

Understanding the Australian Wine Industry:

**A grower's guide to the background and participants
of the wine grape industry**

A report for



By Luke Mancini

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Executive Summary

The aim of this report is to establish a foundation that the reader can use as a conduit for further discovery about the Australian wine industry.

It also has a focus on wine producers who are in diversified businesses with other enterprises such as cotton, horticulture and grains, how these growers are part of the wine industry and how they are positioned within it.

The wine industry in Australia is open for individual farmers seeking to pursue a livelihood by growing grapes perhaps as an additional enterprise to other commodities. This is a handbook-type report on the background, components, participants and machinations of one of Australia's most important agricultural enterprises. Therefore, the following report is intended to provide a background of the Australian wine industry as a means of giving the reader a critical understanding of how it has operated and grown over the years. This is followed by an extensive explanation of the primary role played by the industry participants and how consumers influence the business perspective. It is then important to understand how the prices of grapes are set for the farmer along with the discovery of wine prices and the participant who bears the risk in this case.

As with any other business practice, selling wine requires effective marketing. The report discusses various techniques that are employed by bulk and niche producers to achieve success in the industry. Water use, varietal choice, geographic reputation and global competition are some of the examples.

Finally, the report describes the improvements that can be made and recommendations for further study on the industry.

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Foreword

I am a third-generation farmer from Griffith in New South Wales. After completing an Agricultural Economics degree at Sydney University, I worked in commodity trading in Sydney and country Victoria before returning home to the family farming business.

We have mixed irrigated enterprises including wine grapes, olives, cotton and grains. Hence, my focus on the wine industry for my Nuffield Scholarship. My travels included vineyards, wineries, educational facilities and marketing bodies. The countries that I visited to research my scholarship were the United States of America (USA), United Kingdom (UK), Spain, France and Italy.

After considering various topics, I felt this topic would help for diversified growers in the warmer inland areas of Australia who may feel less connected to the industry than those in the cooler climate, more well-known premium wine regions.

I hope that this report encourages established wine grape growers to think about diversified farming businesses as part of the entire industry and hopefully provide some more clarity as to our position within it.

I also felt that this topic would lend itself to a wider audience and that its components may be applicable within the grape industry and other agricultural enterprises.

Acknowledgments

There are many people I would like to thank for their support.

Firstly, my family.

Secondly, Nuffield Australia, for awarding the scholarship and affording me the opportunity to gain exposure and access to all levels of agriculture throughout the world.

Thirdly, the management team at Yenda Producers Co-Op., who were patient with me as I divided my time between our new business together, the farms and the extensive travel.

Lastly, Wine Australia, for its encouragement and financial input.

I also make special mention of 1997 Scholar Liz Riley who gave sound advice on my topic and the Nuffield experience.



Figure 1: The Author in Griffith, NSW

Abbreviations

AUD: Australian Dollar

Ha: Hectare

LIP: Label Integrity Program

UK: United Kingdom

USA: United States of America

WET: Wine Equalisation Tax

WFA: Winemakers Federation of Australia

Objectives

This report provides an overview of the Australian wine industry, and has relevance to wine producers who are in diversified businesses with other enterprises, and how they are positioned in the wine sector. Other objectives include:

- **Australian wine in context.** The history of Australia's viticulture and wine industries and Australia's role and place in global wine production including the reasons why Australian wine production is export orientated.
- **Role of industry participants.** The role and importance of grape growers/farmers, winemakers/wineries, wine merchants, distributors and brokers in wine industries and how wine consumers influence the varietal choices made by farmers and winemakers.
- **Key wine marketing techniques.** The techniques that differ from niche/smaller versus bulk wine producers and do each of these producers place an equal importance on branding.
- **Price discovery.** The economic factors that contribute to the prices of Australian wine and how and what ramifications do these factors have on the actual grape prices farmers receive.

Chapter 1: Introduction

1.1 Industry Overview

To provide a brief background on the Australian wine industry, the latest (2019) figures on total vineyard area in Australia are: total area 146,128 ha, of which Shiraz accounted for 30%. Chardonnay was the largest white variety with 16% of the total area.

The total winegrape crush in 2019 was 1.73 million tonnes, of which South Australian regions accounted for 859,000 tonnes (50%). From this, winemakers produced 1.2 billion litres of wine, of which reds accounted for 57%.

There are estimated to be 2468 wineries and 6251 grapegrowers employing 163,790 full and part-time employees across 65 winegrowing regions in Australia, contributing over \$45 billion annually to the Australian economy.

Of the 65 Australian wine regions, the largest region by total planted area is the Riverland. Barossa Valley had the highest number of new plantings in 2014-15 and Langhorne Creek had the highest yield of the largest cool regions.

The survey collected data on 41 varieties, although more are currently grown in Australia. Shiraz had the most new plantings in this year and tonnes produced of red varieties increased by 5 per cent compared to 2012, while white varieties decreased by 2 per cent.

(Australian Wine Report Summary, 2019)

Case Study 1: Marketing

Dr Roger Bolton, UC Davis 15 June 2017, Davis California, USA

Wine Australia receives funds from the wine export charge and the promotion component of the wine grapes levy to undertake marketing initiatives. The following case study outlines some marketing and production techniques.

There are various techniques that the industry can implement to market their products. Individually, these may be participation in trade shows and competitions with access to ratings agencies, media and peers. Social media, as in all industries, is playing a significant part because it is cheap, profiles are easy to set up and it has a magnifying effect.

Private labels offer the same wine with bespoke packaging and used that as a point of differentiation to great advantage.

In a meeting with Dr Roger Boulton, the discussions about marketing techniques rendered down to bulk or niche production as a focus of growers and their winemakers. The general consensus being that those that are best at producing premium wines in smaller wineries are not suited to producing bulk wines at bigger wineries, and vice versa. Each strategy is vastly different to the other. Niche price is driven by demand. Bulk price is driven by supply. As an example of a strategy that has tangible environmental benefits and marketing appeal, UC Davis in California has created a new green-tech winery (see Figure 2 below) The idea was to give students and winemakers a more practical experience in producing wine for the ever conscious consumer and develop the winery of the future. As well as being a sustainable entity, it also is a blueprint on how to differentiate a brand. The winery is designed to be flexible enough to do things now, in small scale, that can be replicated by industry in larger scale for the future. Dr Boulton explained that the ability to measure temperatures on extraction in wine, especially reds, and the precision of the fermentation system is something that the university had not had before. To add to its status, the winery is beyond energy-neutral, making more than it uses. The overarching idea behind this type of winery is to educate by example. Primarily to identify the new ways to minimise water and energy and show how it is possible to be self-sustainable. Having proven that there are better, cleaner and modern ways to make wine, will have an obvious marketing appeal.



Figure 2: A main building of the 'green' winery with water storage tanks, Source: Author

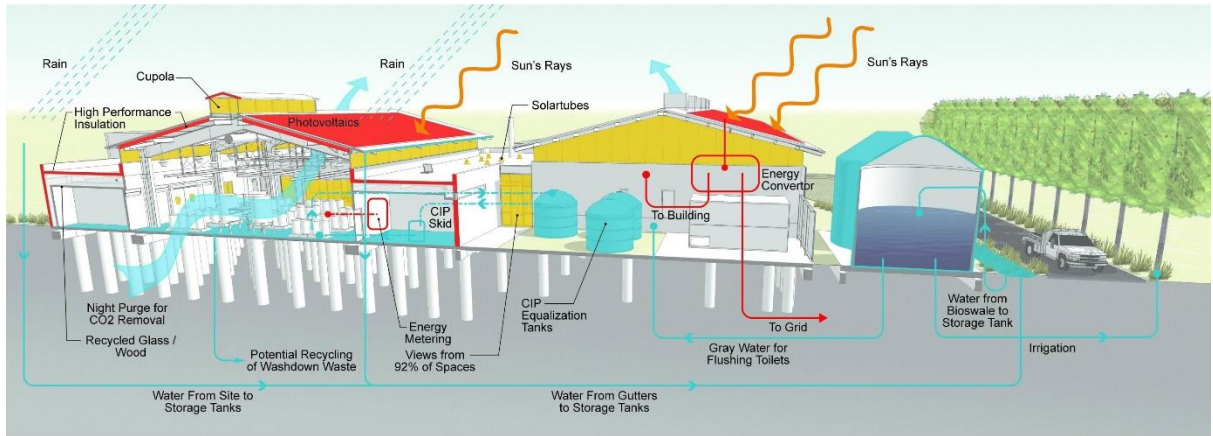


Figure 3: Profile diagram of the winery components, Source: UC Davis

Chapter 2: Australian Wine in Context

Australia's history of wine manufacture traces back to its settlement in 1788 (Worldwide Wine Tours). However, only since the late 1980's has Australian earned a truly international reputation due to an aggressive expansion phase. As already highlighted in Chapter 1, some recent statistics show that in Australia:

- Total winegrape crush in 2019 was 1.73 million tonnes.
- Total wine production was 1.2 billion litres, 684 million litres of red and 514 million litres of white.
- Total wine export value was \$2.9 billion with 37% going to China.
- There were 6251 grapegrowers in Australia.

(Australian wine sector at a glance, 2019, Wine Australia)

Australia remains a small wine producer globally and only contributes 3-4% of the world's wine trade. However, that 3-4% makes up a great proportion of global export trade and therefore Australia has a global reputation. It must be noted that other new world produces share a similar reputation.

By comparison, the established old-world producers like France, Italy, and Spain are responsible for 54% of the world's wine and over 64% of wine exports (BCEC Research Report).

