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Worldwide wine: Export markets will continue to be critical to revenue growth

IBISWorld Industry Report C1214
Wine Production in Australia

December 2014

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About this Industry

Industry Definition

The Australian Wine Production industry purchases grapes and other key ingredients, which are processed into wine, port and wine-based alcoholic beverages. These products are packaged in bottles or casks then sold to wine merchants and retail outlets. This industry also includes other alcoholic beverages not categorised elsewhere.

Main Activities

The primary activities of this industry are

- Carbonated wine production
- Wine production
- Sparkling wines production
- Fortified and unfortified wine production
- Winemaking residue collection
- Wine-based fruit drink production
- Cider production
- Sherry production
- Perry production
- Mead production

The major products and services in this industry are

- Cider
- Other alcoholic beverages
- Red varieties
- Sparkling varieties
- White varieties

Similar Industries

A0131 Grape Growing in Australia
Firms in this industry grow or sun dry grapes.

F3606a Liquor Wholesaling in Australia
This industry wholesales beer, wine and spirits.

G4123 Liquor Retailing in Australia
Operators in this industry retail beer, wine and spirits for consumption off the premises only.

H4520 Pubs, Bars and Nightclubs in Australia
Hotels, bars or similar establishments sell alcoholic beverages for consumption on and off the premises (e.g. from bottle shops located at such premises).

Additional Resources

For additional information on this industry

www.wineaustralia.com
Australian Grape and Wine Authority

www.gwrdc.com.au
Grape and Wine Research and Development Corporation

www.wfa.org.au
Winemakers' Federation of Australia

Industry at a Glance

Wine Production in 2014-15

Key Statistics Snapshot

Revenue $5.8bn	Annual Growth 10-15 -2.0%	Annual Growth 15-20 2.1%
Profit $311.4m	Exports $1.9bn	Businesses 1,852

Market Share

Treasury Wine Estates Limited 14.3%

Pernod Ricard Pacific Holding Pty Ltd 9.8%

Accolade Wines Holdings Australia Pty Limited 7.8%

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Key External Drivers

- Alcohol consumption
- Demand from liquor retailing
- Demand from pubs, bars and nightclubs
- Trade-weighted index
- Domestic price of wine grapes

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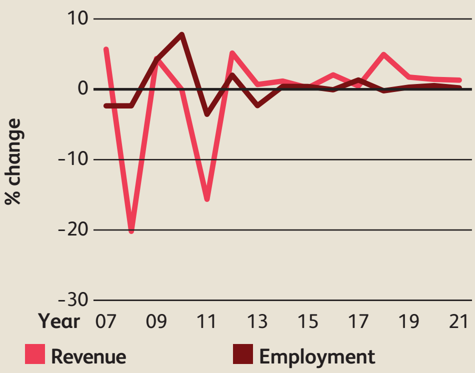
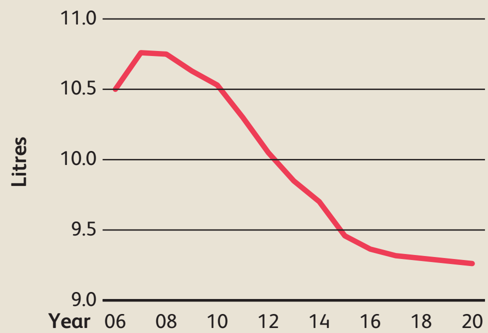
Revenue vs. employment growth

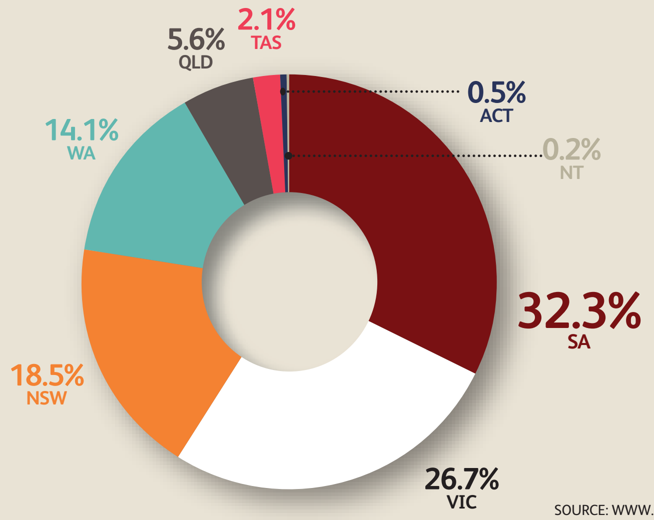


Alcohol consumption



SOURCE: WWW.IBISWORLD.COM.AU

Wine production



SOURCE: WWW.IBISWORLD.COM.AU

Industry Structure

Life Cycle Stage	Mature	Regulation Level	Medium
Revenue Volatility	Medium	Technology Change	Medium
Capital Intensity	Medium	Barriers to Entry	Medium
Industry Assistance	Medium	Industry Globalisation	High
Concentration Level	Low	Competition Level	High

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 35

Industry Performance

Executive Summary | Key External Drivers | Current Performance
Industry Outlook | Life Cycle Stage

Executive Summary

Difficult trading conditions have plagued the Wine Production industry over the past five years. Volatile economies in key export markets, a soaring Australian dollar for much of the period and rising competition from overseas low-cost wine producers have hurt wine exports. In the domestic market, producers have lost bargaining power to retailers and been forced to contend with changing consumer preferences. Additionally, an oversupply of wine grapes – and the resulting oversupply of wine – has pushed prices downwards, squeezing margins and forcing many producers out of business. The emergence of ciders has helped to offset falling international demand for Australian wines, with savvy marketing driving substantial growth in demand for cider.

Wine producers craft grapes and other inputs into a range of alcoholic beverages. Many producers, including the industry's largest players and small independent wineries, are vertically integrated and grow the grapes they use for wine production. Other producers purchase grapes under contract from individual growers. This structure has contributed to the chronic oversupply of wine in the market, as producers have continued converting all grape supplies into wine. Producers have belatedly addressed the problem over the past five years, by writing down assets, closing down wineries and destroying vines. IBISWorld expects industry revenue to decline by an annualised 2.0% over the five years through 2014-15, to reach $5.8 billion.

While the industry faces a long and painful process before the market returns to balance, conditions are expected to be less challenging in 2014-15. The anticipated fall in the Australian dollar will improve the competitiveness of exports and better position them in overseas markets. Consequently, industry revenue is expected to rebound slightly in 2014-15, posting marginal growth of 0.2%.

The industry should begin to show signs of recovery over the next five years. Industry operators are anticipated to shift production towards premium wines, while Asian export markets will play an increasingly important role in the industry's future. Vertically integrated winemakers are likely to work on producing single-vineyard wines and focus more on cellar-door and online sales. Over the five years through 2019-20, industry revenue is forecast to grow at an annualised 2.1%, to $6.4 billion.

Key External Drivers

Alcohol consumption

Alcohol consumption is closely correlated with consumption of wine, cider and other beverages produced by the industry. Higher alcohol consumption typically translates into higher industry demand, although this depends on the consumption levels of other alcoholic beverages, such as beer and spirits. A number of factors have moderated Australian alcohol consumption, including health consciousness, anti-drink-driving campaigns and enforcement of laws regarding alcohol consumption. Alcohol consumption is expected to fall in 2014-15, threatening demand for industry products.

Demand from liquor retailing

The Liquor Retailing industry is one of the most important markets for winemakers. The Wine Production industry relies heavily on orders from retailers. Demand from liquor retailing is expected to increase over 2014-15, in line with growth in the number of liquor retailing outlets throughout Australia.

Demand from pubs, bars and nightclubs

Pubs, bars and nightclubs are key suppliers of industry products, so manufacturers need to establish good relationships with these establishments. Demand from pubs, bars and nightclubs is expected to increase over 2014-15,

Industry Performance

Key External Drivers continued

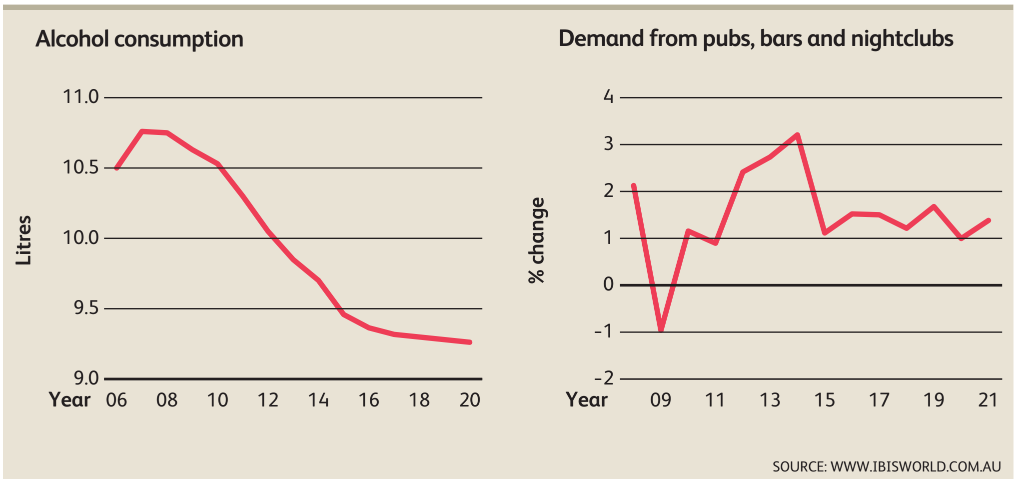
especially as more drive-through bottle shops open up, representing an ongoing opportunity for the industry.

Trade-weighted index

Currency exchange rates affect the competitiveness of Australian wines in export markets. An appreciation of the Australian dollar increases the price of wine in export markets, reducing price competitiveness and softening demand. Conversely, a lower Australian dollar improves the competitiveness of Australian exports and typically strengthens demand. The trade-weighted index is forecast to fall in 2014-15.

Domestic price of wine grapes

The cost and availability of raw materials (including grapes) affects profit margins and sale prices in the Wine Production industry. The domestic price of wine grapes is projected to rise in 2014-15, as the industry recovers from a glut of grape production.



Current Performance

The Wine Production industry is facing some challenging conditions, including a major oversupply of wine, a shift in consumer preferences towards cheaper wine and a collapse in demand from key export markets. Although a recovery in global markets is anticipated in 2014-15, challenges are expected to persist, with low export sales to key UK and US markets. Over the five years through 2014-15, industry revenue is projected to post an annualised decline of 2.0%, to total $5.8 billion. This includes forecast growth of 0.2% for 2014-15.

Wine glut

The majority of producers in the industry are vertically integrated, including the largest industry players and small independent wineries. These producers own vineyards and grow their own grapes to produce wine. This has contributed to the structural oversupply of wine in Australia, which is the most challenging issue facing the industry. In November 2009, the Winemakers' Federation of Australia, Wine Grape Growers Australia, the Australian Wine and Brandy Corporation, and the Grape and Wine Research and Development Corporation released a joint statement, highlighting the structural oversupply of wine and wine grapes in Australia and the need for producers to take steps to

Industry Performance

Wine glut continued

reduce production.

The research noted that at least 20.0% of Australian grape-bearing vines were in surplus and at least 17.0% of vineyard capacity was uneconomic. Additionally, the research asserted that Australia was producing 20 to 40 million cases of wine per year more than was in demand. Previously, the industry had avoided the full effects of this problem by exporting excess wine. However, falling demand in export markets, due to the persisting high Australian dollar over much of the past five years, reduced wine exports. This contributed to a supply glut in the domestic market.

Over the past five years, the oversupply of wine has led to heavy price discounting, as producers have tried to move excess stock. This has hindered revenue growth over the period, as consumers have paid lower prices for their favourite low-value wines or switched to discounted higher quality wines. Discounted products that made it to export markets have also devalued the Australian brand internationally. For example, Treasury Wine Estate's brand value in the United States plummeted in July 2013, following announcements of $40.0 million worth of wine discounting and the destruction of $35.0 million worth of wine to alleviate excess supply.

Other alcoholic beverages

While wine sales have struggled, the situation has been more favourable for other alcoholic beverages. Sparkling wines and ciders have been the biggest winners, especially as the uptake of cider during summer has made it increasingly popular with younger drinkers. As a result, cider is expected to be the fastest growing product segment within the industry. Sparkling wines have benefited from the growing popularity of champagne. Champagne and sparkling wines have transformed from a traditionally celebratory drink to a more widely consumed beverage, while retaining an image of sophistication. Over the past five years, this shift brought sparkling wines and champagne onto the dinner table and into the hands of casual drinkers.

