

**Wine**  
**Australia**  
providing  
insights  
on  
**Australian**  
**Wine**

**Australian Wine**  
**Market Report**

October 2019

# Contents

Market analysis

Australia as a global wine market

A closer look at the Australian market

- Retail (off-trade)

- Online

- On-trade

- Direct-to-consumer

Consumer trends



# Key takeaways

The Australian wine market is one of the world's top 10 most attractive wine markets

Australian wine producers have several advantages in this market – including an 84 per cent market share

However, the market is flat in volume terms with only small value growth and increasing competition from imported wines

Consumer trends are not working in favour of wine – particularly declining alcohol consumption and increased competition from other products

The direct-to-consumer sales channel is a high value opportunity for local wine businesses – particularly smaller producers.

# Market analysis



# Selling wine in the Australian wine market

## Strengths

- Zero tariffs
- Shortest freight distance of any destination market for Australian winemakers
- English-speaking
- Similar (common) culture
- High value market showing premiumisation trend
- Wine Equalisation Tax rebate on domestic wine sales (capped)

## Weaknesses

- Mature market with declining per capita consumption and low population growth
- Very competitive market in terms of number of Australian wine brands
- Dominance of few players in retail sector
  - Very tight margins for producers

# Selling wine in the Australian wine market

## Opportunities

- Premium price point positioning
- Food and wine matching
- On-premise occasions
- High value direct-to-consumer opportunity
- Innovative marketing and cross-category product development
- Lower alcohol offerings
- High value direct-to-consumer opportunity
- Wine tourism

## Threats

- Increasing competition from wines from other countries
- Global economic uncertainties
- Regulatory changes (eg minimum alcohol price or volumetric tax)
- Low Australian harvest and/or high global harvest reducing Australian wine competitiveness
- Other alcoholic and non-alcoholic product innovations taking 'share of throat'



# Australia is the world's 8<sup>th</sup> most attractive wine market

*The world's top 20 most attractive wine markets –  
2018-19 ranking*

## The world's most attractive wine markets

Wine Intelligence analyses wine markets based on a number of economic and wine-specific measures. The measures are given a score and weighted according to their significance.

Australia scores relatively highly on GDP and GNI (Gross National Income) per capita and is 6<sup>th</sup> in the world on the StarMac index (proxy for a globalised economy). In terms of wine market measures, it is particularly strong on wine consumption value. It is the highest ranked of the 'established' market category – markets with strong historical growth that is tailing off.

	Market (26 to 50)	Score (1 to 10)	Tracking from 2017	
			Rank difference	Score difference
1	United States	7.24	=	0.02
2	Germany	6.83	=	0.14
3	Canada	6.81	=	0.14
4	China	6.62	↑ 1	0.18
5	France	6.51	↑ 1	0.18
6	Switzerland	6.44	↓ -2	-0.02
7	United Kingdom	6.34	↑ 1	0.08
8	Australia	6.32	↓ -1	0.03
9	Netherlands	6.26	↑ 2	0.15
10	Italy	6.24	↑ 4	0.49
11	Japan	6.10	↓ -2	-0.14
12	Ireland	6.09	↑ 5	0.45
13	Sweden	6.02	↓ -3	-0.10
14	Poland	6.02	↓ -2	0.18
15	Denmark	6.00	↓ -2	0.19
16	Austria	5.96	↓ -1	0.31
17	South Korea	5.88	↑ 5	0.33
18	Hong Kong	5.79	↑ 8	0.47
19	Portugal	5.75	↑ 1	0.18
20	Belgium and Luxembourg	5.74	↓ -2	0.13

Source: Wine Intelligence July 2018

# Australia is the 10<sup>th</sup> largest wine-consuming country in the world

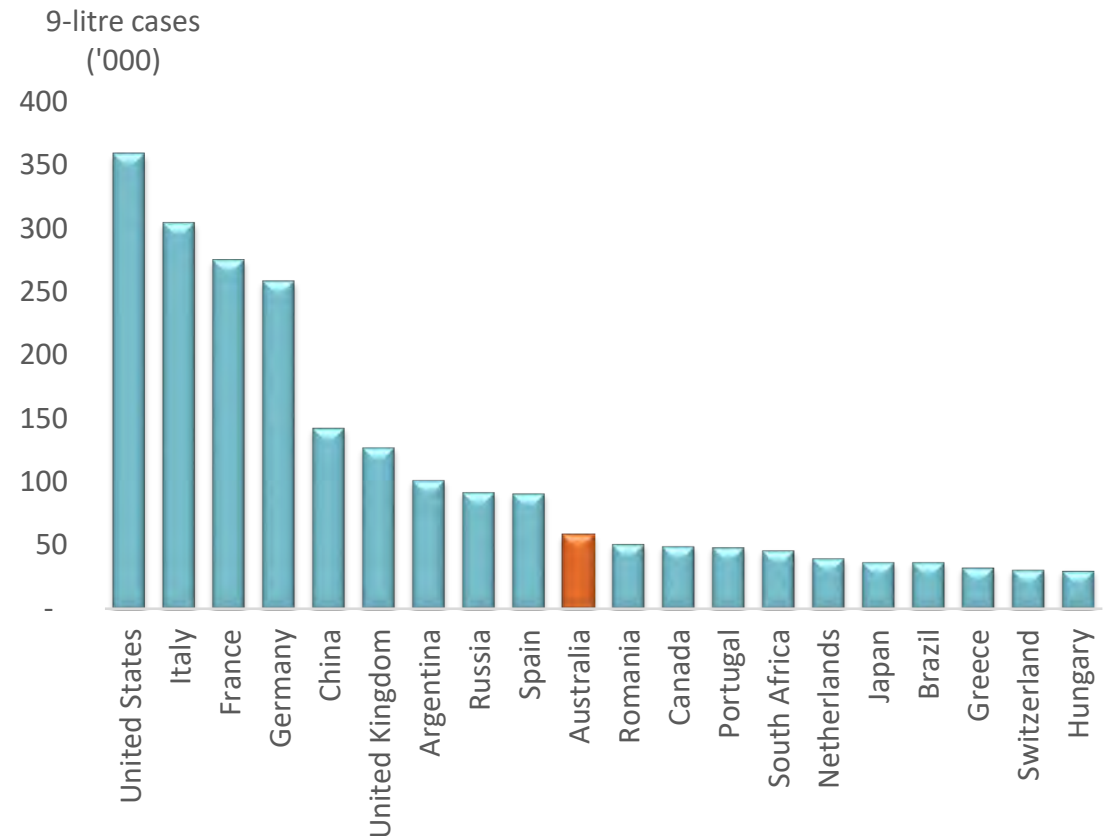
*Total grape wine consumption by country 2018*

## The top 20 wine markets

Countries with the highest wine consumption are generally mature markets with high GDP per capita but a few achieve their rank based on population size

China's total wine consumption is growing rapidly as consumers become more sophisticated in their tastes and have more disposable income.

While Australia is ranked 10<sup>th</sup> in the world, it accounts for just 2 per cent of global consumption, while the top 5 countries account for 51 per cent (by volume).



Source: IWSR September 2019



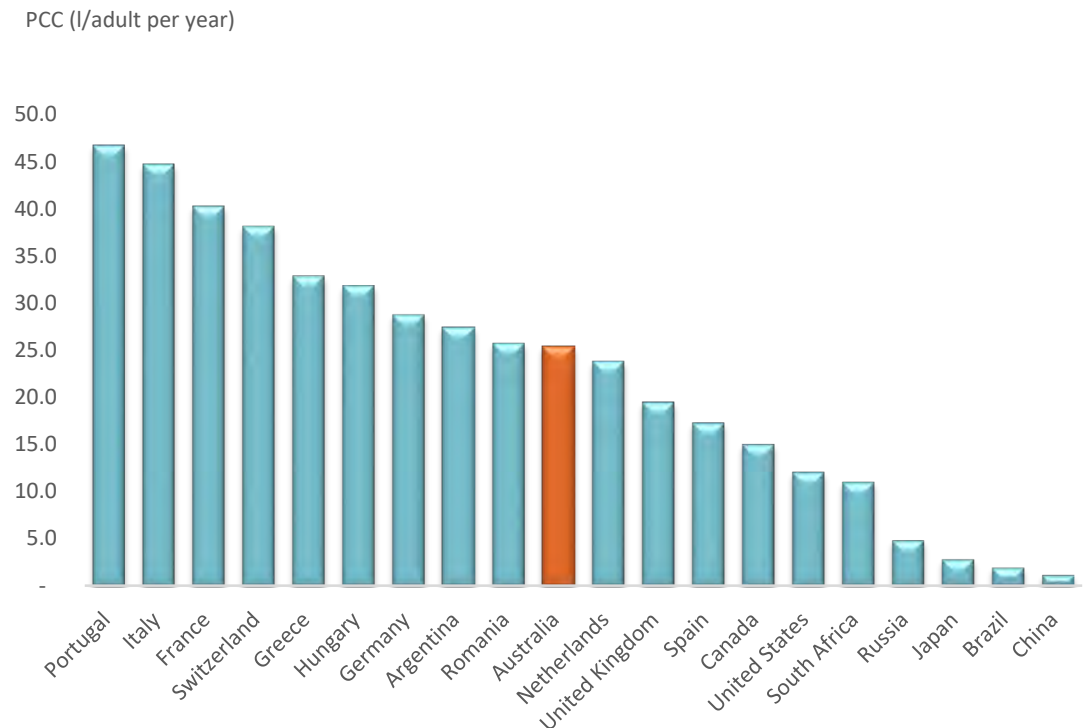
# Australia has relatively high per person wine consumption...

## The most wine-loving markets

Not surprisingly, the world's largest wine producers: France and Italy, are among the highest ranked for per person (adult) still wine consumption.

Australia has the second highest per person (adult) still wine consumption outside of the EU and is in fact the highest-ranked English-speaking country in the world by still wine consumption per adult.

*Total per adult still grape wine consumption by country 2018  
(top 20 countries by total wine consumption)*



Source: IWSR September 2019

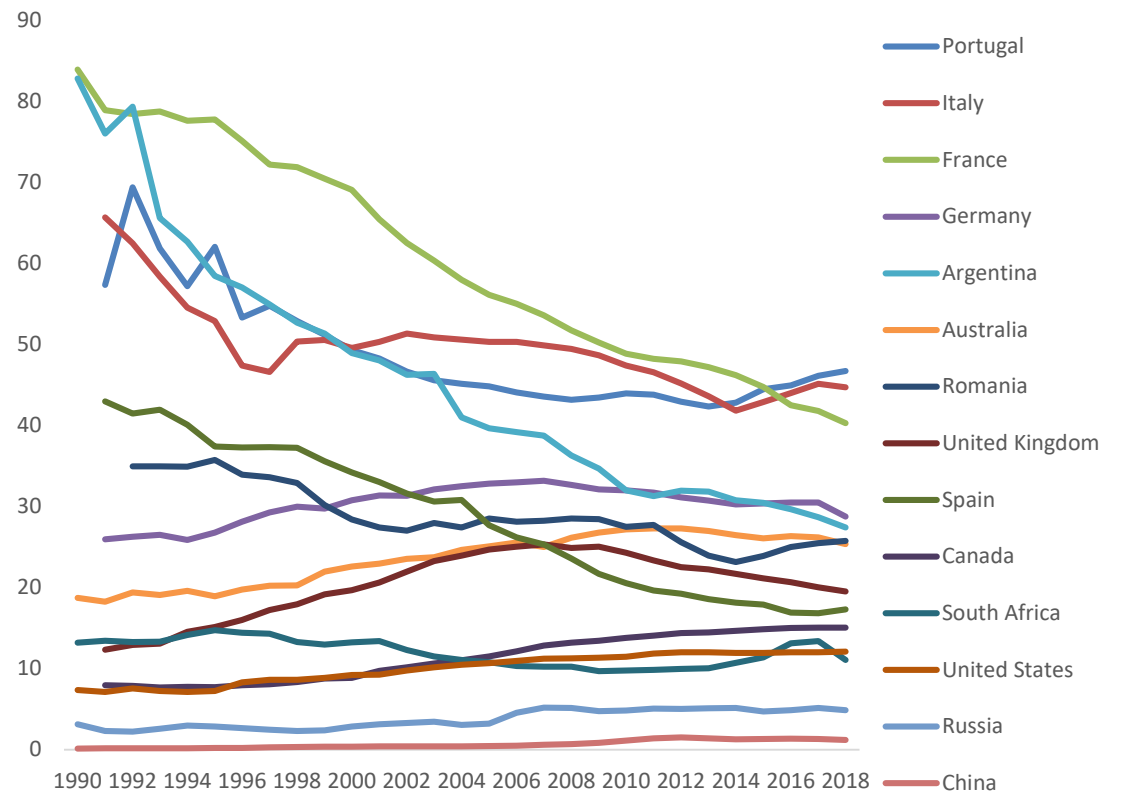
# However, wine consumption per person is declining in mature markets

For many of the top wine-consuming countries - including the UK, Spain and France - per capita still wine consumption has been in a long term decline. A few markets – including the US, Italy and Canada – have seen growth in this measure.

Australia's per adult still wine consumption has declined by 6 per cent since 2013 but is still significantly higher than it was in 1990, unlike most other mature markets, and remains above that of other English-speaking markets: the UK, Canada and the USA.

China's still (grape) wine consumption has grown considerably in percentage terms but is still very low on a per person basis.

