Wining and dining: Australian producers are courting Chinese consumers, boosting export revenue
About this Industry

Industry Definition
The industry purchases grapes and other key ingredients to process into wine, port and wine-based alcoholic beverages. These products are packaged in bottles or casks and sold to wine merchants and retail outlets. The industry also includes the production of other alcoholic beverages not categorised elsewhere, such as cider.

Main Activities
The primary activities of this industry are
- Red wine production
- White wine production
- Sparkling wine production
- Fortified wine production
- Cider production
- Sherry production
- Perry production
- Mead production

The major products and services in this industry are
- Cider
- Other alcoholic beverages
- Red wine
- Sparkling wine
- White wine

Similar Industries
A0131 Grape Growing in Australia
Firms in this industry grow or sun dry wine and table grapes.

F3606a Liquor Wholesaling in Australia
Firms in this industry wholesale beer, wine, spirits and other alcoholic beverages.

G4123 Liquor Retailing in Australia
Operators in this industry retail beer, wine and spirits for consumption off the premises only.

H4520 Pubs, Bars and Nightclubs in Australia
Hotels, bars and similar establishments sell alcoholic beverages for consumption on and off the premises (e.g. from bottle shops located at these premises).

Additional Resources
For additional information on this industry
www.abs.gov.au
Australian Bureau of Statistics

www.wineaustralia.com
Wine Australia

www.wfa.org.au
Winemakers’ Federation of Australia
Industry at a Glance
Wine Production in 2017-18

Key Statistics
Snapshot

Revenue $6.0bn
Profit $368.4m
Exports $2.6bn
Businesses 1,894

Market Share
Treasury Wine Estates Limited 10.2%
Accolade Wines Holdings Australia Pty Limited 9.5%
Pernod Ricard Pacific Holding Pty Ltd 9.4%
Casella Wines Pty Limited 8.3%

Key External Drivers
Per capita alcohol consumption
Total alcohol consumption
Trade-weighted index
Demand from liquor retailing
Demand from pubs, bars and nightclubs
Domestic price of wine grapes

Industry Structure
Life Cycle Stage Mature
Revenue Volatility Medium
Capital Intensity High
Industry Assistance Medium
Concentration Level Low

Key Statistics
Per capita alcohol consumption

Revenue vs. employment growth

Per capita alcohol consumption

Enterprises

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 35
**Executive Summary**

The Wine Production industry has benefited from growing global demand for Australian wine and improved pricing over the past five years. While the industry has faced mixed trading conditions, export growth, due to the depreciation of the Australian dollar and the implementation of free trade agreements with South Korea, Japan and China, has benefited industry operators over the period. Industry operators have also benefited from greater demand from liquor retailers and pubs, bars and nightclubs. As a result, industry revenue is expected to grow at an annualised 1.8% over the five years through 2017-18, to $6.0 billion.

The industry has been recovering from a global oversupply of wine for much of the past five-year period. Struggling winemakers increased their production of cheap, low-quality wine to reduce average fixed costs and increase their qualification for the wine equalisation tax rebate offered by the ATO. However, the industry has also taken steps towards recovery with some declines in production, both domestically and globally, and growing demand in foreign markets for Australian wine. Increased export demand has improved industry prices and profit margins over the period. Furthermore, poor harvests in competing wine-producing countries, such as France, Italy and Spain are expected to reduce world supply and improve industry prices, contributing to a forecast 2.6% rise in current year revenue.

The industry is anticipated to show further signs of growth over the next five years. While per capita alcohol consumption is forecast to continue its downward trend, total alcohol consumption is expected to increase over the period, supporting rising demand for wine. More industry operators are expected to shift production towards premium wines, while Asian export markets will play an increasingly important role in the industry’s future. Vertically integrated winemakers are likely to work on producing single-vineyard wines and focus on boosting cellar-door sales. Industry revenue is forecast to grow at an annualised 3.6% over the five years through 2022-23, to $7.2 billion.

**Key External Drivers**

**Per capita alcohol consumption**
Trends in per capita alcohol consumption greatly affect demand for wine, cider and other beverages produced by the industry. Higher per capita alcohol consumption generally boosts industry demand, although this depends on the relative demand for wine versus other alcoholic beverages such as beer and spirits. Multiple factors have moderated Australian alcohol consumption over the past decade, including rising health consciousness, anti-drink-driving campaigns and the stricter enforcement of laws regarding alcohol consumption. Per capita alcohol consumption is expected to decline in 2017-18, threatening demand for industry products.

**Total alcohol consumption**
Total alcohol consumption directly affects demand for industry products. Over the past decade, more people have chosen to consume wine and cider over beer and spirits, increasing demand for industry products. Total alcohol consumption has increased over the past five years despite the drop in per capita consumption, due to population growth. In 2017-18, total alcohol consumption is forecast to increase.

**Trade-weighted index**
The trade-weighted index measures the value of the Australian dollar compared with a basket of currencies of Australia’s major trading partners. The value of the Australian dollar relative to the
Industry Performance

Key External Drivers

The Wine Production industry has grown moderately over the past five years. Industry performance relies heavily on trends in international trade, per capita alcohol consumption and downstream demand from liquor retailers and pubs, bars and nightclubs. Despite challenging operating conditions due to the global oversupply of wine and growing competition from other New World wine producers, the industry’s robust performance has been driven by growth.

currencies of these trading partners affects the competitiveness of Australian wines in export markets. An appreciation of the Australian dollar increases the price of local wines in export markets, reducing their price competitiveness and softening demand. Conversely, a weaker dollar improves the competitiveness of Australian exports and typically strengthens demand. The trade-weighted index is expected to fall in 2017-18.

Demand from liquor retailing

The Liquor Retailing industry is one of the most important downstream markets for winemakers. The Wine Production industry relies heavily on orders from retailers to generate revenue. Generally, increased demand from retailers translates into higher sales of industry wines and other products. Demand from liquor retailing is forecast to increase in 2017-18.

Demand from pubs, bars and nightclubs

Pubs, bars and nightclubs are key buyers of industry products. Manufacturers need to maintain good relationships with these establishments to generate sales. Increased demand from this market typically boosts revenue, while falling demand can negatively affect industry performance. Growing demand from pubs, bars and nightclubs provides an opportunity for the industry to expand. Demand from pubs, bars and nightclubs is projected to increase in 2017-18.

Domestic price of wine grapes

Wine grapes are the major input into wine production and represent the industry’s largest purchase cost. Wine grape prices are volatile and affected by growing conditions. When prices are higher, purchase costs increase. Larger producers can typically absorb higher production costs as reduced profitability. However, many medium- to small-scale operators need to pass on higher purchase costs to customers. This can increase industry revenue if the higher prices do not cause a greater decline in demand. The domestic price of wine grapes is forecast to increase in 2017-18.

Current Performance

The Wine Production industry has grown moderately over the past five years. Industry performance relies heavily on trends in international trade, per capita alcohol consumption and downstream demand from liquor retailers and pubs, bars and nightclubs. Despite challenging operating conditions due to the global oversupply of wine and growing competition from other New World wine producers, the industry’s robust performance has been driven by growth.
Industry Performance

Current Performance continued

in emerging market demand for Australian wine exports. However, declining domestic per capita alcohol consumption and increasing competition from other alcoholic beverages, such as craft beer, have contributed to slow growth in domestic demand over the past five years. Industry revenue is expected to grow at an annualised 1.8% over the five years through 2017-18, to $6.0 billion. This includes an expected rise of 2.6% in 2017-18, on the back of strong export growth, increased demand for cider and higher world wine prices. While an oversupply of wine has constrained industry profitability over the past five years, a shift in consumer preference towards premium higher priced wines has helped improve profit margins slightly over the past five years.

Premiumisation

An increase in the per litre value of wine consumed in Australia and exported overseas has contributed to industry revenue growth over the past five years. The trend towards premiumisation in wine consumption has helped offset declining per capita alcohol consumption, as consumers have purchased higher value products. In particular, the shift towards premiumisation has contributed to strong growth for boutique cider and wine producers over the period.

Exports and domestic sales have outpaced growth in production volumes over the past five years, as consumers have migrated from low-value wines to higher value products. Growth in emerging market demand, particularly from China, has also contributed to this trend. Chinese demand for foreign-produced wine has increased and this has made China the largest international consumer of Australian wines. China’s growing middle class has boosted demand for higher priced products, with most exports being bottled-at-source, rather than low-price bulk wines.

