

Written Case

Practice case

BCG

THE BOSTON CONSULTING GROUP

INSTRUCTIONS (1/3)

During our recruiting process, you will experience BCG's written case study. Like our case interviews, it is an opportunity for us to assess some of the skills you will need as a consultant, such as your ability to structure a problem, manage your time and deliver clear and concise messages.

You will have access to a set of documents containing most of the information you need to answer a few questions from a partner regarding a business situation. You will then have 2 hours to answer these questions in the form of a 3–5-slide presentation on paper. If you feel that some information is missing to answer the questions, do not hesitate to draw explicit hypotheses. At the end of these 2 hours, you will present your recommendations in 15 minutes to the interviewer that will play the role of the client or of your project leader. Finally, the interview ends with a 15-minute Q&A session to deep-dive on certain more personal topics about you or clarify some aspects of your presentation.

INSTRUCTIONS (2/3)

DO

- Enjoy the challenge
- Manage your time (e.g. allocate enough time for output preparation)
- Focus your efforts/messages: does this piece of information/analysis support my conclusion?
- Present conclusive answers to the questions outlined in the case description
- Produce clear and concise output (3–5 slides)
- Deliver the most important message in the slide title
- Use text with bullets and sub-bullets wherever you present conclusions or qualitative analyses
- Use graphs/tables for quantitative analyses (unless you present 1-dimensional data)

DON'T

- Panic under time pressure
- Give in to temptation to read all the available material
- Postpone formulating your hypothesis until you've collected all important information
- Get lost in analyses unrelated to your question
- Prioritize output quantity over quality
- Oversimplify your messages

INSTRUCTIONS (3/3)

This booklet contains an example to help you prepare for the written case. Like the real test, you should complete it in no more than 2 hours. You can use a basic calculator but no other calculating tool (e.g. spreadsheets). You can also use any other material you need (scratch paper, colored pencils, etc.).

During the real test, you will not be able to write on the documents.

Use a landscape format to create your slides on blank paper: do not over invest in aesthetic, though the output must be clear and easily readable.

The practice test starts on the next page. Once you have completed it, you can check a possible answer at the end of this booklet.

Good luck!

CHATEAU BOOMERANG CASE

JOE PARTNER

To: Château Boomerang Project Team

Subject: Growth Strategy

Date: 11 July 2003

Hi Team,

We have a meeting in a few days' time with our client, Château Boomerang, an Australian wine producer. We need to start thinking about a few of their concerns ahead of that meeting. During the meeting, you will have 15 minutes to present your conclusions about three main questions. Please prepare a short written presentation (3 to 5 presentation slides) to support your speech. Format is not a problem: you can use text, graphs or tables to your convenience. The issues I would like you to address are:

- I believe the U.S. should be their #1 priority. Is this correct? What makes this country attractive for them?
 - They currently have different options in mind in terms of priority products to enter the U.S. market with. This is a major issue for them because product-marketing decisions require long term planning to take into account the grape-to-bottle lead-time, so please address it as deeply and accurately as possible.
- Which products have the highest chance of being profitable and competitive in the U.S.?
- What are the strengths that make Australian wines competitive in the US market vs. their main competitors?

To get you started, I have collected some documents about the Australian wine industry, the global wine industry, some statistics about selected wine producing nations, and basic wine economics. Try and make the best of what we have, being as fact-based as possible. If you need to make some assumptions, make sure you highlight those so that we can check them thoroughly at a later stage.

Have fun.

Regards,

Joe

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Extracts From Industry Reports On The Australian Wine Industry

THE AUSTRALIAN WINE INDUSTRY

In 2002, domestic wine volumes were flat year on year (yoy) at 385m liters. Bottled wine (39% of all volume) was up 2.7% and softpacks (46%) grew 1.7% year on year. The domestic market is mature and competition remains fierce. While we expect a rebound in 2003, we believe that we are unlikely to see a material lift in domestic volumes going forward.

2002 global export volumes reached 417m liters (A\$2bn) and were up 23% yoy (24% by value). The key drivers were the US and Canada, up 40% and 35% respectively. The UK remains Australia's largest export market (with 48% share) and grew 23% yoy in 2002 (22% by value).

The US continues to offer significant opportunity for Australia and recent AC Nielsen data confirms that growth remains robust. Australia currently represents 7% of total US wine sales (by value), second only to Italy and is growing well ahead of all of its major competitors.

