Wine Grape Growers' Australia

Australian Government
Department of Agriculture, Fisheries and Forestry

Capacity Building for Australian Wine Grape Growers Project *Final Report*

Prepared for : **Wine Grape Growers' Australia (WGGA)**

By : **Scholefield Robinson Horticultural Services Pty Ltd**

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF APPENDICES

ACKNOWLEDGEMENTS

Scholefield Robinson acknowledges and thanks the following organisations and people who have contributed to this study.

Client and Funding Body

The client for this project was Wine Grape Growers' Australia with funding provided by the Action Partnerships Grant of the Australian Government Department of Agriculture, Fisheries and Forestry.

Project Steering Committee

- Alan Newton (WGGA)
- Mark McKenzie (WGGA)
- Stephen Strachan (WFA)
- Vic Patrick (WGGA)
- Chris Byrne (RWGA)
- Mike Ryan (DAFF)
- Alisha Green (DAFF)
- Robert Stafford (DAFF)

Regional Grape Grower Organisations

- Adelaide Hills Wine Region
- Barossa Wine and Tourism
- Clare Grapegrowers Association
- King Valley Vignerons
- Langhorne Creek Wine Industry Council
- Limestone Coast Wine Industry Council
- McLaren Vale Grape, Wine and Tourism
- Murray Valley Winegrowers
- Riverina Wine Grapes Marketing Board
- Riverland Winegrape Growers' Association

Scholefield Robinson Team Members

- Peter Scholefield
- Mary Retallack
- Charles Drew
- Garth Swinburn
- Alison MacGregor
- Anne-Marie Broughton

Data Providers

A total of 96 sets of vineyard financial data was provided by grapegrowers or consultants in regions across Australia. The main data sets analysed were for Sunraysia, Riverland, Riverina and Barossa. Because numbers in other regions were small the analysis of data from them is less reliable.

We thank all those who provided data, as without willing co-operators, benchmarking is not possible.

Case Study Examples

Scholefield Robinson acknowledges the use of the Case Study examples from the report "Australian Irrigated Horticulture: Opportunities for Gaining Economies of Scale Through Collaboration" prepared in 2007 by Street Ryan & Associates Pty Ltd for Mildura Rural City Council/Wentworth Shire Council, funded by DAFF.

INTRODUCTION

Scholefield Robinson Horticultural Services Pty Ltd (Scholefield Robinson) was contracted by Wine Grape Growers Australia (WGGA) to carry out a major wine grape project entitled "Capacity Building for Australian Wine Grape Growers" (see Brief in Appendix 1).

Background to the Project

Tenders were called in early September 2007 and Scholefield Robinson Horticultural Services (Scholefield Robinson) was advised that it had been selected as the preferred consultant for the Project. An initial meeting was held with WGGA on 3rd October 2007 and an Inception Report outlining the Scholefield Robinson approach to implementing the project was presented.

On 8th October 2007 Scholefield Robinson was advised that a "temporary halt to further development of the project" had been made pending discussions and negotiation between WGGA and DAFF.

These discussions resulted in a recommencement of the development of the Project in mid January and a formal letter of engagement was received on 16th January 2008.

A revised Inception Report and workplan was presented and accepted by WGGA and the Project Steering Committee on 22nd January 2008. A contract was prepared and work commenced in early February 2008 for completion by 30th June 2008.

The consultant team assigned to the project by Scholefield Robinson was:

- Peter Scholefield
- Charles Drew
- Mary Retallack
- Garth Swinburn
- Alison MacGregor

This Final Report presents the findings of the project and expands on the information presented to the Project Steering Committee on 18th June, 2008 just prior to the completion of the VineBiz Pilot Workshops in three of the major wine regions of Australia.

The 'Capacity Building for Australian Wine Grape Growers' project comprises four major projects, each with one or more sub–projects, that together were a major part of the application by WGGA to the Action Partnerships Grant of the Department of Agriculture, Fisheries and Forestry (DAFF). A summary of the project as described in the Brief and with some minor modifications agreed to at the Inception Meeting is shown below.

Major Project 1 - Wine Industry Strategic Plan

This project comprised the development of an all-of-industry strategic plan ("joint strategy") based on a critical review, evaluation and rationalisation of existing plans, and the establishment of an industry Strategic Planning Committee to oversee the implementation of the joint strategy.

The start of Major Project 1 was delayed until the completion of industry responses to the Consultation Paper dated October 2007 prepared by the Australian Wine Industry Task Force Review of National Organisational Structures. These responses were expected to be finalised at a meeting in the first week of April 2008. As the project depended on the outcomes of the above meeting, a Methodology and Workplan was formulated following this meeting.

Major Project 2 - Vineyard Business Development Program

This project comprised the development and testing of a range of techniques and tools to enable growers to analyse their current business model, determine changes that will improve financial performance and enterprise sustainability, and assess alternatives that enhanced profitability over the longer term. The brief required the project to be implemented through the development of a vineyard business development workshop and the delivery of a number of regional 'Pilot' VineBiz workshops (including support materials).

Major Project 3 - Sector Innovation

This project focused on the development of a network that reflects the views of different grape growing regions to review and establish research, development and extension priorities and programs to enhance adoption of R&D. A major objective was to provide WGGA with more comprehensive information underlying RD&E priorities to better inform its inputs to the Strategic Directions Group and to GWRDC. A further objective was to contribute to building a culture of continuous innovation in the wine grape sector.

Major Project 4 - Sector Structure & Leadership

In response to a need identified in the Taking Stock and Setting Directions (TSSD) report, this project aimed to strengthen linkages and interrelationships between regional, state and national grower organisations by clarifying roles, improving policy development and developing funding mechanisms to better resource grower organisations. The project used information from the consultation paper dated October 2007 by the taskforce reviewing Wine Industry National Organisational Structures. This task force was due to make its final recommendations to a joint meeting of WFA and WGGA in the first week of April 2008.

MAJOR PROJECT 1 - WINE INDUSTRY STRATEGIC PLAN

1a. Gap Analysis & Recommendations

This component was the first part of MP1 and required the development of an all-of-industry Strategic Plan linking the existing plans of wine grape growers and wine producers.

The Taking Stock and Setting Directions report on the Australian Wine Grape Industry and the Wine Australia: Directions to 2025 Strategy formed the basis of an all-of-industry strategy.

