

The Marketing Decade

Setting the Australian Wine
Marketing Agenda 2000 » 2010



*Winemakers' Federation of Australia
Australian Wine and Brandy Corporation*

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INTRODUCTION

The prevailing view expressed in this document is that there is a market development potential which enlarges the opportunity for all producers.

Marketing can be interpreted in many ways. The ambit of marketing in this document is the fully developed concept which encompasses product offer and brands, distribution channels, pricing, sales, promotion and communications. The application of marketing in this instance is at the category level (Australian wine).

The Australian wine industry, in commissioning this marketing strategy, has made another substantial investment towards creating the future that it previously outlined in Strategy 2025.

Development of this strategy was wholly funded from industry resources and I would particularly like to acknowledge the invaluable contribution of the industry marketing personnel who comprised the Marketing Reference Committee.

The Committee provided essential commercial expertise which made it such an effective sounding board for the research program.

I would also like to acknowledge the many other industry personnel who contributed views and encouragement to this exercise.

The prevailing view expressed in this document is that there exists a market development potential which can enlarge the sales and brand opportunity for all producers. Collaborative marketing activity to establish the Australian category in new markets has been identified as the most effective means of achieving this outcome.

This voluntary industry cooperation is not at the expense of competition between individual brands – such rivalry actually drives success in the marketplace.

As in Strategy 2025, the market projections are stated as potentials that are feasible scenarios but not certain outcomes, nor even forecasts. Implementation of the strategies within a positive business environment will be a prerequisite to fulfilment of the mission.

Wine has been successful in harnessing the positive dimensions of Australia's image and through product and promotion excellence has greatly added value to the brand, "Australia" in the global marketplace.

Implementation of this strategy therefore has a unique capacity to advance Australia's reputation as a modern and sophisticated economy with cultural maturity and diversity.

This is a marketing benefit which extends well beyond the wine industry and adds value to the brand, "Australia" for other Australian goods and services.

Consequently not only do grapegrowers, wine producers and regional communities have a vital stake in the success of this marketing strategy, but so too do all Australian businesses venturing into the global marketplace.

Paul van der Lee
Chairman
Marketing Reference Committee



MISSION STATEMENT

To grow the consumer franchise for Australian wine to achieve by 2010 annual sales of \$5 billion, at a higher average margin and with enhanced brand values.

1. THE BRANDING OF AUSTRALIAN WINE

The exponential growth which has occurred in the Australian wine industry in the last decade may lead some to believe that viticulture and winemaking in this country is a relatively new thing.

The "new era" of Australian wine probably started in 1984

In fact grapevines, collected from the Cape of Good Hope, were one of the first crops to be planted by Captain Arthur Phillip when he landed the First Fleet at Sydney Cove in 1788. Despite the climatic challenges, a quarter pipe of red wine fortified with brandy was proudly forwarded to England by explorer and vigneron Gregory Blaxland as early as 1822, making it the first export shipment of Australian wine.

By the middle of the 19th century productive vineyards and wineries were operating in NSW, Victoria, South Australia and Western Australia and by 1869 the area under vine in SA alone exceeded 2,500 hectares producing 4 million litres of wine.

For much of the 20th century wine was a major economic contributor to regions such as the Barossa Valley, Hunter Valley, Clare Valley, McLaren Vale, Great Western and Rutherglen while Australian wines both fortified and table were being consumed in most corners of the British Empire.

Therefore when the Australian wine industry started building the scaffold for its most recent growth it was on the foundation of a significant asset base – substantial winery infrastructure, vast areas of healthy vineyard growing in historically tested climatic zones, an invaluable pool of highly skilled technicians, a good education and research system and – most importantly – the experience which comes from more than 150 vintages.

A New Era

The "new era" of Australian wine probably started in 1984, when the influential UK Masters of Wine visited Australia to look, taste and tell the world about a refreshingly different wine continent. Subsequently, The Australian Wine and Brandy Corporation recognised this enthusiasm and appointed Hazel Murphy as its Promotions and Marketing Manager in London to begin the task of familiarising consumers with "sunshine in a bottle".

The environment for nurturing Australian wine exports was also favourable. The domestic wine market in Australia was difficult, the Australian dollar had depreciated against the pound sterling and wine production, particularly red wine, was in surplus.

The legacy of 150 vintages has provided the foundation for the Australian wine industry's growth.

The wine export success of the last two decades is a result of company investment in global Australian wine brands supported by industry funded collaborative marketing.

“Australia, in our view, has an ideal assortment: strong in branding, offering... boutique wines, large brands and size.”

Arend Heijbroek, Head, Food and Beverage Team, RaboBank, Netherlands, Wine Marketing Conference, October 1999



However, it was Australia's larger wine companies who played the most significant role in opening up global wine markets. From the late 1980s they had been regrouping for the export challenge: Orlando was sold to management then on-sold to Pernod Ricard; Penfolds, Wynns, Tollana and Lindemans united to form the basis of the new Southcorp Group, opening up markets in the UK and the US through their old Philip Morris allegiances; and companies such as Brown Brothers, Wolf Blass and Rosemount had been doing the hard yards of UK market promotion since the mid-1980s.

These companies introduced Australia's first global wine brands – Jacob's Creek, Lindemans Bin 65, Rosemount Diamond Label Series – and created a bow wave for the dozens of other smaller makers keen to enter the United Kingdom.

By 1990-91 export sales of Australia wine reached \$174 million in sales and in June 1992, the figure had topped \$200 million for the year.

The Winemakers Federation was formed to advance industry unity, the Australian Wine Export Council (AWEC) was launched to focus on export growth and an optimistic target was set – \$1 billion in annual wine export sales by the Year 2000.

A Unique Selling Proposition

Australia's remarkable success in the UK market demonstrated that quality wine, following centuries of lip-pursing pretension, was after all, relevant to everyday living and accessible to all people.

Following the lead of the USA, it proposed that wine could be identified more simply by the varietal name of the grape from which it was made, rather than the hillside on which it was grown or the esoteric person who made it.

Australia also adopted the "New World" premise that wine should be in an appealing package with a label that was easy to understand, that it should consistently taste satisfying and wholesome and that it should be priced to enable more people to enjoy it.

The other unique aspect of this selling proposition was the salesperson. For the first time consumers could actually meet and talk to the winemaker – an affable person in a navy pullover and white moleskins who was happy to tell a yarn and share a joke as well as sell wine.

**“ Australian wine has enormous potential as it is a good product.
My impression is there is only marketing missing. ”**

Michael Jansen, Macrom Koln, Germany, Wine Marketing Conference, October 1999

Consumers liked Australian wine because of a basic premise: flavour, consistency and value for money.

The Strategy unashamedly laid down a vision: that by the Year 2025 the Australian wine industry would 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.



A New Vision

In 1996 the Australian wine industry reached young adulthood and to show its confidence launched Strategy 2025.

The Strategy unashamedly laid down a vision: that by the Year 2025 the Australian wine industry would 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.

Strategy 2025 committed Australia to "innovation and style from vine to palate" and recognised opportunities for branded wines in specific global market segments, in the premium domestic market and in wine tourism.

It also outlined the resources needed – 40,000 hectares of new vineyards; 570 million litres of extra processing capacity; 1,100 million litres of new storage; 10,500 new workers and \$5 billion in corporate, grower and equity funding.

Strategy 2025 became the roadmap for dozens of wine company business plans and industry organisation action agendas and it inspired a period of frenzied development – especially in viticulture.

In August 1999, almost 12 months ahead of target, the Australian wine industry announced it had achieved its 1991 goal of \$1 billion in export sales.

The wine brand "Australia"

The market reputation asset described by the surrogate wine brand, "Australia", has not come about as a result of an accident of privileged birth or Antipodean luck – its growth and development was based on a sound foundation of technical excellence harnessed to meeting consumer needs.

The proposition, wine brand "Australia", has changed the way the world perceives wine. The beverage which 20 years ago was the preserve of the connoisseur is now a river which links the world in an appreciation of food, travel, art, music and heritage.

It has also stimulated demand growth for premium quality which potentially benefits every wine producing country on the globe.

Strategy 2025 changed perceptions of what was achievable.

The culmination of 15 years of market development is wine brand "Australia."

“ Food and wine – not just here in Australia, but worldwide – now have a new, exalted cultural position. It's not a passing fancy; it's a mega-trend in our culture. ”

Rich Cartiere, Wine Market Report, USA, Wine Marketing Conference, October 1999

2. THE FUTURE OF WINE

The demand for quality and customisation were important trends identified in Strategy 2025, which are now already apparent in 2000.

In 1996, when Strategy 2025 was researched and written, a number of futuristic predictions were made.

By 2025 the world would be balanced towards the east with a strong economic and population shift to Asia; a global or borderless economy would exist; Baby Boomers would be underpinning an unprecedented surge in consumer spending; and ethics and morality would be drivers of consumer behaviour.

These drivers all meant that quality and customisation would be of paramount importance.

So fast is the world moving that many of those predicted economic and social trends have already arrived.

While Asia has been slow to recover there is every expectation that it will stage a significant revival; globalisation is now a reality, especially in the wine industry and Baby Boomers are already four years older and twice as committed to spending on quality consumer items.

Ethics are certainly important – a 1999 market research survey conducted in Australia showed that 90% of consumers regard companies which tell the truth or behave in decent, ethical, responsible ways as an important factor in making purchasing decisions. (Grey Advertising).

Leading on from this, there is an unprecedented consumer focus on food integrity and a rapidly growing concern about ecological sustainability – factors which suit the "clean and green" Australian wine industry.

The pre-occupation with health by the aging Baby Boomer consumer is also a positive for wine, which has been linked by researchers to reduced cardio-vascular disease.

But the most dramatic change has occurred in electronic communication. Internet and email use has multiplied at an exponential rate in the past four years and this is expected to revolutionise the way business is managed and how wine is sold. In the future producers will be able to interact more directly with consumers and this will have major implications for existing distribution and retail channels.