Australia's role and place in global wine production is important since it contributes a significant proportion of international wine export markets. Australian wine production is export orientated due to the government's focus to earn foreign exchange in huge revenues gathered through exports.¹

According to Wine Australia Export Report, the higher priced end of the wine market is gradually increasing, especially in Asia and China. The report acknowledges that in a period of 12 months before June 2016, the worth of the wine export grew by about 11% to \$2.11 billion. The volumes of wine sold rose to 728 million litres.² The rise in consumption of the exclusive bottles of wine, i.e. wine sold above \$10 per litre, accounted for the increase in revenues from total wine export values.

¹ Wine Australia. *Australia's finest wines achieve record value in 2016*. [Online], 2017. Available at: <https://www.wineaustralia.com/news/media-releases/december-2016-export-report>

² Ibid.

It is the opinion of the author that the Australian wine industry is a sophisticated industry that will improve with time. Australia has the ability and infrastructure to innovate, educate and compete with other major wine growing regions of the world.

Chapter 3: Role and Responsibilities

3.1 Wineries

Wineries are responsible for the receipt and processing of grapes. Essentially, everything from farm gate direct to consumer or wholesaler. Wineries are also responsible for marketing their products through advertising and other marketing strategies. Wineries have the responsibility of ensuring that their branded products remain unique in order to maintain customer loyalty.³

Winemakers and their executives are charged with identifying new opportunities. Creating new wines by conducting extensive research on consumer preferences and varietal benefits in order to securing new consumers and maintain existing ones. Wineries are in the best position to maintain communication with the consumer as they are the consumer interface. The farmer grows the grapes and the distributor delivers the wine, but the winemaker produces the wine, labels and packaging. So, it can be said that the majority of the responsibility lies with the winery to educate consumers about their purchases.⁴ Creativity and innovation in marketing strategies is also an important step to ensure that sales and market share improve to increase profile and, by extension, the profile of the farmer, region and variety.⁵

Wineries are also responsible for ensuring food safety procedures and programs. This is because the final products must be safe for human consumption with a lengthy refrigeration period. It is likely that a winery with a reputation for safety, both for the workers and the wine products, can maintain a loyal customer base. Besides the safety of workers, wineries are also held responsible for ensuring that the environment surrounding the industry is safe.

Wineries are often tasked with deliveries to its customers, whether that is wholesalers, retailers or direct end consumers. Ensuring the product is available at all times and with the same quality is key to maintaining loyalty. Wineries also organise showcase events like wine tasting, wine tours and festivals to identify new markets and award loyal customers. In addition to promoting new products, wineries are encouraged to undertake staff training in

³ Leonardo Casini, Alessio Cavicchi, and Armando Maria Corsi. "Trends in the British wine market and consumer confusion." *British Food Journal*, vol. 110, no. 6 (2008): p. 554.

⁴ Johan Bruwer. "The importance and role of the winery cellar door in the Australian wine industry: some perspectives." *Australian and New Zealand grapegrower and winemaker* 463 (2002): 96.

⁵ Pascale G. Quester and Justin Smart. "The influence of consumption situation and product involvement over consumers' use of product attribute." *Journal of consumer marketing* 15, no. 3 (1998): 223.

the use of machinery, fermentation of grapes and refining of the product in order to provide employment opportunities and interactive sessions with the local community.⁶

Wineries, although not the only participants, are also responsible for branding wine and controlling market prices in order to ensure consumer preference and price point is matched by the wine's quality. This includes packaging and promotions. Upgrading logos and packaging is an effective strategy to provide customers with a new experience or access to a particular wine. Production must also ensure maximum utilisation of resources for optimum results. Wineries must also ensure this new experience of wine does not compromise quality. Prices reflect quality and generally it is the duty of the winery to keep interaction and the overall wine experience alive, while still ensuring that the consumers' loyalty is preserved.

Case Study 2: Quality Wine

Chateau de Candale, 2 July 2016, Landes France



Figure 4: In the cellar vinification room of Chateau de Candale (Source: Author)

The author visited Chateau de Candale in July 2016. This particular winery visit has been highlighted as it had such an emphasis on quality and maintaining a reputation for both themselves and their region. This was also true for other wineries of the St Emilion and Bordeaux areas.

As explained by local sommelier, Marcel Tuffiere, reputation starts with the grapes being cultivated and pruned so that yield is sacrificed to induce quality. Fruit is hand-picked to be certain only the best quality fruit is harvested and then is further sorted through modern de-stemmers and strainers (Figure 5).

⁶ Jingxue Yuan, and SooCheong Jang. "The effects of quality and satisfaction on awareness and behavioral intentions: Exploring the role of a wine festival." *Journal of Travel Research* 46, no. 3 (2008): 284.



Figure 5: Modern equipment depicting a hopper leading to an elevated crusher (Source: Author)

Emphasis was placed on the unique ‘terroir’, the specific piece of earth grapes are planted on. Varieties, mainly merlot and cabernet franc, can be the same but taste different if planted on sand, clay or limestone. Furthermore, the average age of the vineyard is 40 years, with the oldest 95 years and the youngest three years. All these variables are nurtured in a different way to uphold the winery’s reputation.

In summary, this was typical of a modern winery in a traditional wine producing area, with investment in modern equipment, such as a hopper leading to an elevated crusher.

3.2 Brokers, distributors and merchants

Merchants and distributors are tasked with distributing wine products to customers. The margin for a distributor may range from 3% to 30% of the sales price, the margin for the retailer may range from very little to 60% (Alliance Experts). Some merchants have taken advantage of economic globalisation and have large global wine distribution networks. For example, this means that a merchant from a country in Europe can manage to transport wine across the globe to strategic markets in all the continents. Merchants also help promote other

small businesses within the wine industry by providing wine products to retailers and wholesalers in key markets throughout the world.⁷

Merchants and distributors have an incentive to seek new markets for wine to leverage off their existing network. The better merchants are well connected with ties to the largest, or most lucrative, markets. However, they are also expected to be innovative enough to create new markets. Through research, a merchant can identify potential markets around and exploit this information for their benefit.

Brokers, merchants and distributors play a crucial role in advertising and promoting wine brands. In order for a distributor to make a sale, a merchant has the task of promoting the products that they are selling. In the process, the broker ends up matching wine brands to their customers, winemakers to distributors and becomes the point of the market. The distributor may be required to have in-depth knowledge about particular features of the product. A distributor may be questioned by customers on matters concerning ingredients, toxicity or even the story behind the wine brand. Therefore, a distributor will also have a spokesperson for the winemaker.⁸

Merchants, brokers and distributors are an extension of the wineries they are customers for. This is because they are expected to conduct their businesses in the interests of their customers. Distributors will have the role of advising the best brand that suits their need, thereby making a purchase according to the information obtained from the distributor.⁹

Wine merchants, distributors and brokers may also buy wine on consignment. Rarely do wine manufacturers sell their wine to the end consumer, but rather to merchants, distributors and via brokers. This gives them an important role in the business as they will determine various factors in the wine market and industry. These factors include supply, demand and distribution. They are there when the winemaker wants to sell and until the consumer wants to buy so they do take on some risk. This means that wineries must develop good relations

⁷ Evert-Jan Visser, and Peter de Langen. "The importance and quality of governance in the Chilean wine industry." *GeoJournal* 65, no. 3 (2006): 189.

⁸ Cristina Boari, and Federico Riboldazzi. "How knowledge brokers emerge and evolve: The role of actors' behaviour." *Research Policy* 43, no. 4 (2014): 689.

⁹ Flint, Daniel J., and Susan L. Golicic. "Searching for competitive advantage through sustainability: A qualitative study in the New Zealand wine industry." *International Journal of Physical Distribution & Logistics Management* 39, no. 10 (2009): p. 863.

with the merchants, distributors and brokers as they can directly influence the success of a winery and how competitive it is.¹⁰

Wine brokers, distributors and merchants are key players in conducting market research, as they have access to diverse markets and frequently interact with retailers, wholesalers and end consumers. They are most familiar with the market's orientation. Distributors and merchants can also provide information on the position of the competition. Therefore, they can provide wineries with key information that enables strategic planning and execution of strategies.¹¹

Distributors, brokers and merchants can provide feedback and act as a medium, thereby ensuring winemakers can make bespoke wine, including new features or products, to suit customer needs. Merchants can also play the role of sourcing new techniques and technology to be used in the wine industry to ensure the distribution processes are efficient.¹²

Brokers, merchants and distributors are expected to work with several brands, providing customers with a variety of products. Introducing them to many options broadens customer knowledge and choice.¹³

Since brokers act as middlemen between a winery and their customers, they have responsibility of negotiating and advocating for their customers. The broker has to handle contracts and is trusted to provide the type of wine the client needs at the right time as requested.¹⁴

3.3 Varietal choice

Australia has varied soils and more than 100 different grape varieties planted across the country in 65 designated wine regions. Australia is a vastly more diverse winemaking country than it's given credit (Pickard, 2019).

Each grape variety has its own distinct DNA, ranging from fresh and fruity to rich and complex.

¹⁰ Timothy G. Pollock, Joseph F. Porac, and James B. Wade. "Constructing deal networks: Brokers as network "architects" in the US IPO market and other examples." *Academy of Management Review* 29, no. 1 (2004): p. 67.

¹¹ Martin Bell, and Elisa Giuliani. "Catching up in the global wine industry: innovation systems, cluster knowledge networks and firm-level capabilities in Italy and Chile." *International Journal of Technology and Globalisation* 3, no. 2-3 (2007): p. 216.

¹² Luis Araujo, and Carlos Brito. "Agency and constitutional ordering in networks: A case study of the port wine industry." *International Studies of Management & Organization* 27, no. 4 (1997): p. 36.

¹³ Per Jenster, and Yiting Cheng. "Dragon wine: developments in the Chinese wine industry." *International Journal of Wine Business Research* 20, no. 3 (2008): p. 254.