A joint WGGA-WFA Strategic Planning Committee was proposed to progress the oversight, review and implementation of the joint strategy.

Project 1a of the study reviewed the existing strategic plans of WGGA and WFA, identified synergies, linkages, gaps and inconsistencies between the two strategic plans and provided directions to link the plans into a joint strategy.

The Project Steering Committee agreed on 8th May, 2008 that because the review of National Organisational Structures (NOS) held in April 2008 had not resulted in an agreed body or identified responsibility for carriage of the joint strategy, that the consultants would:

- Summarise the WGGA TSSD Report, Wine Australia: Directions to 2025, and the Strategic Directions Report (SDG);
- Identify synergies, linkages and inconsistencies and finalise gap analysis of Directions 2025, TSSD and SDG to form the basis of a consolidated report from the WGGA perspective; and
- Formulate recommendations for WGGA regarding an industry strategy.

MP1a Outputs

The full report for MP1a is attached in Appendix 2. The key findings from this report are presented below.

Specific Gaps Requiring WGGA Focus

Representation, Advocacy and Leadership

The majority of topics which require advocacy and representation for the wine grape growing industry are viticultural issues including biophysical and human/social issues which are relevant to all winegrape growers. Some are also issues relevant to the wine industry as a whole, ie all components of the value chain. However, some topics result in different perspectives from different components of the value chain, eg transactions between components. Even so, continued growth, development and competitiveness[1] of the wine industry requires minimisation of the costs of these transactions.

Consequently, definition of the relevant subject for each issue requiring representation and advocacy is important and there is a need to differentiate between wine industry issues, viticultural issues and commercial and business management issues for wine grape growers. Different approaches are required for each.

Risk Management

Ecologically Sustainable Development (ESD) of vineyards and the wine industry, the major focus of Direction 9 of Directions 2025, requires effective risk management. Risk management was identified as equal fourth priority in the Strategic Directions Group (SDG) update and, while mentioned in Direction 8 of Directions 2025, was given little prominence.

Effective risk management requires an understanding of issues and possible outcomes, and identification and evaluation of a range of adjustments to the outcomes. Issues highly relevant to risk management that require additional specific attention include:

- Climate change;
- Biosecurity issues including certified health status planting material;
- Security of access to resources – water and other biophysical resources, human and social capacity, technical (fertilisers, chemicals, machinery etc), finance and capital; and
- Differential changes in the cost of resources eg the current high rate of cost increase for fertiliser and chemicals and management responses.

Structural Adjustment

TSSD gives high priority to the issue of economies of scale. However, it appears to ignore the issues involved in structural adjustment to achieve economies of scale.

Representation and advocacy in the area of structural adjustment is fraught with difficulties particularly with specific categories of stakeholders. To a large extent, structural adjustment issues are separate from viticultural issues critical to the continued competitiveness of the Australian wine industry. Identification and specification of a range of options to achieve economies of scale and representation to ensure constraints to structural adjustment are minimised should be a high priority focus of WGGA.

[1] Competitiveness of the Australian wine industry refers not only to competition from other winemaking countries, but also to competition from other beverages.

Individual and Social Capital – Management and Labour Capability and Supply

Continued growth and development of the wine grape industry requires adequate numbers of middle level managers and skilled labour. Training to ensure adequate skills and measures to improve attractiveness of the grape growing industry to prospective managers and operators has not been given sufficient regard in any of the documents reviewed[2].

Regarding social capital, TSSD gives high priority to improving the effectiveness of industry organisations.

Recommendations

WGGA Strategic Plan

The development of a WGGA strategic plan should:

1. Consider strategies which take advantage of the high and medium levels of opportunities for synergy with the directions specified in Directions 2025;
2. For representation, advocacy and leadership, develop approaches and strategies which differentiate between wine industry issues, viticultural issues, and business management issues regarding wine grape growing;
3. Provide a substantial focus on risk management issues such as climate change, biosecurity, access to resources and changes in cost of resources;
4. Develop a considered approach to structural adjustment which differentiates between the sustainability of wine grape production and welfare issues; and
5. Develop a long term plan for ensuring the industry has levels of individual and social capital sufficient to ensure its long term sustainability.

WGGA and NOS Review

WGGA should use this report to support its responses to and negotiations regarding the NOS review.

1b. Industry Strategic Planning Committee

This part of the project required that after completion of Project 1a, a joint committee would be established between WGGA and WFA to deepen collaboration, drive industry culture change and collaborative management of industry strategy.

The delays in the reporting of the NOS review committee and the lack of agreement between WGGA and WFA on future directions for the proposed joint committee has meant that Project 1b was unable to be effectively addressed.

At the Project Steering Committee on 8th May 2008 the consultants were directed not to proceed with this part of the Project.

[2] It is mentioned under Strategic Imperative 2 – Business Competitiveness.

MAJOR PROJECT 2 - VINEYARD BUSINESS DEVELOPMENT PROGRAM

Major Project 2 makes up the major element of the Capacity Building for Australian Wine Grape Growers Project. Because of the reduced time available for the Project the PSC directed the consultants to give MP2 highest priority to ensure that by 30th June 2008 the Pilot workshops had been completed and the final VineBiz workshops would be available to WGGA for presentation to the industry in 2008/09 if funding was available.

VineBiz - Vineyard Business Development Program & Financial 'Ready Reckoner'

The VineBiz Program comprises a range of vineyard business development tools that aim to equip wine grape growers to:

- Analyse their current business methods and models,
- Assess opportunities to improve their financial performance, and
- Identify and assess alternative business models and options for the future.

This program is designed to be delivered in a module based format. This allows the content to be split and staged over a period of time. This will enable regional grape grower associations to present information sessions or workshops according to demand, using presenters with local knowledge and regional case studies.

The 'VineBiz Program' includes the following components:

- Vineyard Performance Benchmarking
- Wine Grape Business Analysis
- Relating Wine Price Points to Grape Prices
- New Vineyard Business Models

The first three Modules are combined into an integrated financial tool for grape growers called the VineBiz Financial 'Ready Reckoner'.

Vineyard Performance Benchmarking

The aim of vineyard performance benchmarking (or comparative analysis) is to identify current income and operating costs for a range of wine grape enterprises across Australia. A national benchmarking template and handbook have been developed to assist growers in capturing vineyard income and operating costs for the past five seasons; this provides a mechanism to observe trends in profitability within a grape growing business over time.

