

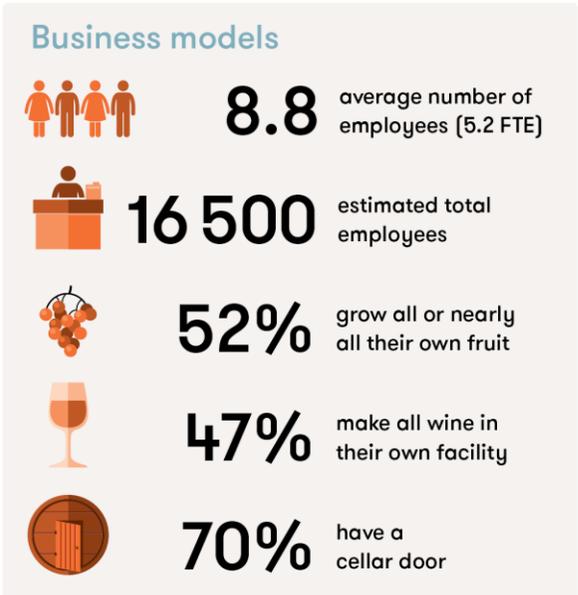
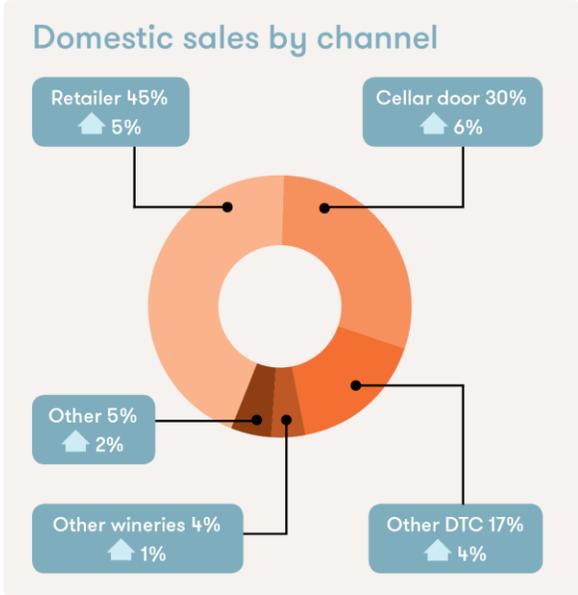
Wine
Australia
providing
insights
on
Australian
Wine

**Small
Winemaker
Production and
Sales Survey
Report 2016-17**

November 2017

Wine Australia

Small Winemaker Production and Sales Survey 2016-17



Summary of findings

It is estimated that small winemakers (those crushing up to 500 tonnes) contribute 8 per cent to the Australian winegrape crush, sell an estimated \$1.3 billion of wine and account for 35 per cent of domestic sales value and 10 per cent of export sales value.

The vast majority of wine sales for this segment is into the domestic market; with retailers accounting for almost half of all wine sales and cellar door nearly one third.

For the second year in a row, small winemakers reported strong growth in revenue and production across all sales channels. The production increase of 10 per cent was in line with the overall increase in the national vintage crush in 2017.

Revenue grew on average by 10 per cent during 2016–17. However, growth was not uniform across businesses, with 73 per cent reporting increased revenue, 10 per cent reporting no change and 16 per cent reporting a decline in sales.

Small winemakers see the main opportunities for the next five years being in export markets and cellar door/tourism, and are seeking to expand and diversify their businesses by offering an increasing number and range of personalised and interactive tourism-related activities around the cellar door. This appears to be a successful strategy as cellar door was the fastest growing channel in 2016–17.

The domestic retail channel is the largest channel for small winemakers. However, despite performing well, small winemakers do not see this channel

as providing the best opportunities over the next few years. Retail consolidation was identified as a concern by survey respondents, but with the recent entrance of retailers such as Lidl, Amazon, Kaufland and Aldi, retail fragmentation has been impacting the major retailers. Small winemakers are well positioned to take advantage of this fragmentation to access consumers seeking authentic stories by utilising digital-driven technology.

There are a number of different business models within the small winemaking segment; the majority grows more than 90 per cent of its own fruit but a significant proportion conversely purchases more than 90 per cent of fruit – while fewer businesses have an equal mix. Similarly, about half of small winemakers make all of their wine in their own facility, while most others use entirely contract processors and only 10 per cent use a mix of both.

The small winemaking segment is estimated to directly employ around 16,500 people, or 10 per cent of wine sector employees. The number of employees is almost double the number of FTEs, indicating a significant use of part-time employees.

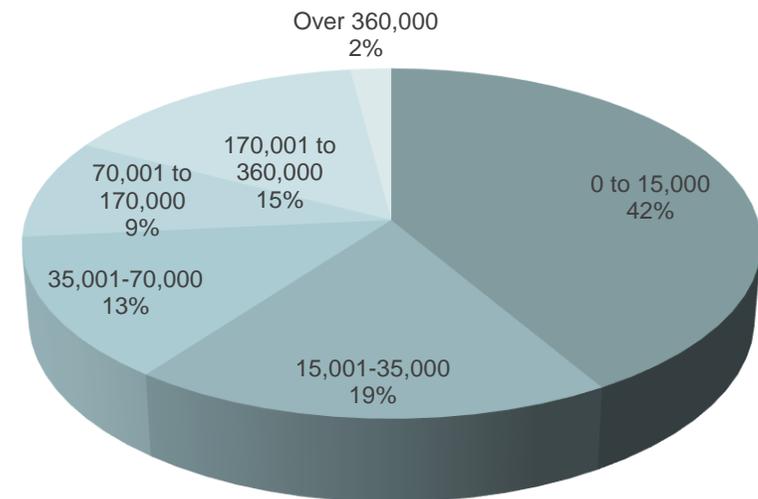
Survey respondents identified a number of challenges; the most common related to climate change and operating costs, including the cost of labour, water and electricity. While reducing costs is a constant challenge for small businesses, recent research activities in the wine sector are likely to provide new methods and strategies that small winemakers can adopt to increase cost efficiency and adapt to changing climate conditions.

106 million litres of wine produced

The respondents

- There were 294 respondents to the survey – accounting for approximately 14 per cent of small winemakers (defined as those crushing up to 500 tonnes).
- Based on the survey responses, it is estimated that small winemakers account for just over 106 million litres of wine (8 per cent of estimated national wine production in 2017).
- The 0–15 000 litres of wine segment was the largest by number, accounting for 42 per cent of respondents. This is consistent with overall estimates (from Winetitles) that 44 per cent of all Australian wine businesses are in this category.