Wine glut

Australian winemakers are still recovering from structural oversupply. In response to falling prices over the past decade, many winemakers sought to maintain profit margins through increased production of low-cost bulk wine. The wine equalisation tax (WET) rebate, which came into effect in 2000 and provides a rebate on excise taxes for small wine producers, further incentivised small winemakers to increase production. This led to wine production that was otherwise uneconomical, boosting wine volumes and causing stagnant revenue and falling profit margins. However, recent price improvements have helped industry profit margins to recover slightly over the past five years. Enterprise numbers have also increased, contributing to employment growth over the period.

Wine production has not slowed quickly enough to remove structural oversupply issues

Stricter eligibility criteria for the WET rebate are set to take effect in July 2018. This will reduce the WET rebate from $500,000 a year to $350,000. This will likely force some enterprises out of the industry over the current year in anticipation of the changes. Some bulk wine producers will find their business models unviable without access to the rebates and the exit of these operators is likely to continue to ease oversupply issues in 2017-18.
Industry Performance

Global markets

Australian wine exports have grown strongly over the past five years, assisted by the weakening Australian dollar. While cheap Australian wines dominated the UK market 10 years ago, other low-cost wine-producers from countries such as Argentina, Chile and South Africa have taken advantage of their lower costs and rising popularity to compete with Australian wines in international markets. Poor harvests in France, Spain and Italy in 2017 are expected to boost Australian export growth in the current year. These countries have similar winemaking reputations to Australia in Asian markets. As a result, a poor harvest in these countries provides an opportunity for Australian wine producers to fill supply gaps in export markets.

The China-Australia Free Trade Agreement (ChAFTA) came into force in December 2015 and provides preferential market access for Australian exports to China. The ChAFTA introduced staged reductions in tariffs imposed on industry exports, increasing the reach of Australian wine producers in the Chinese market. This has contributed to strong export growth for the industry over the past two years. China has overtaken traditional export markets, such as the United States and the United Kingdom, to become the largest consumer of industry products, at an estimated 25.1% of export revenue in 2017-18.

Imports have fluctuated over the past five years, in line with movements in the Australian dollar. In particular, imports from New Zealand have remained strong, accounting for close to half of all imports. New Zealand winemakers benefit from their ability to claim the WET rebate and therefore keep prices low. The popularity of wines from the Marlborough region has also supported demand for New Zealand imports by Australian consumers. French imports have also increased as consumer tastes have shifted towards higher quality wines and the global supply glut has made French wines more affordable.

Supermarket power

The increasing dominance of Woolworths and Wesfarmers in downstream liquor retailing is an ongoing concern for wine producers. Both companies have aggressively increased their presence in the liquor retailing market over the past five years, expanding their store numbers. Combined, Woolworths and Wesfarmers are forecast to control over 60% of the Liquor Retailing industry in 2017-18. Woolworths and Wesfarmers’ dominance of liquor retailing gives them significant bargaining power over wine producers. The supermarket chains have used their market power to reduce shelf space for branded products and push their own private-label and control-label wines. Industry winemakers have complained that the supermarkets are misleadingly labelling their private-label wines to make them indistinguishable from branded products.

Other alcoholic beverages

While traditional wine sales have moderately grown over the past five years, other alcoholic beverages included in the industry have performed strongly. Cider is expected to be the fastest growing product segment in the industry. Cider producers primarily make apple and pear ciders through a fermentation process. Cider has grown in popularity as an alternative to other alcoholic beverages and has increased as a share of industry revenue over the past five years.
Industry Outlook

Trading conditions for Australian wine producers are forecast to improve over the next five years, with steadier growth expected to replace the fluctuations of the past five years. Improved pricing and an easing of global oversupply conditions are expected to contribute to improved revenue growth. Upward pricing adjustments are forecast to be slow but steady, improving profit margins. Additionally, the shift by many of the larger wine producers towards premium branded wine should help boost industry profitability. Industry revenue is forecast to increase at an annualised 3.6% over the five years through 2022-23, to $7.2 billion. The industry’s growth is expected to encourage new market entrants, increasing enterprise numbers over the period. To remain competitive and protect profit margins, large industry operators are anticipated to adopt further production automation. As a result, wages are projected to decline as a share of industry revenue over the next five years.

The global landscape

The continued expansion of emerging export markets is forecast to drive industry revenue growth over the next five years. Australia’s free trade agreements with Japan, South Korea and China, signed over 2014 and 2015, will continue to boost exports. Asian markets are expected to become increasingly important as a source of export demand for the industry over the period. However, growing competition from other New World wine producers, such as Chile, Argentina and South Africa, which are able to produce wine more cost-effectively, is likely to negatively affect the industry’s performance. As a result, industry operators are expected to focus on exporting premium high-quality wines over the next five years.

Oversupply issues

The domestic oversupply of wine is anticipated to remain an issue over the next five years. Despite slowly falling wine production volumes, total wine produced plus total stock is still greater than total demand (domestic demand plus exports). Developing markets are likely to become increasingly important in easing oversupply among Australian producers over the next five years. Australian winemakers are forecast to focus on improving the reputation of their wines in Asian markets to tap into growing demand and beat out competitors from South America and South Africa. Increased federal funding for the Australian Grape and Wine Authority to promote Australian wine exports is expected to assist winemakers to access these markets and support industry growth over the period.

Potential changes to the tax regime were discussed in the 2015 Senate Inquiry into the Australian grape and wine industry. The Federal Government announced several changes to the WET regime in the 2016-17 budget. Although these changes are limited compared with what many wine producers and grape growers wanted, they are still projected to have a significant effect on easing oversupply problems over the next five
Industry Performance

Oversupply issues continued

years. The changes to eligibility criteria scheduled to come into effect in July 2018 are expected to drive some bulk wine producers and exporters out of the industry as they are cut off from access to the WET rebate. The scaling down of the WET rebate from $500,000 to $350,000 from July 2018 is also anticipated to reduce supply. The new WET rebate cap is expected to reduce benefits for larger wine producers and focus more closely on providing assistance for smaller producers. This should further incentivise larger producers to reduce volumes and concentrate on premium products.

Improving profitability

Industry profitability is forecast to grow moderately over the five years through 2022-23. Profitability should improve as wine inventories are sold down and the industry starts to return to balance. Small decreases in production, along with price increases, will allow producers to expand profit margins while controlling costs. Wine grape prices are forecast to increase over the next five years, although this should only have a moderate effect on the costs of production. Higher input costs will likely encourage mid-tier wine producers that are not vertically integrated, to scale back production over the period, which should help alleviate oversupply problems. Growth in profit margins is also likely to arise from an emphasis on exporting higher value premium wines.
Industry Performance

Exports are growing due to increasing demand for Australian wine in Asian markets

Cider represents a growth opportunity for the industry

The industry faces strong competition from international producers

Life Cycle Stage

<table>
<thead>
<tr>
<th>Quality Growth</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>High growth in economic importance; weaker companies close down; developed technology and markets</td>
<td>Company consolidation; level of economic importance stable</td>
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Key Considerations
An industry’s life cycle stage is determined by multiple factors, such as IVA vs. GDP performance and establishment growth. However, other key factors must also be considered. For more information, please refer to the Industry Life Cycle section analysis.

Quantity Growth
Many new companies; minor growth in economic importance; substantial technology change

Decline
Shrinking economic importance

Grape Growing
Hotels and Resorts
Fruit and Vegetable Processing
Liquor Wholesaling
Casinos
Wine Production
Industry Performance

Industry Life Cycle

The Wine Production industry is in the mature phase of its life cycle. Industry value added (IVA), a measure of the industry’s contribution to the overall economy, is forecast to grow at an annualised 4.5% over the 10 years through 2022-23. This growth rate represents an outperformance of the Australian economy, with real GDP expected to rise at an annualised 2.6% over the same period. Over the past five years, the number of establishments in the industry has stabilised and the merger and acquisition market has been active, both of which indicate a mature life cycle phase. While some new products have entered the market as producers have taken advantage of changing consumer trends, there has also been an increased focus on improving operating efficiencies and minimising costs.

Rising export demand and a consumer shift towards premiumisation have driven the industry’s growth over the past five years. Although cider remains the fastest growing segment within the industry, the segment is not big enough to substantially impact industry growth. Export sales are forecast to increase at an annualised 5.6% over the five years through 2017-18. Industry exports have been supported by a depreciating Australian dollar over the past five years. However, there has been growing international competition from other New World wine producers such as Chile, South Africa, Argentina and New Zealand.

Growing demand from developing Asian countries and a higher per litre value of wine sold are expected to drive industry growth over the five years through 2022-23. In 2016-17, China overtook the United States to become the largest consumer of Australian wine. The implementation of free trade agreements with China, Japan and South Korea, should contribute to continuing export growth over the next five years as tariffs are progressively removed.
Wine Production in Australia

May 2018

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Products & Markets

Supply Chain | Products & Services | Demand Determinants
Major Markets | International Trade | Business Locations

Supply Chain

KEY BUYING INDUSTRIES

F3606a Liquor Wholesaling in Australia
Liquor wholesalers purchase wine and other industry products from producers.