Where sufficient data is available for different wine growing regions this has been incorporated into the Benchmarking section of the Financial 'Ready Reckoner'. This allows individual grape growers to compare their own financial and operating performance with established benchmarks within the same region.

Benefits to growers:

- Simple format to collect and collate vineyard income and operating costs;
- Feedback on gross margins and business surplus/deficit per year;
- Key financial performance ratios calculated.
- A standardised format for comparing data with other growers and regions;

Wine Grape Business Analysis

The Wine Grape Business Analysis section of the Financial 'Ready Reckoner' provides a range of tools in a standardised template, for growers to analyse their grape growing enterprise in more detail.

The vineyard enterprise is broken down into its individual management units and current data on yield, price and costs are entered. The model generates graphical representation of trends and calculates important financial ratios to guide growers in their decision making.

The Business Analysis component also includes water purchase calculator tools and a facility to run vineyard re-development scenarios as part of an upgrading program to improve long term profitability.

Benefits to growers:

- Comparison of vineyard costs of production with regional benchmarks;
- Analysis of each vineyard management unit, gross margins and profit per variety, per hectare, per tonne;
- Advanced analysis of whole enterprise, sensitivity analysis of yield and price;
- Analysis of water use and purchases and evaluation of re-development scenarios.

Relating Wine Price Points to Grape Prices

The 'Ready Reckoner' has a component that helps grape growers relate wine price point to the price of grapes used to produce wine at a range of price points in the market place. The tool helps growers understand the wine value chain and assess the degree of profitability of growing grapes for a specific price point or market, given the current vineyard yields, grape returns and cost of production. The tool allows growers to analyse specific varieties within the vineyard or broadly analyse the whole enterprise using average yields, prices and costs.

Benefits to growers:

- An understanding of the full cost of producing a bottle of wine;
- The ability to see what range of prices wineries would be prepared to pay for grapes at different wine price points;
- The ability to run scenarios on wine price points, grape prices, grape yields and operating costs for an individual vineyard or variety.

New Vineyard Business Models

Many vineyards are faced with having to leverage greater economies of scale, increase revenue and maximize cost efficiencies to become and remain viable in the future.

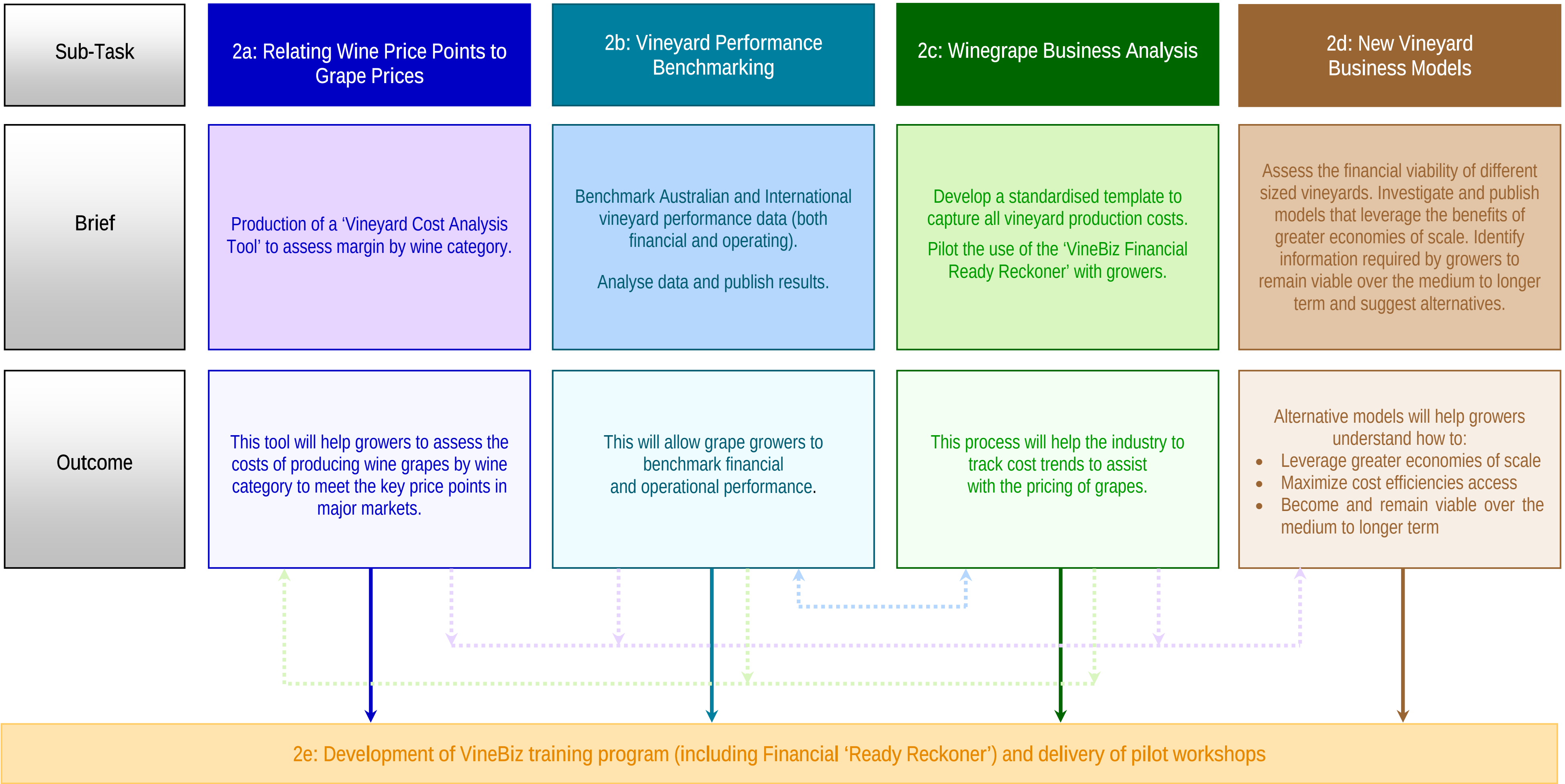
This component of the VineBiz program is aimed at investigating existing or new business models to help growers understand how to improve the productivity, profitability and sustainability of their own enterprise.