Survey respondents by wine production range (litres)

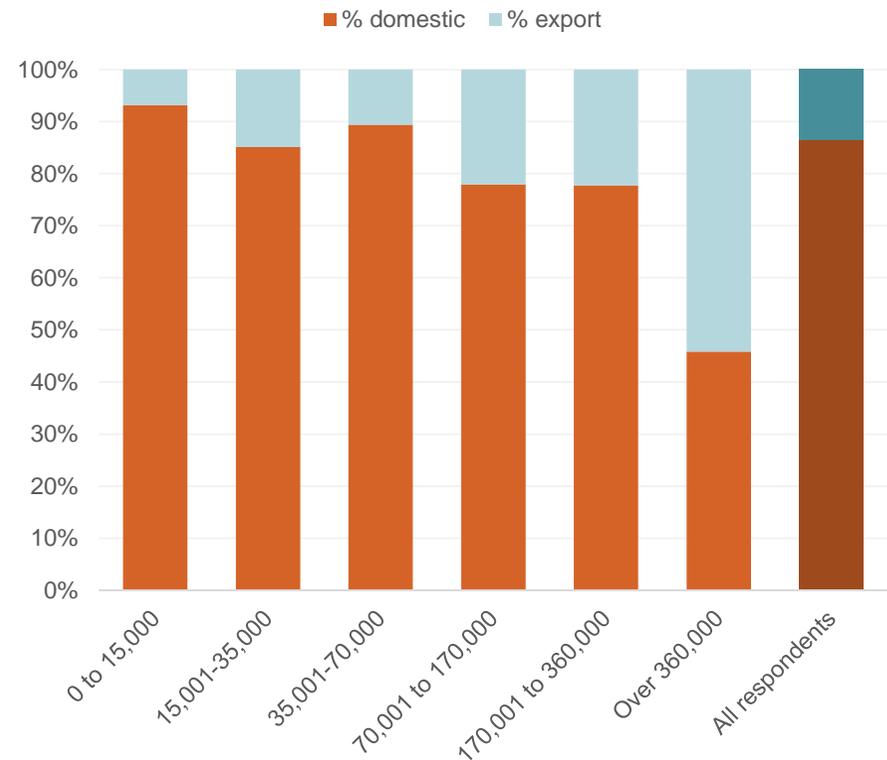


Majority of wine is sold on domestic market

- Small winemakers are estimated to account for \$1.3 billion in wine sales in 2016–17.
- On average, 86 per cent of wine is sold on the domestic market. By comparison, 40 per cent of wine is sold domestically and 60 per cent is exported across the whole Australian wine sector.
- Larger wineries export a greater proportion of their production. However, it is unclear whether exporting drives business growth or whether scale allows greater export focus.
- The reported proportion of exports has increased from 12 per cent in 2016 to 14 per cent in 2017.
- Examining the responses by region*, small winemakers in the Hunter Valley, Adelaide Hills and Margaret River have a relatively greater reliance on the domestic market than small winemakers in McLaren Vale, Yarra Valley and Barossa.

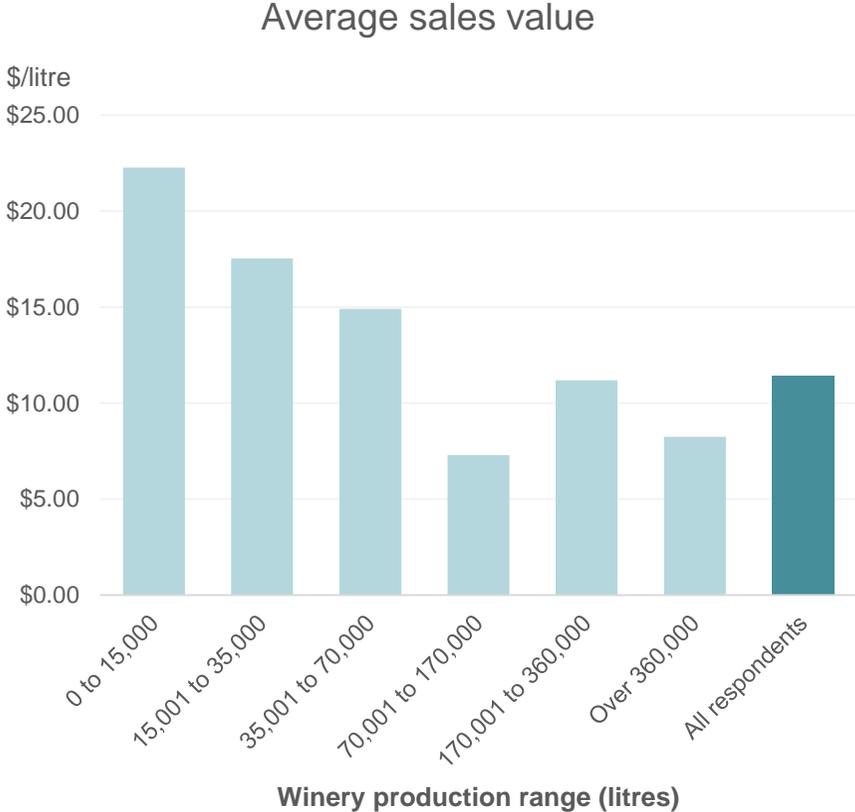
* The top six regions based on response numbers were separated for regional analysis.

Wine sales by market



Average wine sales value is over \$10 per litre

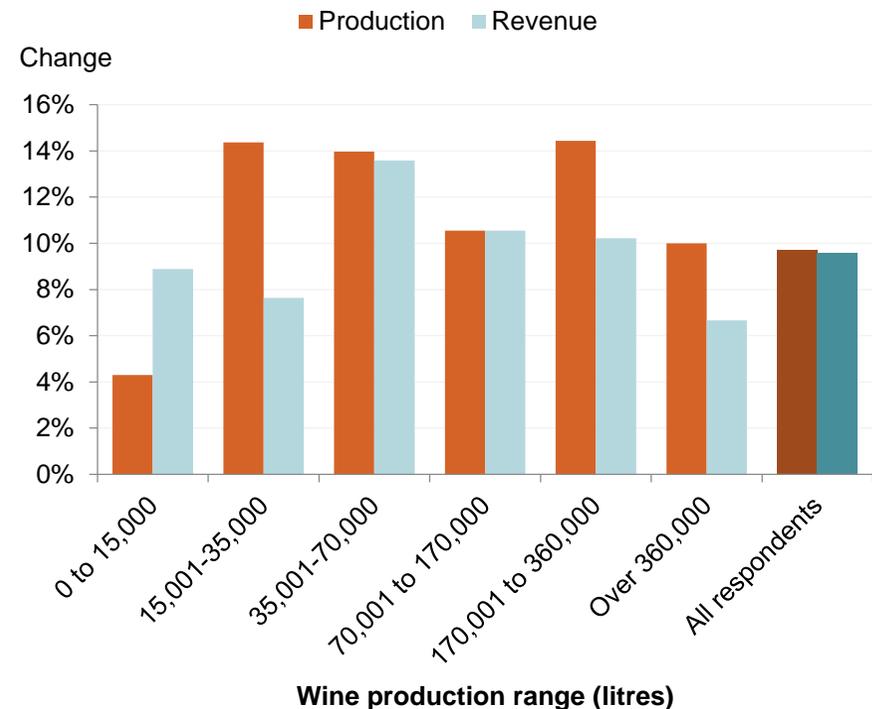
- Small winemakers are estimated to account for 35 per cent of domestic sales value and 18 per cent of domestic sales volume.
- Small winemakers are estimated to account for 10 per cent of export sales value and 3 per cent of export sales volume.
- Average value of wine sales is estimated to be \$11.41 per litre.
- Average value per litre generally increases with decreasing winery size (within the small winemaking size categories).