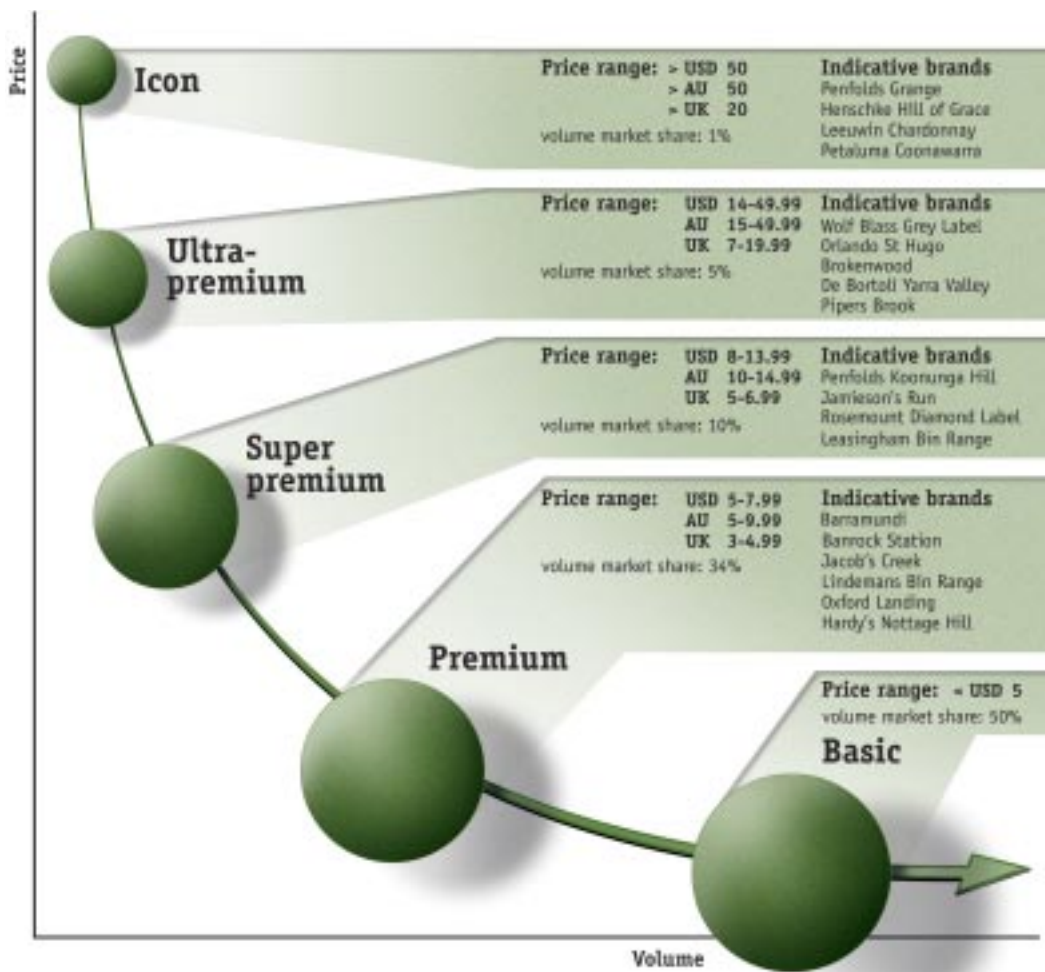
As predicted in Strategy 2025 "wine will meet the consumer's demand for individualised, customised products which are natural, environmentally friendly and healthy".

So fast is the world moving that many of those predicted economic and social trends have already arrived.

“ Society is definitely becoming low trust but high touch. The shift is away from the transactional to the personal. ”

Ross Honeywill, Director, KPMG Centre for Consumer Behaviour, Melbourne, Wine Marketing Conference, October 1999

Quality Segments in the Wine Industry



Source: RaboBank. Note graph is amended to reflect in-market price points. Indicative Australian brands added for context.

Structural Trends Drive Growth

Consumer preferences have shifted in recent years towards varietal bottled wines which are of higher quality, more flavour, easier to understand and access and are more stylishly presented. Existing wine consumers are trading up and new drinkers are being attracted to wine. The proposition of wine is being redefined from special occasion to everyday, from beverage to aspirational product.

This radical shift in the composition of wine demand is reflected in the growth of the premium and super premium market segments at the expense of the basic segment.

There are a number of structural trends which will drive the increased demand for premium wine, irrespective of economic conditions.

- » Increasing affluence and personal wealth on a global basis has been a consistent trend throughout the cyclical fluctuations of economic activity with average household incomes continuing to rise over the long term. The higher a wine consumer's income the more likely they are to increase the proportion of their income spent on wine.

“...people are drinking now more for the pleasure of the act rather than because it is part of their tradition. This is a sea change.”

Rich Cartiere, Wine Market Report, USA, Wine Marketing Conference, October 1999

Structural shifts in demand favour New World producers.

The dream run of favourable economic conditions is not likely to be sustained over the next decade.

- » *This increased wealth in both Western and Asian cultures will encourage existing wine consumers to trade up to premium categories, reducing the demand for low priced/low quality wines.*
- » *Consumption of premium wines (above US\$5 per bottle) and super premium wines (above US\$8 per bottle) is growing in most Western wine markets (Australia, UK, US, France, Canada, Ireland and New Zealand).*
- » *The significant lifestyle shift in favour of wine will continue – people will entertain more informally, they will make health a priority, shift to accumulating experiences rather than possessions and will reward themselves more frequently to compensate for their time-poor lives.*
- » *The globalisation of consumer preferences will extend these Western behaviours and needs to Asia, providing even greater market growth opportunity.*
- » *The New World product offer – flavour, consistency, reliability, accessibility – is better suited to this shift in demand because it is more enjoyable and easier to choose and understand. This has been reflected in a doubling between 1992 and 1997 of the New World's share of world wine exports (from 8 to 17%).*

The Global Economy

The global economy, led by the USA, has experienced strong growth over the last few years. In fact the USA economy has achieved a record period of continuous growth.

The Australian economy has also put in a robust performance with the annual growth rate of the last three years exceeding 4%.

This expansionary phase of the economic cycle has provided a strong impetus to the growth in wine demand, especially for the higher price point segments.

Moreover, the low inflation and low interest rate environment in which the growth has occurred has been very beneficial for the expansion of capital hungry wine producers.

For Australian wine exporters these positive economic conditions have been further enhanced by a weak Australian dollar – at record lows against the US dollar and the Japanese yen – and close to record lows against the currencies of other key markets.

It would be unrealistic to expect such a coincidence of favourable economic factors to be sustained over the next 10 years. Apart from any other influences the downturn phase of the economic cycle will manifest itself during the decade which will mean temporary slow downs and even a period of reversal of growth.

Already there are clouds on the economic horizon with the unexpected increase in oil prices, rising interest rates, high household indebtedness, volatile exchange rates and vulnerable share-market valuations.

In summary, for the purposes of this marketing strategy, a much more difficult global economic environment is assumed during the next 10 years. This means that the wine industry will not benefit from the economic "turbo-boost" that it has received in the last five years.

Nevertheless, while the economic cycle will provide less impetus, the previously identified fundamental structural factors will continue to drive wine demand growth.

“...there are more opportunities for large brands in the retail chains.”

Arend Heijbroek, Head, Food and Beverage Team, RaboBank, Netherlands, Wine Marketing Conference, October 1999



How Competitive is Australia?

Consolidation

The consolidation of distribution channels is proceeding rapidly – it is now well advanced at the retail level as supermarkets continue to erode the market share of wine specialists and seek global coverage. This consolidation is being repeated amongst distribution agencies and wholesalers which means that retail shelf space will continue to shift to strong brands with adequate volume.

Wine producers have responded by consolidating and globalising, pursuing critical mass in the marketplace, a stronger brand assortment for their product offer and cost efficiencies.

Australia is well situated to meet the challenges of consolidation because:

- » *It has a high number of world scale wine companies, who have a global outlook and established global brands relative to the industry's size. They will be able to react to global consolidation effectively by committing to brand support and meeting the demand for changing brand assortment.*
- » *It has a flexible, quality varietal grape supply resource.*

Supply-Demand

Another important shift has taken place in the marketplace relating to the supply-demand balance equation. In recent years demand for premium wines (especially red wines) has exceeded supply. Supply is now rapidly catching up and as world wide plantings come on stream over the next five years, a surplus will emerge.

It is not possible to estimate how much of this additional global supply will meet market specification for the premium and super premium segments. This new vine material has to fulfil varietal, quality, distribution, brand and price parameters to become an effective competitor and it is likely that much of the additional supply will fail to meet this formidable combination of requirements.

“...the specialised wine companies and diversified wine companies will want to increase their scale, so they are increasingly involved in mergers and acquisitions.”

Arend Heijbroek, Head, Food and Beverage Team, RaboBank, Netherlands, Wine Marketing Conference, October 1999

The business environment for wine producers is undergoing radical change.

Australian wine is also more attuned and receptive to current consumer preferences than its competitors.

Point of Difference

Developing and maintaining a point of difference is the only sustainable way to ensure competitiveness and when this becomes embodied in brands with a strong consumer franchise, it offers the strongest competitive position.

Australia has built a strong portfolio of product brands – as well as the umbrella brand, Australia. The underlying brand values of the country "brand", Australia, are derived from the Australian characteristics of easygoing, quietly professional, fresh, sincere and friendly, problem solvers and doers.

Australia as a category is a strong competitive platform, because the consumer uses the country as a shorthand notation for a range of positive associations (quality, price, reliability). Australian wine has established itself as a brand at the premium and super premium end of the market and must retain that position.

Australian wine is also more attuned and receptive to current consumer preferences than its competitors, providing wine styles (full flavour, red wine), presentation and promotion that ensure category growth.

Competing nations also find it hard to replicate the Australian sense of innovation, a can-do attitude which has been highly prized in the nation's short history, and our ability to change rapidly in a dynamic market. These attributes cannot be under-estimated during a period of increasing globalisation and marketing channel consolidation.

Another competitive advantage is that Australia continues to epitomise the "clean and green" cliché better than any other Old or New World producer (other than perhaps New Zealand). However, it must preserve this image through environmental policies which manage salinity, pollution and urban encroachment. Technology transfer and training are also high priorities to maintain competitiveness.

Australia has excellent processing, bottling and storage facilities, is a world leader in labelling and package design and has devised novel inventory management, logistic and distribution arrangements – perhaps a positive outcome of the tyranny of distance.

Managing Risks

The vulnerabilities in the global economy such as rising interest rates and higher energy prices will reduce the growth in consumer spending and increase producer costs. The high indebtedness of consumers means that any reversal in sharemarket valuations would translate into a fall in consumer spending.

Globalisation could also reduce the strength of the wine brand "Australia". How long will globalising Australian wine companies maintain their loyalty, their collaborative energy and their Australian-ness when economics may dictate that cross-national brands are more profitable?

The extent to which technical trade barriers, introduced by competitors, hold back growth is another risk.

Another threat is the Federal Government's revenue seeking tax policies. This taxation regime diminishes market size in Australia and constrains the growth of companies relying on the Australian market.

Despite impressive sales growth, wine industry return on investment remains below acceptable levels.

