

# WINE AUSTRALIA: DIRECTIONS TO 2025

AN INDUSTRY STRATEGY FOR SUSTAINABLE SUCCESS



MAY 2007

# CHAIRMAN'S *Foreword*



In 1996, the Australian wine sector published *Strategy 2025* - a landmark document that created a new unity and purpose. The key target set was for Australian wine to achieve annual sales of \$4.5 billion by the year 2025. This figure was actually surpassed in 2005, 20 years early. Australian wine is now expected to reach \$5 billion in sales by the end of June 2007.

Today, after a decade of unprecedented change in global wine trading conditions, we need to reassess the priorities and challenges facing Australian wine, most of which were anticipated in *Strategy 2025*. As a self-reliant sector that drives its own destiny, we must continue to react and adapt to changing market needs and conditions.

Through the past decade, Australian wine has become subject to a significantly more competitive global trading environment, has been confronted by an imbalance between its supply and its demand, and has run up hard against the realities of climate change and scarcity of irrigation water. Against these, the sector has worked diligently to meet the demanding expectations of its major international markets, and has seen the value per litre of its export and domestic sales decline in a dramatically altered market environment.

The product of 18 months of intense research and consultation, *Directions to 2025* clarifies the environment in which Australia is making and trading its wine. It sets a measurable course for the future, maintaining the vision behind *Strategy 2025* and its unprecedented success. *Strategy 2025* called for value growth between 2002 and 2015 and *Directions* answers that call.

## IDENTIFYING THE CHALLENGE

*Directions to 2025* is every bit as ambitious as *Strategy 2025*. Founded on the firm conviction that Australia must become a more significant participant in the regionally distinct and fine wine market, its target is to increase the value of the Australian wine trade over the next five years by a cumulative \$4 billion. This would return the Australian wine sector to the appropriate return on investment it previously experienced, but has largely not been seen over the past five years.

## SCOPING THE CHALLENGE

*Directions to 2025* is a comprehensive blueprint for Australian wine to achieve a sustainable return for its 7,000-plus grape growers and 2,000-plus wine producers. It delivers a broad and sustainable strategy based on a clear understanding of such matters as market change, climate change, the environment and vine health. It is indeed a document for these times.

*Directions* begins with the most detailed provision of market intelligence ever delivered to any wine sector, anywhere, via an online Information Resource Kit. It marries this knowledge with an elevated priority towards economic, climatic and viticultural research. It seeks to rationalise and clarify the roles of the various industry structures and research organisations. It will align the activities of the various national, state and regional bodies and associations to streamline a high-level and consistent approach to the sector and to the market.

*Directions* fully endorses the exciting new *Wine Australia* brand segmentation strategy that encourages consumers around the world to trade up through a clear communication of the four different "personalities" of Australian wine. This brand segmentation strategy is outlined in the consumer trends section on page 13.

Much of the success implicit in *Directions* is based on an extensive rollout of this brand segmentation strategy through key international markets as well as the domestic Australian market, which accounts for around 40% of all sales.

*Directions* also encompasses a targeted international and domestic marketing campaign that brings together the various opportunities, events and knowledge bases already in existence.

*Directions* is supported by a world-leading range of resources for wine producers and growers that will assist the making of correct strategic decisions based on detailed information on market opportunities, consumer trends, financial sustainability and proven risk management strategies. It will help sector participants to adopt the most effective and efficient practices and to expand their businesses based on sustainable, long-term principles. It engages the teaching institutions that underpin our future excellence and embraces the development of future industry leaders (refer Direction 8 on page 19). Crucially, *Directions* also acknowledges the sector's role in the promotion of social responsibility around wine consumption.

## MEETING THE CHALLENGE

Much of the groundwork required for *Directions* to succeed has already been achieved. The taskforce and project team have led a process involving an unprecedented level of knowledge sharing and cooperation between the various wine and grape growing organisations. Together, the Australian Wine and Brandy Corporation (AWBC) and Winemakers' Federation of Australia (WFA) have developed the marketing strategy and identified the considerable budgets that will drive the marketing of Australian wine, as well as the R&D programs essential to its implementation. There is no avoiding the reality that the sector needs to source significant additional funding to support *Directions* and this is an immediate priority for the AWBC and WFA to address.

Underpinning *Directions* to 2025 is the awareness that there are times when sectors and businesses need to adapt. I firmly believe that now is the time for a full, research-based review of all sector organisational and research structures. Australia needs and deserves an inter-organisational structure that delivers a significant international competitive edge. Our structure needs to be the best equipped to deal with the future challenges represented by markets local and overseas, as well as climate change and future environmental challenges. I am glad to report that this process is already under way.

As Chairman of the taskforce, I was privileged to work with the outstanding leaders of the Australian grape and wine sector at commercial and organisational levels. I would like to acknowledge all the members of the taskforce and the AWBC and WFA executive involved in *Directions* for their dedicated commitment, professionalism and excellence, as well as their unanimous support of the final strategic direction. The quality of the documents produced and the Information Resource Kit at [www.wineaustralia.com](http://www.wineaustralia.com) is truly representative of the excellence of our sector, and will provide a cornerstone for our international competitive edge. I am also grateful to the many members of our sector who have participated outside of the taskforce.

The taskforce, executive and I commend this exciting new strategy to the sector.



**Kevin McLintock**  
Chairman, *Directions* taskforce  
May 2007

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## Directions resources

This report sets out the strategic framework for the *Directions to 2025* strategy, including the challenges, recommended strategic responses and tools for the wine sector. The report is designed as a summary document only and is complemented by an online Information Resource Kit available at [www.wineaustralia.com](http://www.wineaustralia.com)

The following abbreviations are used throughout this report:

AWBC	Australian Wine and Brandy Corporation
WFA	Winemakers' Federation of Australia
WGGA	Wine Grape Growers' Australia
GWRDC	Grape and Wine Research and Development Corporation
CSIRO	Commonwealth Scientific and Industrial Research Organisation

Note: All dollar references are in Australian dollars

## SETTING THE *Direction*

### A SECTOR-LED APPROACH FOR INDIVIDUAL ENTERPRISES

Arising from the landmark *Strategy 2025* document published in 1996, the sector had a clear vision and more than achieved even its own ambitious goals. This has resulted in a successful export-oriented sector often hailed as “best-practice” in terms of production, marketing and distribution.