G4123 Liquor Retailing in Australia
Liquor retailers are a key downstream market for wine producers and other industry products, like cider.

H4601 Hotels and Resorts in Australia
Minibars in hotel rooms and in-house hotel bars and restaurants are usually licensed to sell wine and other industry products, which means these establishments represent an important market for industry producers.

H4520 Pubs, Bars and Nightclubs in Australia
Pubs, bars and nightclubs purchase a significant quantity of bottled wine, cider and other industry products for sale to consumers.

R9201 Casinos in Australia
Casinos with bars are a major market for wine producers.

KEY SELLING INDUSTRIES

A0131 Grape Growing in Australia
The Wine Production industry purchases grapes, its most important raw material, from the Grape Growing industry.

C1140 Fruit and Vegetable Processing in Australia
Ascorbic and citric acids are inputs required for some wine types. These acids require fruit processed from growers.

C1161 Flour and Grain Mill Product Manufacturing in Australia
This industry produces yeast, which is an input in wine production.

C1521a Paperboard Container Manufacturing in Australia
Containers are required to store and transport wine bottles along the supply chain.

C2010 Glass and Glass Product Manufacturing in Australia
Glass bottles are essential for storing wine and preserving its quality over significant time periods, as well as for facilitating its transportation.

Products & Services

Industry players produce red wine, white wine, sparkling wine, cider and other alcoholic beverages. Each product has been segmented based on its contribution to total industry revenue. Red, white and sparkling wines account for most industry production, making up an estimated 92.1% of industry revenue in 2017-18. Cider and other alcoholic beverages make up the remainder.

Red wine
Red wine represents the largest share of industry revenue. Producers of red wine have benefited from growth in export demand and the trend towards premiumisation, with red wine making up the largest portion of industry exports. However, red wine has fallen as a share of industry revenue over the past five years due to increased production and sales in other segments, such as sparkling wine and cider.

Red wine continues to represent a greater proportion of industry revenue than white wines, despite similar production volumes, due to the higher price they attract and stronger export demand. The production process for creating red wines is more complicated and cost-intensive than for white wines. Australia is renowned for producing some of the best shiraz in the world and consequently shiraz grapes account for almost one-quarter of all grapes planted in Australia. Traditional shiraz-producing regions include the Barossa Valley, Clare Valley and McLaren Vale in South Australia, Heathcote in Victoria, and the Margaret River region in Western Australia.
The range of production sites, in addition to the full-bodied and fruity flavour of the wine produced, has aided the ongoing popularity of Australian shiraz. Cabernet sauvignon is the second-largest red wine variety produced in Australia. Despite its large production volume, its high tannin concentration and strong taste have led many drinkers to switch to lighter red varieties. Merlot production has grown over the past five years. This wine has remained popular due to its lower tannin concentration and easy drinking taste compared with heavier varieties.

**White wine**

While the production of white wine grapes accounts for half of total wine grapes produced, white wine makes up an estimated 41.0% of industry revenue in 2017-18. This is largely due to the relative ease of producing white wines compared with red varieties, which makes white wines cheaper in comparison. Their cheaper price tag has helped white wines to remain popular among Australian drinkers and in export markets over the past five years. Consequently, white wine has remained stable as a proportion of industry revenue over the period.

Chardonnay is the second most common wine produced in Australia. However, over the past five years chardonnay has declined in popularity, with many young and female drinkers opting for lighter and more fashionable white wines such as sauvignon blanc and pinot gris. As a result, these two varieties represent some of the fastest growing white wines. Chardonnay production is forecast to slow over the long term as drinkers switch to other white varieties. Sauvignon blanc is the second-largest white variety to be produced in Australia. Domestic sauvignon blanc production has steadily increased as surging demand for popular New Zealand sauvignon blancs has prompted local wineries to try to emulate their success. Other prominent white varieties include colombard and semillon, which represent a growing proportion of grapes and therefore wines being produced. This is largely due to the overproduction of red varieties and the growing popularity of the lighter, easier-to-drink white wines.

**Sparkling wine**

The sparkling wine segment has grown as a share of industry revenue over the past five years. Consumers have begun to change their perception of sparkling wines from a traditionally celebratory drink to an everyday alcoholic beverage that can be consumed casually or with meals. This trend has been driven by the growing popularity of French champagnes, which are often viewed as a premium and more sophisticated

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**Products and services segmentation (2017-18)**

- **Red wine**: 44.3%
- **White wine**: 41.0%
- **Sparkling wine**: 6.8%
- **Cider**: 5.9%
- **Other alcoholic beverages**: 2.0%

*Total $6.0bn*
Products & Markets

Demand Determinants

The Wine Production industry is an export-intensive industry. Trends in key export markets such as China, the United Kingdom and the United States significantly influence industry demand. Nevertheless, domestic factors also play an important role in determining wine consumption and demand.

Discretionary income and consumer sentiment

Typically, higher discretionary income allows consumers to spend more on non-essential products, such as wine. Higher incomes can also contribute to a consumer shift to premium-price products. Growth in discretionary income over the past five years has encouraged more people to eat out, increasing demand for wine from restaurants. Consumer sentiment also helps determine changes in discretionary spending. Over the past five years, consumer sentiment has been largely negative due to rising concerns regarding family finances. Consumer sentiment is expected to remain positive over the next five years. Positive consumer sentiment can boost discretionary spending on non-essential goods, thus increasing the demand for wine and other industry products.

Prices and exchange rates

Wine consumption in Australia has been boosted by the favourable cost of wine relative to the price of beer over the past five years. In part, this resulted from the relatively favourable tax treatment of wine. The cheaper price of wine has helped increase demand for industry products. However, the export-oriented nature of the industry means that exchange rates are an important determinant of demand, along with income and general economic conditions in key overseas markets. Over the past five years, the value of the Australian dollar has fallen relative to its major trade partners, making Australian products more cost-competitive in key export markets.

Consumer trends

Wine, cider and other alcoholic beverages produced by the industry are close substitutes for beer and spirits. Consequently, demand for industry products depends on their appeal relative to spirits and beer. Consumer preferences are influenced by marketing and beverage taste. Over the past five years, demand for cider has grown following successful marketing campaigns and new consumer trends. Additionally, wine consumption trends, such as young female drinkers

Products & Services continued

beverage. The sparkling wine segment is expected to perform strongly over the next five years as industry operators respond to growing demand for sparkling wines and champagne.

Cider

The Australian cider market has expanded as a share of industry revenue over the past five years and represents the industry’s fastest growing product segment. The popularity of cider has grown due to its image as a refreshing alternative to beer, aided by savvy marketing and promotion. However, domestic cider producers face intense competition from imported ciders, as more than one-quarter of all cider consumed in Australia is imported.

Other alcoholic beverages

Other alcoholic beverages in the industry include mead, perry and fortified and unfortified niche wines such as sherry. Demand for niche wines and other alcoholic beverages has eased over the past five years as consumers have chosen red or white wines over niche wines. Niche varieties have struggled to gain popularity due to the expanding range of red and white wines in the industry. As a result, this product segment has fallen slightly as a share of industry revenue over the past five years.
The Wine Production industry generates revenue from both domestic and export markets. Domestic markets have been further divided into domestic wholesalers, major retailers and other markets. Although the industry has suffered from oversupply problems over the past five years, Australian wines have remained popular with both domestic and international consumers.

### Export markets
Export markets account for the largest portion of industry revenue. Exports have grown as a share of industry revenue over the past five years due to a weaker Australian dollar, increased demand for Australian wine in Asian markets and higher prices. In 2016-17, China overtook the United States as the largest export destination for Australian wine. Recently signed free trade agreements, such as the 2015 agreement with China, which provides a multi-year staged reduction in tariffs, should contribute to ongoing export growth over the next five years. This free trade agreement provides Australia with an advantage over other wine exporting countries, for which tariffs still apply. The United Kingdom and Canada are also major destinations for industry exports. Export markets are particularly important for larger companies and typically make up a greater proportion of their sales.

### Major retailers
Major retailers are those included in a national liquor retailing network. Downstream liquor retailing is becoming more consolidated, leading to an increasing proportion of direct sales to retailers over the past five years. Wesfarmers’ portfolio includes Liquorland, Vintage Cellars and First Choice Liquor, while Woolworths operates BWS, Cellarmasters and Dan Murphy’s. The purchasing power of these retailers has grown significantly over the past five years. Their rising share of the liquor retailing market explains the increasing volume of industry sales directly to retailers, rather than through wholesalers. As a result, this market has grown as a share of industry revenue over the past five years.