The Australian wine industry has an innovative culture and is recognised for its strength in implementing research and collaborative promotion. However, investment in research and training is well below other comparable Australian industries, and investment in collaborative promotion is well below competitor countries.

The potential increase in Australian bulk wine sales off-shore could also undermine Australia's quality position and dilute wine brand "Australia".

Australia's winemakers could be threatened by trade barriers, bulk wine exports and ownership changes.

3. THE AUSTRALIAN MARKET OPPORTUNITY 2000 >> 2010

Australia's traditional image as a beer-drinking nation has become a myth.

Australia is a highly developed, evolved and mature wine drinking nation which has lifted its wine consumption from 8.9 litres per head in 1970 to 19.3 litres per head in 2000. This makes it the 12th largest wine consuming nation in the world, just behind Portugal, China, South Africa.

It also puts the Australian wine industry, at 369ML in 1999-2000, well ahead of its projected domestic consumption in Strategy 2025 (358ML by 2001)

Why have we developed such a taste for wine?

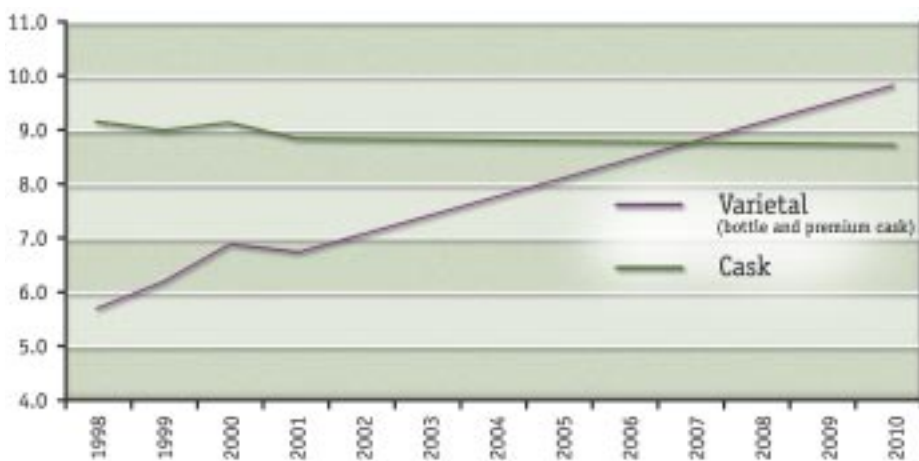
The increasing sophistication of Australian society through the restaurant and café culture introduced by post-World War II European migrants increased the initial acceptance of wine. The lifestyle revolution during the 1990s, characterised by eating out and entertaining informally, whilst retaining excellence and quality, expanded the occasionality of wine.

Viticultural and winemaking improvements, adaptation of products to suit consumer tastes and the ability to supply a variety of wine styles and packaging choices have facilitated wine's expanded appeal.

Since the 1950s products have evolved from fortifieds to varietal table wines to red and white wines and finally to a diversity of quality choices: wines by the glass, regional wines and innovatively packaged products.

At the same time the market has evolved from fringe drinkers to knowledgeable elite consumers to a point where wine is a mainstream category, a product which is an accessible and relevant part of the lifestyle of consumers.

Australian Varietal and Cask Wine Consumption (Annual litres per capita)

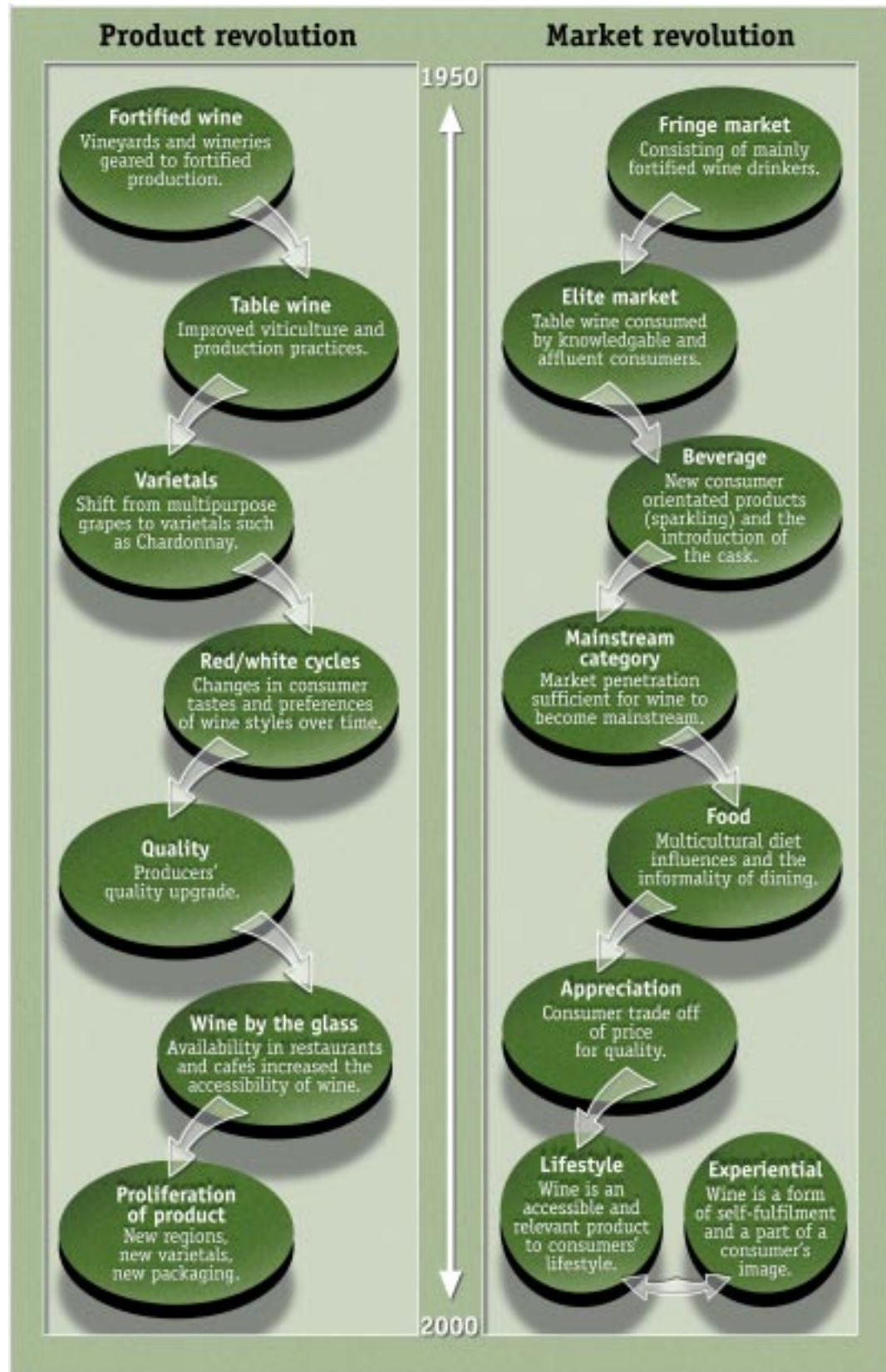


The question is how much further can the Australian wine market grow?

Annual sales of wine in Australia are expected to grow naturally by 45 million litres in volume and A\$277 million in value over the next decade, lifting per capita consumption to 19.9 litres, an increase of 0.6 litres/head between 2000-2010. This projection takes into account population trends and assumptions such as the continual growth in red and white varietal wine, the decline in cask consumption and the trading up to better quality wine which has been evident in the marketplace for several years.

Many changes in the wine market which will occur over the course of the next decade, for example new varieties, shifts in styles and varieties deemed fashionable and a probable increased interest in organic and imported wines will represent a change in the composition of demand rather than growth in the total demand. Nevertheless, these shifts may well constitute a growth opportunity for some producers.

Occasional wine drinkers represent the best opportunity for market development.



To build on this natural expansion there are a number of market development strategies to stimulate additional growth which could be considered. These include:

- » Creating new packaging sizes and formats for added convenience and appeal.
- » Developing new wine products by blending with non-wine beverages.
- » Acknowledging and meeting the demand for sweeter wine styles, especially from new wine drinkers.
- » Enhancing and expanding distribution opportunities.
- » Encouraging more frequent consumption by the occasional consumer segment.

The marketplace should provide sufficient incentives for producers to respond to any new products and/or packaging opportunities which may exist. In the case of sweeter wines, this change will require producers to drop their prejudices and adopt more of a consumer perspective (the brand Lambrusco continues to hold a position in the top 10 selling wines in Australia).

Improved distribution opportunities will occur when the industry overcomes unjustified legislative barriers which limit retail expansion in areas such as supermarkets. For small producers, the Internet and wine tourism offer alternative channels which will enhance their distribution opportunities.

However, it is the occasional consumer strategy which has the greatest likelihood of growing the Australia wine market.

In 1994 an AGB McNair report suggested that of the entire population able to purchase alcohol, 61% purchased wine and in 1998 the Australian Bureau of Statistics confirmed that 31% of the adult population consumed wine at least once a week (regular drinkers).

Therefore Australian drinkers can roughly be divided into thirds:

- » 31% regular wine drinkers
- » 30% occasional drinkers
- » 39% who do not consume wine

Australian Market Growth

		Actual 2000	Natural 2010	Discretionary 2010	Total 2010
Value	\$M	1503	1780	165	1945
Volume	ML	369	414	23	437
Varietal pcc	Litres	7.0	8.7	1.1	9.8
Cast pcc	Litres	9.1	8.8	0	8.8
Other pcc	Litres	3.2	2.4	0	2.4
Total pcc:	Litres	19.3	19.9	1.1	21

Source: P.C.C. = per capita consumption. Data excludes imports, values are estimates.

“ I believe we became a wine-drinking nation when we made wine accessible to people, more readily affordable and drinkable. ”

Brian Walsh, S. Smith & Son, Angaston, South Australia, Wine Marketing Conference, October 1999



Non-wine consumers

Anti-wine – negative, disinterested

This group is unlikely to be converted from beer, spirits or other beverages and does not justify a substantial investment in market development.

Regular wine consumers

Beverage – quantity, safety and consistency (wine is a drink not an experience)

Aspirational – wine as an indicator of social status and self image

Connoisseur – highly knowledgeable, sophisticated tastes, information seekers

Regular wine consumers, particularly the highly involved Aspirational and Connoisseur wine drinkers, are already heavily targeted by wineries and retailers through direct mail, Internet wine sites, wine magazines, festivals, tastings and dinners. They are already consuming wine at a level well above the average and do not therefore represent a substantial category for new market development.