Continued strong growth in production and revenue

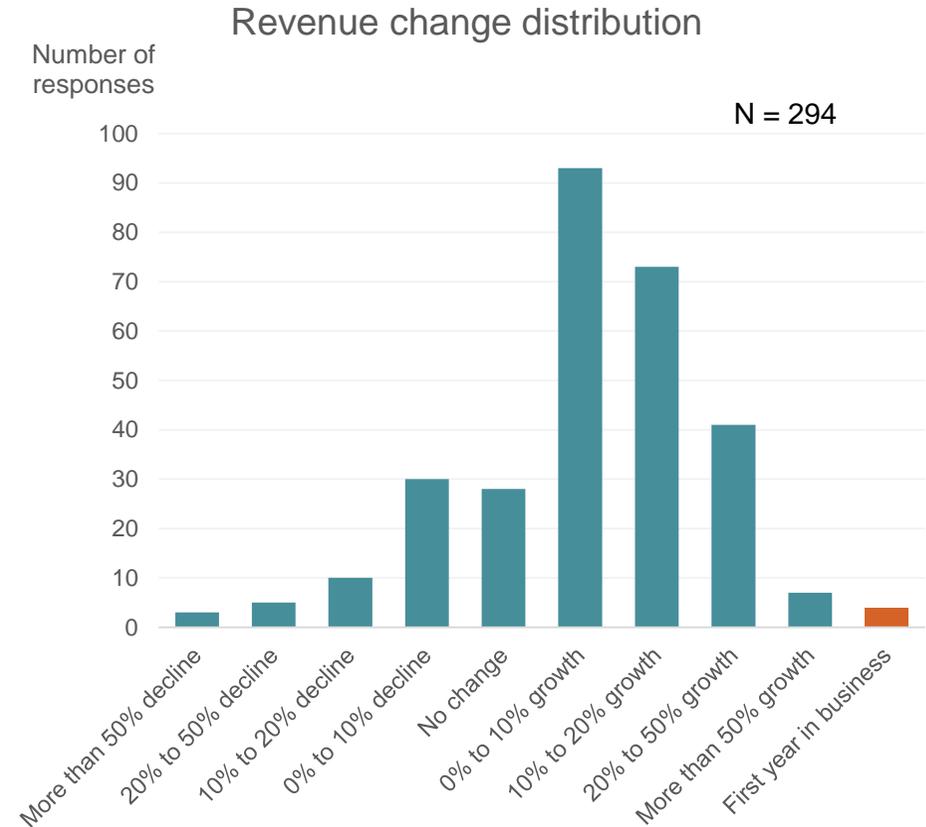
- The 2017 vintage recorded strong yields across Australia. Nationally, the crush increased by 10 per cent to 1.93 million tonnes. Results for small winemakers were in line with this result, with production and revenue both up by 10 per cent on average.
- Production growth was higher than in 2015–16 (7 per cent) and revenue growth was lower than in 2015–16 (12 per cent).
- Production growth equalled or exceeded revenue growth for all categories except the 0–15 000 litre winery size category.
- Wineries in the 35 001–70 000 litre size group recorded the greatest revenue growth for the second year in a row.

Average change in production and revenue in past 12 months



Almost three quarters reported growth in revenue

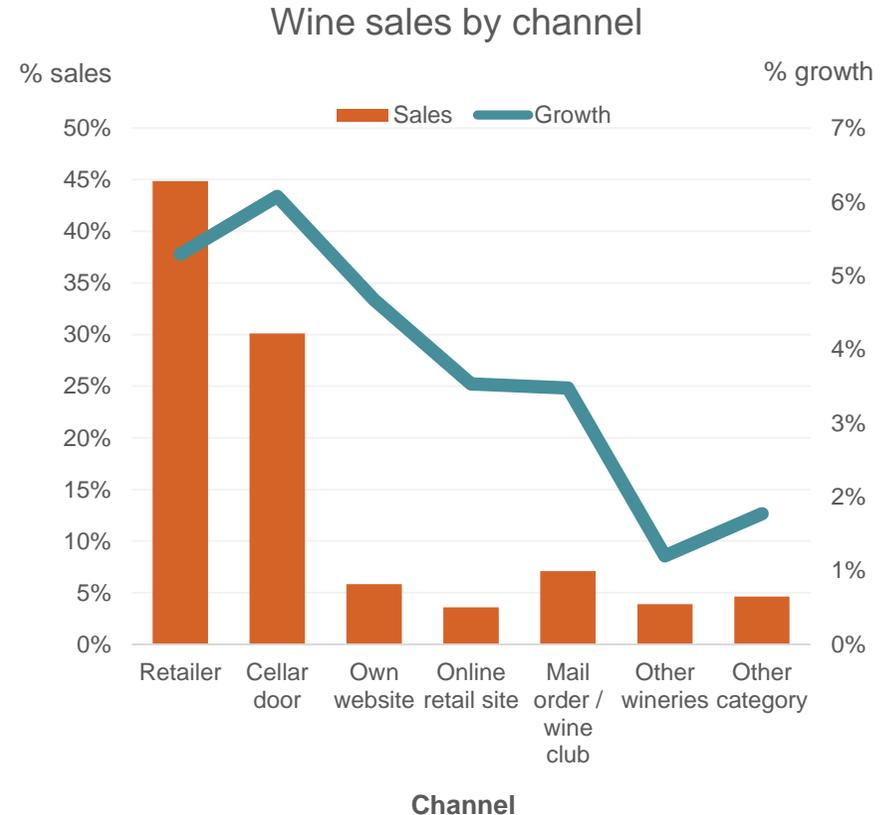
- Growth in revenue is not evenly distributed, but it is strongly skewed towards growth:
 - 16 per cent of respondents reported a decline
 - 10 per cent stayed the same, and
 - 73 per cent reported growth.
- More than half the respondents reported growth up to 20 per cent.



