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INQUIRY INTO WINE GRAPE MARKET AND PRICES

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INQUIRY INTO THE WINE GRAPE MARKET AND PRICES: SUBMISSION FROM THE RIVERINA WINEMAKERS ASSOCIATION INC

The Riverina Winemakers Association, which represents the joint interests of Riverina wineries, provides the following comments for the Inquiry.

Price formation, including factors affecting supply and demand

Grape prices in Australia reflect supply and demand condition prevailing in the Australian wine industry at all levels.

The Australian wine industry has been experiencing a prolonged period of over-supply. Structural surpluses of grapes and wine have been so large that they have caused long-term damage to the industry by devaluing the Australian brand, entrenching discounting and undermining profitability. This has flowed through the chain and is reflected in on-going low returns to grape growers (with the exception of the drought affected 2008 vintage).

Leading into the 2010 vintage, Australia was producing 20-40[1] million cases a year more than it is selling – roughly equivalent to total sales to our largest export market, the UK. Australia's wine exports had fallen by 8 million cases and 21% in value since their peak in October 2007. The decline had been greatest for higher value exports, and where there had been growth at lower price points it frequently has been unprofitable and thus unsustainable. Over the same period domestic sales of Australian wine had also fallen, while sales of imported wine in Australia had increased.

In response to this, the Winemakers Federation and Wine Grape Growers Australia issued a joint statement in November 2009 acknowledging that the Australian wine industry is enduring its toughest period in two decades, and that drastic action needed to be taken, principally through an acceleration of structural adjustment to reduce grape supply, and to change its product mix to refocus on sales that earn viable margins. While new market opportunities do exist, they will take time and significant, sustained investment to unlock. The key for a more rapid return to more profitable conditions is therefore through a sharp reduction in grape supply.

While anecdotal evidence suggests industry is now taking some steps towards reducing supply, the rate of adjustment appears quite small, suggesting a return to a more balanced and profitable supply and demand situation may take some time.

A meeting of the Riverina Wine Industry Forum, a joint committee of the Wine Grapes Marketing Board and the Riverina Winemakers Association, was called on Tuesday 15th

[1] Source- Winemakers Federation and Wine Grape Growers Australia

December 2009 to discuss the implications for the Riverina wine and grape industries of the current industry situation.

The Forum issued an agreed media statement noting the following:

- The Australian wine industry is in chronic over-supply relative to current market needs.
- The market for Australian wine is not expected to improve for the next 5-6 years given competition in the domestic market from imports – especially New Zealand - and the negative impact the high exchange rate is having on exports,
- Unless there is a contraction of the national vineyard area, current grape surpluses will continue for that period.
- low grape prices being indicated by some national companies for vintage 2010 are unlikely to improve until markets improve,
- The outlook for 2010 is made less certain given the imminent release of the Henry Review into taxation. Any recommendations of a volumetric tax will increase the risk environment for wineries and place further pressure on wineries to reduce grape intake. Any legislated changes to a volumetric tax could cut Riverina wine grape intake by one-third.
- With local wineries indicating a reduction in grape intake for the coming [2010] vintage, it is quite likely that there will be significant local grape surpluses.

The meeting further agreed that the situation is not likely to improve until such time as there is a reduction in the national vineyard area and wine sales achieve more profitable returns. Factors that will impact on the depth and severity of the Riverina industry's current problems include:

- How quickly the national vineyard adjusts to the lower supply requirement
- The strength and direction of any future exchange rate movements
- A continuation of current tax regimes.

The Forum statement advised growers to have a hard look at their future viability in circumstances that suggest certainly no improvement – and more likely a worsening – of the current industry situation in the foreseeable future. This was particularly important for smaller growers who lack the advantages of scale.

Since then, little has changed to suggest the grape over-supply situation has eased significantly. While the 2010 vintage was smaller than anticipated and there has been some recovery in sales, industry observers do not believe this signals an end to the current over-supply conditions.

The RWA refers the Inquiry's attention to a topical article by wine broker Mr Jim Moularadellis (copy attached) which provides an overview of factors affecting wine and grape prices. He concludes that while prices for bulk wine have firmed recently, this may be a "suckers rally" as:

- The short 2010 vintage was not *that* short – just fewer grapes were left on the vine
- There is a clear over-supply of dry-land bulk wine inventories which could squash any growth in inland bulk wines
- The 2011 crop is likely to be higher than 2010 placing downward pressure on price as soon as 2011 wine becomes available.