Occasional wine consumer

Special Occasion – rarely consume wine

Social – limit consumption to certain types of social occasion

Research in Australia and the US and our experience in exporting wine overseas has shown that the greatest potential growth can be achieved by encouraging more frequent consumption from the occasional segment of the market.

The occasional wine consumer category has the highest pre-disposition to wine and the greatest potential to increase its regular consumption of wine. This group is more likely to recognise the health benefits of increased wine consumption and are more inclined to increase their wine purchases. Recent research from the USA supports this and identifies women as key influencers and consumers in this category.

“...getting to know the consumer better is critically important as a competitive factor. Your competitors everywhere are engaged in a virtual frenzy to find out what the demographic and other traits of the wine consumer will be as we enter the new millennium.”

Rich Cartiere, Wine Market Report, USA, Wine Marketing Conference, October 1999



Australian Market Opportunity

The occasional consumer category is likely to provide a better return on marketing investment, in terms of the wine brand "Australia" promotional dollar spent, than any other consumer category. This is because these consumers have lower barriers to the acceptance of wine and there is greater scope for growth in individual consumption, consistent with moderation limits.

By converting just one third of the occasional wine drinker category to regular wine drinkers, Australia could boost total wine consumption by an additional 23 million litres.

Consequently, a wine brand "Australia" campaign could yield discretionary sales growth worth an additional A\$165 million per annum in the next decade. Combined with the projected natural growth, annual sales in the Australian wine market could grow by 68 million litres in volume and A\$442 million in value over the next decade.

This growth will only be achieved if the industry commits to a collaborative promotional program for the Australian market. The program should be targeted at the occasional consumer segment via a range of initiatives that present wine as friendly, broadly appealing, accessible and easy.

The three core tasks in promoting to this segment are:

- » *presenting consumer relevant information about wine (simplify wine speak)*
- » *building consumer confidence and comfort about wine (remove intimidation barriers)*
- » *promoting wine as a way of adding enjoyment to any occasion (everyday relevance)*

Specific promotion activities are outlined in the Promotion Action Plan.

Wine Australia

Wine Australia was inaugurated in 1996 as a bold and visionary domestic promotion of Australian wine. The first two events widened the brand choice horizons and reinforced loyalty by regular wine consumers; provided trade development opportunities in the two largest Australian wine markets, Sydney and Melbourne; and raised the profile of the industry. Wine Australia has provided an unprecedented opportunity for the industry to unite to put together a national promotion and it has the potential to play a leading role in future collaborative events, particularly to target occasional consumers and the international wine trade and media.

A collaborative strategy which focuses on removing intimidation barriers will expand Australian wine sales.

Wine Tourism

Richard Cartiere, speaking at the 1999 Australian Wine Marketing Conference, highlighted the lifestyle and demographic trend towards experiences and not just products.

Food and wine tourism provides an opportunity to learn more about what one is consuming and it meets the need for quality "customised" food and wine sensory experiences.

There is a significant challenge for small wineries who produce "hand-crafted wines" to capitalise on wine tourism's potential. For small, especially newly established wineries, their ability to tap wine tourism will determine their viability. Wine tourism offers a strategy for small producers to overcome the barriers associated with market consolidation on a global scale, providing the perfect venue to portray brand values and attributes, influence customer perceptions and ensure a higher margin on sales. Large producers who are prepared to "act small" in the way they present their wineries and products can also benefit from wine tourism.

The recent high level of new investment in visitor facilities in wineries and the opening up of new wine regions have greatly expanded the geographic choices, the variety and quality of wine experiences for wine tourists. However competition will be more intense, inspiring higher service standards.

To succeed, wineries will need to more fully integrate the components of the wine tourism experience, adopt the mindset of the visitor when creating their offering, personalise and customise the experience for each segment and work hard to create the hands on WOW factor which makes their wine venue – and wine – memorable.

Wine tourism is also affected by the recent regional classification of Australian wine, into more than 50 Geographic Indications. This classification does not have the restrictions associated with Old World appellations but neither does it have the marketing value. Substantial investment over an extended time period would be required to achieve consumer awareness and brand relevance for newly designated regions. The priority of such marketing investment is a matter for the individual regions and their producers. However it has led to the formation of regional promotion groups and highlighted regional wines and their points of difference, which supports wine tourism.

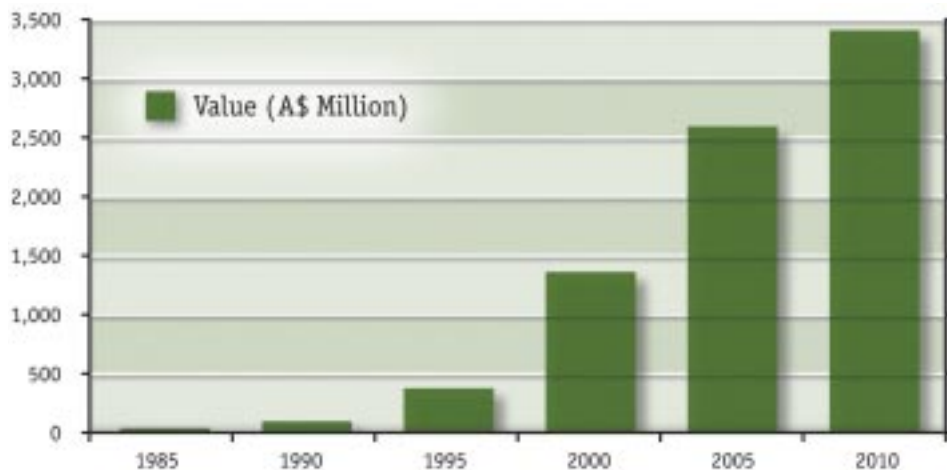
The potential for wine tourism growth is enormous – in 1999, 456,000 international visitors to Australia chose to visit a winery during their stay, representing just 11% of all international visitors. Yet effective wine tourism promotion can lift that percentage – 42% of all international tourists who visited South Australia in 1999 also visited the Barossa Valley, representing 132,000 visitors.

Despite these encouraging statistics, Australia's wine assets and culture is still under-recognised. Further development of the range and calibre of wine experiences offered would strengthen Australia's claim as a global wine tourism destination with consequent marketing benefits for the wine industry.



4. THE INTERNATIONAL MARKET OPPORTUNITY 2000 >> 2010

Australian Export Growth



The Australian wine industry has achieved spectacular success in the international wine market in the last 10 years.

Key elements of the success are:

- » *Australia has focused on European and North American markets (the UK and US represent 66% by volume compared with 18% in 1985) rather than Asia.*
- » *Australian wine exports are now predominantly bottled and branded table wine.*
- » *Consumption of Australian wine has grown most strongly in the mid-price or premium sector (from US\$5 per bottle).*

It is important to note that Australia's strong performance in international markets has taken place within a wide range of exchange rate values. In the case of the UK and USA markets the extent of variation over the last five years has been 50% (UK£0.33 – 0.50, US\$0.51 – 0.80)

In assessing market projections for this strategy it has been assumed that the Australian dollar will strengthen by 20% against the currencies of the UK and USA.

The Development of the International Market

The marketing strategies and promotion tactics that are most effective in any given international market will vary according to the degree of penetration or level of development that Australian wine has achieved in that market. Consequently it is valuable to differentiate export markets according to their stage of development for Australian wine.

Market development is measured by a composite indicator referring to the extent of consumer awareness, brand and price diversity, marketing channel representation, geographical availability of Australian wine, agency representation and media coverage.

Export success has been predominantly in the European and North American premium wine market.

Differentiating markets in terms of stage of development is a prerequisite for developing promotional plans.

The scope of market opportunity for Australian wine in a particular international market is transformed when it becomes recognised as a separate product category. Category status is a pre-condition for sustainable rapid volume and value growth across a wide range of brands and price points, which is then reflected in a mainstream market presence and a significant market share.

Using these criteria Australia's top 20 markets can be classified as follows:

Embryonic

In these early stage markets there is minimal consumer awareness of Australian wine, few Australian brands are available and marketing tends to be restricted to direct channels such as mail order. The role of agents is limited and wine media refer to Australian wine only occasionally.

Thailand » Taiwan » Korea » China

Niche Presence

In this second stage of development there is a limited range of Australian wine brands available through mainly specialist retail outlets and restaurants. Knowledge is still limited to connoisseurs and wine experts and distribution is often through niche agencies. Occasional media product interviews help to lift awareness.

Germany » Japan » Netherlands » Denmark » Norway » Finland » Malaysia

Volume Penetration

At this level there is a significant proportion of wine knowledgeable consumers who recognise Australian wine, assisted by a few high volume producers and brands. There is a good range and exposure in volume retail channels such as supermarkets although this tends to be restricted to major cities only. Importers at this level recognise the desirability of Australian wine and media provide regular specialist coverage.

USA » Canada » Switzerland » Sweden » Hong Kong » Singapore



Category Status

Achieving category status is an important marketing goal. The indicators that category establishment status has been achieved include a widespread awareness and positive perception by wine knowledgeable consumers; a diversity of brands and price points representative of the range of Australian producers and styles; a strong representation in all distribution channels including specialist and volume retail and general on-premise (often in a separate section); extensive geographical penetration beyond major cities; representation in the portfolio of major importers and in some cases the establishment of the producer's own importing and sales organisations; and regular feature and in-depth coverage by wine media, as well as general and lifestyle media.

New Zealand » Ireland

Category status

The indicators that category establishment status has been achieved include:

» Wine knowledgeable consumer awareness

- widespread awareness and positive perceptions of Australia as a wine producer*

» Brand and price diversity of the Australian wine offer

- brands on offer are representative of the range of Australian producers and styles and across all major price points*

» Channel representation

- Australian wine is well represented in specialist and volume retail and general on premise. It is often manifest as a dedicated Australian section in retail and separate section on specialist wine lists*

» Geographic availability

- extensive geographic penetration so that availability extends beyond a few major cities*

» Agency representation

- large importers find it necessary to include Australian wine in their portfolio. Some of the largest Australian wine producers already have established their own importing and sales organisation*

» Media coverage

- regular features and in-depth coverage by wine specialist media and frequent coverage by general and lifestyle media*

Category Segmentation

This is the most advanced level of market development. There is a pervasive aspirational knowledge amongst consumers of Australian wine and a comprehensive range of brands, regions, producers and price points. Australian wines are represented in all channels – retail, supermarkets, restaurants, hotels – and readily available in most geographical regions through multiple outlets. At this level significant producers will have established their own staff in the market. The media provide a focused coverage of Australian wine through wine, general and lifestyle features.