### Other markets
Other markets consist of pubs, bars and nightclubs, and niche downstream markets, such as direct-to-consumer sales, online markets, caterers and businesses. Pub, bars and nightclubs increasingly favouring lighter wines, affect how wine is consumed.

### Health consciousness and consumption
Wine consumption, particularly in moderation, has often been seen as an alternative to other alcoholic beverages. Wine consumption is used as a digestive or sleeping aid by some people. In contrast, the consumption of beer and spirits is often seen as less healthy in comparison with wine, especially given the high calorie content of beer and strong alcohol content of spirits. As health-consciousness increases, consumers are more likely to substitute beer and spirits consumption with wine.

### Domestic wholesalers
Domestic wholesale wine merchants are a vital market for the industry. Wholesalers purchase wine from producers to distribute to liquor retailers, pubs, restaurants and other hospitality venues. This market also distributes to supermarkets, although this is usually restricted to niche wines. The domestic wholesale market has declined as a proportion of industry revenue over the past five years, due to consolidation in liquor retailing. Large retail chains, such as those owned by Woolworths and Wesfarmers, have increasingly avoided the wholesale market through wholesale bypass and producing their own private-label wines.
Australians consume less wine on a per capita basis than other major wine producing countries such as France, Portugal and Italy. Given Australians’ relatively moderate consumption of wine and the country’s small domestic market, international markets represent an increasingly important source of revenue for Australian producers. In particular, large producers rely on international trade, with exports contributing a larger portion of their revenue than small producers.

Australia currently has two wine-specific trade agreements. The Agreement Between Australia and the European Community on Trade in Wine allows Australia improved access to European markets in exchange for the phasing out of European wine names for wine produced in Australia. The Agreement on Mutual Acceptance of Oenological Practices between Australia, New Zealand, Chile, Argentina, South Africa, Canada and the United States ensures Australian wine can be marketed...
in the participating countries, so long as it meets Australian winemaking standards. This agreement guarantees that signatory countries will not use differences in production standards as a technical barrier to trade in wine. In 2017-18, industry exports are expected to total $2.6 billion, with competing imports totalling an estimated $840.2 million.

Exports
Industry exports are projected to grow at an annualised 5.6% over the five years through 2017-18, to account for 42.6% of total industry revenue. By value, the top wine export destinations are China, the United States, the United Kingdom and Canada. Over the past decade, relatively new wine producing countries such as Chile and South Africa have emerged to challenge Australian wine in key export markets. These countries generally produce wine at a lower cost than Australian producers, enabling them to sell their goods in large markets like Europe and North America for a lower price. To counter these challenges, Australian wine producers have progressively marketed their products as high-quality wine to capture premium prices. This strategy has largely been successful, with industry exports expected to grow significantly over the five years through 2017-18. This strong performance can be largely attributed to the remarkable rise in demand from Chinese markets. Australia signed three free trade agreements (FTAs) in Asia in 2014 and 2015, including one with China. This has increased demand for Australian wine in China and allowed the industry to expand its exports. The

<table>
<thead>
<tr>
<th>Exports To...</th>
<th>Total $2.6bn</th>
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<tbody>
<tr>
<td>United States</td>
<td>20.2%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>14.3%</td>
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<tr>
<td>Canada</td>
<td>7.8%</td>
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<tr>
<td>Other</td>
<td>32.6%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Imports From...</th>
<th>Total $840.2m</th>
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</thead>
<tbody>
<tr>
<td>New Zealand</td>
<td>45.7%</td>
</tr>
<tr>
<td>United States</td>
<td>32.8%</td>
</tr>
<tr>
<td>France</td>
<td>25.1%</td>
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<tr>
<td>Italy</td>
<td>9.1%</td>
</tr>
<tr>
<td>Spain</td>
<td>2.2%</td>
</tr>
<tr>
<td>Other</td>
<td>10.2%</td>
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SOURCE: ABS

SIZE OF CHARTS DOES NOT REPRESENT ACTUAL DATA
International Trade continued

depreciating Australian dollar since 2013-14 and rising demand from North American markets also contributed to the industry’s export growth. Australia is the fifth-largest wine exporter by both value and volume, following France, Italy, Spain and Chile.

Rising exports to Asia are expected to continue to drive export growth over the next five years. The FTAs signed in 2014 and 2015 with Japan, South Korea and China are forecast to lead to new export growth in Asian markets, as Australian wines become more competitive with the reduction or removal of tariffs. The South Korean FTA removed all tariffs for Australian wine exports, while the Japanese and Chinese FTAs implemented a gradual elimination of these tariffs. These markets will provide new avenues for growth, with the potential for increased penetration of these markets by Australian wines. Rising middle class incomes in China are also expected to contribute to strong demand growth over the next five years.

Imports

Wine imports are moderate, accounting for an estimated 19.5% of domestic demand in 2017-18. Over the past five years, imports have increased as a share of domestic demand. In contrast to Australia’s prominence as an exporter, the nation imports a relatively low level of foreign wines. However, the volume of imports has almost doubled over the past decade. Changing consumer preferences and fluctuations in domestic production have both played a part in growing imports over the past five years. Apart from these factors, imports from New Zealand have been supported by the extension of the wine equalisation tax rebate to New Zealand-based winemakers. France has traditionally been another significant source of imports due to the popularity of vintage wines and the Bordeaux wine region. Italy and Spain are also notable sources of foreign wines. Imports are expected to increase over the next five years as customer preferences for wine from other regions and countries are forecast to remain strong.
Products & Markets

Business Locations 2017-18

Enterprises (%)
- Cold Zone (<10)
- <25
- <50
- Hot Zone (<100)
- Not applicable

SOURCE: WWW.IBISWORLD.COM.AU
There are over 60 designated wine-producing regions across Australia. The geographic spread of the industry is closely correlated with the distribution of wine grape production, with the majority of wine producers residing in the south-east of the country. Wine production facilities are typically located at or near vineyards to minimise transport costs and ensure grapes are crushed shortly after harvest. For the cider segment, a large proportion of establishments lie in Victoria and New South Wales, due to the cool climate required for stone-fruit growing.

South Australia dominates the Wine Production industry and contributes considerably to the state’s gross domestic output. Roughly 33.3% of industry activity is concentrated in the state. In South Australia, wineries are concentrated in the south-east of the state, throughout the Barossa Valley, Clare Valley, Coonawarra, Eden Valley and Adelaide Hills regions. The Barossa is Australia’s most famous wine region and produces some of the world’s most well-regarded shiraz.

Victoria is the second most important wine producing region in the country. Victorian wineries are predominantly located in the warm, high rainfall regions along the Murray River. The Yarra Valley and Mornington Peninsula are highly regarded premium cool climate wine regions, predominantly producing pinot noir and chardonnay. The state’s other major wine producing regions are Heathcote, the Western District, Rutherglen and Beechworth.

New South Wales has 14 distinct wine regions that represent a diverse range of growing conditions. In the early 1800s, the Hunter Valley was one of the first wine grape growing regions to be cultivated in Australia. Hunter Valley semillon is world class, while the cooler climate also produces distinctive shiraz and chardonnay.

In Western Australia, the grape growing regions south of Perth have become popular for winery development. The most renowned is Margaret River, with the largest being the Great Southern region. To the north of Perth lies Western Australia’s oldest winemaking region, the Swan Valley.
## Competitive Landscape

**Market Share Concentration**

The Wine Production industry has low market share concentration. The four largest Australian wine producers collectively account for an estimated 37.4% of industry revenue in 2017-18. Industry concentration has fluctuated over the past decade as major producers have purchased and then divested certain production facilities, such as Treasury Wine Estates’ acquisition of the White Hills vineyard in Tasmania and Accolade Wines’ acquisition of Grant Burge Wines in South Australia. Over the past five years, overall market share concentration has increased, despite a slight decline in 2015-16, as both small wine producers and cider producers exhibited strong revenue growth.

Consolidation in the industry among smaller firms is discouraged by the current structure of the wine equalisation tax (WET). Smaller players in the industry struggle to maintain profit margins and would benefit from the economies of scale and increased negotiating power that would result from merging with other winemakers.

However, the WET rebate, which many smaller businesses rely on to remain viable, is scheduled to fall from $500,000 to $350,000 from July 2018. Therefore, merging operations effectively incurs a cost through the loss of a portion of this rebate. As a result, the scaling back and tightening of the WET rebate eligibility criteria in July 2018 may contribute to an increase in industry consolidation over the next five years.

### Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

- **Production of goods currently favoured by the market**
  The ability to switch production to cater for changing tastes is critical to success. Industry wine-tasting awards are an effective means of marketing wines to consumers.

