South Australian wine industry –
July 2017 snapshot
Welcome to this inaugural benchmarking study of South Australia’s wine industry – a collaboration of full service advisory firm Bentleys SA and the South Australian Wine Industry Association.

The purpose of this research is simple. It aims to equip wine businesses with the data required to benchmark business performance and to inform business decision making.

We recognise that South Australia is dominant in the wine industry, accounting for almost half of Australia’s total wine production and producing a diverse range of sought after wines. We also understand that the wine industry is complex. As a wine business, it is necessary to monitor grape production and/or supply, make the wine, build a brand, sell the wine, research and engage with feasible markets, build relationships with suitable wholesalers, retailers and distributors, while managing internal and external conditions and working to grow the business.

It can sometimes be difficult to find the time to devote to improving business profitability, never mind the relevant information required to compare performance. We trust this report will fill this need by providing valuable insights into business performance and sentiment.

We are grateful to the 81 wine businesses of South Australia that participated in this study and shared their honest assessments.

This study has revealed reasonable levels of business confidence across South Australia’s wine regions, however profitability issues remain the utmost concern for most.

The rising costs of doing business - particularly associated with energy and labour - are having a negative impact on South Australia’s wine businesses.

Grape processing plants were operating at an average of 84% capacity during the 2016 vintage, higher than we expected.

Many businesses intend to increase or maintain staff levels over the coming year.

Most of our respondents (79%) are actively engaged in exporting product. Feedback suggests that China, the United States of America and Canada are increasingly the focus of export growth, while the United Kingdom and Europe also remain of interest.

Production of premium, bottled wine is the most popular product flagged for development over the next two years, closely followed by export and cellar door developments.

We hope you enjoy reading this report, which dives deeper into export matters, growth considerations, government incentive opportunities and provides some regional comparisons.

We invite your ongoing involvement and enquiry, as we strive to deliver meaningful insights to support the growth of South Australia’s wine businesses.

Brian Smedley
Chief Executive
South Australian Wine Industry Association

Tim Siebert
Director, Business Advisory
Bentleys SA

The association’s core functions are to provide leadership and strategy, to represent the industry and lobby on its behalf, and to provide advisory services to members which underpin the sustainability and competitiveness of our members’ wine business.
Eighty-one wine businesses participated in this inaugural benchmarking study, which aims to:

- Provide a clear snapshot of the status of South Australia’s wine industry
- Provide a baseline for wine businesses to benchmark their performance
- Inform business decision making.

Responses were collected from April to May 2017 using an online questionnaire. This study is based on a sample of 81 wine businesses, sufficient to deliver the reliable insights that can help inform the growth and development of South Australia’s wine sector.

### About the survey

81 participants

### The participants

#### Location
It was pleasing to receive a broad representation of views from wine businesses dispersed across South Australia.

Seventy-five per cent of participants have assets located in at least one of the seven key wine regions of South Australia.

Almost one third (31%) of the participants have wine assets located in the Barossa Valley.

Over one quarter of respondents have assets in the Adelaide Hills (27%) and McLaren Vale (25%).

#### Business type
Almost two thirds (65%) of participating wine businesses are privately owned and operated.

- Private company: 66%
- Partnership: 14%
- Family trust: 13%
- Public company: 4%
- Sole trader: 3%
- Unit trust: 3%

### Business size
Over two thirds (69%) of participants represent smaller wine businesses with turnovers of less than $5 million.

#### Facilities
The majority (87%) of participants grow at least some of their own wine grapes and two thirds (67%) operate a cellar door. Only 11% lease a grape processing plant. Sixty per cent of participants purchase wine grapes for processing.

### Business lifecycle
The majority of participating wine businesses consider themselves in either the growth (36%) or mature (36%) stages of the business lifecycle.
South Australian wine industry – July 2017 snapshot

About South Australian wine businesses

South Australia’s wine sector accounts for almost half of the national annual production. Performance has been variable over the past five years due to oversupply of wine, the strong Australian dollar and intensifying competition in export markets. Other significant impacts to operating conditions include changing consumer tastes, increasing dominance of large supermarket chains in the alcohol retail market, and the continued impact of the WET rebate and other regulations. The ability to anticipate and respond to changing business conditions is a valuable strength in this sector.

Business confidence

Compared to other industry sectors in South Australia, business confidence among SA wine businesses appears to be relatively high. Almost three quarters (72%) of respondents are somewhat, very or extremely confident about their business prospects. Eight percent are neither confident, nor worried. However, a significant 20% of survey respondents are worried about the future of their business.