United Kingdom

Export Market Opportunities

Regional Export Markets

		2000	2005	2010
Europe	'000 L	188,014	349,068	438,282
	\$M	804	1531	2021
North America/ Oceania	'000 L	84,654	142,312	165,198
	\$M	464	804	959
Asia	'000 L	12,959	40,277	64,056
	\$M	77	233	411
Other	'000 L	1,940	5,371	8,959
	\$M	7	27	32
Total	'000 L	287,567	537,028	676,493
	\$M	1,352	2,595	3,423

An analysis of data from the Food and Agricultural Organisation of the United Nations (FAO), the Australian Wine and Brandy Corporation's Export Approvals, the OIV per capita consumption statistics and World Drinks per capita consumption was undertaken to evaluate market opportunities in the top 20 markets.

Firstly the likely growth in per capita wine consumption for each individual market was estimated. Next, the compositional shift in the premium and above segments share of this total wine market was assumed. Finally, an estimate of the market share which is feasible for Australia to achieve was estimated. This latter step took into account the stage of development for Australian wine especially distribution infrastructure and brand strength.

The methodology only included wine above the minimum price point for the premium sector (eg US\$5-8) in recognition of the strategy's goals of selling all Australian wine in the premium and above segments. Of course, in the final market outcome some wine will be sold as bulk or Buyers Own Brands as demand and supply will not reconcile exactly.

The outcome of the market potential evaluation reflects a range of different market dynamics. In some markets, projected Australian growth is derived from total wine market growth (eg Japan) whereas in others it is increasing its share of a low growth market (eg Germany).

“...the premium and super premium segments are both the growth markets as well as the battlefield...”

Arend Heijbroek, Head, Food and Beverage Team, RaboBank, Netherlands, Wine Marketing Conference, October 1999

Relative ranking of Growth Contributors for Australian Wine in selected markets

	Wine market Growth	Premium/Super Premium Segments Growth	Market Share Competitiveness
UK	**	**	*
Germany	-	*	***
USA	*	***	***
Canada	**	***	**
Japan	***	***	**
Switzerland	-	***	***

UK

Wine consumption in the UK, driven by lifestyle trends and demographics, is projected to steadily increase over the next decade to reach 17 litres per capita.

The compositional shift to premium and super premium wine (above £3) has been significant in the UK market for the last decade, and this trend is expected to continue throughout the next decade. The increasing affluence of UK consumers and their greater appreciation of quality will drive this compositional shift.

The maturity of the Australian wine category and the competitive environment will slow the growth rate of sales to the United Kingdom as well as result in downward pressure on margins. Nevertheless there will continue to be niche opportunities for small producers, and their diverse and unique offerings will maintain interest and excitement in the Australian category.

Overall, with the increase in red wine availability and a strong preference for Australian wine styles, Australia is still expected to increase its premium/super premium market share by a further 5 percentage points by 2010.

Germany

Germany is one of the largest wine markets in the world with per capita consumption of about 20 litres in 2000. Wine per capita consumption in Germany over the next decade is expected to fall slightly, decreasing the size of the market by approximately 250 million litres to 1.4 billion litres.

Relative to the UK, the USA and Canada, compositional shifts towards premium and super premium wine will be less significant over the next 10 years. The German food and beverage market is renowned for its high volume of low priced offerings – "Pile-'em-high, sell-'em-cheap merchants...scoop around 30% of German food sales. Such firms have only around 10% of the British market and 8% of the French market." (The Economist September 2nd 2000, p62)

Nevertheless, over the next decade, Australia's market share is projected to grow from 1% to 6% based on the competitive strength of its product offer and relaxation of the previous constraints on red wine availability. This growth is dependent on the success of category promotion in raising trade awareness and establishing the credentials of wine brand "Australia".

Similar to the USA, high volume brands will be the key to opening up distribution for Australian wine and their market penetration will drive consumer awareness.

High volume brands will be the key to opening up distribution in Germany.

“ The German market is the biggest market in the world... so it's a must for Australian wine exporters. The actual status of Australian wine in Germany is generally unknown on the consumer level, absolutely no awareness. ”

Michael Jansen, Macrom Koln, Germany, Wine Marketing Conference, October 1999

Category status is considered achievable with the market share of Australian wine projected to more than double by 2010.

USA

The opportunity for Australian wine sales in the USA remains significant due to its overall market size. The size of the USA wine market is expected to increase by approximately 300 million litres to reach 2.4 billion litres by 2010, although the market penetration of wine is assumed conservatively to increase only marginally.

The compositional shift to premium and super premium wine that is now strongly evident in the USA marketplace will continue over the next decade. As with other markets, this shift will be driven by the increased affluence of the US wine consumer and a preference for higher quality.

The degree and speed of the shift, however, will vary between States, with implications for the geographical distribution of opportunity.

Australian wine is projected to capitalise on this growth opportunity in the above US\$5 segment better than its competing country importers due to the strength of its product offer in terms of brand assortment, wine style, red/white mix and value.

Category status is considered achievable with the market share of Australian wine projected to more than double by 2010. However, substantial investment in category marketing effort and in distribution relationships will be a prerequisite.

The deepening relationships increasingly evident between US and Australian wine companies will assist distribution in the US market as well as create mutual opportunity in third country markets.

Canada

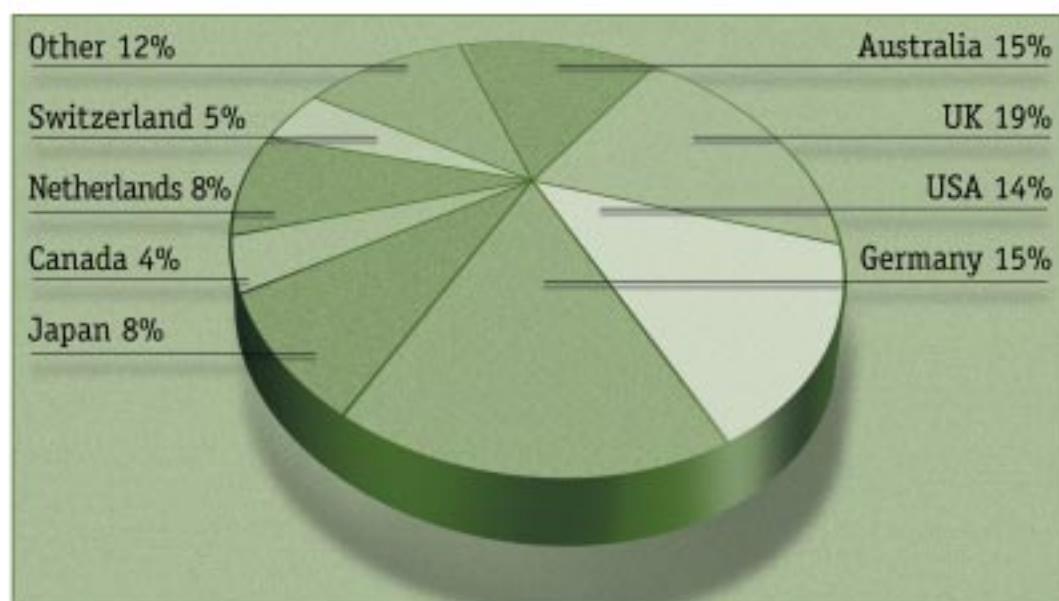
Canada's per capita consumption is expected to increase from 8 litres in 2000 to 10 litres in 2010.

Wine market penetration in Canada is being facilitated by greater retail responsiveness to consumer preferences. As pressure for retail privatisation grows, Canadian retailing, which is controlled by Provincial Government Monopolies, will continue to develop a sharper "commercial edge" and improved merchandising.

The compositional shift to premium and super premium wine that has been evident in the Canadian marketplace over the last five years will play a significant role in the market over the next decade. Historically, Australian wine sales to Canada have been steady, but not spectacular. More recently, however, sales to Canada have escalated. This growth momentum is expected to increase Australia's share of imports from 6% to 11% by 2010.

The strong Australian wine brand offering will be well suited to the evolution of the retail environment towards a greater emphasis on the premium and super premium segments as well as enhanced merchandising opportunities.

Share of Growth by Market 2000 >> 2010



Japan

Per capita consumption in Japan is projected to increase from 3 litres in 2000 to 8 litres in 2010. This massive increase will be driven by the continued westernisation of Japanese consumption preferences. It is expected that the younger generation of Japanese consumers will be instrumental in making wine a mainstream beverage by 2010. Recent favourable per capita consumption growth provides evidence of the trend.

The expansion in the premium and super premium segments will be even greater than in the wine market overall. The Australian offer is well matched to the requirements of these segments and hence will be a beneficiary of this growth impetus.

However growth in Australia's share of the Japanese wine market will be curtailed by an existing awareness and image barrier as well as distribution constraints. Increased collaborative promotion effort will establish market awareness of wine brand "Australia" and new distribution opportunities are being opened up by liberalisation. It is estimated that these changes will progress sufficiently to enable Australia's share by 2010 to reach 4% from the existing 3%.

Switzerland

Switzerland as a high value wine market presents a major market opportunity for Australian branded wine. Per capita consumption is currently 41 litres and is expected to decrease to 37 litres by 2010. By 2010, it is expected that the Swiss market will be around 280 million litres, with 70% of the market made up of imported wine. The decline in consumption will be in the low priced low quality sector of the market, where Australia is not competitive.

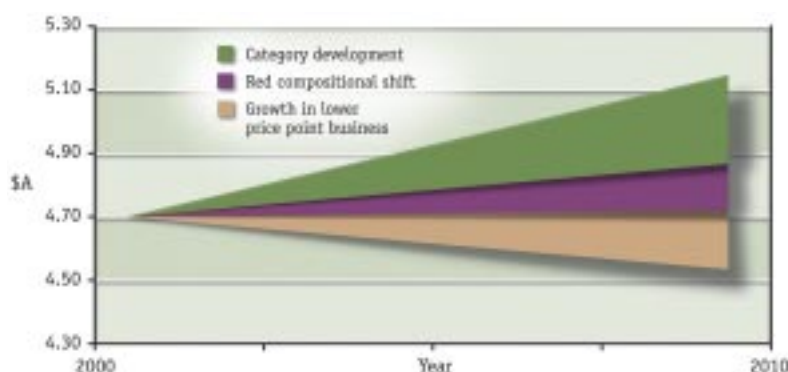
However, the compositional shift to premium and super premium wine is expected to continue over the next decade in response to high income levels in Switzerland and lifestyle changes.

In 2000, Australian wine sales accounted for 2% of the Swiss market. The competitiveness of the Australian wine offer and increased availability of red wine will see projected sales increase to a 9% market share by 2010.