*Total per adult still grape wine consumption by country 2018  
(top 20 countries by total wine consumption)*



Source: IWSR September 2019

# Australia has a relatively high value wine market

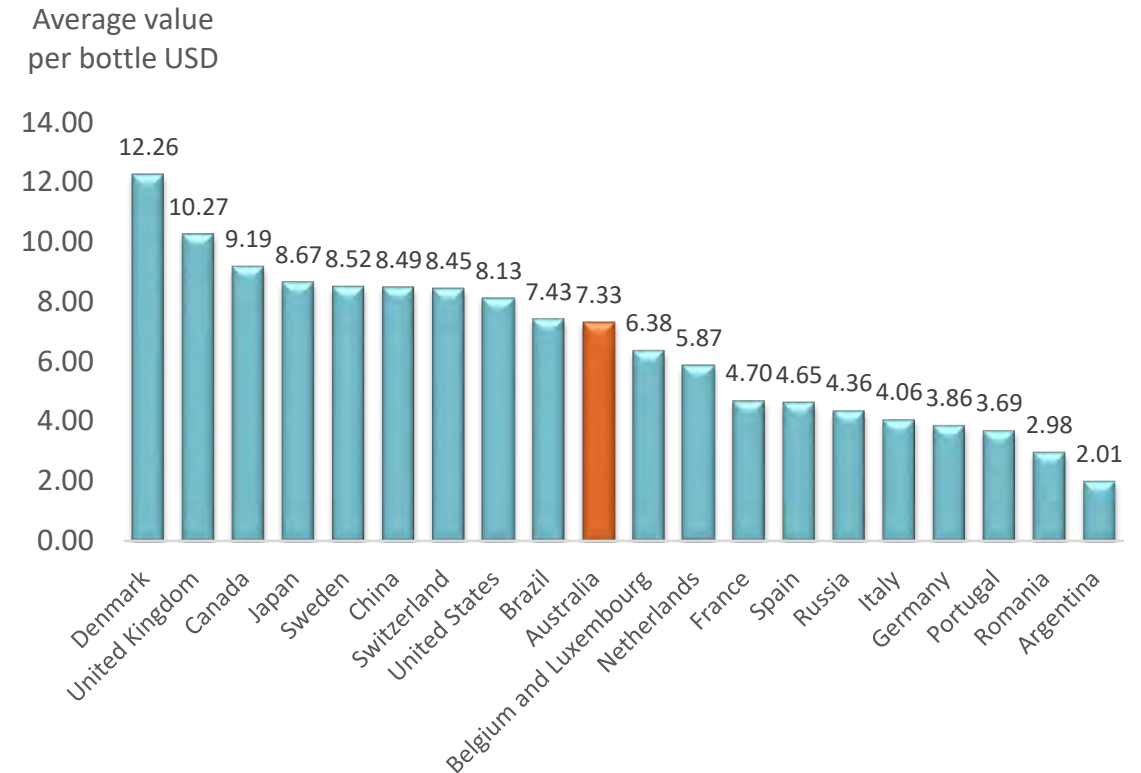
## Who pays the most for wine?

Of the top 20 wine-consuming countries, Canada has the highest average retail value (across all channels) per 750 ml bottle, closely followed by the UK.

Australia is ranked 8<sup>th</sup> on this measure.

The overall average value is affected by the mix of retail channels, varieties and taxes, and may be distorted by the exchange rate against the USD; however, it is a good indication of relative average spend by consumers across markets.

*Average retail value of still wine by country 2018*



Source: IWSR September 2019

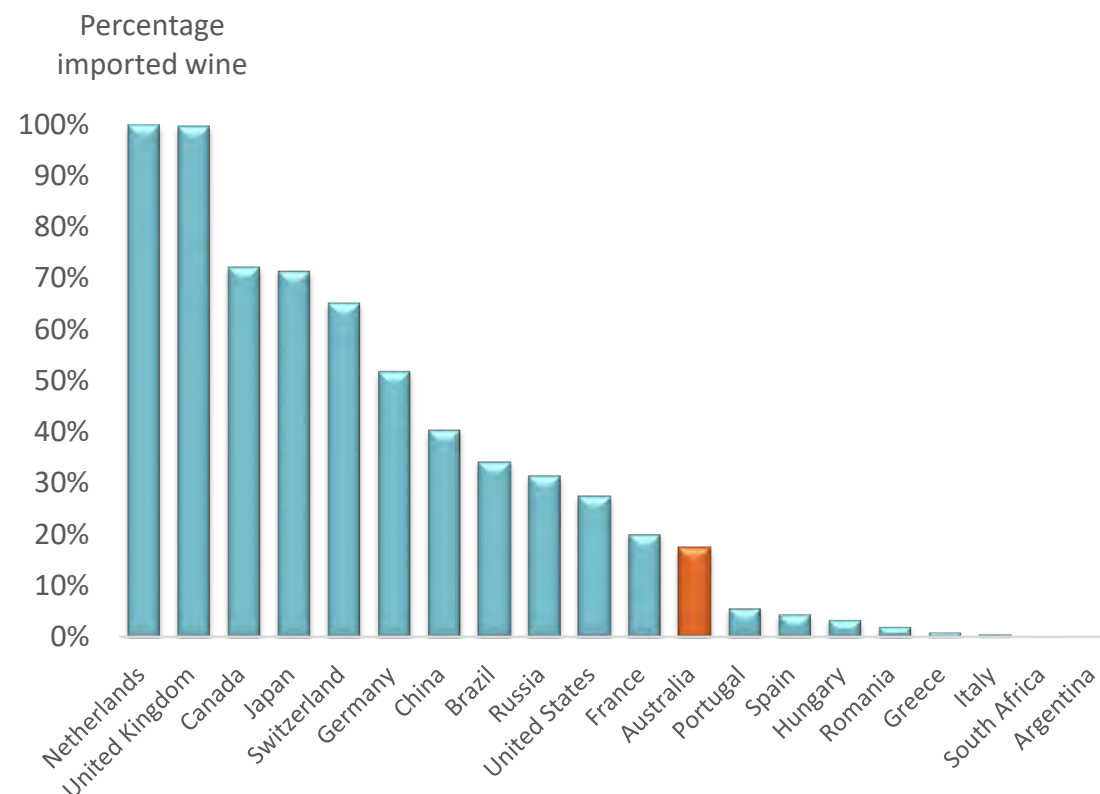
# Australian consumers favour Australian wine

## The most parochial wine markets

The Australian wine market has a relatively low reliance on imported wine (17 per cent) – even lower than France and the United States, which each have larger local wine sectors.

Of the top 20 wine-consuming countries, the UK and the Netherlands rely most heavily on imported wine – having very small or negligible local wine production.

*Imported wine share of consumption by country 2018*



Source: IWSR September 2019

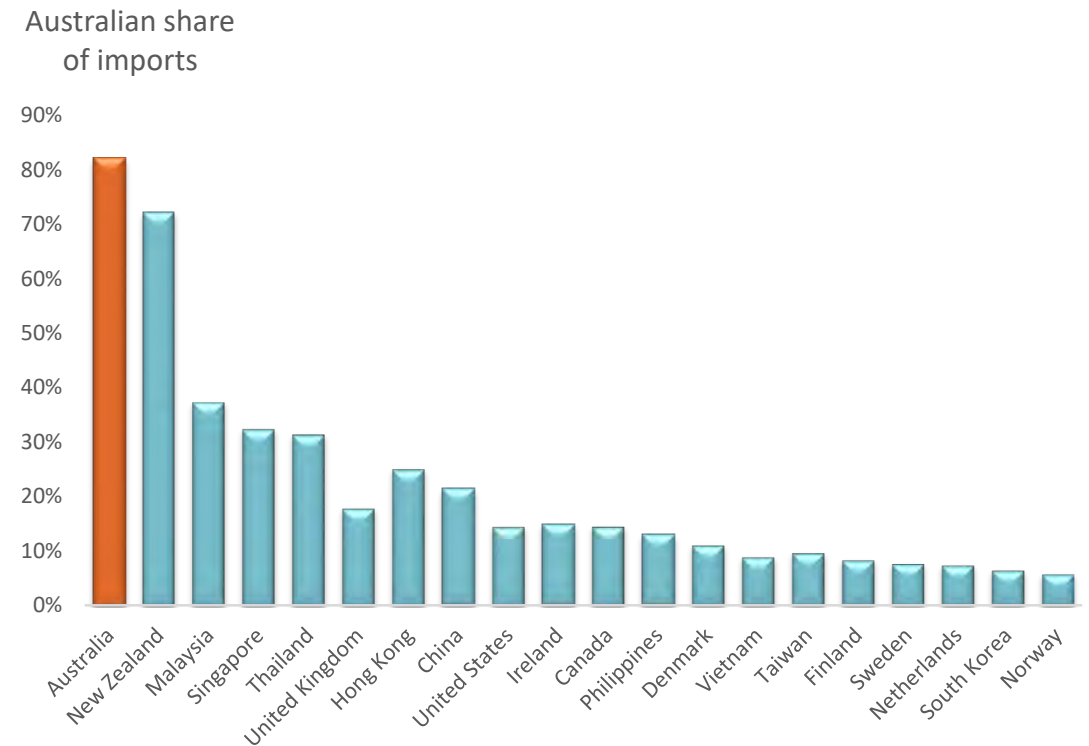
# Australia's home ground advantage

## The markets that most love Australian wine

Of the top 50 wine-consuming countries, the chart shows the top 20 based on Australia's share of imports (in the case of Australia – Australian wine's share of the total market).

No other market has anywhere near as high a penetration of Australian wine as Australia.

*Australian wine share of the imported wine market by country 2018*



Source: IWSR September 2019



A closer look at the  
Australian market

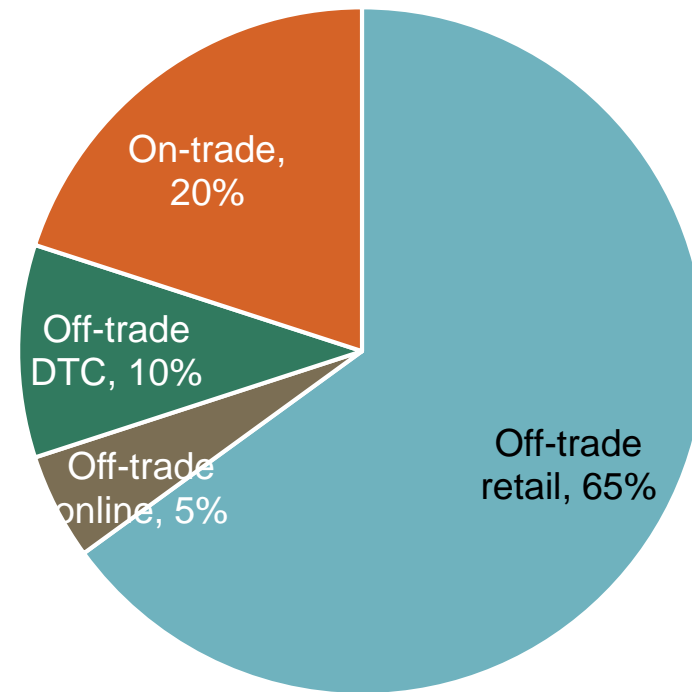


# Sales channels in the Australian market

Off-trade (off-premise)  
Retail liquor outlets  
Online  
Direct-to-consumer

On-trade (on-premise)  
Restaurants  
Wine bars  
Clubs, hotels etc

*Australian wine sales volume by channel*



Source: Wine Australia

# Off-trade retail insights



# Off-trade is dominated by supermarkets but share of independents is growing

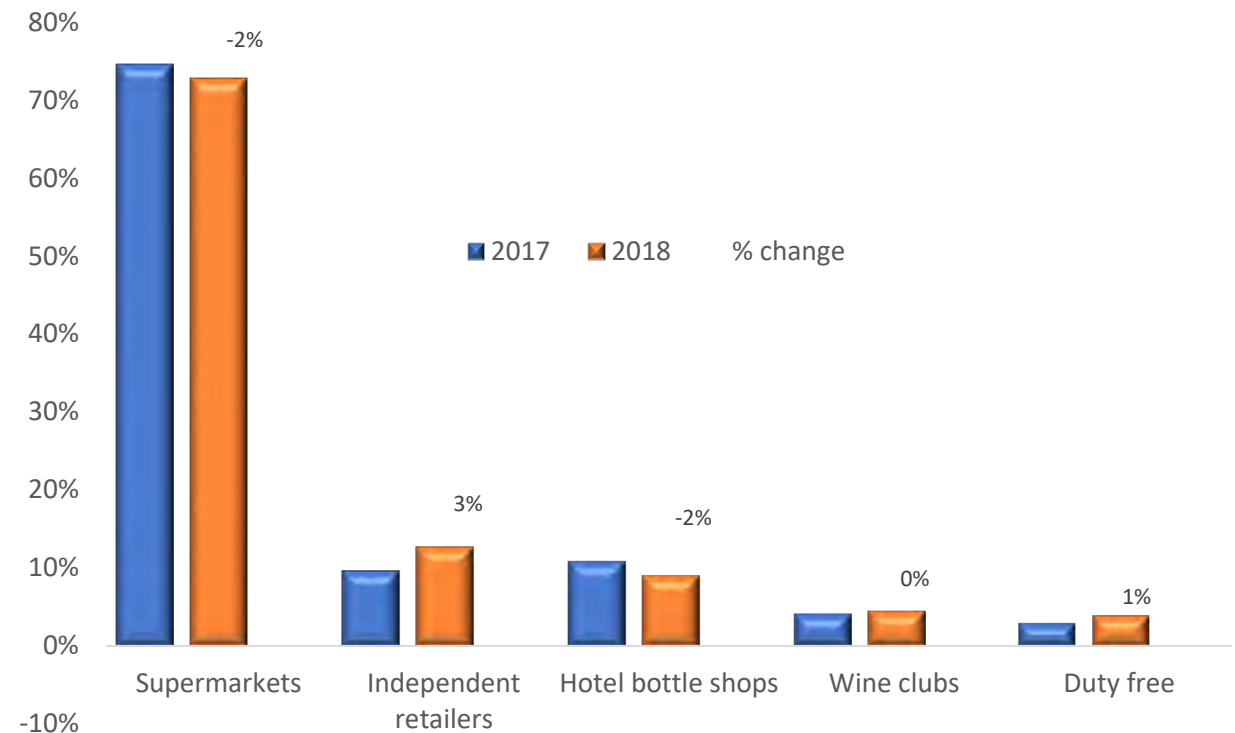
Supermarkets dominate the retail alcohol market in Australia with 73% of the market.