Channel analysis

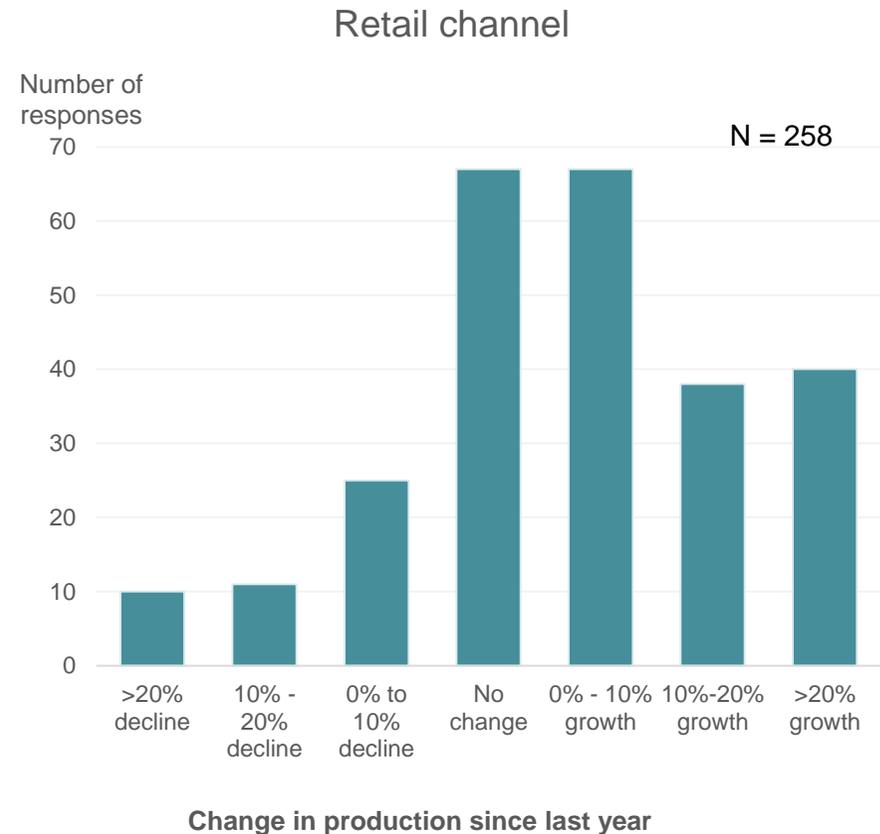
Cellar door shows stronger growth than retailer channel

- Sales to retailers account for 45 per cent of wine sales among small winemakers, with cellar door sales second at 30 per cent.
- Adelaide Hills has the greatest reliance on sales to retailers (73 per cent of sales) and the Hunter Valley has the greatest reliance on cellar door (42 per cent).
- These two channels also showed the strongest growth, with cellar door the highest.
- Direct-to-consumer (DTC) channels — including the winery's own website, mail orders and wine clubs — accounted for more sales than from third party online wine retail sites.
- Sales to other wineries had the lowest average growth rate and declined in the smallest and the largest winery size categories.



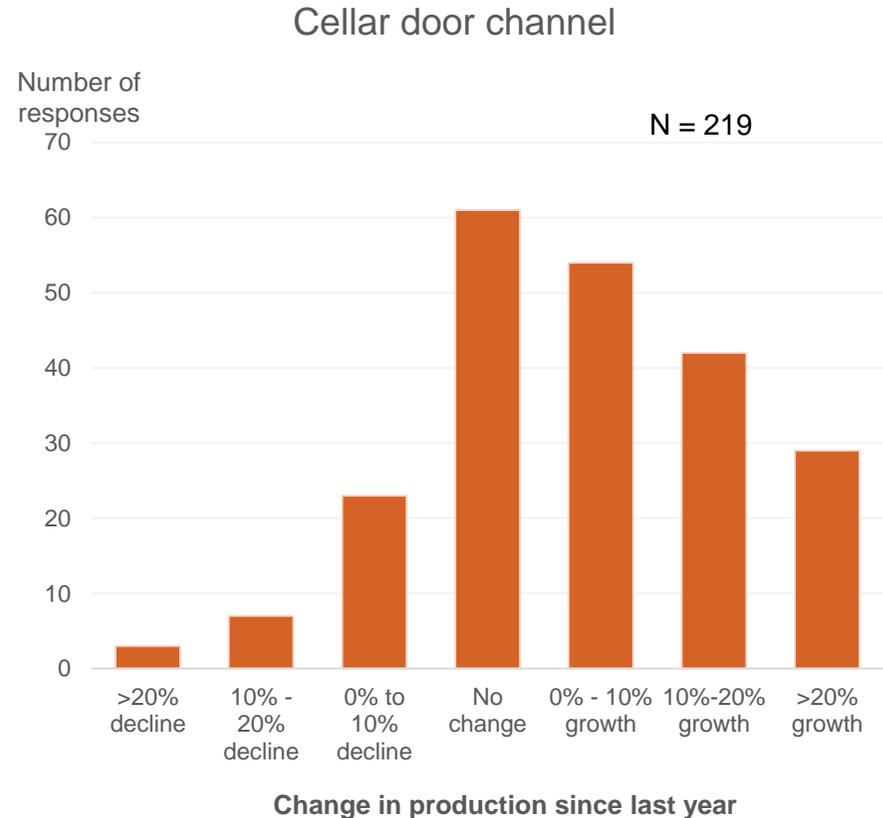
Retail channel grows for majority of small winemakers

- Wineries that recorded an increase in sales exceed those who recorded declining sales.
- Growth in the retail channel was not evenly distributed among all respondents:
 - 57 per cent reported growth
 - 26 per cent stayed the same, and
 - 18 per cent of respondents reported a decline.
- By size category, the retail channel grew most in the 35 001–70 000 litre category (9 per cent) and least in the 70 001–170 000 litre category (1 per cent).
- By region, the channel performed best for the Hunter Valley (7 per cent average growth) and the Adelaide Hills (6 per cent), and least well for the Yarra Valley (2 per cent) and Margaret River (0 per cent growth).