Value growth influences

Growth in unit values will be influenced by two positive and one negative factor. The relative impact is shown in the accompanying graph. The projected outcome is an increase in average wine value per litre across all markets from A\$4.70 to A\$5.08 in constant dollars in 2010.

Value growth factors (A\$/Litre)



Market Summary

		Actual		Strategy 2025	Marketing Decade
		1990	2000	2010	2010
Australian Market	\$M	1057	1503	1496	1945
	ML	301	369	397	437
	CAGR		2%	1%	2%
International Markets	\$M	121	1352	1872	3423
	ML	42	288	483	676
	CAGR		21%	5%	9%
Total markets	\$M	1178	2855	3368	5368
	ML	343	657	880	1113
	CAGR		7%	3%	5%

5. THE SUPPLY-DEMAND EQUATION

From the 2001 vintage onwards Australia is expected to enter a period where the grape supply shortfall of the last decade has been reversed.

The Australian wine industry has a 200-year history of cyclical booms and busts. It has experienced situations of excess demand (demand exceeding supply) and oversupply (supply exceeding demand) along with seasonal ups and downs since the first vines were planted.

Despite its recent success, there is no reason to suggest that this historical pattern will cease.

As Strategy 2025 foreshadowed, investment has come from wineries, private grapegrowers and equity funds. Some of these investors have lost sight of wine's status as an agriculturally-based commodity. They have assumed that as a result of the industry's commitment to viticultural and oenological research and development and value adding, it is somehow safeguarded from the same failure or success which affects other farm products.

However, despite much-improved technology, grape supply continues to be buffeted by drought, floods, hailstorms along with bumper seasons, in much the same way as it was in the 1800s. Like other primary production, it is also vulnerable to the over-zealous planting frenzy which always takes place in periods of agricultural prosperity.

This most recent expansion, from 1996 to 1999, saw an estimated 40,000 hectares of new vineyard being planted in Australia – the actual plantings envisaged in Strategy 2025 over a 30 year period – and the area to vine doubling in the 10 years ended 1998.

Some investors have also believed that the Australian wine industry's rapid export growth has insulated it against any oversupply. Unfortunately, the easiest growth has already been achieved and competitor pressure is intensifying, which means successfully developing new markets for the next phase of growth is challenging and subject to significant lead times.

As a result of this rapid supply expansion, from the 2001 vintage onwards Australia is expected to enter a period where the grape supply shortfall of the last decade has been reversed.

Supply Projections

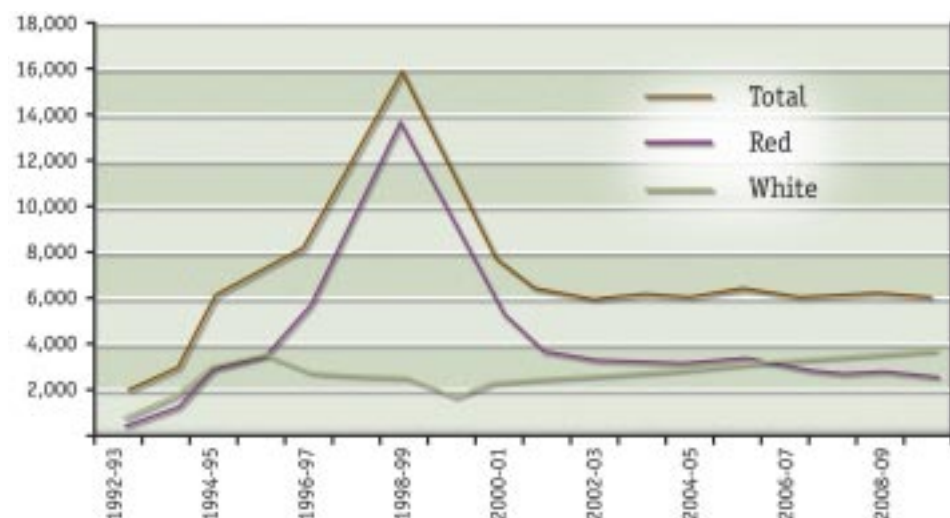
Vineyard Plantings

From levels of plantings 10 years ago, of between 2,500 to 3,000 hectares per year, planting in recent years has escalated to reach 8,000 hectares in 1996, 11,000 hectares in 1997 and 16,000 hectares in 1998.

Planting rates are likely to retreat from these high levels to levels more closely reflecting replacement rates and a considerably more conservative growth rate for year-on-year plantings.

On this assumption, there will be a short-term (five years) supply hump, followed by more sustainable winegrape production increases through to 2010.

Winegrape Plantings (Hectares)



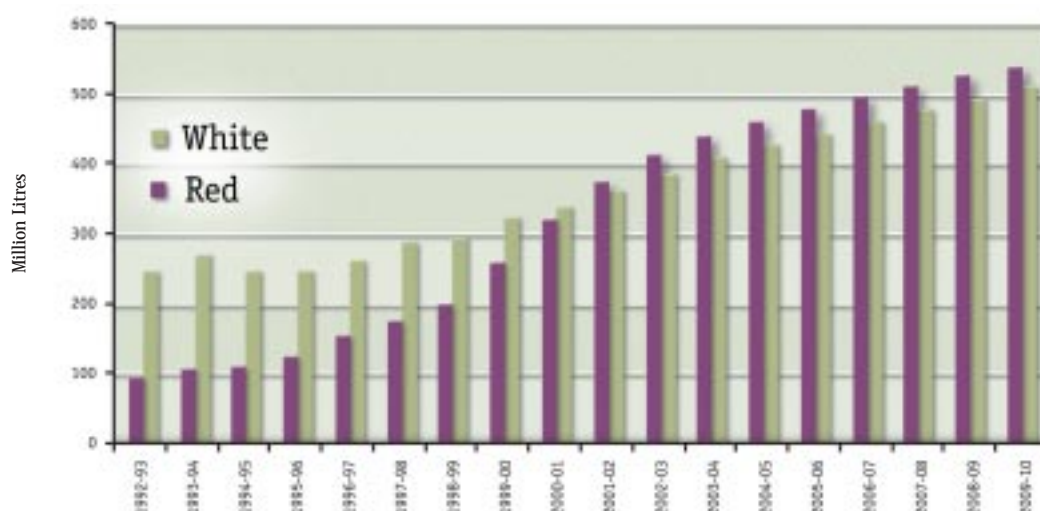
Wine Availability

In the 1990s, a period of supply shortfall, all vineyard production was processed and sold – mostly as branded wine.

Over the next decade, there is no guarantee that all available fruit will be processed. Nevertheless, it is important to understand the potential magnitude of the supply increase so that implications can be adequately examined and appropriate strategies implemented.

Based on the plantings estimates above, and assuming that vineyard yields decline in response to demands for higher quality, wine production/availability will increase by 51% between 2000 and 2010 (from 765ML to 1152ML)

Supply Availability of Red and White Wine (Million litres)



Red Wine Dominance

The dominance of red winegrape plantings is also expected to result in a surge of red wine production relative to white. In the five years ended 1998-99, the ratio of red to white averaged 40% red and 60% white.

Those relativities are now reversing. By 2005, the ratio of red wine to white wine will be 53% red and 47% white. Taking out the red and white wine destined for cask (which is 70% white), the ratio shifts to 60% red and 40% white.

By 2005 the ratio of bottled red to white will be 60:40.

“ Any Australian winegrape producer without a secure purchase contract or any Australian wine producer who is not already in the market with a well established brand by now, will not succeed in the next 10 years. ”

Bruce Kemp, Global Wine Advice, September 2000

After 2005, a tapering off of the strength in red wine production is likely due to the steep fall away of red winegrape plantings from the spectacularly high levels of 1998-99 and the anticipated revival of white winegrape plantings relative to red.

Export Challenge

After accounting for expected Australian sales and stock levels, wine available for export is expected to increase from 288 million litres in 1999-2000 to 676 million litres in 2009-10. This is an increase of 134% on 1999-2000, more than half of which will be red wine. On the basis of these projections, exports would have to rise from a 44% volume share of all Australian wine sales in 1999-2000 to 61% by 2009-10.

Will all Available Winegrapes be Sold?

There is no obligation on Australian wineries to process all of the winegrapes that will be on offer over the next decade. Like all businesses, wineries will make decisions on grape purchases based on their expected sales projections, brand strategies and margin requirements.

With the anticipated winegrape supply surge, the prospect of oversupply is now a high probability. The most recent period of oversupply was the early 1980s when some of the available red winegrapes were not processed, leading to the establishment of grower pools, cooperatives and family wineries. The South Australian Vine Pull was an extreme and unfortunate reaction to that episode of oversupply.

There is a strong likelihood of oversupply if the industry were to try and sell, at current prices and quality, all of the additional wine expected to be available in the next five years. However, lower wine prices provide access to a larger share of the international market and therefore a higher probability of selling all the wine. In this sense, price adjustments usually clear the market and resolve the oversupply. Alternatively, quality improvements upgrade the price/quality offer at each price point. Quality improvements are therefore also a market-clearing mechanism, and are the preferred marketing solution.

There are a number of adjustment factors that move in concert with lower prices that will diminish the extent of "oversupply", including

- » *replacing bulk red wine imports into Australia;*
- » *replacing multipurpose winegrapes with specialist winegrapes in the Australian winegrape intake;*
- » *managed reduction in the yields of overcropped vineyards (to achieve higher quality); and*
- » *high cost poorly managed vineyards "retired" from the market.*

With the above factors taken into account, there are four potential marketplace outcomes.

A: Demand Growth Absorbs Supply Increase at Current Prices

This outcome is business as usual. All additional supply is processed and sold as branded product at comparable prices. There are no significant additional adjustment factors and prices to grapegrowers and winemakers remain unchanged.

This outcome is considered highly unlikely, as some of the grapes will be of inadequate quality, and because wineries would need to rapidly increase sales of branded wine from already high levels, step up brand promotion in a short time and rapidly enter new markets at comparable price points.

“ There is, on a global basis, almost an explosion of efforts to improve the quality of wine that every producer is making in every country of the world. ”

Rich Cartiere, Wine Market Report, USA, Wine Marketing Conference, October 1999

Exports will be 61% of sales in 2010.

Quality improvements are the preferred marketing solution.

Supply Growth: Potential Market Outcomes



B: Demand Growth Absorbs Some Supply Increase, Lower Priced Offerings Absorb the Rest

This outcome is already occurring. Strong demand growth is sustaining growth in existing brands and penetration of some new brands. The remaining supply is sold at reduced prices and margin. Examples include Buyers Own Brands in the UK.