- **Supply contracts in place for key inputs**
  Contracts help ensure a steady supply of specific grape varieties that are produced into wine. A steady supply of grapes can contribute to strong relationships with downstream retailers, which are themselves looking for reliable suppliers.

- **Establishment of export markets**
  Strong ties to export markets have been a critical growth factor for wine producers over the past five years. Establishing a strong reputation in emerging Asian markets is important for the future success of the Australian wine sector.

- **Financial structure of the company**
  The extent of a company’s debt and the way in which it is financed will affect its ability to acquire new vineyards or winery equipment and ensure healthy cashflow.

- **Economies of scale**
  Wine producers with larger production facilities can achieve lower per unit costs, which can enable lower pricing, increased marketing expenditure or capital investment.

### Cost Structure Benchmarks

Cost structures can vary in the Wine Production industry according to the extent of vertical integration and wine producers’ size. Larger, vertically integrated businesses can generally secure higher profit margins through their increased negotiating power. Larger businesses also tend to be able to reduce average fixed costs through economies of scale.

### Profit

Profit margins vary according to operators’ size and the type of product produced. Typically, major wine producers benefit from economies of scale and greater negotiation power with downstream wholesalers and retailers. However, over the past five years, industry players have faced challenging conditions as supermarkets in
Competitive Landscape

Cost Structure Benchmarks continued

downstream retail markets have increased their negotiation power. Wesfarmers and Woolworths are expected to control over 60% of the Liquor Retailing industry in 2017-18, giving them significant bargaining power in negotiations with wine producers. The chronic oversupply of wine over the past five years has also contributed to heavy discounting throughout the supply chain, as producers and retailers have attempted to clear excess wine stocks. Many operators expanded their production of bulk wine over the past five years in an attempt to increase production quantities and qualify for a larger WET rebate, putting pressure on profit margins, as bulk wines have lower margins than premium wines. Despite this, prices have improved over the period due to premiumisation and growing demand from emerging markets. The shift in wine producer focus towards premium products is expected to improve industry profitability in 2017-18. As a result, overall industry profitability has increased slightly over the past five years.

Purchases

Purchases are the industry’s largest cost and can differ from year to year subject to variations in key input prices. Vertically integrated wine producers, which own their own vineyards, can benefit from cheaper access to wine grapes. The glut of wine grapes in the industry has meant that prices can vary in a season, with price often determined by existing supply contracts and the negotiating power of growers. Prices for grapes purchased early in the season tend to be higher, as winemakers acquire the grapes necessary to meet supply contracts. However, grapes purchased late in the season are often bought at discounted prices and are mainly used in the production of bulk wines. Other purchase costs include containers and packaging materials; wine for blending, fortification or distillation; grape juice and grape spirit; sugar; and other inputs. Over the past five years, purchase costs have decreased as a share of industry revenue due to the glut in wine grapes.

Sector vs. Industry Costs

<table>
<thead>
<tr>
<th>Average Costs of all Industries in sector (2017-18)</th>
<th>Industry Costs (2017-18)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>1.8</td>
</tr>
<tr>
<td>Rent</td>
<td>7.6</td>
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<tr>
<td>Utilities</td>
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<tr>
<td>Depreciation</td>
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</tr>
<tr>
<td>Other</td>
<td>14.5</td>
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<tr>
<td>Wages</td>
<td>8.1</td>
</tr>
<tr>
<td>Purchases</td>
<td>60.2</td>
</tr>
</tbody>
</table>

SOURCE: WWW.IBISWORLD.COM.AU
**Competitive Landscape**

**Wages**
The Wine Production industry is highly capital intensive. However, wages still make up a significant share of industry revenue. Labour is required for manual tasks, such as production and transportation, and for highly specialised tasks involving the planning and management of vintage wine batches. Wages have fallen as a share of industry revenue over the past five years, as producers have focused on increasing automation where possible to improve profit margins.

**Depreciation**
Depreciation costs are higher in the industry than other industries in the Beverage Manufacturing subdivision, such as the Beer Manufacturing industry. This is largely due to the greater costs involved in wine maturation equipment and storage. Increased production of bulk wines, which tend to have more capital-intensive production lines, has slightly increased depreciation costs as a share of industry revenue over the past five years.

**Rent, utilities and other costs**
Industry rent costs are minor. Producers own most of the property, plant and equipment used in wine production and these items are reflected in depreciation expenses. Over the past five years, rent costs have been fairly steady as a share of industry revenue. Utility costs relate to operating expenses, particularly electricity for powering machinery and temperature-controlled storage facilities. Rising energy costs have contributed to utility costs increasing as a share of industry revenue over the past five years.

For the largest industry firms that sell branded products, spending on marketing can be significant. Marketing has grown as a share of industry revenue over the past five years, as promotional spending on Australian wineries has increased, particularly in China, the United Kingdom and the United States. Other crucial costs include administrative costs and general selling expenses.

**Basis of Competition**

**Level & Trend**

Competition in this industry is **High** and the trend is **Increasing**

The Wine Production industry is highly competitive. Over the past five years, industry competition has increased due to growing international competition. Wine producers are also subject to rising competition from cleanskin wines due to the increasing distribution power of supermarkets in downstream retail markets.

**Internal competition**
Wine producers in the mid- to high-price bottled products range compete on the basis of quality and branding. Wine shows and awards are an important means of promoting the quality of particular wines. Marketing and branding activities can also contribute to consumer perceptions of quality. By volume, industry sales are dominated by bulk wines, which compete primarily on the basis of price. Given the importance of price, the size of a wine producer is playing an increasingly important role in competition due to the advantages offered by having greater economies of scale and scope.

Over the past five years, Australian wine producers have tried to build a reputation as high-quality wine producers. International retail groups are among the major purchasers of Australian wines, making successful product promotion important. The four largest Australian winemakers, Treasury Wine Estates, Accolade, Pernod Ricard Winemakers and Casella Wines, contribute the majority of Australia’s total export volume. These companies, which have access to global distribution channels, are able to spend significantly on marketing and have capital available to acquire overseas assets. For example, Treasury Wine Estates has created a direct wine sales business to help build global distribution channels.
Competitive Landscape

Basis of Competition continued

External competition
External competition has been increasing over the past five years due to the introduction of additional premium and boutique beer brands. They compete directly against wine and cider. Wine also faces competition from spirits and, to a lesser degree, non-alcoholic beverages. Cider and other alcoholic beverages are facing stronger competition from traditional beer and ready-to-drink alcoholic beverages. Craft beers, which have grown rapidly in popularity over the past five years, have also increased competition for industry products. However, the growing popularity of cider and sparkling wines has made them resistant to this trend. Import penetration has grown over the past five years, increasing external competition. However, Australian wineries have several advantages over international competitors due to a concentration of professional expertise, favourable climatic conditions and low-cost supply of grapes. The industry also benefits from the network of related industries in Australia, including tourism and hospitality. On the other hand, the industry competes with imported wine on price, with Australian wine producers facing increased external competition from other New World wine producers such as Chile, South Africa, the United States and New Zealand. These New World wine producers also compete with Australian producers for sales in key export markets.

Barriers to Entry

The Wine Production industry has moderate barriers to entry and these have increased over the past five years. Enterprise numbers have remained stable over the period, indicating moderate barriers to entry. The market saturation already achieved by the industry’s largest players, mid-tier firms and small independent wineries means that successful entry by new players can be difficult. New entrants can find it challenging to achieve the scale and establish the distribution networks necessary to compete against the large players. Consequently, barriers to entry are expected to remain moderate.

Capital requirements for the industry are significant, although operation on a small scale is possible. As some large wine companies divest parts of their operations, these become available for purchase by any potential new entrants. New entrants typically require superior financial management skills and industry-specific knowledge to be successful.

Branding has become imperative for success in the industry, especially for cider, with an increasing number of boutique producers making product differentiation important. The variety of wine brands in the Australian industry has also rocketed, with consumers typically choosing a brand they are familiar with, seeking reliability of quality and a consistent taste. The widening array of brands available domestically and abroad represents an increasing barrier to entry. Early movers have an advantage over later entrants in this regard as early participants in each product segment have had more time to establish brand awareness.

The persisting oversupply of wine grapes has also created a barrier to entry over the past five years. Excessive wine grape production during the 2000s contributed to a supply glut of wine by
the early 2010s. The wine supply chain is yet to properly recover from this glut, which has negatively affected wine prices and industry revenue over the period. This has discouraged new wine producers from entering the market over the period.

The Wine Production industry is characterised by a high level of globalisation. Key industry operators have heavy ties with foreign-owned enterprises and are exposed to shifts in international markets. This is particularly evident with large, multi-discipline beverage manufacturers such as Lion and SABMiller making inroads in cider manufacturing. The industry’s globalisation is also supported by a high level of international trade. Import penetration has increased over the past five years and Australia is the fifth-largest wine exporter in the world by volume.

