



Australian Government

Australian Wine and Brandy Corporation



**Drought and Directions to 2025:
influence and change in Australian wine
June 2007**

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Manager-Information and Analysis*

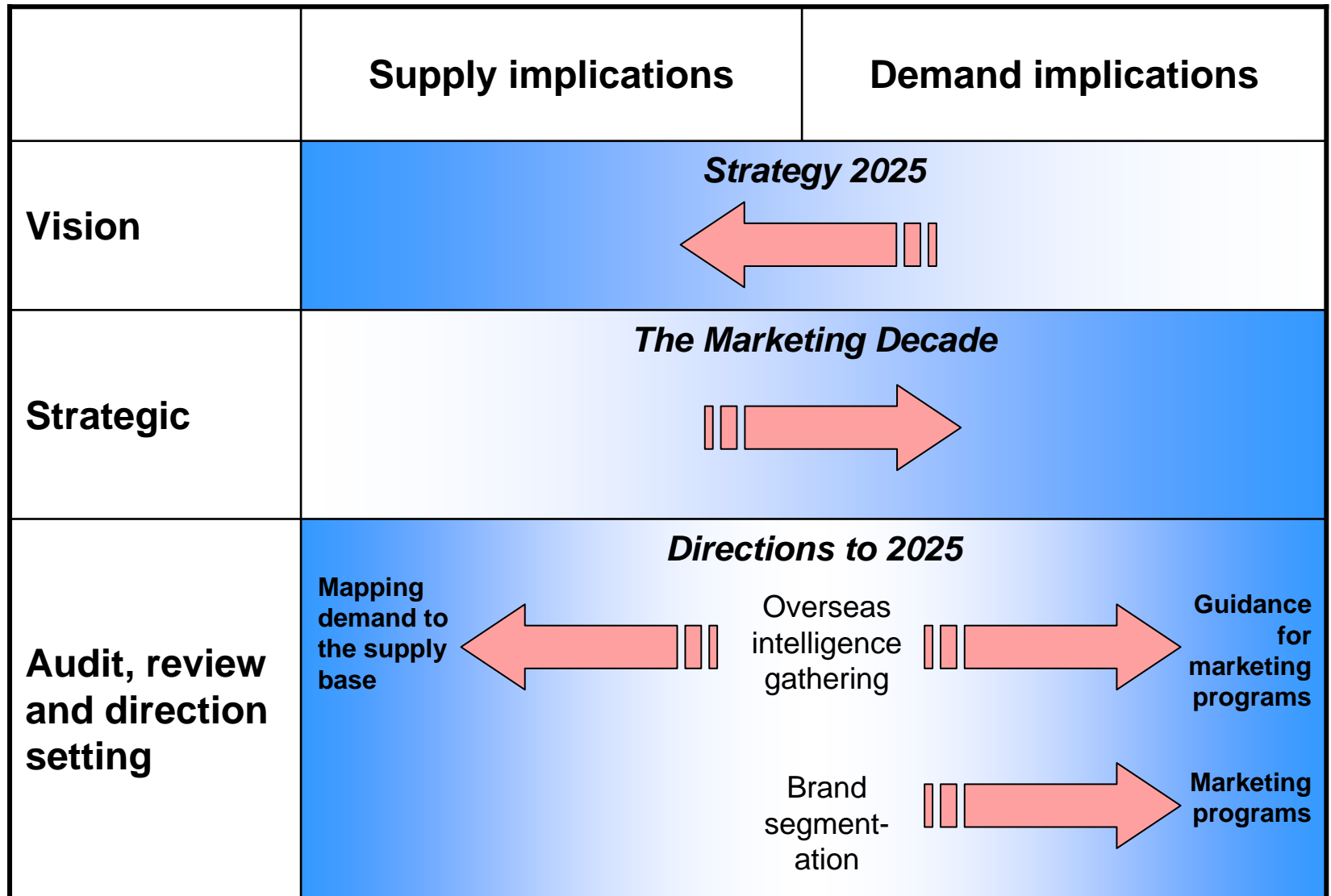


Presentation overview ...