Now it is time to move into yet another phase. Over the next two decades Australia must focus on strengthening sector structures, directly influencing domestic and export markets and gearing up for sustainable success.

In doing so, it will need to confront and successfully deal with a range of emergent issues which include:

- A structural imbalance between the cost of production and the price opportunity
- Grape and wine supply and demand fluctuations within Australia
- Retail consolidation driving downward pressure on pricing and margin
- Slow domestic growth and a tougher market for export growth
- A resurgent Old World and better resourced New World competitors
- Greater environmental and sustainability challenges and responsibilities, particularly exacerbated by climate change
- Changing social concerns
- Changing demographics and consumer expectations
- The fact that wine has become recognised as a fast moving consumer good.

The *Directions to 2025* process represents the best opportunity to secure the future of Australian wine through economic prosperity, environmental sustainability, technological innovation and social responsibility.

The Australian wine sector needs to re-evaluate its current approach towards export markets. It needs to identify new and sustainable market opportunities through detailed market intelligence, and turn consumer interest into aspiration through segmented marketing strategies. In particular, this only can be achieved by raising awareness and expectation of an Australian wine story founded on an international reputation for regionally distinct and fine wine production (see diagram on opposite page). Further, it also needs to refocus its expectations in the domestic Australian market and introduce new strategies to encourage more Australians to drink better wine more frequently while still observing sensible and moderate consumption patterns.

Australian wine can achieve these goals in a way that improves and highlights the sector’s environmental pedigree, especially its comparatively responsible use of, and economic return from, water with respect to other primary and processing industries.

Through the provision of world-leading market and business knowledge to its participants, the Australian wine sector can develop improved, self-reliant business skills and practices. It will best achieve these objectives with a structure and a culture that is efficient, accountable and focused on the delivery of outcomes.

Most importantly, *Directions to 2025* is about improving success and return on investment at an individual enterprise level.

## FROM STRATEGY 2025 TO DIRECTIONS

*Directions to 2025* was developed as a joint initiative of the AWBC and the WFA, with the strong and essential support of other national, state and regional industry bodies and the wine sector itself.

To guide and oversee the process, a taskforce to represent wine producers, grape growers and sector organisations was appointed in February 2006. The taskforce members are listed on page 22.

From the outset, each of the parties involved in the development of *Directions to 2025* recognised that it was an evolutionary development of the wine sector's broad design as expressed in *Strategy 2025*. Naturally, it owes much to the principles that made *Strategy 2025* both visionary and effective.

Articulating the business case for Australian wine as it stood in 1996 and where it could be in 2025, *Strategy 2025* first analysed a range of performance and competitiveness criteria. It then articulated a sustainable future based on Australia's ability to establish global leadership in specific branded market segments.

Aside from its major measurable business targets, its key objectives were also to implement 30 specific strategies and to improve the recognition and understanding of the wine business by its stakeholders, individually and collectively.

The impact of these 30 strategies has been significant. They have underpinned the planning process and the ongoing activities of organisations such as AWBC, WFA and the GWRDC and have been incorporated into the activities of other sector bodies, research and development agencies, governments and commercial businesses. Similarly, the level of stakeholder recognition has been immense.

*Strategy 2025* succeeded because it was comprehensive, realistic and right for its time. *Directions* represents an equally comprehensive and timely plan for the Australian wine sector to transform itself from a volume-driven approach to one that delivers a more sustainable and profitable business environment for more growers and producers.

*Directions* focuses primarily on wine producers. WGA completed a complementary project in December 2006. *Australian Wine Grape Industry Taking Stock and Setting Directions* involved a rigorous self-assessment by the grape growing sector, supported by independent consultants. Relevant findings were incorporated into the *Directions* process.

## WINE AUSTRALIA POSITIONING CHALLENGE



*“The Directions to 2025 process represents the best opportunity to secure the future of Australian wine through economic prosperity, environmental sustainability, technological innovation and social responsibility.”*

## FUTURE PLANNING BASED ON CURRENT REALITY

While it is undeniable that expectations of winemakers and growers will have altered with the outcome of the short 2007 vintage, research conducted as an essential part of this strategy clearly shows a degree of disconnection between the reality of the modern wine business and the anticipated forecasts of many producers.

A survey of 235 producers, whose crush encompasses more than 95% of Australia's production, was commissioned in May 2006. A surprisingly high two-thirds of respondents expected growth in annual profitability of at least 5%, while only 4% predicted a decline. The growth anticipated in the survey was attributed to increases in sales, input cost reductions and improved efficiency.

*Directions to 2025* is underpinned by the gathering of accurate market intelligence which is to become available across the length and breadth of the Australian wine sector. *Directions* is less likely to succeed in an environment in which wine producers harbour unrealistic expectations of current trading conditions.

*Directions* will be truly effective because it is based upon a realistic assessment of existing market conditions in Australia and around the world.

## WHAT A DIFFERENCE A DECADE MAKES...

	1995-96	2005-06	PERCENTAGE CHANGE
Number of wine companies	892	2,008	+125%
Direct employment	15,743	31,000	+97%
Winegrape bearing hectares under vine	65,000	158,000	+143%
Total grape crush	883,000 tonnes	1.9 million tonnes	+115%
Export sales by value	\$605 million *	\$2.8 billion	+363%
Export sales by volume	130 million litres	735 million litres	+465%
Average price per litre for export wine (\$A FOB)	\$4.66 *	\$3.80	- 18%
Domestic sales by value	\$1.4 billion *	\$1.9 billion	+34%
Domestic sales by volume	310 million litres	431 million litres	+39%

\* All dollar figures are adjusted to 2005-06 dollars

Sources: AWBC, WFA and Australian Bureau of Statistics. Figures are approximate.