C: Demand Growth, Lower Priced Offerings and Bulk Wine Sales Absorb the Supply Increase

This scenario is highly likely over the next five years. Growth in branded wine and BOB/Quasi Brands will be insufficient to absorb all of the supply increase. Sales of bulk wine, already on the increase, will become more prevalent.

D: Demand Growth, Lower Priced Offerings, Bulk Wine and some fruit not processed

This scenario is a distinct possibility for at least the next five years. Insufficient processing capacity, a price to grapegrowers below their variable cost of production or fruit quality below market specification would be the drivers of this outcome.

The outcome of whether or not oversupply (fruit not processed) will be a feature of the next decade is in the hands of the industry supply and marketing chain stakeholders.

Grapegrowers Must Produce Quality Fruit to Safeguard Demand

The implications for grapegrowers therefore are that their fruit must meet market specification for quality, style, variety and cost. The supply situation will mean that fruit from vineyards that are overcropped, poorly managed for quality, or grow unsuitable varieties, will not sell. Moreover, grapes also will not automatically sell just because they came from a prominent region. Actual quality rather than regional G.I. (appellation) will in most cases be the key. Those grapegrowers meeting the quality standards set by the market for the icon, ultra premium and super premium wine categories will see the least market fluctuation in grape prices.

Those grapegrowers meeting the quality standard for premium wine will see larger price falls over the next five years, but will avoid the significant price falls of those meeting the quality standard for bulk wine. For those with fruit not processed, there clearly will be no return.

Whilst medium to long term opportunities clearly exist, and whilst some specific regional and varietal demand will be strong, those potential investors contemplating vineyard investment without a secure contract with a winery with strong market prospects would be committed to a highly speculative enterprise.

Winemakers Must Also Focus on Quality and Escalate Marketing

The message to winemakers is the same as grapegrowers. They must focus on quality, with an added dimension of differentiation. Investment in distribution, brands and associated promotion must now feature in decision prominence alongside investment in quality winemaking and quality grapes.

Wineries also have a role in sending more transparent signals to grapegrowers to assist them in ensuring that winegrapes meet winery specifications. Technologies for measuring grape quality and the structure of grape payment systems will play an essential reinforcing role.

The industry must ensure that its collaborative activities are focused

It is not the role of organisations such as AWEC and Wine Australia to "rescue" investors from the negative implications of oversupply. However, in undertaking promotional activities, these organisations must ensure that their activities are focused and delivering a return to industry on its investment. These activities alone diminish potential oversupply.

Furthermore, organisations such as the AWBC must implement strategies to safeguard the industry against any negative impacts on Australia's international image. In this regard, there is an important industry role to play in limiting oversupply, and in limiting any negative ramifications from the export of bulk wine.

If this Marketing Strategy is fully implemented, the prospect of oversupply in 2010 will be considerably diminished (although there still may be some short-term oversupply over the next five years). Total sales of Australian wine would equal sales availability at around 1,113 million litres by 2010. (437 million litres domestic and 676 million litres export)

If, however, the industry fails to act, ie "Do Nothing", the magnitude of potential oversupply is significant – estimated at approximately 150ML (more than 200,000 tonnes).

The degree to which the oversupply is minimised will rely critically on:

- » *how rapidly and effectively grapegrowers respond to winery demands for higher quality;*
- » *how effectively wineries grow new markets, and*
- » *the effectiveness of the industry promotional organisations in market development.*

Sales of Australian Wine (Million litres)



6. THE MARKETING MISSION 2010

The Australian wine industry has embraced the Strategy 2025 vision.

Marketing was a core element of Strategy 2025 with 11 of the 30 recommendations being marketing strategies. The marketing concepts of Strategy 2025 – "most influential", "branded", "lifestyle", "first choice" – relate to the marketing principles of category, positioning, margins, building brand equity, customer focus and segment leadership.

While the vision of Strategy 2025 remains valid, the marketing circumstances in 2000 and the outlook for the next decade demand a more fully articulated marketing strategy.

This strategy therefore both complements and represents an extension to Strategy 2025.

The purpose of the strategy is twofold – firstly, to better communicate to all wine industry participants and stakeholders the likely challenges and opportunities so that they can more effectively plan their own business response; and secondly facilitate market development which expands the scope of opportunity for the Australian wine category.

Collaborative Benefits

Lack of awareness and an undeveloped reputation is a major barrier to market entry.

Collaborative marketing can overcome this barrier by creating a strong and positive image for Australian wine. This is a prerequisite to the achievement of category status.

Collaborative marketing provides benefits which are not obtainable through generic or individual marketing. These include developing a critical mass to better gain the attention of media and trade, building category legitimacy in the trade and category acceptance by consumers. This critical mass also assists the growth of individual brands through reach and penetration.

Other benefits of collaboration are the opportunity to participate in a formal strategy, cost efficiency savings, harnessing individual efforts into category expansion rather than destructive competition and an open door for small companies who would otherwise not gain market access.

The benefits of collaborative marketing are greatest when the marketing program is directed towards overcoming market access barriers, raising the awareness and reputation of Australian wine as a credible alternative in the relevant market segments and achieving sufficient market penetration to become recognised as a category in its own right.

*This strategy
therefore both
complements and
represents an
extension to
Strategy 2025.*

*A new marketing
strategy to
complement and
extend Strategy 2025.*

*Collaboration offers
the opportunity to
overcome market
access barriers.*

Industry commitment to collective marketing activity is justified where it expands the scope of market opportunity for Australian wines, in either domestic or global markets. The accountability imperative is that resources have to be utilised in the most cost effective manner and performance measured.

This is the decade where we must as an industry entrench the consumer franchise of this surrogate wine brand, "Australia", by better communicating the consumer benefits, thereby strengthening it as a market asset.

This is the decade where the marketing task of refining and enhancing the product offer; of attaining more pervasive and secure distribution; of more closely targeting the price and geographic market segments; of expanding sales; and building our reputation and brands becomes the priority.

This is The Marketing Decade.

Objectives

- » *Ensure that Australia's influence on the global wine market continues to significantly outweigh its market share.*
- » *Enhance the image and reputation of Australian wine.*
- » *Expand the scale and scope of market opportunity for Australian wine, growing the category.*
- » *Focus on quality wine which offers brand development and increasing brand value potential.*
- » *Target the market segments with the best growth and reward prospects*
- » *Stay close to the consumer through product offer, promotion and communication.*
- » *Improve market access and distribution opportunities.*

The Mission 2010

To grow the consumer franchise for Australian wine to achieve by 2010 annual sales of \$5 billion, at a higher average margin and with enhanced brand values.

*This is The
Marketing Decade.*



STRATEGIES

Market Environment

1. Progress and sustain the community acceptance of wine by highlighting its health benefits and advocating socially responsible wine consumption.
2. Ensure that the forthcoming National Wine Industry Environment Strategy fulfils wine consumers' expectations of product integrity and of the industry's environmental stewardship.
3. Proactively negotiate agreements to facilitate improved international market access.
4. Collect and disseminate high quality information on markets and consumer behaviour and reliable statistics to assist industry planning.
5. Communicate to regional communities, Governments and key decision- makers the economic contribution of the grape and wine industries.
6. Increase investment in industry – funded and in individual enterprise R&D aimed at enhancing market competitiveness.

Positioning (Market Perception)

7. Maintain consumer focus as a fundamental point of difference for the Australian wine offer.
8. Define and articulate the core consumer benefits and personality of wine brand "Australia".
9. Achieve recognition for Australia as the world best practice leader and innovator across all aspects of the wine industry.
10. Reduce risks to Australian wine's quality and integrity reputation.
11. Encourage the development of more Australian icon brands to elevate the status of Australian wine.

Product Offer

12. Increase the relevance of the Australian product offer to consolidating global distribution channels. Maximise the availability of established volume brands and increase the number of volume (100,000 case to 1 million case) brands in the premium (A\$5-10, US\$5-8 per bottle) and super-premium (A\$10-15, US\$8-14 per bottle) segments.
13. Ensure that the Australian product offer has sufficient diversity to be tailored to the different preferences of individual markets.
14. Facilitate better transmission of market signals for quality, style, and price specifications to grapegrowers and other supply chain partners.

Markets

15. Establish Australia as the global leader in the super-premium (US\$8-14 per bottle) segment.
16. Place a high priority on developing international markets that have strong prospects for category status and high growth potential.
17. Increase the diversity of the international markets for Australian wine, with a goal of generating 40% of sales revenue growth from non-European markets, and within Europe, 70% of growth from markets other than the UK and Ireland.
18. Responsibly target the occasional wine drinker segment of the Australian market to increase from 31% to 41% the proportion of the Australian adult population who regularly drink wine.

Promotion

19. Continue to invest in wine brand "Australia" to add value to the Australian wine category.
20. Designate a single industry body to be responsible for aligning all industry funded promotional activities with the market development objectives of this strategy and to implement the Promotion Action Plan.
21. Coordinate a new collaborative promotional program for the Australian market with a target of generating discretionary sales growth of A\$165m by 2010 from the occasional wine drinker segment.
22. Refocus the Wine Australia event to increase its contribution to realising international as well as Australian market development opportunities.
23. Maximise the contribution of the National Wine Centre in raising the level of knowledge and understanding of Australian wine.

Wine Tourism

24. Secure wine and tourism stakeholder commitment and funding to implement the 1999 National Wine Tourism Strategy Plan.
25. Establish Australia as a globally recognised wine tourism destination which will generate A\$250m per annum on new international wine tourism business by 2010.

Profitability

26. Increase the average value per litre (in year 2000 Australian dollars) of Australian export wine by at least 5% by 2010 and pursue cost efficiencies from innovation and the widespread adoption of best practice.

7. AN ACTION PLAN FOR WINE BRAND AUSTRALIA

Australian collaborative category promotion has featured individual brands.

The members of the Australian wine industry have had a long-standing commitment to working together to promote Australian wine. This "cooperation to compete" has been ingrained in the wine industry culture despite a ruthlessly competitive Australian market.

However, it would be a mistake to view this joint promotion as a generic promotion program – in fact it would be better labelled collaborative promotion.

One of the distinctive features of Australia's wine category promotion has been the focus on individual products (and therefore individual brands) under an umbrella Wine of Australia identity.

In industry communications this has often been abbreviated to brand Australia.

The wine brand "Australia" approach has provided benefits to both the category and the individual producer.

Collaborative or category promotion is a responsibility of the Australian Wine and Brandy Corporation (AWBC) whose charter includes the objective, "to encourage and promote the consumption and sale of grape products both in Australia and overseas". Promotion programs are directed by a committee, the Australian Wine Export Council (AWEC), the membership of which is predominantly commercial wine industry representatives.