1. Directions to 2025
2. Harvest prospects with drought
3. Supply & Demand – balance?

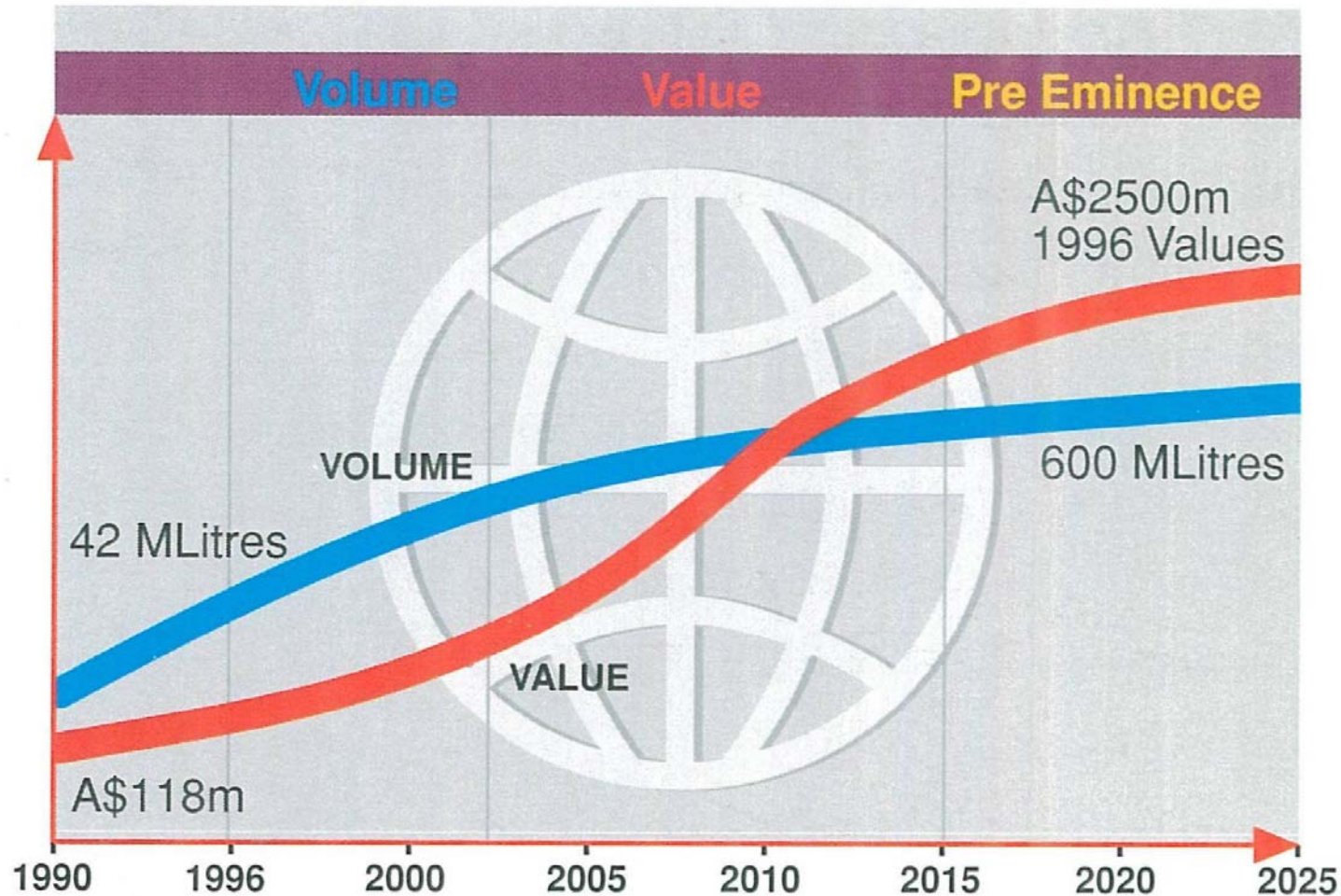
Directions to 2025

Directions to 2025 in context ...



The vision of Strategy 2025 ...

Export Phases



Source: Page 8, Strategy 2025, The Australian Wine Industry

AUSTRALIAN WINE AND BRANDY CORPORATION

The strategic framework for Directions to 2025 ...

2007 - 2025

NEW DIRECTIONS TO 2025

Anticipating the market:

1. Understanding and use of global market intelligence
2. Leadership in research and development from vine to consumer
3. Closer alignment between sector organisations to support market development

Influencing the consumer:

4. Successful adoption of *Wine Australia* brand segmentation
5. New expectations for regional and fine wine
6. New consumer and market creation through innovation and communication

Building sustainable success:

7. Partnerships with the government sector
8. Continuous improvement in business skills and practices
9. Continuous improvement in environmental performance
10. Emphasis on ensuring widespread social responsibility

The elements of *Directions to 2025* ...

- It builds on prior strategy documents.
- *Directions to 2025* is a value-growth strategy.
- *Directions to 2025* was anticipated in the original *Strategy 2025*.
- While the vision of *Strategy 2025* was largely based on a 'belief' in the potential Australian wine, *Directions to Strategy 2025* is based on research - it is an 'informed' vision.
- *Directions* provides an industry strategy but emphasizes individual self-reliance.
- Tools for self-reliance are provided.

Market Insight reports provide an evidential foundation to Direction 2025 ...

Data type

Sales data (scandata from AC Nielsen)

