Profitability performance and profit drivers for the Australian wine industry; the relative importance of each driver for different types of wine businesses; and the implications for industry reform

FINAL REPORT to
GRAPE AND WINE RESEARCH & DEVELOPMENT CORPORATION

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Wine Industry Report- Profitability performance and profit drivers for the Australian wine industry; the relative importance of each driver for different types of wine businesses; and the implications for industry reform

Expert Report On The Profitability & Dynamics Of The Australian Wine Industry

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Centaurus Partners, founded in 2004, is a boutique management consulting firm based in Sydney.

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6 September 2013

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Abstract

The objective of the Expert Review is to provide a fact base and perspectives to help WFA determine where it should focus its resources and how it can support individual participants in their decision-making.

The Review assessed a broad cross-section industry analysis and conducted confidential interviews and workshops with wine businesses, and considered profitability, demand/supply, the impact of market "distortions" such as taxation, exchange rates and retail consolidation, which previously have been considered in isolation.

The outcomes include evidence of a significant decline in aggregated industry profitability since 2007 caused by a structural mismatch between the demand and supply of Australian wine.

Executive Summary

The Australian wine industry enjoyed considerable success from 1991 to 2007. It more than tripled in size from less than 400 million litres to 1.2 billion litres and achieved total revenues of $5 billion in 2007. The value of exports grew from $212 million to $3,004 million. The industry and many of its participants built an enviable global reputation for producing quality wine and created strong export markets particularly in the UK, US and Canada.

Despite the recent difficulties facing the industry there are number of positives. There has been a significant increase in domestic consumption of quality wines. From 2007 to 2012 the domestic consumption of Australian wine sold above $15/ bottle increased by $268 million (64%) in value terms and 11.6 million litres (42%) by volume. Unfortunately for the overall industry this only accounts for 16% of all wine produced in Australia by value and 3% by volume.

It is important to recognise and understand the issues facing the industry to ensure the correct next steps are taken by: the industry, groups of stakeholders working together, and individual players. Industry profitability has fundamentally lowered over the last 5 years and will remain under pressure for the foreseeable future. The key drivers of this change are:

- The collapse of export returns due to the appreciation of the Australian dollar (A$), falling demand, and issues in key markets
- The ability of retailers to extract margins from growers and winemakers
- Oversupply of grapes and winemaking capacity(relative to domestic and export demand—at profitable prices) and the 'negative feedback loops' this has created.

In this environment the business models under the most profit pressure are:

- Higher cost growers of C, D, and E/F grade grapes
- Winemakers with significant portion of their portfolio in wines with retail prices around and below $10/bottle (and <$5/litre export FOB). Especially if highly exposed to exports
- Small to mid size (higher-cost) winemakers without significant volumes in more profitable distribution channels (mail order/online, unique market niches); and with less attractive portfolios (price points below $15 per bottle retail or $7.50/litre FOB).

The Australian wine industry is likely to remain in transformation for some years:

- The industry was built on expectations of continued strong export growth
- The majority of the growth and total volume is in lower priced/quality wines that are under profit pressure in domestic and export markets—in 2012 30% of the wine produced in Australia was sold domestically at retail prices less than $10 per bottle, another 52% was exported at FOB prices below $5 per litre
- Demand cannot solve this problem quickly. Domestic demand is relatively flat in volume terms. Export demand is experiencing both volume and price pressure. While the unprofitable supply of grapes and wine is significant
- The fragmented nature of the industry makes it difficult to respond in a coordinated way. And, individually 'capacity is slow to adjust' for numerous reasons including:
    - Winemakers buying uneconomic fruit and wine to maintain high production to make contribution to fixed costs—this can provide marginal growers with some income and hope. In the growth phase many winemakers invested in additional capacity and brands
    - Growers have significant sunk costs in their vines and vineyards with few attractive alternative uses for the land
    - Human and emotional factors
    - Some level of uneconomic production supported by the WET Rebate.
- As the supply of grapes tightens—and more growers make acceptable returns—winemakers will experience an increase in their cost of goods sold (COGS) from the cost of grapes. The likely

inability to pass this cost on to domestic or export markets will then force further rationalisation of winemaking volume and companies.