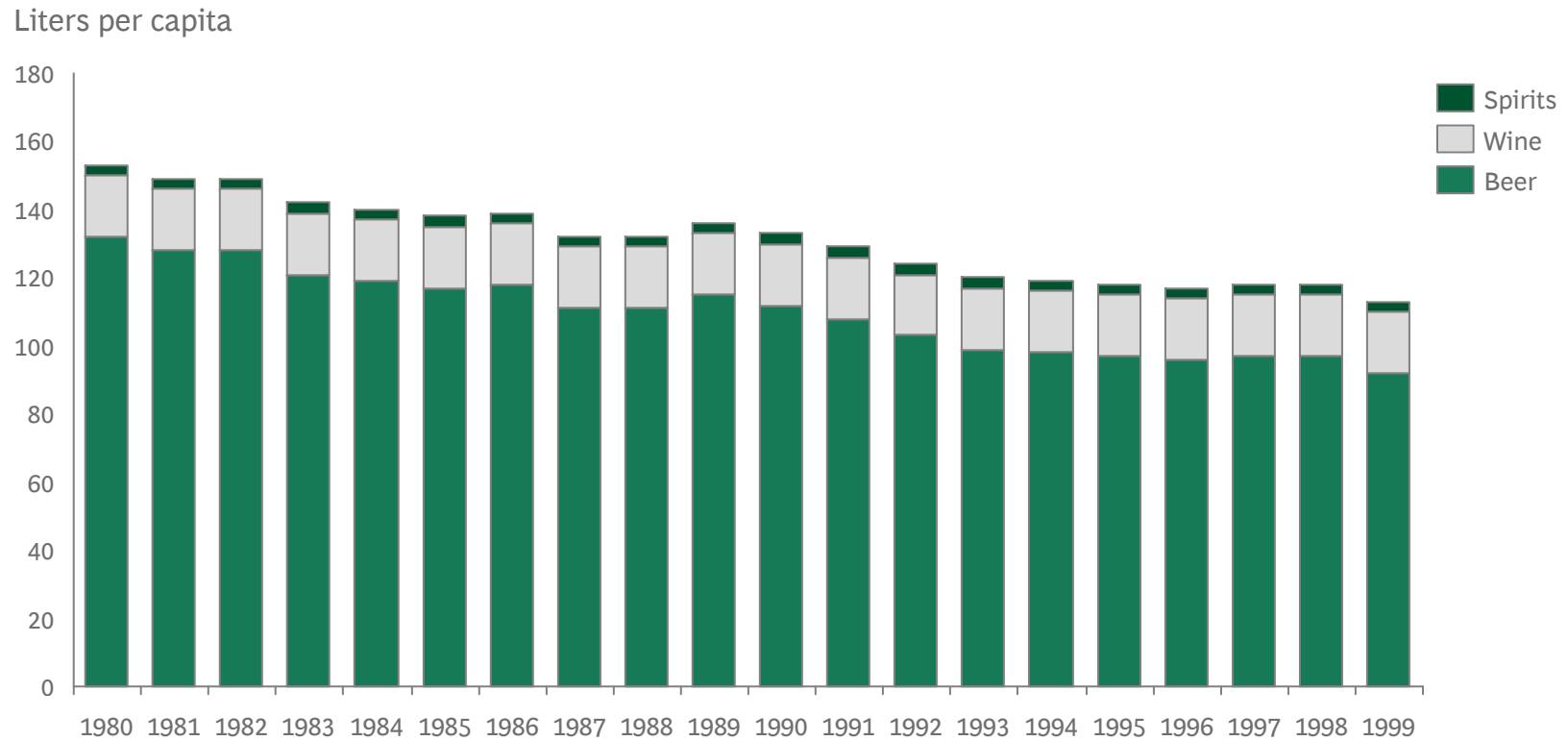
The UK market also remains strong, with recent AC Nielsen data revealing that Australian wine remains the fastest growing import category, well ahead of France and Italy, its two nearest competitors.

Other European markets also offer opportunity, with Germany and Denmark flagged as two of the key destinations for increased focus.

Retailer consolidation and increased competition is fuelling discounting in the UK. Pricing pressure has also emerged in the US, particularly in the low-end category. While we do not expect the US pricing environment will deteriorate to anywhere near that of the UK given the lack of retailer consolidation, recent company reports suggest that discounting has increased (albeit partly due to the general seasonal activity over Christmas).

