
Australasian Agribusiness Perspectives

2023, Volume 26, Paper 12

ISSN: 2209-6612

How do the markets and value chains of smaller and larger wine producers in Australia differ?

Tara Carson

Undergraduate student, School of Agriculture, Food and Ecosystem Sciences, University of Melbourne

Abstract

Many transformations and value adding processes are required to produce a bottle of wine from a bunch of grapes. The ways in which small and large producers operate are vastly different. Smaller producers do not take a profit maximising approach like large wineries; instead, they find ways to 'sell a story' and experience to the consumer, whilst charging a premium for this experience. An insight into the different markets and value chain dynamics provides producers with the ability to tailor their products to suit their consumers, improve management strategies, implement more sustainable practices, and innovate in ways specific to their markets.

Keywords: Winemaking, producers, value adding, value chains, management, markets

Introduction

The wine industry is a major contributor to Australia's economy, generating \$45 billion in revenue each year (Wine Australia, 2022a). Australia has 2,156 wineries, both large and small, across its 65 wine regions. Small wine producers are wineries processing 500 tonnes of grapes or less, whereas large producers can process more than 100,000 tonnes in a vintage. Some 30 wineries account for 75 per cent of total wine production, while there are estimated to be over 2,000 small wine producers in Australia (Wine Australia, 2022b).

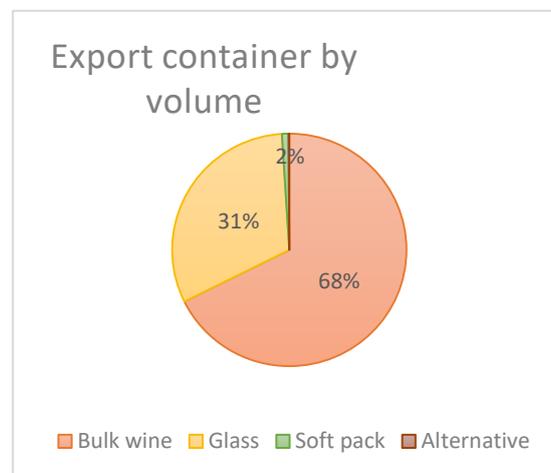
Large wineries are generally focused on finding the lowest cost of production and maximising their profits, making them well adapted to economies of scale. Smaller producers, on the other hand, focus more on quality and providing a unique experience to the consumer. The main areas where smaller and larger wineries differ are in their markets and consumer demographics, their product range and flexibility as a business and their value chain management and structure.

Differences in Markets

Some 60 per cent of wine made in Australia is exported (Australian Trade and Export Commission, 2022) and 97 per cent of that is from large producers like Treasury Wines. Australia is the world's fifth largest wine exporter (Wine Australia, 2022a). The main export markets are the United Kingdom and the United States. As seen in Figure 1, 68 per cent of the wine volume exported is bulk wine (Wine Australia, 2022b). Bulk wine is not stored in bottles but in larger containers like stainless steel tanks. Bulk wine has less value added as packaging and marketing costs are not included and therefore it

receives a lower price. Most of the exported wines are still reds, with shiraz and cabernet sauvignon being the largest exported wine types by volume.

Figure 1. Container type of exported wine by volume



Source: Wine Australia (2022b)

Small producers sell 86 per cent of their product in Australia, only accounting for 10 per cent of total export value and 3 per cent of export volume (Wine Australia, 2017a). Small producers sell predominantly on the domestic market as they do not have the scale to break into international markets. For smaller producers it is easier to differentiate themselves in the Australian market, or even within a regional market, than to enter the global market where there is much more competition. The average price of Australian wine sold on the domestic market is \$7.03/L; on the global market the average price is \$3.06/L. For small producers, this price is not profitable (Wine Australia, 2022b).

On the domestic market, shiraz and merlot are the most popular reds. For whites, sauvignon blanc and chardonnay are the most popular among Australians (Wine Australia, 2017b). To differentiate themselves, smaller producers can gain organic or biodynamic certification or employ different management strategies like close plantings. Finding points of difference in the market allows producers to find their niche and market themselves as a unique product, in a very competitive market. The producers can also then charge a premium, as consumers will be willing to pay for those unique characteristics.