DIRECTIONS TO 2025 – STRATEGIC FRAMEWORK

1996 STRATEGY 2025	2006-07 DIRECTIONS PERSPECTIVE	2007 - 2025 NEW DIRECTIONS TO 2025
Vision of growth potential	Vision of market opportunity	<b>Anticipating the market:</b> <ol style="list-style-type: none"> <li>1. Understanding and use of global market intelligence</li> <li>2. Leadership in research and development from vine to consumer</li> <li>3. Closer alignment between sector organisations to support market development</li> </ol>
Sector-driven strategy	Market-driven strategy	<b>Influencing the consumer:</b> <ol style="list-style-type: none"> <li>4. Successful adoption of <i>Wine Australia</i> brand segmentation</li> <li>5. New expectations for regional and fine wine</li> <li>6. New consumer and market creation through innovation and communication</li> </ol>
Focus on production for export growth	Focus on returning value	<b>Building sustainable success:</b> <ol style="list-style-type: none"> <li>7. Partnerships with the government sector</li> <li>8. Continuous improvement in business skills and practices</li> <li>9. Continuous improvement in environmental performance</li> <li>10. Emphasis on ensuring widespread social responsibility</li> </ol>

# MARKET *Opportunity*

## AN ADDITIONAL \$4 BILLION IN CUMULATIVE SALES TO 2011

The *Directions* process has identified the potential for the Australian wine sector to sell an extra \$4 billion worth of wine over the next five years - lifting cumulative domestic and export sales for the period to \$30 billion, rather than the \$26 billion expected based on current production levels and consumer trends. The gains will come through a combination of new marketing focused on regional and fine wines, a clearer identification of niche market opportunities, and a focus on business sustainability at an individual winery level.

To identify the key market opportunities to make this a reality, the *Directions* taskforce initiated and undertook extensive research into the 11 markets which account for 90% of Australia's current sales volumes - Australia, the UK, the US, Canada (Ontario and British Columbia), Germany, Netherlands, Denmark, Japan, New Zealand, Ireland and Singapore.

Across the 11 markets examined, the majority of the world's wine sales are concentrated in the lowest price point (basic wine), with 29% of sales. Moving up the price scale, the concentration of sales progressively declines to an 11% share at the super premium/specialty end. By contrast, Australia's sales are highly concentrated, at just over 50%, in the mid-range (popular premium) retail price point, where Australia clearly outperforms market potential and its competitors such as France, Italy, Spain, Chile and the US.

Significantly, Australia also outperforms market potential in the premium price point, while it currently underperforms in higher price points. Australia also underperforms in lower price points but this reflects a decision by the vast majority of producers not to target unsustainable price points.

Australia's key opportunities are to increase its sales by growing alongside price points that are themselves growing in the market, fostering the market's expansion at higher price points, and striving for greater market share.

*Directions* is underpinned by the recognition that Australia needs to achieve a credible premium for its wine.

### US AND UK REPRESENT GREATEST SHORT-TERM POTENTIAL

The US and the UK provide by far the greatest potential for gains in the short term. With population, growing affluence and a considerable upside available for its per capita consumption of wine to increase, the US has greater potential than the UK. Moreover, the weight of this opportunity exists at higher price points. While still presenting considerable upside in market potential, the rate of growth of opportunities for gains in the UK is anticipated to slow. The UK is maturing as a wine market and with Australia as the market leader, gains are likely to be more difficult than in the past and will need to be more channel specific.

### EXPLORING EMERGING WINE MARKETS

Just as it needs to position itself in profitable market segments destined for growth, Australia needs to forge a strong presence early in the development of new and emerging markets for wine. As these markets expand, so will Australian sales, although only if its groundwork is significant and committed. A number of new and emerging markets such as China, Russia, India and the Republic of South Korea have increasingly affluent populations seeking alternatives to high-alcohol beverages. Exports of bottled Australian wine to Japan are likely to be surpassed by exports to China within 2008. Russia is re-emerging as an economic powerhouse, while South Korea, the second most affluent nation in Asia per capita, already has a highly sophisticated wine market.



## COMPETITIVE ANALYSIS – AUSTRALIA

COMPETITIVENESS	COMMENTS
<b>RESOURCES AND ENVIRONMENT</b>	<ul style="list-style-type: none"> <li>– 110 defined Geographical Indications for Australian wine areas, encompassing both warm and cool climate growing regions.</li> <li>– 60% of fruit sourced from warm growing regions, although this is unbalanced relative to sales mix.</li> <li>– Balanced varietal mix of premium international varieties.</li> <li>– Security of water availability – a serious constraint in some key regions.</li> <li>– Moderate disease pressure protected by strict quarantine rules.</li> </ul>
<b>SECTOR INFRASTRUCTURE</b>	<ul style="list-style-type: none"> <li>– Globally recognised tertiary programs for viticulture, winemaking and wine marketing servicing all states.</li> <li>– Around 98% of vineyards mechanised for pruning and harvest.</li> <li>– Broad adoption of quality assurance systems, with many exporters ISO9001, ISO1400, BRC and HACCP accredited.</li> <li>– Logistics to port of departure good, but shipping services average in minor ports.</li> <li>– Strong availability of contract services from viticulture to bottling and warehousing.</li> </ul>
<b>RESEARCH AND DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>– R&amp;D spend moderate relative to peer group.</li> <li>– Australia leads the transfer of R&amp;D. Independent management of wine industry R&amp;D is facilitated by the GWRDC, combined with strong industry cohesion/communication.</li> <li>– World-class, commercially focused research organisations including CSIRO, Australian Wine Research Institute, Australian universities, state departments of primary industry and ventures such as Cooperative Research Centres.</li> </ul>
<b>ACCESS TO CAPITAL</b>	<ul style="list-style-type: none"> <li>– Good access to commercial debt, private and public equity. Leaders in wine industry asset securitisation.</li> <li>– Meaningful level of international investment both directly and via listed entities.</li> <li>– Moderate costs of production.</li> </ul>
<b>GOVERNMENT SUPPORT</b>	<ul style="list-style-type: none"> <li>– Government support for marketing and promotion low relative to peer group. Key support is via R&amp;D facilitation, commitment to education and training, and support for market access and trade-related reforms.</li> </ul>

Source: KPMG, AWBC, WFA

“Australia’s key opportunities are to increase its sales by growing alongside price points that are themselves growing in the market, and also by fostering the market’s expansion at higher price points.”