Foreign ownership in the Wine Production industry is high. For example, major player Pernod Ricard Australia is a subsidiary of French company Pernod Ricard SA. Several other French companies, including major producers Bollinger and Roederer, have increased their presence in Australia, while prominent sparkling wine producers Domaine Chandon in the Yarra Valley are wholly owned by French company Moet et Chandon. The major cider producers are multinational companies; Asahi Holdings, SABMiller and Lion, which is fully owned by Japanese brewer Kirin Holdings.

Major players in the Wine Production industry are also active investors globally. Industry participant Treasury Wine Estates owns several wineries in California. Furthermore, Constellation Brands and Pernod Ricard have wine production establishments throughout the world. In January 2016, Treasury Wine Estates also acquired the US winemaking business of Diageo.

International trade is a major determinant of an industry’s level of globalisation. Exports offer growth opportunities for firms. However, there are legal, economic and political risks associated with dealing in foreign countries. Import competition can bring a greater risk for companies as foreign producers satisfy domestic demand that local firms would otherwise supply.
Player Performance

Treasury Wine Estates Limited is an Australian-owned producer and distributor of wine with global operations. In 2010, the Foster’s Group decided to separately list its wine and beer assets. After its demerger from the Foster’s Group, TWE became one of the world’s largest wine producers, with vineyards across Australia, the United States, New Zealand and Italy. The company’s brands include Penfolds, Lindeman’s, Wolf Blass, Rosemount Estate, Beringer Vineyards, Matua and Castello di Gabbiano.

TWE attributes much of its success to its diverse global operations. The strategic placement of operations around the world allows TWE to hedge its performance between regions. TWE’s general trend towards premium products, along with its luxury and boutique wines throughout Asia and the United States, has contributed to its strengthening position as a global wine manufacturer. In mid-2013, TWE purchased the White Hills vineyard in Tasmania, which formerly belonged to Brown Brothers, to further the company’s profile as an exclusive, higher-quality brand. In 2013, the company was forced to destroy $35.0 million worth of wine, due to much lower than expected demand from US markets. Despite tough market conditions, the company has continued to look for expansion opportunities through international acquisitions. In January 2016, the company acquired the wine business of Diageo. This acquisition included several US brands, winemaking operations and commercial wine assets in the UK. The total consideration for the Diageo wine assets was $754 million.

Financial performance

Treasury Wine Estates Limited’s industry-specific revenue is expected to grow at an annualised 2.3% over the five years through 2017-18, to $618.3 million. This represents an underperformance of the industry over the past five years in nominal terms. A shift in corporate strategy and reset of the business contributed to subdued revenue growth in 2015-16. Revenue growth is forecast to strengthen over the two years through 2017-18, due to pricing improvements and stronger demand from export markets. The company’s profitability declined in 2013 to 2015, partly as a result of the global oversupply of wine. However, industry-specific profitability has since recovered. Profitability is projected to grow in 2017-18 due to TWE’s recent efforts to reduce costs by streamlining its supply chain and renewing its focus on premium offerings, such as Penfolds.
Major Companies

Accolade Wines Holdings Australia Pty Limited was founded in 1853 as Thomas Hardy & Sons Limited. The Adelaide winery has since grown to become the largest in South Australia. In 2003, the company was acquired by Constellation Brands, Inc. (CBI). In 2008, the company renamed itself Constellation Australia and incorporated both Constellation Wines Australia and Europe (CWAE), which held the Australian, UK and South African wine assets formerly owned by US-based wine producer CBI. In early 2011, CBI agreed to sell 80.0% of CWAE to Sydney-based CHAMP Private Equity for $230 million. CBI retained a 20.0% interest in the company. In June 2011, the company changed its name to Accolade Wines. In April 2018, CHAMP agreed to sell Accolade Wines to the Carlyle Group for approximately $1.0 billion. Included in the sale was CHAMP’s 80% interest in the company and CBI’s remaining 20% interest. The Carlyle Group is expected to focus on exports to Asian markets and accelerate the company’s Asia strategy. Accolade Wines owns several wineries in Australia including Hardys, Stanley Wines, Houghton, Omni, Banrock Station and Brookland Valley.

Accolade Wines has sought to expand its operations through a series of acquisitions over the past five years. In April 2014, Accolade Wines acquired a range of New Zealand wine brands from the Mud House Wine Group. In February 2015, Accolade Wines acquired Grant Burge Wines, a Barossa Valley winemaker, for approximately $50 million. In February 2017, the company acquired Fine Wine Partners from Lion Pty Ltd for approximately $100 million. These acquisitions have supported revenue growth in the four years through 2017-18.

**Financial performance**

Accolade Wines has outperformed the industry as a whole over the past five years. Company revenue is forecast to grow at an annualised 7.6% over the five years through 2017-18, to $571.5 million. Following heavy restructuring in 2011-12, where Accolade Wines formed strategic partnerships with other wine producers, the company has grown strongly. The depreciation of the Australian dollar since 2013-14, combined with the company’s multiple acquisitions, have contributed to revenue and profitability growth over the period. Continued growth in both the volume and value of wine exports will likely continue to stimulate revenue growth and improve profitability over the next five years.

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**Accolade Wines Holdings Australia Pty Limited - financial performance**

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>396.4</td>
<td>N/C</td>
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<td>2013-14</td>
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<td>2014-15</td>
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<td>2015-16</td>
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<td>2016-17</td>
<td>544.7</td>
<td>7.6</td>
</tr>
<tr>
<td>2017-18*</td>
<td>571.5</td>
<td>4.9</td>
</tr>
</tbody>
</table>

*Estimate

Source: Annual Report and IBISWORLD
**Major Companies**

**Player Performance**

**Casella Wines Pty Limited**
*Market share: 8.3%*
*Industry Brand Names*
- Yellow Tail
- Casella 1919
- Peter Lehmann Wines

Casella Wines Pty Limited is a family owned winery established in Australia in 1965 in the Riverina region of New South Wales. The family enterprise traces its roots back to Italy, where the Casella family has been making wine since 1820. The company, headquartered in Yenda, NSW, employs about 690 people, with operations solely in Australia. Over the past five years Casella Wines has expanded its acquisition strategy, purchasing several vineyards and wineries across Australia. In December 2014, Casella Wines bought out Peter Lehmann Wines, a family run business in South Australia’s Barossa Valley, for an undisclosed amount.

**Wine Production in Australia**

**Perod Ricard Pacific Holding Pty Ltd**
*Market share: 9.4%*  
*Industry Brand Names*
- Jacob’s Creek
- Wyndham Estate
- Richmond Grove
- Gramp’s
- Trilogy

Perod Ricard Pacific Holding Pty Ltd is the Australian subsidiary of France-based spirits and wine giant Perod Ricard SA. In 1989 and 1990, Perod Ricard acquired Orlando Wines and Wyndham Estate and merged the two entities into Orlando Wyndham Group (OWG). The entity was absorbed into Perod Ricard’s new wine brand company, Premium Wine Brands, when it was created in 2010. The company then went on to trade under the name Perod Ricard Australia in 2013.

In addition to owning a large range of local wines, Perod Ricard Australia owns four brands and wineries: Jacob’s Creek (one of Australia’s most renowned wine brands), Wyndham Estate, Richmond Grove and Poet’s Corner. The Jacob’s Creek sparkling range, launched in 1998, is a popular sparkling wine range in Australia, New Zealand, Japan and the United Kingdom. The company maintained the price position of Jacob’s Creek in an environment of price-cutting by competitors, which has allowed it to retain brand equity and value growth. Furthermore, Perod Ricard has been looking to new markets in China, Japan, Scandinavia and the United States to boost sales.

**Financial performance**

Perod Ricard Australia has outperformed the industry over the past five years. Company revenue is expected to grow at an annualised 4.8% over the five years through 2017-18, to $568.3 million. Like its rivals, Perod Ricard Winemakers initially struggled with an oversupply of grapes and wine over the past five years. However, Perod cited its exit from lower value market segments of cask wine and bulk wine and the resulting higher value earned per wine case, for its return to growth in 2013-14. Despite its growth, the company has struggled to improve profit margins, posting operating losses over the past five years.

**Pernod Ricard Pacific Holding Pty Ltd - financial performance**

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
</tr>
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<tbody>
<tr>
<td>2012-13</td>
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<td>2016-17*</td>
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<td>2017-18*</td>
<td>568.3</td>
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*Estimate  
SOURCE: ANNUAL REPORT AND IBISWORLD

**Casella Wines Pty Limited - financial performance**

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
</tr>
</thead>
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<tr>
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<tr>
<td>2017-18*</td>
<td>501.7</td>
<td>7.0</td>
</tr>
</tbody>
</table>

*Estimate  
SOURCE: ANNUAL REPORT AND IBISWORLD
Major Companies

Player Performance continued

roughly $57 million. In December 2015, the company purchased Brand’s Laira in the Coonawarra region. In February 2016, Casella Wines purchased Howcroft Estate Vineyard in South Australia and in 2018 the company bought further assets in South Australia, with the acquisition of the Tullymore Estate in the Clare Valley.