Larger producers appeal to the masses, with more classic varieties being their most popular (Wine Australia, 2017b). The big brands in wine are already well-established in the market and do not need to rely on direct-to-consumer sales, through cellar doors for example. Big producers are found in large bottle shop chains domestically and internationally. Producers look to find the lowest cost of production and try to produce as efficiently as possible. They can provide a lower price to the consumer, but very little price difference from other large producers.

According to Wine Australia (2017b), 30 per cent of small producers' sales are in cellar doors and 45 per cent are through retailers. Cellar doors provide consumers with an experience and create customer loyalty as the consumer associates the wineries' labels with a memory. Cellar doors allow the smaller companies to connect with their consumers by explaining the story behind how the wine was made and why it was made that way. Cellar door staff can provide context for the characteristics a consumer may notice in the wine, forming a connection to the place and the bottle. Consumers also can form these connections through online wine merchants, like Naked Wines, who highlight wines from smaller producers creating more awareness around producers that would otherwise remain unknown to the general consumer (Vastola et al., 2014).

Flexibility and Innovation

The wine industry is becoming increasingly automated with new technologies being introduced to the sector. For larger producers it is common for all the fruit to be machine harvested in the vineyard and in the winery to have automated pump overs, tank transfers, refrigeration controls and much more (Wine and Grape Authority, 2014). These technologies have a large capital cost that larger producers can afford. Whilst these technologies can increase efficiency and reduce the need for and cost of labour, quality often suffers. For example, machine harvesting is a much harsher process than hand picking and can lead to the oxidation of grapes before they reach the winery.

On the other hand, smaller producers do not have as much automation in the winery and vineyard; both because the capital cost is too high and it may not be efficient to run the machinery on the smaller scale (Australian Grape and Wine Authority, 2014).

Despite not having the capital to invest in newer technologies, smaller producers can benefit from their increased flexibility when compared to larger producers. As smaller wineries do not need to implement change on a large scale, it is easier for them to respond to market trends. Market trends can include new varieties becoming more popular, or wines with specific attributes, such as organic and biodynamic wines, becoming increasingly sought after. Being more flexible also allows for smaller producers to become more sustainable. Small producers deal with less waste, materials, and energy than large producers, making it easier to manage. The changes that small wineries can make to become more sustainable do have a smaller impact on the environment when compared to large corporations; however, it can be a selling point and there are some financial incentives in place to encourage more sustainable practices (Regional Development Victoria, 2022).

Value Chain Management and Structure

When dealing with large volumes of product, a more complex value chain is needed. Larger companies generally involve many different firms to deal with the different stages of the value adding process in wine making. The value chain of large producers is represented by the blue pathway in Figure 2. Most large producers own some vineyards, but mainly buy fruit from grape growers across the country. The grapes are then transported to a centralised winery and turned into wine. From there the wine is sent in bulk to a bottling facility or exported as bulk wine through a distributor. The wine that is bottled is stored in a specialised facility, then either sent to domestic retailers, restaurants or exported (Australian Competition and Consumer Commission, 2019). Larger companies minimise their costs and improve efficiency to maximise profitability. They can focus on producing the quantity and quality of wine that they require and use other firms within the value chain to handle the packaging, transport, marketing and selling of the wine.

Smaller producers are more vertically integrated. The value chain of small wineries is shown as the green pathway in Figure 2. Some 52 per cent of small producers grow their own grapes (Wine Australia, 2017a). Once the grapes are picked, they are taken to the winery that is generally on site. Once the wine is made, producers either have their own small bottling line or they hire a mobile bottling line. From there, small producers store their own wine and sell it in their cellar door, through online sales or transport it to retailers themselves. Many boutique wineries take on the value adding processes themselves and do not hire speciality firms. While it might initially seem more cost-effective to perform most of the value-adding processes, this approach could ultimately lead to higher expenses, a decline in the quality of their wines and poor value chain coordination (Wine Australia, 2017a; Findlay, 1991). A lack of coordination across the value chain would increase manufacturing, storage, transport and shipping costs, leading to a decrease in profitability (Chopra & Mendel, 2013).