Consumer purchasing characteristics

Market overviews

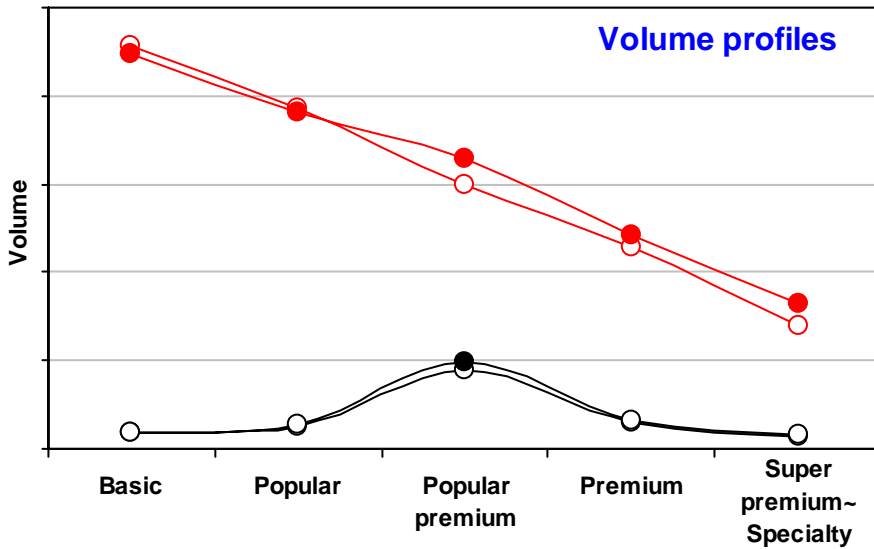
Data dimensions

Retail price points

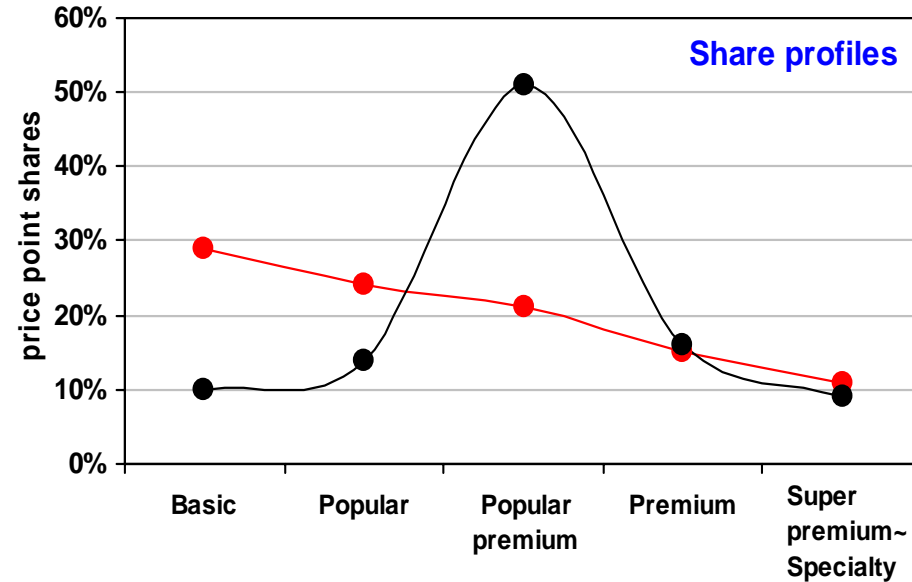
Channel
~ On vs Off
~ sub-channels

Winestyle
~ red, rose, white, sparkling

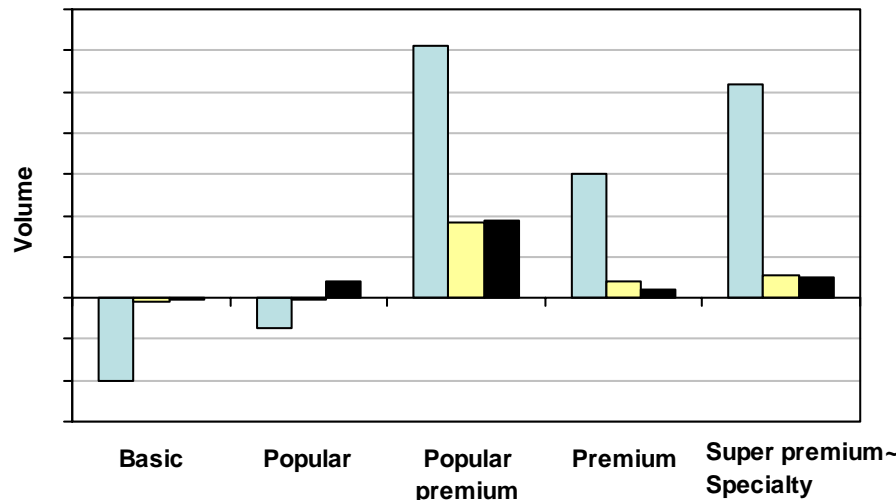
ANTICIPATING THE MARKET - the export market is growing in the high price points – Australia has been highly successful in the ‘popular premium’ segment but underperforms in the lower price points (understandably) and the higher price points.



○ The market, 2004-05 ● The market, 2005-06
○ Australia 2004-05 ○ Australia 2005-06



● The market, 2005-06 ● Australia, 2005-06



Gains analysis

□ Market price segment growth, 2005-06
 □ Expected Australia share of price segment growth, 2005-06
 ■ Australian growth, 2005-06

Sources: AC Nielsen and AWBC

Brand segmentation tells the story and expands the offer ..

Wine Australia: from everyday informality to aspiration and excellence

BRAND CHAMPIONS



Australian wines that appeal through accessibility, ease of enjoyment and a strong premium brand message about product and country.

generation next
STYLISH : CONFIDENT : ORIGINAL : CREATIVE : EXCITING



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

Regional Heroes



*Wines from somewhere rather than wines from anywhere
Australian wines that add and sustain interest for consumers through a clear association between region and variety and/or style.*

Landmark *Australia*



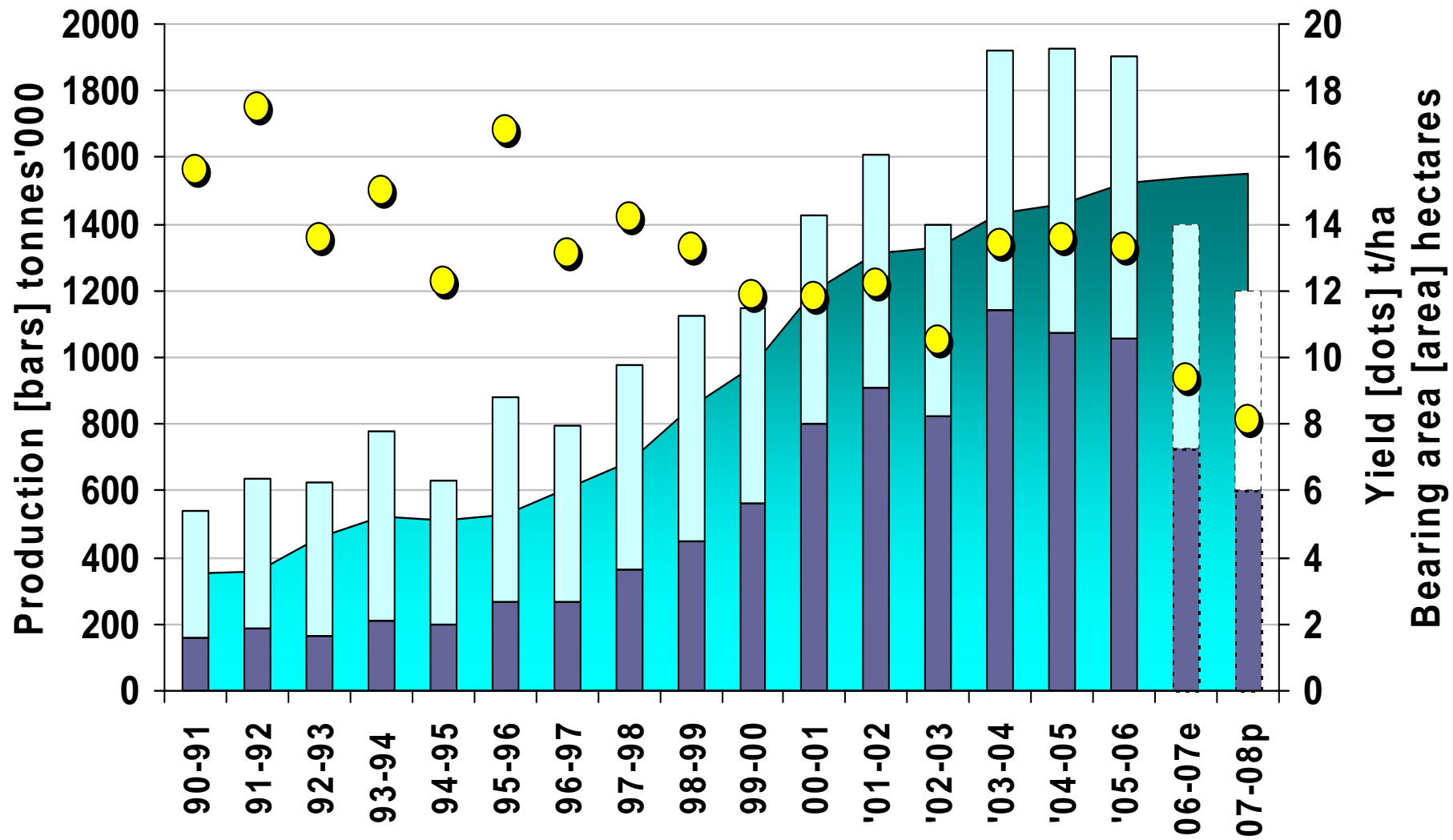
Australian wines built on inherent quality and world class reputation - high profile, aspirational wines.