Benefits to growers:

- Provides an understanding of the options available to change the existing business model to improve:
  - productivity and profitability of the vineyard enterprise
  - flexibility and responsiveness to changing market demands
  - strength and security during down turns in the industry

The structure of the integrated VineBiz program for delivery to grape growers is shown diagrammatically in Figure 1 below. This formed the major part of the presentations made in the Pilot workshops.

Figure 1 : Links between each of the sub-tasks required to achieve 'Task 2: Vineyard Business Development Program'



MP2 Outputs

Regional Benchmarking

The primary objective of this part of the sub-project was to collect up-to-date income and production cost data from wine growing regions in Australia and develop some industry benchmarks for wine grape businesses in 2008.

Once the benchmarks were calculated for each region, they were integrated into the VineBiz Financial 'Ready Reckoner', which was a tool developed to help grape growers analyse the performance of their business in the context of similar grape enterprises in the same region.

The data was collected from the following wine grape growing regions although only the regions Sunraysia, Riverland, Riverina and Barossa provided sufficient data sets to allow reasonable estimates of regional benchmarks. The regions were:

1. North West Victoria - Mildura VIC & NSW
2. Lower Murray - Riverland SA
3. Big Rivers - Riverina NSW
4. Barossa
5. Fleurieu
6. Clare
7. King Valley
8. Mount Lofty Ranges
9. Limestone Coast

The documents and methods used for the collection, collation and analysis of data from growers are presented in Appendix 4.

Data sets from three major warm irrigated regions, Riverland, Sunraysia and Riverina, are shown in Appendix 3.

Data from the cooler regions is also presented in Appendix 3, but because of the smaller number of sets, caution is urged in the use of this data because we are not confident about how accurately it reflects the region as a whole.

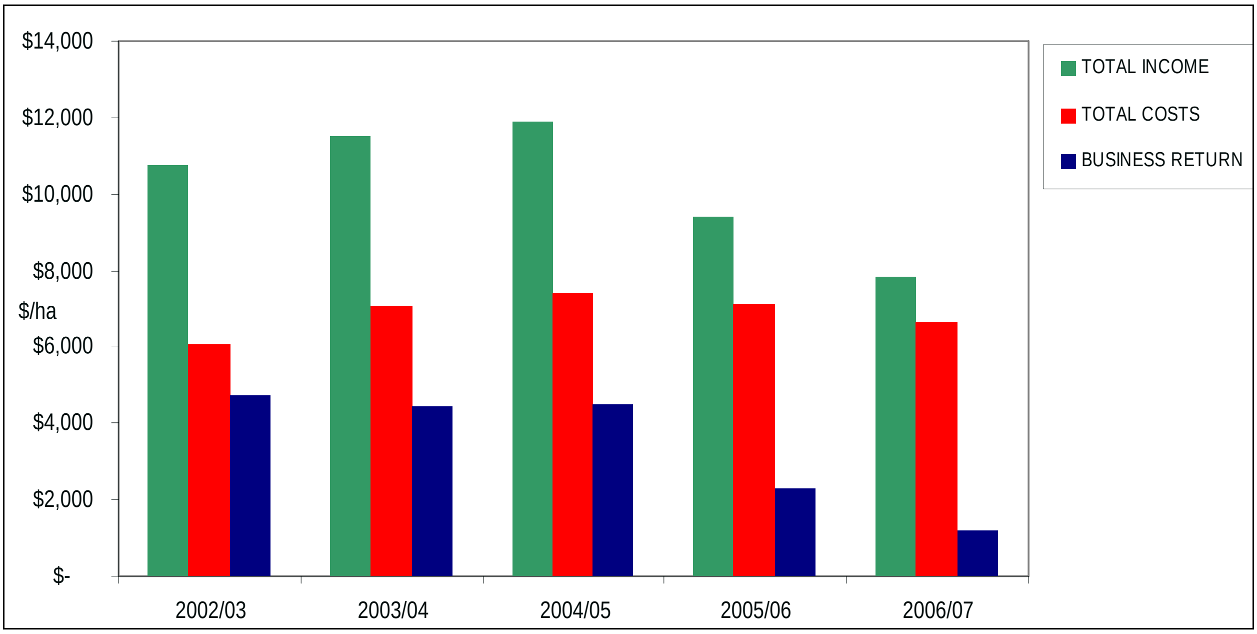
As part of the benchmarking process, production costs in the key overseas wine producing countries of California (USA), Chile, and Spain, were also gathered.

A detailed report on regional benchmarking and international wine grape production costs is presented in Appendix 3, including:

- Review past benchmarking studies;
- Regional benchmarking study 2008 (this project); and
- International wine grape production costs.

Benchmarking data was gathered from a number of regions in Australia and results from the Riverland region of South Australia are used here to demonstrate the type of information available for use in the VineBiz Financial 'Ready Reckoner'. Costs and Income data was gathered for the years 2002/03 to 2006/07 (2007/08 data are not yet available).

Figure 2: Riverland Vineyard Average Income and Costs



NOTE: The Total Cost figures include debt servicing (interest) BUT DO NOT include owner's salary, depreciation or any allowance for return on vineyard assets.

Figure 2 highlights that:

- Total income ($/ha) of Riverland vineyards increased between 2003 and 2005 but has declined substantially over the past 3 seasons. This is attributed to reduced grape prices and vine yields.
- Total costs have followed a similar pattern to income, with total vineyard expenditure declining over the last 3 years even though unit costs for production inputs have increased. This suggests that growers are reducing vineyard inputs as grape prices fall.
- Business Return has steadily fallen to a point where the enterprises cannot cover any capital repayments, owner's salary or renewal of vineyard plant and equipment.

