RIVERLAND WINE INDUSTRY DEVELOPMENT COUNCIL

BUSINESS PLAN

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TABLE OF CONTENTS

PURPOSE OF THE PLAN ***3***

EXECUTIVE SUMMARY ***4***

SITUATION ANALYSIS ***5***

National Position **5**

Industry Structure **5**

Australian Wine Sales **5**

International Sales **6**

Market Prospects **7**

South Australian Riverland **7**

SWOT Analysis for the South Australian Riverland ***8***

Strengths **8**

Weaknesses **8**

Opportunities **8**

Threats. **9**

VISION, MISSION AND OBJECTIVES OF THE RWIDC ***9***

Vision **9**

Mission Statement **9**

Objectives **9**

Strategies **9**

Raising reputation and profile 9

Information collection and dissemination 10

Improving the Value/Price equation for Riverland winegrapes 10

STRUCTURE AND FUNDING OF THE RWIDC ***10***

CREATION OF THE RIVERLAND WINE GRAPEGROWERS ASSOCIATION ***11***

PURPOSE OF THE PLAN

The Australian wine industry is expanding rapidly due mostly to the success of wine exports. The benefits of this growth are being felt in all sectors of the industry.

With 25% of the national crush, the South Australian Riverland is a significant contributor to this growth. From a South Australian Government economic and social policy perspective, there is a need to ensure that this area continues to be a significant player in the national scene.

The Riverland wine industry is characterised by a small number of very large processors, and a large number of small to moderate sized growers. Apart from a small number of services provided by Government agencies, there is no industry development body with the mandate to guide the industry's development.

There is a belief amongst growers and winemakers that the Riverland is failing to capitalise on its position as a key contributor to national wine marketing success.

Grapegrowers have therefore initiated the development of a strategic plan to document the potential role and structure of an industry development body [titled the Riverland Wine Industry Development Council (RWIDC)] for the purposes of:

- obtaining industry support for statutory funding for its operations.
- providing a basis for stakeholder support for the RWIDC
- documenting the links between the RWIDC and the various industry bodies
- defining and delineating the limits to the RWIDC's role

As part of this process Riverland grapegrowers are seeking to create a grower representative body [the Riverland Wine Grapegrowers Association] with links to the IDC, with funding collected under the Primary Industry Funding Schemes Act.

The following plan defines the role of the Riverland Wine Industry Development Council and how this body might be established. It also canvasses the establishment of the Riverland Wine Grapegrowers Association and its relationship with the Council.

The plan was initiated by the Riverland Winegrape Growers Association Steering Committee and its development has been assisted by the Riverland Grape Industry Council and the South Australian Wine and Brandy Industry Association. Funding for the plan was provided by the Grape and Wine Research and Development Corporation.

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EXECUTIVE SUMMARY

Representatives of Grapegrowers and Winemakers in the Riverland have agreed to the need for the creation of a Riverland Wine Industry Development Council comprising equal representatives of growers and winemakers, funded in equal part by growers and winemakers.

Both parties support an approach to the South Australian government to use the provisions of the Primary Industry Funding Schemes Act 1998 to collect revenues for the RWIDC. Grapegrowers propose that an amount of $0.35cents/tonne be collected from all grapegrowers (including winery grown fruit), matched equally by Winemakers. A total industry contribution of 70 cents/tonne would generate a pool of funds for the establishment and operation of the IDC.

Winemakers have expressed concern that the proposed rate of levy will not generate sufficient funds to effectively tackle the programs identified for action.

As part of an industry reform package, grapegrowers are seeking the establishment of a representative body (the Riverland Wine Grapegrowers Association) with funding provided through the statutory contribution provisions. Growers are proposing a total grower contribution of $1 per tonne with 65 cents allocated to the Grower body and 35 cent allocated to the Development Council. Wineries are opposed to the use of the statutory provisions for funding of the RGCA, but have indicated they are prepared to collect a voluntary levy on the basis that they write to growers stating that they will collect the levy unless the grower objects in writing.

This report recommends that the Riverland Wine Industry Development Council be created as a matter of urgency and that the funding be facilitated through the Primary Industry Funding Schemes Act 1998.

SITUATION ANALYSIS

National Position

The Australian wine industry is experiencing rapid growth, driven largely by overseas demand for Australian wine. Investment in winemaking and grapegrowing has seen established regions consolidate and new regions opened up. A rurally-based, internationally competitive, high value-adding industry, the wine industry has provided a source of growth for many rural communities, both directly through the production process and indirectly through wine and associated tourism.

