.

Brian also mentioned a forthcoming book looking at globalisation, which he says contains a very good chapter considering the Australian wine industry as a case study.

(Apologies to Brian for the ‘piecemeal’ nature of this summary; there was so much to take in and take down, that I do not feel comfortable trying to summarise many of his conclusions.)

Panel Discussion

A good 30 minutes was allowed for a discussion amongst the panel, and questions from the floor. For the most part, this time was well used with good, provocative questions, most of which received a slightly different answer from each of the four panelists.

Ken Eckersley (Nicholson River) asked whether the industry is really two separate industries, and whether WFA is an appropriate body to represent both parts.

There was heated agreement that, whilst there are two very different parts of the industry (the top 20 producers and the other 2000), it is still one industry. Steve Strachan said that

the smaller winemakers would not have got the good tax outcome without the support of the big end of town through WFA. Brian Croser also defended the structure of the WFA, which he helped to put in place. He did go on to say that he has proposed a form of recognition for Australian “fine wines” which he does not believe has been given significant consideration.

Ross Brown raised a very interesting point concerning the “Blossom Hill” brand – it is in the top 5 branded products in the UK. Until last year, it was produced in the United States. However, the 4 million bottle sales simply disappeared from the figures for US exports, when last year it was shipped in bulk to Italy for bottling there, before being shipped into the UK. He challenged the meeting that this could happen with some of the ‘non-regional’ Australian mega-blends, and that it might not just be the bottling that is “off-shored”, but non-Australian fruit could also be used, with the obvious consequences that this would have on the supply – demand situation here. (Ross’s opinion piece on page 6 of the current – July/August 2006 – issue of the *Wine Industry Journal* makes a good companion piece to this issue.)

Martin Spedding –(10 Minutes by Tractor) opened a discussion of whether the new TV advertisement had relevance to the Australian fine wine “sector and image” – he was of the view that it had no such relevance; this view was echoed by a number of other attendees – although it was disputed by Sam Tolley, and by a representative from the agency who put the ad together.