INDICATIVE PRICE POINTS (FOB per litre)	
Basic wine:	< \$2.50
Popular premium:	\$2.50-4.99
Premium:	\$5-7.49
Super premium:	\$7.50-9.99
Specialty:	\$10 and above

# *The Directions* - ANTICIPATING THE MARKET

Australian wine producers initiated and fostered a growing worldwide consumer market for wine in the 1980s and 1990s, particularly in the UK, the US and Canada. In doing so, exports rose sharply to almost \$3 billion in 2006, supported by a doubling of the national vineyard area to about 160,000 hectares.

The factors that drove Australia's success between 1985 and 2005 are no longer dominant nor exclusive. Indeed, many other wine producing countries are now producing consumer-friendly labelling and marketing, promoting the approachability of their winemakers and developing techniques to produce high volumes of affordable, good-quality, fruit-forward wines.

There is far greater global competition from a reinvigorated Old World and the emerging New World. Furthermore, the consolidation of retail channels and wine brands has brought about competitive challenges internationally and in Australia.

For Australian wineries to achieve sustainable and profitable growth, they must continue to pursue competitive advantages on the global stage, based on the delivery of quality. The challenge for Australia's winemakers is to combine a much more rigorous business and return-driven approach with a passion for quality, uniqueness and innovation.

## DIRECTION 1

Improve decision-making in Australian wine through targeted information collection and analysis of market opportunities and wine supply requirements.

# 1

### RECOMMENDED STRATEGIC RESPONSES:

**A. Knowledge development** - Integrate analysis of supply, sales, consumer and competitor intelligence with supply and demand assessments to create greater knowledge of value chain linkages and sustainability. Knowledge development to factor in:

1. Consumer insights - Maintain and refine market-by-market data collections that provide insights into consumer perceptions of Australian wine and which quantify differences amongst consumers and how they respond to wine.
2. Competitor intelligence - Maintain and refine data collections that monitor competition for Australia in the wine and beverage alcohol market through quantification of the scale, impact and dynamics of competitors.
3. Supply intelligence - Maintain and refine data collections that quantify the Australian wine sector's supply and stock situation. Effective communication to industry of the supply-demand position is critical.
4. Sales intelligence - Build, maintain and refine market-by-market sales data collections across price points, wine styles and channels.

**B. Intelligence leveraging** - Actively promote the formation of an inter-agency hub bringing together, in an information-sharing and integrating relationship, the various agencies and bodies involved in collecting and analysing data for Australian wine. This hub needs to interact with commercial partners.

**C. Intelligence positioning** - Install market intelligence as a core component of the sector's research and development program.

**D. Global wine policy** - Ensure changes in the global wine market regulatory and policy framework are analysed and the potential implications communicated to the Australian wine sector.

## DIRECTION 2

Maintain Australia's leadership position in conducting and using research and development from the vine to the consumer.

# 2

### RECOMMENDED STRATEGIC RESPONSES:

**A. Sector-directed research priorities** - Evolve the *Strategic Directions Group* framework so that it continues to articulate the wine sector's research and development needs and opportunities.

1. Keynote research - Develop keynote research programs that further enhance the sector's understanding of its market opportunities and the economic importance of innovation, and that build on the sector's knowledge of contributors to vine and wine quality.
2. Climate change - Model the economic and geographic impact of climate change and consider a framework to understand, assess and minimise greenhouse gas emissions, including the potential application of carbon offset schemes.
3. Excellence in planting material - Ensure the best possible fundamentals of vine biosecurity, phytosanitary controls and varietal range and authenticity. Provide an optimum resource of high-quality, high-health planting material and undertake research to optimise this for all regions.

**B. Maximise R&D resources** - Leverage additional R&D investment from government and private sources by demonstrating benefits to the economy, to the environment and to society of a successful wine sector value chain.

**C. R&D promotion** - Communicate Australia's global leadership position in wine sector research and promote this position as a brand value underpinning the quality of Australian wine.

**D. R&D centres of excellence** - Facilitate collaboration between research agencies to lead the world in R&D efficiencies and value. Create and support Australian centres of excellence in wine sector R&D.

## DIRECTION 3

Strengthen alignment of activities by national, state and regional associations to support market development and to ensure unity of direction.

# 3

### RECOMMENDED STRATEGIC RESPONSES:

**A. Organisational clarity** - Clarify the roles and responsibilities of national, state and regional organisations and determine ways of establishing clearer linkages and enhanced cooperation.

**B. High-level communication strategy** - Maintain strong links between organisations, stakeholders and constituents.

1. To stakeholders - Communicate the diverse roles and responsibilities of national, state and regional vine and wine organisations to sector participants and other stakeholders, including government.
2. To constituents - Ensure a clear and consistent information flow from organisations to constituents.

**C. Marketing hierarchy** - Integrate and adopt the *Wine Australia* marketing strategy throughout the entire sector.

## RESOURCES FOR INDUSTRY

1. Market insight reports for 11 key markets (Australia, the UK, Ireland, New Zealand, the US, Canada, Germany, Netherlands, Denmark, Japan and Singapore).
2. Audit/review of infrastructure constraints facing the wine sector.

Resources are available online at [www.wineaustralia.com](http://www.wineaustralia.com)

## TARGETING THE *Consumer*

### CHANGING PROFILES IN DIFFERENT MARKETS

There is barely a country whose wine-consumer profile has remained static over the past decade. As wine becomes more of a fixture in the modern lifestyle, as various countries take on Western tendencies, and as traditional patterns of wine drinking are influenced by ever-changing social mores, it is possible to recognise repeating trends in wine consumption across individual markets.

The UK-based market intelligence company International Wine and Spirit Record (IWSR) estimates that the global still light wine market will rise to 2.5 billion nine-litre cases by 2010, an increase of 6.4% (144 million cases) over present levels. While wine drinking is increasing in Australia, in most of our main export markets and in a number of key emerging markets, it is actually decreasing in many of our wine-producing competitors.

The distinction is quite marked. Wine consumption per person and wine's share of the total alcohol market are rising in the UK, the US, Canada, New Zealand, Ireland, Denmark, Netherlands and Sweden, but falling in France, Italy, Spain, Portugal, Chile and Argentina.