However, in 2018 their share has fallen from 75%. During the same period, the share going to independent retailers has increased from 10% to 12%.

The total off-trade retail market is valued by Roy Morgan Research at \$15.4 billion per annum.

Wine is estimated to have 26% of the retail alcohol market by value.

*Share of off-trade retail market by category and change 2017 – 2018*



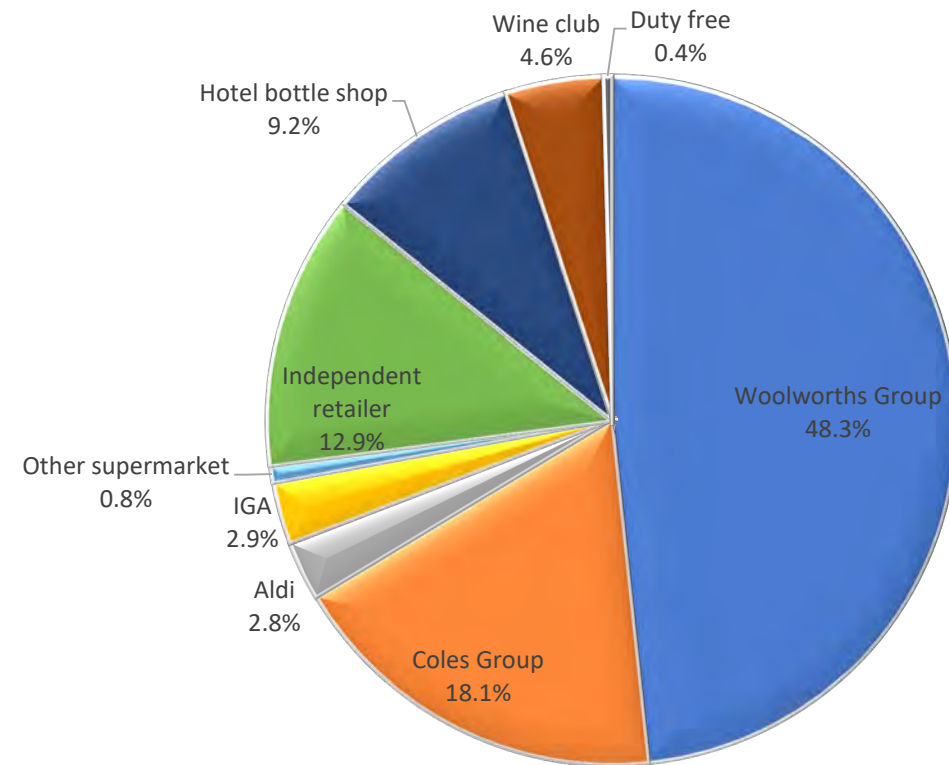
Source: Roy Morgan Research April 2019

# Woolworths has the largest market share by far

Woolworths (now Endeavour Drinks Group) has a 48% share of the total off-trade retail market by value – giving it a significant concentration of market power when dealing with suppliers (wineries).

In 2018, Coles Group gained 1.8 percentage points while Woolworths lost 2.2 percentage points compared with 2017. All the smaller supermarkets went backwards – indicating a further concentration of market power in the hands of the two largest supermarket groups.

*Share of off-trade retail market by category separating different supermarket chains 2018*

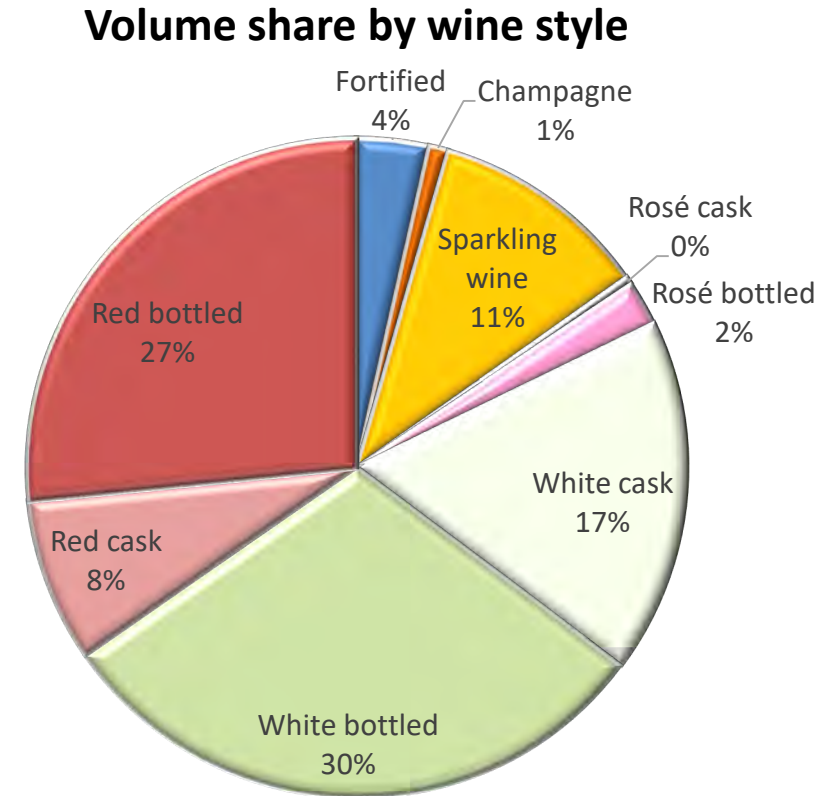


Source: Roy Morgan Research April 2019

# What do consumers buy in the off-premise market?

## How the off-trade retail market looks now

- 86% of wine is Australian and 14% is imported
- 27% of wine is sold in casks
- 47% of wine sales volume is still white wine
- 36% of wine sales volume is below \$6 per bottle
- The average off-trade retail value of Australian wine (including still and sparkling) is \$8.48 per 750 ml bottle equivalent



Source: IRI MarketEdge March 2019



# Increasing value, reducing volume, changing styles

## How it's changing

- Value growth is exceeding volume growth hence average value is increasing
- The share of imported wine is increasing – driven by Italian sparkling and French red wine
- Red wine and rosé are increasing
- White wine is declining
- Low priced wines are declining and higher priced wines are increasing
- Cask wine is showing a slight decline and canned wine is making an entrance



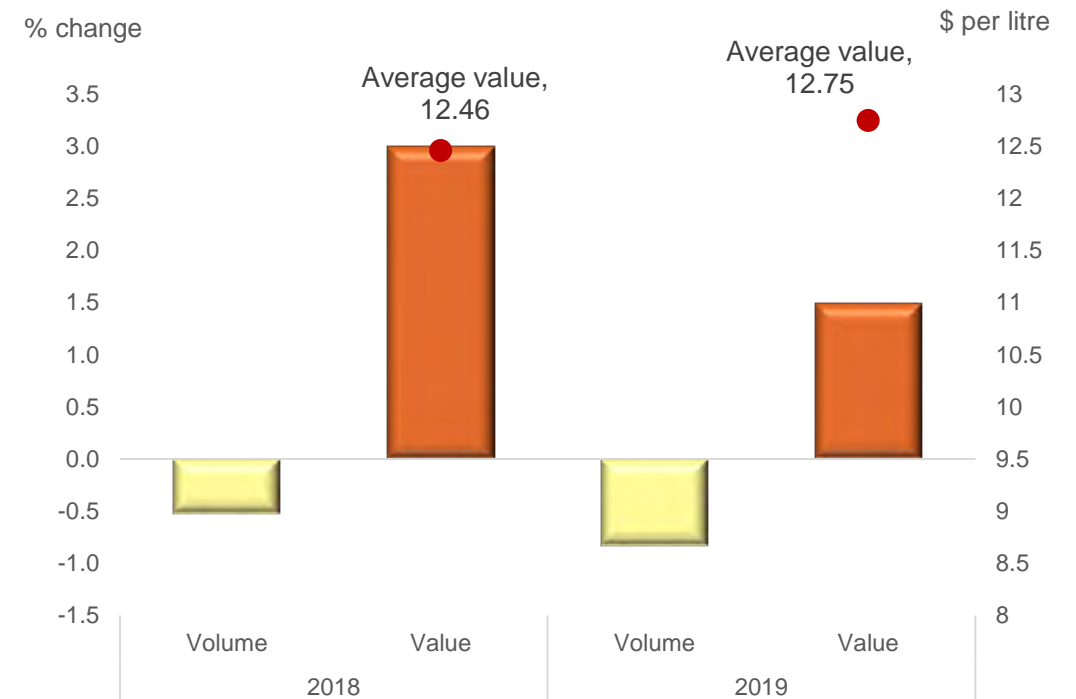


# Value vs volume growth

*Comparison of volume and value growth rates for wine over the past two financial years*

## In the past two financial years:

- Value growth has exceeded volume growth in each year
- Volume growth has been negative in each year
- Volume and value growth rates are lower in 2018-19 than in 2017-18
- Average value has increased by 2% from 2017-18 to 2018-19

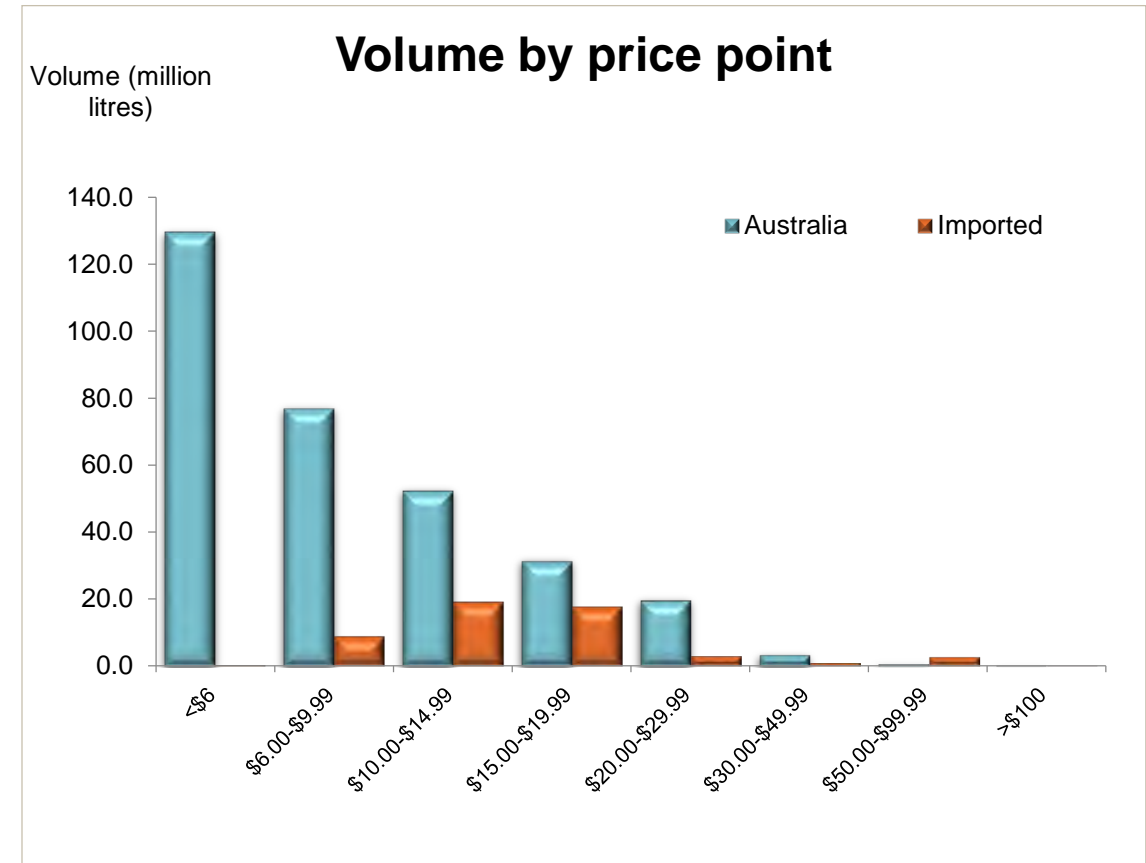


Source: IRI MarketEdge June 2019

# The share of imported wine is increasing

## Imported wines dominate high price segments

- Imported wine has increased its share of the off-trade from 13% to 14% in the past three years
- Volume and value growth for imported wine consistently exceeds that of domestic wine
- The share of imported wine increases in the higher price segments.