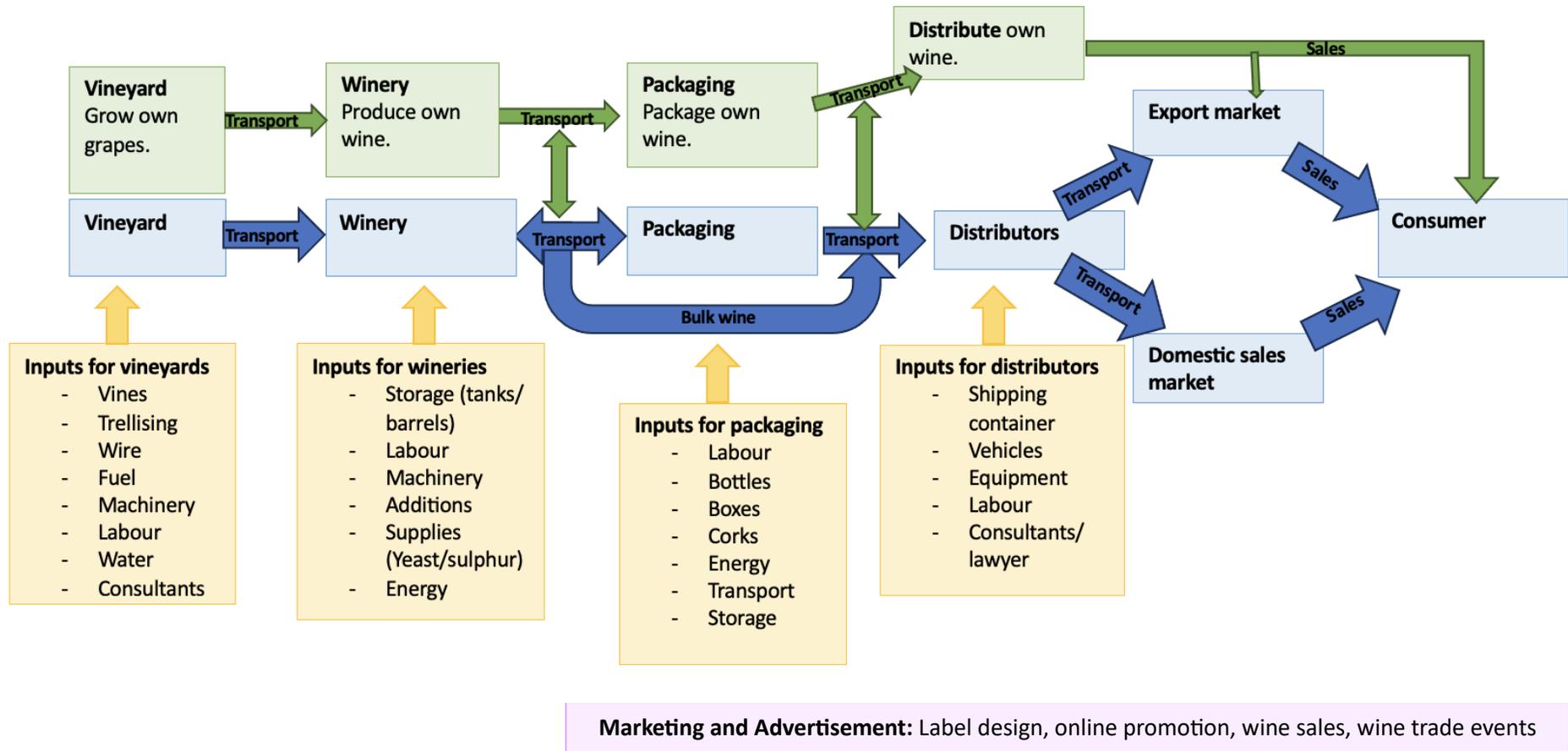
Figure 2. Value chain of both large and small wine producers in Australia; showing the various steps, firms, inputs, and stakeholders in the industry

Stakeholders

Wine Australia: Legislation, RD&E and information

CSIRO/ DAFF: RD&E and information

Department of Foreign Affairs and Trade: Legislation/ enforcement



Source: authors compilation, based on (Prance, 2018) and (Hants, 2020)

Key to Figure 2

The green pathway represents most small producers that have a more vertically integrated value chain. The blue pathway is representative of larger producers that involve multiple firms to produce wine.

Transport

Transport is one of the key links between the value chain. For the domestic market, this is mainly done through trucks which require maintenance, fuel, and labour. The trucks do not need to be refrigerated. For the export market, wine is transported through shipping containers, which require ships, lifting machinery, labour, and high amounts of fuel.