¹⁴ Casini et al., p. 557.

Varietal choice in the wine business defines the choice of grapes used to make wine. Consumers drive farmer and winery decisions when choosing to grow varieties as it is dependent of demand. If one wine is popular, the other less so, manufacturers can recommend increasing production of the more popular wine, whilst reducing production of the unpopular wine and substituting the less popular wine with development of a new version. Consumers can also have an influence on the variety through information they have access to, for example rating products on social media, websites and apps. By rating their tastes and preferences in real time, they influence both variety and production trends.¹⁵ This ensures customer preferences and needs are known and fulfilled.

Lifestyle is also a major determinant of the consumers' preference of varietal. Lifestyle can be classed as income, culture, values, beliefs and religion. These factors influence choice.¹⁶ During production, wineries will concentrate on these preferences to tap the market in these regions. By extension, farmers will also take into consideration customer beliefs and customs while selecting grapes to grow in order to fulfil demand.

Whilst researching in Europe, it was observed by the author that customers value wine from an original variety, more so than a hybrid or new varieties.

Another influence on varietal choices by wineries is customer demographic variation such as age, employment status, level of education and social class. For example, online wine buyers are mostly well-educated, high-income males in the 35- to 44-year-old age group (Bruwer, Wood 2004). Whilst this study was undertaken a few years ago, the social status greatly affects varietal preferences, coupled with income level and age groups, and wineries take into consideration all variations within the population.¹⁷ Exploring the differences and applying to marketing techniques will enhance the likelihood of a successful business model.

Case Study 3: Distribution

15 September, Wine Australia, The Strand, London, UK

A meeting with Laura Jewell from Wine Australia provided the author with a thorough overview of the UK distribution network for Australian wine. The major challenge in recent

¹⁵ Quester et al., p. 226.

¹⁶ Tim H. Dodd, Debra A. Laverie, James F. Wilcox, and Dale F. Duhan. "Differential effects of experience, subjective knowledge, and objective knowledge on sources of information used in consumer wine purchasing." *Journal of Hospitality & Tourism Research* 29, no. 1 (2005): 7.

¹⁷ Ibid, p. 5.

years has been Brexit, the withdrawal of the UK from the European Union. As a result of this, there has been economic uncertainty, especially consumer confidence, effects on exchange rates and potential trade barriers. Although Brexit may provide great opportunities for Australian wine exports, distribution chains will likely be disrupted under new parameters.

In 2018/19, UK wine and spirit businesses and consumers paid over £8 billion in duty, accounting for 67% of alcohol duty revenue collections (Wine and Spirit Trade Association Budget Submission, 2019). What makes the UK model interesting is that from the moment it is bought (imported) and until the point of sale, major supermarkets influence the chain directly due to their strength. Distributors include a small number of larger buyers directing sales to the “off-trade” i.e. supermarkets and wine stores, instead of the “on-trade” i.e. wine bars and pubs.

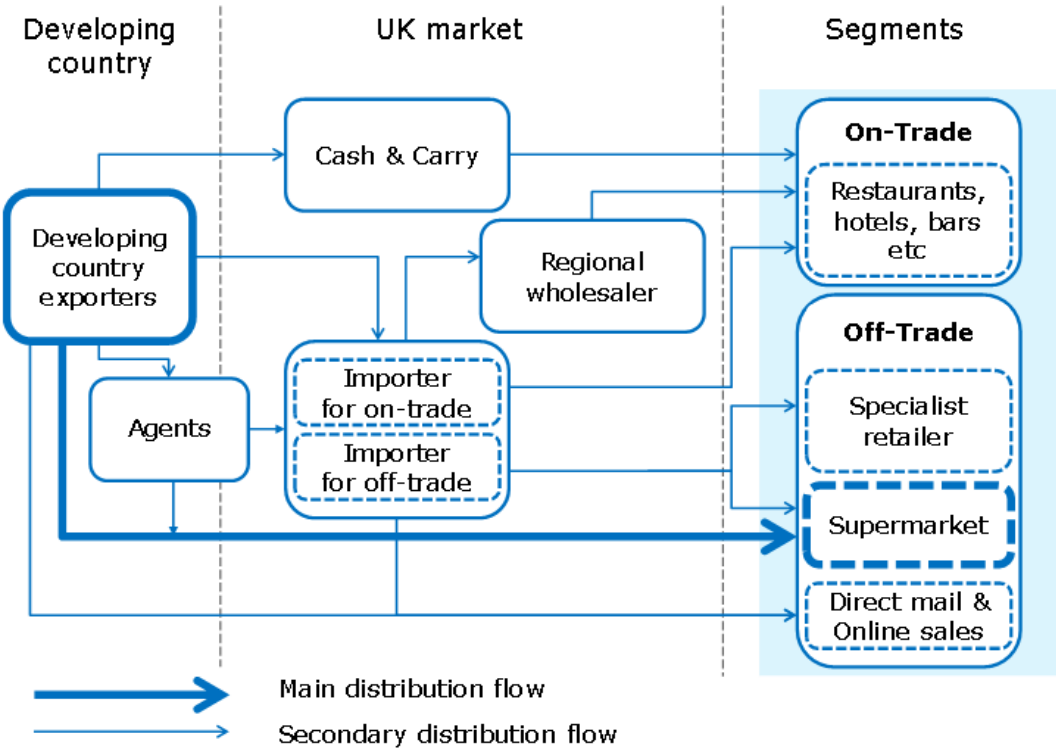


Figure 6: Flow chart courtesy of the CBI, Ministry of Foreign Affairs, Netherlands

A key feature of UK supermarket ability to distribute is their top-down approach. There is distribution to on-trade (direct to consumer) and off-trade direct to retailer. Supermarkets are in direct contact with winemakers in Australia to effectively build a wine to a specific price point. Such influence has a potential positive impact for Australian farmers to make decisions based on direct knowledge of this market.

Winemakers representing the supermarkets will collaborate with Australian wineries on specific import orders where wine is made to supermarket specifications and privately labelled for a particular price point. This top-down model gives the UK supermarkets full oversight of the supply chain to gain efficiencies in marketing and distribution. It is mostly about maintaining volumes and holding slim margins. According to author research, margins can range from 5-25% with the cost of distribution to come off the margin. So higher quality Australian wine attracts a greater margin to distribute, as identified when visiting Berry Bros and Rudd in London.



Figure 7: Berry Bros. and Rudd in London is an example of a British winestore and specialist retailer for 'off-trade' wines.

Chapter 4: Wine and Marketing

A 2006 publication - *Country-Level Analysis of Competitive Advantage in the Wine Industry* – outlines how the wine industry is becoming more competitive and globalised (Castaldi, 2006). Marketing becomes a crucial and first step in popularising the final wine product to the consumer. Effective marketing is a key factor that promotes wineries' reputation and their products and therefore, by extension, the integrity of the farmers work and efficiency of the distributors supply chain. The techniques used will align with the usual '5Ps' of marketing – people, promotion, place, product and price.

Currently, produce personalisation to customer taste is becoming a common and effective marketing approach and wineries are forced to adopt trends of the current demand. Much of it lies in the customization of products to a consumer's preference which calls for the creation of products that are more aligned to fulfilling the customers' needs and desires. This means that wineries must focus more on their consumers with hopes of gaining new buyers for their products. Adaptation can include the selling of wine in bottles that have the buyer's identity, thus achieving the personalization effect and in the process, winning consumer loyalty.¹⁸

4.1 Transparency

In general, consumers are becoming more aware and curious about the products they buy, in part due to the availability of more information via the internet – websites and social media. This drives consumer education about all types of wine. Some may only decide to purchase after fully familiarising themselves with the information they have gathered. According to the Social Vignerons website, the top 10 best wine apps for 2019 were:

1. Vivino
2. Decanter Know Your Wine
3. Cellar Tracker
4. VinoCell
5. Delectable
6. Pocket Wine Pairing
7. Localwineevents
8. Living Wine Labels
9. Useful Expert Ratings Applications
10. Wine Searcher

¹⁸ Winemakers' Federation of Australia Australian Wine and Brandy Corporation. "Setting the Australian Wine Marketing Agenda 2000 » 2010." *The Marketing Decade*, (2000) 11-24.

These apps offer easy to understand information, product reviews and price guides, empowering buyers to quickly verify information and compare it against another. This appeals to transparency traits.

To further enhance transparency and integrity, wineries are using 'QR' codes which will enable the wine buyers to access data concerning the particular brands' product online.¹⁹

Transparency is critical and the Wine Australia Label Integrity Program (LIP) has been created to verify labelling claims. All in the supply chain must maintain auditable trail of documents indicating vintage, grape variety and Geographical Indication that they grow, manufacture, supply or receive (regardless of whether they are acting as an agent). The LIP prescribes what must be recorded but does not prescribe a form in which they must be kept (Wine Australia, 2019).

Consistency can play a big part of maintaining quality perception of wine. The fact that most of the bulk wine producers export their wine means that the consumer has little or no connection to information or physical observation of the wine making processes. Although many smaller wineries rely on a export marketing strategy, then can have an advantage of being known in their region, and can compliment their wine with showcase events. Their product is thus typically more familiar and trusted within the locality or their target wine clubs.²⁰

4.2 Authenticity and brand background

When consumers are attracted to a particular wine, the story behind that wine can often become more important. Stories can be powerful and used extensively in the marketing world. The label on a bottle is not written for everyone that will drink the contents, but it is written for those who will relate to it. It becomes part of the enjoyment because the perception adds authenticity. The authenticity of wine is constantly created, presented, contested and appreciated. It aids in maintaining customer loyalty. Successful wineries know that stories sell their product. Therefore, marketers appeal to the emotional side of the consumer with the goal of enticing them to their products and making them repeat customers.