Ireland and Japan show the fastest growth, but equally significant given the volumes involved are the compound annual growth rates of 5% and 4% in the UK and the US respectively.

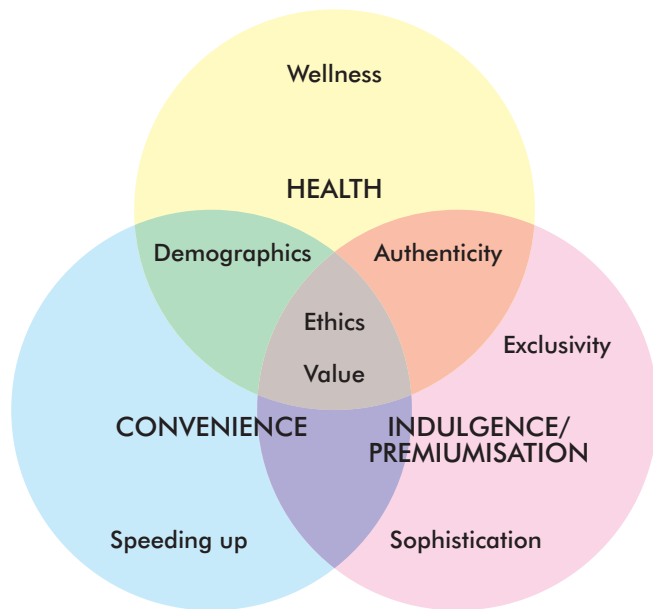
Numbers do not tell the full story, however. Retail consolidation has changed the shape, scale and demands of commercial engagement and consumer exposure to wine. Wine is now firmly established as a fast moving consumer good and sold with similar promotion-driven dynamics to other such goods.

At the same time, there are more and more beverage options on the market, making it harder to connect with the consumer. As a consequence, simply putting high-quality, affordable wine onto retail shelves does not guarantee sales; consumers have to choose to take it off the shelves - and to keep choosing it time and again.

To date, much of Australia's export success has occurred in English-speaking or former or current Commonwealth markets. As part of the communications strategy underpinning *Directions*, it is essential that the Australian wine sector takes into account the very different and specific challenges represented by each of the non-English speaking markets in which it is engaged. These include an understanding of the cultural differences, especially related to food, of each of these markets, and the very specific communications requirements they represent. Given that they include some of the largest and fastest-growing global economies, the importance of getting it right in these markets cannot be over-estimated.

## MEGA CONSUMER TRENDS

In making choices about what they drink and what they eat, modern consumers are influenced by three megatrends and eight inter-related sub-trends, as set out in the accompanying diagram. Each has implications for understanding consumer behaviour and, therefore, for making appropriate product and marketing decisions.



## WINE AUSTRALIA BRAND SEGMENTATION STRATEGY

*Wine Australia*, the sector's global marketing platform managed by the AWBC, has developed a new brand segmentation strategy based around the identification and explanation of four levels or "personalities" of Australian wine. Initially targeted exclusively at export markets, where its trials were exceptionally well received, it will also be introduced to the domestic Australian market in the near future. This new strategy brings greater clarity and purpose to Australia's marketing efforts in a way that neatly reflects the quality aspirations and the accessibility of Australian wine.

While each individual personality has a discrete brand and channel management strategy, any single brand or producer is at liberty to associate its wines with more than a single level. The four personalities - *Brand Champions*, *Regional Heroes*, *Generation Next* and *Landmark Australia* - represent the following four value creations respectively: accessibility, interest, innovation and aspiration.

Early experience in introducing this strategy to trade, media and consumers in overseas markets confirms its powerful inherent potential to encourage a "trading up" from one price point to another, taking the consumer through the full range of the Australian wine experience.

*A detailed paper on consumer trends is included in the online Directions Information Resource Kit at [www.wineaustralia.com](http://www.wineaustralia.com).*



### Brand Champions

Wines that appeal to a broad market base through accessibility, ease of enjoyment and a strong premium brand message about product and country.



### Generation Next

Wines driven by innovation (marketing; product; packaging) that appeal to consumers who drink wine for social occasion and/or peer group affinity, rather than for wine attribute.



### Regional Heroes

Wines from somewhere rather than wines from anywhere - adding and sustaining interest for consumers by fostering a clear association between region and variety and/or style.



### Landmark Australia

High-profile, aspirational wines built on inherent quality and world-class reputation.

# *The Directions* - INFLUENCING THE CONSUMER

Underpinning the sector's intentions to encourage consumers to "trade up" is the recognition that Australia's success as a maker of multi-regional brands of high quality and affordable price has over-shadowed Australia's place as a producer of top-end wines: wines that reflect their individual sites, their vintages and the philosophies of their makers and growers. Until it is broadly recognised around the world that the imperatives of terroir, typicité, site and vintage are today as much a foundation of Australia's regionally distinct and fine wine dimension as they are in traditional Europe, there is no room for complacency.

Today, Australian wine is rightly best known for its *Brand Champions*. We will be able to consider the job near-done when we can say the same for our *Regional Heroes* - wines which reflect the remarkable number of successful combinations of classic grape varieties with Australian wine regions. Importantly, with these *Regional Heroes* there exists a healthier return-on-investment for those who grow the grapes and make the wines.

## DIRECTION 4

Ensure successful adoption of the *Wine Australia* brand segmentation strategy.

# 4

### RECOMMENDED STRATEGIC RESPONSES:

**A. Target audience adoption and engagement** - Coordinated *Wine Australia* marketing activity to be delivered by overseas *Wine Australia* offices that engage the three target audiences: trade, media and consumers.

1. *Wine Australia* Trust Mark - Develop *Wine Australia* logo into a "trust mark" supported by a consumer charter for adoption and promotion at point of purchase.
2. Global communication - Develop and implement a coordinated communication plan based on the *Wine Australia* segmented brand strategy across four distinct personalities and consumer opportunities.
3. wineaustralia.com website - Improve existing website to target user groups.

**B. Brand health check** - Ongoing research and measurement of consumer perceptions of brand/country (*Wine Australia*) in key markets.

## DIRECTION 5

Set new levels of expectation and awareness for Australia's regionally distinct and fine wines.