Though needed it is likely the rationalisation of supply (grapes and winemaking) will not lead to an immediate fundamental improvement in industry profitability. A common view that reduced volumes will allow winemakers to increase margins and profits through: renegotiating margins with retailers, higher retail prices, and higher export prices is questioned by this Review. The majority of any benefit will likely flow to successful growers via higher prices. The benefits to winemakers will be limited by:

- Higher average COGS due to increased grape prices and lower volumes
- Retailers well placed to limit net wholesale price increases and/or extract, at least a significant share, of any improvement in margins from individual wine companies
- 62% of industry volume is exported—significant improvement in export returns requires: further depreciation of the A$, fundamental increase in demand relative to competitors in export markets, new/expanded export markets, and a reversal of the current trend in mix to lower value wines
- 94% of export volume (675 million litres) is C, D, and E/F wine (FOB below $7.50/litre). Export margins at each quality/price segment are significantly below domestic margins.
- The domestic market is higher margin but it is not large enough or growing fast enough to absorb significant quantities of wine currently being exported.

Though a major driver of the fall in industry profitability it is unlikely further significant depreciation of the Australian dollar will generate a proportionate rise in profitability. A lower A$ clearly benefits Australian producers. However, the following factors will likely prevent an immediate return to previous profit levels:

- There has been fundamental fall in demand for Australian wine in, at least, our two largest export markets (US and UK) in their currency—this is in addition to the impact of the higher A$
- Competition from wine exporting countries has increased, including—Italy, Spain, Chile, France, Argentina, and South Africa
- Many of those interviewed believed that foreign retailers, importers and distributors have the market power and sophistication to extract some portion of improved returns from a lower exchange rate. The fragmentation of Australian producers means many will likely trade off margin for volume

The Expert Review has been made possible by the generous financial and in-kind support of a broad coalition of industry stakeholders. WFA would like to express its thanks to the following organisations for their backing and input:

- The Wolf Blass Foundation
- The Grape and Wine Research Development Corporation
- Wine Australia Corporation
- Nielsen
- Finlaysons Lawyers
- Wine Grape Growers Australia

Background

The wine industry is one of Australia's most significant globally competitive industries, reflecting decades of investment, hard work and collaboration by winemakers, growers and others.

However, in recent years we have been hit by a "perfect storm" that has impacted industry profitability and reduced asset values. If we do not reverse this trend, the industry will not make the most of its opportunities and there could be continued adverse impacts on jobs and regional growth.

It is assumed by many producers of grapes and of wine that the resolution of the structural oversupply that has dogged the industry for an extended period will restore profitability to the industry. Likewise, there is an implicit assumption by many producers that all types of wine business will share equally in a profitability recovery when industry trading conditions improve.

Although structural oversupply remains a critical factor suppressing profitability, there are other substantial and long term structural changes in supply competitiveness and demand opportunity that are impacting on current and future profitability.

The magnitude of those impacts; the relative significance of each; and their differential impacts on different segments of the industry, has not been analysed and measured through authoritative research.

This project will help reduce uncertainty in the wine industry business environment; it will provide an impetus and roadmap for industry restructuring; it will define an agenda for achieving improved industry profitability; and it will signal the priorities for the industry organisations thereby enhancing value creation across the whole wine value chain.

Project Aims and Performance targets

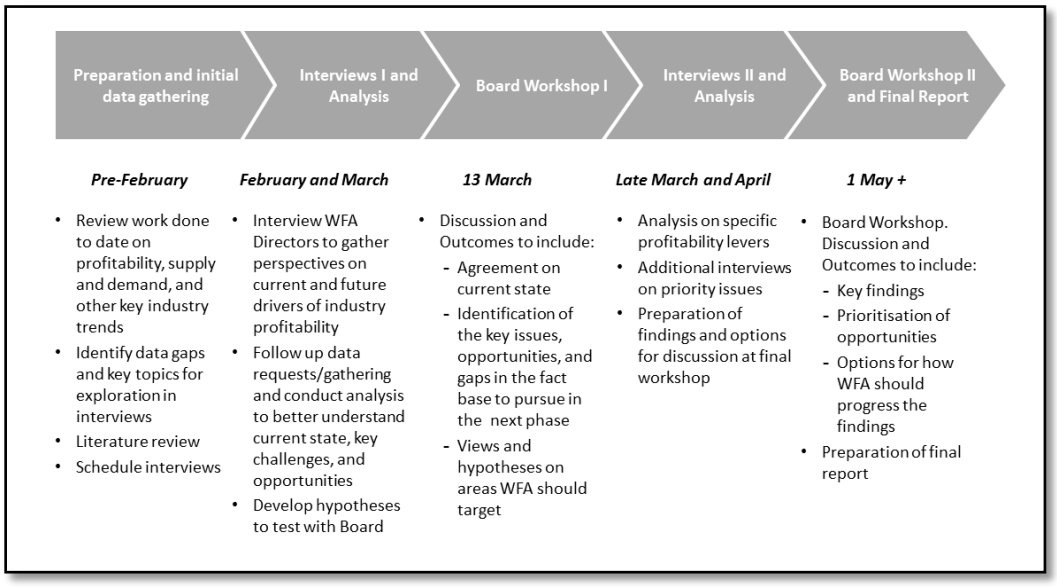
The objectives of the project are to:

- Determine current industry profitability, specifying the distribution of profitability performance by proportion of producers and segmenting grape and wine producers by scale.
- Define an appropriate profitability benchmark for the Australian wine industry by reference to other relevant industry sectors and to the necessary self-generating rate of return on investment – *As the review progressed, the feasibility of standard profitability benchmark across comparable industries has been reassessed due to issues and characteristics unique to the wine industry. Unlike other industries, the wine industry has no single, overarching business model due to: 1) diversified product offering (and cost structures) ranging from commodity wines to luxury/iconic wines; 2) varying international exposure ; 3) differing retailer relationships; 4) WET rebate, etc. The review also considered the identification of profitability benchmarks, both within and external to the wine industry, as increasingly irrelevant as the research progressed due to poor and declining profit levels across all comparable manufacturing and export-reliant sectors. Until sustained profits return to relevant industry sectors, establishing benchmarks will continue to be elusive and immaterial to the industry.*
- Specify the drivers of industry profitability and the relative influence of each driver
- Determine the variances in profitability performance by type of wine business (product and price segments) and how those variances are attributed to particular profit drivers

The project will provide a framework for change which will enable all industry stakeholders to re-assess their strategies; provide a pre - competitive roadmap for wine businesses to refocus their business models; and provide confidence to external investors and opinion leaders.

Method

The Review was carried out based on the method illustrated below:



This is very similar from the method outlined in the original application:-

- The WFA Board participation process will involve one on one working sessions with the Chief Investigator (consultant) and the individual companies represented on the Board in addition to two profitability research workshops with full WFA Board participation.
- The research method is an application of economic analysis, business strategy and business development frameworks utilising industry data, market intelligence, and evidence of business profitability drivers and performance.
- Existing supply data (ABS, ABARES, SA Phylloxera Board) and demand data (Wine Australia, demand projections) will be supplemented with corporate profitability data sourced from interviews, surveys and company reports.

Results/Discussion (refer to "Wine Industry Report- Expert Report on the Profitability &Dynamics of the Australian Wine Industry)

1. The Australian wine industry has tripled in size and been very successful at building export markets
    - The number of wine producers has grown dramatically—from 617 producers in 1991, to nearly 1,800 in 2004, and over 2,400 in 2012
    - Australia is now the fourth largest exporting country with 8% of the global wine trade by volume. Australia has significant shares in 4 of the top-10 wine importing countries
    - In 2012 30% of the wine produced in Australia was sold domestically at retail prices of less than $10/ bottle, and 53% was exported at less than $5/litre FOB. 83% of total wine produced in 2012 was D, E or F

2. Since 2007 the profitability of the Australian wine industry has declined significantly
    - Financial data for 9 wine companies from FY05 to FY12 provide a representative cross section of the industry. In the 4 years from 2005 to 2008 their combined profitability and margins grew—peaking at $162 million and 10.2% in FY08. The aggregate profit of the 9 companies fell by 82% in FY09 and into loss in FY12.
    - Confidential financial data provided by wine producers, and information on margins by product segment and market provided by 13 of the companies engaged in the Review process. Participants mostly indicated declines in gross margins.
    - The modelling of a representative selection of 13 growing regions comparing average costs of production to prices paid for grapes in 2012 suggests much of the volume across those regions was unprofitable in that year.

3. This decline in profitability has been driven by a 'perfect storm' that has intensified
    - Export returns have declined sharply. The primary drivers of this are: a higher A$, falling demand, increased competition from other wine exporting countries, higher costs, and a deteriorating mix.
    - Domestic margins have been squeezed by retailers, low-demand growth, and increased imports.
    - The decline and shift in export demand has created an 'oversupply/under-demand' of grapes and wine in certain quality segments. This has particularly impacted growers of higher cost, lower quality fruit. It has also impacted the volumes and prices of many winemakers—as volumes in excess of demand search for a buyer.