¹⁹ Christian Felzensztein. *The Chilean wine industry: new international strategies for 2020*. Santiago, Chile: Universidad Adolfo Ibanez, (2011), p. 10.

²⁰ Christian Felzensztein, and Keith Dinnie. "The effects of country of origin on UK consumers' perceptions of imported wines." *Journal of Food Products Marketing* 11, no. 4 (2006): p. 112.

4.3 Smaller producers versus bulk wine producers

When it comes to adaptation, smaller wine producers are influenced by the local population or the relatively limited pool, like a wine club, that they market to and they can therefore more effectively 'hit their target' wine drinker. However, bulk producing wineries will be influenced by global standards, stainless steel cost per litre for example, where niche wine producers may opt to develop smaller volume packaging during tough economic times that may see the wine sales reduce to ensure sales of their product. Bulk wine producers have been seen to take on a more global presence as they try to expand and popularize their brand, as seen with major Australian wine brands in an Irish supermarket (Figure 8). Small-scale wine producers tend to use a much more refined or targeted marketing campaign to attract and keep their consumer. It must be said that these are vastly different ways of popularising wine. If the perception is that small wineries are stifled and cannot get larger, that is incorrect. They are more likely wanting to remain smaller to add to their exclusivity.



Figure 8: Australian wines with a global presence. Bottles of Yellow Tail, Jacob's Creek and McGuigan's all depicted in an Irish supermarket (Source: Author)

4.4 Health, environmental wellbeing and story

Regarding health issues and environmental wellbeing, bulk wine producers have much of the attention. The introduction of environmental benchmarks into purchasing criteria for wine, especially premium brands, is becoming more commonplace. Economic, environmental and social aspects of sustainable wine production are entwined.

Bulk producers have a wide consumer base and so concerns and doubts about the contents of the product will be more significant, compared to the smaller producer. Generally, smaller wineries have that trusted base of local and familiar consumers. The story aspect of wine

marketing is largely based on which story is more relevant and most truthful. The small-scale wine producers may have a more appealing story to the local consumers and may be more endearing than a foreign wine producer.²¹

Branding for the two categories of wine producers is important as it enables the entities to create loyalty and an identity to their product and marketplace. However, bulk wine producing entities are often required to place more emphasis on branding than smaller-scale entities primarily due to smaller counterparts having a higher level of recognition and are more familiar to their population.

Finally, both economic and environmental sustainability appears increasingly critical for the Australian wine industry moving forward.

²¹ Jean-Pierre Bernadet. *Precis de marketing*. Ed. Nathan Paris, (2000).

Chapter 5: Price Discovery

5.1 Wine and price

Wine is produced from a variety of grapes from all parts of the world and their characteristics are derived from climatic conditions, soil and human influence via vigneron management, winemaker's ability, and consumer feedback.

The diversity of wine variety is reflected in price. Similar to other goods, the price of wine is determined by the consistency (or lack of) of both quality and supply. Pricing has often been a defining factor when making a choice. The price of wine is no different.

Quality factors include may include alcohol content, vintage area and year, brand name, type or class of wine, and size of packaging. Factors that influence supply factors may include competing resources, local market trends, exports, and regional reputation among others. Wineries can give detail about the product such as the appellation/region of origin, vintage and grape variety that can further be used to justify the price.

As highlighted in Chapter 1 and 2, the Australian wine industry has approximately 2,468 wineries and 6,251 grapegrowers employing 163,790 full and part-time employees across 65 winegrowing regions in Australia, contributing over \$45 billion annually to the Australian economy (Wine Australia, 2019).

The industry is a major source of employment as well as export revenue. The industry also promotes other avenues such as wine tourism to provide employment, social enhancement and an added income stream. Wine production regions in Australia, such as Hunter Valley, Barossa Valley and Margaret River attracts tourists from around the world.

5.2 Demand and supply of Australian wine

The author is hopeful that the Australian wine industry will continue to grow and lead the new world wine industry but achieving a delicate demand/supply will be critical to its success. Between 2006 and 2007, the production of wine in Australia surpassed demand and sales on a consistent basis. The continual oversupply resulted in a creation of inventory i.e. The Wine Glut, which hit the peak at about two billion litres and therefore continually hampered the profitability of the wine industry.

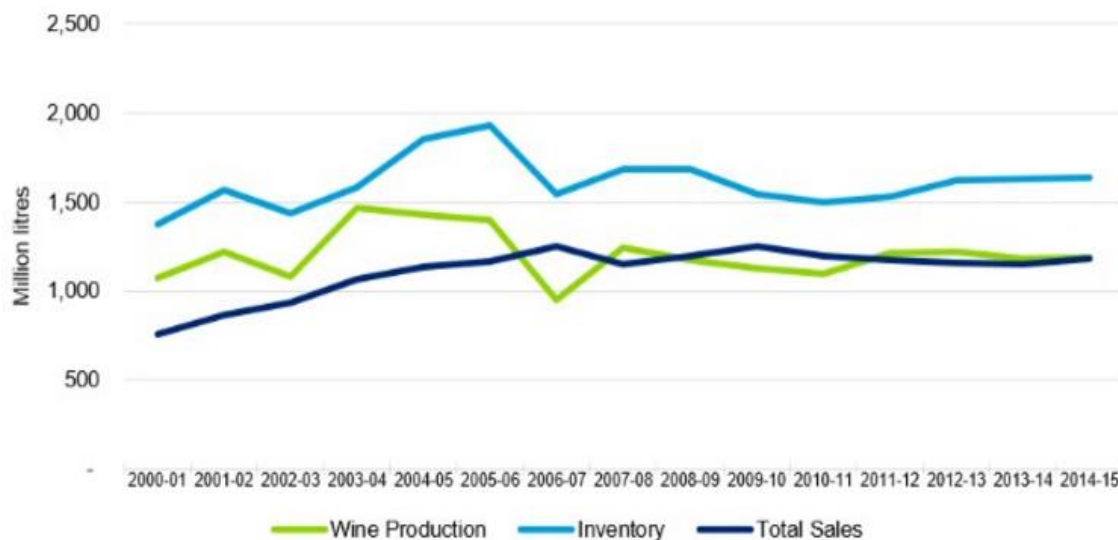


Figure 9: Australian Wine Production, Inventory, and Sales.²² (Source: Deloitte)

Despite the 2007 severe drought that contributed to a drop in the inventory levels towards the end of 2000s, the wine industry still faced a significant imbalance between demand and supply.²³ Since then, the total area used for vineyard has undergone a reduction.

5.3 Importance of wine supply

Currently, the supply of Australian wine is in line with demands based on total production across all the wine grapes. However, studies show that the supply situation can narrow down further when other factors such as particular grades of fruit from specific locations are considered.²⁴

One of the best approaches to a secure supply, and therefore price, is to sign medium-term or long-term contracts with the grape growers and stipulate a base price and build that relationship.²⁵

The on-going price discovery revolves around creation of additional demand and access to new markets for Australian wine, which is likely to prompt all the active participants in the supply-chain, including wine retailers, makers, and bulk producers to secure proper arrangements for an adequate supply that will meet the demand. For example, if drought or disease conditions were to adversely affect vintage in a similar case to that of the 2006-2007

²² Deloitte. *A sensational vintage for Australian fine wine*. (2016)

²³ CSU. *Australian Wine Price Calculator*. (2017) Available at: <http://csusap.csu.edu.au/~eoczkwos/winecal2016.htm>

²⁴ Wine Federation of Australia, 2012

²⁵ Sorrel Moseley-Williams. *Argentine Wine Is Ready For a Big Comeback*. *Fortune*, (2016) Available at: <http://fortune.com/2016/04/13/argentine-wine-big-comeback/>

(where drought caused a 32% fall in the total crush volume), wine producers would have to pay close attention to the impacts of such a supply-shock on their operations.²⁶

5.4 Local market trends

The following local market trends and statistics offer further insights to the Australian wine industry and its overall position. These economic factors highlight to growers what price they receive.

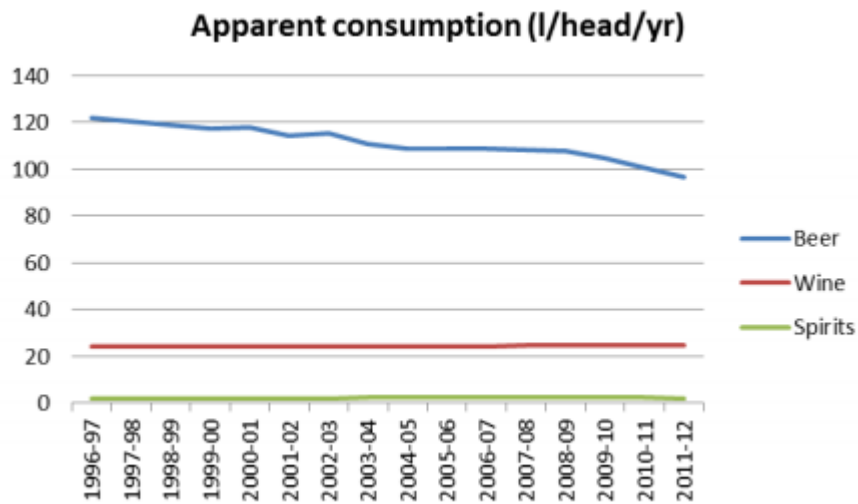


Figure 10: Apparent Consumption (Deloitte 2016)²⁷



Figure 11: Wine Consumption by Segment (Deloitte)²⁸

²⁶ Preszler et al., p. 21.