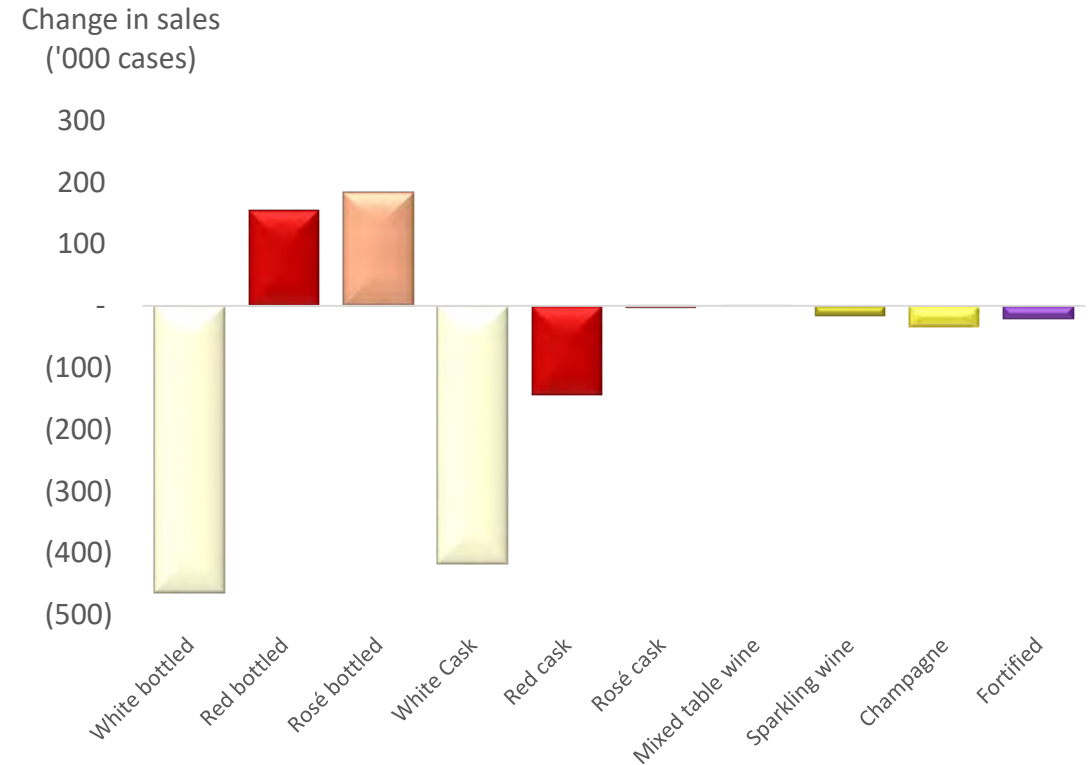


Source: IRI MarketEdge June 2019

# Changes in varietal and style preferences

## Changes in the 12 months to March 2019:

- All net volume growth was in red bottled and rosé bottled categories
- Rosé growth exceeded red growth despite coming from a much lower base volume
- White wine decreased by approximately 5%

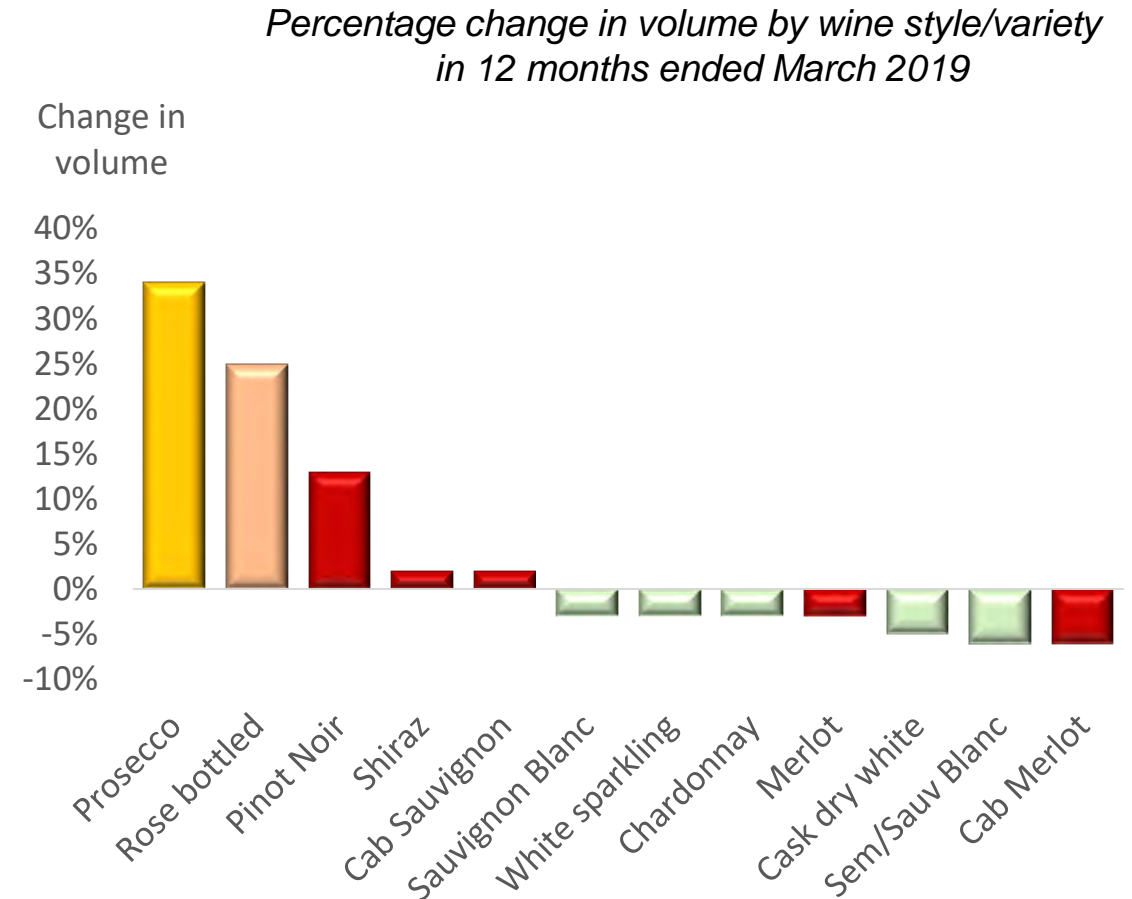


Source: IRI MarketEdge March 2019

# Rosé and red wines are increasing while whites are declining

## In the year ended March 2019:

- Of the red varietals, Pinot Noir showed the strongest growth (up 13%) while Shiraz and Cabernet Sauvignon grew by 2% each
- Of the top 40 still white varieties, only Pinot Gris showed growth (up 20% in volume)
- Prosecco demonstrated very strong growth from a low base.



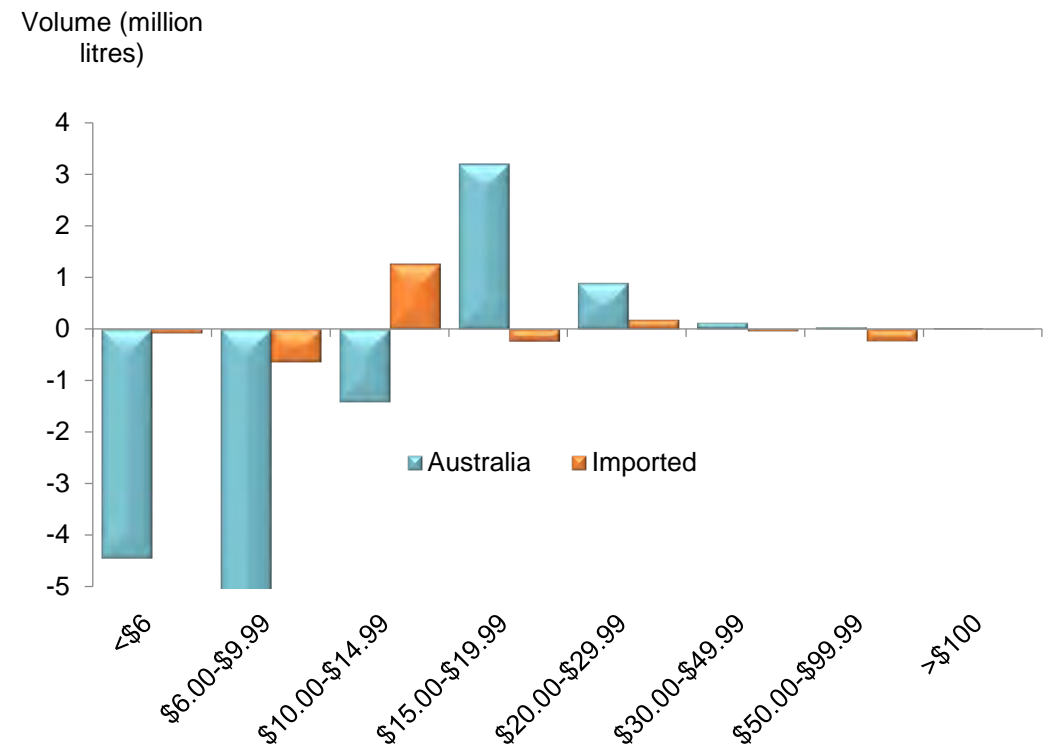
Source: IRI MarketEdge March 2019

# Low priced wines are declining and higher priced wines are increasing

## In the year ended March 2019:

- Most volume growth for Australian wines was in the \$15.00-\$19.99 per bottle price segment
- Big declines in volumes of wine sold below \$10 per bottle and smaller declines in volumes between \$10 and \$14.99 more than offset the increases at the higher price points
- Most growth for imported wines is in the \$10-\$14.99 price segment
- Premiumisation or 'trading up' as well as price increases account for the upward price shift in sales.
- Exchange of domestic wines for imported wines could be occurring in the \$10-\$14.99 segment.

*Change in volume by price point and origin between YE March 2018 and YE March 2019*



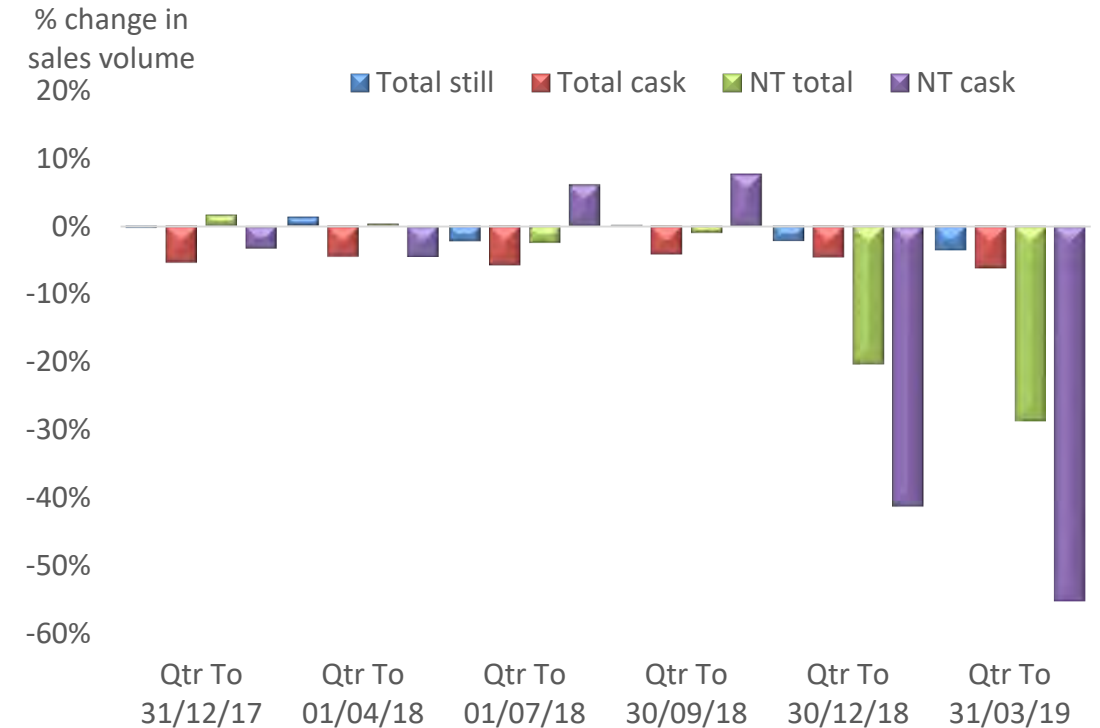
Source: IRI MarketEdge March 2019

# Cask wine is decreasing and canned wine is making an entrance

## Changes in container types in the past two years

- Cask wine sales volume declined by 5% in the 12 months to March 2019. Cask wine share of off-trade retail wine sales has decreased from 36% in 2016 to 34% in 2018.
- Cask wine sales declines have been dramatic in the NT in the four quarters prior to March 2019 following the introduction of a minimum price for alcohol.
- Canned wine was not recorded as a separate category until 2018. In the 12 months to March 2019 it is estimated to have grown from less than 100,000 litres to nearly 1 million litres in retail wine sales.