Global markets

Wine exports have declined over the past five years, as key UK and US export markets have suffered recessions and the strong Australian dollar has eroded export competitiveness. While cheap Australian wines dominated the UK market 10 years ago, several new low-cost producers have entered the market over the past decade. Wine producers such as New Zealand, Argentina, Chile and, more recently, South Africa, have taken advantage of lower costs and rising popularity to supplant Australian wines in major wine-consuming markets. Competition has also increased from producers in France, Italy and Spain, as these countries benefit from their iconic status as winemakers. Australian producers have responded by trying to improve the reputation of Australian wine and increasing sales of higher value wines through intense marketing. Furthermore, domestic producers are targeting Asian markets, particularly China. Australia is the second-largest importer of wine to China, after France.

Imports have increased over the past five years, fuelled by the high Australian dollar and soaring demand for New Zealand sauvignon blanc. Sauvignon blanc and, to a lesser extent, pinot noir from New Zealand's Marlborough region have flourished in the Australian market over the past five years. This has been underpinned by savvy marketing of fruity wines mainly targeted at female drinkers. During 2011, eight of the 10 top-selling white wines were Marlborough sauvignon blancs. However, the tide appears to be turning,

Industry Performance

Global markets continued

with sales of locally produced semillon sauvignon blanc and pinot gris growing strongly over the past couple of years. Additionally, imports of other alcoholic beverages – especially cider – have increased over the period.

Supermarket power

A major concern for wine producers is the increasing dominance of Woolworths and Wesfarmers in downstream liquor retailing. Woolworths and Wesfarmers have aggressively increased their presence in the liquor retailing market over the past five years, expanding the number of Dan Murphy's, BWS, Liquorland and First Choice outlets in Australia. Their share of the Australian alcohol retailing market now stands at approximately 60.0%. Woolworths and Wesfarmers' dominance of liquor retailing has given them significant bargaining power over wine producers. The market-wide discounting by these two operators has contributed to limited wholesale price growth over the past five years. The supermarket chains have also exploited their market power to reduce shelf space for branded products and push their own private-label and control-label wines.

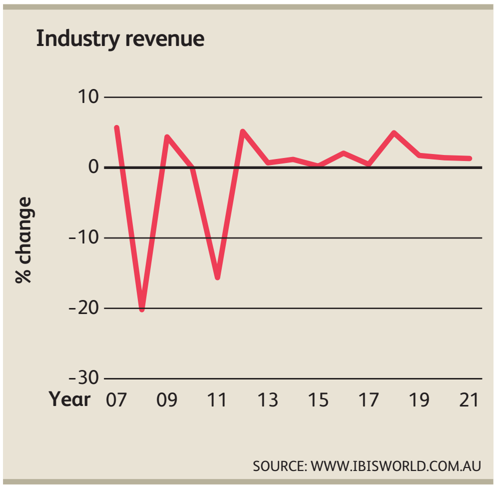
Profit and employment

Price discounting and falling sales (in value terms) have hit profit margins hard over the past five years. Domestic wine prices have come under pressure due to oversupply in the market and heavy discounting by supermarket liquor retailers. Margins have taken a hit, as export sales have dropped due to the dire economic conditions in key markets and the persisting high Australian dollar. Asset divestment, such as Treasury Wine Estate's destruction of $35.0 million worth of excess wine in 2013, have further hurt industry profitability over the period.

Industry employment has fallen over the past five years, due to establishments closing in an attempt to combat the industry's oversupply issue. Both Treasury Wine Estates and Accolade Wines have slowly reduced their workforces over the past five years, cutting costs and closing wineries in a reaction to oversupply and falling profitability and sales. New technologies have also lowered the labour requirements for the production of many wines.

Industry Outlook

Conditions for wine producers are expected to gradually improve over the next five years. Producers have slowly started to address the wine oversupply problem by reducing production and closing wineries, although there is some distance to go before the industry regains balance. Industry growth will likely remain moderate in the immediate future, as the lingering oversupply of wine and sluggish global economy take a toll on exports. Weak price growth will constrain domestic revenue growth and profitability. In the longer term, some producers will



Industry Performance

Industry Outlook continued

move towards premium wines, which will bode well for their profitability. Over the five years through 2019-20, industry revenue is forecast to increase by an annualised 2.1%, to reach $6.4 billion.

Dealing with oversupply

The oversupply of wine in Australia will remain the biggest issue facing the industry over the next five years. Despite slowly falling wine production volumes, total wine produced plus total stock is still almost double total demand (i.e. domestic demand plus exports). Clearly, this cannot last. The oversupply continues to encourage heavy price discounting, devaluing the Australian brand internationally and weighing on prices and profit margins received by domestic winemakers.

Historically, many small producers have been hesitant to leave the industry, as wine production is a way of life rather than just a revenue-driven business. The removal of vine plantings and the exit of mid-tier producers, particularly in areas surrounding the Murray-Darling Basin, remain the only viable solutions to the oversupply in the domestic wine market. Producers need to move away from the low-cost, high-volume model favoured during the past decade and focus on improving Australia's reputation for producing fine wines. Over the next five years, establishment numbers are expected to decline as low-value wine makers scale back production.

Turning the corner

Conditions in the Wine Production industry are expected to improve during 2015-16. Nevertheless, growth will continue to be constrained by the slow recovery from oversupply and weak prices. In the domestic market, heavy discounting and ongoing excess wine supply will limit revenue growth. Efforts to reduce the oversupply will be beneficial in the long-term, but not enough to put upward pressure on prices over most of the next five years. Consumers have become accustomed to discounted prices and many will be unwilling to accept higher prices, shifting to lower cost branded and private-label wine. Growth in private-label wine will continue to take market share from mid-tier producers of low-cost wine. Some wine producers will lessen the effects of this competition by focusing on moving up the value chain and directing marketing and promotions at premium brands, which will help to improve their profitability.

> Heavy discounting and excess supply will limit domestic revenue growth

The global landscape

Export revenue growth depends on the opening up of emerging export markets. Australia's free trade agreements with Japan, South Korea and China, all signed in 2014, will eliminate tariffs and should help boost exports to these emerging markets. However, competition in export markets is expected to be intense as wine producers in other countries become more reliant on exports. Exports are anticipated to account for a larger proportion of revenue over the next five years, although global demand for Australian wines is anticipated to remain weak compared with historical highs. Australia is expected to lose some share of international trade while demand conditions in major importing nations (such as the United States, the United Kingdom and Germany) remain poor.

Industry Performance

The global landscape continued

Two of the most prominent export markets, the United Kingdom and the United States, are becoming more polarised in terms of wine preferences, which represents another challenge to the industry. While American consumers generally prefer fuller, richer wines and are happy to drink wines with higher alcohol content, consumers in the United Kingdom are shifting towards subtle, lighter varieties with more finesse. The difference in preferences presents a difficult decision for producers as to whether they should produce a variety of wines to appeal to both or concentrate on one export market. This decision may be further complicated by a relative abundance or scarcity of the necessary types of grape.

Improving profitability

IBISWorld expects industry profit to grow moderately over the five years through 2019-20. Improvements in profitability are likely to be realised as wine inventories are sold down and the industry returns to balance. Small decreases in production, along with some increases in price, will allow producers to expand their margins while controlling costs. Wine grape prices are expected to increase over the next five years, although the increase will have only a moderate effect on the costs of production. However, this will likely encourage mid-tier wine producers that are not vertically integrated to scale back production over the next five years, helping to alleviate the industry's oversupply problem. Some growth in profit margins is likely to arise from an emphasis on exporting higher value premium wines and rationalisations leading to cost savings.

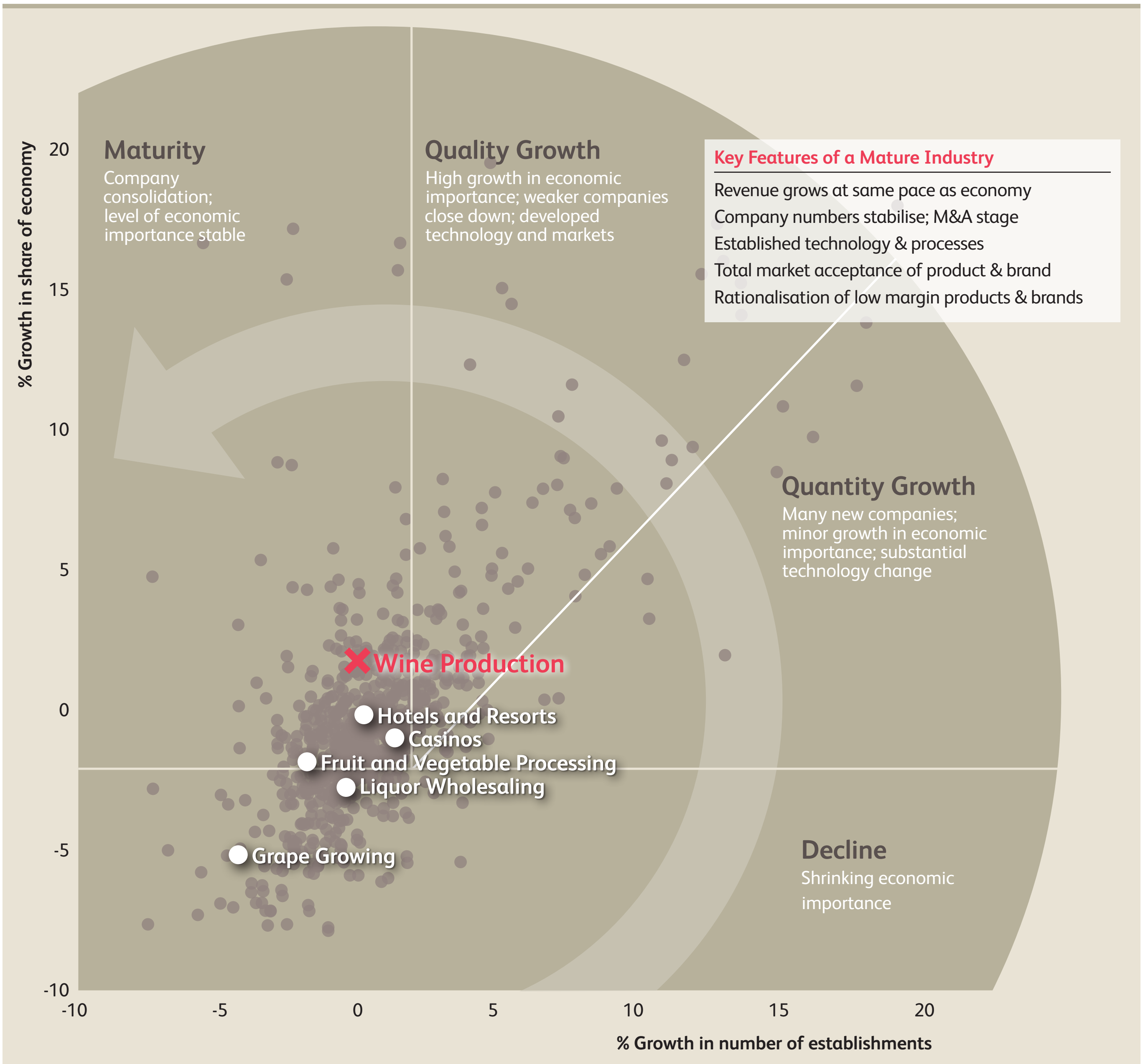
Industry Performance

Life Cycle Stage

Increasing population levels have led to a wider market

Domestic GDP and disposable income growth have increased the tendency to wine and dine

The industry faces strong competition as many producers flood the world market



SOURCE: WWW.IBISWORLD.COM.AU

Industry Performance

Industry Life Cycle

This industry is **Mature**

The industry is expected to be in the mature phase of its life cycle. IBISWorld estimates that in the 10 years through 2019-20, industry value added (a measure of the industry's contribution to the economy) will increase at an annualised 2.5%. In comparison, GDP is forecast to increase an annualised 2.7% over the same period. The industry's lower growth over the period is largely attributable to its ongoing recovery from weakened export demand and an oversupply of grapes. IBISWorld expects wine supply and demand to rebalance over the next five years and value added growth to move closer in line with general economic growth.

With many wineries reporting losses in the five years through 2014-15, evidence suggests that small and medium-size industry players have struggled to control costs sufficiently to remain competitive. This has had a negative effect on industry value added. Although cider remains the fastest growing segment within the industry, the segment is not big enough to have any substantial effect in propelling industry growth.