As a participant in the Forum and joint author of the statement, the Wine Grapes Marketing Board is well aware of the difficult trading conditions currently facing the industry.

The role the Wine Grapes Marketing Board has played in facilitating voluntary codes of conduct and sales contracts

The RWA is not aware to what extent the WGMB has encouraged wineries and growers to adopt a code of conduct or encourage the uptake of contracts. Rather it has relied on its statutory powers to vet the formation of contracts and payment terms.

It is the RWA's experience that instead of being proactive, the WGMB has tended to be retaliatory when wineries are perceived to be operating outside of the Boards powers. In other grape growing regions where grower bodies don't have statutory powers they seem to be much more proactive in promoting such codes of conduct.

In earlier reviews of the WGMB legislation, the Board's position was to institutionalise policies which encouraged spot sales with growers encouraged to shop around for the best price, rather than encourage longer term relationships between growers and wineries governing price and quality. As the market has shifted from under- to over-supply, the short-sightedness of that policy has been exposed with growers with contracts being in a more secure position than growers without.

It should be noted that wineries themselves are in a weak bargaining position given the high degree of market consolidation in the retail sector which now exists, and the willingness of the retail sector to exercises its considerable market power, as well as fostering the development of buyers own brands, which further erodes industry profitability.

Potential for collective bargaining and/or code of conduct to contribute to an efficient market.

The word "potential" implies that a code of conduct doesn't exist. The RWA rejects that view.

Winemakers are subject to competition law as administered through the Australian Competition and Consumer Commission. Whilst wineries therefore operate independently (and this is evidenced by the variation on pricing on offer to growers, a matter of some criticism by the WGMB), there is no doubt that a code of conduct exists amongst wineries as to how to behave in the market and as to how to set pricing, quality parameters, delivery structures etc.

Most of this comes from normal commercial practices, but some also comes from a sense of fairness and the relationship which wineries have with growers. While the wineries have not produced a formal code of conduct, this is project the RWA could reasonably undertake.

While ACCC constraints currently prevent dialogue among the parties in regard to pricing, it may be worth exploring whether some form or collective dialogue could be undertaken, and what might be the parameters for this.

Improvement of market signals.

The RWA believes that most grower discontent on grape pricing derives from the lack of real data from an independent source as to how the national crop is progressing, and an understanding of the dynamics of the grape market and how it affect them. There appears to be an entrenched expectation in some growers' minds that all purchasers of grapes should pay the highest price on offer, a view which is not dispelled by their representative body.

As noted in Jim Moularadellis' article, the 2010 crop is still listed as "estimated" at 1.53million tonnes - 5 months after its over - and there is no national data available to indicate the potential shutdown of vineyards that could be used to plan 2011. More importantly, there does not seem to be a reliable national crop reporting available during harvest when wineries are actually making decisions. Rather industry relies on individual research and anecdotal evidence.

Initially the RWA worked with the WGMB in order to have a better grasp of the supply dynamics for the region through a weekly vintage progress survey. After concerns over the integrity of the information published by the WGMB (which was collating the information), from the 2009 vintage the RWA undertook this work themselves to provide far greater transparency and reliability in the information provided.

The Riverina is the only area which does this and it is viewed as an important initiative. Unfortunately, being the only area which does this, the information needs to be taken in context. A national approach along these lines would give far greater Supply-Demand information to wineries and grape growers nationally.

It is noted that National industry bodies are currently working on the development of a national vineyard register, aimed at improving the industry's information on grape supply, improve forecasts and monitor rates of adjustment, which should go part way to addressing this area of weakness.

Any other matters

Australia's four national wine industry organisations, including Winemakers Federation of Australia and Wine Grape Growers Australia, have produced a package of initiatives to address a chronic oversupply of wine and wine grapes which is causing long-term damage to the industry by devaluing the Australian brand, entrenching discounting and undermining profitability.

That package has been rolled out over Australian regions in the last 6 months. Fundamental to this package is an acknowledgment that a significant proportion of vines are surplus to requirements and a significant proportion of vineyards are unsustainable on the basis of cost of production and scale of operations. To date, there is little evidence locally that growers accept that they too may have to exit the industry as part of the national re-adjustment. This underlines the importance of leadership from the grower bodies to be frank about industry prospects and not try to sugar-coat the pill.