# 5

### RECOMMENDED STRATEGIC RESPONSES:

**A. A major trade and media event** - Hold an event in Australia every second year to showcase the *Wine Australia* brand segmentation strategy with an opportunity to extend visits into focus regions.

**B. Landmark Australia tastings** - Fine wine encounters for trade and consumer media in key markets.

**C. Regional Heroes On Tour** - For example, an annual international three-city tour of a 50-wine showcase (with a minimum of three Geographical Indications represented) throughout key markets. To be coordinated and delivered through the state agencies and regional associations for uptake and support.

**D. Regional Heroes Take Flight** - Regionally themed wine flights for the international on-trade community to engage with Australia. To be coordinated and delivered through the state agencies and regional associations for uptake and support.

**E. Australia: world class** - Extend existing online information at [wineaustralia.com](http://wineaustralia.com) to provide comparative tools that highlight Australia's regional diversity and quality as a point of differentiation.

## DIRECTION 6

New consumer and market creation, including new channels within existing markets as well as domestic promotion.

# 6

### RECOMMENDED STRATEGIC RESPONSES:

**A. Emerging markets program** - Effective identification and communication of Australia's market opportunities within key nominated emerging markets: to be achieved through collaborative engagement with the Australian wine sector and relevant local market participants and supporting agencies.

**B. Brand Champion alliance** - Establish an annual showcase on new product development for international markets.

**C. Internet marketing** - Develop an online marketing campaign in association with Tourism Australia to attract the next generation of drinkers with a compelling invitation to trial Australian wine.

**D. Tourism As Your Route to Market** - Use tools and resources to improve wine tourism business practices, such as the WFA cellar door benchmarking program and the Wine Tourism Toolkit. Work with regional wineries and tourism agencies to promote cellar door visits and create direct sales opportunities as a highly effective route to market.

**E. A Style Leader Is Never Out Of Fashion** - Embrace style leaders in food, fashion and arts with innovative brand alliances, product placements and affinity group marketing by associating with products and/or communication platforms that already successfully engage the target audiences.

**F. Domestic promotion** - Building on past activity, including infrequent consumer research, limited promotional activity and the application of the new segmented *Wine Australia* branding to Australian retail, it is now proposed to extend the program into 2008-09. This will comprise an additional sector-funded strategy aimed at defending the existing consumer base, new consumer creation, improved adoption among infrequent wine drinkers and greater awareness of trading-up opportunities.

## RESOURCES FOR INDUSTRY

1. Market insight reports for 11 key markets (Australia, the UK, Ireland, New Zealand, the US, Canada, Germany, Netherlands, Denmark, Japan and Singapore).
2. An overview of global consumer trends to identify the key drivers for future alcoholic beverage consumption.
3. *Australia: world class* educational DVD and online resource developed for winemakers and their distributors to create and customise their own presentations and promotional material.
4. WFA Cellar Door Benchmarking program (Cellar Door METRICS) and Wine Tourism Toolkit.

Resources are available online at [www.wineaustralia.com](http://www.wineaustralia.com)

# *Sustainability* - THE COMMON PLATFORM

To achieve market potential, Australia's wine businesses must be sustainable in the broadest sense of the word. They must be profitable enough to take advantage of new opportunities, while being aware of the need to protect and enhance wine's image through a commitment to their environmental and social responsibilities.

Community expectations are changing and legislators and retailers alike are listening and responding. The wine sector must also respond and take a leadership role where appropriate.

## **PARTNERSHIPS WITH GOVERNMENT**

As a value-added exporter that creates jobs in over 60 regional Australian communities, a profitable and expanding Australian wine sector is very clearly in the interests of the Australian community and, by extension, its governments. Over the past decade, as the status of the Australian wine sector has grown, a far more positive partnership has evolved with most governments, enabling meaningful reforms to be developed in areas such as liquor licensing, trade facilitation and market access, environmental performance and taxation reform. These positive developments must be fostered and enhanced.

## **KNOWLEDGE-BASED BUSINESS SUSTAINABILITY**

Australia's ability to sell high-quality, branded wine across a range of price points underpinned its export success in the 1990s and brought returns significantly above those offered by simply selling low priced commodity wine. However, rapid growth (such as 40,000 hectares of vineyards planted between 1997 and 1999 alone) made this momentum hard to sustain. Wineries could not develop brand recognition quickly enough to keep pace with the narrowing global avenues to market and the expanding vineyard developments in Australia. As a result, many grape growing and winemaking businesses are now unprofitable and face uncertain futures.

The lessons are clear. For future development to be sustainable, it needs to be based upon a better awareness of the global dynamics affecting the wine sector, as well as an improved understanding of the Australian market environment. Fundamental to this is a clearer understanding at all levels of the relativity between supply and demand across a range of price points.



Grape growers and winemakers must attain a new level of commitment concerning business skill and increasing knowledge capacity. Sector bodies need to provide even more relevant and timely information to assist those investing in Australian wine to make better and more sustainable business decisions. Wine businesses can expect to be better supplied with this information, but there will also need to be enhanced self-reliance and the capacity to apply this information to business decisions through skills development and the development and effective use of business tools.

#### **RESPECTING THE ENVIRONMENT**

The Australian wine sector has led the world in research that has allowed it to both benefit from and protect an abundance of good viticultural land in the right climates. Today, however, the stakes are higher and expectations are rising.

Brand owners will be required at some point to demonstrate comprehensive and meaningful engagement with *all* environmental issues affecting their businesses. The key issues now, and in the foreseeable future, are climate change, biodiversity, water and waste management, and green procurement.

Australia must continue down the path identified in *Sustaining Success: The Australian Wine Industry's Environment Strategy* and bring about a change in culture where the environmental and social impacts of the sector are measured as diligently as are the financial impacts.

Many regions and companies now measure and report their environmental stewardship via an environmental measurement system.

At the national level, the *Australian Wine Industry Stewardship (AWIS)* program provides a reporting mechanism for all brand owners to ensure that their grape growers are able to report key environmental activities against a set of national and regional indicator questions. AWIS is also linked into the vast network of activity undertaken by regional natural resource management initiatives which are part of the Federal Government's \$3 billion Natural Heritage Trust program.