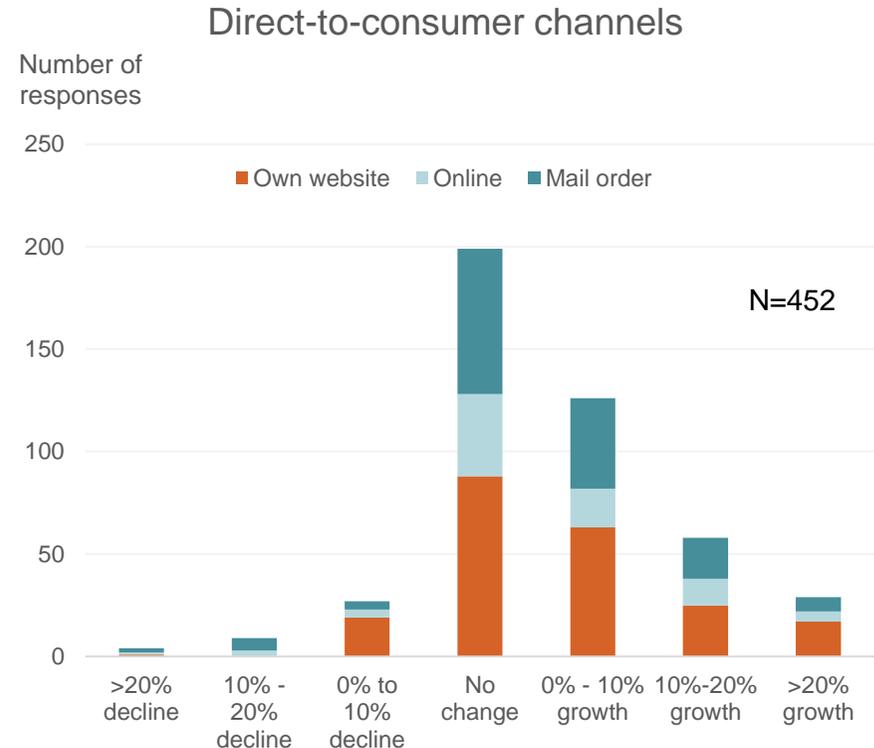
Increased tourists and experiences help cellar doors

- In the cellar door channel:
 - 57 per cent reported growth
 - 28 per cent stayed the same, and
 - 15 per cent of respondents reported a decline.
- By size category, growth was fairly consistent in the cellar door channel, with the strongest average growth in the 15 001–35 000 litre category (8 per cent) and weakest in the 35 001–70 000 litre category (4 per cent).
- By region, the channel performed best for Margaret River and the Adelaide Hills (both 8 per cent average growth), and least well for the Barossa (4 per cent average growth).
- Consistent with this finding, Tourism Research Australia figures indicate that wine-related tourism has increased by 12.5 per cent in the two years from 2014–15 to 2016–17.



Growth for other DTC channels, but at a lower level

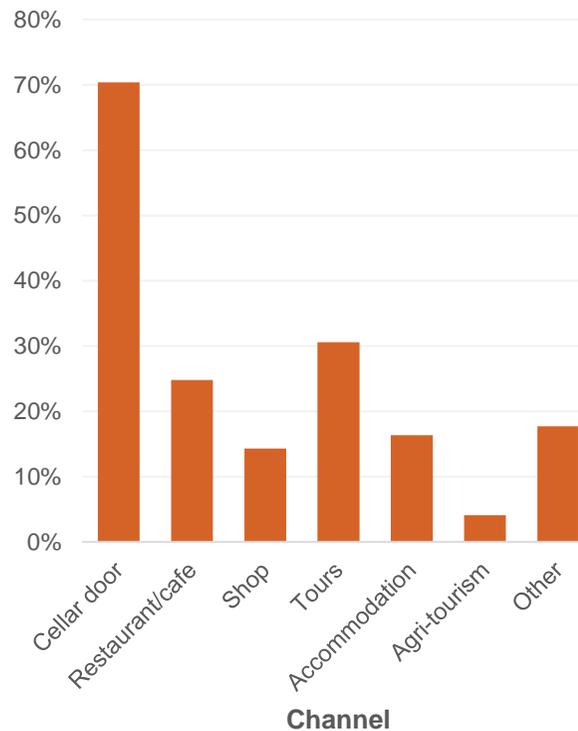
- The other DTC channels: own website, online retail through a third party and mail order/wine club together account for 17 per cent of wine sales by small winemakers.
- The distribution of changes in these DTC channels is strongly skewed towards growth, although the largest response for each category was 'no change'.
- Wine Intelligence research has shown that these channels are not among the top buying channels for wine consumers, but more than one quarter of regular wine drinkers have purchased wine from a winery's own website or mail order list, and 28 per cent have purchased from a third party website, which means these channels represent a significant opportunity to reach consumers.



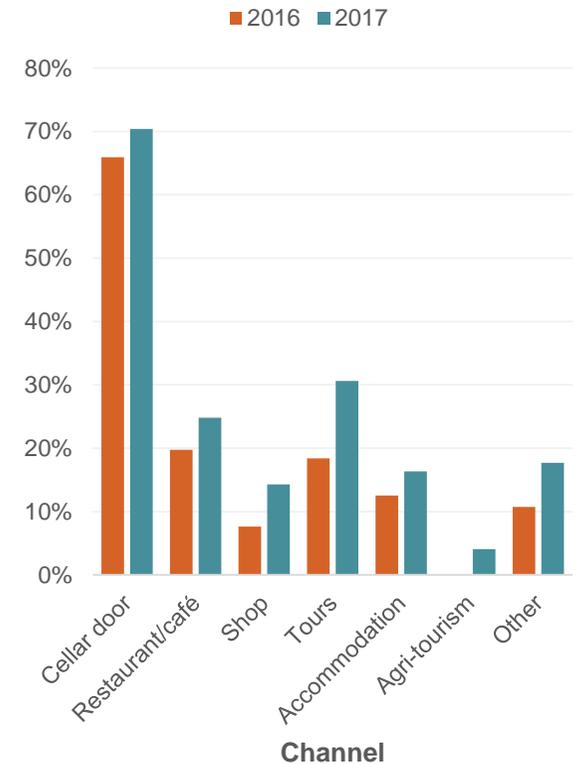
Investment growth in additional services for visitors

- The majority of small winemakers have a cellar door.
- Around one in three has at least one other attraction/service for visitors.
- A significant proportion offer personalised, customised and interactive experiences.
- The percentage of businesses offering each service type increased in 2017 compared with 2016.
- A number of respondents also indicated that they were making further investment in facilities and/or attractions for visitors.
- This is consistent with research by Wine Intelligence indicating a shift among winery visitors from just wine tasting to an overall experience.