Riverina Winemakers Association Inc
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2010 post-vintage bulk wine review

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This article reviews the Australian bulk wine market in light of the 2010 vintage, and discusses the major influences and uncertainties surrounding the current outlook for bulk wine. Key issues addressed include an analysis of a recent rally in the bulk wine market, discussion of how some major varietals are performing, and the nature and extent of vineyard removals. An analysis of the interplay between wines from inland-irrigated versus dryland regions is also presented. Finally, an extra value-added piece discusses how Australian grapegrowers and winemakers can do their bit to help save our precious vineyards from potential over-removal.

2010 vintage summary

The 2010 Australian winegrape crop was 1.53 million tonnes, down 12% on the 2009 crop of 1.73mt, which in turn was down a further 5% from the 2008 crop of 1.83mt[1]. The top four varieties in the 2010 vintage weighed in as follows:

- Chardonnay tonnage was down by 24% from 414,000t in 2009 to 315,000t in 2010.
- Cabernet Sauvignon was down by 14% from 248,000t to 213,000t.
- Merlot was down 14% from 126,000t to 109,000t.
- Shiraz was down by just 4% from 406,000t to 389,000t.

The vintage was shorter than expected but during the course of harvest there was little competition for the fewer grapes. Result: A relatively muted price response despite the shorter crop. This may be due to financial wounds that were still quite fresh in the minds of people who paid a lot for grapes in 2008 following the very short 2007 vintage. Many wineries ended up with big losses soon after as the bulk wine market subsequently drifted steadily downward. Unlike the short 2007 vintage, it may be that this year the market simply thought (correctly) that there were enough grapes to go around. Table 1 provides a neat summary and historical perspective of the size of the past eight vintages.

Had the 2010 crop been any larger, the volume left unpicked would have simply increased. As it was, there were a lot fewer grapes left unpicked in 2010 than last year, when somewhere in the vicinity of 150,000t[4] were not harvested. During the 2010 vintage, a few wineries lifted maximum cropping caps which they had set well before vintage to help manage down their intakes, although such action was a bit late for some growers. Growers encountered significant and genuine difficulties trying to sell their grape crops as no meaningful demand tension emerged in the grape market during vintage. Spot grape prices generally stayed below the cost of production.

Table 1

Year	Tonnage crushed (millions)		Source
2010	1.53	Estimate	WFA[2]
2009	1.73	Actual	ABS[3]
2008	1.83	"	"
2007	1.40	"	"
2006	1.90	"	"
2005	1.93	"	"
2004	1.82	"	"
2003	1.33	"	"

Therefore, in summary, the 2010 winegrape crop was smaller, which generally manifested itself in fewer grapes left on the vine, rather than any meaningful upward pricing pressure for grapes.

Bulk wine market overview

As a result of the shorter crop, the bulk wine market in 2010 is showing signs of life. Specifically:

- The oversupply is not as great as it was after the 2009 vintage, and wineries are holding slightly lower inventory levels. Therefore, gaps are opening up in the domestic bulk wine market, mainly at the cheaper end, leading to domestic spot market demand.
- A floor in the market has developed, at least for red wines, at around the import replacement cost. Recent relative weakness in the Australian dollar may have contributed to this development, although no real floor has developed for white wine. The short 2010 Chardonnay crop may significantly contribute to a floor for white wine developing during the coming months.

- Despite these positive developments at the cheaper end of the market, the market for higher priced dryland wines continues to remain weak and very patchy.
- Supply disruptions resulting from the earthquake in Chile[5] causing buyers to demand alternative supply out of Australia and other countries.

Overall, prices are gently firming, especially for Cabernet Sauvignon and Chardonnay, but less so for Shiraz and Merlot.

Varietal report

Chardonnay is the variety with the greatest changes in both its supply and demand dynamic this year:

Supply: The 2010 crop was significantly less than 2009 – about 100,000t or 70m litres less. This is about a quarter down on the 2009 crop.

Demand: Large volumes of 2009 (and older) Chardonnay, perhaps in the order of 50-75mL, went to the United States at very low clearance prices during the 2009 calendar year. Due to the shorter 2010 Chardonnay crop in Australia and the larger 2009 Californian Central Valley Chardonnay crop, any possible arbitrage opportunity arising out of Chardonnay grown at opposite ends of the Pacific is now smaller. How much smaller will be a key factor in determining the volume of Australian Chardonnay shipped to the US this year which, together with the level of the Australian dollar, will drive Chardonnay's prospects this year.