Figure 3: Riverland Vineyard Average Total Costs

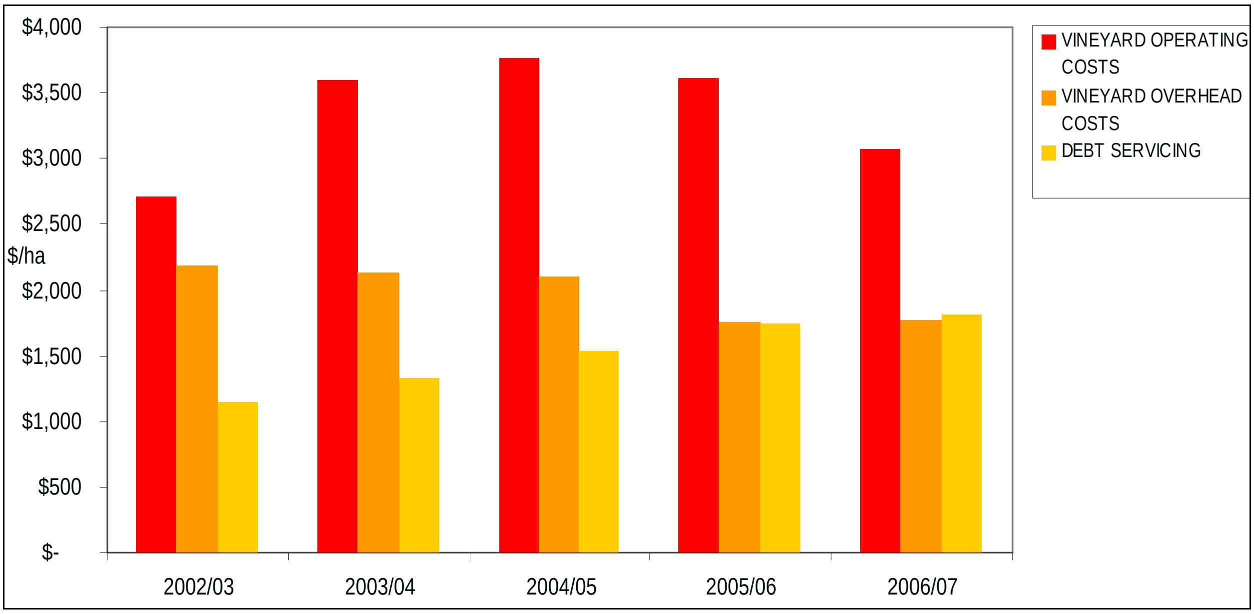


Figure 3 highlights that:

- Operating costs (expenditure) increased up to 2004/05 but then declined with vineyard revenue in the last two seasons. Despite the fact that vineyard input costs, such as water, fuel, fertilizers and chemicals, have all increased in this period, the trend shown in the graph would suggest that the quantity of other vineyard inputs has declined and/or cheaper inputs have replaced more expensive inputs in the last two seasons.
- Overhead costs (expenditure), excluding debt servicing, have gradually declined over the five year period from $2,183/ha in 2003 to $1,762/ha in 2007; insurance, leasing of equipment, professional services and permanent labour are examples where overhead costs have been reduced or dropped off completely from the vineyard expenses.
- Debt servicing has increased over time, from $1,146/ha in 2003 to $1,807/ha in 2007, a 58% increase.

A summary of the data gathered for all the warm irrigated regions is presented in Table 1 below.

Table 1: Summary of Vineyard Income, Costs and Returns for Warm Irrigated Regions

TOTAL INCOME ($/ha)	2002/03	2003/04	2004/05	2005/06	2006/07
Riverland	$ 10,766	$ 11,500	$ 11,878	$ 9,392	$ 7,857
Sunraysia	$ 17,783	$ 17,395	$ 14,493	$ 11,147	$ 11,486
Riverina	$ 4,308	$ 4,958	$ 5,908	$ 5,165	$ 3,857
VINEYARD OPERATING COSTS ($/ha)	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**
Riverland	$ 2,719	$ 3,595	$ 3,761	$ 3,611	$ 3,066
Sunraysia	$ 5,162	$ 4,968	$ 4,490	$ 5,266	$ 5,307
Riverina	$ 1,016	$ 1,935	$ 2,367	$ 2,274	$ 2,342
VINEYARD GROSS MARGIN ($/ha)	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**
Riverland	$ 8,047	$ 7,905	$ 8,117	$ 5,781	$ 4,791
Sunraysia	$ 12,621	$ 12,426	$ 10,003	$ 5,881	$ 6,179
Riverina	$ 3,292	$ 3,024	$ 3,542	$ 2,891	$ 1,515
VINEYARD OVERHEAD COSTS ($/ha)	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**
Riverland	$ 2,183	$ 2,138	$ 2,100	$ 1,762	$ 1,767
Sunraysia	$ 5,333	$ 4,712	$ 4,255	$ 3,391	$ 3,088
Riverina	$ 1,013	$ 2,098	$ 2,480	$ 1,642	$ 1,712
BUSINESS RETURN ($/ha)	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**
Riverland	$ 4,718	$ 4,444	$ 4,476	$ 2,275	$ 1,218
Sunraysia	$ 5,763	$ 5,725	$ 4,650	$ 1,421	$ 1,826
Riverina	$ 1,984	$ 208	$ 265	$ 680	-$ 1,190

A similar summary for the temperate and cooler regions is presented in Table 2 below.

Table 2: Summary of Vineyard Income, Costs and Returns for Temperate & Cooler Regions

