



# Deceptive trends can play tricks on reality

■ By Mark Hamilton of Grope Hamilton Budini, Lawyers, Adelaide

OVERALL, it appears the pendulum of Australia's major exporters - and hence purchasers of grapes - has swung from optimistic to at least neutral or possibly pessimistic.

I suspect that the pendulum has swung - for the main part - to neutral as the dollar rises and the large exporters wait to see evidence of continuing export growth.

Reports and anecdotal evidence have it that these companies are cutting right back on grape intake to avoid the possibility of being over exposed in inventory terms if exports do not grow or, in fact, decline - and this in turn is likely to cause the average inventory turnover rate to decline from the present 1.9 years to 1.7 - which would be another historically low figure.

One really wonders how low the stock turnover rate can go although it may yet go lower over time as exports of Australian white wine piggyback on the success of red wine, in particular, Australian shiraz.

Another factor is just how young can wine producers sell red wine, given the widespread adoption of techniques that allow the early release of commercial red wines.

The reduction in the inventory turnover rate is literally a quiet revolution when one considers that it was only a decade or two ago that red wine was released when it was up to four years old.

Oh, for the good old days and the releases of, for example,

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excellent bottle aged Rieslings like the Leo Buring Clare Watervale Rieslings of the 1970s.

This is a revolution, not just for wine drinkers, that affects a substantial change to the cashflow dynamic for the wine industry from even a decade ago. The release of younger and yet younger red wines, however, is part of the homogenisation and commoditisation of wine, which is of concern in an industry which is traditionally based upon the art of winemaking. However, enough of that.

How quickly the industry outlook has changed since I last wrote in October 2003 when - with a lower dollar and kind export statistics - the thinking was that a large vintage would be a good thing, and would be utilised at reasonably stable prices.

The wine industry has become an incredibly well informed industry with a vast array of qualitative and quantitative information available on literally a daily basis, including various

## Industry overview

- ◆ Australian dollar testing US 80 cents - reportedly slowing or having the potential to slow sales of Australian wine in the vital US wine market.
- ◆ Californian wine industry in recovery
- ◆ Record Australian grape crop on the way at Vintage 2004
- ◆ Reports of significant reductions in grape prices for certain varieties in particular regions
- ◆ Grapegrower speculation of grape purchasers holding back in the lead-up to Vintage, that is, playing a waiting game as Vintage unfolds.
- ◆ A downturn in Australian export sales in November but a bounce back in December, putting Australia back on track for another export performance record in 2003-2004.

email industry reports. This is all in addition to such traditional publications as this magazine, and when coupled with the information flow and data from the Australian Wine and Brandy Corporation, means that everyone in the industry - large, medium or small - can be fully informed on virtually a daily basis of the fluctuating fortunes of the industry in which they are involved.

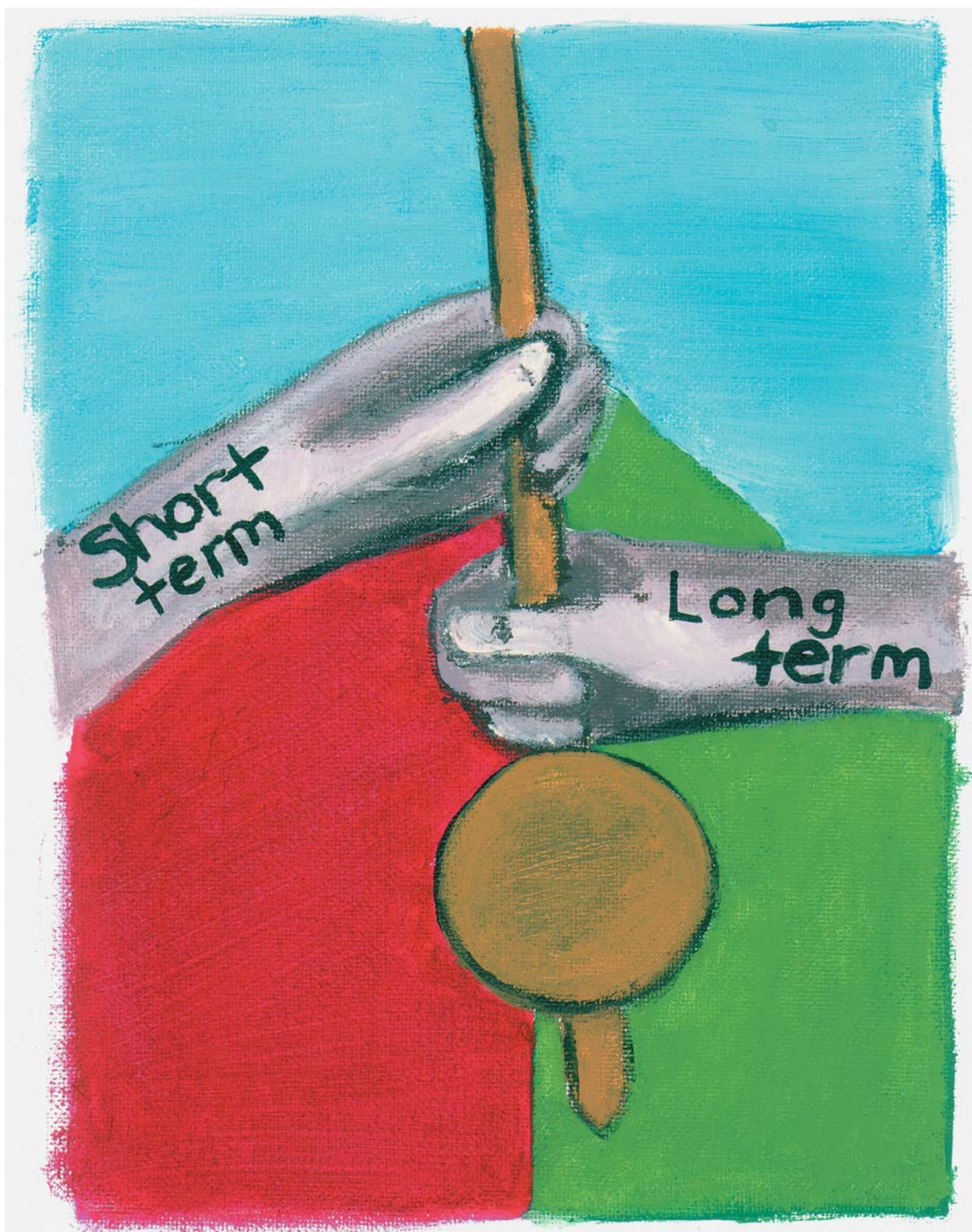
Because of Australia's wine export success and continuous availability of current information, this information has even spilt into the daily newspapers to the extent that the public have become well informed about the wine industry as a business.