SUPPLY & DEMAND

Backgrounding to supply issues ...

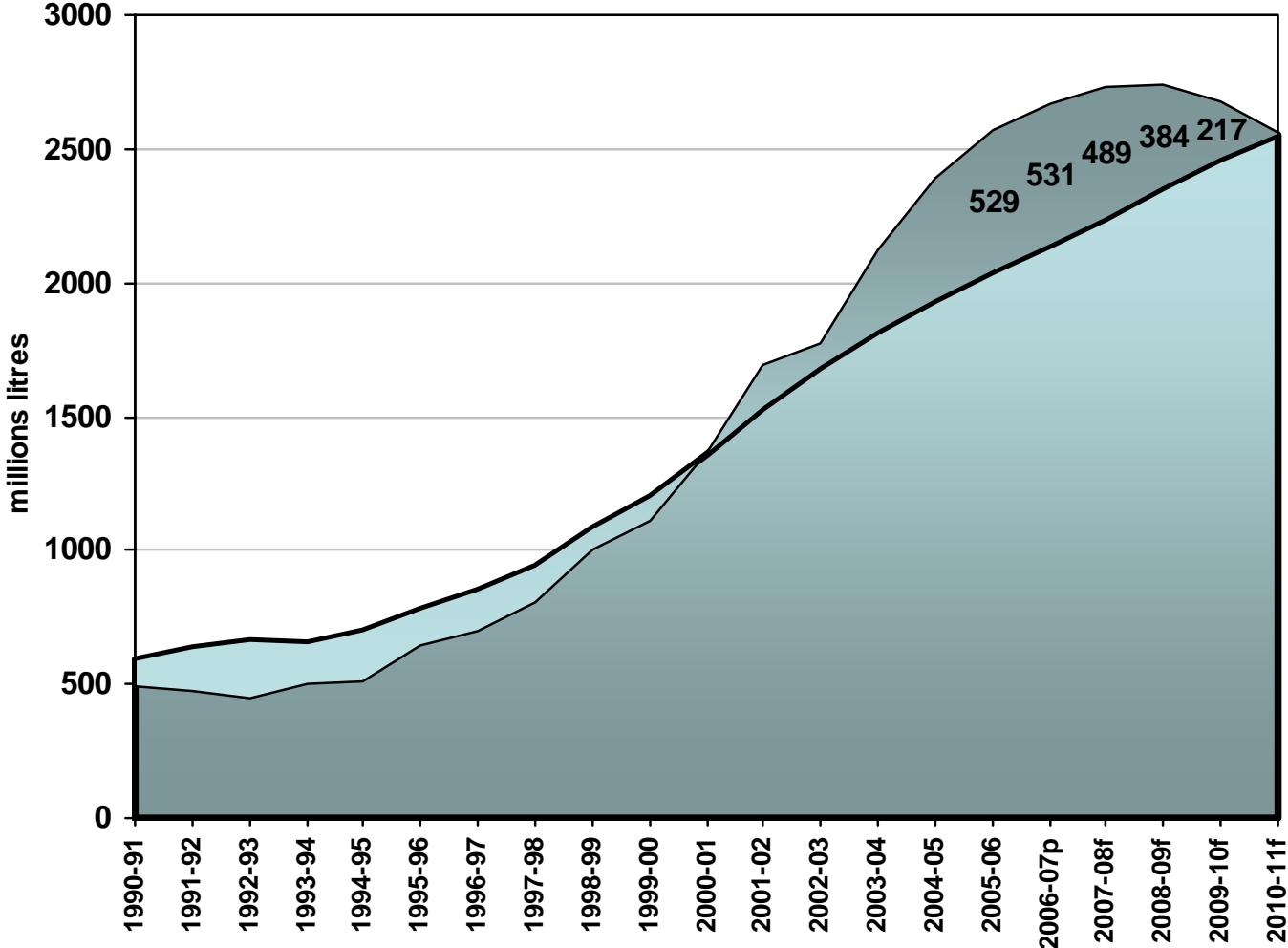
1. The effect of the low season in 2007 is expected to reduce the 'excess' stock holding by about two thirds.
2. The expected low season in 2008 will leave the industry short – by how much, and for how long will depend on the outcomes in 2008.
3. Continued subdued levels of planting, as has occurred over the last 5-6 years, will come under scrutiny over the next two years. Given existing uncertainty, there is time yet to consider this.