²⁷ Deloitte. A sensational vintage for Australian fine wine. (2016)

²⁸ Deloitte Australia. *The pricing predicament for Australian wine exporters*. (2017) Available at: <https://www2.deloitte.com/au/en/pages/consumer-business/articles/australian-wine-exporters-pricing-predicament.html>

According to Figure 11, overall volumes are growing slowly in line with population growth, but the past ten years have faced significant changes in consumption.

The Winemakers Federation of Australia (WFA) Report estimates that values of Australian wines have surged by 22% in the five years between 2007 and 2012, with wholesale costs increasing from \$4.42 to \$5.53 per litre on average.²⁹ However, the shift towards high consumption value has not been uniform. Studies describe the consumption of Australian wines to have ‘hollowed out’ by moving from low-value products (E/F) towards the premium segments (A&B), as outlined in Figure 11.

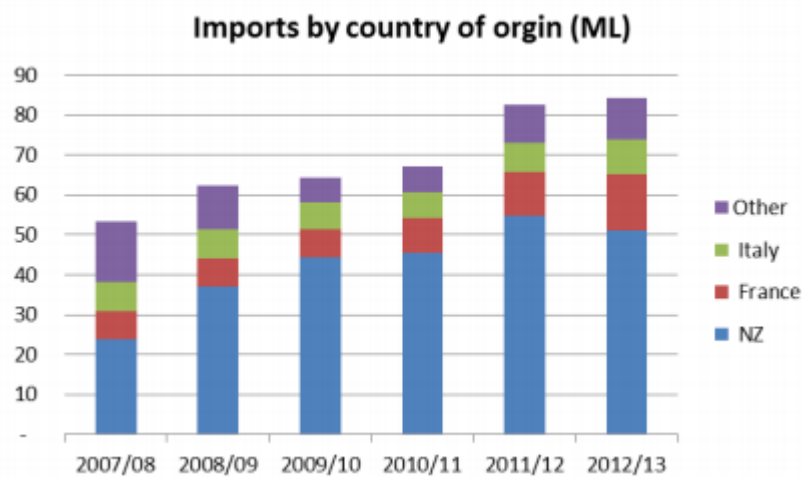


Figure 12: Imports by Country of Origin³⁰

The significant increase in demand for imported wines (Figure 12) has also contributed to the changes in the Australian wines. Imports have experienced a steady growth since the turn of the millennium. Standing at only 3% in 2000, this increased to 7% in 2007 and currently stands at 16%.³¹

²⁹ Ibid.

³⁰ Commonwealth of Australia. *Rural and Regional Affairs and Transport References Committee*, Canberra: Parliament House. (2016) Available at: http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Rural_and_Regional_Affairs_and_Transport/Australian_wine_industry/Report

³¹ Ibid.

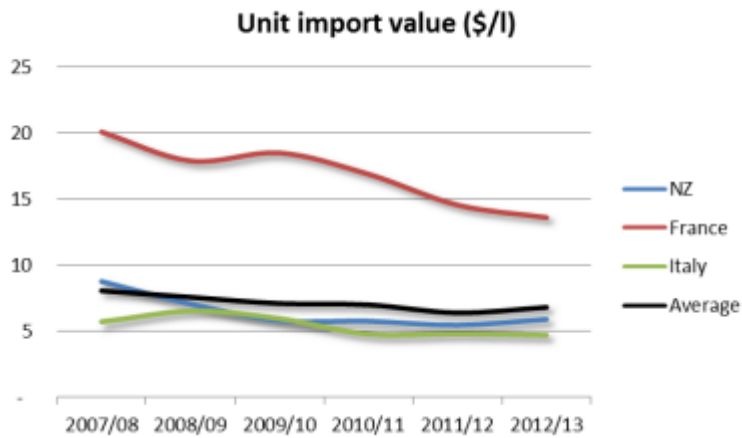


Figure 13: Apparent Consumption³²

According to Figure 12, wine imports from New Zealand have undergone a steady decline, falling from \$10 to \$6 per litre over the past ten years.³³ However, import wines tend to focus on the segment, which causes the local wines to face a decline in share and impact price. Although the impact of an increasing proportion of the mid-priced wines has triggered the drop in the average unit cost of imported wines in the past half a decade it has increased the pressure on the prices and margins of local wines.

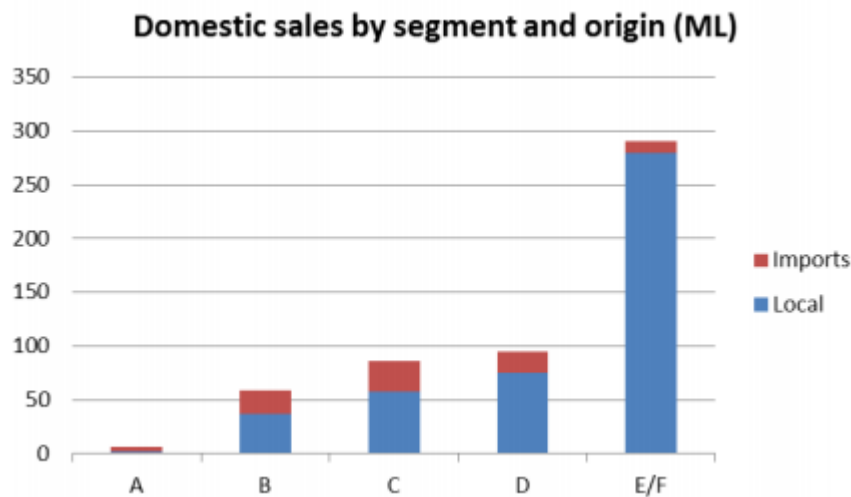


Figure 14: Unit Import Value.³⁴

Imported wines mostly target the mid- to high-value segments, which allow them to capture better margins than the local brands. The local production commands the E/F section (Figure 13) which accounts for about 54% of the domestic market.³⁵ Although the influence of retailer activities and reinforcement is a feature of the sector's discussion, the primary factors that

³² Ibid.

³³ Ibid.

³⁴ Ibid.

³⁵ Ibid.

cause margin pressure are the growing importance of competitively priced imported wines and the imbalance between wine production and mid to high value segments.

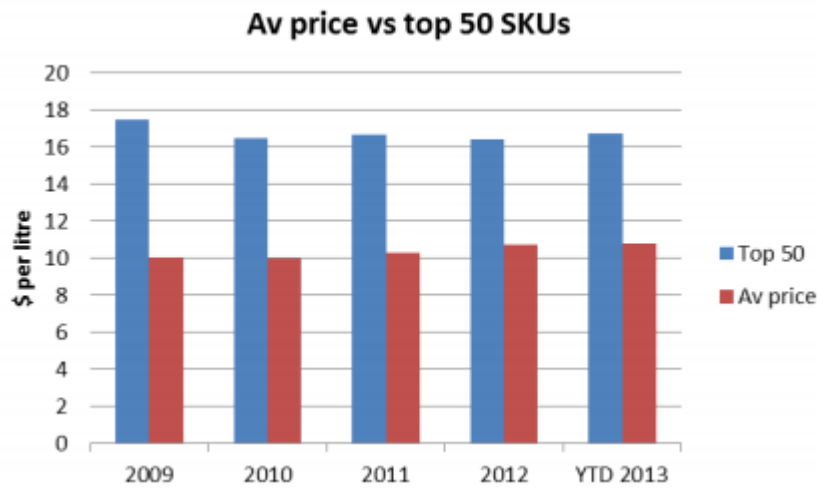


Figure 15: Average Price³⁶

Figure 15 shows that the average wine retail prices across the Coles range surged by 10% from 2009 to date. At the same time, the unit costs of the first 50 products in the same variety (Coles) declined by 4% over the same period.

Just like the local market trend, foreign market (export) trends also affect the prices of Australian wine in more than one way. The following is an outline of how they influence pricing of wine in Australia.

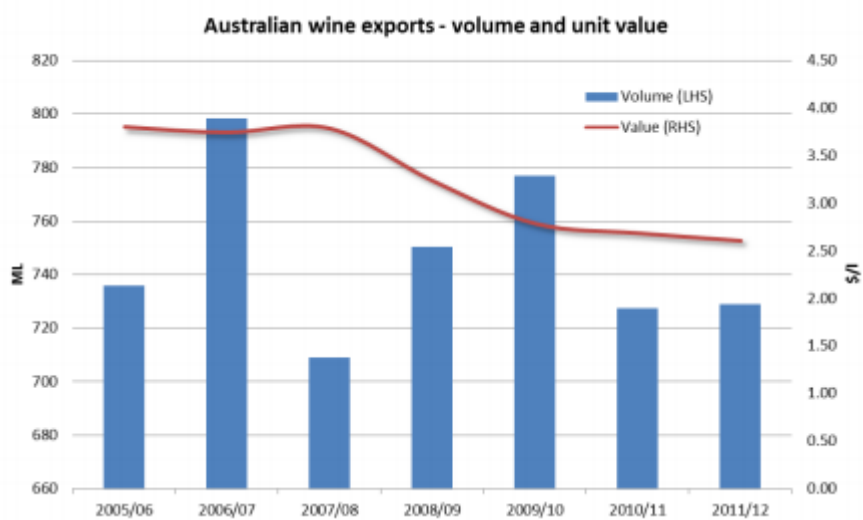


Figure 16: Volume and Unit Value of Wine Exports³⁷

³⁶ Ibid.

³⁷ Commonwealth of Australia, *Rural and Regional Affairs and Transport References Committee*, 2016.

In Figure 16, Australian wine exports hit the peak in 2006-2007 when the country exported about 800 million litres.³⁸ However, the industry suffered a setback when the global financial crisis hit the two largest foreign markets, the USA and the UK. These countries faced a recession and still endure the impacts of the economic and financial downturn.