The priority now is to expand this approach so the whole lifecycle of Australia's product is understood in the context of its environmental footprint.

#### **MAINTAINING COMMUNITY CONFIDENCE**

Wine is increasingly being recognised as a natural product offering health benefits when consumed moderately, but the wine sector cannot ignore the reality that it is an alcoholic beverage and there is increasing concern about the social and physical consequences of excessive alcohol consumption.

As community standards change, so too must the sector's response. A loss of community confidence will lead to increased government regulation - from higher taxes to advertising bans and more stringent restrictions impacting on-premise and off-premise licenses.

Winemakers and sector organisations need to adopt a range of initiatives that will promote healthier consumption patterns, enhance the social responsibility of the sector and highlight the many measures they have taken to encourage wine drinking in moderation.

By doing this effectively, they will safeguard the unique place that wine has in community perceptions, and enable the sector to continue to build profitable and sustainable markets.

**“Grape growers and winemakers must attain a new level of commitment concerning business skill and increasing knowledge capacity.”**

# *The Directions* - **BUILDING SUSTAINABLE SUCCESS**

Sustainability has been identified by the *Directions* taskforce as a critical issue facing the Australian wine sector. This issue manifests itself across four dimensions:

1. Improved long-term partnerships with government
2. Improved operating environment
3. Sustainable environmental practices
4. Social responsibility.

The sector must maintain and demonstrate its commitment to the continual improvement of its environmental performance by adopting ecologically sustainable practices throughout all aspects of its operations. This action is necessary to fulfil the needs and expectations of the wider community, customers and consumers.

At the same time, the sector must create a dynamic culture of improved self-reliance that includes better risk management, skills development and overall knowledge capacity building.

Finally, to support a sustainable market where wine is widely enjoyed and responsibly consumed, adopting strong positions on social responsibility will be an essential feature of the sector's future.

## DIRECTION 7

Continue to build policy and facilitate partnerships with governments at all levels to foster a favourable and sustainable business climate for Australian wine.

# 7

### RECOMMENDED STRATEGIC RESPONSES:

- A. Advocacy as a priority** - Ensure that communication between industry and governments is coordinated, targeted and remains a priority.
- B. Regional impacts** - Upgrade analytical tools to demonstrate the impact of policy decisions on the wine and viticulture sector, particularly on regional communities.
- C. Taxation certainty** - Avoid increases in the Wine Equalisation Tax and advocate for simpler and lower business taxes.
- D. Trade facilitation** - Work closely with governments to build relationships with key markets and to reduce and limit barriers to trade.
- E. Fostering innovative capacity** - Advocate for targeted and significant government commitments towards industry R&D and skills enhancement.

## DIRECTION 8

Continuous improvement in business skills and practices for the Australian wine sector through the creation of a dynamic culture of self-reliance.

# 8

### RECOMMENDED STRATEGIC RESPONSES:

**A. Skills and capacity building** - Improve information dissemination and strongly encourage the uptake and use of a wide range of tools and facilities aimed at improving business and marketing capability. The objective is to improve self-reliance across grape growing and wine businesses through a range of activities, including:

1. *Wineskills* business planning workshops
2. Vine skills program linked with the *Taking Stock and Setting Directions* strategy
3. Wine Tourism workshops and use of the Wine Tourism toolkit and Cellar Door METRICS benchmarking
4. Wine business benchmarking guides and gross margin “ready reckoner”
5. *Australia: world class* online information resource at [wineaustralia.com](http://wineaustralia.com)
6. A resource kit for exporters, *Export Market Guides*
7. WINEFACTS online information resource at [www.wineaustralia.com](http://www.wineaustralia.com)

**B. Code of conduct** - Ensure that the *Australian Wine Industry Code of Conduct* between grape growers and wineries is successfully concluded and broadly adopted.

**C. Export compliance** - Continue industry commitment to an effective and efficient export compliance regime.

**D. Risk management** - Further develop a framework of risk management strategies at industry organisation and producer level.

**E. Future Leaders program** - Continue the Future Leaders program and ensure that its graduates have the opportunity to contribute to the future direction of the wine sector and the activities of the sector bodies.

**F. Teaching institutions** - Build on relationships with key teaching institutions and governments to ensure that skills development and their accreditation are in line with sector needs.

## DIRECTION 9

Continuous improvement in the Australian wine sector’s strong environmental performance to meet the changing consumer and community demands for sustainability.

# 9

### RECOMMENDED STRATEGIC RESPONSES:

**A. Identify opportunities** - Undertake a lifecycle analysis of Australian wine to determine the activities that are the major contributor to the wine sector’s environmental footprint.

**B. Environmental performance** - Continue to develop and implement systems-based approaches to minimise the wine sector’s environmental footprint as identified in the life cycle analysis such as:

- The Australian Wine Industry Stewardship program
- The National Packaging Covenant Mentor program
- Other national, state and regional initiatives

**C. Performance measures** - Identify headline criteria against which the Australian wine sector’s performance in managing its environmental impact can be measured and compared to competing sectors.

**D. Feedback** - Conduct a stocktake and gap analysis of environmental programs in the Australian wine sector and communicate back to the sector at a regional and enterprise level.

**E. Key policy initiatives** - Ensure the Australian wine sector takes a leadership position across key policy areas, including:

1. Water - Ensure that the Australian wine sector has equitable access to water within a system that acknowledges the need for sustainable environmental flows. Continue to promote uptake of more efficient water use technology and practices throughout the wine sector.
2. Biodiversity - Ensure widespread commitment to the management of biodiversity.
3. Climate change - Ensure a research program is resourced and conducted as a matter of priority.

**F. Demonstrate credentials** - Illustrate the sector’s environmental credentials through effective communication of the sector’s programs and performance.

## DIRECTION 10

Ensure widespread social responsibility within the Australian wine sector, to enable wine to be widely enjoyed and safely consumed in moderation.

# 10

### RECOMMENDED STRATEGIC RESPONSES:

**A. Social responsibility** - Promote a safe and healthy drinking culture and, where possible, influence change to limit undesirable consumption behaviours.

**B. Regulatory regime** - Demonstrate widespread commitment to self-regulatory measures such as the Alcohol Beverages Advertising Code and the standard drinks promotion.