Export sales are estimated to decline by an annualised 3.5% over the five years through 2014-15. Exports have been adversely affected by the high Australian dollar and competition from emerging producers, particularly South Americans. The high value of the Australian dollar over much of the past five years has meant that Australian wines are not able to compete profitably at lower pricepoints. Despite this, the geographic spread of export sales has continued to grow, with Ireland, Canada, Germany and Asian markets accounting for an increased share of Australian wine sales. The geographic spread of production facilities has continued, following vineyard operation's shift into cooler regions.

However, over the next five years, the Australian dollar is forecast to fall, boosting export opportunities. This is expected to be aided by growing Asian markets that are likely to demand more Australian wines. Some new products and brands have entered the market. Many have been aimed at attracting the female market, especially as other alcoholic beverages such as sparkling wines and cider continue to grow in popularity.

Products & Markets

Supply Chain | Products & Services | Demand Determinants
Major Markets | International Trade | Business Locations

Supply Chain

KEY BUYING INDUSTRIES

F3606a	**Liquor Wholesaling in Australia** Liquor wholesalers purchase wine from producers.
G4123	**Liquor Retailing in Australia** Liquor retailers are a key direct market for wine producers.
H4401	**Hotels and Resorts in Australia** Minibars in hotel rooms and in-house bars and restaurants are usually licensed to sell wine, which means these establishments form an important market for wine producers.
H4520	**Pubs, Bars and Nightclubs in Australia** Pubs, taverns and bars purchase a significant quantity of bottled wine from producers for sale to consumers.
R9201	**Casinos in Australia** Casinos with bars are a market for wine producers.

KEY SELLING INDUSTRIES

A0131	**Grape Growing in Australia** The Wine Production industry purchases grapes, its most important major raw material, from the Grape Growing industry.
C1140	**Fruit and Vegetable Processing in Australia** Ascorbic and citric acids are inputs required for some wine types. These require fruit processed from growers.
C1161	**Flour and Grain Mill Product Manufacturing in Australia** This industry produces yeast, which is an input into wine making.
C1521a	**Paperboard Container Manufacturing in Australia** Containers are required to store and transport the wine bottles along the supply chain.
C2010	**Glass and Glass Product Manufacturing in Australia** Glass bottles are essential for storing wine and preserving the quality over significant time periods, and for transport to markets.

Products & Services

Wine manufacturing is expected to account for approximately 92.2% of industry revenue, while other alcoholic beverages within the industry account for the remainder.

Red varieties

Australian red wines are among some of the most prestigious and widely consumed red varieties in the world. Despite similar production volumes between red and white grapes, red grapes have contributed to a greater proportion of industry revenue. Collectively, the proportion of industry revenue derived from red wine sales has fallen over the past five years, due to strong growth in other segments. This is because the production process for red wines is relatively more complicated and cost-intensive, adding to the cost of red wines.

Shiraz is projected to be the leading grape variety planted in Australia, accounting for almost one-quarter of all grapes produced. Australia is renowned for producing some of the best shiraz in the world. Traditional shiraz-producing regions include the Barossa Valley, Clare Valley and McLaren Vale in South Australia, Heathcote in Victoria, and the Margaret River region in Western Australia. The varied range of production sites, in addition to the full-bodied and fruity flavour of the wine, has aided the ongoing popularity of shiraz.

Cabernet sauvignon is the second-largest red variety produced in Australia, accounting for an estimated 14.0% of total grapes produced. Despite its large production volume, the high tannin levels and strong taste have led many drinkers to switch to lighter red varieties. Merlot

Products & Markets

Products & Services continued

has grown to represent about 6.6% of total grapes produced. The production of merlot has grown healthily over the past five years, with the variety retaining its popularity due to its relatively lower tannin levels and easy drinking compared with heavier varieties.

White varieties

While the production of white wine grapes accounts for half of total grapes produced, white wine grapes make up only 38.8% of industry revenue, largely due to the relative ease of producing white wines compared with red varietals. However, white wines have remained popular among Australian drinkers and export markets. Consequently, the white varieties segment has remained stable as a proportion of revenue over the past five years.

Chardonnay is the second most common grape produced in Australia, representing approximately one-quarter of total grapes produced. Chardonnay has recently declined in popularity, with young and female drinkers opting for lighter and more fashionable white styles including sauvignon blanc and pinot gris, which represent some of the fastest growing white wines. Chardonnay production is forecast to slow over the long term as drinkers switch to other white varieties.

Sauvignon blanc is the second-largest white variety to be produced in Australia, accounting for approximately 5.2% of grapes produced. Sauvignon blanc production has increased steadily, as surging demand for the popular New Zealand sauvignon blanc has made it the fastest selling white wine variety in Australia.

Other prominent white grape varieties include colombard and semillon, which represent a growing proportion of grapes being produced. This is largely due to the overproduction of red grapes and the growing popularity of the lighter, and easier to drink, white wines.

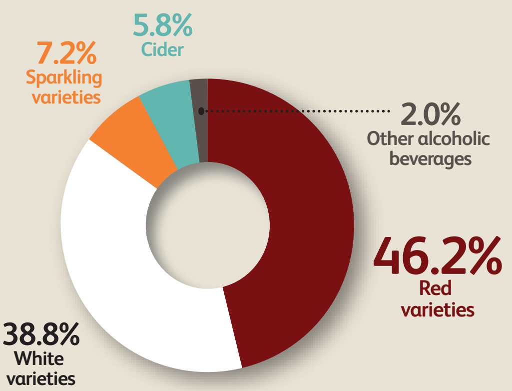
Sparkling varieties

The sparkling wines segment has grown over the past five years, as consumers begin to change their perception of sparkling wines from a celebratory drink to an everyday alcoholic beverage that can be consumed with meals or as a casual drink. This trend has been spurred on by the growing popularity of French champagnes, which are often viewed as a more premium and sophisticated beverage, and are increasingly substituted for wines. IBISWorld expects this trend to continue over the coming years as industry operators respond to growing demand for sparkling wine and champagne.

Cider

The Australian cider market is estimated to account for approximately 5.8% industry revenue. This segment has

Products and services segmentation (2014-15)



Total $5.8bn

SOURCE: WWW.IBISWORLD.COM.AU

Products & Markets

Products & Services continued

expanded as a share of revenue over the past five years, and is the industry's fastest growing product segment. The popularity of cider has grown due its image as a refreshing alternative to beer, aided by savvy marketing and promotion. However, cider producers face intense competition from imported ciders. More than one-quarter of all cider consumed in Australia is imported. This suggests that while the domestic consumption of cider has grown, Australian production has failed to cater for total domestic demand of this beverage.

Other alcoholic beverages

Other alcoholic beverages in the industry include similar fermented fruit-based varieties such as fortified and unfortified niche wines including sherry, mead and perry. Demand for niche wines and other alcoholic beverages is expected to have remained relatively stagnant over the past five years, accounting for only a small portion of industry revenue. These niche varieties have struggled to gain popularity due to the expanding range of red and white wines in the industry.

Demand Determinants

As an export-intensive industry, trends in key export markets such as the United Kingdom and United States significantly influence industry demand. Nevertheless, domestic factors have an important role in determining wine consumption and demand.

Discretionary income

In general, higher discretionary income allows consumers to spend more on discretionary products, including wine. It can also serve to shift consumers from low-price to high-price products. Higher incomes have facilitated more meals being eaten away from home, increasing demand for wine from restaurants. Consumer confidence levels generally determine the level of discretionary spending,

Prices and exchange rates

The favourable movement in wine prices relative to beer prices has encouraged wine consumption in Australia. In part, this resulted from the relatively favourable tax treatment of wine.

The increasing proportion of exports for the industry means that exchange rates are an important determinant of demand, as are income and general economic conditions in key overseas markets.

Consumer trends

Wine, cider and other alcoholic beverages produced by the industry are close substitutes for beer and spirits. Consequently, demand for industry products depends on its appeal relative to spirits and beer. Consumer preferences are influenced by marketing and beverage taste. Additionally, perception of trends in wines, such as a trend towards lighter wines for young female drinkers, affects how wine is consumed.

Health and consumption

Wine drinking in moderation has often been seen as an alternative to other alcoholic beverages, with its consumption often used as a digestive or sleep aid. On the other hand there are many negative aspects of drinking beer and spirits, such as the higher calorific content in beer and the stronger alcoholic content of spirits. As a result, consumers may choose wine over beer and spirits.

Major Markets

Both domestic and export markets represent important revenue generating sources for the industry. Wine manufacturing has suffered problems of oversupply over the past five years, which are yet to be properly addressed. However, Australian wines continue to be popular alcoholic beverages with consumers both domestic and abroad.

Products & Markets

Major Markets continued

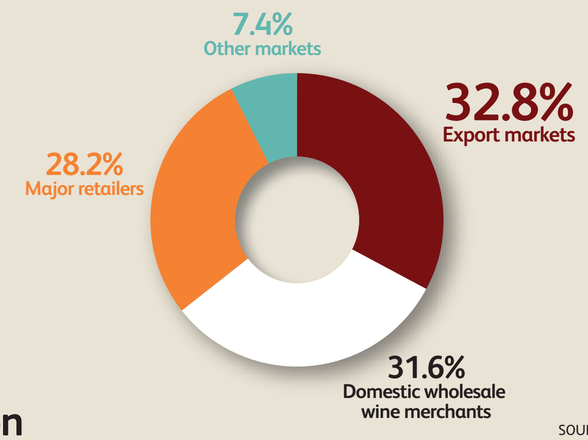
Export markets
The majority of industry revenue is derived from export markets. Exports have declined as a share of revenue over the past five years, due to global oversupply, a high Australian dollar over much of the period, and the resulting lack of global demand. However, the industry remains export oriented, with exports accounting for 32.8% of industry revenue in 2014-15. The major destinations for exported wines are the United Kingdom, the United States, China, Canada and New Zealand. Export markets are particularly important for larger companies, making up a relatively greater proportion of their sales.

Domestic wholesale wine merchants
Domestic wholesale wine merchants are a vital market for the industry. Wholesalers distribute wine to liquor retailers, pubs, restaurants and other hospitality venues. This market also distributes to supermarkets, though this is usually restricted to niche wines. The wholesale market has declined as a proportion of industry revenue over the past five years, due to consolidation in liquor retailing. Large retail chains, such as those owned by Woolworths and Wesfarmers, have increasingly avoided the wholesale market through wholesale bypass and private-label wines.

Major retailers
Major retailers are those included in a national liquor retailing network. Downstream liquor retailing is becoming more consolidated, leading to an increasing proportion of direct to retailer sales over the past five years. Wesfarmers' portfolio includes Liquorland, Vintage Cellars and First Choice Liquor, while Woolworths has B.W.S., Cellarmasters and ownership of Dan Murphy's. The purchasing power of these retailers has grown significantly and their rising share of the retail liquor market explains the increasing sales direct to retailers rather than through wholesalers.

Other markets
Other markets consist of a number of other niche downstream markets, such as direct-to-consumers, online markets, caterers and businesses. Overall, other markets have remained a stable proportion of industry revenue over the past five years. Direct online purchases of wine are increasing, a method of delivery which bypasses retailers. These are undertaken both by wineries as part of their direct-to-consumers sales and by wholesalers to expand their distribution network. Some major industry players have their own direct sales distribution through mail orders or site visitations to bypass wholesalers.

Major market segmentation (2014-15)



Total $5.8bn

SOURCE: WWW.IBISWORLD.COM.AU

Products & Markets

Major Markets continued

Approximately one million people visit winery cellar doors each year in South Australia alone. While cellar-door sales make up a small proportion of overall sales, they are a particularly important market for smaller producers and premium wine manufacturers. While larger manufacturers make proportionally fewer sales at the cellar door, many large wineries maintain a presence in this market. For example, Treasury Wine Estates has a number of wineries open to the public, often accompanied by a restaurant or cafe where wines can be purchased on site, which helps to promote brand awareness.

International Trade

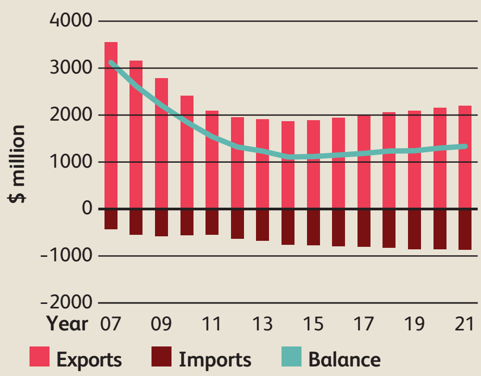
Level & Trend
Exports in the industry are **High** and **Decreasing**

Imports in the industry are **Medium** and **Steady**

Australia consumes less wine on a per capita basis than many other wine-producing nations. On a per capita basis, Australians drink approximately 30 litres of wine per year, which is a significantly lower level of consumption than France, Portugal and Italy, all of whom are expected to consume more than 50 litres per capita. Of the major wine-producing nations, only Chile has lower consumption relative to its level of production, consuming less than 20 litres per person but exporting more than 60% of its manufactured wine. Thus, international markets are important for Australian producers, given its moderate consumption of wine and small domestic market.