Casella Wines’ brands include Yellow Tail and Casella 1919. The company is one of Australia’s largest exporters of wine and best known for its Yellow Tail brand’s market penetration in the US wine market. Since launching in 2001, Yellow Tail has grown to become the highest selling imported wine in the United States. As a result, the depreciation of the Australian dollar since 2013-14 has benefited the company’s performance over the past five years and improved profit margins. Casella has performed well in the face of difficult trading conditions, largely due to its marketing and brand positioning.

Financial performance
Casella Wines, like many other Australian wine producers, faced overcapacity constraints at the start of the five-period. However, these constraints have eased in recent years and company revenue is expected to grow at an annualised 7.9% over the five years through 2017-18, to $501.7 million. This represents an outperformance of the wider industry, largely due to strong revenue growth of 17.3% in 2015-16 as a result of Casella’s acquisition strategy. Furthermore, revenue has risen from a low base in 2012-13.

The depreciation of the Australian dollar since 2013-14, and increased demand for Australian wines in export markets in 2014-15 and 2015-16, have also contributed to the company’s strong performance over the period. Overcapacity issues eased in 2016-17 due to poor harvests in Chile, which is a major competitor on the world market. The company returned to profitability in 2013-14 after posting a significant loss in 2012-13. Overall, profit margins are expected to improve over the five years through 2017-18, as overcapacity issues ease and wine pricing improves.

Other Companies

In addition to the major players, there are numerous medium-size companies in the industry. These include De Bortoli Wines and McWilliam’s Wines. Smaller producers include Zilzie Wines, Kingston Estate Wines and Tyrrell’s Wines. With the growing popularity of cider in the Australian market, cider producers have expanded their market share over the past five years.

Many of the firms in the Wine Production industry are small family-owned businesses. However, the ownership of wineries has been moving away from family-owned firms towards public companies. Going public gives companies access to additional capital, allowing for acquisitions and the consolidation of infrastructure, which can boost cost efficiencies.

Australian Vintage Limited
Estimated market share: 3.3%

Australian Vintage Limited (AVL) is an Australian-owned and ASX-listed integrated winemaking business. It is one of the largest vineyard owners in Australia. Headquartered in Cowandilla, SA, the company has two main wineries in south and south-east Australia, which operate all year round. Its Buronga Hill winery in New South Wales is one of the largest wineries in Australia and produces most of the company’s wines. Its Hunter Valley and Barossa Valley wineries produce premium and boutique vintages in smaller volumes.
The Wine Production industry exhibits a high level of capital intensity and this level has increased over the past five years. In 2017-18, for every dollar spent on wages, the industry invests an estimated $0.40 in capital equipment. The extent of vertical integration, particularly upstream integration, affects capital intensity. Ownership of vineyards and winemaking facilities can increase capital intensity due to some winemakers’ reliance on bulk wine production. Bulk wine producers tend to have a higher level of capital intensity, due to the need for investment in winemaking machinery and lower staff requirements in packing and selling. The rising production of bulk wine over the past decade has increased the industry’s capital intensity.

Wine producers employ staff to undertake vineyard maintenance and operate machinery. Highly skilled staff are required for product branding and marketing due to the intense competition in the industry. As industry competition is forecast to remain strong, the need for skilled marketing and branding employees is expected to grow.

### Tools of the Trade: Growth Strategies for Success

**New Age Economy**

Recreation, Personal Services, Health and Education. Firms benefit from personal wealth so stable macroeconomic conditions are imperative. Brand awareness and niche labour skills are key to product differentiation.

**Old Economy**

Agriculture and Manufacturing. Traded goods can be produced using cheap labour abroad. To expand firms must merge or acquire others to exploit economies of scale, or specialise in niche, high-value products.

**Traditional Service Economy**

Wholesale and Retail. Reliant on labour rather than capital to sell goods. Functions cannot be outsourced therefore firms must use new technology or improve staff training to increase revenue growth.

**Investment Economy**

Information, Communications, Mining, Finance and Real Estate. To increase revenue firms need superior debt management, a stable macroeconomic environment and a sound investment plan.
Operating Conditions

Technology & Systems

The Wine Production industry exhibits a moderate level of technological change. The industry’s major technological developments are typically product innovations, such as improvements to packaging, or process innovations, which improve supply chain efficiency and productivity. Industry operators use technology to improve the reliability of the production process, providing consumers with a more consistent product.

Product innovation

Wine producers actively seek to innovate in the area of packaging and design, as aesthetics and product differentiation are important in attracting consumers. Having appealing packaging or labelling allows a producer to distinguish themselves from competitors, helping to generate sales. Producers are increasingly embracing recyclable packaging and experimenting with single-serve packaging in the form of pouches, cans and aseptic cartons.

The screw-top lid has gained acceptance in the Australian marketplace. While screw tops have been associated with lower quality wines, there is growing recognition that high-quality products can be sold with screw tops, especially as they reduce the incidence of cork taint in wine. Screw-top lids are more cost effective for producers, provide consistent ageing, allow for upright storage (as there is no cork to keep moist) and are unaffected by humidity.

Process innovation

The industry is continually developing and innovating the production process. Process innovation in the industry is driven by technological change, with a trend towards automation, focusing on cost reduction, product consistency and environmental sustainability. Producers are able to employ sensor technology to monitor grape growing and vine conditions, use machines to harvest crops, use mechanical presses to crush the grapes and use computer-controlled winery operations such as tank temperature, filtration and fining processes. After ageing, the bottling and packaging process can be automated.

A number of initiatives to improve the environmental and economic sustainability of the industry are currently underway. These initiatives focus on improving energy and supply chain efficiency, reducing grapevine disease and addressing the use of chemicals in vineyards and wineries. These projects are currently researching ways to reduce the chemicals used when spraying vines through scanning technology and wine producers employ wastewater management and recycling programs to minimise environmental damage.

Revenue Volatility

The Wine Production industry has displayed moderate revenue volatility over the past five years. Changing demand in export markets and fluctuating wine production are major determinants of revenue movements. Export markets are expected to rebound over the five years through 2017-18. This is largely due to a series of free trade agreements with China, Japan and South Korea, which have contributed to strong growth in demand from Asian markets. As a result, revenue is forecast to rebound from declines in 2012-13 and 2013-14. Additionally, exchange rate fluctuations and changes in consumer tastes affect export wine prices and general consumption of wine in overseas markets, which in turn contributes to volatility.

Strong competition for retail sales is forcing Australian winemakers to reduce prices, which is adding to revenue uncertainty and hampering domestic demand growth. Production and prices are affected by the supply of grapes, which is affected by weather, soil conditions and outbreaks of disease. Earnings fluctuate due to changing input prices, variations in grape supplies and restructuring costs.
Operating Conditions

Revenue Volatility continued

A higher level of revenue volatility implies greater industry risk. Volatility can negatively affect long-term strategic decisions, such as the time frame for capital investment.

When a firm makes poor investment decisions it may face underutilised capacity if demand suddenly falls, or capacity constraints if it rises quickly.

The Wine Production industry faces a moderate level of regulation. The level of regulation in the industry has remained fairly stable over the past five years. Key areas of industry regulation concern taxation, licensing requirements and adherence to labelling standards.

Exports

Wine producers wishing to export their products have to obtain an export licence from the Australian Grape and Wine Authority (AGWA), which is responsible for regulating exports of Australian wine. The AGWA defines geographical boundaries to be used in labelling to further establish the reputation of wine regions in Australia. Furthermore, it undertakes negotiation on behalf of Australian growers to reduce barriers to trade with other countries. The regulation of wine exports is primarily to ensure the quality of Australian products marketed overseas. Furthermore, AGWA ensures that Australian wine exports comply with the numerous trade agreements Australia is a signatory to. From April 2018, AGWA is allowed to stop shipments of wine to importing countries if they fail to meet exporting requirements. This legislation aims to protect the reputation of Australian wine and prevent illegal copies.