After Chardonnay, Cabernet Sauvignon and Merlot production fell by the largest percentages in 2010, with both down by 14% on last year. Partly as a result of a lower 2010 crop and partly from several years of removal and grafting, Cabernet Sauvignon has the shortest supply position of the three[6] major red varieties and prices are firming considerably. Consequently, many Cabernet Shiraz blends are being switched to Shiraz Cabernet and this is certainly the year to make such a change. Here are three reasons why:

- To take advantage of the generally higher quality Shiraz available this year (compared to Cabernet Sauvignon, which is generally not as good this year).
- To stretch the more limited volumes of Cabernet Sauvignon and to take advantage of the deeper supply options that Shiraz offers.
- To generate cost savings – 2010 Shiraz is currently between A$0.10 to $0.30/L cheaper than 2010 Cabernet Sauvignon.

Shiraz is now the biggest single item in our inventory at 32mL, easily surpassing Chardonnay at around 21mL. Therefore, on supply fundamentals, there is a risk of Shiraz prices softening later this year, despite an overall upward trend in the market during the first half of the year.

Risk of a suckers rally[7]

I think that the recent firmer prices being achieved (mainly by inland-irrigated bulk wine) so far this year might develop into a suckers rally. Three main reasons come to mind:

- The 2010 short crop wasn't that short – there were just fewer grapes left unpicked, and many wineries are still holding fairly large unallocated bulk inventories in their tanks, although much less than last year.
- There is clear oversupply of dryland bulk wine inventories, which could squash any price growth in inland-irrigated bulk wines. More on this key uncertainty in the next section.
- The 2011 crop is likely to be bigger than 2010, placing downward pressure on price as soon as 2011 wine becomes available. If not in absolute tonnes harvested, a larger crop 'per hectare' is even more likely in 2011depending on the level of vineyard removals that may occur. This is another key uncertainty – read the discussion following.

Many international buyers continue to buy less than their full annual needs. Such a strategy may still be valid during 2010, but it comes with increased risk: there is clearly less depth in supply this year than last year, so should buyers cover their needs for longer during 2010? Yes, I think this is the most prudent strategy, especially if your requirement is greater than, say, 250,000-500,000L. For smaller volumes, there is less imperative to buy longer and, price aside, I expect smaller parcels of bulk wine to continue to be in relatively good supply.

Inland-irrigated / dryland supply dynamic – a key uncertainty

Generally speaking, the higher the price, the harder the bulk market gets. High paying buyers have become very scarce and very particular indeed, and the volumes they now demand have become very small. Nevertheless, parcels of less than, say, 24,000-48,000L of excellent quality wine from well-known regions can still command a good premium. However, there is a large pool of mostly good (but not great) wine from dryland regions that really has no home and this stock hangs over the market. In our inventory, this pool is in excess of 50mL and this is more than 40% of our listed volumes.

With the exception of certain vintages and regions that may have experienced short crops, dryland wines are generally in clear surplus and the prices of such wines have been on a gentle, but persistent downward trajectory since 2008 vintage. In the past six months, as prices for inland-irrigated wines firmed in anticipation of the shorter 2010 crop, the structural oversupply of dryland wines has continued to place continued downward pressure on the market.

A lot of dryland bulk wine is made and marketed in small parcels, which is perfect for higher value sales as case goods. But trouble can arise when sales of case goods slow and wines need to be sold off in bulk: such wines are also typically stored in separate (and sometimes disparate) locations, are owned by wineries that are in touch with the bulk market less regularly, and can therefore be slower to respond to signals from the bulk market – simply because this is not their focus. For example, a lot of the 2008 vintage dryland bulk wine remains unsold and time is running out for many of these wines. Most of these wines will need to clear at or even below the inland-irrigated prices – not an exciting prospect for the sellers of such wines.

A key uncertainty therefore, is how will this inland-irrigated versus dryland wine dynamic play out? Will the inland price continue to increase this year or will the dryland volumes squash any pricing growth? The outcome is not at all clear and remains to be seen.