Nationally over the next five years production of grapes for wine is forecast to increase from 1.1million tonnes in vintage 1999 to 1.6million tonnes in 2004[1]. Within this red grape production is expected to more than double to 906,000tonnes, while white grapes will increase by around 5% to 710,000tonnes.

Historically South Australia has dominated production, and within South Australia, the Riverland region has been the key region, accounting for 50% of the State's production and 25% of the national crop.

Industry Structure

It is estimated that there are 1,200 wineries in Australia. According to official ABS statistics, there were only 224 wineries crushing more than 50 tonnes meaning that there are almost 1,000 wineries nationally which crush fewer than 50 tonnes.

According to ABS figures[2], in 1998-99 the 163 wineries crushing between 50-400 tonnes crushed 25,358 tonnes in total, while a further 113 wineries account for the balance of 1.101million tonnes. The top 10 wineries crushed 68% of all grapes and produced 70% of the wine. The industry is highly concentrated.

In the Riverland wine production is dominated by half a dozen companies, only one of which "brands" the Riverland. The balance of wine production is therefore sold under brands or the generic regional description "South East Australian" The Riverland boutique wine sector is virtually non-existent.

Australian Wine Sales

Domestic wine sales were 389ML in 1999-2000. Casks sales account for 46% of domestic wine consumption as measured by the ABS, having been 60% in 1987.

[1] Industry endorsed figures presented at the National Winegrape Outlook Conference, Mildura, November 1999.
[2] Australian Wine & Grape Industry, ref 1329.0

Domestic Wine Sales and Australian Wine Exports

	12 mths to June 99	12 mths to June 00	Incr
	Ml	Ml	%
White <2 ltr	63	69	9.5%
White Soft Pack & Other	125	124	-1.0%
Total White Table	*188*	*193*	*2.5%*
Red <2ltr	54	63	18.2%
Red Soft Pack & Other	45	51	11.5%
Total Red Table	*99*	*114*	*15.1%*
Total Table Wine	287	307	6.9%
Other*	61	62	1.3%
Total Aust Domestic	348	369	6.0%
Imports	24	20	-19.2%
Total Domestic Sales	373	389	4.4%
Exports	216	285	31.7%
Total Australian Sales	564	654	15.8%

Exports now represent 43% of all wine sales and will exceed 50% within three years.

Domestic alcohol consumption is unlikely to increase significantly; what is more likely is that there may be some compositional shifts between the beer, wine and spirit sectors. With sales by the beer producers largely tied to the domestic market, there is a strong threat that government may be encouraged to introduce an excise on wine. This represents a significant threat to the Riverland industry.

International Sales

Australia's wine future hangs squarely on the growth in exports. As the table on Australian Wine disposal suggests, Australia will have to increase exports of wine more than 2 ½ times if stocks are not to reach unmanageable levels or grapes to be left on the vine.

Australian exports have grown rapidly over the past decade based on their value for money. While Australia is only a small producer (in world terms only 2.5%) it is a significant player in the United Kingdom market and represents a significant share of the £5stg+ sector. The ability to continue to grow at current rates will be tested over the next few years.

The table below shows the composition of Australian exports by fob value.

Export by Price point ($Afob/litre)

	Jun-00 ML	Jun-99 ML	Incr %	Incr ML	share00 %	share99 %
<$2.50	46	37	24%	9	16%	17%
$A2.50 to $A4.99	141	107	32%	34	49%	49%
$A5.00 to $7.49	73	54	35%	19	25%	25%
$A7.50 to $A9.99	18	12	50%	6	6%	6%
>$A10.00	10	7	53%	4	4%	3%
Total	288	216	35%	71	100%	100%

The greatest volume of exports occurs under $A5.00/litre with 65% of all exports under this. The Riverland has a competitive advantage in supplying grapes for this sector.

Market Prospects

Growth in grape production in the past decade has been so rapid there is a danger it will outstrip winemaking and marketing capacity.

Export prospects remain strong and industry is confident that so long as Australia maintains its edge in quality and value it can continue to grow.

Based on the grape production forecasts developed at the National Winegrape Outlook Conference held in Mildura in November 1999, the following wine disposal table for the next five years was hypothesised.

Australian Wine Production & Domestic Sales

	STOCKS	SALES					Production	
		Aust Domestic	Imports	Total Domestic	Export	Total Aust	Grapes	Wine
	Ml	Ml	Ml	Ml	Ml	Ml	Kt	ML
1995	642	313	14	327	114	426	612	458
1996	782	309	20	330	130	439	863	606
1997	818	334	14	347	154	488	779	567
1998	900	339	26	364	194	533	932	676
1999	1,087	348	24	373	215	564	1101	793
2000	1,323	367	16	383	260	627	1,272	905
2001	1,560	382	12	394	330	713	1,400	991
2002	1,772	393	12	405	408	801	1,493	1,054
2003	1,910	402	12	414	485	887	1,547	1,067
2004	1,990	411	12	423	563	975	1,591	1,097

In 1990 exports accounted for 11% of sales of Australian wine; in 1999 this had risen to 40%, and by 2005 will increase to 58%! Clearly the key to a successful Australian wine industry over the next five years is strong (and stronger!) export growth.