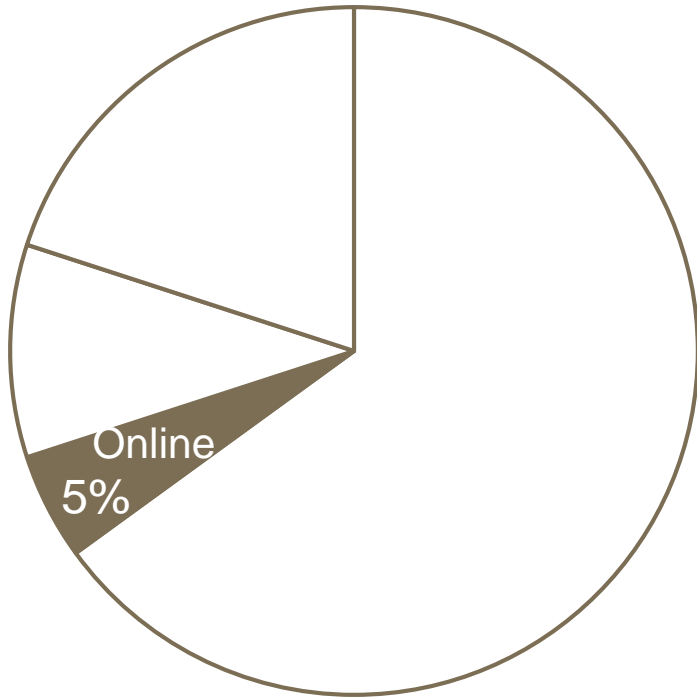
*Growth rates by quarter comparing total wine with cask wine and NT with all Australia*



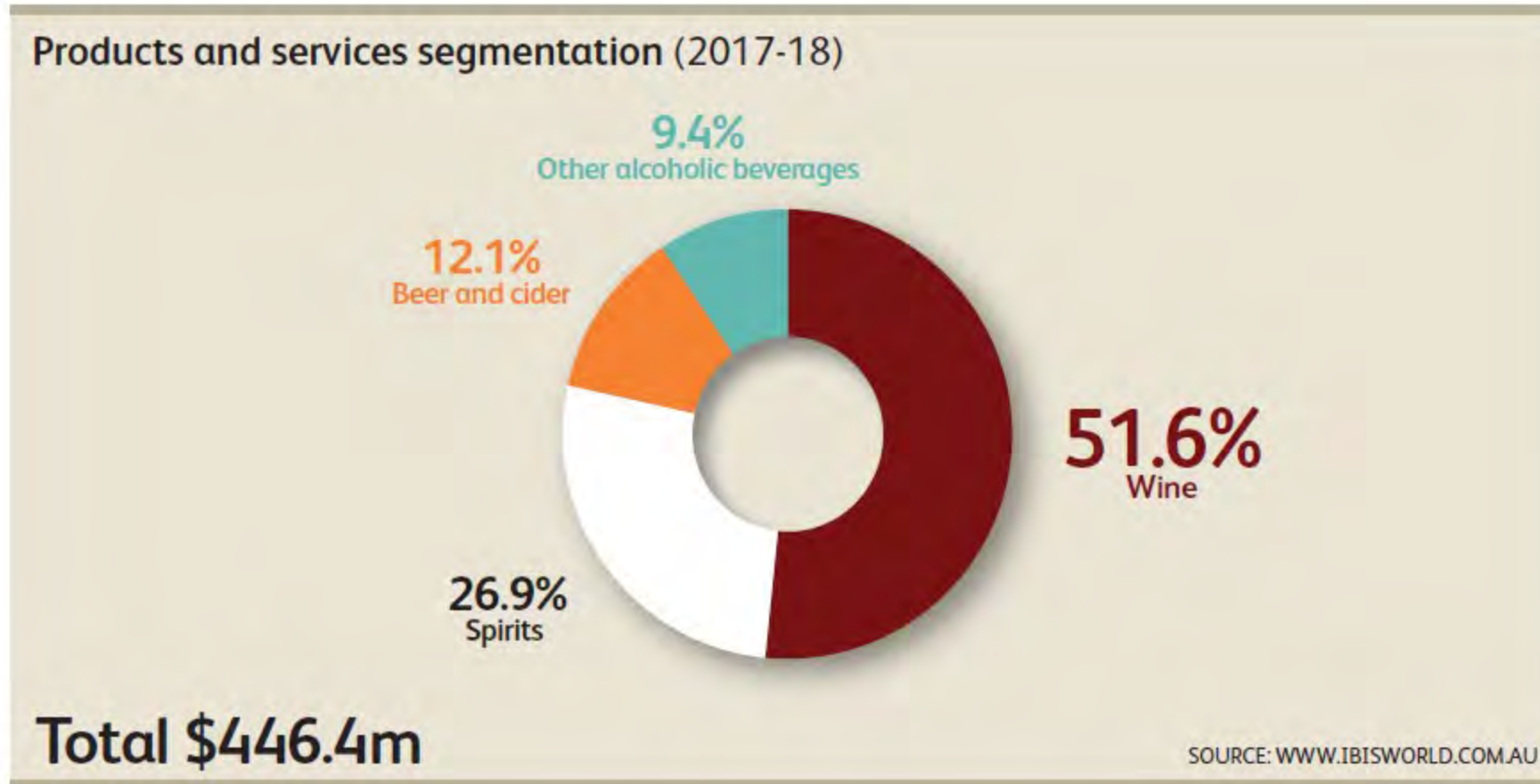
Source: IRI MarketEdge March 2019, Wine Australia



# Online sales insights

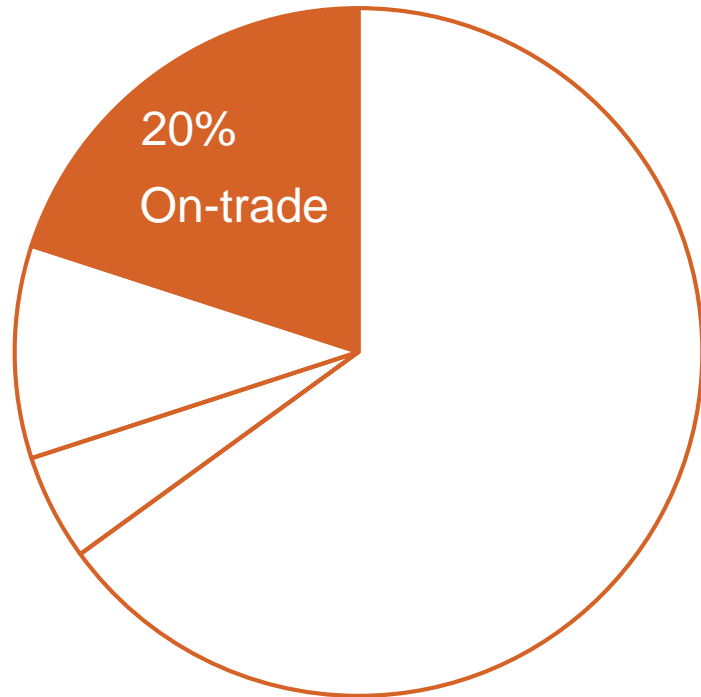


# Online alcohol market is estimated to grow by 50% over the next five years to \$675 million





# On-trade insights

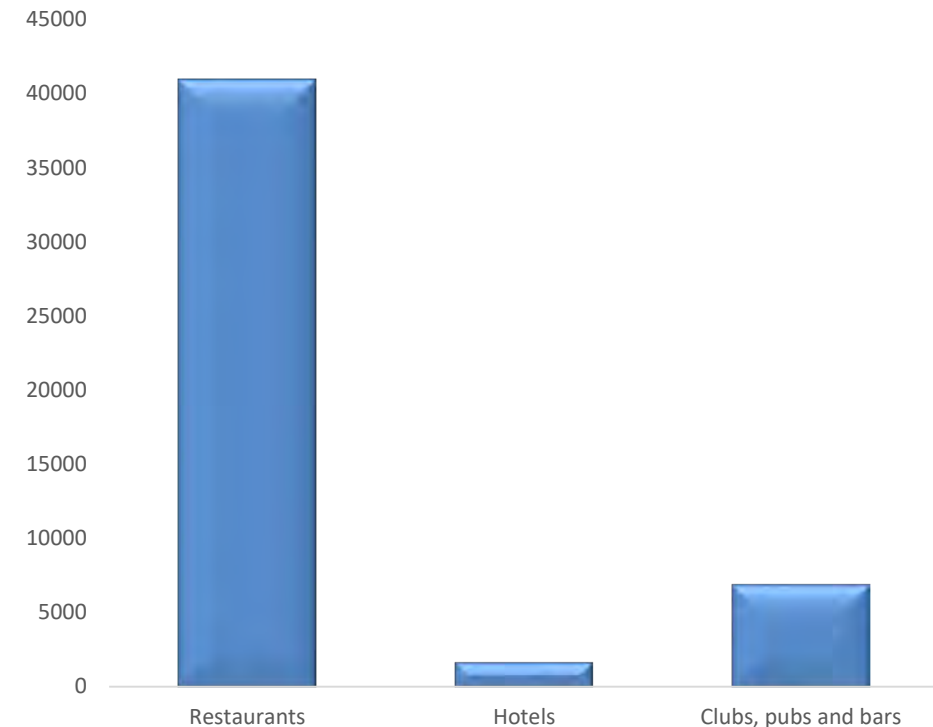


# What do we know about the on-trade wine market?

*On-premise establishments in Australia*

## Its size and general shape

- The Australian on-trade market accounts for an estimated 20% of total domestic wine sales volume – approximately 13 million 9-litre case equivalents
- It is a diverse market and very difficult to measure.
- On-trade (wine drunk 'on premise') includes hotels, pubs and clubs, wine bars, 'fine dining' and other restaurants in cities, suburbs and regional towns. There are an estimated 50,000 on-premise establishments in Australia that serve wine.



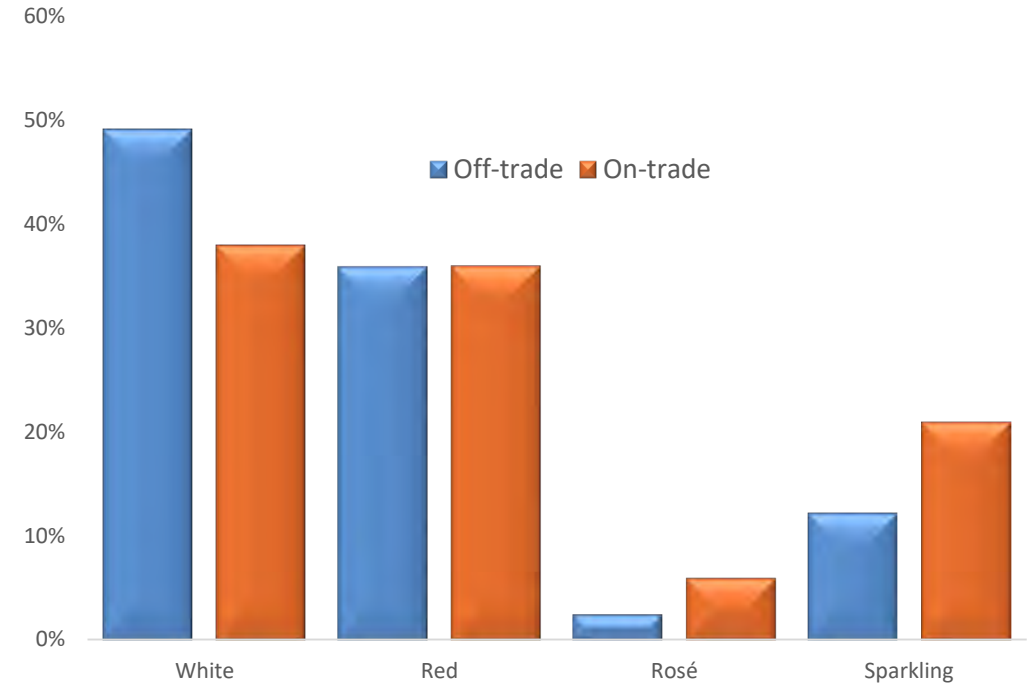
Source: Wine Australia, ABS, Tourism Research Australia, Restaurant & Catering Association

# How does the on-trade market differ from the off-trade?

## What's on offer

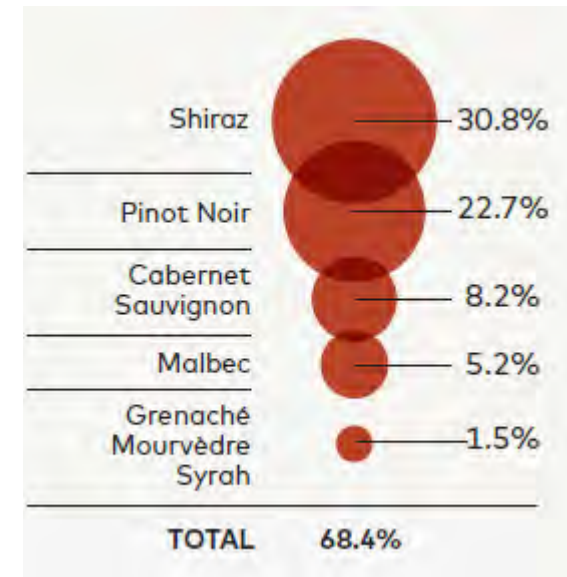
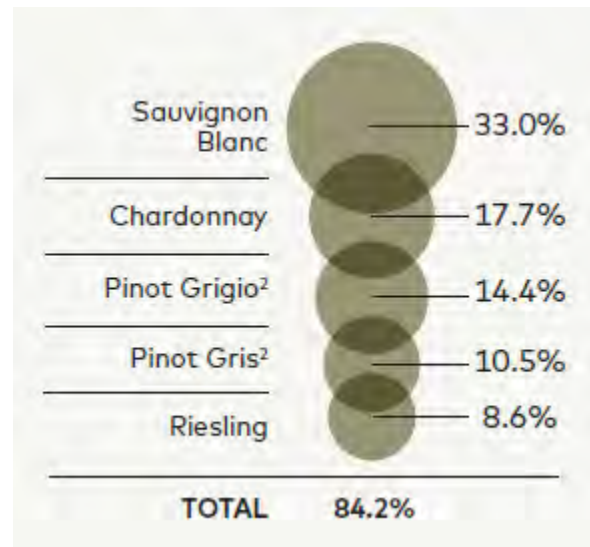
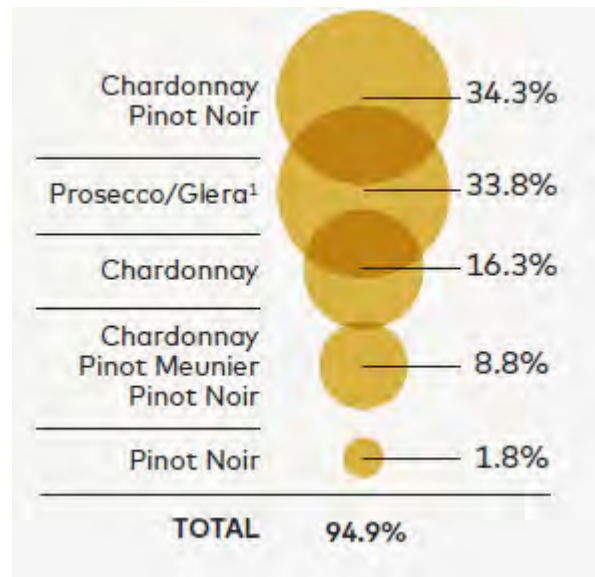
- The share of imported wine is higher in the on-trade than in the off-trade market (estimate 40% of value and 35% of volume)
- Rosé and sparkling account for a much higher share of on-premise orders than trade sales.