Labelling

AGWA runs a label integrity program to verify that labelling claims are accurate in terms of what varieties of grapes are used and what regional zones are referred to. It maintains geographical indicators that are used by producers in their labelling. For a wine to be labelled as being from a particular geographical area, 85% of the fruit that goes into making the wine must be from that area. This protects the reputation of wine producing regions from harmful claims that a low-quality product may be produced in that area. This system was introduced in response to the agreement to cease using European place names in product labels in return for greater market access in Europe. As a result, winemakers are required to maintain records attesting to the integrity of the vintage. As of April 2018, Italy and Australia are currently debating the use of the name ‘prosecco’ on wine labels, as Italian wine producers want the name to be restricted to a geographical region in Italy. Australian prosecco is one of the fastest growing wine styles domestically and Winemakers’ Federation of Australia...
Operating Conditions

Regulation & Policy continued

is pushing for the continued use of the name in Australia.

A senate inquiry published in February 2016 also looked into the labelling of unbranded wines produced for retailers on contract and sold alongside branded wines produced by industry operators. Industry firms have complained that the lack of clear indicators of the source and ownership of the retailer-owned wine makes it indistinguishable from branded winery produce. This is argued to create unfair competition for wineries and potentially mislead consumers. The inquiry recommended that the Federal Government legislate labelling requirements that force retailers to declare on the label if the wine is produced by a major retailer. As at April 2018, there is no clear indication yet on whether this recommendation will be acted upon.

Excise taxes
The industry faces excise taxation imposed by the Federal Government. Unlike beer or spirits, excise taxes on wine are charged on the wholesale price of the product, so cheaper wines generally pay less in taxes per litre of alcohol. This structure is seen to be favourable to bulk and cask wine producers. In 2015 and 2016 there were discussions regarding adjusting the wine equalisation tax (WET) scheme currently in place. This idea was raised as part of the senate inquiry into the Wine Production and Grape Growing industries.

The wine equalisation tax (WET) rebate, which came into effect in 2000, provides a rebate of up to $500,000 on excise taxes for small wine producers. As part of the Federal Budget for 2016-17, the government committed to tightened laws surrounding the qualifying criteria for the WET rebate. The new regulations are expected to stop entities from forming multiple associated wine production companies to effectively claim more than one rebate. It was announced that the WET rebate available to producers would also be scaled back. Additionally, from July 2018, a wine producer will be required to own an interest in a winery and sell packaged, branded wine in the domestic market to make a WET rebate claim. These rules block many bulk wine exporters and other cheap wine producers from accessing the WET rebate.

Industry Assistance

The Wine Production industry receives a moderate level of industry assistance. There are several industry associations and government bodies that provide various supportive activities for the industry. The Winemakers’ Federation of Australia and Australian Grape and Wine Authority are two industry assistance groups.

Australian Grape and Wine Authority (AGWA)
Established by the Australian Grape and Wine Authority Act 2013, AGWA is a Federal Government body that assists industry growth and international competitiveness. AGWA imposes a levy on grape growers and uses these contributions to fund research activity.

AGWA has been reported to have seriously curtailed its research and development spending over the past five years as member contributions have declined. In 2016, the Federal Government committed to providing $50.0 million of funding to AGWA over the four years to 2020-21. This funding is expected to be used to assist local wine producers to access export markets.

Wine equalisation tax
The Federal Government established a wine equalisation tax (WET) rebate in 2000 that aimed to support small wineries in Australia. The scheme offered a rebate of up to $500,000 on excise taxes paid on wine. As part of the 2016-17 Federal Budget, the Federal Government
Operating Conditions

Industry Assistance continued

set out a timetable for reducing the size of the maximum WET rebate. The cap on rebate claims was lowered to $350,000 from July 2018. The changes to the scheme are designed to prevent producers from taking advantage of the WET rebate and help to address the oversupply of bulk wine, requiring producers to own or have a long-term lease over a winery and sell packaged, branded wine domestically. Further tightening of the WET rebate eligibility criteria is expected in 2018.

Trade protection and free trade agreements
Tariffs on wines have fallen since 1988, which has removed some of the industry’s protections against imports. All tariffs on wine are now set at 5.0% (except for a concession rate of 4.0% for developing countries). For some varieties, there is also a flat charge per litre, which varies according to the type of wine and its alcoholic content.

Australia has two wine-specific trade agreements. The Trade in Wine agreement between the European community and Australia has improved Australia’s access to the European markets while the Agreement on Mutual Acceptance of Oenological Practices between Australia, New Zealand, Argentina, Chile, Canada, the United States and South Africa enables Australian wine producers to market industry products in the participating countries, as long as it meets Australian winemaking standards. In December 2015, Australia and China signed a free trade agreement (ChAFTA). In January 2018, Chinese import tariffs on Australian wine products dropped to 2.8%, from previous 5.6%, and by 2019 all tariffs will be removed. As a result of the FTA, Australian wine exports to China have surged.

Industry associations
The Winemakers’ Federation of Australia (WFA) is the peak body of the Wine Production industry. It represents the interests of wine producers, advocates for producers and promotes the industry to government and financial communities. The WFA, established in 1989, represents winemakers both domestically and overseas and is funded by voluntary levies. In 2015, the WFA made a submission to a senate hearing on the state of Australian grape and wine industries, advocating for reforms in taxation schemes for wine producers.

Further assistance is available to producers through various state or region-based industry associations. Additionally, the Australian Trade and Investment Commission provides assistance to businesses looking to export through its Export Market Development Grants. These grants provide reimbursement to small and medium businesses that are undertaking export promotion activities.
# Key Statistics

## Industry Data

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<tr>
<th>Sector Rank</th>
<th>2018-19</th>
<th>2019-20</th>
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## Annual Change

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<td>Industry Value Added (%)</td>
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## Key Ratios

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<th>Wages/Revenue (%)</th>
<th>Employees per Est. (%)</th>
<th>Average Wage ($)</th>
<th>Share of the Economy (%)</th>
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## Figures

Figures are in inflation-adjusted 2018 dollars. Rank refers to 2018 data. SOURCE: WWW.IBISWORLD.COM.AU.
Industry Jargon

BULK WINE Bulk wine is wine sold in containers with a volume greater than 25 litres. This wine typically tends to be cheaper and of lower quality.

CELLAR-DOOR SALES Direct-to-public sales made by wineries.

NEW WORLD Wine producers outside the traditional wine regions of Europe and the Middle East (e.g. from Australia, New Zealand, Chile, Argentina and South Africa).

PERRY An alcoholic beverage made by fermenting pears.

PREMIUMISATION The shift in consumer preference towards more expensive premium wines.

WINERIES Independent, vertically integrated wine producers that grow grapes and produce wine in a small, localised area.

IBISWorld Glossary

BARRIERS TO ENTRY High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

CAPITAL INTENSITY Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labour. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than $0.333 of capital to $1 of labour; medium is $0.125 to $0.333 of capital to $1 of labour; low is less than $0.125 of capital for every $1 of labour.

CONSTANT PRICES The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the ‘real’ growth or decline in industry metrics. The inflation adjustments in IBISWorld’s reports are made using the Australian Bureau of Statistics’ implicit GDP price deflator.

DOMESTIC DEMAND Spending on industry goods and services within Australia, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

EMPLOYMENT The number of permanent, part-time, temporary and casual employees, working proprietors, partners, managers and executives within the industry.

ENTERPRISE A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

ESTABLISHMENT The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

EXPORTS Total value of industry goods and services sold by Australian companies to customers abroad.

IMPORTS Total value of industry goods and services brought in from foreign countries to be sold in Australia.

INDUSTRY CONCENTRATION An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 60% to 70% of industry revenue. Low is less than 40%.

INDUSTRY REVENUE The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED (IVA) The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry’s contribution to GDP, or profit plus wages and depreciation.

INTERNATIONAL TRADE The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%; medium is 5% to 20%; and high is more than 20%. Imports/domestic demand: low is less than 5%; medium is 5% to 35%; and high is more than 35%.

LIFE CYCLE All industries go through periods of growth, maturity and decline. IBISWorld determines an industry’s life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry’s products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company’s profitability. It is calculated as revenue minus expenses, excluding interest and tax.

VOLATILITY The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

WAGES The gross total wages and salaries of all employees in the industry. Benefits and on-costs are included in this figure.
At IBISWorld we know that industry intelligence is more than assembling facts. It is combining data with analysis to answer the questions that successful businesses ask.

Identify high growth, emerging & shrinking markets
Arm yourself with the latest industry intelligence
Assess competitive threats from existing & new entrants
Benchmark your performance against the competition
Make speedy market-ready, profit-maximising decisions

Who is IBISWorld?
We are strategists, analysts, researchers, and marketers. We provide answers to information-hungry, time-poor businesses. Our goal is to provide real world answers that matter to your business in our 500 Australian industry reports. When tough strategic, budget, sales and marketing decisions need to be made, our suite of Industry and Risk intelligence products give you deeply-researched answers quickly.

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IBISWorld offers tailored membership packages to meet your needs.