This awareness reflects the wine industry's growing importance as an export industry.

Knowledge is power and it offers the opportunity for wine producers and grapegrowers to react to short-term changes in the industry cycle. This situation would be unsurpassed in any other industry in Australia - and is literally light years from the situation which existed even a decade ago.

Then one had to wait and read such things as annual utilisation reports and formal industry studies and annual reports to gain overall information. Membership of industry committees and organisations would have been vital as an opportunity to network and collect anecdotal and actual information. Now one can read two or three reports subscribed to on a daily basis by email upon arrival at the office.

It has occurred to me, however, that we may now have got to the point where industry decisions are being made - and positions and long-term plans changed - in response to short-term (or indeed immediate term) trends or occurrences. Some time must be allowed to pass before something can be properly regarded as a reliable trend meaning that there is a danger that short-termism may derail or adversely impact upon otherwise excellent long-term strategies. ➤



◀ Watching the industry cycle has literally become a daily ritual like those who watch the stock market on a daily basis and trade up and down on cycles.

Without being too theoretical, the industry is, in fact, a market in an economic sense.

The more informed, the better the market.

One wonders whether, however, if it is not getting to the point where the constant flow of information and apparent trends are becoming a distraction from setting and sticking to clearly define

business goals, particularly in the public wine sector which can be harshly judged by short-term strategy and performance.

In the old days of private or family wine companies, so called cycles would have come and go before they were identified and reported upon in wine industry publications or reports, or literally while early exporters were coming home to Oz by ship from the home country.

As opposed to some industries or businesses like retail, short-term reaction can be uncomfortable in the

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wine industry which is by nature and definition long term, often requiring the establishment of vineyards, the building of production facilities, the making and build up of inventory and, of course, the development of markets and brands.

Short-term reactions can - like the stock market - lead to herd activity, not supported by fundamental long-term trends or realities.

The improved availability of timely information is an excellent thing, particularly for small and medium participants who would not otherwise have the network or resources available to become informed. It is just worth reflecting upon the use and timeframes to which the information is put.

And it is important that wine industry participants inform themselves of short- term trends to refine and direct long-term strategies, rather than to derail them.

Put another way, being a day trader on the stock market would be extremely wearying for me personally. This is all a long way of saying it is much too early to be predicting the end of Australia's outstanding wine export growth of recent years.

Notwithstanding greater inventory efficiency, there is a danger that Australia will lose medium and long-term export

opportunities because of over-reaction to short-term occurrences before it is clearly established that they represent even a medium term trend. Australian wine companies may live to regret the decision to cut back so dramatically on grape intake at vintage 2004, from a stock point of view and in terms of the affect on the wine industry's reputation with the public which is being adversely affected by reports of a grape over-supply.

The belief that there is an over-supply of grapes has become firmly embedded in the community, notwithstanding the reality that vineyard planting has been steadily and more latterly steeply declining since at least October 1998.

Hopefully, we will see Australia's wine exports hold up and continue to grow over the next few months to allay fears and signal a return of the wine industry pendulum to at least neutral or, hopefully, optimistic.

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