Australia currently has two wine-specific trade agreements. The agreement between Australia and the European Community on Trade in Wine and Protocol allows Australia improved access to European markets in exchange for the phasing out of European wine for wine produced in Australia. The Mutual Acceptance Agreement between Australia, New Zealand, Chile, Argentina, Canada and the United States ensures that Australian wine can be marketed in the participating countries, so long as it meets Australian winemaking standards. This agreement assures that signatory countries will not use differences in production standards as a technical barrier to trade in wine. IBISWorld expects that in 2014-15, the Australian Wine Production industry will record exports worth $1.9 billion and competing imports totalling $773.0 million.

Industry trade balance



SOURCE: WWW.IBISWORLD.COM.AU

Exports

Exports have fallen during the past five years, declining at an annualised 4.8% to account for a 32.8% share of revenue. By value, the top wine export destinations are the United States, the United Kingdom, China and Canada. The value of wine exported from Australia has fallen for a number of reasons, mostly notably the oversupply of cheap Australian wines. Increased competition in the global wine market, the rising Australian dollar and the global economic downturn have all been factors weighing down industry exports. During the past decade, a number of relatively new wine producing countries such as Chile and South Africa have emerged to challenge Australian wine in its key export markets. These countries generally produce wine at much lower cost than Australian wine, enabling them to sell it to markets in Europe and North America for a lower price. Australian wine exports have been a victim of changing consumer tastes,

Products & Markets

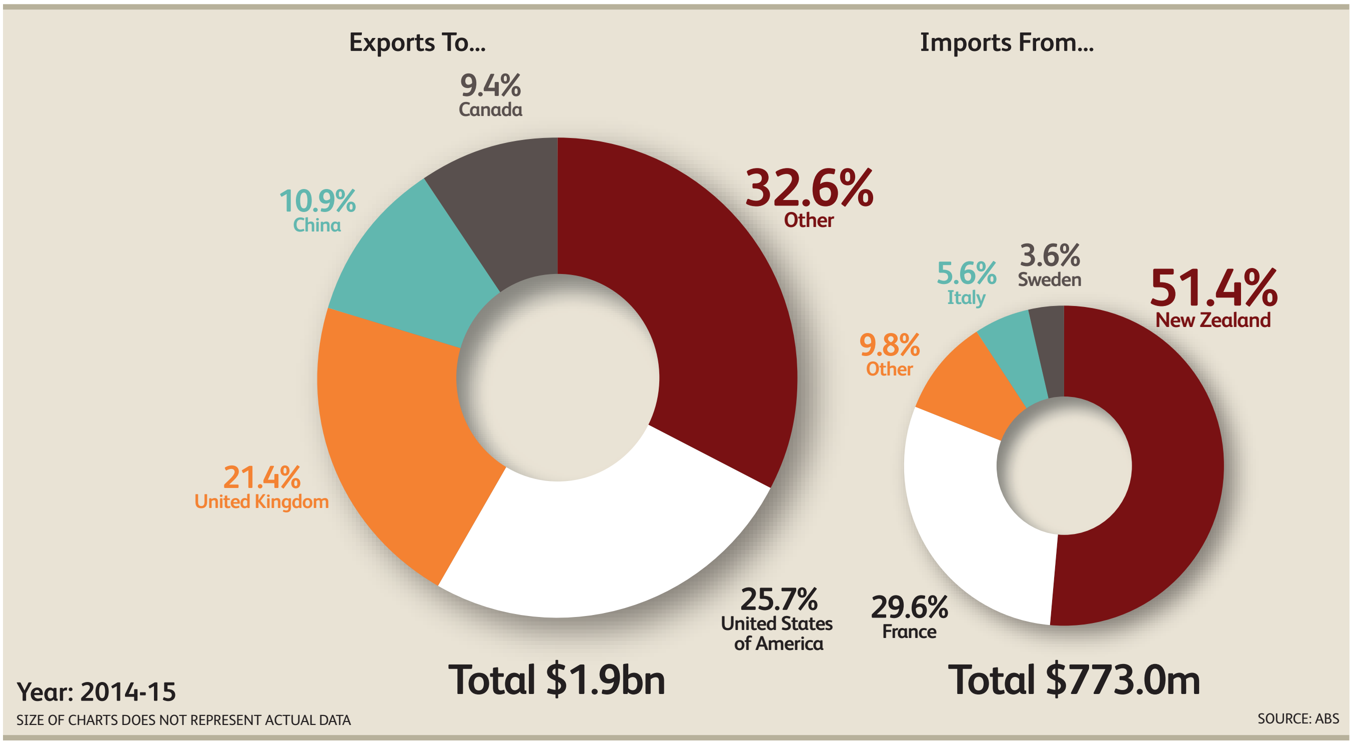
International Trade continued

with UK drinkers now preferring lighter wines rather than full-bodied Australian shiraz and chardonnay. Compared with other wine-producing nations, Australia is the fifth-highest wine producer and fourth-largest exporter by volume (third-largest exporter by value). Other top wine exporting nations are France, Italy and Spain.

The global downturn that followed the financial crisis has also affected wine exports, with key export markets like the United Kingdom and United States struggling with their recovering economies. However, export levels were support by the Chinese market showing growing appetite for premium Australian Wines. This is expected to be due to the burgeoning Chinese middle class, with income growth supporting their seemingly insatiable demand for foreign imports. Over much of the past five years, this trend was further aided by the strength of the Australian dollar.

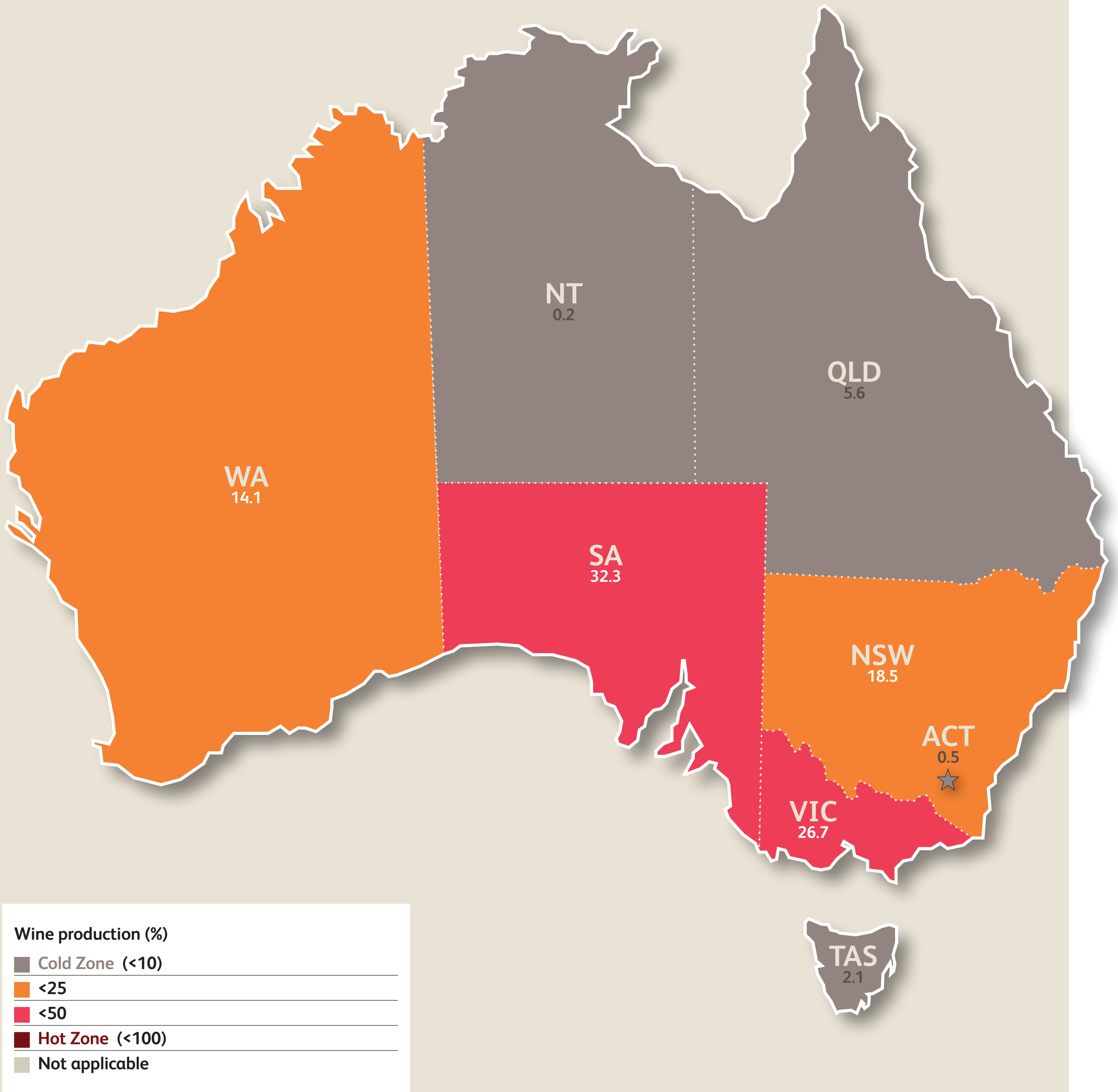
Imports

Wine imports are moderate, accounting for approximately 16.6% of domestic demand. In contrast to Australia's prominence as an exporter, the nation imports a relatively low level of foreign wines. Despite this, imports have more than doubled over the past decade. The high Australian dollar, changing consumer preferences and fluctuation in domestic production have all played a part in this, the biggest contributing factor has been the ongoing rise in popularity of the New Zealand sauvignon blanc. New Zealand wine now accounts for more than half of all imports, with sauvignon blanc making up the lion's share of this. France has traditionally been a source of imports due to the popularity of vintage wines and the Bordeaux wine region. Italy and Sweden are also notable importers. IBISWorld expects that imports from Chile and South Africa are fast growing.



Products & Markets

Business Locations 2014-15



SOURCE: WWW.IBISWORLD.COM.AU

Products & Markets

Business Locations

The geographic spread of the industry is closely correlated with the distribution of wine grape production. Wine production facilities are often located at or near vineyards to limit transport costs and ensure the freshest grapes are crushed. South Australia and Victoria tend to produce a higher proportion of premium wines than other states. New South Wales produces a higher proportion of low unit value wines. For the cider segment, a large proportion of establishments lie in Victoria and New South Wales.

South Australia dominates the Wine Production industry. In South Australia, wineries are concentrated in the south-east of the state, throughout the world famous Barossa Valley, Clare Valley, Coonawarra, Eden Valley and Adelaide Hills regions. The Barossa is Australia's most famous wine region and home to some of the world's most praised shiraz.

Victoria is the second most important region in the country. Victorian wineries are mostly located in the warm, high rainfall regions along the Murray River, where much of Australia's cheaper, bulk wines are produced. The state's major table wine producing regions are the Yarra Valley, Mornington Peninsula, Heathcote, Western District, Rutherglen and Beechworth.

A long belt of NSW wineries begins in the damp, grape growing environment of the Hunter Valley and continues across the Great Dividing Range through Orange and Forbes, and on to Griffith in the Murrumbidgee Irrigation Area. The Hunter Valley was one of the first wine grape growing regions to be cultivated in Australia, in the early 1800s. Hunter Valley semillon is world class, while the cooler climate also produces distinctive shiraz and chardonnay.

In Western Australia, the grape growing regions south of Perth have become popular for winery development. The most famous is Margaret River, but Frankland and Mount Barker also contain wineries. To the north of Perth are the Bindoon and Swan Valley winemaking regions.

Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalisation

Market Share Concentration

Level
Concentration in this industry is **Low**

The four largest Australian wine producers collectively account for 38.3% of industry revenue. This represents a low level of market share concentration. Industry concentration is estimated to have been highest following the acquisition of Southcorp by Foster's Group (now Treasury Wine Estates) during the early 2000s. However, concentration in the industry has changed as major producers have purchased and then divested certain production facilities. Larger industry players are also expected to be the hardest hit due to the oversupply of grapes. Over the past five years, market share concentration has decreased as major players fall in size and cider makers and other alcoholic beverage makers enter the industry.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Production of goods currently favoured by the market
An ability to switch production for a market that has ever-changing tastes is critical to success. Industry wine-tasting awards are an effective means of marketing wines with an appealing taste.