Environmental factors

It is clear from this inaugural study that the cost of doing business is having a negative impact on South Australian wine businesses. Energy costs are among the greatest concerns, with 82% of respondents indicating they are having either a very negative (53%) or moderately negative (47%) impact on their business. Energy security is of concern to over 60% of participants. In addition, labour costs have been cited as a negative influence by 82% of respondents too. Free trade agreements are seen to be having a positive impact.

Operational capacity at last vintage

The average operational capacity of grape processing facilities during the 2016 vintage was 84%, with 44% operating at close to full capacity. Over one third (38%) of respondents were operating at less than 80% of capacity. One assessment could suggest this is a good utilisation of assets with some capacity for increased processing. However, this does not take into account the operational issues that a winery faces, including current wine held in tank, the length of the vintage period and wineries matching intake to sales forecasts.

South Australian wine employment

The respondents employ an average of 46 full time equivalent staff (FTEs) during vintage, and 36 FTEs outside of vintage. When asked how their number of FTEs might change in 2017/18, most indicated their numbers employed will stay the same during vintage (64%) and outside of vintage (84%). It is pleasing to learn that over a quarter of respondents intend to increase their FTE staff in the coming year during vintage (27%) and outside of vintage (32%).

Changes expected to South Australian FTE staff in FY18, compared to FY17

No respondents expect to decrease South Australian FTE staff during vintage in 2017/18. A small number (4%) expect to decrease FTE staff outside of vintage. All respondents intend to either maintain (73%) or increase (27%) staff during next year’s vintage.
Export focus

Percentage volume exported

Seventy-nine per cent of respondents are exporters of wine, exporting between 1% to 70% of their total wine production.

One quarter (26%) of the respondents are exporting only 1% to 10% of their total production, suggesting substantial room for growth. Almost half (43%) are exporting up to 30% of their total wine production. Almost one quarter (24%) are exporting over half of their total wine production.

Primary export markets FY17

The industry’s commitment to servicing our neighbouring Asian countries has been highlighted in this study. When asked to identify the top three preferred regions for export, respondents overwhelmingly indicated Asia as the primary export area of focus and China clearly the dominant country. The UK and Europe ranked second as a primary export market.

Primary export markets FY18

Asia remains the focus for export growth for FY18, albeit less so compared to the previous year. Respondents indicate that the United States is becoming more attractive as an export market - overtaking the UK and Europe as their second ranked focus for export markets.

Biggest export challenge

An export focus requires - among other things - successful management of inherent risks.

Respondents identified a range of challenges associated with doing business overseas, including language barriers and credit risk. Several issues weighted relatively equal concern, underscoring the broad array of complexities associated with export.

Topping the list of challenges is profitability, which highlights the importance of knowledge, focus and sustainability of products in desired markets.

What percentage of your total volume produced is exported?

<table>
<thead>
<tr>
<th>Percentage Exported</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>0% exported product</td>
<td>21%</td>
<td>10%</td>
</tr>
<tr>
<td>1-10% exported product</td>
<td>26%</td>
<td>20%</td>
</tr>
<tr>
<td>11-20% exported product</td>
<td>12%</td>
<td>15%</td>
</tr>
<tr>
<td>21-30% exported product</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>31-40% exported product</td>
<td>12%</td>
<td>10%</td>
</tr>
<tr>
<td>41-50% exported product</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>51-60% exported product</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>61-70% exported product</td>
<td>7%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Biggest challenges with doing business overseas

<table>
<thead>
<tr>
<th>Challenge</th>
<th>FY2016/17</th>
<th>FY2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability</td>
<td>40%</td>
<td>30%</td>
</tr>
<tr>
<td>Lack of resources</td>
<td>30%</td>
<td>25%</td>
</tr>
<tr>
<td>Credit risk / getting paid</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>Language barriers</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>Regulations</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Foreign currency</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Stage of life</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Exporting licensing</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Route to market</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Doing business overseas requires - among other things - successful management of inherent risks.

Topping the list of challenges experienced by respondents when doing business overseas is maintaining profitability.
Planning for growth

**Good business health, overall**

Pleasingly, the majority of respondents (83%) have indicated that their businesses are currently healthy and generating profits.

Two in five respondents are particularly happy with the performance of their business, indicating it is ‘profitable and sustainable’ (19%) or ‘generating a reasonable return’ (17%). Improving levels of profitability is recognised as paramount.

**Blended growth strategies**

On average, respondents are implementing at least two growth strategies to further their profitability and sustainability.

- Market penetration - increasing market share in existing markets - involves least risk and is being adopted by 30% of the respondents.
- Another 30% of respondents are involved in geographic expansion - taking their existing product to new markets.
- Seventeen per cent of respondents are diversifying - taking new products to new markets. This strategy carries the greatest risk.