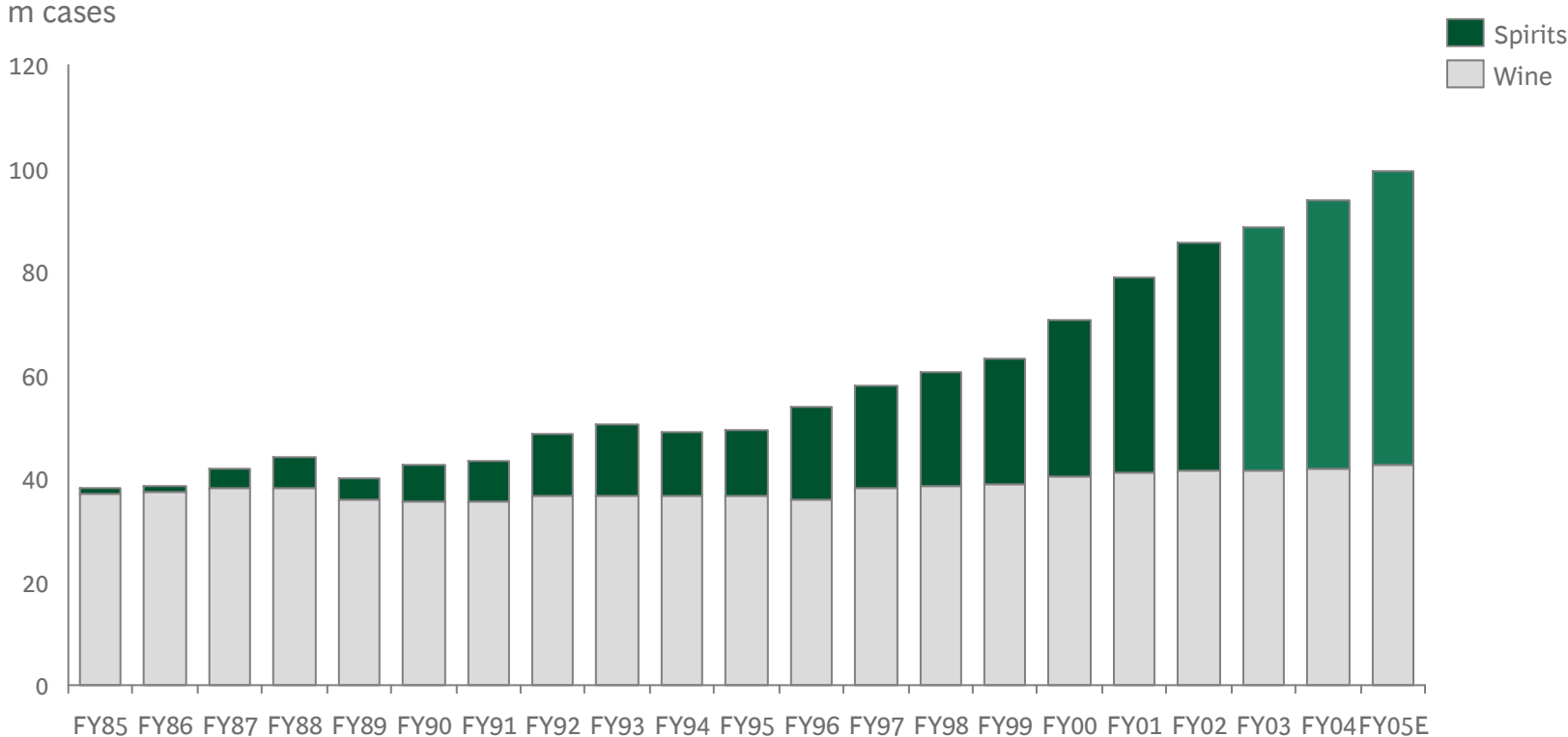
DOMESTIC SALES OF AUSTRALIAN WINE

AUSTRALIAN PER CAPITA CONSUMPTION OF ALCOHOLIC BEVERAGE 1980-99



Australian consumption of alcoholic beverages has declined marginally over the past two decades to around 117 liters per capita, solely due to lower beer consumption.

