

The Key Report by ferment

Unlocking the News on the Australian Wine Industry

21st October 2002

CONTENTS

1. National Whine Centre!

“Wine Centre to Close” “Industry pulls out of Wine Centre”, these headlines were to be found at the beginning of October 2002 re the National Wine Centre in Adelaide just about a year after it opened. How long will it take before Wine-centre enters a dictionary of popular phrases “to wine-centre, a debacle, a calamity, a mess up, a cock-up” as in, “you made a right wine-centre of that”?

Visitors we have spoken to think it is an impressive place, a credit to Adelaide and the industry. So far, not one person either in the business or interested consumer has said anything against it. On this information we assume it must be doing something right. In fact it appears to be doing more right than wrong, just not enough of it.

The “she’ll be right” optimism has turned. It’s not as if “in hindsight” can be used. The don’t blame me attitude, dumb predictions, unseemly squabbling that has surrounded this project from day one has been obvious and now statements such as “September 11th terrorist attack, the collapse of Ansett, and elections federally and in South Australia contributed to this situation” are imaginative to put it plainly.

Many letters to The Adelaide Advertiser have said that the wine centre benefits the wine industry therefore the wine industry should pay for it. A sentiment echoed by the Premier Mr Rann. People in the industry often point out the amount of tax on a bottle of wine and think something should be given back.

In June it was announced that the State Government was handing over the management of the NWC to the industry but taxpayers would continue to pay an estimated \$6.25 million for maintenance. The Winemakers Federation of Australia was to pay an annual rent of \$1 for the 25-year lease and receive a \$750,000 cash grant from the government to help it operate the centre.

Why did the industry take it on? By giving up on the centre just three months later one can only assume, like the original engine drivers that they didn’t do the figures properly. Or were they being very clever? Would the Rann government really let the centre close or would it continue to find buckets full of dollars?

In an article in The Australian 2nd October, the Chief Executive of the Winemakers Federation of Australia, Ian Sutton, is reported as saying “the industry did not have the spare capital to prop up the centre”.

A release was issued in October by the Winemakers Federation of Australia, Ian Sutton writing, “to inform you of recent events regarding the National Wine Centre” starts with a mild blast of the Rann government “strident critic” etc, counterbalanced by an excuse for the WFA “put under considerable pressure to make a very important and very quick decision.”

One paragraph says a new business plan was prepared and “a firm of leading Chartered Accountants rigorously assessed the new business plan, identified the pressure points and gave it their support”. Excuse our naivety but if a “leading firm” gave “their support” to the

deal, it must have had something going for it. From the release, the plus point appears to be the rental received from various industry tenants for office space.

Moving along "On 23 September however the chair of the operating company Brian Croser advised the WFA president Peter Barnes that unless there was substantial injection of capital into NWC he had no option other than to recommend the centre cease operations"

Next Paragraph "The Centre has been unable to meet the targeted increase in visitor numbers and hence revenue objectives or achieve the operational efficiencies and cost reductions required under the business plan"

In a separate release from WFA it says the reasons for not proceeding "relate to trading issues that have since arisen" It then repeats the above sentence re unable to meet targeted etc etc.

Yep, all concerned have made a total wine-centre of The National Wine Centre.

2. International Wine Challenge

The full results of the **International Wine Challenge** are now published in Wine Magazine (UK). 10,237 entries, 1508 from Australia, 373 of those were a waste of time. Another 433 attained a seal of approval (not a lot to shout about), 439 can dangle a bronze, 223 can flash silver, 37 got gold - a good effort as there were only 224 awarded. In fact percentage wise Australia did well.

Trophies should be worth shouting about. Entitled to make loud noises are the makers of:
Campbell's Rutherglen Muscat,
Eileen Hardy Shiraz 1997,
Tarrawarra Pinot Noir 1999,
d'Arenberg The Coppermine Road Cabernet Sauvignon 2000.
Nottage Hill Chardonnay 2001 was voted one of the Great Value Wines of 2002, as was
Tatachilla McLaren Vale Shiraz 2000.

3. Do you really want to share?

After a spell below the \$8 mark, **BRL Hardy** has crept back to just over \$8. Those heady days of March when \$10 and over was the norm seem a long time ago.

Reynolds (ex Cabonne) hangs around the 20 -25-cent level. Having had a huge amount of restructuring over the past couple of years, is this a sleeping tiger?