**Business development priorities**

We asked participants which products they expect to develop over the coming two years, and the dominant response was ‘premium, bottled wine production’ (70%).

Over half of the respondents will focus on developing sales channels, including export (62%), cellar door (57%) and e-commerce (50%).

**WET and business impact**

Fifty-four per cent of respondents have indicated that changes to the Wine Equalisation Tax (WET) or Producer Rebate will impact their business strategy.

When asked how, the vast majority of respondents indicated the changes will ultimately impact their profitability. Some respondents explained, in specific terms, the impact changes would make: “increase in export focus”, “cash flow issues”, “need to tighten cost controls” and the “need to diversify such as develop a cellar door”.

**Other government incentives**

Over one third of respondents have already accessed the benefits of the Commonwealth Export Market Development Grant (EMDG).

For more information on available government incentives, refer to page 18.

---

**Current financial health of business**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitable and sustainable</td>
<td>19%</td>
</tr>
<tr>
<td>Generating a reasonable return</td>
<td>19%</td>
</tr>
<tr>
<td>Profitable but needs to improve</td>
<td>46%</td>
</tr>
<tr>
<td>Needs significant improvement</td>
<td>17%</td>
</tr>
</tbody>
</table>

**What is your key growth strategy?**

- Diversification
- Product development
- Geographic expansion
- Market penetration

**What products do you expect to develop over the coming two years?**

- Premium, bottled wine
- Export
- Cellar door
- E-commerce
- Nil
- Branded, bottled wine
- Wine grape growing
- Wholesales
- Direct to restaurants
- Other wine experiences
- Contract processing
- Branded packaged wine
- Bulk wine production
- Mainstream retail
- Other

Other includes beer, function room, direct wine sales to consumers, vineyard accommodation and contract grape growing.

**Which government incentives are relevant to your business?**

- R&D tax incentives
- Small business CGT exemptions
- SA Govt export partnership program
- Commonwealth export market development program
- Solar/clean energy incentives
- SA wine industry development scheme
- SA Govt job accelerator grant

- Have already accessed
- Intend to access over next two years
- Not sure of the details / More information required
Success factors
When asked, what factor will underpin the success of the wine business over the coming two years, most respondents (80%) cited internal factors, within their control to manage. Of note, sales focus and sales growth were referenced as the key success factor by 42% of respondents. In relation to external factors, grape prices, exchange rates and the strength of the Aussie dollar were leading concerns cited by 11% of respondents.

Source of insights for decision making
Eighty-one per cent of the respondents seek insights to inform business decisions from industry associations and groups. Many (77%) seek insights from their professional ‘advisors’, while over a third (38%) look to friends and family for advice. Online methods are also applied, with 22% consulting their social networks and 7% using ‘how to’ videos. Clearly, these results are of interest to the authors and places importance on the ongoing design and implementation of industry development programs.

It is surprising that only 13% of respondents have a continuity plan to manage risk.

Even more surprising is no participant raised biosecurity especially given the increasing biosecurity threats to the wine industry over the last 2-3 years.

The need for continuity planning
Our wine regions are exposed to significant risks, which can be mitigated with appropriate planning. The Adelaide Hills, for example, is a high-risk zone for bush fires which, at the very least, requires bushfire survival planning. So, it is of some concern that only 13% of respondents have a documented continuity plan in place. Almost half of the responses (46%) have a plan which is not documented. Such a plan is inadequate in emergency situations where more than one person is involved and does not take into account safety of family, staff or customers.

Do you have a business continuity plan?

![Graph showing the distribution of responses: 13% documented, 46% not documented, 41% no plan.

What are the key risks that would be addressed in a business continuity plan?

- Fire 50%
- Energy 40%
- Weather 30%
- Water 20%
- Other 10%

‘Other’ includes distributors going out of business, council planning issues, loss of personnel, market uncertainty, cash flow and family succession.
Regional comparisons

Three quarters (75%) of the participating wine businesses have assets in at least one of the seven key wine regions of South Australia, ie:

- Adelaide Hills
- Barossa Valley
- Clare Valley
- Coonawarra
- Langhorne Creek
- McLaren Vale
- Riverland.

We have sought to identify differences in their composition, attitudes and strategies. We note, however, that some of the sample sizes are small, so the results are indicative at best.

### Business size

While the Riverland and Langhorne Creek have a relatively small number of participating wine businesses in this study (3 and 9 respectively), their respondents represent an annual turnover of more than $5m.