Number of hectares in production – another key uncertainty

How many hectares of vineyard are likely to be in production in 2011, given the current poor economics of the wine industry? This is another key uncertainty. The good folk at agricultural forecaster Australian Bureau of Agricultural and Resource Economics (ABARE) can't figure this one out, so they have simply assumed this away, and removed it as a variable from their forecasts[10]. On the somewhat unrealistic assumption of no vineyard removals, ABARE's forecasts for the next two years are set out in Table 2.

Table 2

Year	Tonnage crushed (millions)		Source
2012	1.79	Forecast	ABARE[8]
2011	1.78	"	ABARE
2010	1.53	Estimate	WFA[9]

The latest historical data[11] of vineyard area from the Australian Bureau of Statistics (ABS) is set out in Table 3. Anecdotally, it seems reasonable to suggest that no vineyard removals prior to the 2011 harvest is an unlikely outcome. So what level of vineyard removals is likely? There have been various estimates made by both regional and national organisations, and they all ▶

tend to be in the range of several thousand hectares. Unfortunately, these estimates contain a mixture of vineyards already removed and vineyards likely to be removed. Further complicating this is that growers will continue making decisions to remove vineyards for a couple of months yet, which makes such estimates quite fluid and relying on them quite hazardous.

So let's take what we do know: last year's removals (see Table 3). On the assumption that vineyard removals really got underway last year and that vineyard economics are going to be roughly as bad next year as they were this year, let us assume three scenarios for vineyard removal prior to next vintage:

- About 50% less than last year;
- Same as last year; and,
- About 50% more than last year.

Table 3

Year ended 30 June	Vineyard (ha)	Added/ (removed) (ha)	Added/ (removed) %
2009	162,550	(10,126)	(5.8)
2008	172,676	(1100)	(0.6)
2007	173,776	5985	3.5
2006	168,791	2126	1.3

This gives scenarios of about 5000ha, 10,000ha and 15,000ha of vineyard removals.

These are all very significant areas and represent removals of 3%, 6% and 9%, respectively, of the current Australian vineyard area of about 162,000ha.

Depending on where these removals occur, the impact on a particular segment of the market could be very significant. It is likely that the inland-irrigated areas will incur most removals. For reasons why this might occur, see the discussion in the next section.

But overall, reductions in the order of 3-9% could be overshadowed by natural variations in vineyard crop size. Experience tells us that such variations could be in the order of +/-10-30% variance in crop per hectare. Significantly, barring the usual possibility of some agricultural calamity, the 2011 winegrape crop is likely to be bigger per hectare than the shorter 2010. My assertion here is subject to possible yield reduction due to reduced inputs by growers arising from several years of low grape prices. For example, growers may choose to cut back on water, sprays and fertilizers, and such actions may directly reduce yield or increase the risk of rejection by wineries if sub-standard grapes are delivered.

Experience also tells us that a larger than desired crop in 2011, whether through increased yield per hectare or lower vineyard removals, is most likely to be simply left unpicked. However unpleasant, this is one certainty that we can confidently plan around.

Separately, but no less significantly, the 2010 winegrape crop was also shorter than expected in most Southern Hemisphere wine producing countries, therefore, their crops are less likely to be short again in 2011. So all things being equal, we should expect greater supply in 2011 from those countries, and hence more competition for Australian wines in 2011, whatever the outcome with our vineyard removals and our crop size.

Inland-irrigated vineyard removal – a false signal?

Inland-irrigated grapes are more prone to be left unpicked in times of oversupply. Does this mean that the market for wine from these regions has collapsed? No. When grapes are cheap, inland-irrigated grapes are cheaper still (but not that much cheaper) than grapes from dryland areas. In times of oversupply, the quality difference becomes greater than the price difference, and so inland-irrigated grapes become less attractive to buyers. Therefore, such inland-irrigated grapes are more likely to be left unpicked than dryland grapes.

Dryland grapes then end up contributing significantly to the blends that inland-irrigated wines ordinarily go into, simply because they are available in the marketplace at well below sustainable price levels. And the resulting wines are usually very good.

In such circumstances, the dryland vineyards receive at least some income, albeit well below the cost of production, whereas the unpicked inland-irrigated vineyards receive none. Therefore, it is the latter vineyards, which receive no income (rather than at least some income), that are much more likely to be taken out of production than the former.

Furthermore, there is another bias favouring vineyard removal in inland-irrigated areas and that is the existence of various government-sponsored irrigation water license buyback schemes. Due to the higher intensity of irrigation water use in inland-irrigated areas, it is more attractive for inland-irrigated growers to exit because they receive more money per hectare of vineyard removed than growers from dryland areas.