TOTAL INCOME ($/ha)	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**
Barossa	$ 10,340	$ 8,225	$ 8,994	$ 9,895	$ 8,152
Fleurieu	$ 12,479	$ 12,336	$ 11,496	$ 10,483	$ 6,298
Clare	$ 7,200	$ 10,679	$ 6,820	$ 8,637	$ 4,973
King Valley	$ 11,435	$ 5,262	$ 6,381	$ 4,469	$ 5,254
Mount Lofty Ranges	$ 10,643	$ 12,143	$ 10,656	$ 10,579	$ 12,521
VINEYARD OPERATING COSTS ($/ha)	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**
Barossa	$ 3,075	$ 4,348	$ 4,276	$ 4,070	$ 3,893
Fleurieu	$ 3,475	$ 3,055	$ 3,777	$ 3,677	$ 2,880
Clare	$ 5,698	$ 5,622	$ 5,649	$ 5,142	$ 4,723
King Valley	$ 6,980	$ 5,924	$ 5,043	$ 4,698	$ 3,918
Mount Lofty Ranges	$ 6,167	$ 5,558	$ 4,914	$ 5,837	$ 6,593
VINEYARD GROSS MARGIN ($/ha)	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**
Barossa	$ 7,264	$ 3,877	$ 4,718	$ 5,825	$ 4,259
Fleurieu	$ 9,004	$ 9,281	$ 7,719	$ 6,806	$ 3,418
Clare	$ 1,502	$ 5,056	$ 1,171	$ 3,495	$ 249
King Valley	$ 4,455	-$ 662	$ 1,338	-$ 229	$ 1,336
Mount Lofty Ranges	$ 4,476	$ 6,585	$ 5,742	$ 4,742	$ 5,927
VINEYARD OVERHEAD COSTS ($/ha)	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**
Barossa	$ 7,264	$ 3,877	$ 4,718	$ 5,825	$ 4,259
Fleurieu	$ 4,429	$ 4,196	$ 4,200	$ 3,814	$ 3,878
Clare	$ 3,342	$ 3,090	$ 2,805	$ 3,917	$ 4,195
King Valley	$ 4,011	$ 3,073	$ 2,416	$ 2,503	$ 2,370
Mount Lofty Ranges	$ 2,261	$ 3,237	$ 2,670	$ 3,011	$ 3,733
BUSINESS RETURN ($/ha)	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**
Barossa	**$ 3,517**	**$ 273**	**$ 1,303**	**$ 895**	**-$ 773**
Fleurieu	**$ 4,207**	**$ 4,704**	**$ 3,160**	**$ 2,290**	**-$ 1,041**
Clare	**-$ 1,761**	**$ 1,906**	**-$ 2,344**	**$ 331**	**-$ 1,508**
King Valley	-$ 979	-$ 4,737	-$ 1,773	-$ 3,330	-$ 1,478
Mount Lofty Ranges	$ 2,215	$ 3,328	$ 2,897	$ 1,606	$ 1,859

Further details are presented in Appendix 3.

Winegrape Business Analysis

The Financial 'Ready Reckoner' provides a range of tools for growers to analyse their vineyard business in detail to:

- Compare vineyard costs of production with regional benchmarks;
- Analyse each vineyard block, gross margins and profit per variety, per hectare, per tonne;
- Analyse the whole enterprise, plus analyse sensitivity of yield and price;
- Analyse water use and purchases and evaluate re-development scenarios.

Full details are provided in the VineBiz manual in Appendix 5.

New Vineyard Business Models

Wine grape growers are currently being squeezed from all directions as a result of low prices, water restrictions, fertiliser and fuel price increases, etc. Some ways that growers can manage their vineyard businesses to cope with these changes and maintain profitability are;

- Increase the income by increasing yield, quality, price, or all of these components of income.
- Increase the price received for grapes by developing a strong relationship with the grape purchaser, value-adding by group marketing, or converting grapes into wine.
- Reduce input costs, generally as a result of more efficient use of production technology, labour and mechanisation. However, the main opportunity for increasing Business Return is via income increase, rather than a reduction in input costs (operating and overhead) which is often difficult to achieve.

The current situation within the wine grape industry and horticulture in general, is also making it difficult to be able to increase the income of a vineyard business.

Some examples of approaches used by other growers to improve their businesses may be useful for growers to consider (see Appendix 5).

VineBiz Workshop

A workshop program has been developed to provide business development training to wine grape growers. The workshop was presented as a Pilot to grape growers in the Riverland, Sunraysia and Barossa regions in June 2008 and the feedback from growers led to modifications of the VineBiz workshop leading to the version that is ready to be rolled out to regions across Australia.

Appendix 5 and 6 provide details of the manual to be provided to grape growers, and the PowerPoint presentation to be used by the trainers to present the VineBiz workshop.

Procedures used and templates developed for the gathering of regional vineyard financial costs and returns are provided in Appendix 4 to assist the training providers who will be engaged by WGGA to run out the VineBiz workshops in the regions.

MAJOR PROJECT 3 - SECTOR INNOVATION

This small component of the larger project aimed to establish a Wine Grape RD&E priorities network.

There is a need to re-establish regional review structures for identifying and communicating RD&E priorities through WGGA to the Strategic Directions Group (SDG) and GWRDC, as well as other industry stakeholders. This network would also take the SDG R&D Prospectus back to the regional level to identify prime areas for additional focus and investment, and to build a culture of continuous innovation in the wine grape sector.

The continuing work of the Industry Strategic Directions Group and its R&D Prospectus have already led to progress in this area.

The formation of a specific RD&E networks to establish specific grape grower priorities to improve the adoption of new research and development technology is important but the PSC directed the consultants to give this part of the Project lower priority than the VineBiz component.

MAJOR PROJECT 4 - SECTOR STRUCTURE & LEADERSHIP

MP4 has two major components:

- **Appraisal of the NOS consultation paper and contribution to the WGGA response.** The task force conducting the review published a consultation paper in October 2007. It planned to review comments received and to make final recommendations to a joint meeting of WGGA and WFA in the first week of April 2008. The appraisal was intended to assist WGGA in its participation in the review.
- **Plan and implement a national forum of bodies representing wine grape growers.** This task included identification and selection of grower bodies and specific individuals whose participation was necessary for the success of the forum, development of forum objectives and a forum agenda, selection of a suitable venue, identification, appointment and briefing of an independent facilitator, and implementation of the forum.

Because the National Organisational Structures consultation between WGGA and WFA did not result in meaningful agreement on future directions at the deferred meeting held in April 2008, this component of the project did not receive clear guidelines or directions to follow.

The PSC directed the consultants to give this part of the study lower priority than the VineBiz workshops. However, the consultants understand that an informal group comprising wine industry and grape grower organisation chairpersons has been established to progress the important matter of industry leadership.

DELIVERY OF MILESTONES

MP1a *Whole of Wine Industry Strategic Plan*

- Completed and signed off on 8th May 2008 (Appendix 2).

MP1b *Implement Industry Strategic Planning Committee*

- Because of NOS delays and unclear outcomes from NOS meeting in April this component was unable to be completed and was deferred.

MP2 *Vineyard Business Development Program (VineBiz Training Program and Delivery)*

- A comprehensive Regional Vineyard Performance Benchmarking Study was completed and is included in Appendix 3 of this report.
- A Wine Grape Business Analysis or “Ready Reckoner” model has been prepared as an interactive tool to allow growers to compare their vineyards with regional benchmarks, analyse individual vineyard blocks for financial performance, and analyse water use and redevelopment options. This has been a major component of the VineBiz workshop program developed for presentation to growers across regions (Appendix 5, 6).
- The relationship between wine price points and grape prices has been assessed and is presented in the VineBiz workshop program.
- New vineyard business models are presented in the VineBiz workshop with local examples.
- MP2 has been completed and signed off on 18th June 2008.