Who was surprised that **Evans & Tate** wanted to take a second glance at the merger with Cranswick after the latter announced a \$23 million loss?

Pipers Brook shares are still moving about in the \$2.20-2.40 range although with Kreglinger owning around 87% and The David Groves Group holding just over 9% there's not a lot left to play with. It appears that Kreglinger is looking to acquire 90% enabling it to compulsorily purchase the Groves holdings.

Peter Lehmann, whose net profit for the year 2001/02 was \$6.9 million, is planning to spend \$9 million in upgrades, including infrastructure, storage capacity, environmental improvements and oak.

Orlando Wyndham is planning to invest \$100 million in capital expenditure. Sales of Jacobs Creek increased by 15%. Orlando Wyndham has also increased its holding in **McGuigan – Simeon** to just under 7%. Orlando's parent company **Pernod Ricard** reports a 63% increase

in group operating profits to €296m (A\$528m) for the first half of 2002. Sales were up 18% to €2.6 billion (A\$4.7b).

Winepros: a bit happening with Winepros. A letter to shareholders informs, "On 2 October 2002, **Buyshop** Ltd announced an on-market takeover offer for all of the ordinary shares of Winepros Ltd. The Offer is 2.2 cents cash for each Winepros ordinary share. The offer values Winepros at approximately \$1.1 million. **Buyshop** is an unlisted public company established with the sole purpose of gaining control of an ASX listed entity such as Winepros." However Buyshop is not the only one interested. On 30th August **Starmore Investments Pty Ltd** made an off-market proportional takeover offer for 85% of the fully paid ordinary shares at 2.1 cents a share. Add to this **Beirne Trading Pty Ltd** who became a substantial shareholder in Winepros on 3rd Oct controlling 8.4% of the shares. It's all very interesting.

Dromana Estates Limited has increased its profit in the 12 months to 30th June 2002 from \$671,000 to \$710,000.

Simon Gilbert Wines Ltd increased revenue by 80% to \$6.1 million for 2001/02 and has abandoned its planned acquisition of **Evans Wine Co**.

Word is **Coopers** (the Adelaide based brewer) is considering diversifying into wine .

For reasons not yet fully clear **Canning Energy** has purchased the brand name, winery, and cellar door of **Pepper Tree** wines in the Hunter Valley, but not the vineyards.

Southcorp Chairman Rick Allert will resign as Chairman and Director of Southcorp at the annual general meeting on October 31st, and is expected to be named as the new chairman of Coles Myer. Brian Finn will be appointed to succeed Mr Allert.

4. Show me the money!

There are loads of magazines out there on wine, food, and lifestyle. One of the best in Australia is **Divine** (\$9.95 www.divinemagazine.com.au). The current issue No 30 has an article about the difference between samples of **McGuigan** Genus 4 Old Vine Hunter Valley Shiraz 2000 entered into a Shiraz show and the wine later released for public sale.

On analysis the wine entered into the show was reported to be sweeter and higher in alcohol than the one released. Divine was initially alerted to the difference by its readers and perhaps Divine readers would have been the only people who were aware of this situation if it wasn't for the fact that Max Allen also has a column in The Weekend Australian.

Max ran the story in the October 5/6th edition of The Weekend Magazine with additional information. Max said he approached McGuigan Wines and was informed that the wine was the same - just two different bottlings. He also unveiled that the first bottling was entered into the Melbourne Wine Show and picked up a medal there. Even the AWBC became involved sending in the audit boys to McGuigans. Their investigation led to (quote) "the wine that was sampled (for the show) was not exactly the wine that was bottled (commercially)"

However it's all a bit vague and no further action will be taken. The company has admitted there was a difference between the two bottlings and yes they did put the better of the two into shows. The article quotes Brod Vallance, McGuigan production manager "It's called putting your best foot forward. There's nothing wrong with that is there?"

The above situation is not exclusive to McGuigan. Which is worse - the obvious and shameful greed of many Australian wine shows that have such malleable rules encouraging wineries to enter the same wine in different classes (all accompanied by an entrance fee), or the bending of the rules by wine companies to their advantage.

5. Wine colour? What colour?

An article in The Financial Times UK 1st October reports that the **First Quench** chain of bottle shops is piloting a scheme that arranges bottles on the shelf according only to price point. The company says that one-third of the public admit to being baffled by wine and 76% of consumers were unable to identify Pinot Noir as a red wine, over 50% did not know the colour of Merlot and 63% of consumers did not care which country their wine came from.