The sum of the factors mentioned is that Australia effectively has a vine pull scheme by default biased toward the inland-irrigated areas. The irony is that wines from inland-irrigated areas exhibit less oversupply – at least in the bulk marketplace – than wine from the dryland areas. If this trend continues apace, where are the grapes going to come from to fill the commercial end of the market at a price that is sustainable for growers?

Henry Tax Review: now a certainty or just a definite maybe?

The Australian Government finally released the recommendations of the Henry Tax Review on May 2 this year, and for the Australian wine industry this meant no change to the existing taxation arrangements. The Government was quite emphatic in its response [12] to the Henry Tax Review, saying that:

"In the interests of business and community certainty, the Government advises that it will not implement the following policies at any stage …

- Change alcohol tax in the middle of a wine glut and where there is an industry restructure underway …"

This statement removed significant uncertainty from the industry. However, about six weeks later[13], due to its rapidly falling popularity, the Australian Government swiftly changed Prime Ministers in a party leadership *coup d'état*. This was the first time in Australian history that a sitting Prime Minister lost the leadership of their political party during their first term of office. Furthermore, national elections have now been called for August 21, and a change of government remains a possibility. Therefore, although it seems that the alcohol tax debate in this country is settled following the release of the Henry Tax Review, I think it is reasonable to add: perhaps only for the time being …

Water

Despite ongoing uncertainties with water allocations and water security in the Murray Darling Basin, Table 4 shows that water storages are currently at their highest level for several years. This is due to recent massive flooding in Queensland as well as good early winter rains in the Southern MDB. Therefore, grapegrowers are in a much better position for water this year, since resulting water allocations are likely to be higher throughout 2010/11. For example, opening water allocations have recently been announced[16] in South Australia and are at 21%, which are considerably higher than opening allocations of 4%, 2% and 2%, respectively, during the past three years. This reduces the risk of growing a winegrape crop by reducing the possible financial outlay required for temporary water.

Table 4

Current storage as at mid-June	Gigalitres [14]	% of full volume [15]
2010	3839	36
2009	1456	12
2008	1936	21
2007	1130	12
2006	3724	40

However, the future outlook for water remains highly leveraged to winter rains in the southern half of the MDB, since most rainfall that is collected in storages each year is used in that year. Furthermore, since the 1950s, the quantity of water diverted from the rivers of the MDB increased substantially, and the Government is now reviewing the cap on diversions with a view to reducing them. This will inevitably mean less water for irrigation. Again, nothing is very certain at all.

Conclusion

The following observations are offered by way of conclusion:

- The 2010 Australian vintage was 1.53mt, down on each of the past two years.
- With few grapes left on vines, the bulk wine market showed signs of firming during the first half of 2010.
- Chardonnay is subject to major changes in both supply and demand. Cabernet Sauvignon is relatively short.
- There is a real risk that the small rally in bulk wine prices experienced so far during 2010 is a short-term phenomenon.
- Inland-irrigated wines are shorter than dryland wines, which overhang the bulk market.
- The number of hectares in production is falling as growers respond to unsustainable pricing by removing vineyards. The extent of vineyard removals is unclear and normal seasonal crop variation could eclipse the effect of removals.
- The inland-irrigated regions have experienced much higher levels of vineyard removals than dryland regions, despite dryland wines being in greater structural oversupply.
- The Henry Tax Review findings were not implemented, at least for the time being.
- Water reserves are at their best level in five years, although the longer-term outlook is much less certain.

Addendum – an extra bit for Aussie grapegrowers and winemakers

There has been much industry talk of removal of vineyards during the past couple of years and it has been suggested that somewhere near 20% of Australian vineyards might need to be removed[17]. Reducing supply is certainly one pragmatic and relatively quick possible solution to restore more favourable economics to our industry.

Currently, Australia's vineyard area is about 162,000ha[18] and 20% is about 32,000ha. At a very rough development cost of $50,000/ha, this might be up to $1.6 billion in vineyards that might need to go! Gosh, this represents a massive investment write off – not to mention the many lost jobs and empty wineries that fewer vineyards also represent! As an industry, we have focussed in recent times on the area of vineyard to be removed, perhaps with excessive zeal. Why are we doing this? Might it have something to do with the fact that we can't get the price we want for our wine? Better to sacrifice a fifth of our vineyard than all of us go broke, right? Some would argue that the market will ensure that the weakest vineyards will be weeded out and that this is not a bad thing. However, given some of the distortions in the marketplace that I have described, I am not so sure that such a conclusion follows naturally.