The respondents from the Adelaide Hills, Barossa Valley, Clare Valley, Coonawarra and McLaren Vale are smaller on average. At least half of the respondents from each of these regions have an annual turnover of less than $5m.

### Business confidence

While there are generally high levels of business confidence across all seven regions, wine businesses with assets in the Barossa Valley appear to be most positive about their businesses, with 83% of respondents indicating they are either somewhat, very or extremely confident.

Participants with assets located in the Clare Valley are less positive, with 29% indicating they are currently worried about their business as are the participants in the Adelaide Hills.

### Capacity during 2016 vintage

Half (50%) of the respondents from these seven wine regions operated their processing plants at close to full capacity (91% to 100%) during the 2016 vintage.

However, with an average plant capacity of 79%, the key seven wine regions operated their assets slightly less than businesses in other parts of the state (with a state average 84%).

The Adelaide Hills had the largest number (7) of participants producing wine at 91% to 100%.

All of the Clare Valley’s (8) respondents were operating at above 80% capacity.

### Percentage export

Over one quarter (27%) of respondents from the seven key wine regions are exporting only 1% to 10% of their total production, suggesting significant opportunities for growth.

Barossa Valley respondents were the most prolific exporters, with 40% exporting between 50% to 80% of their total production.

### Financial health

Profitability remains a significant concern for wine businesses in these seven key regions.

Sixty per cent of respondents from these seven regions feel that their business profitability needs to improve. Proportionately, Langhorne Creek and McLaren Vale businesses appear to be most concerned about their business health, with 71% and 65% of the respective respondents indicating their profitability needs improvement.

### Plant capacity during 2016 vintage

While there are generally high levels of business confidence across all seven wine regions, wine businesses with assets in the Barossa Valley appear to be most confident.

### Regional business confidence

### Percentage of total production exported

### Health of business

- Profitable and sustainable
- Generating a reasonable return
- Profitable but needs to improve
- Needing significant improvement

### Profitability needs improvement

- Needing significant improvement
- Generating a reasonable return
- Profitable but needs to improve
- Profitable and sustainable

### Health of business

- Profitable and sustainable
- Generating a reasonable return
- Profitable but needs to improve
- Needing significant improvement

### Plant capacity during 2016 vintage

- Riverland
- McLaren Vale
- Langhorne Creek
- Coonawarra
- Clare Valley
- Barossa Valley
- Adelaide Hills

### Regional business size, by turnover FY2015/2016

- Riverland
- McLaren Vale
- Langhorne Creek
- Coonawarra
- Clare Valley
- Barossa Valley
- Adelaide Hills

### Regional business confidence

- Very confident
- Somewhat confident
- Neither confident nor worried
- Somewhat worried
- Very worried
- Extremely worried
The South Australian wine industry – July 2017 snapshot

Regional comparisons continued

Primary export markets

Overall Asia is the most popular export market with 44% of respondents selecting it as a primary export market. Respondents from the Clare Valley and the Riverland favoured the United Kingdom and Europe, selecting it as their top export market over Asia. More generally, the ‘United Kingdom and Europe’ currently ranks as the second most popular export market, with 27% of respondents actively engaging with at least one of the countries in that region.

The focus on the United Kingdom and Europe as an export market is changing, particularly in the Clare Valley and the Barossa Valley, with only half (50%) of the respondents who selected it as a current key export market indicating it will continue to be a focus for growth in F18.

Feedback suggests that the United States is set to overtake ‘the United Kingdom and Europe’ as the second market for export growth over the coming year. Twenty-two per cent of respondents have identified the United States as a key export market for the year ahead.

The United States of America is currently ranked third as the most popular export market, with 14% of respondents from South Australia’s key wine regions choosing to engage with it. However, interest in the United States as a primary export market is increasing.

The focus on the United Kingdom and Europe as an export market is changing, particularly in the Clare Valley and the Barossa Valley, with only half (50%) of the respondents who selected it as a current key export market indicating it will continue to be a focus for growth in F18.

Primary export markets for focus in FY2017/2018

Conclusion

The South Australian wine industry is inventive and continues to explore new opportunities for growth in both domestic and international markets.

Export markets are evolving with the recent Asian focus making way for revitalised markets, such as the United States, providing new opportunities and challenges.

Most wine businesses are taking active steps to understand key success factors supporting growth.

While profitability remains a significant concern, there is generally good levels of business confidence among South Australian wine businesses.

Commercial thinking and acumen is evident in the industry, and there remain clear opportunities to leverage businesses at various stages of the business lifecycle.

Bentleys SA and the South Australian Wine Industry Association look forward to continuing to monitor trends and benchmarking the industry on an annual basis.