Alongside the new layout is a "rating system for wines, ranging from "dry and crisp" to "sweet" for white wine, and "light and easy" to "monster" for red wine. The "monster" category carries the warning: "Big on fruit, huge on flavour, nothing scares these beasts."

First Quench has around 2000 outlets and approximately 12% of the take home trade in the UK.

6. Watch out for the Cape!

A snippet of news from justdrinks.com on 25th September caught our eye; "**South African** producers are being urged to produce a coherent industry led strategy to attack the UK market". This advice was coming from Mike Paul, MD of Western Wines. Mike went on to say "follow the **Australian** example". Something Mike has full knowledge of, as he was MD of Southcorp in the UK for several years.

7. North Americans buying up Oz wineries?

The press release from **Vincor Wines**, started "Leading Western Australian winery provides strong brands and excellent base for additional expansion in the region". It's the additional expansion bit that's worth noting.

Goundrey Wines of WA is about to go to Canadian drinks company Vincor Wines for A\$62.5 million (C\$53.7 million) "This acquisition is an important milestone in our international growth strategy to expand operations to all New World wine regions." said Donald Triggs, Vincor's President and CEO.

There was plenty about producer of super premium etc etc, with equal doses of sugary stuff from Jack Bendat, Goundrey's owner and Chairman. The acquisition is subject to customary closing conditions including the approval of the Western Australian liquor licensing authority. Completion is expected by the end of October.

And just who is Vincor?

North America's 4th largest producer by volume, and marketer of wines and related products.

They have wineries in British Columbia, Ontario, Quebec, New Brunswick, California and Washington State.

Brands include Inniskillin, Jackson-Triggs, R. H. Phillips, Toasted Head, EXP, Hogue, Sumac Ridge, Caballero de Chile, Hawthorne Mountain, Ancient Coast and Sawmill Creek, which complement its popular priced wines such as Entre-Lacs, L'Ambiance, Sola Nero and Notre Vin Maison.

Wines are produced from grapes grown in the Niagara Peninsula of Ontario, the Okanagan Valley of British Columbia, the Dunnigan Hills of California, the Columbia Valley of Washington State and vineyards around the world.

Finances?

For the three-month period ended June 30, 2002, Vincor reported a 22.7% increase in net sales and a 106.1% increase in net income over the corresponding period in the previous year.

Net sales in the quarter were a record C\$101.1 million and net income was C\$8.2 million. This compares with net sales of \$82.4 million and net income of \$4.0 million, reported in the first quarter of fiscal 2002.

Gross margins also increased by 1.8 percentage points to 48.1%. The complete interim statements with notes along with the interim Key sales increases were achieved across Vincor's core wine brands in the quarter with Jackson-Triggs increasing sales by 26.5%, Inniskillin rising by 17.5% and sales of Toasted Head growing by 47.1%, compared to the first quarter of fiscal 2001.

During the first quarter of fiscal 2002, operating income rose to \$15.6 million compared to \$11.1 million in the first quarter of the previous year. This increase is due to the contribution of The Hogue Cellars as well as solid gains in all divisions

8. Onwards & Upwards

September figures for wine exports, 49 million litres, up 6% on September 2001, September is the peak month for exports to meet demand for Christmas & New Year.

9. It's not only our problem – An overview of the 2002 vintage

Australia is not the only country that has an increasing grape production that may well become a problem. The **Californian** vintage estimates for 2002 are 3.3 million tons, 8% up on 2001. Figures of 30,000 tonnes upwards are likely to be left on the vine. **Oregon** has had a run of good vintages and is set to have another, as is **Washington State** 18% up on last year.

As the 2002 vintage records are finalized in Australia, the press gets a second chance to report what most people already know: it was a good year in some regions, poor in others.