*2007 a down season (indicative),
2008 more so (hypothetical)?*



Drawing down stocks – scenarios in uncertain seasons

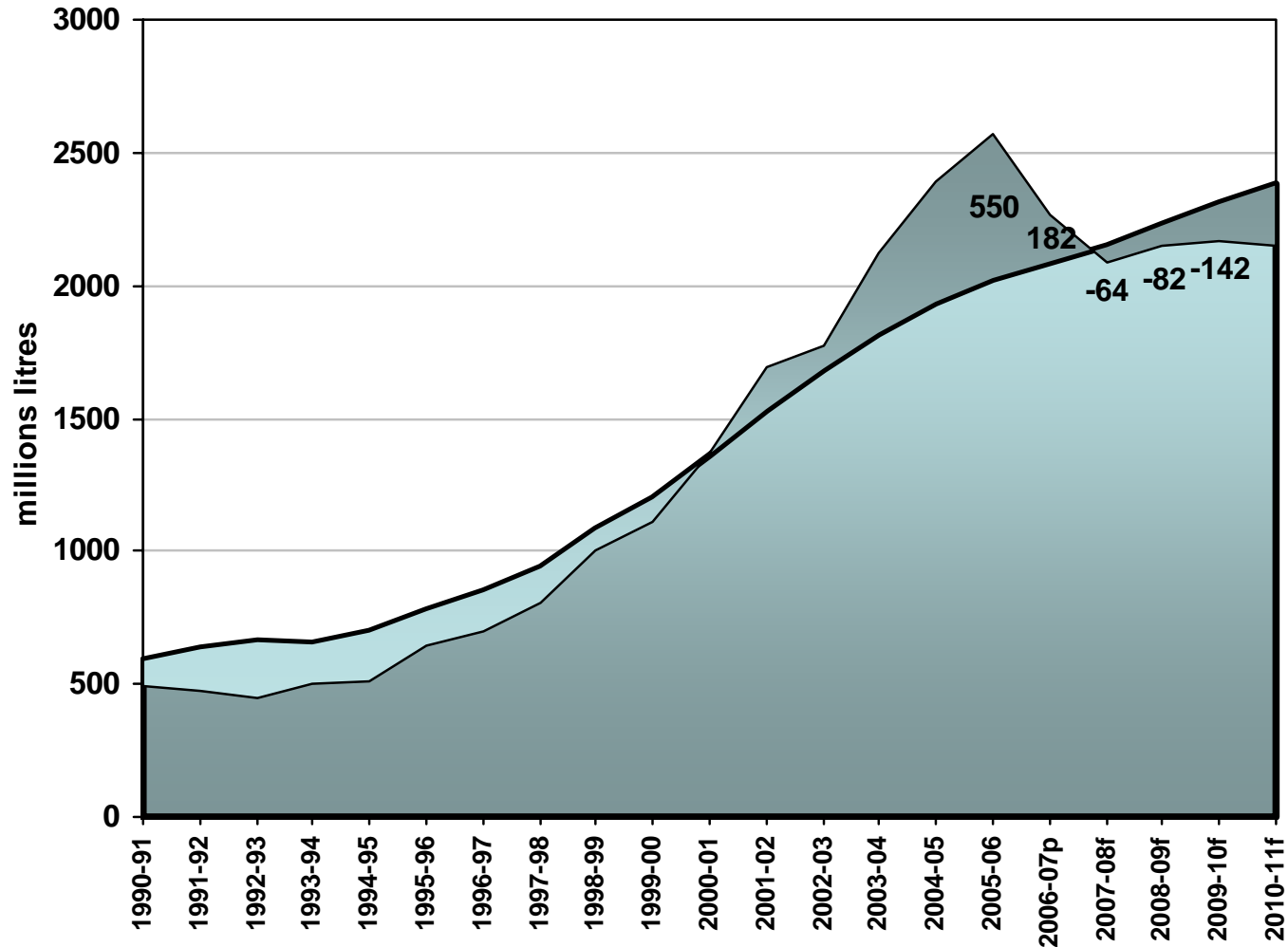
... average yields scenario



Note: 'Ideal' stocks are based on a 1.83 stocks-to-sales ratio for red wine (financial year-end stocks held against forward sales) and a 1.33 stocks-to-sales ratio for white wine. 'Surplus stock' is judged to be the actual or estimated stock minus the ideal.

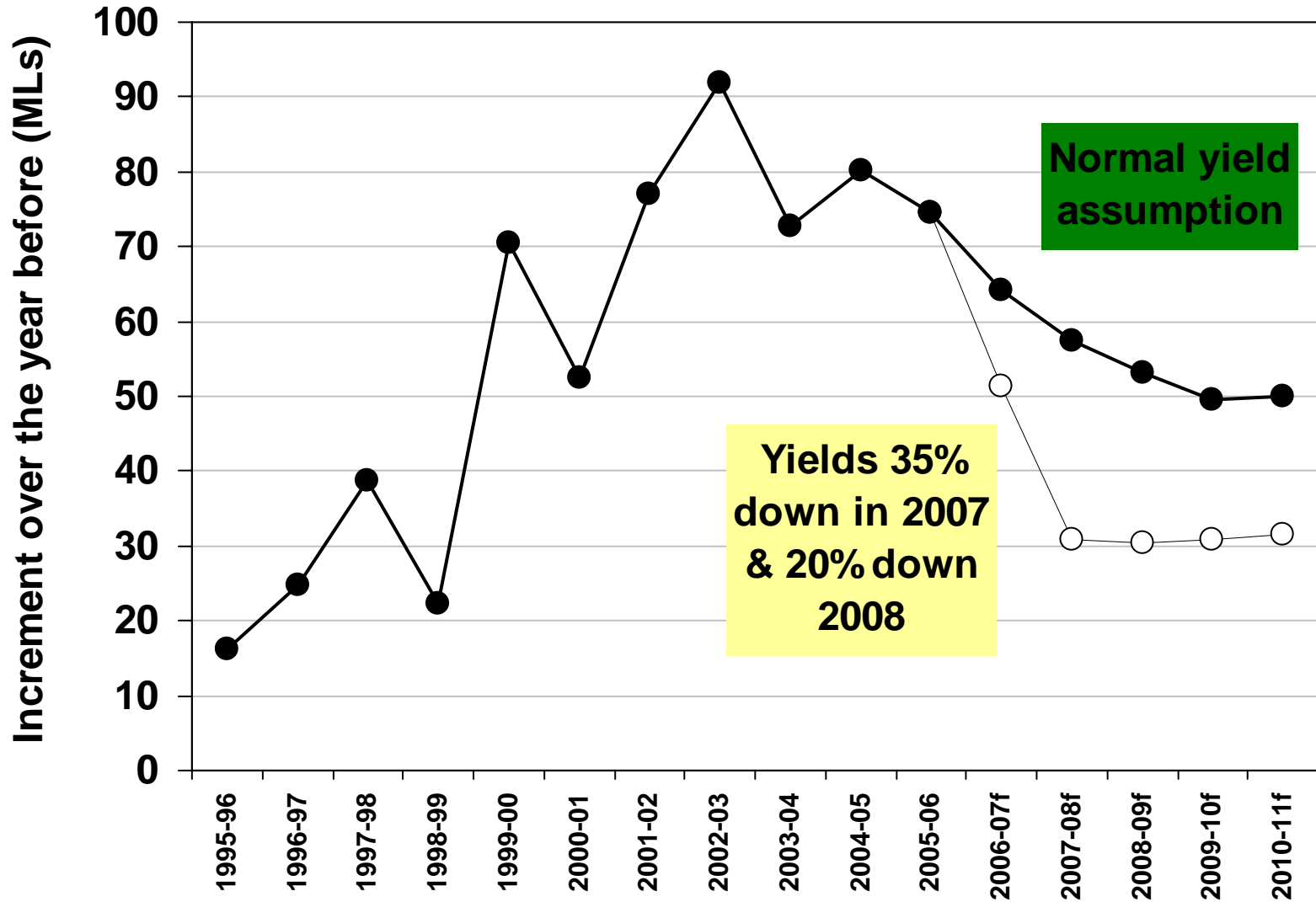
Drawing down stocks – scenarios in uncertain seasons