Supply contracts in place for key inputs
Contracts will ensure a steady stream of grapes for specific varieties that are produced into wine.

Economies of scope
Manufacturers that produce a range of wine varieties, wine brands and other beverages can achieve efficiencies in activities such as distribution, marketing and administration.

Establishment of export markets
Strong ties to export markets have been a critical growth factor for players during the weak domestic conditions of the past five years.

Financial structure of the company
The extent of a company's debt and the way in which it is financed will affect its ability to acquire new assets and ensure healthy cashflows.

Economies of scale
Wine producers with larger production facilities can achieve lower average costs, which can in turn facilitate lower pricing, increased marketing expenditure or capital investment.

Cost Structure Benchmarks

Cost structures can vary according to the level of vertical integration. Expenses depend on the extent to which wineries and cider makers produce their own grapes and other fruits. Some producers concentrate on selling low-margin bulk wine to other firms that bottle and brand the product themselves. Producers that sell their own branded wine to wholesalers, retailers and through their own cellar-door or other direct sales (e.g. direct mail) will tend to produce higher profit margins relative to those that do not (direct sales produce higher margins than sales through wholesalers and retailers).

Profitability
Industry profit margins are expected to account for 5.4% of revenue in 2014-15. Chronic oversupply of wine over the past five years has contributed to heavy discounting through the supply chain, as producers and retailers attempted to reduce excess wine stocks. Furthermore, the high Australian dollar for the majority of the period negatively affected the competitiveness of Australian wine in foreign markets, leading to price discounting overseas as well. Consequently, profit margins have fallen over the past five years.

Competitive Landscape

Cost Structure Benchmarks continued

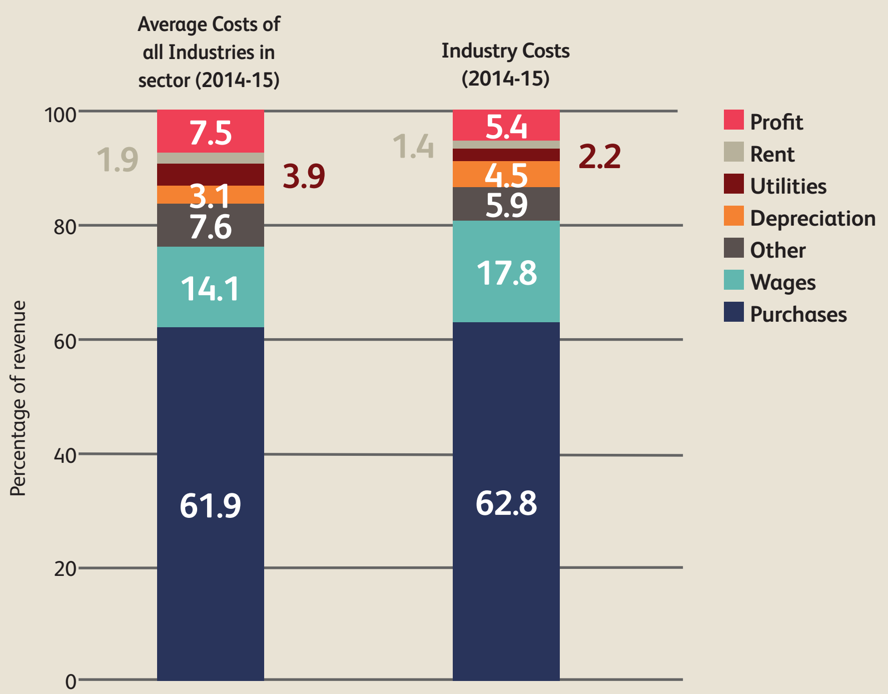
Purchases
Although they vary from year to year and are subject to variation in grape and wine prices, industry purchases accounted for an estimated 62.8% of revenue in 2014-15. Purchases costs include containers and other packaging materials; wine for blending, fortification or distillation; grape juice and grape spirit; sugar; and other purchases. Grapes, the most important production input, are predominantly grown and harvested specifically by wineries for the purpose of wine production.

Wages
Labour costs account for an estimated 17.8% of revenue in 2014-15. Wages are expected to have grown as a proportion of total revenue over the past five years. This growth was mostly due to falling revenue, but also because of the labour intensiveness of various functions in wine and cider production, such as the upkeep and maintenance of vineyards and manufacturing processes. Wages are expected to fall as a proportion of revenue over the next five years due to increasing investment in modern technologies, thereby making the industry's production process more highly capital-intensive.

Depreciation
Depreciation remains at about 4.5% of revenue. This is a little higher than other beverage industries such as Beer Manufacturing, chiefly due to the greater costs involved in wine maturation equipment and storage. Recent downgrades in production volumes, however, have caused manufacturers to divest certain product machinery.

Other costs
The most significant other cost to wine producers is marketing costs. Companies in the industry that sell branded products tend to spend between 5.0% and 10.0% of annual revenue on marketing, but the industry as a whole spends close to 5.0% of revenue. This is likely to have grown over the past five years, since promotional spending on Australian wineries increased

Sector vs. Industry Costs



SOURCE: WWW.IBISWORLD.COM.AU

Competitive Landscape

Cost Structure Benchmarks continued

(especially in Britain and the United States) following efforts to rebuild Australian wine brand equity as Australian wines flood international markets. Other crucial costs include administrative costs and general selling expenses.

Basis of Competition

Level & Trend
Competition in this industry is **High** and the trend is **Increasing**

Competition is high and increasing due to the expansion of global wine production. Wine producers are subject to rising competition from cleanskin wines and falling margins due to the increasing distribution power of supermarkets.

Internal competition

Producers of wine in the mid- to high-price bottled products range compete on the basis of quality and branding. The quality (taste) of the wine is a basis of competition for individual brands, winemakers and enterprises. A wine with an appealing taste to the consumer can encourage repeat purchases and build loyalty to the brand and winemaker. Wine shows and awards are an important means for promoting the quality of particular wines. Marketing and branding activities can also contribute to consumer perceptions of quality.

By volume, industry sales are dominated by bulk wines, which compete primarily on the basis of price. IBISWorld estimates that wine bottles under $8 account for 37% of industry revenue and 65% of volume sales. Given the importance of price, the size of a wine production enterprise is playing an increasingly important role in competition due to economies of scale and scope. The size of an enterprise will also contribute to determining access to markets and distribution channels.

Australian wineries have a competitive advantage over their international rivals due to a concentration of professional expertise, favourable climatic conditions, industry research cooperation and low-cost supply of grapes (due to access to land, water and capital). The industry also benefits from the network of related industries including tourism and hospitality. Australia's reputation as a high-quality producer is a major selling point in overseas markets.

Major buyers include international retail groups and it can be important to promote products among this group. Treasury Wine has built a global direct wine sales business and acquired a major US winery to build distribution channels globally and in the United States. However, at the niche end, small premium wineries can compete successfully with just a cellar door and small selection of specialty distributors.

External competition

External competition is increasing with more premium beer brands, which compete directly against wine and cider. Wine faces competition from spirits and, to a lesser degree, non-alcoholic beverages, while cider and other alcoholic beverages face stronger competition from traditional beer and ready-to-drink alcoholic beverages. However, the growing popularity of cider and sparkling wines have partially offset this trend.

Barriers to Entry

Level & Trend
Barriers to Entry in this industry are **Medium** and **Increasing**

Historical increases in both enterprise and establishment numbers according to wine demand suggest low to medium barriers to entry. However, the level of market saturation already achieved by the industry's largest players, mid-tier firms and small independent wineries make successful entry by new players difficult. New entrants will find it more difficult to achieve the scale and distribution networks necessary to compete against the industry's largest players.

Capital requirements are significant, although operation on a small scale is possible. As some large wine companies divest parts of their operations, these become available for purchase by any potential new entrants. Any new entrant

Competitive Landscape

Barriers to Entry continued

will require superior financial management skills and industry-specific knowledge to be successful.

Branding is now imperative for success in the industry, especially for cider makers, being a relatively new product. The variety of wine brands in the Australian industry has rocketed, with consumers typically choosing a brand that they are familiar with, seeking reliability of quality and a consistent taste. The widening array of existing brands available domestically and abroad represents an increasing barrier to entry. Early movers have an advantage over later entrants. Early participants in each product segment have established brand awareness.

The persisting oversupply of wine grapes has also been a barrier to entry over the past five years. Excessive wine grape production during the 2000s contributed to a supply glut of wine. The wine supply chain is yet to properly recover from this glut, which has negatively affected wine prices and industry revenue over the period. This has discouraged new wine producers from entering the market.

Barriers to Entry checklist	Level
Competition	High
Concentration	Low
Life Cycle Stage	Mature
Capital Intensity	Medium
Technology Change	Medium
Regulation & Policy	Medium
Industry Assistance	Medium

SOURCE: WWW.IBISWORLD.COM.AU

Industry Globalisation

Level & Trend
Globalisation in this industry is **High** and the trend is **Increasing**

Industry globalisation is significant in the Australian Wine Production industry. Key operators in the industry have heavy ties with foreign-owned enterprises and are largely exposed to shifts in international markets and foreign enterprises, especially with large multi-discipline beverage manufacturers such as Lion and SABMiller's Foster's Group making inroads through cider manufacturing.

Foreign ownership in the Australian Wine Production industry is high. For instance, Accolade Wines is wholly owned by US-based Constellation Brands, Inc. Premium Wine Brands is wholly owned by French multi-beverage company Pernod Ricard. French company Moet et Chandon invested $10 million to establish a winery in the Yarra Valley, VIC. Other major French producers (e.g. Bollinger and Roederer) are also expanding their activities in Australia. In addition, the Belgian company Kreglinger, a commodities trader, joined the Australian industry by paying $30.6 million for the small Tasmanian wine producer, Pipers Brook Vineyard. Lion is 100% owned by Japanese brewer Kirin.

Major players in the Australian Wine Production industry are active investors globally. Industry participant Treasury Wine Estates owns wineries in California. Its US winemaking segment, Beringer Blass Wine Estates, has about 6.0% market share of the US wineries industry. Furthermore, Constellation Brands and Pernod Ricard have wine production establishments throughout the world. Constellation Brands is the largest winemaker in the world, with 7.0% share of global revenue.

Combating the increasing level of globalisation is the growth of large domestic retailers like Woolworths and Wesfarmers. Along with its purchase of Dorrien Estate Winery in 2011, Woolworths has plans to expand its private liquor offering, particularly in wine production, through the proposed takeover Barossa Valley Estate, one of the many closing vineyards in Australia. However, these plans fell through, with Barossa Valley Estate sold to the Delegat's Group, the New Zealand producers of the Oyster Bay wine brand.

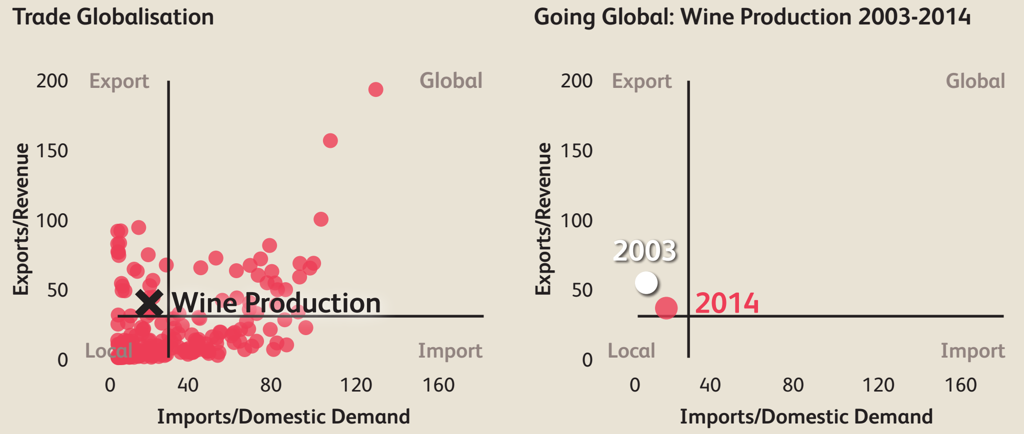
Competitive Landscape

Industry Globalisation continued

International trade is a major determinant of an industry's level of globalisation.

Exports offer growth opportunities for firms. However there are legal, economic and political risks associated with dealing in foreign countries.

Import competition can bring a greater risk for companies as foreign producers satisfy domestic demand that local firms would otherwise supply.