South Australian Riverland

The Riverland is the largest winegrape region in South Australia (and indeed, Australia) covering 18,240 hectares and producing 50% of the 491,621 tonnes crushed in South Australia in 1999. In 2000 there were 1,251 growers (Phylloxera Board figure)

	(hectares)				
Property size	<10	10 - 24	25 - 49	50 +	Total
Riverland	803	353	59	36	1251
Rest of SA	905	437	193	126	1661
Total	1708	790	252	162	2912

Ninety percent of all growers have fewer than 50 hectares of grapes , and 65% have fewer than 25hectares. Many of these would be plantings of grapes on mixed farms. The average grape planting is 15 hectares .

While the Riverland is an efficient low cost producer of varietal winegrapes used for commercial domestic and export bottle sales, it retains an image of being a producer of cask quality wine.

SWOT Analysis for the South Australian Riverland

Strengths

- The region is an efficient low-cost producer of grapes and wine
- consistent supplier of tonnes and quality
- low disease pressures
- the varietal mix matching world demand
- scale of production allows wineries to supply large marketing chains

Weaknesses

- a lack of consumer awareness results in a failure to obtain a consumer premium
- a lack of icon brands
- image of being a volume producer
- a lack of identifiable regional brands does not give any basis for regional branding
- Grapegrowers do not have sufficient information on quality requirements, leading to a failure to grow to market specifications and a failure to maximise grower returns
- lack of differentiation for grape quality/reward not necessarily related to quality
- lack of effective grower/winemaker interface with a lack of ownership of industry decisions leads to mistrust and divisions between winemakers and grapegrowers.

Opportunities

- Continued and sustainable growth for Australian wine at price points achievable by Riverland winemakers.
- sustainable growth of exports in the <$A5 export sector gives Riverland growers the opportunity to increase plantings and hence regional development
- increased returns obtainable through “working smarter” and increasing the volume of grapes grown to specification
- Consumer premiums can be obtained by raising the profile and quality perception of the region.
- the increasing scale and globalisation of marketing chains provides Riverland winemakers to compete with large volume brands.

Threats.

- Salinity
- Phylloxera / disease
- protectionism
- Rationalisation of retailers will increase their bargaining power and erode margins
- Changes in taxation regimes, particularly the introduction of an excise on wine.
- Strengthening exchange rates
- Loss of brand image/scandal

VISION, MISSION AND OBJECTIVES OF THE RWIDC

Vision

The Riverland will be recognised as a supplier of high quality winegrapes to the Australian wine industry

Mission Statement

The Mission of the Riverland Wine Industry Development Council is "To maximise the return over the long term to both grapegrowers and winemakers in the Riverland"

Objectives

The Riverland Wine Industry Development Council will achieve its mission by raising the standing of the Riverland wine industry by:

- developing the region's reputation and raising its profile
- providing a conduit for information from the market to suppliers to ensure suppliers deliver to specification
- continually improving the price/quality equation for Riverland winegrapes.

Strategies

The Riverland Wine Industry Development Council would develop strategies which build on strengths, overcome weaknesses, capture opportunities and eliminate threats.

The key strategy is to create a culture of continuous improvement in quality and efficiency in Riverland grapegrowers. The following strategies are set out under the three broad objectives of the RWIDC.

Raising reputation and profile

- create an identity for the Riverland with opinion leaders, trade and consumers

- encourage regional branding through activities such as wine shows, wine festivals and support for synergistic activities such as ecotourism
- promote awareness of the Riverland within the wine industry through participation in industry forums
- raise awareness of Riverland wine issues with governments politicians through briefings and awareness campaigns.