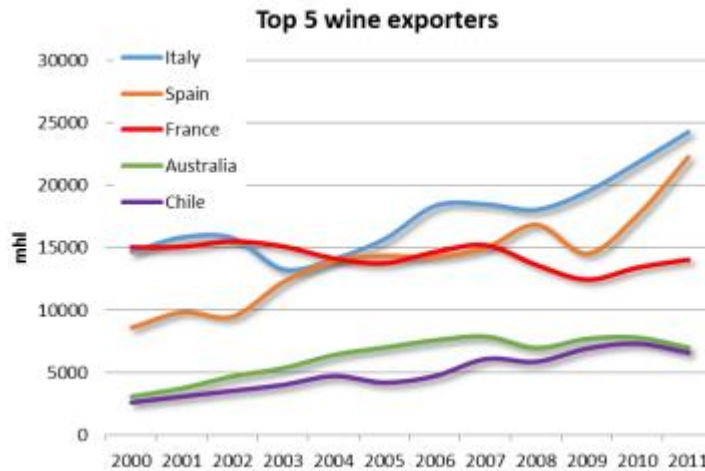


Figure 17: Top 5 Exporters³⁹

Figure 17 outlines the top five wine exporters in the world with Italy leading. The wine rivalry has increased with major producers in the sector such as Spain and Italy expanding their international market. The new entrants have led to increased competition which has affected Australia. They find it easy to hike their export sales because the end of global financial crisis has allowed them to reduce their domestic consumption. The regions that still have to deal with the outcomes of recession find it hard to deal with increased pressure of wine consumption. Five years before the 2011-2012, Australia exported about 60% of its wines.⁴⁰

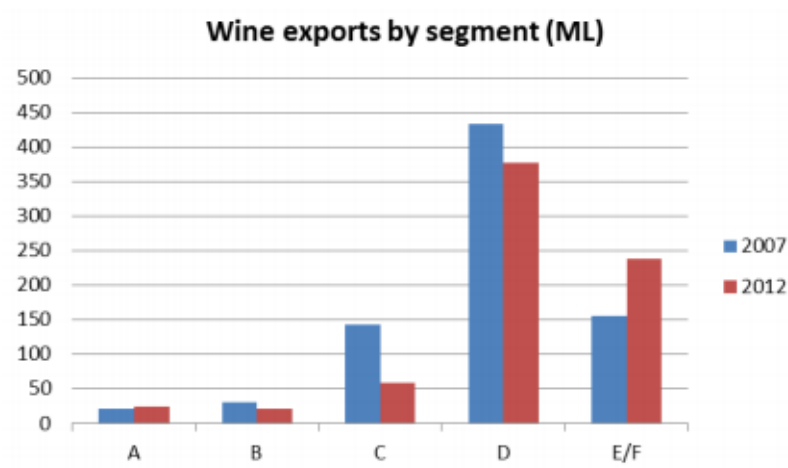


Figure 18: Exports by Segment⁴¹

³⁸ Ibid.

³⁹ Ibid.

⁴⁰ Anderson et al., p. 468.

⁴¹ Ibid.

Looking at Figure 18, since the end of the 2006-2007 peaks, the volumes of wine export faced a decline of about 100 million liters (12%). Although the fall ended in 2012-2013, the Australian wine exporters have had to deal with both reduced demand and increased competition from the foreign exporters, especially those from the southern new world players and northern hemisphere established players.

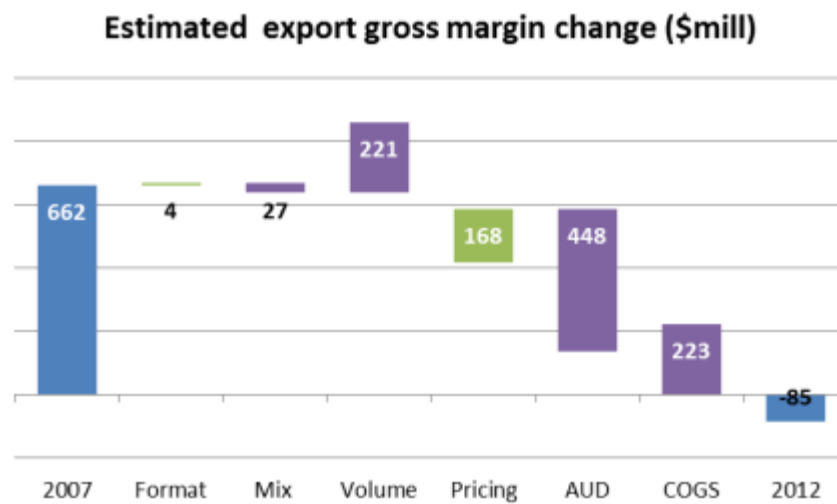


Figure 19: Export Gross Margin⁴²

The WFA Report gives a review of the domestic market, as well as a breakdown and analysis of the changes in export gross margins from 2007 to 2012 (Figure 19).

5.5 Currency fluctuations

The Australian dollar (AUD) is one of the most heavily traded currencies. Its value is influenced by commodity prices and the ‘terms of trade’ – ratio between price of imports and exports. This has ramifications for export orientated businesses, which can affect Australian wine grower prices and margins.

Currency fluctuations can also adversely affect the returns on sales from wine export, and thus reduces the competitiveness of the wine industry on the global market. The stronger the AUD, the more the effect is exacerbated because it takes more foreign currency (typically the US Dollar) to buy one Australian dollar. i.e. it becomes more expensive for others to buy Australian goods. The average value of wine exportation in Australian dollars has also dipped in nominal terms, falling from \$3.75 per litre to \$2.61 per litre.⁴³ Studies by the WFA reveal that the decline in the gross margin of wine export between 2007 and 2012 was \$750 million,

⁴² Ibid p. 469.

⁴³ Cecchi and Foresteria Villa Cerna. *Which Factors Determine The Price Of Wine?* (2017) Available at: <http://www.famigliacecchi.it/en/news/which-factors-determine-the-price-of-wine/190>

and the impact of the fluctuations in the AUD, caused half of that loss.⁴⁴ In addition, wine selling across borders is almost always settled in U.S. Dollars, the default global currency.

5.6 Wine Equalisation Tax (WET)

The WET is an Australian tax of 29% of the wholesale value of wine. It's designed to be paid on the last wholesale sale of wine, which is usually between the wholesaler and retailer. WET may apply in other circumstances – such as cellar door sales or tastings – where there hasn't been a wholesale sale. WET is also payable on imports of wine (Australian Tax Office).

The author believes that Australia can compete on the world stage without government directly assisting or subsidising farmers, although the Wine Equalisation Tax (WET) can be considered a subsidy. Removal of the WET will be a step forward.

5.7 Regional reputation

Australian wine regulations specify that more than 85% of grapes must come from a particular region (Geographical Indication) for a wine to be entitled to carry that regional descriptor. The Australian wine industry is made up of 65 wine regions, with most having a specific regional reputation.

A 2019 Wine Australia study showed that wines labelled with regional identifications are more specific than country or state were perceived as significantly higher in quality. This was especially true of those who frequently buy wines over \$15 (Australian Wine, 2019).

The Wine Australia Label Integrity Program (LIP) has been created to verify labelling claims. Many wine names (referred to as Geographic Indications) are protected and divided into sub-regions, regions, zones and state names. The regions that produce the highest volumes of grapes come from the warm climate zones of Murray-Darling Basin, such as the Riverina, Big Rivers, North Western Victoria, and Lower Murray.⁴⁵ These areas, usually have the reputation or perception of bulk, lower quality and cheaper wines. The King Valley, Barossa and Coonawarra are just a few examples of regions that would have the reputation or perception of finer, higher quality more expensive wines. In general, the South Australian Wine (SAW) industry is the leading producer of most of the Australian wines, while the Tasmanian Wine has emerged as one of the producers of high quality wine in recent years.⁴⁶ The Tamar Valley,

⁴⁴ Ibid.

⁴⁵ Wine.com. *Australia*. (2017) Available at:
<http://www.wine.com/v6/Australia/wine/list.aspx?N=7155+108>

⁴⁶ Mark Wickman. *What makes a wine valuable at auction?* (2015) Available at:
<https://www.wickman.net.au/wines/wine-price-guides.aspx>

on the other hand, has become a specialist in producing Pinot Noir and Chardonnay, which seem to be suited to the cold climate of Tasmania. Currently, Queensland is constructing a wine industry with the state having more than 100 registered vineyards.⁴⁷ The regions that have a history of producing the finest wines are obviously regarded as premier wines of Australia. The regions which have a history of producing bulk wines are regarded as the backbone of the modern wine industry.



Figure 20: Kieu Hoang Winery in the Napa Valley, July 2017

Whilst in California, the author noted a unique feature at Kieu Hoang Winery (Figure 20), where an example of maintaining the importance of regional reputation was evident. Founded in 2014, this particular vineyard was purchased from the Mondavi Family and rebranded by Mr Hoang. However, one of the aims is to maintain the integrity and legacy left by the Mondavi Family and use it as a foundation to build their modern brand.

Case Study 4: Similarity

La Mancha, 6 September 2017 Madrid, Spain

⁴⁷ Wine.com, *Australia*. 2017

This particular region was in some ways, very similar to the author's local region near Griffith. La Mancha is largely a homogenous soil type being sandy clay, the largest vineyard acreage in Spain and Europe at 200,000ha, and generally the wine produced here is destined for lower quality, high volume markets. The hot summer environment lends itself to producing very ripe fruit ideal for blending. A vineyard employee, Anton Muldahi, explained that because of the plateau the vineyards are planted on, many vines are not trained to a wire because of wind.



Figure 21: A typical vineyard in the La Mancha area of Spain

Figure 21 a typical vineyard of La Mancha area, depicting short stature vines on a flat plain. The main white variety is Arien and mainly used as a base for brandy. Tempranillo is the main red variety.