Value = quality / price

Many of us would be familiar with the basic marketing formula: Value = quality / price. Instead of quickly surrendering perhaps up to $1.6b of our precious vineyard investments to bulldozers, maybe we could turn this around and look at it another way: what value are we building in the marketplace for our brands and our business organisations beyond quality and price?

Sure, price is important, and as sellers ▶

we are complaining that prices are too low, which they are, because the economics of production are currently not sustainable for many producers. And anybody can sell on price – after all, our industry is in the worst downturn for 20 years and many have felt the chilling wind of oversupply during the past decade that has led to decisions to cut price, get cash in, and hope to live and fight another day: perhaps you felt you had few choices at the time, so you did what you needed to do. But such actions may well have damaged your business and your brand in the longer term.

And sure, quality is also important, but the absolute quality of product is just one dimension of our offering to the marketplace. As winemakers and wine marketers, we tend to forget the other dimensions of our value proposition – what an opportunity we are missing!

Critically, we must ask ourselves: what value are we creating in the marketplace so that people will go out of their way to do business with us? Because almost regardless of the market, it is value, at almost every price point, that ultimately drives demand for one product or service above another.

So maybe we should be chasing this goal with the same zeal that we are currently chasing vineyard removal. Surely we can't achieve further market penetration without cutting our prices and further damaging our brands and prospects? I am not so certain about this, and to explain why, I have come up with 10 key metrics that have nothing to do with either quality or price, but everything to do with the value of your business organisation and your brands in the marketplace.

How's your value?

Ten key metrics to help save us from the bulldozers

1. First impression

What impression are you giving? Listened to your voicemail or called your business recently? Is the voice answering the telephone cheerful, energetic and helpful? Are you easy to get in touch with? Does your email inbox have enough room to receive new messages? Do you return your calls promptly? Do you answer your mobile phone calls, or do you screen them?

2. Integrity

What values do you and your company live by? Can you recall them? Do you believe in them? Would you fire someone for transgressing them? Do you stick by them when they cost you money? If not, you probably don't believe in them, so go and do something else – people will see through them and you.

3. Friendly

How friendly are you? How friendly is your business? Do you kiss up to your superiors/customers and kick down to your subordinates/suppliers? Everyone watches everyone else, so you better be nice. The bullies always get found out, and very quickly now in an interconnected world.

4. Easy to find, use or deal with

Ever tried using your company's website to buy something? Is it easy or hard? Where is your business or brand on Google, Twitter or Facebook? How are you portrayed? Where are *you* on Google, Twitter or Facebook? Are your production people sympathetic to (or even aware of) your salespeople's key problems, and vice versa? Overall, are your people energetic or are they energy vampires, sucking the energy from anyone they come in contact with?

5. Self-improvement

Ever asked your customers, suppliers, staff or workmates how you could improve and be a better business? Ever identified and spent time with a mentor to learn, and learn some more? Or do you know everything that you need to in order to do your job? Do you do your homework thoroughly, or do you turn up to meetings less than 100% prepared?

6. Customer growth

Ever enthusiastically asked how you can help increase your (business) customer's sales, efficiency or productivity? Or do you groan each time your customer asks for marketing or other support? Perhaps the exclusive availability of your brand to a customer is enough: of course, *your* brand over-delivers on quality at each price point – like no one else has thought of that one before …

7. Reliability

How reliable are you? Are you there when things go wrong, or do you try and hide? Customers will find you! What's your attitude when a customer raises a problem with your product? Are you cheerful or grumpy, helpful or not? Ever had something returned to your business? Do you happily refund on a genuine problem? Do you happily investigate if there is a genuine problem, or do you hope that such problems will just go away?

8. Loyalty

How loyal are you to your suppliers, customers and staff? How do you treat your staff or suppliers if they have to be let go?

9. Partner or adversary

Do you treat your business associates as partners or adversaries? Or is your product (or service) really just an excuse to send your customer an invoice?