4. Efforts to improve profitability have, in many cases, only reduced the extent of the decline

5. There are foreseeable circumstances that would put further pressure on profitability
    - Long-term uneconomic supply (grapes and winemaking) remains slow to exit the industry.
    - Increasing global demand for wine does not increase the FOB prices for the majority of Australian wine exports (C, D, E, & F)
    - Demand for Australian wine continues to fall in the US and the UK (two of the world's biggest wine markets)
    - Wine's status as 'the cheapest form of alcohol' and its separate tax structure to beer and spirits exposes it to beer and spirits companies and the anti-alcohol lobby
    - Imports continue to grow or the growth accelerates— across all segments
    - Retail power and impact on producers increase.
    - Retailers support continued growth in imports across all segments
    - Further vertical integration and growth of private label including controlled and exclusive brands
    - Increased on-line wine selling creates further discounting pressure and 'bargain mentality' in the market.

6. The other side of this ‘perfect storm’ is that no single lever will ‘fix’ the problem. Popular commentary often points to a single major cause/savior—typically oversupply, exchange rate, or global demand. The consolidation and power of domestic retailers is another often quoted cause. Unfortunately, the issue is more complex than that.

7. The industry is not being impacted equally—some players/segments are more affected than others. There are a number of success models.

8. Tax has been an issue for the industry. The solution in the current environment is relatively clear. There is no solution that suits a majority of industry stakeholders—as each tax regime affects individual companies differently. And, there remains insufficient facts to prove a best strategy and therefore tax system for the industry as a whole—separate to its individual participants.

Outcome/Conclusion

Output 1: Method for determining profitability

Output 2: Profitability performance of the Australian wine industry

There were four methods conducted to ascertain industry profitability over the last 5 years. The following analyses were conducted:

- **ONE: Financial data for 9 wine companies from FY05 to FY12.** These companies provide a representative cross section of the industry. In the 4 years from 2005 to 2008 their combined profitability and margins grew—peaking at $162 million and 10.2% in FY08. The aggregate profit of the 9 companies fell by 82% in FY09 and into loss in FY12. While much of these falls are due to asset write-downs and restructuring costs, it is clear that 8 of the 10 companies we have detailed data for (over a shorter time period FY07 to FY12) have experienced sustained reductions in margins and profit. In 2007 the average profit margin across these companies was 9.6%, in FY09 it averaged 2.4%; and in FY12 it was (5.9)%.

- **TWO: Modelling of industry profitability leveraging previous work by Deloitte and WFA, industry and ABS data, and using key assumptions developed via by confidential access to the detailed financials of a number of Australian wine companies, plus confidential interviews and surveys.** The analysis estimated total industry gross margin declined by 38% to $1,107 million in 2012, from $1,787 million in 2007. This was driven by a $747 million decline in export gross margin. Whereas domestic gross margin rose by $66 million, just 6% over the 5 years.

- **THREE: Confidential financial data provided by wine producers, and information on margins by product segment and market provided by 13 of the companies engaged in the Review process.** Participants mostly indicated declines in gross margins. Several interviewees observed that the industry and individual companies (including themselves) “needed to re-set profit expectations...”

- **FOUR: Numerous interviews, anecdotes and reports suggest a significant number of grape growers are currently unprofitable.** The modelling of a representative selection of 13 growing regions comparing average costs of production to prices paid for grapes in 2012 suggests much of the volume across those regions was unprofitable in that year.

Output 3: Drivers of industry profitability

Industry profitability has fundamentally lowered over the last 5 years and will remain under pressure for the foreseeable future. The Report has an extensive discussion on the key drivers of this change and be summarized as follows:

- The collapse of export returns due to the appreciation of the Australian dollar (A$), falling demand, and issues in key markets
- The ability of retailers to extract margins from growers and winemakers
- Oversupply of grapes and winemaking capacity (relative to domestic and export demand—at profitable prices) and the ‘negative feedback loops’ this has created.