SOURCE: WWW.IBISWORLD.COM.AU

Major Companies

Treasury Wine Estates Limited | Pernod Ricard Pacific Holding Pty Ltd
Accolade Wines Holdings Australia Pty Limited | Casella Wines Pty Limited | Other Companies

Player Performance

Treasury Wine Estates Limited
Market share: 14.3 %

Industry Brand Names
Yarra Valley
Wolf Blass
Rothbury
Mildara
Lindeman's Wines
Penfolds

Treasury Wine Estates Limited (TWE) is an Australian-owned producer and distributor of wine with global operations. The company was renamed in 2011 following the Foster's Group decision to separately list its wine and beer assets in 2010. After its demerger from the Foster's Group, TWE became one of the world's largest wine producers, with 56 wineries across Australia, the United States, New Zealand and Italy. The company's brands include Penfolds, Lindeman's, Wolf Blass, Rosemount, Beringer, Matua Valley and Castello di Gabbiano.

In September 2010, Foster's Group rejected a US$2.5 billion offer for its wine business. New York-based private equity firm Cerberus Capital Management reportedly made the bid. Another takeover bid of more than $3.0 billion, made by private-equity firm Kohlberg Kravis Roberts, was rejected in March 2014. A number of other potential buyers have also expressed interest in a takeover, including LVMH (a luxury goods brand), Constellation Brands (the world's largest wine seller) and Bright Food (a Chinese food group). However, TWE has rejected a number of bids, including a $3.4 billion bid from private equity suitors in September 2014, as the company is holding out for a higher price.

TWE attributes much of its success to its diverse operations across the globe. The strategic placement of operations throughout various regions allows TWE to hedge performance between regions. TWE's general trend of premiumisation, along with its luxury and boutique wines throughout Asia and the United States, has contributed to its strengthening position as a global wine manufacturer. In mid-2013, TWE purchased the Tasmanian White Hills vineyard, which formerly belonged to Brown Brothers. This strategic acquisition is expected to further strengthen the company's scale of operations. However, the company was forced to destroy $35.0 million worth of wine in 2013, due to much lower demand from US markets than was forecast.

Treasury Wine Estates Limited – industry segment performance*

Year	Revenue ($ million)	(% change)
2009-10	602.1	N/C
2010-11	664.4	10.3
2011-12	782.4	17.8
2012-13	822.2	5.1
2013-14	805.7	-2.0
2014-15	824.3	2.3

*Estimate

SOURCE: IBISWORLD

Financial performance

The company has embarked on a strategy to boost sales of premium wine in the Australian and North American markets. This strategy has already proved successful, with global sales volumes falling, while net sales revenue per case is increasing. Despite this, growth in the emerging Asian market began to show signs of slowing due to oversupply in 2013-14, contributing to the company's revenue decline that year.

The company's revenue has grown since TWE's creation in 2009-10, largely due to its diversified operations around the world, which involve manufacturing and distribution to avoid

Major Companies

Player Performance continued

clustering and overcapacity. The Australian industry segment maintains a strong market position through the steady demand for many of its industry-leading products, especially the Penfolds range, which has been both a domestic and international hit. However, oversupply of Penfolds in popular markets such as China has caused a wave of heavy price discounts that have hurt TWE profit margins.

Over the past five years, the company has outperformed the overall industry. The company's industry-specific revenue is projected to grow at an annualised 6.5% over the five years through 2014-15. In volume terms, there was strong growth for most brands including Penfolds, Yellowglen, Annie's Lane, Wynns, Devil's Lair and Pepperjack. This was partly offset by a fall in volume sales for Rosemount, Lindeman's and Wolf Blass. The change in brand mix was due to shifting sales and marketing expenditure and some out-of-stock wines during peak periods.

Player Performance

Pernod Ricard Pacific Holding Pty Ltd
Market share: 9.8 %

Industry Brand Names
Jacob's Creek
Wyndham Estate
Richmond Grove
Morris Wines
Montana
Stoneleigh
Gramp's
Orlando
Trilogy

Pernod Ricard Pacific Holding Pty Ltd (PRP) is the Australian subsidiary of France-based spirits and wine giant Pernod Ricard. In 1847, Johann Gramp, a Bavarian immigrant, planted the vineyard that would mark the beginning of Orlando Wines. In 1989 and 1990, Pernod Ricard acquired both Orlando Wines and Wyndham Estates and merged the two entities into Orlando Wyndham Group (OWG).

In addition to owning a large range of local wines, OWG owns four brands and wineries: Jacob's Creek (one of Australia's most renowned wine brands), Wyndham Estate, Montana and Stoneleigh. The Jacob's Creek sparkling range, launched in 1998, is a popular sparkling wine range in Australia, New Zealand, Japan and the United Kingdom. The company maintained the price position of Jacob's Creek in an environment of price-cutting by competitors, which has allowed it to retain brand equity and value growth. Furthermore, OWG is looking to new markets in China, Japan, Scandinavia and the United States. In October 2010, the Pernod Ricard group restructured its global operations, bringing its premium wine labels together under the management of Premium Wine Brands.

Financial performance

PRP's revenue fell in the three years through 2011-12 as conditions deteriorated both at home and abroad. Profit before tax slumped by more than 40.0% over the period, as wine prices declined and the stronger Australian dollar ate into export revenue. By 2011-12, revenue had declined almost as low as $500.0 million as discounting and oversupply took a toll on sales. In

Pernod Ricard Pacific Holding Pty Ltd – financial performance

Year	Revenue ($ million)	(% change)	EBIT ($ million)
2009-10	631.9	-8.3	-28.2
2010-11	511.6	-19.0	-38.7
2011-12	509.4	-0.4	-25.3
2012-13*	544.1	6.8	N/A
2013-14*	558.4	2.6	N/A
2014-15*	567.8	1.7	N/A

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Major Companies

Player Performance continued

the five years through 2014-15, the company's industry-specific revenue is projected to decline at an annualised 2.1%, underperforming the overall industry. Oversupply and heavy discounting have been further exacerbated by the strong Australian dollar over much of the period.

The company has stated that the wine glut and global financial crisis created some of the most difficult conditions the Wine Production industry had ever recorded. Depressed demand and extreme retail consolidation in the United Kingdom weighed heavily on UK exports. In the United Kingdom, about 70% of wine is sold through five retail groups. Despite strong export sales to the United Kingdom prior to the financial crisis, exports to the United Kingdom have trended downwards since 2009-10 as economic conditions have deteriorated. The company has struggled with the oversupply of grapes and the strong dollar for much of the past five years. Over the next five years, a focus towards premiumisation is expected to help lift revenue and profit levels, with revenue expected to grow in 2014-15 as a result.

Player Performance

Accolade Wines Holdings Australia Pty Limited
Market share: 7.8 %

Industry Brand Names
Hardys
Echo Falls
Tintara
Houghton

Accolade Wines Holdings Australia Pty Limited was founded in 1853 as Hardy Wine Company. The Adelaide winery grew to become the largest in South Australia. In 2003, after being acquired by Constellation Brands, Inc. (CBI), the company renamed itself Constellation Australia and incorporated both Constellation Wines Australia and Europe (CWAE), which held the Australian, UK and South African wine assets formerly owned by US-based wine producer CBI. In January 2011, CBI agreed to sell 80.0% of CWAE to Sydney-based CHAMP Private Equity for $290.0 million. CBI retained a 20% interest in the company.

In July 2011, the company changed its name to Accolade Wines. Accolade Wines owns a number of wineries in Australia including Hardys, Stanley Wines, Houghton Wines, Renmano, Notting Hill, Omni, Banrock Station, Barossa Valley Estate, Brookland Valley and Emu Wines. Formerly the largest wine producer in Australia, Accolade has chosen to focus on its assets in the United States, where it is attempting to improve profitability by entering the premium wine market.

In early 2010, the company made 40 staff redundant at its South Australian bottling headquarters as it shifted more of its production to the United Kingdom to cope with the global wine slump. CBI also made 30 redundancies at its Tintara winery, marking the second round of redundancies for the year. In 2012, Accolade Wines and Treasury Wine Estates (TWE) reached a bottling agreement, whereby TWE will bottle wine for Accolade in Australia and Accolade will bottle for TWE in the UK market. During 2012, the company cut 175 jobs as a result of the deal with TWE.

Financial performance

Accolade Wines' financial performance has declined over the five years through 2014-15. An ongoing recovery was expected following 2010-11, when Accolade Wines generated revenue of $666.2 million, up 8.4% from 2009-10. However, a decline of 34.1% in 2011-12 amid restructuring and divestment dashed hopes of any significant recovery. In the five years through 2014-15, company revenue for Accolade Wines is forecast to contract by 6.0% annualised, underperforming the overall industry.

The four years through 2012-13 were characterised by challenging economic conditions in both the local economy and key export markets, and the oversupply of grapes in Australia weighed on wine prices and profitability. Revenue growth was recorded in 2010-11, though this was due to a longer financial year as the company changed

Major Companies

Player Performance continued

its reporting date. Accolade Wines underwent heavy restructuring in 2011-12, forming strategic partnerships with other wine producers. Lay-offs and divestments in that year are expected to have caused the 34.1% decline in revenue. However, this also contributed to the company's first recorded profit in over five years. A projected depreciation of the Australian dollar over the two years through 2014-15 is expected to stimulate revenue growth and improve profitability, which has fluctuated over the past five years.

Accolade Wines Holdings Australia Pty Limited – financial performance

Year	Revenue ($ million)	(% change)	EBIT ($ million)
2009-10**	614.6	N/C	-258.6
2010-11	666.2	8.4	-29.2
2011-12	438.7	-34.1	22.5
2012-13	415.5	-5.3	-15.2
2013-14	442.4	6.5	16.5
2014-15*	450.4	1.8	N/A

*Estimate **Year end February

SOURCE: ANNUAL REPORT AND IBISWORLD

Player Performance

Casella Wines Pty Limited
Market share: 6.6 %
Industry Brand Names
Yellow Tail

Casella Wines Pty Limited is a family-owned winery established in Australia in 1965 in the Riverina region of New South Wales. The family enterprise traces its roots back to Italy, where the Casella family has been making wine since 1820. The company, headquartered in Yenda, NSW, now employs over 560 people, with operations solely in Australia. Casella Wines brands include Yellow Tail, Reserve, Yendah, Mallee Point and Crate 31. The company is one of Australia's largest exporters of wine. Yellow Tail is one of the most widely exported and consumed wines outside of Australia. The company also operates Australia Quality Vines, the largest commercial vine nursery in the Riverina region.

Casella Wines is best known for its Yellow Tail brand's market penetration in the US wine market, where it has historically performed well. Since launching in 2001, Yellow Tail has grown to become the highest selling imported wine in the United States. Despite recession in the United States (its key market) and a high Australian dollar, the company has performed relatively well in the face of difficult conditions, largely due to Casella's increased efforts in marketing and brand positioning operations.

Financial performance

Casella Wines, like many other Australian manufacturers of wines, continues to face overcapacity and has been hindered by the strong Australian dollar over much of the past five years. As a result, revenue is projected to decline at an annualised 1.5% over the five years through 2014-15, underperforming the overall industry. This is anticipated to be due to the significant focus on export markets over the period, especially in the struggling UK and US markets. Revenue began to fall following the global financial crisis as exports to the United States dramatically fell. This further exacerbated the already over-productive industry, increasing manufacturers' wine stocks. Casella Wines was able to maintain profitability over the three years through 2010-11. However,

Major Companies

Player Performance continued

ongoing poor conditions in export markets are expected to have finally taken a toll on the company's profitability over the two years through 2012-13. The expected depreciation of the Australian dollar over the two years through 2014-15 is likely to have driven the return to growth.

Casella Wines Pty Limited – financial performance

Year	Revenue ($ million)	(% change)	EBIT ($ million)
2009-10	410.9	N/C	20.9
2010-11	412.6	0.4	68.0
2011-12	343.7	-16.7	-30.2
2012-13	346.2	0.7	-5.0
2013-14*	367.3	6.1	N/A
2014-15*	381.4	3.8	N/A

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Other Companies

At the next level, there are several medium-size companies, including De Bortoli Wines, McWilliam's, and Samuel Smith & Son. There are also small firms, which crush less than 100 tonnes of grapes annually and account for between 2.0% to 4.0% of wine production. Smaller producers include Zilzie Wines, Kingston Estate Wines, Peter Lehmann Wines and Tyrrells. With the growing popularity of cider in the Australian market, cider producers have also grown in market share over the past five years.

Many of the firms in the industry are small family businesses. However, the ownership of wineries has tended to move away from family-owned firms towards ownership by public companies. This has allowed consolidation of infrastructure and maximisation of cost and marketing synergies. IBISWorld expects that many of these smaller companies have performed better than industry major players due to their flexibility and niche specialisations.