Promotional Funding

Funding for the promotion programs is entirely from the industry's own resources, collected on its behalf through legislated compulsory levies.

The levy on export sales generated A\$1.4 million in 1999-2000 while total funds available for AWEC programs in 1999-2000 was only A\$4.3 million. Of this A\$1m was voluntary contributions on a participant pays basis for specific promotions.

AWEC undertakes a program of collaborative promotion activity in 17 international markets. Four exporter committees and a parallel number of importer committees (UK, Europe, USA, Canada, Asia, Japan) provide input to the planning and content of these programs.

Membership of these exporter committees comprise industry exporters and marketing executives. Importer committees comprise importers, agents, distributors and overseas based Australian principals.

A comparison of category promotion spend between Australia and competitor countries revealed that Australia is significantly outspent in several key markets.

One of the distinctive features of Australia's wine category promotion has been the focus on individual products (and therefore individual brands) under an umbrella Wine of Australia brand.

Australia's category promotional spend is much less than competitor countries.

“...there must be, of course, investment in generic awareness ‘Wine of Australia’. Wine of Australia is not yet known in Germany, so there has to be investment to get a clear, defined profile.”

Michael Jansen, Macrom Köln, Germany, Wine Marketing Conference, October 1999

Germany, Japan, USA, Canada, Scandinavia and the Netherlands are all markets where Australia ranks poorly against its competitors' promotional effort. In these markets Australia is ranked not only behind Old World but at least two New World competitors (only one New World competitor in the case of Japan). This competitive disadvantage remains, even after making allowance for the claimed higher effectiveness of Australian promotion expenditure.

Despite this disadvantage, Australia has been able to leverage a favourable country image and perception. For example, a market research study conducted in the UK market in 2000 demonstrated the influence of awareness and perceptions of countries of origin on purchasing behaviour. It revealed that Australia had the strongest image of the New World competitor countries and that this had strengthened since 1997.

Through consistent and reliable delivery of consumer benefits, Australian wine has been able to add a further dimension and hence strengthen the wine brand, Australia.

The recently concluded Sydney Olympics has raised awareness and the profile of Australia thereby providing a more receptive environment for wine promotion. Nevertheless in countries such as Germany, Japan and still to a large extent, USA, there is minimal awareness of Australia's credentials as a quality wine producer.

Increase the Promotion Effort

It is therefore imperative to invest substantial promotional effort in these countries as a prerequisite to achieving the market development goals outlined in this strategy.

This will require a level of funding greater than that currently available. It is recommended that additional funding be raised from voluntary sources rather than an increase in the rate of compulsory levies. In any event, funding from industry levies will continue to grow over the next 10 years, albeit at a reduced proportion of the industry production and sales growth.

The means by which the increase in promotion effort can be achieved is:

- » *Reserve export levy funding for market development of non-category international markets.*
- » *Increase user pays contributions to ensure full cost recovery.*
- » *Secure additional funding through sponsorship.*
- » *Leverage existing funding through joint venturing of promotions with parties who have a complementary interest in wine brand "Australia."*
- » *Improve the strategic fit of resource allocation with a single promotion organisation.*
- » *Enhance effectiveness with more rigorous prioritising and targeting.*
- » *Realign Wine Australia promotion resources including sponsorship to the market development priorities.*
- » *Where consistent with the promotion objective, make the terms of participation in user pays promotions more attractive to small wineries.*

The type of promotion activities or promotion mix undertaken in a specific market should vary according to the stage of development and characteristics of that market as they relate to Australian wine. This will in turn determine the relative attention directed to media, trade and consumer audiences and the target groups within each of these. (See Promotion Mix Elements).

The combination of promotion activities and their relative emphasis will be specified in the promotion plan unique to each market.

“ Strengthen your communication channels. ”

Robert Joseph, Wine Magazine UK, Wine Marketing Conference, October 1999

*Increased funding
will come from
voluntary contributions.*

Promotion Mix Elements

- » *Publicity in wine specialist media*
- » *Publicity in other media*
- » *Promotional support materials, eg videos, brochures, literature*
- » *Media advertising*
- » *Participation in trade exhibitions*
- » *Participation in third party consumer promotions and events open to all*
- » *Implementation of an annual program of country specific consumer tastings*
- » *Hosting visits to home country by media/trade*
- » *Other self initiated and targeted promotion activities*
- » *Contracted PR agency or established own office/personnel*

Wine Australia

Industry resources are also committed to other promotion activities with Wine Australia being the most significant. It has been estimated that with the inclusion of exhibitors' opportunity costs, the total cost of Wine Australia could be as high as A\$10 million.

Each of these other promotion activities has, in the absence of an overall marketing strategy, pursued its own valid objectives. However, it is now feasible to realign their objectives to maximise the contribution to driving the industry marketing strategy.

The implications are that substantial changes will need to be made in the type, location and implementation of future industry collaborative promotion.

The Promotion Action Plan outlines the proposed major changes and recommended timing for implementation.

Promotion Action Plan

1. Define and develop the market reputation assets referred to as wine brand "Australia"

- » *Articulate core values, point of difference and personification.*
- » *Commission creative expertise to develop the communications elements (messages, tag lines, visuals).*
- » *Ensure that wine brand "Australia" is not fragmented or diluted – while regions and states have a role in theming of promotion activities in appropriate markets, they should not be promoted as formal sub-brands of wine brand "Australia."*

Responsibility: AWEC Timeline: March 2001

2. Increase the targeting of promotional effort

- » *Prioritise the allocation of promotional resources, especially levy funds, to new category growth.*
- » *Focus most effort, in non-category priority markets, on fewer, high profile promotions to achieve threshold impact.*
- » *Customise the promotional activity mix to meet specific objectives for each individual market.*

Responsibility: AWEC Timeline: May 2001

3. Enhance implementation effectiveness

- » Strengthen the AWEC Council role, for ensuring that promotion plans fit industry marketing priorities and performance accountability.
- » Revise the resource bid procedure so that submissions are made annually incorporating a rigorous, structured business plan.
- » Introduce a zero base model for the evaluation of resource bids.
- » Designate one organisation to take responsibility for congruence between the marketing strategy and all collaborative promotion which utilises levy funded resources or is undertaken under the auspices of wine brand Australia.
- » Appoint the same organisation to be the guardian and manager of the marketing asset, wine brand "Australia".

Responsibility: AWBC/WFA Timeline: April 2001

4. Expand the wine brand "Australia" promotion effort

- » Continue to pursue alternative funding opportunities through joint ventures and sponsorship.
- » Encourage greater user pays participation in selected promotions.
- » Review the terms of promotional participation to make it more attractive for small producers to be involved in mature market niche programs.

Responsibility: AWEC Timeline: April 2001

5. Integrate Wine Australia as an essential component of the promotion effort

- » Revise Wine Australia's mission statement so that it is more closely aligned to the market development priorities of **The Marketing Decade**.
- » Develop a new, more flexible event format which is able to deliver specific program offerings to target different audience segments.
- » Re-focus the event's emphasis on two key market segments: international trade/international consumers and occasional consumers in the Australian market.
- » Evaluate the feasibility of extending the new Wine Australia format to encompass a series of major Australian wine promotions in priority overseas markets.

Responsibility: Wine Australia Timeline: April 2001

6. Instigate a promotion program which expands the wine category in the Australian market.

- » Target the occasional consumer segment.
- » Take wine to the consumer – utilise everyday venues for promotion.
- » Adapt communications to be less technical, more entertaining.
- » Use more mainstream media to deliver wine publicity.
- » Identify and recruit the next generation of Australian wine champions – young, female, diverse backgrounds.
- » Improve hospitality staff training through the introduction of user friendly, informal training materials.
- » The newly designated promotion organisation to initiate the coordination, infrastructure and facilitate the funding (estimated at \$200,000 per annum) for the program.

Responsibility: Designated Promotion Organisation Timeline: August 2001.

8. IMPLEMENTATION

*Agreement and commitment
by the industry is critical.*

The strategies, the promotion action plan and other recommendations in *The Marketing Decade* have been tested through a process of participation and consultation with a representative range of industry personnel.

However, the strategy is yet to be endorsed by the peak industry organisations, namely the Australian Wine and Brandy Corporation and the Winemakers' Federation of Australia.

Consequently, the first steps in implementation will be to obtain endorsement and commitment to the strategy by both of these organisations at their respective December meetings. Decisions on implementation responsibilities and funding also will be made at that time.

Following the strategy launch there will be a program of intensive communication with the aim of disseminating the key messages to all grapegrower and wine industry participants. This phase will provide the opportunity to collect feedback from within the industry, as well as to refresh and strengthen the industry ethos of collaborative promotion and forge a better understanding of the situations in which it is an appropriate and effective investment.

Evaluation

It is vital to ensure that there is an objective means of measuring progress in implementation of the Strategy. The following KPIs (Key Performance Indicators) have been identified as measures for annual reporting:

- » *Annual export sales growth*
- » *Annual export average value per litre*
- » *Largest market (and largest three markets) share of total export sales value*
- » *Annual domestic sales value growth*
- » *Percentage of Australian population regularly drinking wine*
- » *Percentage of Australian wine production exported as bottled*
- » *Number of Australian brands exporting more than 100,000 cases and their share of sales*
- » *Number of Australian brands of icon status*
- » *Market perceptions of brand "Australia" wine*
- » *Australian wine ranking in the super premium segment in each key market*
- » *Number of markets in which Australian wine has achieved category status*
- » *Media articles in specialist wine publications which acknowledge Australian best practice leadership.*

Review

The forum in which these performance outcomes can be discussed and the Strategy itself subjected to debate and review is the Australian Wine Marketing Conference, held bi-ennially. The next conference in Adelaide on 16-17 July 2001 will provide an opportunity to comprehensively assess the implementation status and the continuing relevance of the Marketing Strategy.

*“...the number one competitive business trend in the worldwide
business of wine is making wine more friendly.”*

Rich Cartiere, Wine Market Report, USA, Wine Marketing Conference, October 1999

*Objective evaluation
assures success.*

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Launch

Wine Industry Outlook Conference, Melbourne, November 22, 2000

Wine Australia, Melbourne, November 23-28

In October 1999 the first ANZ Australian Wine Marketing Conference was held in Adelaide, South Australia. This AWEC initiative brought together an impressive array of marketing expertise – from banks, investment brokerages, universities, corporations, future watching organisations and the media – and was attended by more than 450 wine marketers and winemakers.

The quotations featured throughout this document acknowledge the role of those speakers in stimulating the development of this strategy.

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