... 2007 yields 36% below average and 2008 down 20%



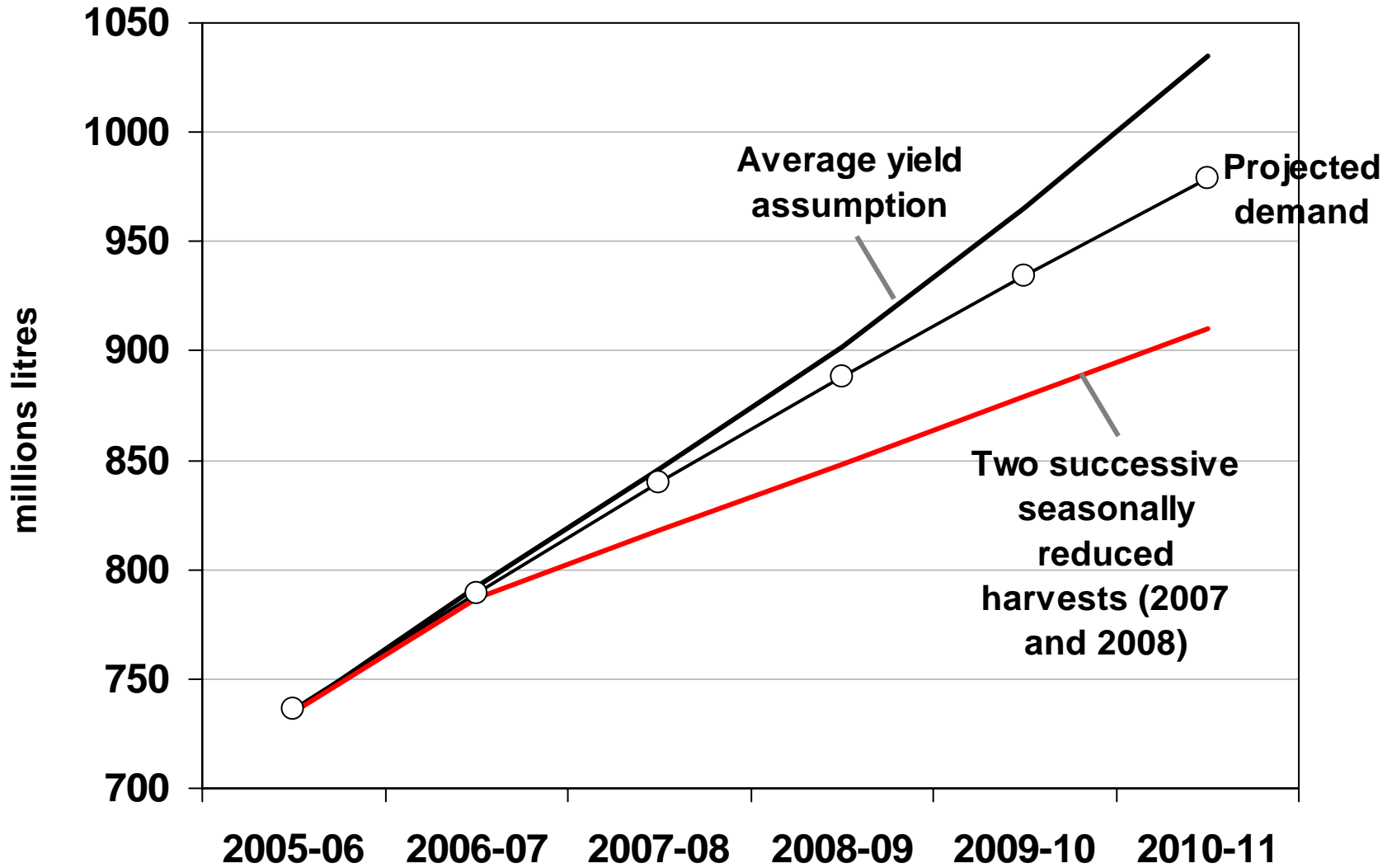
Note: 'Ideal' stocks are based on a 1.83 stocks-to-sales ratio for red wine (financial year-end stocks held against forward sales) and a 1.33 stocks-to-sales ratio for white wine. 'Surplus stock' is judged to be the actual or estimated stock minus the ideal. Note: based on 2007 harvest expectation of 1.35 million tonnes and a hypothetical 20% lower yield per hectare in 2008 compared to the average between 2004 and 2006.

Outcomes for the availability of wine for export...