Much similar to the Griffith region, wineries here like El Vinculo are constantly attempting to improve the region's reputation of cheap wine according to Lauren Mowery, wine enthusiast. Whether the Griffith region and its wine growers choose a similar marketing pathway longer-term remains uncertain.

5.8 Grape varietal choice

The leading grape varieties used for wine production in Australia include Riesling, Semillon, Sauvignon Blanc, Chardonnay, Merlot, Cabernet Sauvignon, and Shiraz.⁴⁸ The country does not produce any native grapes. The Australian commercial winemakers use nearly 130 different varieties of grapes.⁴⁹ Recently, they have resorted to using alternative grape varieties not yet cultivated on scale before. As a result, the winemakers have continually used many grape varieties from Spain, Italy, and France.⁵⁰ Examples include Petit Verdot, Pinot Grigio,

⁴⁸ Wine Spectator Magazine. *Argentina Alphabetical Listing*. (2015) Available at: <http://www.winespectator.com/magazine/show/id/47567>

⁴⁹ Oczkowski, Edward. "Modelling the demand and supply determinants of Australian wine grapes." *Economic Papers: A Journal of Applied Economics and Policy* 33, no. 1 (2014): p. 7.

⁵⁰ About France. The main wine growing regions of France. (2017) Available at: <http://about-france.com/wines.htm>

Tempranillo, Sangiovese, Pinot Noir, and Viognier. The results of using these alternative grapes in Australia can be considered formidable which have seen them draw comparisons to benchmarks for many proven varietals such as Shiraz and Chardonnay.⁵¹ In addition, Australian winemakers have innovated unique winemaking and viticulture techniques that make them one of the best wine producers around the world whether wine is produced from the standard blends or alternative grape varieties.⁵²

Table 1 below shows wine prices based on the grape varietal choice.

Grape Variety and Region	Vintage Range	Low Price	Average Price	High Price	Median
Shiraz (Barossa Valley)	1988 - 2006	\$55	\$71	\$100	\$70
Pinot Noir (South Gippsland)	1988 - 2013	\$120	\$252	\$450	\$220
Shiraz (Bin O Great, Grampians)	1989 – 2010	\$22	\$42	\$60	\$44
Shiraz (Thomson Family, Grampians)	1992 - 2010	\$70	\$84	\$100	\$83
Pinot Noir (Macedon Ranges)	1997 - 2012	\$80	\$95	\$120	\$90

Table 1: Grape Variety and Wine Price⁵³

5.9 Product substitution

Table 1 presents five of the best brands of wine made from the top varieties of grapes. Although the lowest price of a wine bottle would cost \$22 (low price of Bin O Great Western Shiraz in the Grampians), the majority of wine bottles are quite expensive. A single bottle of wine made of Reserve Pinot Noir in South Gippsland would cost as much as \$450 which is the highest price. The high cost of wine not only reveals how valuable it is but also the fact that it is not fairly distributed. With the cost of living increasing, the pricing of products and services becomes a primary concern for almost all consumers.⁵⁴ For that reason, some consumers of wine might consider substituting it for other products.⁵⁵ In particular, they are likely to go for substitute products such as beer, cider and the more affordable but lower quality wines.

⁵¹ Wickman. *What makes a wine valuable at auction?* (2015)
⁵² Wine Market Council. *The U.S. Wine Market—Consumer Trends and Analysis*. (2009) Available at: <http://www.winemarketcouncil.com/>
⁵³ Bobinoz. *Cost of Living Australia: Wine Prices*. (2009)
⁵⁴ Ibid.
⁵⁵ Sarah Porter. *Australia's wine 'cheaper than a bottle of water'*. BBC News, (2014) Available at: <http://www.bbc.com/news/business-30390414>

5.10 Competing resources



Figure 22: Sonoma Valley in California, famed for its wine, now has intensive olives competing for land and water resources on what was once a vineyard (Source: Author)

In Australia, the volume of wine produced in a year is directly dependent on the amount grapes available. Since planting grapes requires land, water and other inputs, competing resources also affect wine pricing. Below are tables of the red and white grapes that Australia planted in a span of five years from 2004 to 2008.⁵⁶

⁵⁶ Wine.com, *Australia*. 2017

Grape Variety	Area Hectares (2004)	Area Hectares (2005)	Area Hectares (2006)	Area Hectares (2004)	Area Hectares (2008)
Shiraz	39,182 Ha.	40,508 Ha.	41,115 Ha.	43,417 Ha.	43,977 Ha.
Cabernet Sauvignon	29,313 Ha.	28,621 Ha.	28,103 Ha.	27,909 Ha.	27,553 Ha.
Merlot	10,804 Ha.	10,816 Ha.	10,593 Ha.	10,790 Ha.	10,764 Ha.
Pinot Noir	4,424 Ha.	4,231 Ha.	4,254 Ha.	4,393 Ha.	4,490 Ha.
Grenache	2,292 Ha.	2,097 Ha.	2,025 Ha.	2,011 Ha.	2,011 Ha.
Mourvedre	1,040 Ha.	963 Ha.	875 Ha.	794 Ha.	785 Ha.
Other Red	11,235 Ha.	10,797 Ha.	7,002 Ha.	11,309 Ha.	10,902 Ha.

Table 2: Red Grape Variety Plantation.⁵⁷

Grape Variety	Area Hectares (2004)	Area Hectares (2005)	Area Hectares (2006)	Area Hectares (2004)	Area Hectares (2008)
Shiraz	39,182 Ha.	40,508 Ha.	41,115 Ha.	43,417 Ha.	43,977 Ha.
Cabernet Sauvignon	29,313 Ha.	28,621 Ha.	28,103 Ha.	27,909 Ha.	27,553 Ha.
Merlot	10,804 Ha.	10,816 Ha.	10,593 Ha.	10,790 Ha.	10,764 Ha.
Pinot Noir	4,424 Ha.	4,231 Ha.	4,254 Ha.	4,393 Ha.	4,490 Ha.
Grenache	2,292 Ha.	2,097 Ha.	2,025 Ha.	2,011 Ha.	2,011 Ha.
Mourvedre	1,040 Ha.	963 Ha.	875 Ha.	794 Ha.	785 Ha.
Other Red	11,235 Ha.	10,797 Ha.	7,002 Ha.	11,309 Ha.	10,902 Ha.

Table 3: White Grape Variety Plantation.⁵⁸

A review of the Table 2 and Table 3 reveals that the land used for planting both red and white grape varieties steadily increased from 2004 to 2008. As a result, the production of wine in Australia also increased in a similar trend, meaning that the country would meet or surpass the demands of wine consumers.⁵⁹ For the years that the size of land used for planting grapes increased, the price of wines dropped, and vice versa.

⁵⁷ Ashcraft, David. *2017 Report – Sonoma and Napa Premium Wine Grape Prices 2016*. (2017) Available at: <http://vineyardandwinerysales.com/blog/2017-report-sonoma-napa-premium-wine-grape-prices-2016/>

⁵⁸ Ibid.

⁵⁹ Wine Market Council. *The U.S. Wine Market—Consumer Trends and Analysis*. (2009)

5.11 Australian wines vs other wines

Factors that influence the pricing of wine in other countries like the USA, France, and Argentina are also examined to give context to Australian prices. The economic factors that dictate the pricing of Australian wines differ from those of Argentinian, French and Californian one in more than one way.⁶⁰ For starters, with over 50 locations of Australia well known for wine production, the country has more wine regions than Argentina (5), France (12) and California (21).⁶¹ Australia also heads the other regions in the number of grape varieties used for wine production.⁶² Although Australian wine exports (\$2.22 billion in 2016) trail those of France exporting \$32 billion worth of wine, it is ahead of Argentina (\$18 million in 2015) and California (\$1.6 billion in 2016).⁶³

Case Study 5: Australian wine and India

Mr Arora, 20 June 2016, Delhi, India

As President of the Delhi Wine Club, Mr Arora, was able to give context to Australian wine in India compared to competitors. From the discussion, wine in India is not yet a mature market.

Although, as expected France and Italy dominate imports, the domestic wine regions of Nashik in Western India can satisfy nearly all the wine demand alone. The real opportunity for Australia to capitalise is on the perception that drinking imported wines is a mark of status. Mr Arora cautioned that it will take time for Australia's wineries to develop a foothold in the Indian market. There are alcohol consumption constraints in India in the form of taxes and outright bans in some states. Growth in popularity will hinge on the Indian middleclass wine instead of local whiskey, especially in the more cosmopolitan cities like Pune and Delhi. It is

⁶⁰ Mike Turner. *Price of California Wine*. The Buyer, (2017) Available at: <http://www.the-buyer.net/opinion/price-californian-wine-elephan>⁶⁰ Jon Bonne. *Are California wine prices way too high?* San Francisco Chronicle, (2015) Available at: <http://www.sfchronicle.com/wine/article/Are-California-wine-prices-way-too-high-6529907.php>

⁶⁰ Anna Blomefield. *Vogue's Ode To Californian Wine*. Vogue, (2017) Available at: <http://www.vogue.co.uk/article/california-wine-guide>

⁶⁰ The Wine Cellar Insider. *California Wine Producer Profiles*. (2017) Available at: <http://www.thewinecellarinsider.com/california-wine/>

⁶⁰ Preszler and Schmit, p. 24.