In **Tasmania** the yield was 46% down: 2496 tonnes compared to 4545 in 2001. However with the eternal optimism that is de rigueur in the industry nowadays, the Environment Minister Bryan Green, said "It was a good investment year for consumers because wines would be intense and scarce."¹

The Murray Valley has confirmed 50,000 tonnes, up on 2001. Most red prices were down on 2001, apart from Shiraz, which showed a slight increase. The price of whites was around the same as last year and in some cases a little more. Predictions are that many red varieties will stay in oversupply until 2007. Vic Patrick, chief viticulturist for **Beringer Blass Wines** believes "eager, relatively new overseas customers such as Canada will take up the slack."²

Without damming Vic Patrick, Canada is a damn sight closer to the USA than Australia. I wouldn't be surprised if something similar was being said over there. "BRL Hardy's joint venture company Pacific Wine Partners will push into the UK with a new brand called Seventh Moon to take advantage of a huge grape surplus in California."³

BRL Hardy has had troubles with some growers re "applying retrospective measures to reduce payments" as put by the **Sunraysia Daily** at the beginning of August. During the

month the Australian Competition and Consumer Commission became involved, legal action was mentioned and growers were advised not to sign new contracts. BRL's end of year results came out, a 23% rise but the share price was "driven down by revelations of a cash burning wine lake."⁴

Moving on from last to next vintage, chief executive Stephen Millar has said he did not know what impact the drought would have on the 2003 vintage. However if there was a smaller vintage "it will probably be a blessing on the industry. If the vintage stays up we will take action to bring inventory down - I don't see the drought as a negative."

¹ **Launceston Examiner** 12th September

² **Daily Telegraph (Sydney)** 14th August

³ **The Australian Financial Review** 10th September

⁴ **The Australian Financial review** 12th September

10. If we can't flog it here we'll flog it there.

Australian wine exports face trade threat to growth, this or something very similar was the headline / lead into many articles at the beginning of September. They were based on a report released by the Australian Bureau of Agricultural and Resource Economics. In essence the report said that Europe is not afraid to use trade barriers to protect its own wine industry. And they will, so don't be surprised or cry unfair.

Brian **McGuigan** said that Casella Wine's **Yellow Tail** label's aggressive marketing in the US had put pressure on Australian exporters to North America. "What it has done is suck down our price, suck down our value and image." * I thought it interesting that Brian is speaking on behalf of "Australian exporters," and wondered if they knew. It also appeared that the success of Yellow Tail has the big man sucking on a lemon. The article says McGuigan-Simeon plan to launch two products next January to match Yellow Tail.

* **The Daily Telegraph** 11th September

11. Who will Annabella do it for?

Perhaps the most surprising news recently was from **BRL Hardy**, which announced plans to launch a range of sweeter style wines called Annabella. This range is aimed at younger women. I can picture the scene "Oh look Barbie, Ken has brought you home a bottle of Annabella, lets have a glass before pony club." How young are these women reckoned to be that will be attracted by a wine called Annabella?

From a letter in **The Advertiser** 13th August "As a woman I take exception to the stereotyping of our gender. I, and a wide circle of female friends, enjoy dry reds and whites equally with our male partners." I take the point - BRL is not after this lady's business but as they are still in the process of quitting their Wicked Wines range aimed at generation X that was no success, who are they targeting?

At least **Ken Helm's** (Helms Wines Canberra) 10-bottle box that meets occupational health and safety guidelines for weights lifted by women, makes sense.

Also there is the study recently carried out at cellar doors in Coonawarra: 39% of visitors are aged 18-34, 30% earn over \$100,000 a year and more than half are women. **Jenny Stonier** co-author with **Roz Howard** of the report for the NSW Wine Press Club "Gen X - Marketing Wine to the next Generation" emphasises the need to take Generation X seriously. "Many young people are incredibly interested and keen to learn about wine. This creates such a great opportunity to start a rapport that may last for the rest of their lives. Don't waste this opportunity by patronising and 'dumbing down' the product." she said.

Brian de Mamiel is BRLs Australian trading Manager, I include some points from the Gen X report that perhaps he should consider.

- Provide samples to Gen X wine writers: The wine industry needs to support youth magazines and younger wine writers with more samples, interesting information and anecdotes. (eg: Wine X magazine).
 - Pricing should represent value for money. The Generation X customer seeks value but is prepared to pay for a quality product.
 - Authenticity always. An important key to success with marketing-savvy Generation X'ers will be to portray authenticity, especially in labelling, packaging and product. Explore the possibilities of branded vessels such as 375ml bottles of wine. However avoid the temptation to 'dumb down' products by marketing inferior wine in fancy packages.
 - Many Generation Xers are aspirational drinkers - they aspire to the fine things in life therefore design products, packaging and labelling which reflect the integrity of the company.
 - Make learning about wine fun and interesting. Use the language of Generation X such as SMS text messaging.
-