



# News Release

**FOR IMMEDIATE RELEASE 15 JUNE 2004**

## **Australia's wine industry under pressure**

A difficult and changing business environment is squeezing the profitability of Australia's wine industry, according to the 2003 Annual Financial Benchmarking Survey released today by Deloitte and the Winemakers' Federation of Australia.

"This study examines the financial performance of wineries located across Australia for the 2003 financial year, and provides the wine industry with real data upon which to benchmark results," said Mr Stephen Harvey, Leader of the Deloitte Wine Industry Group.

"Fierce competition, the excess supply of bulk red wine and greater consolidation within the retail sector are some of the factors that have forced wineries to reconsider their short, medium and long term strategies," he said.

"Unfortunately, wineries of all sizes have recorded losses for the 2003 financial year. More than half of the small wineries that participated in this study generated a loss before tax.

"We expect these losses will contribute to increased levels of consolidation within the industry, particularly for wineries with revenues between \$1m and \$5m."

Stephen Strachan, Chief Executive of the Winemakers' Federation of Australia, said the survey results are indicative of the tough domestic trading conditions.

"Our current estimate of the 2004 vintage, at over 1.8 million tonnes, suggests that pressure on the industry's supply position is likely to continue," he said.

"Effectively managing your business and establishing a point of difference for your brands are critical to surviving a fiercely competitive domestic market."

"Wineries need to re-think their growth strategies in order to survive the difficult period ahead and to remain competitive and profitable," said Mr Harvey of Deloitte.

"We hope this information contained in our report of the 2003 Annual Financial Benchmarking Survey helps wineries to benchmark their strengths and weaknesses, and to identify opportunities for development."

The report of the 2003 Annual Financial Benchmarking Survey is available at <http://www.deloitte.com.au>.



## The implications of recent WET amendments

“Recent amendments to Wine Equalisation Tax (WET) will help to ease the financial and administrative pressure for some wineries – depending on their size and on the retention of existing state rebates,” said Mr John Rawson, Tax Partner, Deloitte.

“For small wineries, the introduction of a Federal rebate of up to \$290,000 on WET will help to ease the administrative burden of WET, but will not serve to deliver financial benefits as their WET liability will be eliminated by other existing rebates,” he said.

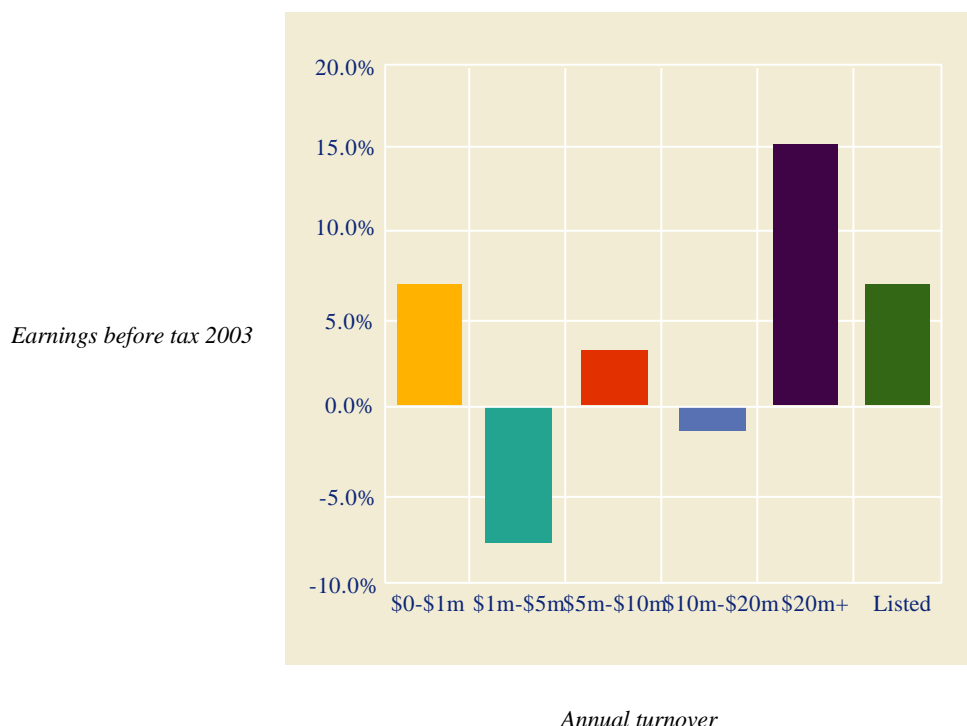
“Wineries with \$1m to \$10m turnover, which are typically experiencing negative returns, are expected to obtain financial benefit. However, this benefit may be as little as \$100,000 if the existing state rebates are abolished, as proposed.