⁶⁰ Majestic Wine Warehouses Ltd. *Argentina*. (2017) Available at: <https://www.majestic.co.uk/argentinian-wine>

⁶⁰ Tesco Wines. *French Wines*. (2017) Available at: https://www.tesco.com/wine/product/browse/default.aspx?N=8129+4294967245_t-room/

⁶¹ Jon Bonne. *Are California wine prices way too high?* San Francisco Chronicle, (2015) Available at: <http://www.sfchronicle.com/wine/article/Are-California-wine-prices-way-too-high-6529907.php>

⁶² Anna Blomefield. *Vogue's Ode To Californian Wine*. Vogue, (2017) Available at: <http://www.vogue.co.uk/article/california-wine-guide>

⁶³ The Wine Cellar Insider. *California Wine Producer Profiles*. (2017) Available at: <http://www.thewinecellarinsider.com/california-wine/>

likely that should the Indian market grow for Australian wine with a lower price point, growers in Australian regions without significant premium brands could greatly benefit.



Figure 23: Author with Mr Arora, President of the Delhi Wine Club

5.12 Quality of wine

The quality of wine is one of the most important determinants of price. However, price is not necessarily a reflection of quality. Just because one bottle is more expensive than the other does not mean it is better quality. It is true that discerning consumers are always willing to pay more for quality but it is also true that they recognize good wine at a bargain. The quality of wine is determined by balance, length, complexity, and intensity of flavour.⁶⁴ For flavour to be intense, in order to improve its quality, wine should be fruitful on the palate and it should have a balance of concentrated aromas. The grower achieves this intensity of flavour by disallowing vines to produce a lot of fruit. This may be a reason why bulk wine regions are not renowned for quality. By not allowing vines to produce a lot of fruit, flavour is concentrated on few grapes which produce.

Wine has three sources of flavour. These are aging, the wine making process, and fruit. Simple wines that are cheap are driven by fruits and grapes are the main sources of flavour. However, there are instances where wines can pick up other flavours during the winemaking process. For instance, storing wine in oak barrels helps the wine take on the traits of that barrel.

⁶⁴ Wine Institute of California. *California Wines*. (2017) Available at: <http://www.discovercaliforniawines.com/discover-california/wine-map-winery-directory/>

The wine making process is also another important element that plays a big role in the price of wine.⁶⁵ The bottles that are used in packaging wine vary greatly. Bottles with a shallow or deep indentation, the colour, and thickness of the glass can all potentially impact the price of wine. Oak aging is known to make red wine 'round and smooth' on the palate due to the little air contact during aging. Once the bottles have been filled, they are taken to the corker or sealer. There are certain types of wine use only natural cork to seal the wines.⁶⁶ Those types of natural cork are more expensive compared to the screw caps and the synthetic plastic cork.⁶⁷ Next, the branding occurs after which the wines are packed in a box. Labels often become expensive depending on whether or not the labels are silk-screened or textured. During this wine making process, each stage is a cost and hence the price has to be increased for profitability.

5.13 Ramifications for grape farmers

The impact of wine prices does not entirely affect consumers but also grape farmers. A rise in the prices of wine means that maybe the cost of production, raw materials, transportation, and storage of wine are also high.⁶⁸ In such cases, winemakers feel compelled to purchase grapes at the same price or below to keep their margin. A rise in the price of wine because of drought and disease, may force the winemaker to pay the same or more for grapes to maintain market share.

The Australian wine industry is considered one of the most vibrant in the global wine market. Over the last 20 years, the industry has made significant progress in not only exports, but also the quality of wine produced.

Whilst undertaking this research, the author observed how winemaking techniques are among the determinants that affect pricing. It is a bio-chemical process where grapes are processed to wine. Timing is also seen as vital when pricing wine. For example, a bottle of reserved wine is often priced higher compared to non-reserved wine. Reserve wine lasts longer and has been or can be held for a relatively longer period of time. The extra costs charged are due to investments in materials, aging and storage space among others.

⁶⁵ Preszler and Schmit, p. 17.

⁶⁶ Langton's. *Wines*. (2017)

⁶⁷ Preszler and Schmit, p. 18.

⁶⁸ Ben McPartland. *France remains king of global fine wine exports*. The Local, (2016) Available at: <https://www.thelocal.fr/20160419/france-remains-king-of-global-fine-wine-exports>

Another factor seen to influence the price of wine is location because the same bottle and brand of wine might have more than one price depending on the geographical region of its sale.

Other factors noted during this research that determine the prices of wines include demand and supply, product substitution, currency fluctuations, competing resources such as water and land, regional reputation, grape varietal choice, local market, and trend.

Marketing and distribution are also a factor. The package involves the label and the bottle. There are producers who may want their consumers to have a unique experience. Hence, they may use labels with designs laden with workmanship, heavier glass bottle and even a unique closure. A combination of the wine cellar, critical acclaim, history of the product, and territorial origin play important role in the price determination of wine. As mentioned, there are certain locations in the world that are suitable for the production of quality wine due to their climate and weather. For example, the Barossa Valley is known to historically produce quality wine and its people attach prestige to having skills in producing quality grapes. Bottles of wine from the same geographical location sometimes fetch different prices. The reasons for the price discrepancy are dependent on two factors:

1. **Micro-region** – which fosters a more favourable cultivation of specific types of grape.
2. **Wine experts** – who influence consumer curiosity and passion for wine.

The price of wine is underpinned by various micro and macroeconomic variables. Australia's wine grape prices for growers are determined both locally and internationally. A growers cost of production for one tonne of grapes may not result in that becoming its worth. It is worth what someone is willing to pay or what they can substitute in lieu of that tonne of grapes as outlined in this chapter.

Conclusion

Australia has a formidable history in wine production, even though it is considered 'new world wine'. There are many parts that make up its diversity and it is critical to understand consumer influence, choices made by growers and winemakers, and why particular grape regions place more importance on marketing strategies than others. As in all industries, price is an effective way to promote and drive efficiency, but it is important to understand how the value leads to success.

It is the author's opinion that Australia's wine industry success can be attributed to:

- a united industry, where participants have a good understanding of each other;
- technical expertise of wine personnel;
- a culture that encourages innovation amongst growers;
- maintaining quality viticulture and oenology education and training facilities;
- a diverse climate and landscape; and
- a strong focus on the needs and preferences of consumers.

This success needs to be kept in perspective. Australia has been, and remains, a small wine grower globally, accounting for only about 3-4% of the world's production.

To be better at what is done in Australia, there needs to be a focus on understanding the performance and contributions of those in the industry. Understanding each other can motivate a change in perceptions and achieve outcomes as a united industry rather than just individuals.

Discovering all that that has been learned from this study, and attempting to extract and convey the main objectives, has inevitably led into further areas that are of equal importance and in need of further study and clarification, as highlighted in the recommendations.

Recommendations

1. Get big or remain small

Export success favours bulk wine production (reaching more people), whereas domestic success favours smaller wineries and regions (consumers can communicate with the winemaker). Labelling should ensure consumers know where the contents of each bottle originated, and major supermarket chains disclose the labels they own so consumers distinguish between supermarket and non-supermarket/family owned wine/bulk producer/small winery.

2. Removal of the WET

Australia can compete on the world stage without government directly assisting or subsidising farmers, although the Wine Equalisation Tax (WET) can be considered a subsidy. Removal of the WET will be a step forward. It has acted as an incentive to produce grapes, especially when prices are low, thereby fuelling overproduction and cheaper prices. Its removal would put a stop to this.

3. Partnerships

Australian agriculture has the human capital and infrastructure for growth but lacks a large domestic population to have a solid springboard for growth. Export orientation is a critical element of the industry and all stakeholders in the supply chain need to strengthen partnerships and understand how their contributions compliment each other.

4. Environmentally sustainable

UC Davis in California has created a new green-tech winery, a sustainable entity and blueprint on how to differentiate a brand. Growers need to determine better and efficient ways to make wine, develop benchmarks with local growers and market this approach.

5. Authenticity

Stories can be powerful and used extensively in the marketing of wine. It becomes part of the enjoyment because perception adds authenticity. Appeal to the emotional side of the consumer with the goal of enticing them to their products and making them repeat customers.

One question remains: *“What circumstances are necessary for various aspects of the wine industry to cooperate effectively to achieve maximum benefit for all”?*

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Plain English Compendium Summary

Project Title:	UNDERSTANDING THE AUSTRALIAN WINE INDUSTRY: A GROWERS GUIDE TO THE BACKGROUND AND PARTICIPANTS OF THE WINE GRAPE INDUSTRY
Nuffield Australia Project No.:	1614
Scholar:	Luke Mancini PO Box 236 Hanwood NSW 2680
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Objectives	<p>This report provides an overview of the Australian wine industry, and has relevance to wine producers who are in diversified businesses with other enterprises, and how they are positioned in the wine sector. Other objectives include:</p> <p>1) Australian wine in context The history of Australia’s viticulture and wine industries and Australia’s role and place in global wine production including the reasons why Australian wine production is export orientated</p> <p>2) The role of industry participants The role and importance of grape growers/farmers, winemakers/wineries, wine merchants, distributors and brokers in wine industries. And how wine consumers influence the varietal choices made by farmers and winemakers.</p> <p>3) The key wine marketing techniques The techniques that differ from niche/smaller versus bulk wine producers and do each of these producers place an equal importance on branding.</p> <p>4) Price discovery The economic factors that contribute to the prices of Australian wine and how and what ramifications do these factors have on the actual grape prices farmers receive.</p>
Background	The synthesis is drawn from global travel experiences within agriculture, vineyards and wine.
Research	The paper conducts a report on the history, components, participants, and machinations of one of Australia’s most important agricultural enterprises; the Wine Grape Industry.
Outcomes	The report shows that despite the multiple challenges of the Australian wine industry, it can serve as an appropriate business with high opportunities for success for the farmer/
Implications	The report indicates that there are multiple ways in which the wine industry can be improved to maximize production and income earned by the participants.
Publications	Nuffield Australia National Conference presentaiton, Darwin, September 2017