And the Big Daddy of them all …

10. Trust

Does your behaviour, both as an individual and as a company, lead your customers, suppliers, staff and associates to easily trust you? And do you easily trust them? For example, if someone paid you twice in error, would you notify them and send it back promptly, or would you wait until when (or if) they realised their mistake?

To me, there are now two questions that spring to mind:

- Does every Australian grape and wine business *know* most or all of the information covered? Probably, yes.
- Does every Australian grape and wine business *do* most or all of the information covered? Probably, no.

Some people will ask, 'What has all this got to do with wine?' Absolutely everything because people do business with people and wine is just the product that happens to drive the human interaction in our industry. You may notice that none of the information mentioned has anything to do with the quality of wine that you make or the price that you sell it. The list is all about *how* we choose to present ourselves to the market.

Other people will say that they prefer to focus on building their wine brands. I say, 'Do all that, as well as all of the mentioned information and you will build yourself a great future, since doing both is better'. And guess what? Unlike getting into the grape and wine business, there are no barriers to doing both!

Finally, a third question to ask ourselves:

- Could every Australian grape and wine business score a 10/10 to the questions listed? Yes, I absolutely believe every business could – it is just a matter of attitude and work.

More grape and wine businesses doing more of the information listed means a more potent value proposition in the marketplace for Australian wine, and this surely means more profitable sales. In order to save our precious vineyards from the bulldozers, we have some work to do, no matter what market segment we choose to operate in, or what the current market conditions are. And for a single producing nation like Australia selling into large international markets, doing so is certainly not a nil sum game.

How many vineyards could we save by improving our collective value in the marketplace? How many vineyards could *you* save – maybe even your own – by improving *your* value in your marketplace?

Taking action has never been more imperative, so which do you choose: bulldozer or value improvement? ■

About the author

Jim Moularadellis is chief enthusiasm officer (CEO) of Austwine, Australia's bulk wine specialist. Established in 1993, Austwine celebrates 400 million litres of bulk wine transactions in 2010. Jim was named 2007 Entrepreneur of the Year, Services, for South Australia by Ernst & Young, and in 2008 Austwine was announced the winner of the Business SA Agribusiness Award. In 2007 and 2008, Austwine was in the top 25 Fast Movers for SA, an index of SA's Fastest Growing companies. Jim joined Austwine in 1998, is a Certified Practicing Accountant and holds an Honours Degree in Law from the University of Adelaide. He can be contacted on (08) 8363 5188 or jim.moularadellis@austwine.net.au

References

1 Winemakers' Federation of Australia, May 2010: 2010 WFA Vintage Report.

2 Winemakers' Federation of Australia, May 2010: 2010 WFA Vintage Report.

3 Australian Bureau of Statistics, January 2010, Cat No. 1329.0.

4 Amount of grapes left unpicked in 2009: AWBC estimate is 143,000t; ABARE estimate is 157,567t.

5 On February 27, 2010, an earthquake struck Chile measuring 8.8 in magnitude.

6 The largest three red varieties in 2010 were Shiraz (389,267 tonnes), Cabernet Sauvignon (213,289t) and Merlot (108,514t).

7 A short-term rise in market prices that is part of an overall longer-term downward market trend.

8 Australian Bureau of Agricultural and Resource Economics. ABARE project 3409 Australian winegrape production projections to 2011-12, April 2010.

9 Winemakers' Federation of Australia, May 2010: 2010 WFA Vintage Report.

10 "Ideally, the area grubbed next year should be subtracted from the bearing area. However [given that] future decisions by growers to grub are too difficult to estimate with any objectivity, they were assumed to be zero and excluded from the projections model." Page 16: ABARE project 3409 Australian winegrape production projections to 2011-12, April 2010.

11 Australian Bureau of Statistics, January 2010, Cat No. 1329.0.

12 Joint press release May 2, 2010, by the (then) Australian Prime Minister and Treasurer.

13 On Thursday, June 24, 2010, Julia Gillard replaced Kevin Rudd as Australian Prime Minister.

14 MDBA: Includes dead storage. 1 gigalitre = 1,000,000,000 litres.

15 MDBA: Excludes dead storage.

16 SA Government news release dated July 1, 2010, by Paul Caica.

17 Joint media release dated November 2009: Winemaker's Federation of Australia, Wine Grape Growers' Australia, Australian Wine and Brandy Corporation, and Grape and Wine Research and Development Corporation.

18 Australian Bureau of Statistics, January 2010, Cat No. 1329.0.