Since the 1990s, some wineries have divested their fixed assets, particularly their vineyards. This has released capital, which can be used in the core business of making and selling wine. One example of this is the Challenger Wine Trust (formerly Beston Wine Industry Trust), which holds vineyards purchased from Brian McGuigan Wines and Grant Burge Wines.

Australian Vintage Limited

Estimated market share: 4.5 %

Australian Vintage Limited (AVL) is an Australia-owned and ASX-listed integrated winemaking business. It is the second-largest vineyard owner in Australia. Headquartered in Parkside, SA, the company employs more than 700 people. After its incorporation in 1991, the wine producer engaged in several acquisitions. The company was created by the merging of Brian McGuigan Wines Ltd and Simeon Wines Ltd. Formerly known as McGuigan Simeon Wines Limited, the company changed its name in 2008 to Australian Vintage Limited to better reflect a unified business rather than a collection of merged entities. The company has three main wineries in South and south-east Australia, which operate all year round. Its Buronga Hill winery in New South Wales is one of the largest wineries in Australia and produces most of the company's wines. Its Hunter Valley, NSW, and Barossa Valley, SA, wineries produce premium

Major Companies

Other Companies continued

and boutique vintages, but at much smaller capacities.

Foster's Group Limited

Estimated market share: 2.5 %

Foster's Group is a recently acquired brewing and bottling subsidiary of UK-based international brewing and bottling company SABMiller PLC. Foster's Group operates in the industry through its Strongbow cider range, which it acquired from Bulmer Australia in 2003. Today, the group still produce, distribute and market the cider, which is considered the most popular cider in the Australian cider market.

Brown Brothers Milawa Vineyard

Estimated market share: 2.0 %

Brown Brothers Milawa Vineyard is a family-owned wine producer based in Milawa, VIC. The company has expanded strongly over the past five years, due in part to its emphasis on producing wines of an unusually wide range of varieties and styles. The company is one of the inaugural members of Australia's First Family of Wine, an initiative launched in 2009 with 11 other privately owned wineries to raise the profile of Australian wine internationally.

Lion Pty Ltd

Estimated market share: 2.0 %

Lion Pty Ltd is a proprietary company owned by Japanese food and beverage corporation Kirin Holdings Company Limited, which operates in the Australian food and beverage manufacturing sector. Cider's increasing popularity has given Lion a small but increasing market share. The company's 5 Seeds cider is marketed and bottled under the Toohey's division of alcoholic beverages. As Australia's cider market develops further, Lion's market share in the Wine Production industry is expected to increase.

McWilliam's Wine Group Ltd

Estimated market share: 2.0 %

McWilliam's Wine Group Ltd, which dates back to 1877, is the seventh-largest wine producer in Australia. The company is based in Sydney and employs more than 300 people. Major local brands include McWilliam's, Evans & Tate, Mount Pleasant, Coonawarra, Lilydale Estate and Barwang. Wineries are located in regions such as the Hunter Valley, NSW; Yarra Valley, VIC; and Adelaide Hills, SA. The company also distributes Taittinger Champagne, Henkell Trocken Sparkling Wine, Mateus Rose and whisky-based liqueur Drambuie. In 2010, the company became an unlisted public company and changed its name to McWilliam's Wine Group Ltd.

De Bortoli Wines Pty Limited

Estimated market share: 2.0 %

De Bortoli Wines was founded by Italian immigrant Vittorio De Bortoli in 1924 and continues to be a family-owned company based in Griffith, NSW. The company also has wine operations in Victoria's Yarra Valley. Brands include Windy Peak, Gulf Station and Noble One.

Warburn Estate

Estimated market share: 2.0 %

Formerly known as Riverina Wines Pty Ltd, Warburn Estate is a privately owned wine producer located in the Riverina region, NSW. Owned by the Sergi family, the company has grown at a stellar rate over the past five years and now has more than 1,000 hectares under vine, with a crush capacity of 40,000 tonnes. Brands include Warburn Estate, Aspen Estate, Stephendale, Gossips and Brass Raza.

Samuel Smith & Son Pty Limited

Estimated market share: 1.5 %

Samuel Smith & Son Pty Limited is a locally owned proprietary company, more commonly known as Yalumba. The company is based in Sydney and employs more than 500 people. The company produces more than 18 different wines and has been in operation since 1923, when it was established as a wine merchant. The company trademarked the Yalumba brand in 1894. In 2000, the company acquired the Redback Wines.

Operating Conditions

Capital Intensity | Technology & Systems | Revenue Volatility
Regulation & Policy | Industry Assistance

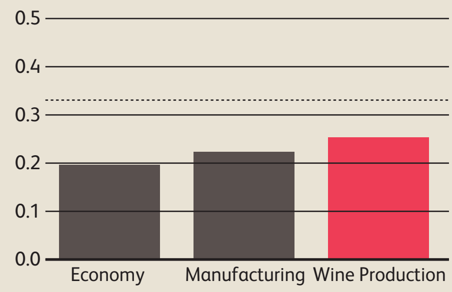
Capital Intensity

Level
The level of capital intensity is **Medium**

The Wine Production industry in Australia exhibits a medium level of capital intensity. IBISWorld estimates that for every dollar paid for labour, $0.25 is required to be spent on capital investments. Here wages represent labour cost and depreciation has been used as a proxy for capital investment. Unlike other beverage industries, wine manufacturing requires significantly higher levels of labour in order to pick and process grapes.

The level of vertical integration, particularly backward integration, affects capital intensity. Ownership of vineyards tends to increase capital intensity, as does ownership of winemaking facilities, as winemakers have varying reliance on the use of bulk wine. Bulk wine producers tend to have a higher level of capital intensity, due to investment in winemaking machinery, lower staff requirements in packing and selling, and lower selling prices. The different production requirements for industry products, including the fortification of wine, cider making and the manufacture of other alcoholic beverages, have contributed to intensification of capital within the industry.

Capital intensity
Capital units per labour unit

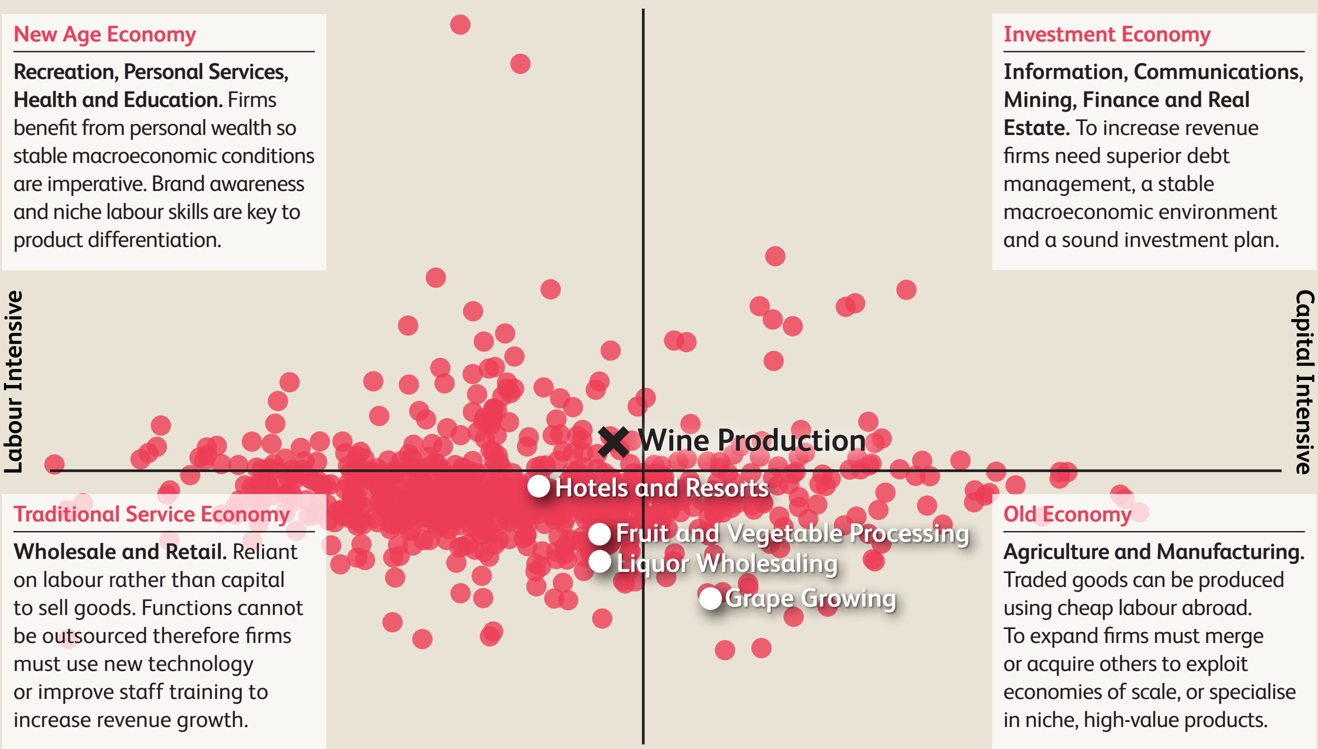


Dotted line shows a high level of capital intensity
SOURCE: WWW.IBISWORLD.COM.AU

Tools of the Trade: Growth Strategies for Success

New Age Economy
Recreation, Personal Services, Health and Education. Firms benefit from personal wealth so stable macroeconomic conditions are imperative. Brand awareness and niche labour skills are key to product differentiation.

Investment Economy
Information, Communications, Mining, Finance and Real Estate. To increase revenue firms need superior debt management, a stable macroeconomic environment and a sound investment plan.



Traditional Service Economy
Wholesale and Retail. Reliant on labour rather than capital to sell goods. Functions cannot be outsourced therefore firms must use new technology or improve staff training to increase revenue growth.

Old Economy
Agriculture and Manufacturing. Traded goods can be produced using cheap labour abroad. To expand firms must merge or acquire others to exploit economies of scale, or specialise in niche, high-value products.

Change in Share of the Economy

SOURCE: WWW.IBISWORLD.COM.AU

Operating Conditions

Technology & Systems

Level
The level of Technology Change is **Medium**

Technological changes affecting the industry have resulted from improved knowledge and application of biotechnology to provide better quality control and greater product consistency. Technological development in the industry takes the form product or process innovations. Product innovations include changes made to the product, including packaging, while process innovation refers to changes to the process of producing the wine.

Product innovation

An important development in packaging has been the introductions of a single serve bottle with a lid that functions as a cup. The product is aimed at the events and food service market, where the convenience of giving customers a bottle and glass in one motion would be of most benefit.

The screw-top lid has gained acceptance in the Australian market place. While screw tops have been associated with lower quality wines, there is growing recognition that high-quality products can be sold with screw tops, and this will reduce the incidence of cork taint in wine. The technology for this innovation is not new, but the uptake has been slow due to resistance from winemakers and consumers.

Process innovation

A key area of technological development is in wastewater development. As an intensive water user, the industry applies a number of principles to conserve water and reduce the harmful effects of wastewater on the environment. These principles include segregation of different strength waste streams, reduction in the amount of cleaning agent used in washing equipment and cleaning chemicals with low sodium levels. The organics and salts are an issue for wastewater. Larger firms such as De Bortoli have switched from sodium cleaning agents to higher-cost potassium-based products, which can be absorbed by crops such as hay and barley.

Another change on the horizon is the use of a new grape inspection platform that can receive an entire fruit bin and mete out its contents for inspection. This automates the process of metering out grapes for sorting, thereby reducing labour requirements. The process is also expected to improve quality, as consistent delivery of grapes will allow more-efficient inspection for bad grapes and other unwanted material.

Reverse osmosis has been trialled to reduce the effects of smoke taint on wines produced from vineyards exposed to smoke. Smoke taint can reduce the quality of the wine and results in volatile compounds from the smoke being present in the wine. The process of reverse osmosis may be adopted by wineries in the medium term.

Revenue Volatility

Level
The level of Volatility is **Medium**

The Wine Production industry exhibits medium levels of revenue volatility. A strong focus on exports prior to the oversupply and global financial crisis largely affected revenue volatility. In the five years through 2014-15, exports have fallen from almost 38.0% of industry revenue to 32.8%, reflecting the significant decline in industry revenue. However, offsetting these volatility trends are the growing popularity of cider and sparkling wines that have provided a buffer against falling demand for Australian wines over the past five years.