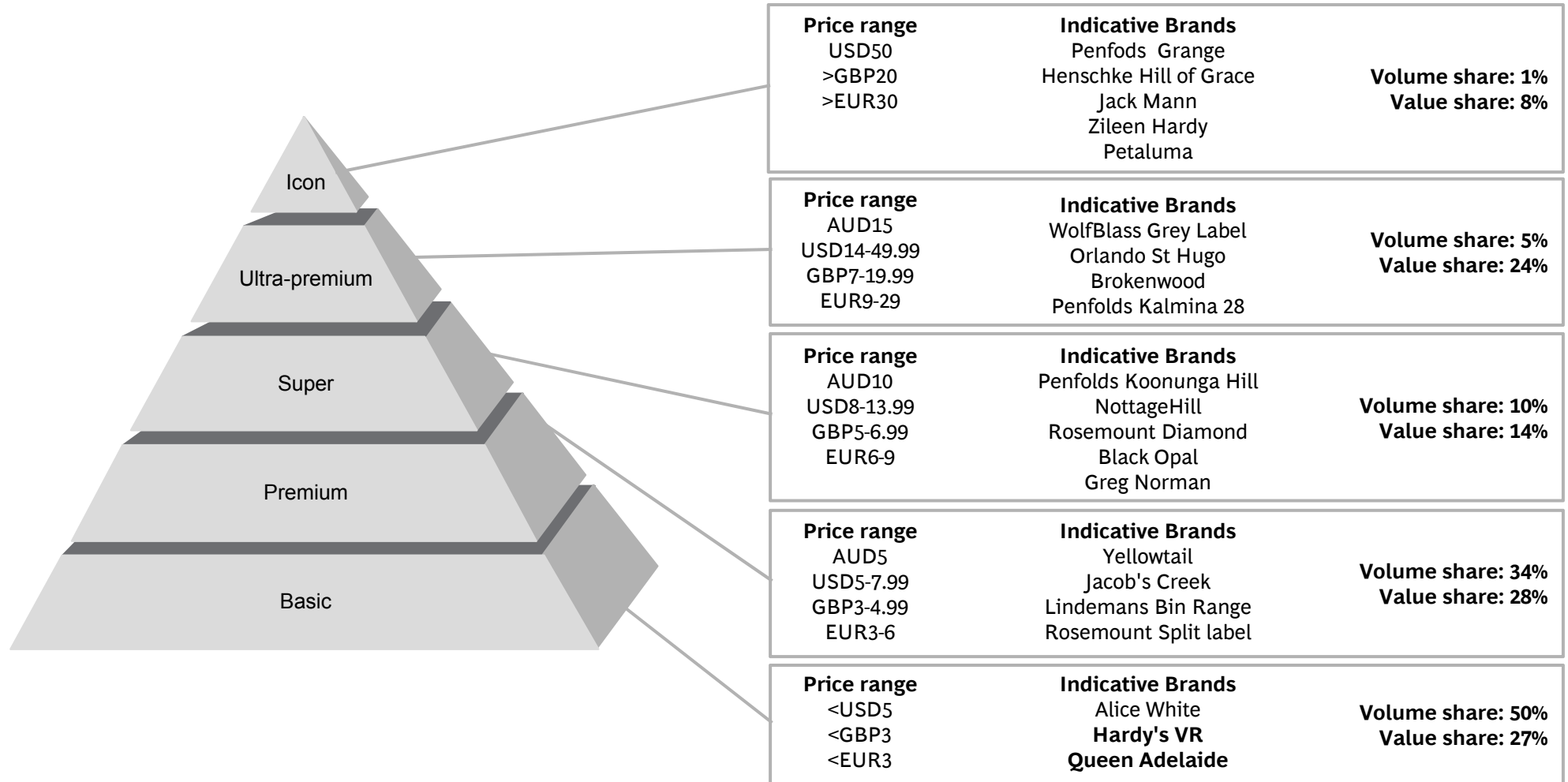
TOTAL SHIPMENTS OF AUSTRALIAN WINE BY MARKET DESTINATION, F85-F0E



The relative maturity of the domestic market has driven producers to pursue export market growth. Export shipments delivered CAGR of 26% p.a. since F85. We expect export shipment growth of 18% p.a. to F05E.