In this environment the business models under the most profit pressure are:

- Higher cost growers of C, D, and E/F grade grapes

- Winemakers with significant portion of their portfolio in wines with retail prices around and below $10/bottle (and <$5/litre export FOB). Especially if highly exposed to exports
- Small to mid size (higher-cost) winemakers without significant volumes in more profitable distribution channels (mail order/online, unique market niches); and with less attractive portfolios (price points below $15 per bottle retail or $7.50/litre FOB)

Output 4: Profitability modeling (benchmarks and drivers) for at least six wine business models

Based on interviews with selected winemakers, it is important to recognise that the 'tough' situation and outlook for the industry as a whole does not apply to all participants. It appears from our analysis of company profitability and interviews that in general, better performing companies have either:

- An 'in balance' portfolio of higher priced brands with strong domestic sales; and competitive costs or
- Globally competitive costs of production for bulk/ commodity wine (without the significant costs associated with supporting consumer brands).

Whereas, companies with portfolios weighted more to commercial (C & D) and commodity wines (E & F) with branded cost structures and high export exposure are under more profit pressure.

A and B quality wines appear to remain more profitable on a stand-alone basis across domestic and export markets—indicated by the range of gross margin's provided by participants in the review and the tight demand and supply situation. While volume and margins have fallen in key export markets (US, UK & Canada) those in China have grown. Growers and winemakers at the higher end of the supply cost curve for wines below $15/bottle (domestic retail) or $7.50/litre (Export FOB) are under significant pressure. These higher-volume wines started with lower margins and higher proportionate exposure to export markets.

Therefore:

- They experience more competition domestically and internationally—from other winemakers
- Retailers (domestic and internationally) have more supply options providing them more negotiating power
- Any increase in the A$ or retailer discounts has a proportionately greater negative impact on the profitability of lower margin wines.

Though there is no single success model for companies the Report identified a number of existing and potential models, including:

- Growers of high-quality grapes needed by makers of A and B wines; or lowest cost grapes by quality
- Large high-quality wine companies with 'well purchased assets', globally competitive scale and costs, the correct size, quality and cost balance, and a portfolio of wines/brands that have sufficient market power to extract commercial returns from retailers domestically and internationally
- Mid-sized players with a combination of competitive costs and high-quality established and desired brands. Brands must enable preferred terms with retailers and access to export markets. The majority of their volume is in the desired brands
- Smaller high-quality wine company—circa 25 to 50,000 cases, selling mostly direct to loyal customers. Higher prices achieved allow for profit over higher average costs (grapes, production, distribution, marketing). This model includes 'Iconic' wineries— where a wine has national and/or international acclaim and is sold at premium prices. This works when the wine accounts for a significant amount of total volume and/or the effect cascades to the rest of the range. Companies in this space should be careful of investing in expansion beyond their unique market demand—as this may expose them to lower return distribution channels such as retailers and actions that may undermine their portfolio (such as unsuccessful brand/range extensions)

- Absolute lowest cost and globally competitive in a given wine/grape quality. Given the fragmentation and often times uneconomic behaviour of some players in the industry the low cost should be supported by good access to markets
- Companies able to create and/or capture unique market and consumer branding opportunities. Casella's success with Yellow Tail is an example. Such companies still require a competitive operating model and cost structure to be profitable. And, an ability to lead or quickly respond to changes in consumer trends and sentiments.

Strategies/levers to pursue these success models include; but are not limited to:

- Premiumisation—stated by many as their strategy. There are two primary forms: convince consumes to pay more for your wines; and/or up-rate your wine portfolio. This strategy requires access to quality grapes, and the capital/cash flow needed to invest in: vines & grape quality, wine making, inventory, brand building and access to markets/distribution. Unfortunately this not a viable solution for the whole industry
- Consolidation to improve performance. Consolidation applies to both winemakers and growers. Given the general oversupply of capacity in the industry it is more likely to be achieved by acquisition, merger or some form of collaboration—rather than new investment. Participants need to be wary of repeating past examples that over spent and/or failed to capture synergies. Levers include:
    - Genuine cost savings in vineyards and/or winery. Including operating and capital efficiencies. Also efficiencies and benefits of scale through the value chain including: distribution, transport, bottling (including offshore/in market)
    - Accumulate sufficient brand power to improve: negotiations with retailers, market access, and demand
    - Economies of scale in: talent (winemaking, viticulture, innovation, commercial & management), market development (including export markets), and overheads
    - Opportunity to restructure the businesses— balance sheet, grower contracts, and possibly provide the assets, scale and funding to support a 'premiumisation' strategy.