MP3 *Sector Innovation*

- This component was given lower priority by Steering Committee on 8th May 2008 in preference to VineBiz workshops.
- Given lower priority than MP2 by PSC.
- Unable to be completed.

MP4 ***Strengthen Regional, State, National Grower Organisations following Outcomes of NOS Review***

- Delays and unclear outcomes from NOS meeting in April caused less focus on this component.
- Unable to be completed and deferred.

Although some of the initial milestones were not satisfactorily delivered because of changing circumstances (timing and the NOS review), the PSC accepted these changes and directed the consultants to concentrate on the key milestone, the VineBiz training program. The VineBiz program was completed and signed off by the PSC. The total budget for the overall project was not exceeded.

FUTURE WORK

MP1 - Wine Industry Strategic Plan

The "Gap Analysis and Recommendations" report has provided a comparison between the WGGA TSSD and the WFA Directions 2025 reports and identified areas of common ground in the reports and identified gaps requiring focus by WGGA.

The gaps requiring attention related to;
- Representation, advocacy and leadership;
- Risk management;
- Structural adjustment, and
- Management and labour capability and supply.

The expectation that the NOS review would lead to the formation of a joint committee between WGGA and WFA to deepen collaboration, drive industry culture change and foster collaborative management of industry strategy has not been achieved by the industry. However, industry leaders must continue to work towards these goals in the future.

MP2 - Vineyard Business Development Program & Financial Ready Reckoner

This is the major part of the "Capacity Building for Australian Wine Grape Growers" project and it has been successfully completed.

The separate components of:
- Vineyard Performance Benchmarking;
- Wine Grape Business Analysis;
- Relating Wine Price Points to Grape Prices; and
- New Vineyard Business Models;

have been addressed and incorporated into the VineBiz workshop (Appendix 5, 6).

The VineBiz workshop has been presented in Pilot form to grape growers in three regions and the feedback from growers (Appendix 7) has been incorporated into the final version of the VineBiz workshop. Funding for the "roll out" of the VineBiz program across Australia was withdrawn by DAFF when it was not possible to complete the roll out before 30th June 2008. To ensure that the maximum benefit is achieved from the development of the VineBiz program, the future needs are;

- **To ensure that the VineBiz program achieves its original aims WGGA will need to source funds for the delivery of the information in the workshop to grape growers across Australia.**
- **The content of the VineBiz 'Ready Reckoner' and other workshop materials is current at June 2008, but with time annual updates of the financial data will be required for the workshop to be relevant to grape growers into the future.**

MP3 - Sector Innovation

At the direction of the PSC this part of the project was given lower priority than the VineBiz workshop program.

The establishment of an extended wine grape RD&E network would be beneficial to ensure that RD&E work carried out by research agencies and funded by levy funds is targeted at industry needs.

The Industry Strategic Directions Group and other bodies are progressing sector innovation but this work needs to be extended.

MP4 - Sector Structure & Leadership

This part of the project was dependent on a successful outcome of the National Organisational Structure Consultation between WGGA and WFA. The outcome of this review did not lead to a mechanism for a joint grape growing/winemaker body to be formed to provide joint common industry matters.

This important industry leadership issue must be kept active and the information provided in MP1 is a good framework to continue this matter forward.

KEY MESSAGES FOR WINE GRAPE GROWERS

The key messages for wine grape growers from this project are presented below.

Regional Benchmarking

Over the seasons 2002/03 to 2006/07;

- Total income has declined due to lower grape prices and yields;
- Expenditure has declined due to grape growers "tightening their belts";
- Business Return has been reduced to a point where many wine grape growers have limited capacity to cover capital repayments, owner salary or renewal of plant and equipment;
- Debt servicing costs have increased;
- The 2007/08 figures are not included in this benchmarking but are likely to have shown a further deterioration in these business indicators.

VineBiz

The VineBiz Vineyard Business Analysis Program and Ready Reckoner (Appendix 5) has been developed to allow grape growers to analyse their current financial and business position by;

- Providing an interactive model for assessing their financial position and evaluating ways to improve financial performance.
- Understanding better the relationship between wine price points and grape prices. The grape component of the retail price of a bottle of wine is only 5-7% with most costs being incurred after the vineyard and outside the control of the grape grower.
- The Value Chain from grape production in the vineyard to the retail market has been described and the parts that can be influenced by grape growers have been identified (Appendix 2, 5).

Decision Making Framework for Wine Grape Growers

Wine grape growers are presented with a framework for asking critical questions about their vineyard business to allow them to assess the future viability of their businesses, taking into account the personal aspirations of the owners (Appendix 5). This framework and questions have been divided into Business and Personal considerations.