Source: ABS Cat n° 8504.0 & Smith Barney estimates
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QUALITY SEGMENTS IN THE WINE INDUSTRY



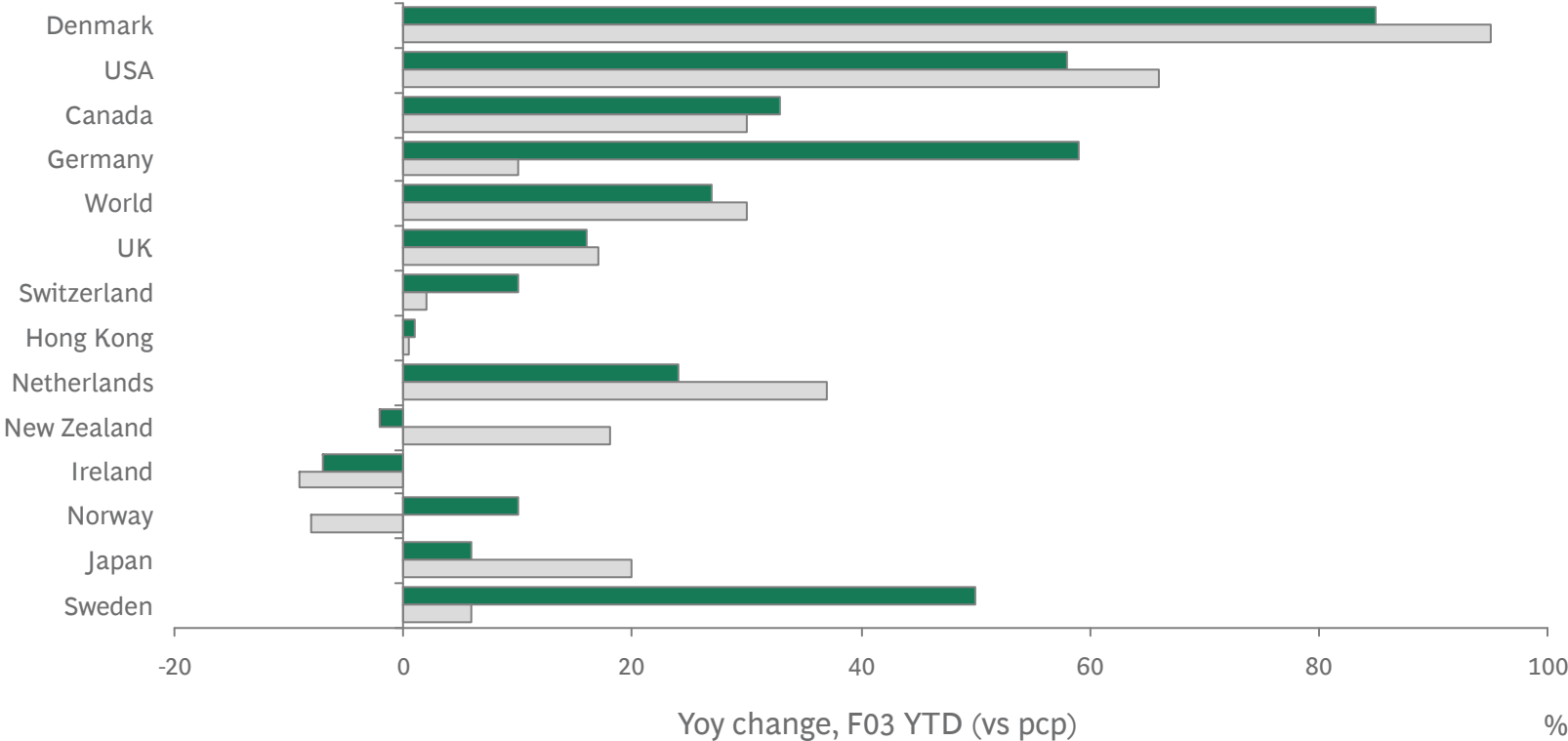
This pyramid looks very different when you look at value % rather than volume %.