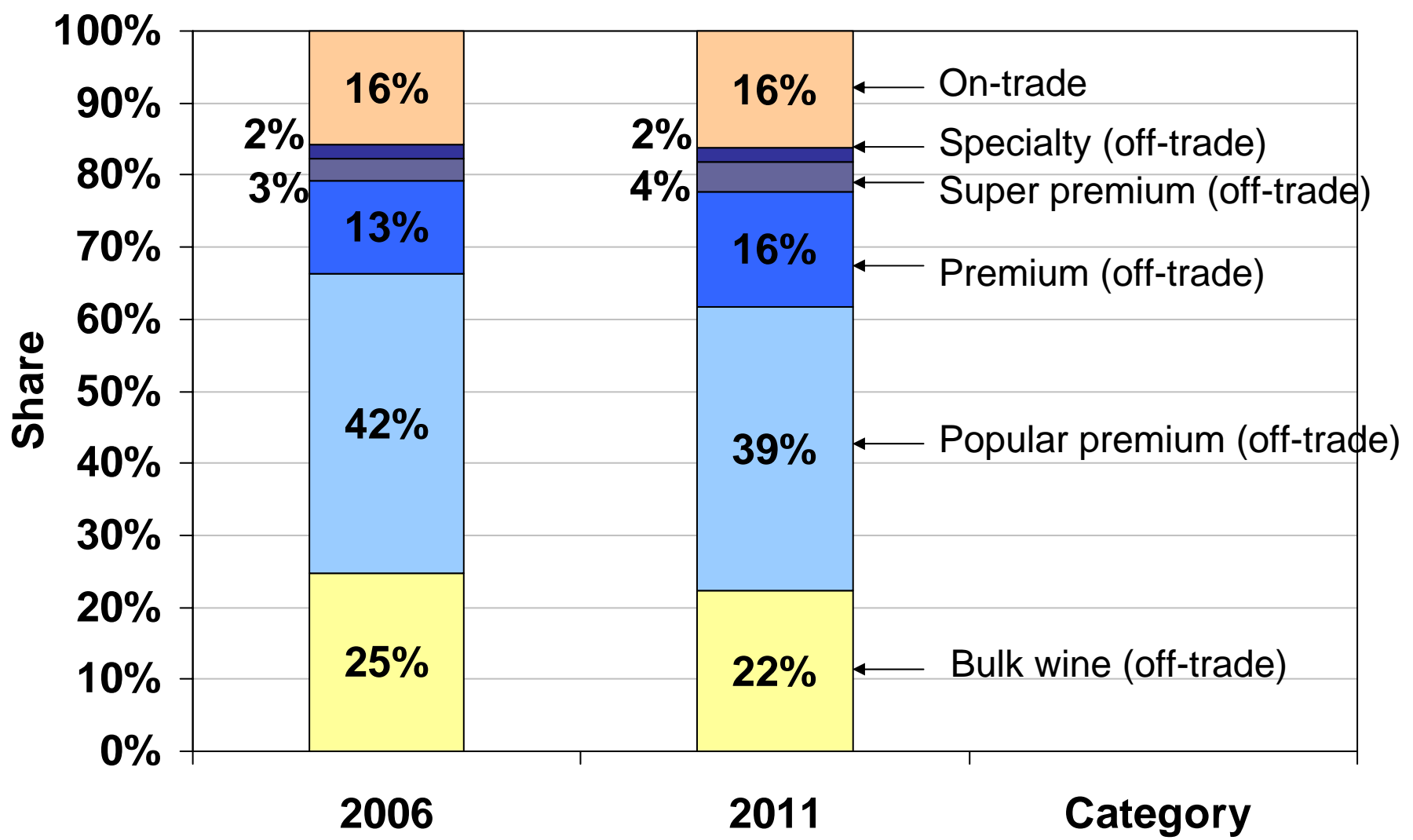


How the supply and demand lines plot ...

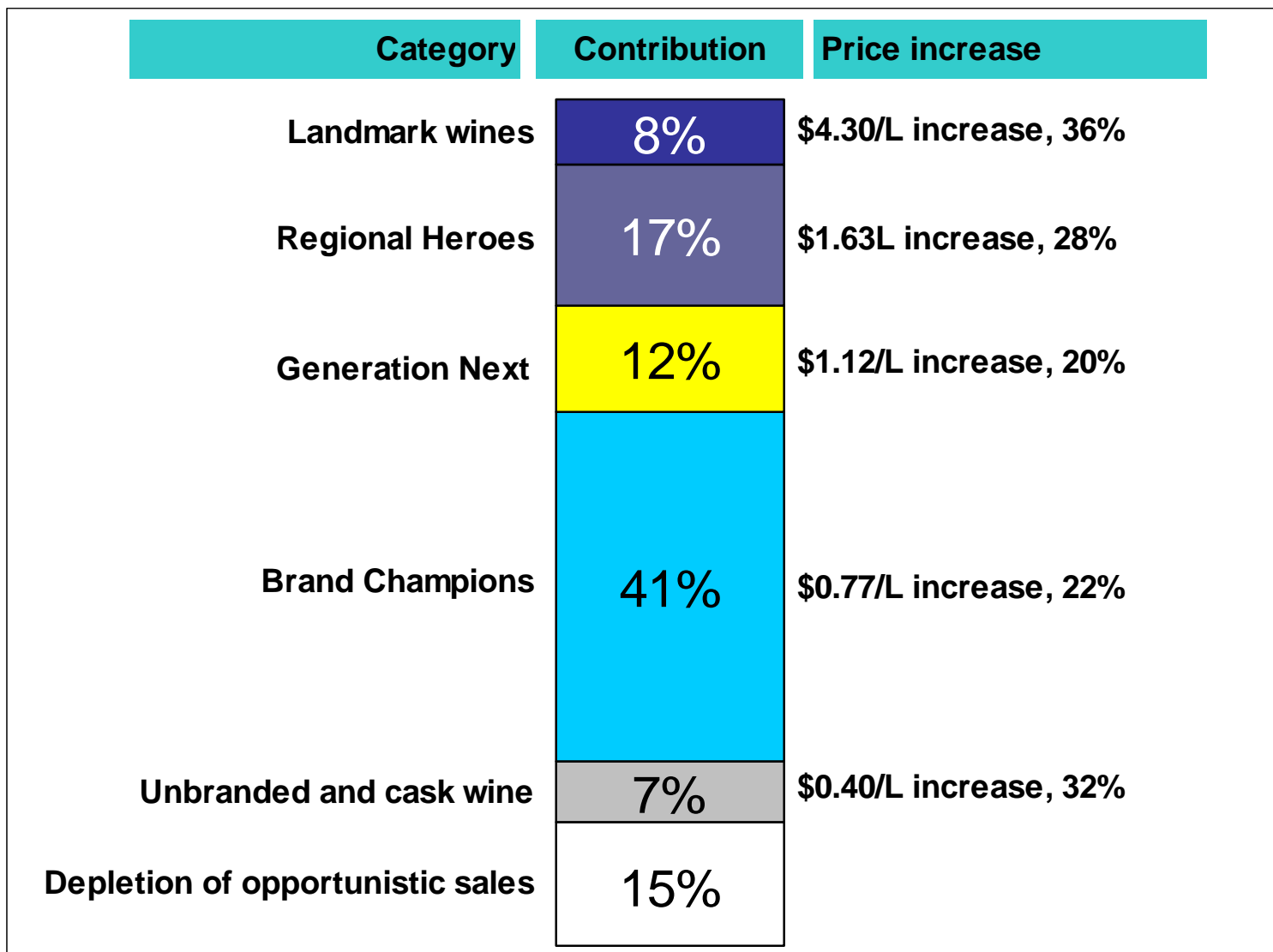
(overseas demand and export availability)