Primary export markets today

- Adelaide Hills
- Barossa Valley
- Clare Valley
- Coonawarra
- Langhorne Creek
- McLaren Vale

United Kingdom and Europe
New Zealand
United States of America
Canada
Asia

Primary export markets for focus in FY2017/2018

- Adelaide Hills
- Barossa Valley
- Clare Valley
- Coonawarra
- Langhorne Creek
- McLaren Vale

United Kingdom and Europe
New Zealand
United States of America
Canada
Asia
No change
Available government incentives

R&D tax Incentive
The Research and Development (R&D) Tax Incentive is a market-driven program, which encourages Australian businesses to invest in innovation. The incentive takes the form of either a potentially sizeable tax refund or a considerable tax reduction.

The incentive is available to companies incorporated in Australia, not acting as a corporate trustee, who undertake R&D eligible activities.

Small business CGT exemptions
In addition to the exemptions and rollovers available more widely, the following concessions may allow you to disregard or defer some or all of a capital gain from an active asset used in a small business:
- 15-year exemption
- 50% active asset reduction
- retirement exemption
- rollover.

SA Government export partnership program
The Export Partnership Program provides funding assistance for small and medium-sized businesses (SMEs) to access new global markets through marketing and export development opportunities.

Successful applicants may receive up to $50,000 for eligible activities, which include (but are not limited to) market research feasibility and website development for specific markets.

For more information:
- Government of South Australia Department of State Development www.statedevelopment.sa.gov.au/investment/export-partnership-program

Commonwealth export market development program
The Export Market Development Grants scheme is an Australian Government financial assistance program for aspiring and current exporters.

Administered by Austrade, the scheme encourages SMEs to develop export markets, by reimbursing up to 50% of eligible promotion expenses and providing up to eight grants to eligible applicants.

Solar/Clean energy incentives
The Renewable Energy Target is an Australian Government scheme designed to reduce emissions of greenhouse gases in the electricity sector and encourage the additional generation of electricity from sustainable and renewable sources.

Financial incentives are available for small-scale and large-scale renewable energy systems.

SA wine industry development scheme
The $1.8 million South Australian Wine Industry Development Scheme (SAWIDS) aims to encourage growth in the wine industry and further promote South Australia as a producer of premium wine.

The scheme includes the Regional Wine Industry Association Grants Program ($600,000) and the Cellar Door Grants Program ($1 million).

SA Government job accelerator grant
Businesses can now register for a Job Accelerator Grant to assist in employing additional full-time, part-time and casual employees, with up to $10,000 available for each new job created.

An additional $5000 ($2500 per year) is available, if that employee is an eligible apprentice or trainee.

For more details, contact Bentleys SA or the South Australian Wine Industry Association.

Support for wine businesses

Bentleys SA is a full service advisory firm. We help enterprises achieve their objectives and get where they want to be. Our expanding range of specialisations includes R&D tax incentives, wealth management, superannuation, management consulting, business strategy, specialist taxation, corporate recovery, banking and finance.

To participate in the South Australian wine benchmarking study following the 2017 vintage, or for any other support, please contact us.

Business Development
Bentleys SA
advice@adel.bentleys.com.au
+61 8 8372 7900

The South Australian Wine Industry Association is the peak body for wine businesses in South Australia.

We provide a broad range of services for our members to support the success and performance of their businesses.

Our services cover industrial relations, employee relations and human resources, work health and safety, environment, market development and agribusiness growth. To learn more, please contact:

Member services
South Australian Wine Industry Association
admin@winesa.asn.au
+61 8 8222 9277

This survey provides a baseline for future benchmarking.

If you would like to suggest a topic for our investigation in next year’s study, please contact us.
Bentleys SA
Level 2, 139 Frome Street Adelaide
South Australia 5000
Telephone +61 8 8372 7900
advice@adel.bentleys.com.au
bentleys.com.au/sa

South Australian Wine Industry Association (SAWIA)
1st Floor Industry Offices, National Wine Centre
Botanic Road, Adelaide South Australia 5000
Telephone +61 8 8222 9277
admin@winesa.asn.au
winesa.asn.au/home/join-us

A member of Bentleys, a network of independent accounting firms located throughout Australia, New Zealand and China that trades as Bentleys. All members of the network are affiliated only, are separate legal entities and not in partnership. Bentleys is also a member of Kreston International – a global network of independent accounting firms. Limited liability by a scheme under Professional Standards Legislation.

SAWIA is a state industry association made up of members who are wine producers and wine grape growers that pay an annual voluntary membership fee to access:
- Representation and leadership
- Advice and information
- Products and services
- Promotion and opportunities.