“Larger wineries may not receive any benefits if state rebates are abolished.”

## 2003 Annual Financial Benchmarking Survey - a snapshot

There were some significant losses recorded by wineries of all sizes in the 2003 study.

Wineries with revenues below \$20m showed declining earnings before tax, compared to the previous two years.



### \$0-\$1m wineries

The small wineries generated poor returns. There was varied financial performance amongst the small participating wineries, with 40 per cent generating a loss for the 2003 financial year.



### **\$1m-\$5m wineries**

Tougher trading conditions and intense competition have contributed to an average loss of 7.9 per cent before tax for these participants.

### **\$5m-\$10m wineries**

This category of wineries also performed poorly with a significant fall in average gross margin. Many wineries have been forced to reduce prices to remain competitive. They recorded stock write-downs of 3.8 per cent of revenue.

### **\$10m-\$20m wineries**

Larger wineries have experienced difficult times also. This includes reported losses on bulk wine sales of 4.8 per cent of revenue. The gross margin in this category is the lowest of all categories at less than 30 per cent.

### **\$20m+ wineries**

Wineries with sales in excess of \$20m have improved from last year, showing an increase in profitability and returning to levels reported in the 2001 study. This category has performed particularly well given that they compete most closely with the five major Australian wineries.

## **Distribution channels**

The study shows that export plays a key role in the growth of all wineries. Smaller wineries rely on export for 14 per cent of income, which increases to approximately 50 per cent for large wineries.

“As expected, smaller wineries have indicated greater reliance on cellar door and mail order. For larger wineries, the cellar door becomes more of a home for their brands,” said Mr Harvey.

Respondents to this year’s study have indicated that website sales have failed to make a noticeable impact on their businesses.

Retail margins are under pressure.

## **Production**

Smaller wineries own the majority of their grapes, while larger wineries tend to own premium or strategic vineyards and contract a high proportion of grapes.

At \$786 per tonne, the cost of grapes is low for large wineries – and only half that of small wineries (i.e. \$1,512 per tonne for \$0 to \$1m wineries).

“The larger wineries are able to negotiate more competitive prices through stronger bargaining power. They also tend to purchase a higher proportion of fruit destined for their cask and popular premium wine products,” said Mr Harvey.

“The bulk wine cost per litre is generally lower for large wineries as they acquire a higher proportion of commercial wine,” he said.

Outsourced bottling costs range from \$7 per hour to \$11 per hour, which is a significant decrease from last year’s study of \$9 per hour to \$23 per hour.



“This reflects an increased focus on being cost conscious and efficient. This can be achieved by doing fewer small bottling runs,” said Mr Harvey.

### **Inventory**

Red wine, which is generally matured for a longer period than white wine, makes up the majority of inventory for all wineries. The results of this study show that smaller wineries are holding a higher proportion of wine in barrel, of up to 40% of their inventory.

### **Water**

“The water usage per hectare in the vineyard is considerably lower in 2003 than 2002 due to varied weather conditions and the smaller 2003 vintage,” said Mr Harvey.

“The results continue to show extensive ranges between the most and least efficient users of water. Inefficient users can experience compounding costs, with the cost of water rising as water availability decreases,” he said.

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NB: The report for the 2003 Annual Financial Benchmarking Survey will be available at <http://www.deloitte.com.au> from 16 June 2004.

**For further information:**

Louise Le Cornu  
Marketing & Communications Manager  
Deloitte  
Mob: 0401 327 225  
**Tel: +61 (8) 8407 7067**  
llecornu@deloitte.com.au

Mr Stephen Harvey  
Leader, Deloitte Wine Industry Group  
Partner, Assurance & Advisory  
Deloitte  
Mob: 0414 407 204  
Tel: +61 (8) 8407 7204

Mr John Rawson  
Partner, Tax  
Deloitte  
Mob: 0414 407 166  
Tel: +61 (8) 8407 7158

Mr Stephen Strachan  
Chief Executive  
Winemakers' Federation of Australia  
Mob: 0438 847 418  
Tel: +61 (8) 8222 9255  
ceo@wfa.org.au

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