Percentage of small winemakers offering different services



Winery services offered - YoY comparison

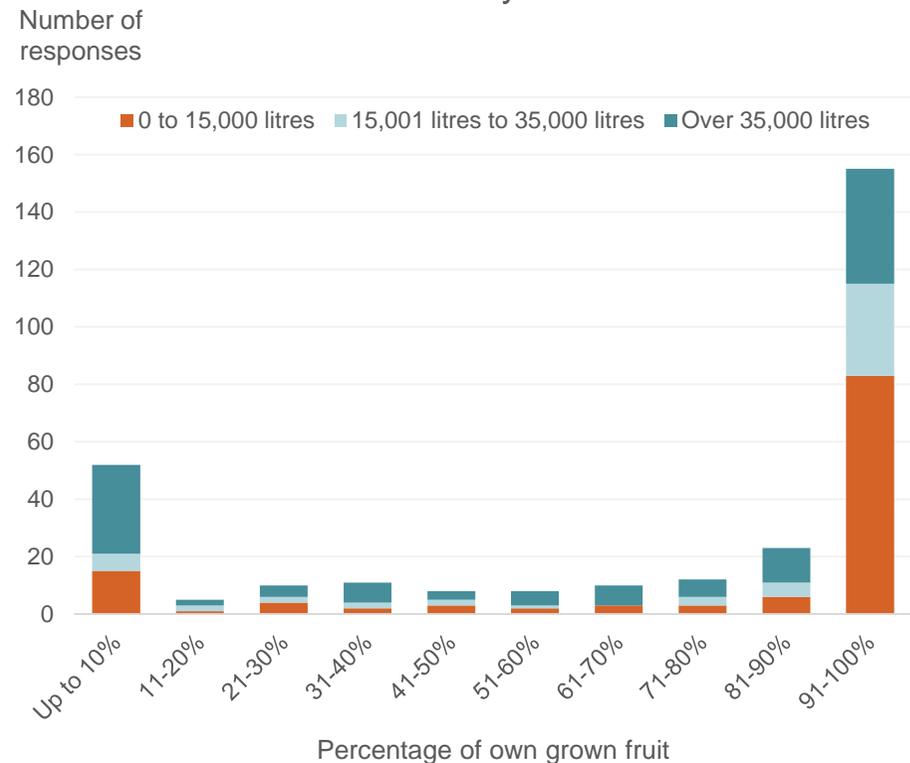


Business models

Two distinct business models prevail

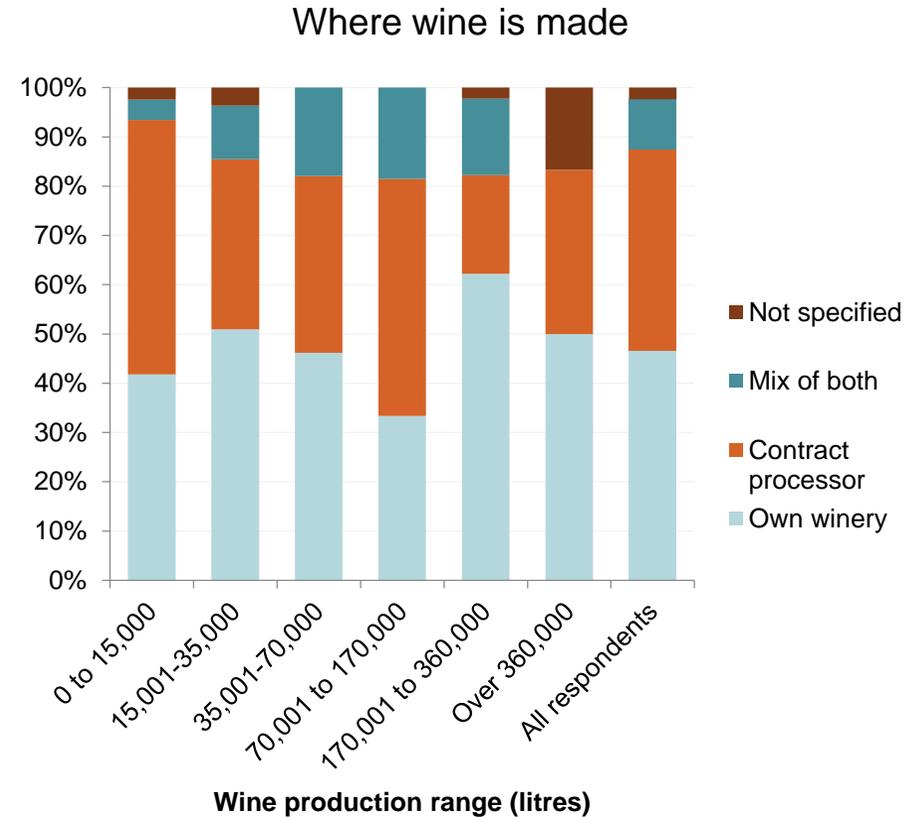
- The majority of small winemakers (52%) use over 90 per cent of their own fruit.
- By contrast, the next largest group uses at least 90 per cent purchased fruit, indicating that two distinct business models prevail across the small winemaking sector.
- The proportion of own grown fruit increased from 67 per cent on average in 2016 to 71 per cent in 2017, and the proportion of purchased fruit decreased from 32 per cent to 28 per cent.
- By comparison, across the whole wine sector 33 per cent of fruit was own grown in 2017, up slightly from 32 per cent in 2016.

Percentage of own grown fruit – distribution and winery size



Own facilities and contract processing used equally

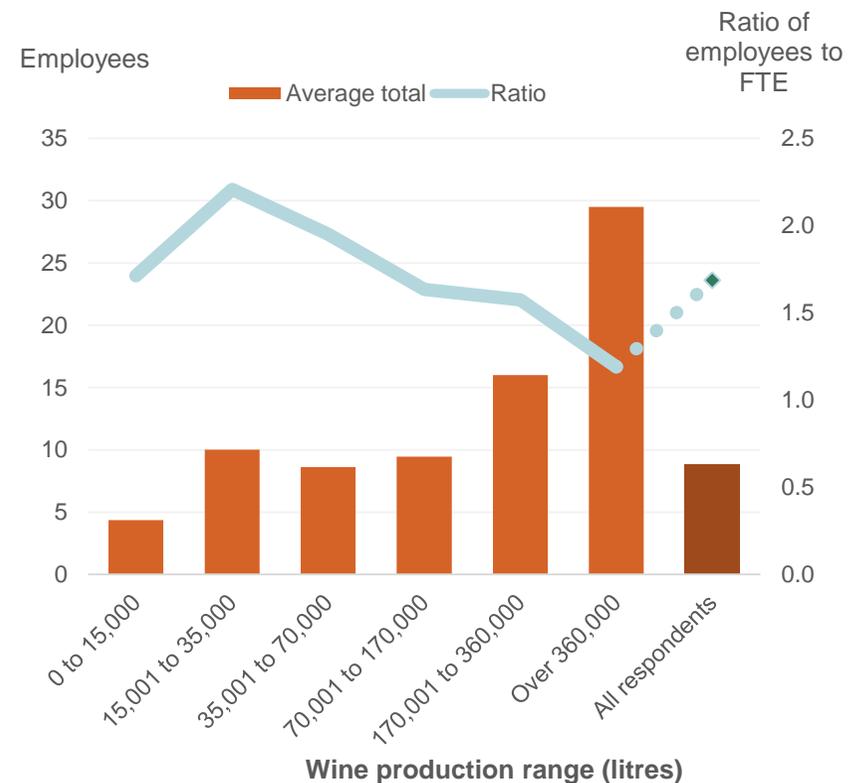
- Nearly half (47 per cent) of small winemakers make all wine in their own facility.
- Only 10 per cent of small winemakers use a mix of own facilities and contract processing.
- Wineries in the 70 001–170 000 litre production range are least likely to use only their own facility to crush grapes.