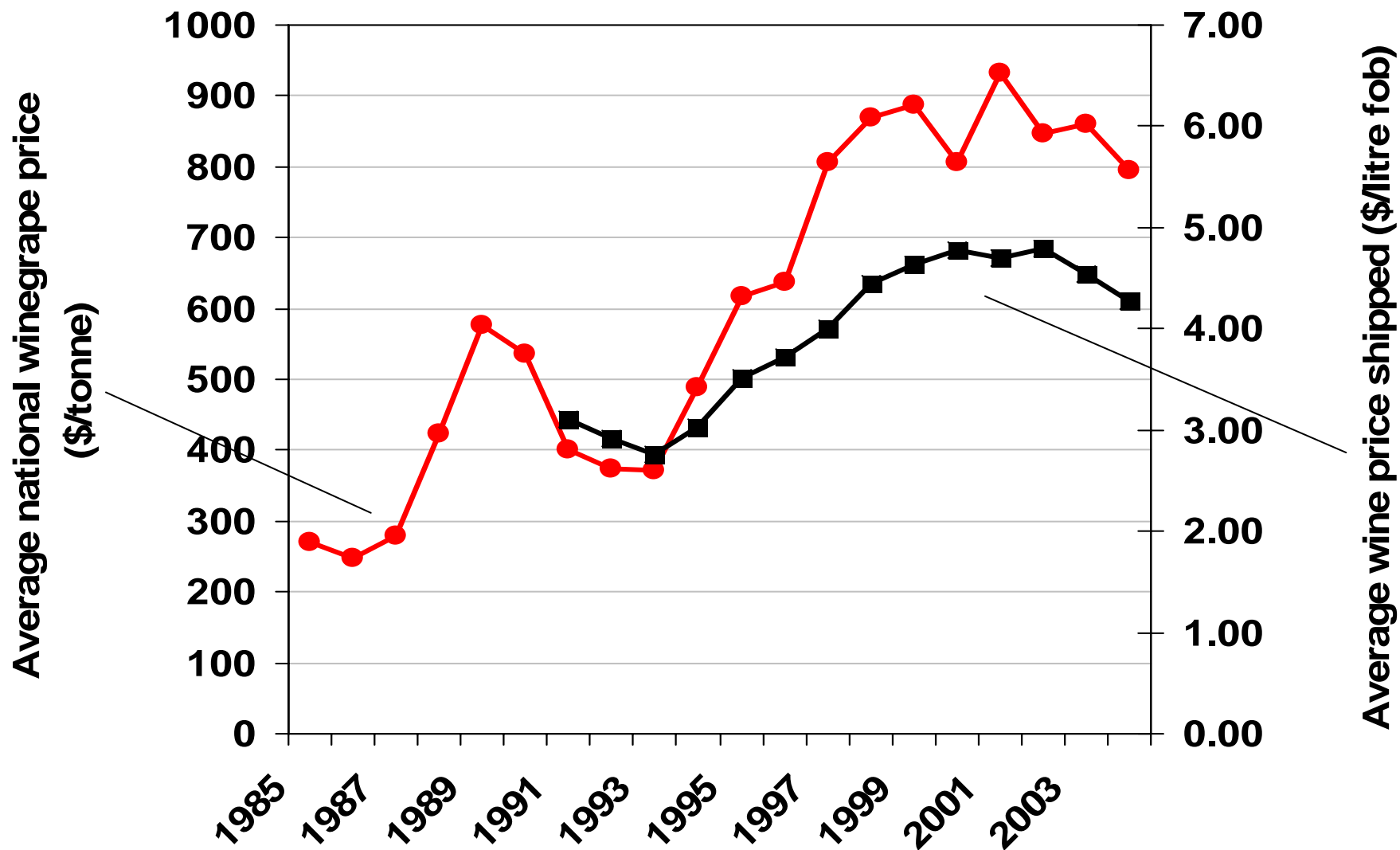
Demand projections by quality segments leave you thinking that there will still be a warm inland/cooler climate imbalance no matter what ...



Directions to 2025 aims to deliver a \$1/litre increase in export values over that that would be expected if no action were taken ...



An improvement in export values matters to winegrape prices – the history...



Summary ...

1. *Directions to 2025* focuses on value-growth.
2. *Directions* is based on research, providing context for industry planning as well as tools for companies to take the next steps.
3. A short season in 2007, and another one expected in 2008, will
 - provide the opportunity to re-focus on higher-price points, and
 - lead to a review of planting levels in the next few years ~ time yet.