*Comparison of share of wine styles in the off and on-premise sales channels*



Source: Wine Business Solutions, eBev, IRI MarketEdge

# What do people drink in the on-trade market?



The range of varieties ordered is much narrower for sparkling wines than either whites or reds – with the top 5 accounting for 95 per cent of all on-premise wine listings. Red varieties have the ‘longest tail’ (apart from rosé – which is identified as a style more than as a specific varietal).

Source: eBev, July 2018



# Pinot Noir, Pinot Grigio and Prosecco rank higher in the on-trade than the off-trade

	On-trade	Off-trade
Reds	Shiraz	Shiraz
	Pinot Noir	Cabernet Sauvignon
	Cabernet Sauvignon	Pinot Noir
Whites	Sauvignon Blanc	Sauvignon Blanc
	Chardonnay	Chardonnay
	Pinot Grigio	Semillon/Sauvignon Blanc
Sparkling	Chard/Pinot Noir	White sparkling
	Prosecco	Champagne
	Chardonnay	Prosecco

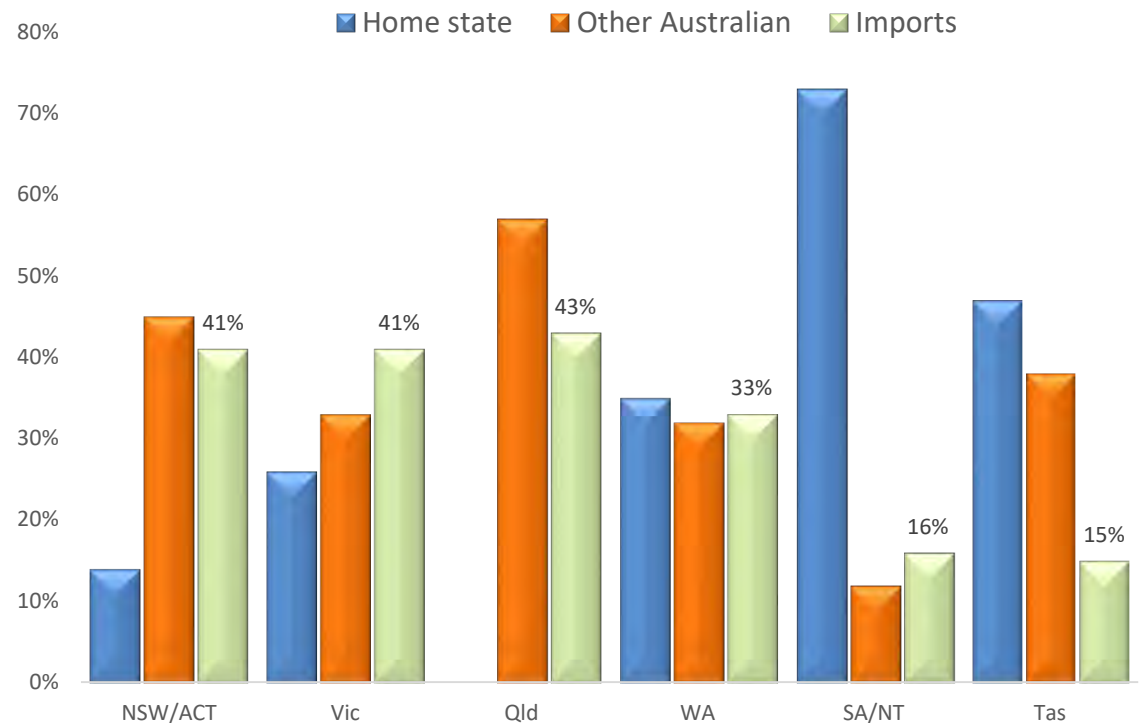
Source: Wine Business Solutions, eBev

# Wine consumers are parochial within their states

*Percentage of wine sales by origin in the on-premise*

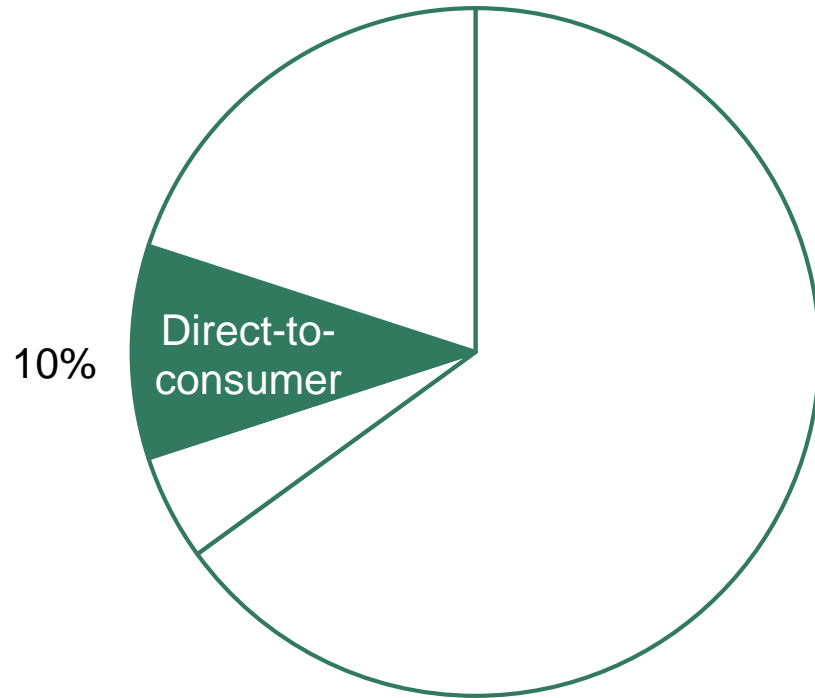
## The home ground advantage

- There is a 'home ground advantage' for wine regions in terms of listings in each state (except Queensland)
- The Eastern states drink more imported wine than the other states



Source: Wine Business Solutions, eBev

# Direct-to-consumer insights



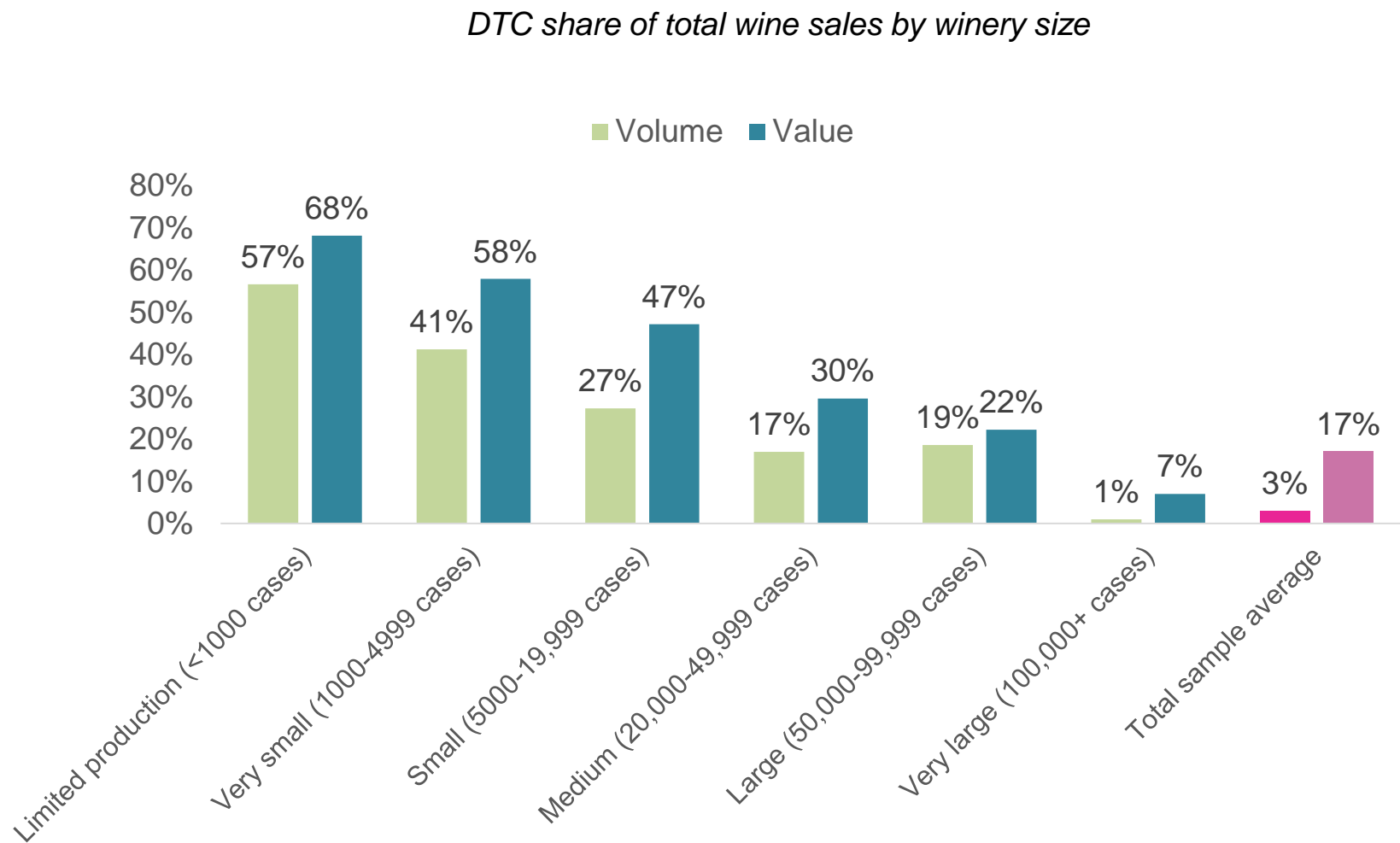
# Direct-to-consumer is a small but high value channel

## The DTC wine channel in 2018-19:

- Estimated value \$1 billion (17% of total sales revenue to winemakers)
- Estimated 4–5 million cases (8% of domestic wine sales volume)
- Share of value is higher because of higher average selling price
- 9 per cent value growth – strongest of any channel
- Particularly important for smaller wine businesses (up to 5000 cases)



# DTC value share exceeds volume share while smaller wineries have the greatest reliance on DTC



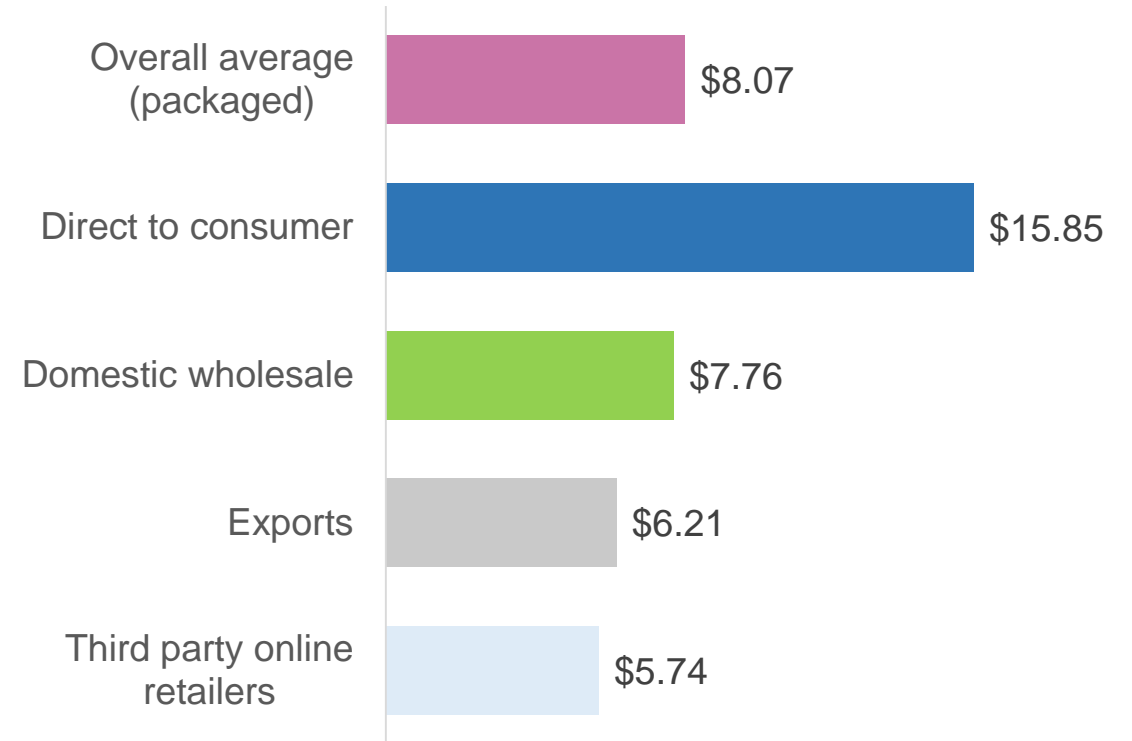
Source: Wine Australia October 2019



# DTC is a high value channel

- DTC sales are highest value for wine businesses across all channels (packaged wine).
- Third party online retail is a relatively low value channel – typically operating as a discount outlet.