**C. Recognition** - Make responsible promotion and moderate consumption with food a recognised value of the Australian wine sector.

**D. Partner approach** - Build partnerships for the Australian wine sector in the health, social services and education sectors that enhance our ability to improve consumption patterns.

**E. Enhanced knowledge base** - Improve knowledge throughout the wine sector of the patterns of wine consumption, effects of this consumption and potential for beneficial consumption.

## RESOURCES FOR INDUSTRY

1. Benchmarking guides for small, medium and large wineries.
2. An online interactive gross margin “ready reckoner”.
3. Australian Wine Industry Stewardship program.

Resources are available online at [www.wineaustralia.com](http://www.wineaustralia.com)

# *Directions* TO 2025 - A JOURNEY JUST BEGUN

Over the 18 months during which *Directions* was compiled, the wine sector has been getting on with business. Some of the key recommendations in this document have already been developed, an exceptionally detailed Information Resource Kit has been created for the sector, and a number of the strategic responses are taking shape.

The AWBC and WFA have not waited until the launch of this document to get moving with positive and much-needed activity. The rollout of the *Wine Australia* brand segmentation strategy is just one high-profile example. Other *Directions* initiatives, such as the collation and analysis of overseas market intelligence and identifying opportunities by price point and channel, already have established a solid template for future activity.

*Directions* has been developed in consultation with wine companies large and small and with national, state and regional organisations across the country. The discussion was robust, there was give and take, but all those involved embraced the vision and the final strategy.

That we have been able to develop *Directions* - and *Strategy 2025* before it - is a tribute to the unity of the Australian wine sector. It simply would not have happened in most other wine-producing countries.

However, unity of purpose must lead to unity of effort. It is imperative that making *Directions to 2025* a reality is characterised by unprecedented levels of focus and cooperation across the sector. Anything less and the entire effectiveness of the strategy will be compromised.

*Directions* is a strategy for the entire sector to own and to champion. All participants need to be clear about their roles, their expectations and the process involved.

## DIRECTIONS TO 2025 - THE COMPLETE PACKAGE

This strategy represents the tip of the *Directions* project.  
A comprehensive resource kit is available online at  
[www.wineaustralia.com](http://www.wineaustralia.com)

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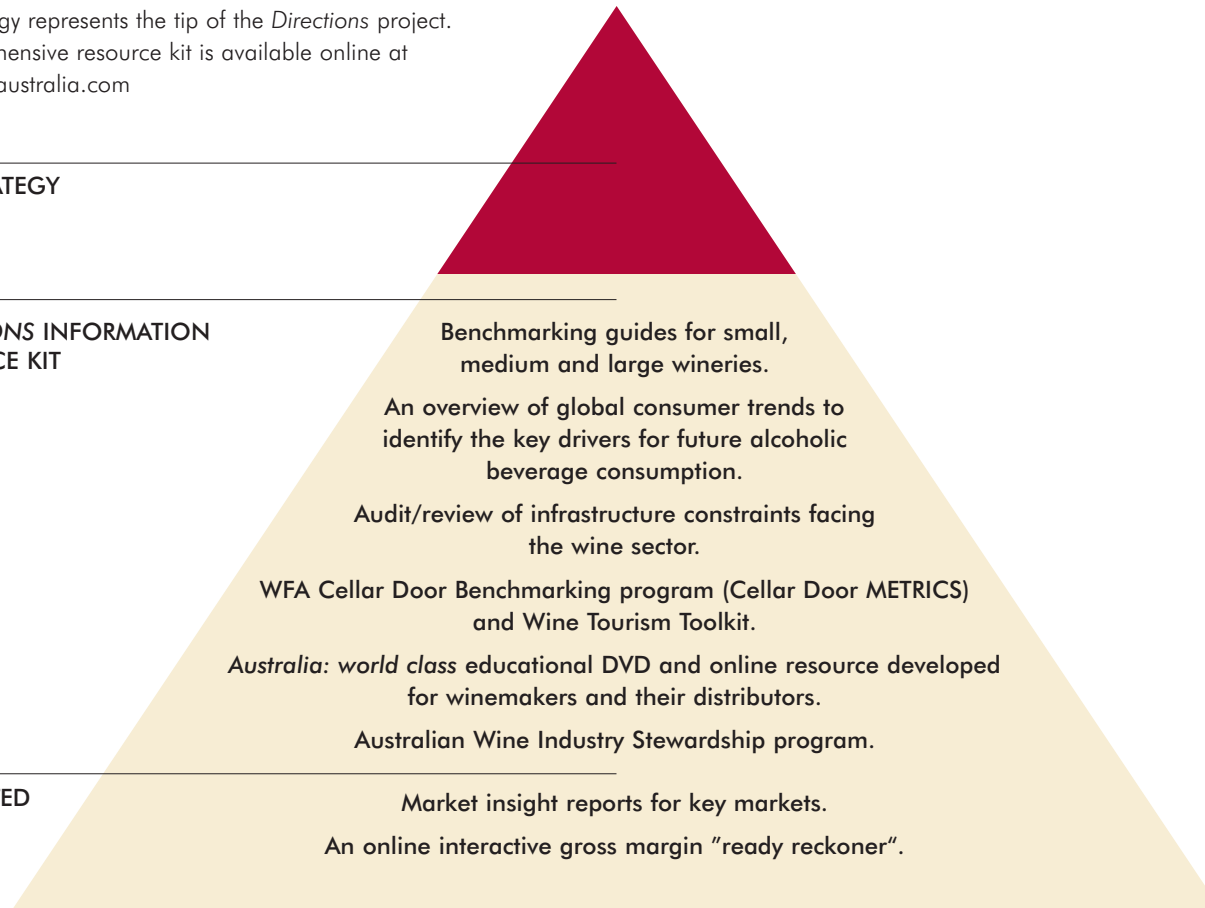
### THE STRATEGY

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### DIRECTIONS INFORMATION RESOURCE KIT

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### RESTRICTED ACCESS



"It is imperative that making *Directions to 2025* a reality is characterised by unprecedented levels of focus and cooperation across the sector."

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**State wine industry associations**

### Disclaimer

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