In the view of the WFA, the Review performed well against the planned outputs by identifying current profit levels, the drivers for the mapped decline in profitability and in pointing to the potential ways to reverse this trend. The qualifications in the Review note the limitations in the data collected on margin. Future studies could address these shortcomings by expanding a number of interviews with wine companies.

The Review has been a valuable source of data, analysis and insights on the key industry issues. It has been an important input to the development of WFA's 33 recommended industry Actions. In this sense, the report will be an important supporting fact base on two-fronts: 1) to help members make their own proactive commercial decisions relevant to their individual businesses and 2) to help members evaluate and consider the 33 recommended actions.

Recommendations

The Report recommends 6 actions to be taken by the WFA and its members to help re-build a more profitable and sustainable industry:

1. Urgent efforts to build export demand and improve market access. Particular focus on US, UK and China; and possibly other large wine importing and 'niche' countries such as Canada, Sweden, Netherlands, and Switzerland, *WFA to:*

- Support development of fact base and insights as to issues and opportunities by market. For example, need to genuinely understand the causes of the massive deterioration in the performance of Australian wine in the US and UK markets, and what solutions exist for each wine segments—the issues and opportunities for A and B wine differ to those for C, and D, and E/F
- Identify and advocate actions for government. Advocate to link savings from reforms to the WET Rebate (discussed below) to funding for export market development
- Explore opportunities to 'match' our industry to the needs and purchasing decisions of these markets—such as: regionality/appellation, variety, understanding/recognition; and consumer trends especially varietal and high volume branding opportunities for commercial (C and D) wine in the US.

2. Seek improvements in retailer behaviour through a code of conduct. Consider lobbying Government with a recommended set of reforms to address the impacts arising from retail consolidation. Including: restrictions on further vertical integration and acquisition growth in distribution/retail including on-line; and a mandatory code of conduct if an appropriate code cannot be negotiated voluntarily. *WFA to:*

- Provide fact base showing impact and need for action. Develop feasible changes
- Coordinate efforts and fact base with other industry bodies
- Manage advocacy/negotiations to protect individual companies from possible retaliation
- Possibly support the development of alternative distribution options for winemakers.

3. Provide proactive advice to Government on how to remove all significant inappropriate uses of the WET Rebate. *WFA to:*

- Continue to build fact base, in planned consultation phase, on current impacts of WET Rebate and benefits of proposed changes to support advocacy. Seek ATO to improve the way it records tax payments, credits and rebates for the wine industry to allow proper understanding of who is using the Rebate
- Advocate Rebate reform. Including: limit Rebate eligibility to growers and/or manufacturers of Australian wine sold in packaged format under their own label. No controlling or collaborating entities to claim or benefit from more than one rebate. All grapes and wine must be sourced, manufactured and packaged in Australia. Wine must be fit for human consumption
- Lobby to have some portion of the savings from Rebate reform allocated to the industry to invest in export demand building and wine region development
- Upon reform of the Rebate allow the market to work, and reassess the Rebate (its purpose and effectiveness) in 3 years when better information is available.

4. Careful management of key downside demand and profit risks — in particular the anti-alcohol lobby and tax changes. *WFA to:*

- Fund/call for more fact-based research and dialogue on health impacts of wine and issues of alcohol abuse
- Ensure any tax regime debate is well understood. Seek to maximise unity within the industry.

5. Support decision making of industry players—particularly marginal players—with quality information and opportunity for dialogue and support. *WFA to:*

- Continue to build and engage industry participants on the fact base and independent perspectives on the industry— support decision making
- Seek government funding for rural support programs— decision-making assistance not subsidies

- Ensure key data sources are retained and where necessary enhanced.

6. Continue communication with government, regulatory bodies and media as to the true current state and potential futures for the Australian Wine Industry. WFA to provide the 'back story' and fact base to build awareness, and support constructive dialogue and action. Messages to provide context for recommended actions include:

- The importance of the wine industry to Australia
- The industry is caught in a 'perfect storm' of a high $A, falling export demand, oversupply, and retailer power
- The industry is in the process of significant and difficult restructuring
- During this process the industry is fragile and risks permanent damage—including: massive reduction in size and scale; ongoing poor profitability preventing necessary reinvestment; and loss of key success factors including: talent, innovation, image and reputation (domestic and international)
- The WFA and key stakeholders have a plan to support the industry towards a more profitable and sustainable future.

Appendices

Appendix 1: Communication

The Expert Review was formally launched with a media event in February, hosted jointly by WFA and the Wolf Blass Foundation, which attracted coverage in the mainstream and trade media.