Production and prices are affected by the supply of grapes, which is affected by weather and soil conditions, disease and plagues. Earnings fluctuate due to changing input prices, changes in supply of grapes and restructuring costs. As concentration increases, larger producers are expected to increase in market power, bargaining for secure industry supply contracts, especially with the supply to domestic retailers via private-labels.

Strong competition for retail sales is forcing Australian winemakers to reduce prices, which is adding to

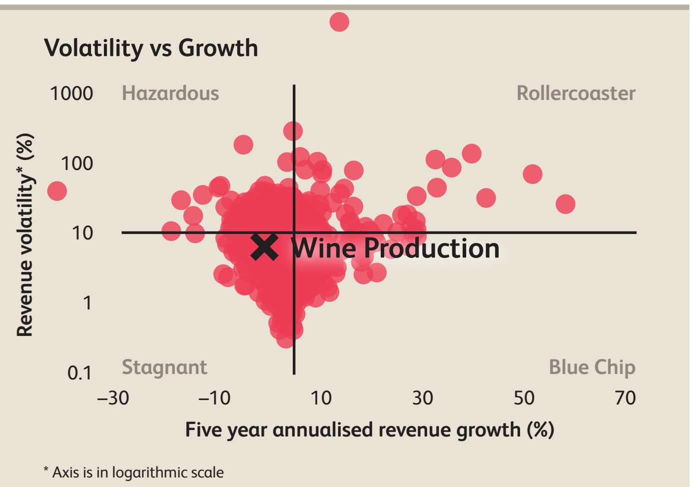
Operating Conditions

Revenue Volatility continued

revenue uncertainty and hampering domestic demand growth. Furthermore, fluctuations of exchange rates and changes in consumer tastes affect export wine prices and general consumption of wine.

A higher level of revenue volatility implies greater industry risk. Volatility can negatively affect long-term strategic decisions, such as the time frame for capital investment.

When a firm makes poor investment decisions it may face underutilised capacity if demand suddenly falls, or capacity constraints if it rises quickly.



SOURCE: WWW.IBISWORLD.COM.AU

Regulation & Policy

Level & Trend
The level of Regulation is **Medium** and the trend is **Steady**

Wine producers are required to follow a number of regulations. In broad terms, these include labelling issues, export regulations and food standards legislation. The two most significant areas of regulation relate to exports and labelling.

Exports

Wine producers wishing to export have to obtain an export licence from the Australian Wine and Brandy Corporation (AWBC), which is responsible for regulating exports to maintain the quality of wine exported from Australia. The AWBC defines geographical boundaries to be used in labelling to further establish the reputation of wine regions in Australia. Furthermore, it undertakes some negotiation on behalf of Australian growers to reduce barriers to trade with other countries. The regulation of wine exports is primarily to ensure the quality of Australian product marketed overseas and is justified on the basis that improved perception of Australian wine stimulates demand, the positive effects of which can be felt across the industry.

Furthermore, Australia has a number of wine trading agreements and the AWBC is charged with ensuring that Australian wine exports comply.

Labelling

The AWBC runs a label integrity program to check that labelling claims are correct. Labelling must be truthful in terms of what varieties of gapes are used and what regional zones are referred to on the label. It maintains graphical indicators, which are used by producers in their labelling. For a wine to be labelled as being from a particular geographical area, 85% of the fruit that goes into making the wine must be from that area. This protects the reputation of wine producing regions from harmful claims that a low-quality products may be produced in that area. This system was introduced in response to the agreement to cease using European place names in product labels in return for greater market access in Europe. As a result, winemakers are required to maintain records attesting to the integrity of the vintage.

Operating Conditions

Industry Assistance

Level & Trend
The level of Industry Assistance is **Medium** and the trend is **Steady**

The Wine Production industry receives a medium level of industry assistance. While the industry receives a lower amount of direct government assistance, numerous associations and industry bodies help promote Australia's image as a wine producing country.

Tariffs on wines have fallen since 1988. All tariffs on wine are now set at 5.0% (except for a concession rate of 4.0% for developing countries). For some varieties, there is also a flat charge per litre, which varies according to the type of wine and its alcoholic content. In addition to tariff protection, a number of industry bodies assist producers or facilitate the operation of the industry.

As wine is the country's 12th-largest exporting industry, there is substantial support from government. The Australian Wine and Brandy Corporation (AWBC) and the Grape and Wine Research and Development Corporation (GWRDC) are two Australian Government bodies established to assist industry growth and international competitiveness.

The Winemakers Federation of Australia (WFA) is the peak body of the Wine Production industry. It represents the interests of wine producers, provides advocacy for producers and promotes the industry to government and financial communities. The WFA, established in 1990, represents winemakers both domestically and overseas and is funded by voluntary levies.

Further assistance is available to producers through various state-based industry associations. Additionally, the Australian Trade Commission provides assistance to businesses looking to export through its New Exporter Development Program and through export development grants for existing and new exporters.

Key Statistics

Industry Data

	Revenue ($m)	Industry Value Added ($m)	Establishments	Enterprises	Employment	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)
2005-06	7,236.3	1,317.0	1,970	1,308	15,600	3,536.7	338.0	963.6	4,037.6
2006-07	7,648.4	1,346.1	1,998	1,713	15,233	3,550.1	428.6	975.6	4,526.9
2007-08	6,104.1	1,202.5	1,959	1,814	14,875	3,162.1	546.3	862.0	3,488.3
2008-09	6,371.0	1,019.4	1,989	1,789	15,499	2,785.8	579.2	944.8	4,164.4
2009-10	6,368.0	1,299.1	2,058	1,848	16,707	2,413.3	561.0	914.6	4,515.7
2010-11	5,372.3	1,128.2	2,042	1,868	16,113	2,091.5	551.1	857.9	3,831.9
2011-12	5,649.1	1,553.5	2,020	1,882	16,437	1,952.1	630.3	941.0	4,327.3
2012-13	5,687.6	1,575.5	2,030	1,874	16,055	1,909.6	677.8	978.9	4,455.8
2013-14	5,754.1	1,593.9	2,042	1,867	16,122	1,868.1	760.8	992.4	4,646.8
2014-15	**5,766.4**	**1,596.3**	**2,023**	**1,852**	**16,186**	**1,890.6**	**773.0**	**1,025.4**	**4,648.8**
2015-16	5,884.7	1,635.9	1,957	1,812	16,175	1,940.8	790.9	1,063.9	4,734.8
2016-17	5,912.2	1,643.6	2,010	1,848	16,389	1,989.1	805.1	1,029.2	4,728.2
2017-18	6,204.9	1,681.5	1,981	1,826	16,354	2,059.8	825.0	992.4	4,970.1
2018-19	6,312.3	1,660.1	1,989	1,844	16,403	2,097.9	857.5	1,015.8	5,071.9
2019-20	6,401.3	1,670.7	1,999	1,852	16,489	2,160.4	862.4	1,023.5	5,103.3
Sector Rank	14/179	12/179	10/179	8/179	9/179	10/169	60/168	11/179	30/168
Economy Rank	191/786	213/785	256/786	221/785	212/785	21/211	65/208	187/785	39/207

Annual Change

	Revenue (%)	Industry Value Added (%)	Establishments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)
2006-07	5.7	2.2	1.4	31.0	-2.4	0.4	26.8	1.2	12.1
2007-08	-20.2	-10.7	-2.0	5.9	-2.4	-10.9	27.5	-11.6	-22.9
2008-09	4.4	-15.2	1.5	-1.4	4.2	-11.9	6.0	9.6	19.4
2009-10	0.0	27.4	3.5	3.3	7.8	-13.4	-3.1	-3.2	8.4
2010-11	-15.6	-13.2	-0.8	1.1	-3.6	-13.3	-1.8	-6.2	-15.1
2011-12	5.2	37.7	-1.1	0.7	2.0	-6.7	14.4	9.7	12.9
2012-13	0.7	1.4	0.5	-0.4	-2.3	-2.2	7.5	4.0	3.0
2013-14	1.2	1.2	0.6	-0.4	0.4	-2.2	12.2	1.4	4.3
2014-15	**0.2**	**0.2**	**-0.9**	**-0.8**	**0.4**	**1.2**	**1.6**	**3.3**	**0.0**
2015-16	2.1	2.5	-3.3	-2.2	-0.1	2.7	2.3	3.8	1.8
2016-17	0.5	0.5	2.7	2.0	1.3	2.5	1.8	-3.3	-0.1
2017-18	5.0	2.3	-1.4	-1.2	-0.2	3.6	2.5	-3.6	5.1
2018-19	1.7	-1.3	0.4	1.0	0.3	1.8	3.9	2.4	2.0
2019-20	1.4	0.6	0.5	0.4	0.5	3.0	0.6	0.8	0.6
Sector Rank	119/179	104/179	100/179	103/179	78/179	101/169	102/168	21/179	111/168
Economy Rank	615/786	578/785	588/786	563/785	486/785	127/211	123/208	207/785	137/207

Key Ratios

	IVA/Revenue (%)	Imports/Demand (%)	Exports/Revenue (%)	Revenue per Employee ($'000)	Wages/Revenue (%)	Employees per Est.	Average Wage ($)	Share of the Economy (%)
2005-06	18.20	8.37	48.87	463.87	13.32	7.92	61,769.23	0.10
2006-07	17.60	9.47	46.42	502.09	12.76	7.62	64,045.17	0.10
2007-08	19.70	15.66	51.80	410.36	14.12	7.59	57,949.58	0.09
2008-09	16.00	13.91	43.73	411.06	14.83	7.79	60,958.77	0.07
2009-10	20.40	12.42	37.90	381.16	14.36	8.12	54,743.52	0.09
2010-11	21.00	14.38	38.93	333.41	15.97	7.89	53,242.72	0.08
2011-12	27.50	14.57	34.56	343.68	16.66	8.14	57,248.89	0.10
2012-13	27.70	15.21	33.57	354.26	17.21	7.91	60,971.66	0.10
2013-14	27.70	16.37	32.47	356.91	17.25	7.90	61,555.64	0.10
2014-15	**27.68**	**16.63**	**32.79**	**356.26**	**17.78**	**8.00**	**63,351.04**	**0.10**
2015-16	27.80	16.70	32.98	363.81	18.08	8.27	65,774.34	0.10
2016-17	27.80	17.03	33.64	360.74	17.41	8.15	62,798.22	0.10
2017-18	27.10	16.60	33.20	379.41	15.99	8.26	60,682.40	0.10
2018-19	26.30	16.91	33.24	384.83	16.09	8.25	61,927.70	0.09
2019-20	26.10	16.90	33.75	388.22	15.99	8.25	62,071.68	0.09
Sector Rank	92/179	100/168	34/169	105/179	72/179	119/179	88/179	12/179
Economy Rank	503/785	110/207	51/211	331/785	420/785	317/785	337/785	213/785

Figures are inflation-adjusted 2015 dollars. Rank refers to 2015 data.

SOURCE: WWW.IBISWORLD.COM.AU

Jargon & Glossary

Industry Jargon

CELLAR-DOOR SALES Direct-to-public sales made by wineries.

PERRY An alcoholic beverage made by fermenting pears.

WINERIES Independent, vertically integrated wine producers that grow grapes and produce wine in a small, localised area.

IBISWorld Glossary

BARRIERS TO ENTRY High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

CAPITAL INTENSITY Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labour. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than $0.333 of capital to $1 of labour; medium is $0.125 to $0.333 of capital to $1 of labour; low is less than $0.125 of capital for every $1 of labour.

CONSTANT PRICES The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the 'real' growth or decline in industry metrics. The inflation adjustments in IBISWorld's reports are made using the Australian Bureau of Statistics' implicit GDP price deflator.

DOMESTIC DEMAND Spending on industry goods and services within Australia, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

EMPLOYMENT The number of permanent, part-time, temporary and casual employees, working proprietors, partners, managers and executives within the industry.

ENTERPRISE A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

ESTABLISHMENT The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

EXPORTS Total value of industry goods and services sold by Australian companies to customers abroad.

IMPORTS Total value of industry goods and services brought in from foreign countries to be sold in Australia.

INDUSTRY CONCENTRATION An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

INDUSTRY REVENUE The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED (IVA) The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry's contribution to GDP, or profit plus wages and depreciation.

INTERNATIONAL TRADE The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%; medium is 5% to 20%; and high is more than 20%. Imports/domestic demand: low is less than 5%; medium is 5% to 35%; and high is more than 35%.

LIFE CYCLE All industries go through periods of growth, maturity and decline. IBISWorld determines an industry's life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry's products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company's profitability. It is calculated as revenue minus expenses, excluding interest and tax.

VOLATILITY The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

WAGES The gross total wages and salaries of all employees in the industry. Benefits and on-costs are included in this figure.

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