Information collection and dissemination

- collect and disseminate market information to growers to keep them informed of production needs
- support the collection of industry statistics and planning information for the Riverland
- participate in national and regional forums related to market and production issues such as the National Winegrape Outlook Conference
- encourage a closer working relationship between growers and winemakers to improve the responsiveness of growers to market signals

Improving the Value/Price equation for Riverland winegrapes

- Minimise the impact of seasonal conditions through programs such as crop watch
- develop a local R&D priorities reference group to provide input to national research priorities
- undertake research into issues of a local nature
- ensuring effective and rapid uptake of viticultural research results to improve wine quality and maximise opportunity for growers to achieve better returns through increasing grower awareness of the importance of research, technology and innovation
- support the development of transparent quality assessment parameters and give growers ownership of these
- Access information on production costs in competitive regions and identify and strengthen areas of competitive advantage

STRUCTURE AND FUNDING OF THE RWIDC

In order to overcome some of the confrontation that has occurred between grapegrowers and winemakers, it is proposed that the RWIDC membership be drawn from members of the grapegrower and winemaker representative bodies,

- the Riverland Winemakers Association and
- the Riverland Wine Grape Growers Association.

This structure means that both growers and winemakers would have ownership of programs and strategies. This would help to eliminate potential areas of conflict such as quality assessment parameters.

The RWIDC would comprise a board of management of 8 persons, with four nominated from the Riverland Wine Grapegrowers Association and four from the South Australian Wine and Brandy Producers Association Inc. The Primary Industry and Resources Department of South Australia could be an ex officio member.

Under this structure winemakers and growers would be jointly accountable to stakeholders and neither sector would be associated with particular decision or policies.

Funding of the RWIDC would be equal parts from the growers and winemakers through a $0.35cents/tonne contribution matched by winemakers. It is proposed that this funding be raised using the Primary Industry Funding Schemes Act. The Act would authorise winemakers to collect the grower contribution as well as require winemakers to make a matching contribution. This would provide a funding base of $0.70c per tonne.

The RWGIC would collect the funding under the Act, and would implement the business and operational plans, undertake projects, and report to stakeholders.

A proposed budget for the RWIDC is as follows:

RIVERLAND WINE INDUSTRY DEVELOPMENT COUNCIL
(Based on levy of $0.35 c/tonne for all fruit and 100% matching by wineries.)

	Year 1 2001	Year 2 2002	Year 3 2003	Year 4 2004	Year 5 2005
INCOME					
Levy income	232,400	256,900	271,600	278,600	281,400
OUTLAYS					
Recruitment costs	10,000				
Executive officer (inc oncosts)	80,000	80,000	80,000	80,000	80,000
Administrative support	15,000	15,000	15,000	15,000	15,000
Office setup (capital)	10,000	5,000	3,000	3,000	3,000
Motor vehicle	10,000	10,000	10,000	10,000	10,000
Telephone/fax/p'copy	5,000	5,000	5,000	5,000	5,000
Rent	10,000	10,000	10,000	10,000	10,000
Travel	5,000	5,000	5,000	5,000	5,000
Committee costs	20,000	20,000	20,000	20,000	20,000
Other office costs	5,000	5,000	5,000	5,000	5,000
sub-total administration	*170,000*	*155,000*	*153,000*	*153,000*	*153,000*
Projects					
. Crop watch	60,000	60,000	65,000	65,000	65,000
. Other projects	2,400	41,900	53,600	60,600	63,400
TOTAL OUTLAYS	232,400	256,900	271,600	278,600	281,400

CREATION OF THE RIVERLAND WINE GRAPEGROWERS ASSOCIATION

Currently there is no representative grapegrower body that can provide the members for the RWIDC. A steering committee of growers is proposing that

the Primary Industry Funding Schemes Act be used to collect a 65cent per tonne contribution from growers, to be collected at the same time as the 35cent /tonne contribution for the RWIDC (a total grower contribution of $1 per tonne).

Under the PIFSA provisions contributors can apply for a refund of their contribution.

This funding would be used to create a grower representative body with links to state and national industry groups. Funding would be collected for the RWGA by the RWIDC. A proposed budget for the RWGA follows:

RIVERLAND WINE GRAPEGROWERS ASSOCIATION INC DRAFT BUDGET
(Based on levy of $0.65c/tonne from grower fruit only.)

	Year 1 2001	Year 2 2002	Year 3 2003	Year 4 2004	Year 5 2005
INCOME					
Levy income	180,050	201,500	212,550	217,750	220,350
OUTLAYS					
Affiliation (SAFF, WGCA)	60,000	65,000	70,000	70,000	70,000
Recruitment and Setup costs	10,000				
Executive officer (.6 CEO +oncosts)	60,000	60,000	65,000	65,000	65,000
Committee costs	20,000	20,000	20,000	20,000	20,000
Contingencies	15,000	15,000	15,000	15,000	15,000
	165,000	160,000	170,000	170,000	170,000
Budget surplus	15,050	41,500	42,550	47,750	50,350

The RWGA would provide the focus for grapegrower communication and provide resources to allow Riverland grapegrowers to play a role in regional, State and National wine industry issues.