Almost nine employees on average

- Small wineries employ just under nine people on average.
- Based on these results, the number of people directly employed in this part of the wine sector is estimated to be 16 500 people. There are many more thousands indirectly employed through service and product provision.
- Many of the positions are part-time, which could be a result of hospitality-focused positions.
- The average number of full-time-equivalents (FTEs) is 5.2, with the ratio of total employees to FTEs being higher in smaller businesses, indicating that more part-time employees are employed.

Employee numbers by winery size category



Opportunities and challenges

Opportunities: discussion

Export markets

Many small winemakers are looking towards export markets for growth opportunities. With a lower Australian Dollar (AUD), increasing demand for premium wines in many key markets and difficult vintages in Australia's major wine-producing competitor nations, the export opportunity is looking more positive than it has for many years.

Wine Australia's export figures show that, in the year to September 2017, 752 small* winegrape levy-paying winemakers exported wine to the value of \$353 million (up 10 per cent). Exports averaged a free-on-board (FOB) price of \$A8.14 per litre.

For this group of exporters, China was the engine room of growth, up 27 per cent to A\$118 million, followed by the USA – up 18 per cent to A\$50 million. Other top markets to record growth were Hong Kong, Japan and Denmark.

The Export and Regional Wine Support Package (the Package) will be helping small winemakers become 'export ready'. This initiative will provide support by aggregating and delivering

information on how businesses can become export and tourism-ready.

Wine Australia will facilitate a series of regional wine forums and workshops to provide information and services and discuss the full suite of support available under the Package and elsewhere.

For more information see: erwsp.wineaustralia.com

Wine Australia also has many resources to help small wineries export that can be accessed through our website.

www.wineaustralia.com

Cellar door and tourism

Small winemakers identified more opportunities in the cellar door and export channels than in the domestic retail market, despite this accounting for nearly half of their wine sales.

*Outside of the top 30 exporters

Opportunities: discussion

Wine Intelligence has found that the role of the cellar door is increasing in importance for wine businesses. It is seen as the 'heart and soul' of the brand, providing an opportunity to engage consumers and build brand loyalty.

Wine Intelligence has analysed the Australian wine consumer market and identified a strong opportunity for wine businesses going forward to focus on providing an overall, integrated tourism experience, including:

- a focus on personalisation
- an increased emphasis on hands-on experiences
- pairing of food with wine, and
- linking with broader tourism in the local area.

Purchases of wine from the cellar door are likely to have the smallest 'basket size' compared with other retail channels. However, the average spend per bottle is likely to be higher (Wine Intelligence 2017).

Currently wine sales online is a relatively small category. Statistics from IRI show that 17 per cent of people have purchased alcohol online in the past 12 months — compared with 63 per cent for clothing and footwear. However, IRI predicts that 8 out of 10 purchase decisions in future will have an online component — e.g. information search, social media recommendations, advertising or actual purchases — therefore, this represents an important opportunity for small winemaking businesses.

Wine Intelligence has found that barriers to purchasing wine online include: the minimum basket size, delivery costs and time, the convenience and range of 'bricks and mortar' retailers and the inability to see and taste the wine before buying.

Distribution

Many small winemakers reported that they were looking at making changes to distribution. This included expanding into other states, working with new distributors and working more closely with existing distributors to drive new business.

Challenges: discussion

Climate change

Climate has been identified as a key challenge. Grapegrowers and winemakers have been experiencing earlier and compressed vintages, while climate change is predicted to bring with it increased weather events. Wine Australia's R&D investment continues to strengthen practice changes in the vineyard and provide new knowledge in viticultural strategies for the Australian wine community, addressing impacts of a changing climate that will allow informed decisions to be made on future management and investment.

Visit [wineaustralia.com/growing-making](https://www.wineaustralia.com/growing-making) for factsheets on adaptation or [wineaustralia.com/research](https://www.wineaustralia.com/research) for information on the latest research investments. The AWRI helpdesk also provides advice on different winemaking and viticulture issues; phone 8313 6600 or email helpdesk@awri.com.au.

Costs / labour / utilities

The cost of utilities – electricity and to a lesser extent water – has been identified as a key challenge. Although the price of these inputs cannot be controlled, the quantity of these inputs can be to some extent. Increasing competitiveness by reducing costs is a key priority of research funded by Wine Australia.

New research continues to develop tools and practices to improve economic sustainability.

Visit <https://www.wineaustralia.com/growing-making/winery-management> for further information and resources.

Retail consolidation

Coles and Woolworths account for approximately 70 per cent of liquor sales in the Australian off-trade market. Their scale brings with it market power, which is a challenge for small wine businesses. However, the foreseeable future will most likely be dominated by fragmentation of the grocery market with the continued expansion of Aldi and entrance of Kaufland, Lidl and Amazon.

IRI has found that consumers in general are more likely to visit retailers' websites than manufacturers' websites in looking for products to buy – therefore businesses are advised to work with retailers on positioning their products on retailers' websites. For a full synopsis of the trends in the domestic retail market, go to Wine Communicators of Australia website to access a webinar on domestic retail trends: <https://winecommunicators.com.au/>.

Appendix: Methodology and data tables

Methodology

- Small Winemaker Production and Sales survey conducted in September–October 2017.
- This is the second time this survey has been undertaken, allowing comparisons to be made with 2016 results.
- 2054 wine businesses were surveyed who are estimated to crush up to 500 tonnes (based on Wine Australia’s Wine Sector Survey and Winetitles Wine Industry Directory).
- The survey was conducted anonymously using Survey Monkey.
- Completed responses received from 294 wineries (14 per cent) — an excellent response rate for surveys of this kind and an increase of 3 per cent compared with 2016, which indicates strong support in the sector for this research.