*Average revenue per bottle by sales channel*

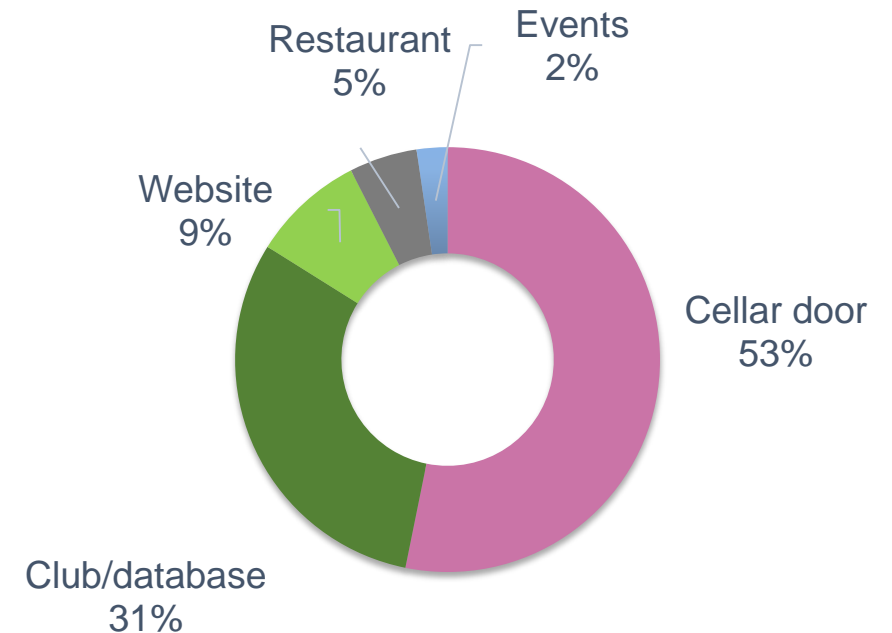


Source: Wine Australia October 2019

# DTC is dominated by cellar door sales

- Cellar door sales accounted for 53% of DTC wine sales revenue in 2018-19 compared with 44% of revenue in 2017-18
- Wine club revenue was second with 31% of revenue
- Cellar doors are about more than just wine sales – with most wineries investing in food and other facilities/experiences for their visitors

*DTC revenue share by category*



Source: Wine Australia October 2019



# Consumer insights



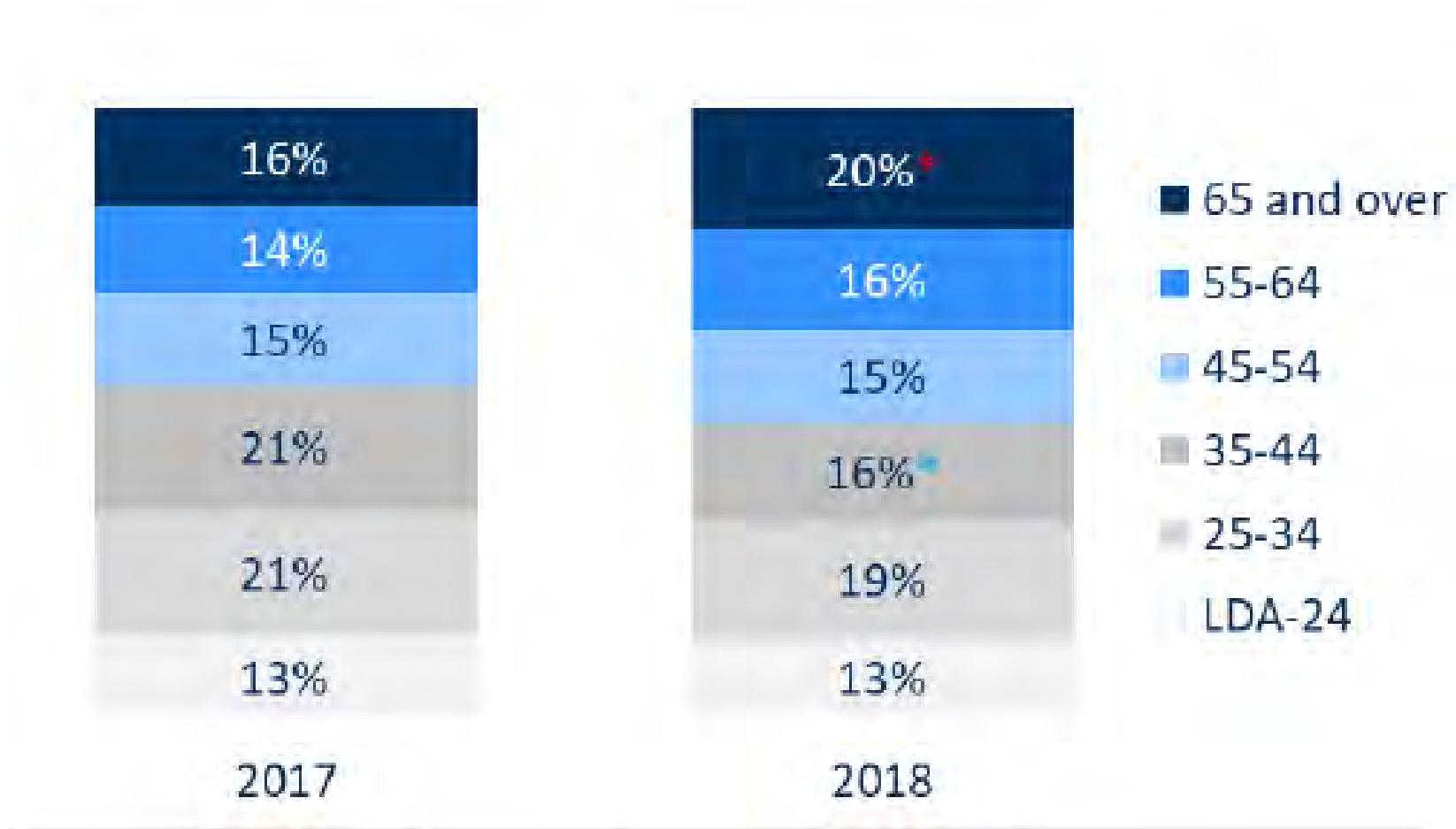
# Who are Australian wine consumers?

## Characteristics of regular wine drinkers

- 20 per cent are 65 and over
- 50 per cent are female
- Consumption frequency is declining
- Average spend is increasing
- Wine knowledge is declining, but confidence is growing – especially in the younger age groups
- Awareness of wine regions has declined



# The population of regular wine drinkers is aging in line with overall population trends



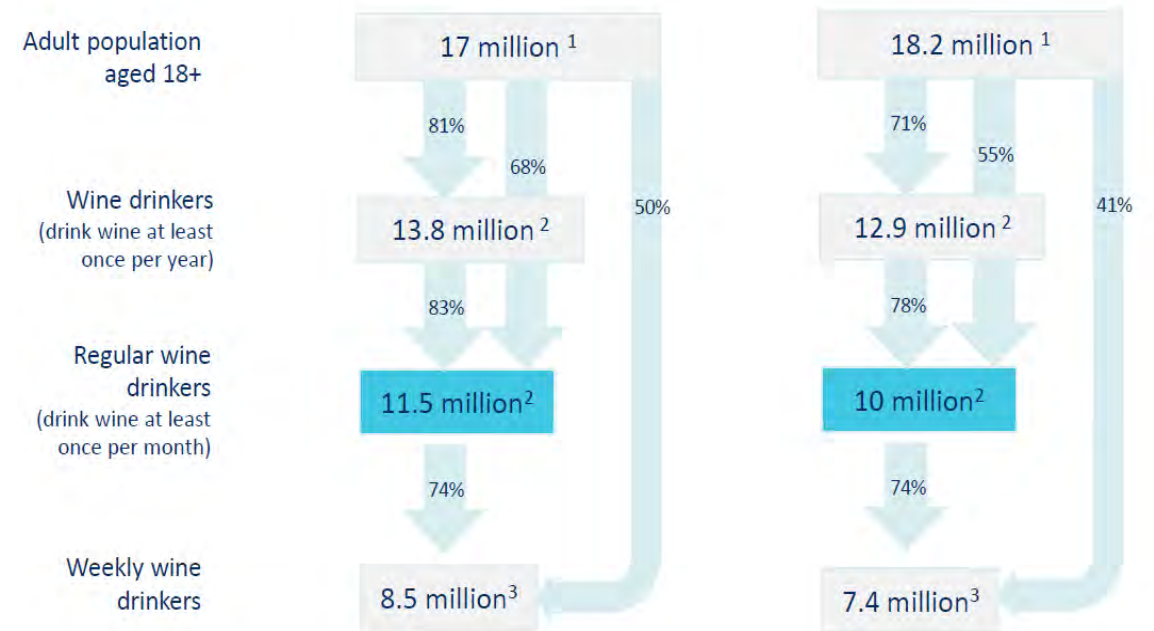
Source: Wine Intelligence

# The Australian wine drinking population is shrinking

*Comparison of wine drinking 2017 vs 2019*

The Australian population has increased but:

- Fewer Australians drink wine
- Fewer Australians drink wine regularly
- Fewer regular wine drinkers drink wine once a week or more
- Fewer weekly wine drinkers consume wine on 'most days'



Source: Wine Intelligence



# Overall consumption frequency is declining – especially in younger age groups

## Wine consumption frequency: By age

% who drink wine at the following frequency

Base = All Australian regular wine drinkers (n=2,000)

		Age groups					
	All regular wine drinkers	18-24	25-34	35-44	45-54	55-64	65+
n=	2,000	256	382	328	304	324	406
Most days / every day	13%	6%	7%	11%	13%	16%	23%
2-5 times a week	33%	28%	32%	30%	35%	35%	36%
About once a week	29%	32%	34%	34%	31%	25%	20%
1-3 times a month	25%	33%	27%	25%	21%	24%	21%

Source: Wine Intelligence 2019

# Why is wine consumption declining?

- Millennials and Gen Z (18-42)
  - Higher proportion of abstainers
  - Drinking less often
  - Drinking wine less often
  - Drinking a broader range of products
  - More inclined to spend on experiences
- Generation X (42-54 years)
  - Smaller population cohort accounting for the traditional 'peak' wine consumption age group
- Older drinkers (55 years +)
  - Less discretionary income
  - Actively reducing consumption
  - Declining population

*Proportion of regular wine drinkers reducing alcohol consumption in different ways*



Not drinking alcohol  
/ switching to non-  
alcoholic options

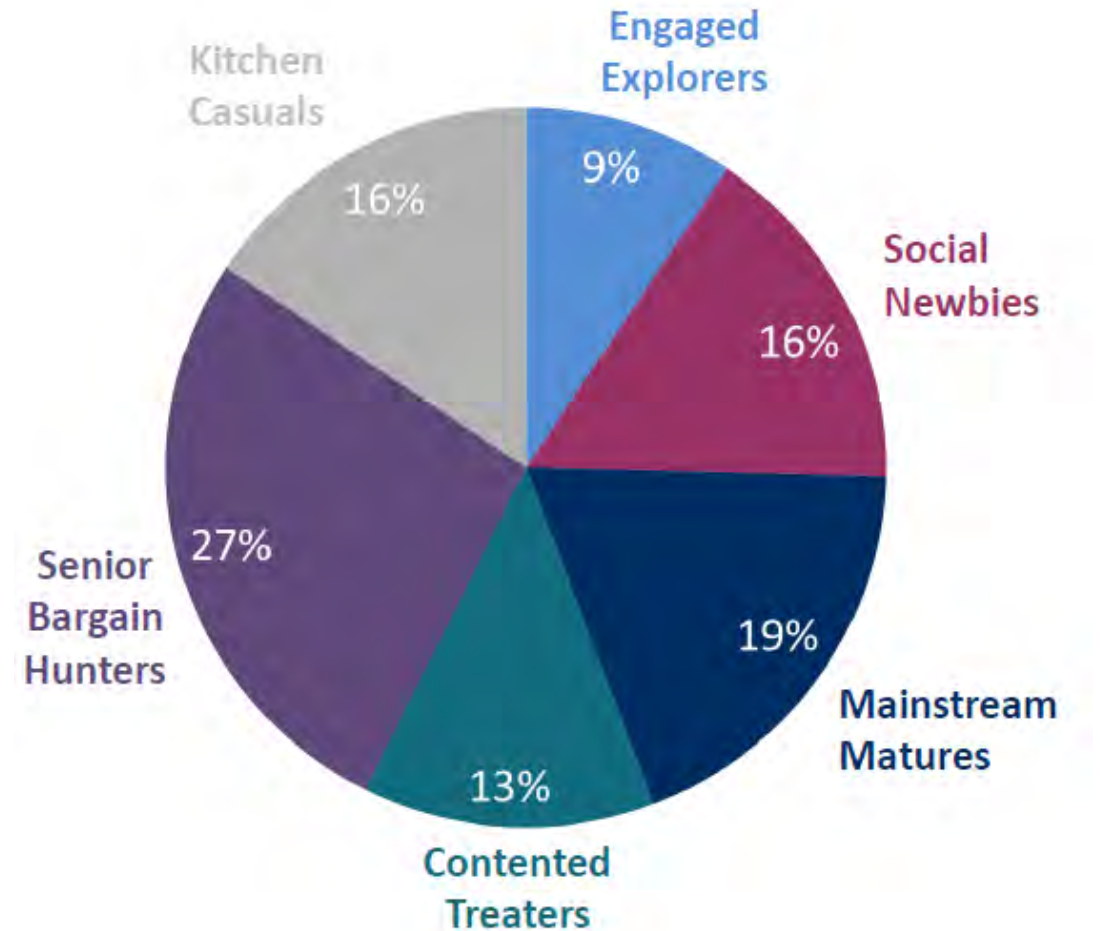
Switching to  
lower alcohol  
options

Source: Wine Intelligence 2019

# Changes in consumer segments reflect changing attitudes and behaviours

Wine Intelligence 'portraits' of wine consumers have changed since 2016:

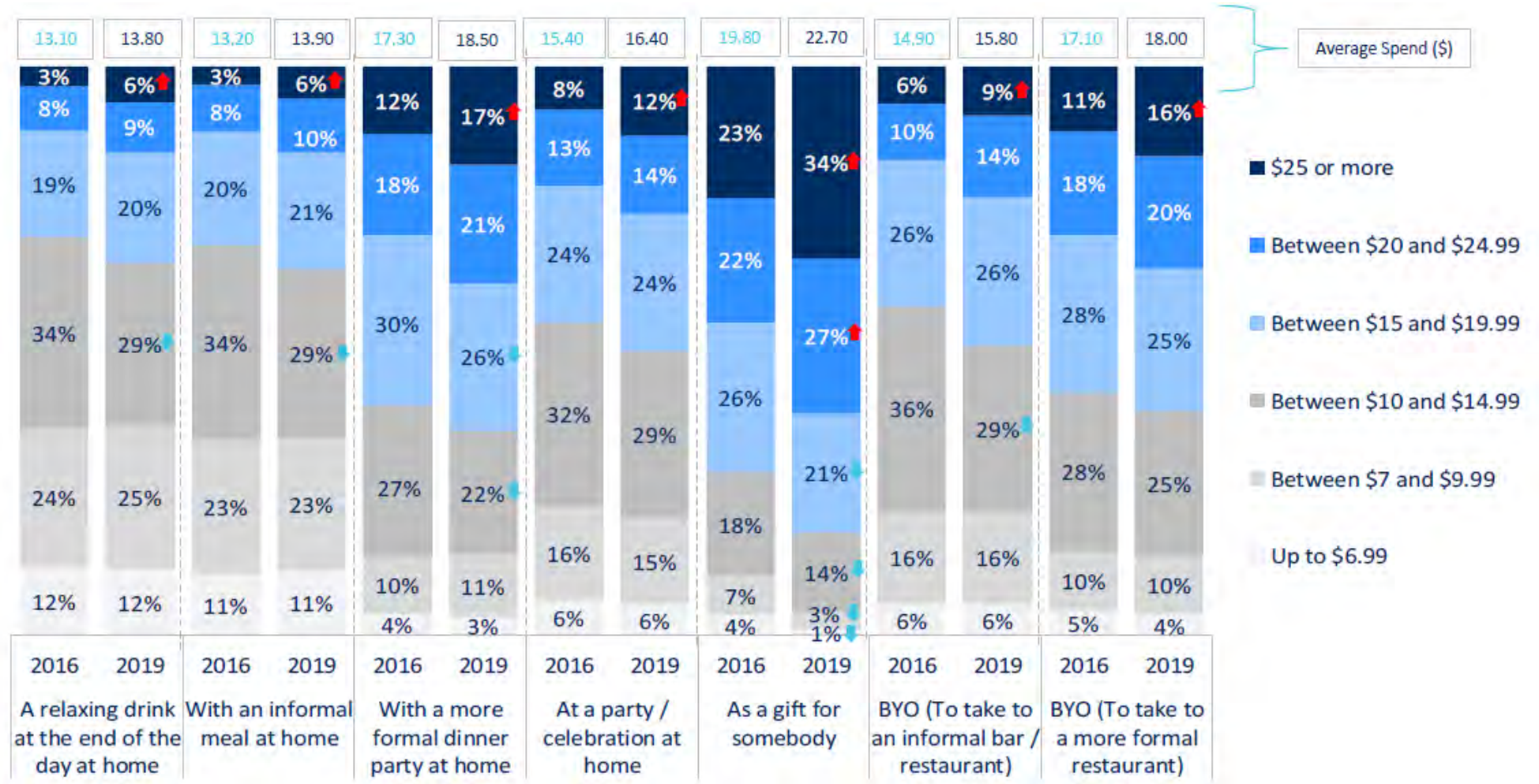
- 'Engaged explorers' and 'Mainstream matures' are the highest spending groups but have declined in share
- 'Senior bargain hunters' account for the largest share and are low frequency price sensitive wine drinkers.



Source: Wine Intelligence 2019



# Consumers are spending more in the off-trade per occasion



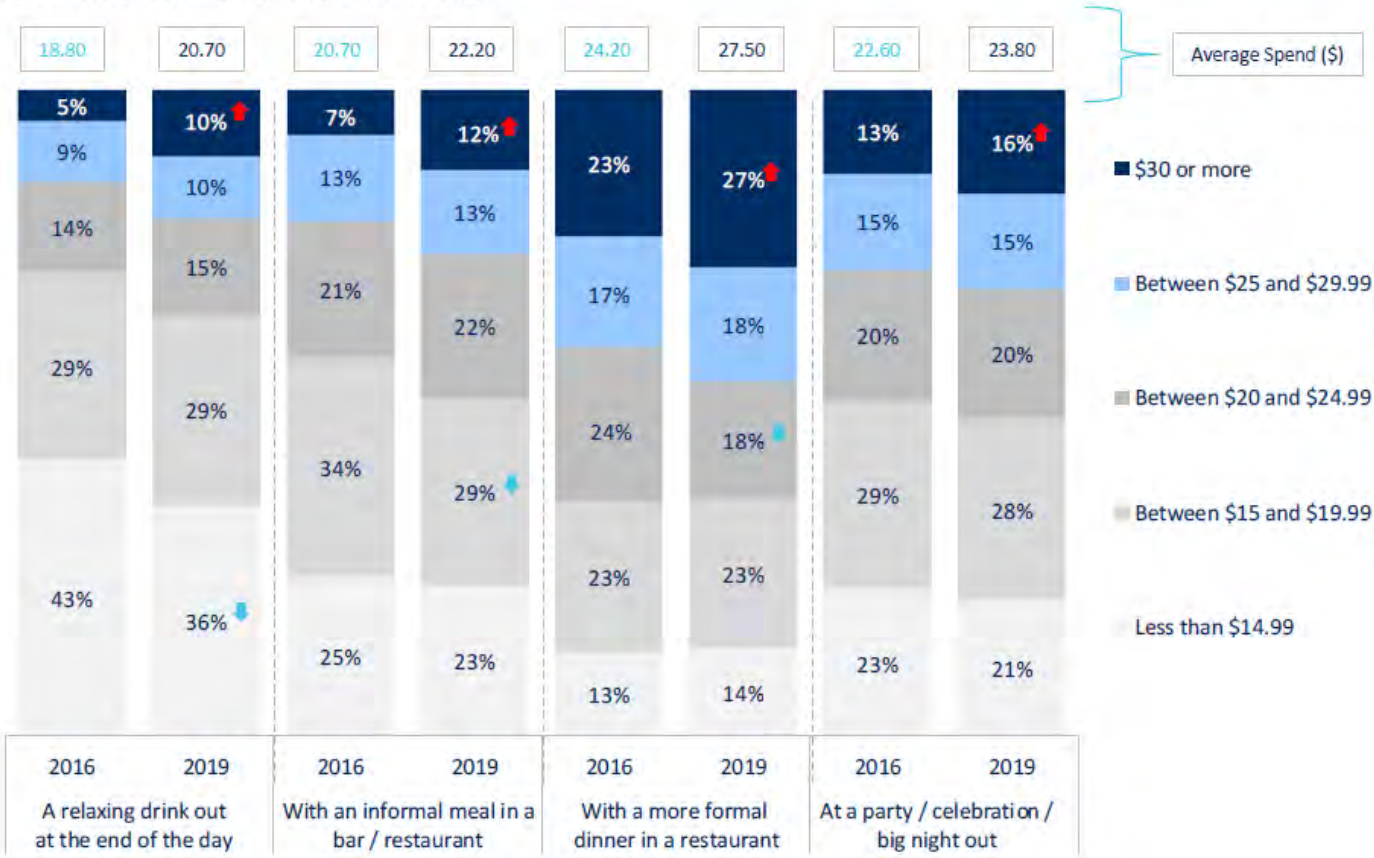
Source: Wine Intelligence 2019

# Consumers are spending more on-premise as well

On-premise: Spend on wine by occasion: 2016 vs 2019

% who typically spend the following amount on a bottle of wine on each occasion

Base = Those who drink wine on each occasion



Source: Wine Intelligence 2019

# Wine knowledge is declining, but confidence is growing

## Wine **knowledge** index: Within each age group

Wine knowledge index (0-100) is calculated based on consumer-reported awareness of wine-producing countries, wine-growing regions and wine brands  
Base: n>=1,000 regular wine drinkers in Australia

Group	2016	Index change	2019
All RWD*	42.2	-1.7	40.5
18-34	26.2	-1.4	24.8
35-54	44.4	-5.2	39.2
55+	54.6	+0.6	55.2

## Wine **confidence** index: Within each age group

Wine confidence index (0-100) is calculated based on the extent to which consumers feel competent about their wine knowledge  
Base: n>=1,000 regular wine drinkers in Australia

Group	2016	Index change	2019
All RWD*	51.0	+1.8	52.8
18-34	47.8	+3	50.8
35-54	53.8	+0.1	53.9
55+	51.1	+2.4	53.5

\* = All Australian regular wine drinkers

Source: Wine Intelligence 2019



**There has been a significant decline in region awareness among regular wine drinkers over the past three years**

### Region of origin **awareness**: Tracking

% who know the following places produce wine

Base = All Australian regular wine drinkers (n>=1,000)

Rank in 2019	Region	2016	2018	2019	Long-term 2016 vs 2019	Short-term 2018 vs 2019
	n=	1,000	4,000	2,000		
1	Barossa Valley	78%	75%	74%	↓	→
2	Hunter Valley	77%	76%	72%	↓	↓
3	Margaret River	74%	72%	72%	→	→
4	Yarra Valley	73%	69%	70%	→	→
5	South Australia	70%	63%	64%	↓	→
6	Adelaide Hills	n/a	59%	59%	n/a	→
7	McLaren Vale	59%	58%	59%	→	→
8	Bordeaux	62%	57%	56%	↓	→
9	Western Australia	61%	55%	56%	↓	→
10	Champagne	62%	55%	55%	↓	→
11	Tasmania	58%	52%	54%	↓	→
12	New South Wales	58%	50%	51%	↓	→
13	Coonawarra	56%	54%	51%	↓	↓
14	Victoria	59%	49%	50%	↓	→
15	Clare Valley	56%	50%	50%	↓	→

Source: Wine Intelligence 2019

# Conclusion

Current conditions are generally favourable compared with other world markets, but wine needs to fight to retain its relevance to consumers – particularly younger generations.

DTC represents a high value opportunity for Australian wine businesses in the domestic market.



# Disclaimer and credits

## Wine Australia

- Accepts no liability or responsibility of any kind for any material contained on this report;
- Does not make any representation or warranty express or implied as to the accuracy or completeness of the material contained on this report;
- Recommends that users undertake whatever investigations they consider necessary or desirable to verify the material contained on this report and to reach a decision regarding the merits of the material for its intended use; Expressly disclaims all and any liability and responsibility to any person in respect of the consequences of anything done in respect of reliance, whether wholly or in part, on the use of the material contained in this report; Acknowledges that the material contained in this report may include the views and opinions of third parties which do not necessarily reflect the views and opinions of Wine Australia; and
- Takes no responsibility for any information that may be accessed through this report due to circumstances beyond its control. The contents of this report should not be used as a substitute for seeking legal or other independent professional advice.

## Copyright

Copyright in all material contained in this report is owned by Wine Australia unless otherwise indicated. You may download, store, display, print and reproduce material contained in this report in unaltered form only for your personal, non-commercial use or for use within your organisation so long as you give appropriate acknowledgement to the copyright owner. Other than for the purpose of and subject to the conditions prescribed under the Copyright Act 1968 (C'wlth), all rights are reserved.

## About the report

This **Market insights report** is a valuable resource for wine businesses when determining the viability of selling wine in the domestic market, identify opportunities and/or potential risks or to simply monitor changes in the market.

This report attempts to provide market insights gleaned from a number of different sources including data available from Wine Australia, Euromonitor International, the International Wine and Spirit Record, Global Trade Atlas, Wine Intelligence, IRI Worldwide, IRI MarketEdge (Australia), OIV and Wine Analytics.

The insights provided in this report can be used to support business plans as they set out the why, how, when, where, who and what – all required to accomplish business goals.

Image credits: Wine Australia except where indicated.