The final report of the review and complementary WFA Actions were released for consultation on 28 August. This comprised:

- A media event and separate briefing for analysts in Sydney. Media coverage to date is highlighted below, with more forthcoming in wine trade journals. Individual articles can be provided as required.
- Creation of a web page on the WFA site (hot linked from homepage at www.wfa.org.au) providing all documents and supporting information, and including a brief introductory video from the WFA President
- Direct email communication with 2700 wine businesses on the WFA database, providing an overview of the project and consultation process and a direct link to the WFA web page
- A separate email communication to national, state and regional associations, providing the same information and requesting support in publicising the initiative and seeking member feedback.
- WFA's Canberra staff briefing key political and departmental personnel.

To communicate directly to industry, eight regional visits have been organised across four states, to be presented by the WFA Chief Executive and/or President. Details are on the web page.

Further bulletins will be provided to wine businesses and associations as the consultation phase progresses.

Media coverage
The release of the report was covered by the following media outlets

Adelaide Advertiser – 2 stories
The Australian
Australian Financial Review
Hobart Mercury
Herald Sun, Melbourne
Daily Telegraph, Sydney
Weekly Times, Melbourne

ABC radio – various programs
2GB, Sydney
4BC Brisbane
Curtin FM, Perth

Decanter.com (international)
www.tradingroom.com.au
www.thesydneynews.net
www.theland.com.au
www.farmweekly.com.au
www.abc.net.au
AAP Newswire, Australia

Cairns Post, Cairns QLD
Daily Advertiser, Wagga Wagga NSW
Warrnambool Standard, Warrnambool VIC
Bendigo Advertiser, Bendigo VIC
Maitland Mercury, Maitland NSW

Central Western Daily, Orange NSW
Barrier Daily Truth, Broken Hill NSW
North West Star, Mount Isa QLD
Murray Pioneer, Renmark SA
River News, Waikerie SA
Loxton News, Loxton SA

Appendix 2: Intellectual Property

Data and analysis derived from confidential margin data accessed via confidential one-on-one interviews. Given this data is central to the report and permeates in almost in all the findings, WFA believes that the report represents in its entirety a very valuable contribution to the body of work in the wine sector.

Appendix 3: References

The conduct of this review involved:

- 24 in-depth confidential interviews of all WFA Directors and key wine industry stakeholders and experts
- Review and analysis of detailed financial, market, and operational data supplied by or sourced from:
    - Interviews and survey results from 13 participating companies (all data provided in confidence on condition of anonymity)
    - Wine Australia Corporation and their detailed data on exports and wine prices by region
    - Previous reports commissioned by WFA, Wine Australia and Wine Grape Growers Association including: The Wine Restructuring Action Agenda (WRAA) statements, reports and inputs (2009— 2011), Wine Australia: Directions to 2025—An Industry Strategy for Sustainable Success (2007), The Marketing Decade: Setting the Australian Wine Marketing Agenda 2000 – 2010 (2000)
    - Wine Grape Growers' Association (WGGA)
    - WRAA Toolkit including the Gross Margin Ready Reckoner for Wineries
    - Deloitte Financial Benchmarking study for the Australian wine industry
    - International Organisation of Vine and Wine (OIV)
    - Australian Tax Office (ATO) and Senate Estimates Committee
- Australian Bureau of Statistics (ABS)
- Nielsen analysis
- Analyst Reports including those from: RaboBank, Morgan Stanley, Goldman Sachs, JP Morgan, Merrill Lynch.
- Creation of a reference fact base on the volume and value across domestic, export, and imports based on the sources above
- In-depth analysis on the data available through a variety of lenses – value, volume, profit, market, region, and company – to understand industry developments and drivers of performance
- Collaboration and work with Wine Australia and WFA to gather data, prepare analysis, and review initial findings
- Two full-day workshops with the WFA Board to review and debate the analysis and findings. These workshops were also used to access necessary additional information and focus the efforts of the review
- A final presentation of the Draft Findings and Recommendations to the WFA Board
- Additional consultation with a number of individual stakeholders and participants in the review.

Appendix 4: Staff

WFA staff involvement:

Paul Evans-Chief Executive

Jane Zadow-General Manager, Corporate Services

Katrina Edillor- Advisor-Economist

Appendix 5: Wine Industry Report- Expert Report on the Profitability & Dynamics of the Australian Wine Industry