For more information visit wineaustralia.com/market-insights or contact the Market Insights team on 8228 2000 or market.insights@wineaustralia.com.

Data tables

Table 1 Respondents by winery size category 2017

Winery production (litres)	Respondents	% share of respondents	Estimated total number	% share of total	Survey % representation
0 to 15 000	122	41%	937	44%	13%
15,001 to 35,000	55	19%	490	23%	11%
35,001 to 70,000	39	13%	317	15%	12%
70,001 to 170,000	27	9%	245	11%	11%
170,001 to 360,000	45	15%	144	7%	31%
Over 360,000	6	2%	6*	0%	100%
All respondents	294	100%	2139	100%	14%

* Not including all wineries that crush over 500 tonnes

Table 2 Wine sales percentage by market 2016–17

Winery production (litres)	% domestic	% export
0 to 15,000	93%	7%
15,001 to 35,000	85%	15%
35,001 to 70,000	89%	11%
70,001 to 170,000	78%	22%
170,001 to 360,000	78%	22%
Over 360,000	46%	54%
All respondents	86%	14%

Table 3 Domestic wine sales percentage by region 2016–17

Region	% domestic
Hunter Valley	96%
Adelaide Hills	92%
Margaret River	90%
McLaren Vale	79%
Yarra Valley	75%
Barossa	71%
All regions*	86%

* including those not listed above

Data tables

Table 4 Average sales value per litre by winery size 2016–17

Winery production (litres)	Average value/litre
0 to 15,000	\$22.27
15,001 to 35,000	\$17.55
35,001 to 70,000	\$14.92
70,001 to 170,000	\$7.29
170,001 to 360,000	\$11.19
Over 360,000	\$8.25
All respondents	\$11.41

Table 5 Average change in production and revenue in 2016–17

Winery production (litres)	Production growth	Revenue growth
0 to 15,000	4%	9%
15,001 to 35,000	14%	8%
35,001 to 70,000	14%	14%
70,001 to 170,000	11%	11%
170,001 to 360,000	14%	10%
Over 360,000	10%	7%
All respondents	10%	10%

Table 6 Percentage sales by channel 2016–17

Winery production (litres)	Retailer/ wholesaler	Cellar door	Own website	Online retail site	Mail order / wine club	Sales to other wineries	Other category
0 to 15,000	39%	35%	6%	1%	9%	2%	7%
15,001 to 35,000	43%	36%	6%	3%	6%	4%	2%
35,001 to 70,000	49%	25%	6%	7%	8%	3%	2%
70,001 to 170,000	54%	16%	6%	8%	2%	9%	4%
170,001 to 360,000	52%	24%	4%	6%	7%	4%	3%
Over 360,000	57%	15%	6%	1%	6%	16%	1%
All respondents	45%	30%	6%	4%	7%	4%	5%

Data tables

Table 6a Percentage sales by channel by region 2016–17

Winery production (litres)	Retailer/ wholesaler	Cellar door	Own website	Online retail site	Mail order / wine club	Sales to other wineries	Other category
Adelaide Hills	73%	7%	5%	2%	6%	5%	0%
Barossa	47%	21%	7%	3%	12%	9%	0%
Hunter Valley	19%	42%	3%	7%	17%	1%	0%
Margaret River	47%	33%	10%	2%	4%	2%	0%
McLaren Vale	56%	16%	5%	10%	7%	4%	0%
Yarra Valley	54%	31%	5%	3%	1%	0%	0%
All respondents*	45%	30%	6%	4%	7%	4%	5%

* including regions not listed above

Table 7 Change in sales by channel in 2016–17

Winery production (litres)	Retail	Cellar Door	Own website	Online retail	Mail order	Other winemakers
0 to 15,000	6%	5%	4%	3%	2%	-1%
15,001 to 35,000	2%	8%	4%	5%	4%	2%
35,001 to 70,000	9%	4%	6%	4%	3%	4%
70,001 to 170,000	1%	6%	5%	3%	2%	4%
170,001 to 360,000	7%	7%	5%	4%	6%	-1%
Over 360,000	1%	3%	6%	0%	5%	3%
All respondents	5%	6%	5%	4%	3%	1%

Data tables

Table 8 Services offered by winery size 2016–17

Winery production (litres)	Cellar door	Restaurant/cafe	Shop	Tours	Accommodation	Agri-tourism	Other
0 to 15,000	64%	14%	12%	31%	19%	6%	17%
15,001 to 35,000	78%	24%	15%	36%	16%	7%	20%
35,001 to 70,000	74%	36%	13%	31%	8%	3%	23%
70,001 to 170,000	56%	26%	11%	19%	19%	0%	7%
170,001 to 360,000	84%	47%	24%	29%	13%	0%	16%
Over 360,000	67%	17%	0%	33%	33%	0%	33%
All respondents	70%	25%	14%	31%	16%	4%	18%

Table 9 Services offered by winery size year-on-year comparison

Service offered	2015-16	2016-17
Cellar door	66%	70%
Restaurant/café	20%	25%
Shop	8%	14%
Tours	18%	31%
Accommodation	13%	16%
Agri-tourism	0%	4%
Other	11%	18%

Data tables

Table 10 Source of fruit in 2016–17

Winery production (litres)	% own grown	% purchased	% juice
0 to 15,000	80%	19%	1%
15,001 to 35,000	76%	23%	0%
35,001 to 70,000	60%	38%	2%
70,001 to 170,000	52%	46%	1%
170,001 to 360,000	64%	35%	1%
Over 360,000	43%	57%	0%
All respondents	71%	28%	1%

Table 11 Where wine is made in 2016–17

Winery production (litres)	Contract processor	Own winery	Mix of both
0 to 15,000	52%	42%	4%
15,001 to 35,000	35%	51%	11%
35,001 to 70,000	36%	46%	18%
70,001 to 170,000	48%	33%	19%
170,001 to 360,000	20%	62%	16%
Over 360,000	33%	50%	0%
All respondents	41%	47%	10%

Table 12 Employee numbers by winery size category 2016–17

Winery production (litres)	Average total employees	Average FTEs	Ratio
0 to 15,000	4.4	2.5	1.7
15,001 to 35,000	10.0	4.5	2.2
35,001 to 70,000	8.6	4.4	2.0
70,001 to 170,000	9.5	5.8	1.6
170,001 to 360,000	16.0	10.2	1.6
Over 360,000	29.5	24.8	1.2
All respondents	8.8	5.2	1.7