Figure 4 : Decision Making Framework - Business

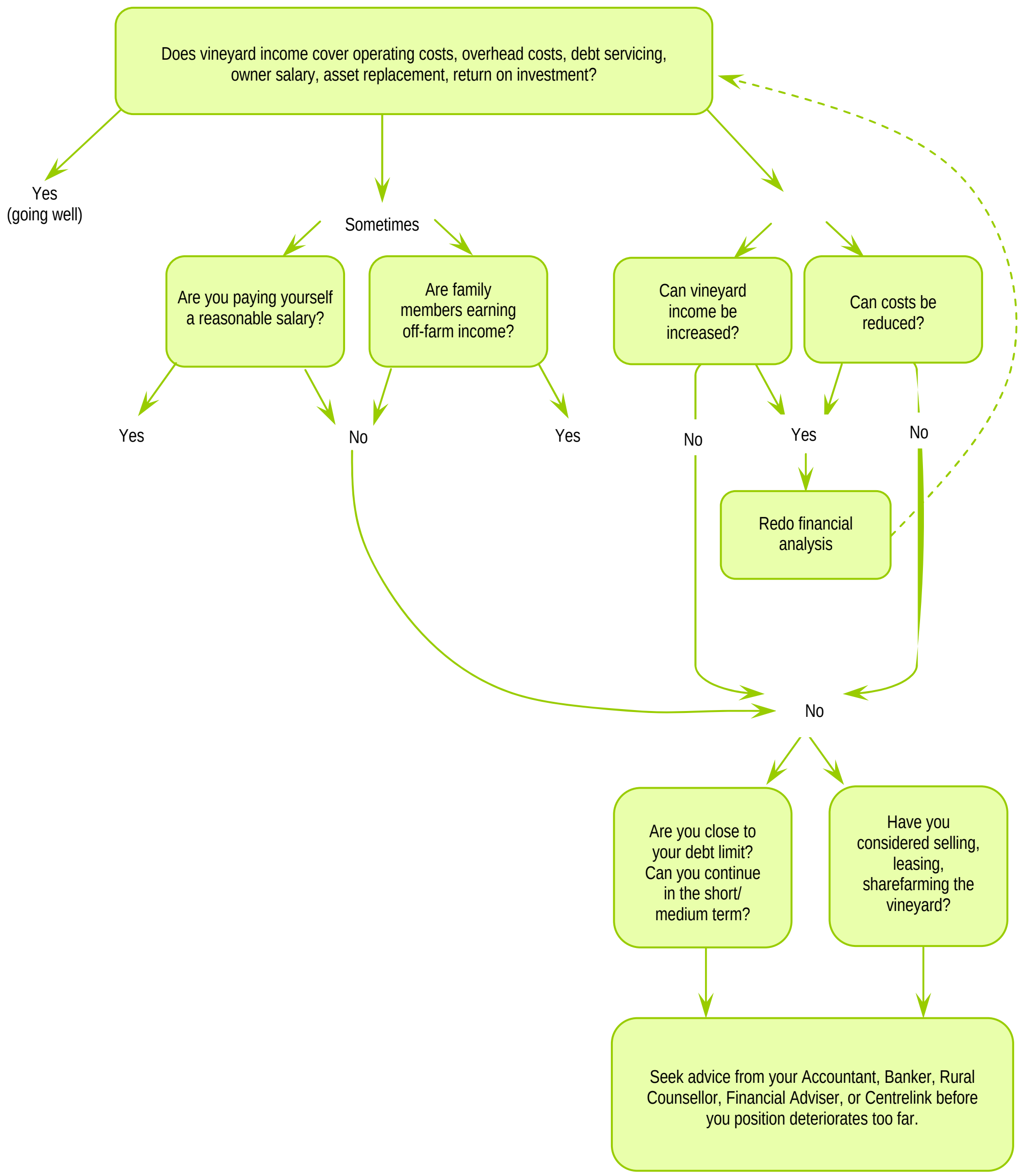
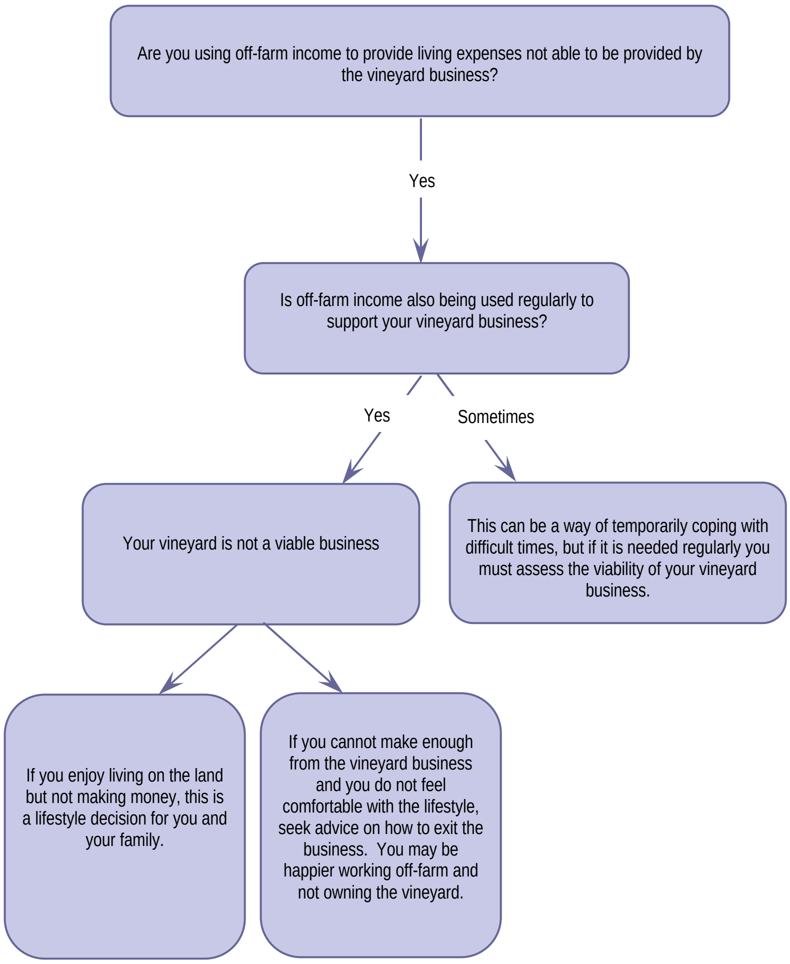


Figure 5 : Decision Making Framework - Personal



The Future

Wine grape growers and other parts of the broader wine industry have experienced declining business returns in recent years and these conditions are likely to continue into the immediate future.

Some of the causes and consequences of this situation are:

- An imbalance in the supply/demand position resulting in grape and wine surpluses.
- Export wine prices have declined due to currency fluctuations and competition from other large volume "commodity" producing countries.
- The current drought that is affecting the availability and price of irrigation water has caused large increases in input costs for temporary water purchases. Debt servicing costs have increased as a result and many growers may find further finance for their business difficult to source.
- The financial performance of the vineyard businesses reviewed in this project has shown that many growers are struggling to cover operating and overhead costs and are not paying themselves an adequate wage, or maintaining their vineyard and equipment assets.

- Growers who can demonstrate that they are likely to be viable in the future will remain in the industry, while other growers with less future in the industry will need to consider an exit strategy as part of industry restructuring.
- A number of growers are dependent on off-farm income to provide funds for business and personal requirements. This is not sustainable in the longer term.
- Technological improvements in wine grape production leading to improved yields and quality are available but often require capital expenditure or increased production inputs that will be difficult for many growers to finance. Therefore, technology is not an immediate solution to the current financial problems of wine grape growers.
- The impact on regional communities and economies of wine grape growers becoming less viable is likely to be very significant, particularly in the warmer regions, but also in cooler regions.

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