Sales

Smaller producers sell 30 per cent of their wine through cellar doors, 45 per cent through retailers and the remaining through online sales/ restaurants (Wine Australia, 2017).

Some 60 per cent of wine produced is exported, mainly by large producers. About 45 per cent is bulk wine, which does not need to be packaged.

The remaining 40 per cent is mainly sold through large retailers (Australian Trade and Export Commission, 2022).

Conclusion

The markets of smaller wineries are vastly different compared to larger wine producers. Small wineries stay mostly in the domestic market with most sales being direct-to-consumer. These wineries sell an experience and provide a story for how and why the wine was made, for which consumers are willing to pay a premium. These wineries have the advantage of implementing new technologies on a smaller scale and have more dexterity in responding to market trends. Smaller producers have a vertically integrated value chain, taking on many of the value adding processes themselves.

Large wineries on the other hand, sell on the international market as well. They focus on profit maximisation and having a low cost of production. Large wineries have large capital to invest in innovation but are less flexible in adapting to market changes. Big producers are less integrated, hiring multiple specialised firms to maximise efficiency throughout the value chain.

Knowing the best market for your product and effective management of the value adding processes in wine allow for a more viable business model for both small and big wineries.

References

Australian Competition and Consumer Commission (2019), *Wine grape market study*. ACCC, Canberra. Viewed 2nd June 2020,

<https://www.accc.gov.au/system/files/1612RPT_Wine%20Grape%20Growers%20Final%20Report_D03.pdf>

Australia Grape and Wine Authority (2014), *Process efficiency in winery operations: a broad review of potentially beneficial techniques and technologies*. Viewed 20th July 2023

<<https://www.wineaustralia.com/getmedia/2969aa1b-4cb0-470e-b1d8-af624e11f435/Cross-Sector-Process-Efficiency-Review-final-report>>

Australian Trade and Export Commission (2022), *Strengthening Australian wine exports*. Viewed 14th July 2023 <<https://www.austrade.gov.au/news/media-releases/strengthening-australian-wine-exports#:~:text=Wine%20Australia%20Chief%20Executive%20Officer,is%20strongly%20linked%20with%20exports>>

Chopra, S. and Mendel, P. (2013), 'Coordination in a Supply Chain'. *Supply Chain Management: Strategy, Planning, and Operation* (pp. 250-269). (5th ed.) Pearson Education. Viewed 24th August 2023

Findlay, R. (1991), 'Comparative advantage'. In *The World of Economics* (pp. 99-107). London, Palgrave Macmillan UK. Viewed 24th August 2023

Hants, A. (2020), 'Marketing Challenges Facing the Australian Wine Value Chain', *Australasian Agribusiness Perspectives* Volume 23, Paper 14, 230-231, Viewed 20th July 2023

Prance, J. (2018), 'How can small wineries have big success?', *Australasian Agribusiness Perspectives*, Volume 21, Paper 13, 2-3. Viewed 20th July 2023

Regional Development Victoria (2022), *Wine Growth Fund*. Viewed 23th August 2023 <<https://www.rdv.vic.gov.au/grants-and-programs/wine-growth-fund>>

Vastola, A., Cataldo, A., & Mariani, A. (2014). Social media marketing and wine: naked wines case study. In *The future of entrepreneurship, refereed proceedings of the 7th annual EuroMed conference of the EuroMed academy of business, September* (pp. 18-19).

Wine Australia (2017a), *Small Winemaker Production and Sales survey report*. Viewed 17th July 2023 <https://www.wineaustralia.com/market-insights/small_winemaker_survey>

Wine Australia (2017b), *What flavours are in favour on the Australian domestic market?* Viewed 15th July 2023 <<https://www.wineaustralia.com/news/market-bulletin/issue-56>>

Wine Australia (2020), *Wine Australia Annual Report 2019-2020*. Viewed 15th July 2023 <<https://www.transparency.gov.au/annual-reports/wine-australia/reporting-year/2019-20-4>>

Wine Australia (2022a), *Market Insights - Wine Sector at a Glance*. Viewed 15th July 2023 <<https://www.wineaustralia.com/market-insights/wine-sector-at-a-glance>>

Wine Australia (2022b), *Wine Australia: Production, Sales, and Inventory report*. Viewed 14th July 2023 <<https://www.wineaustralia.com/market-insights/australian-wine-production-sales-and-inventory>>