EXPORTS – THE AUSTRALIAN WINE INDUSTRY GROWTH ENGINE

A NUMBER OF FACTORS ARE KEY TO AUSTRALIA'S ONGOING SUCCESS INTERNATIONALLY*

1. Strong brands;
2. Clarity of offer;
3. Good value for money;
4. The quality and style of wines;
5. The scale and efficiency of operators;
6. The strength of the industry organisations;
7. The environmentally friendly perception of Australia;
8. The healthy and trendy perception driving increased premium wine consumption globally; and
9. Access to equity and debt capital;

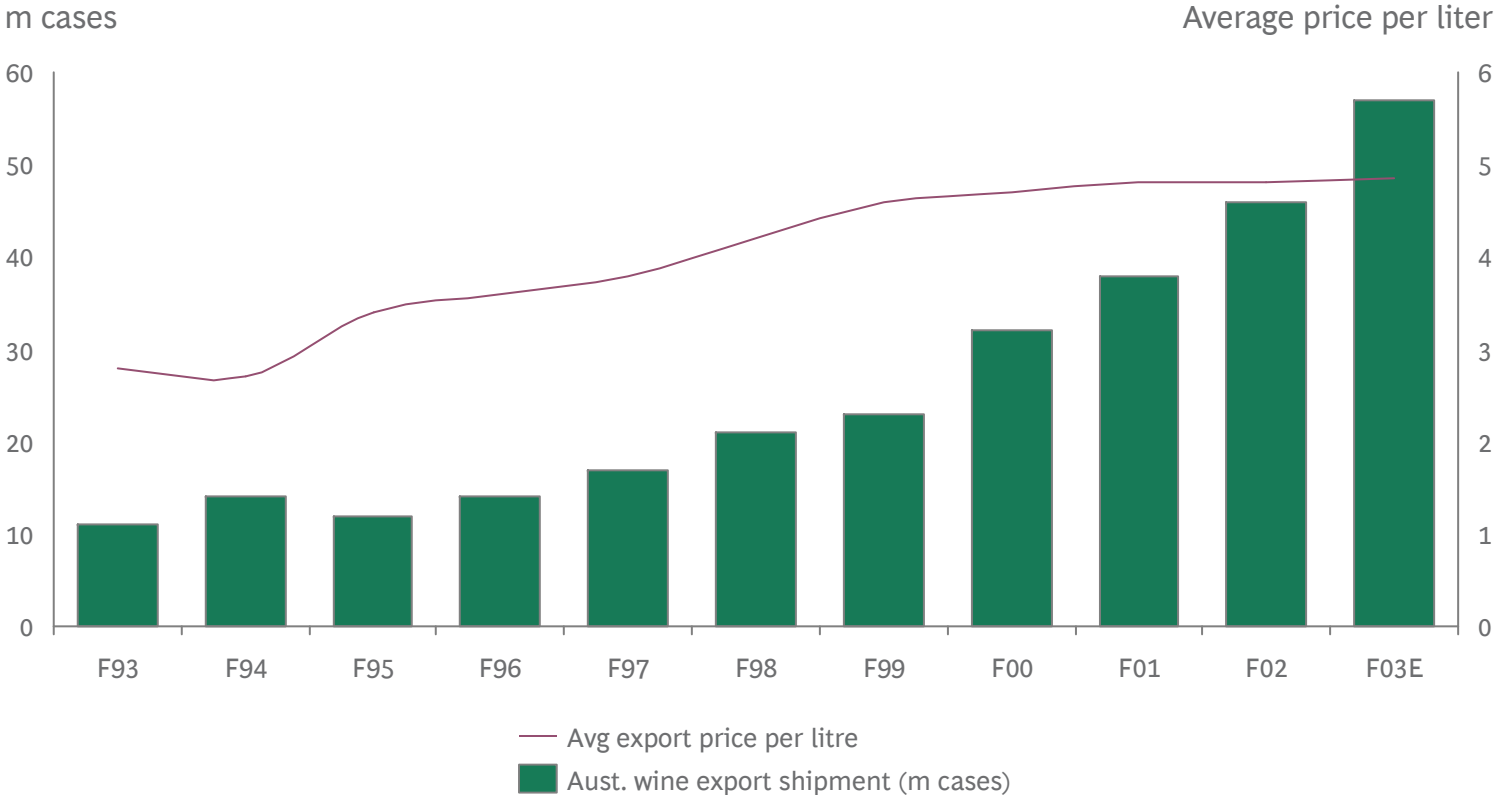
GROWTH (YOY) IN AUSTRALIAN WINE EXPORT SHIPMENT VOLUME, F03 YTD



Denmark has the strongest export growth (albeit off a small base). The US remains the key driver of growth and has overtaken the UK as the largest export destination by value CY02 YTD.

Source: "Wine Export Approval Reports", Australian Wine Export Council
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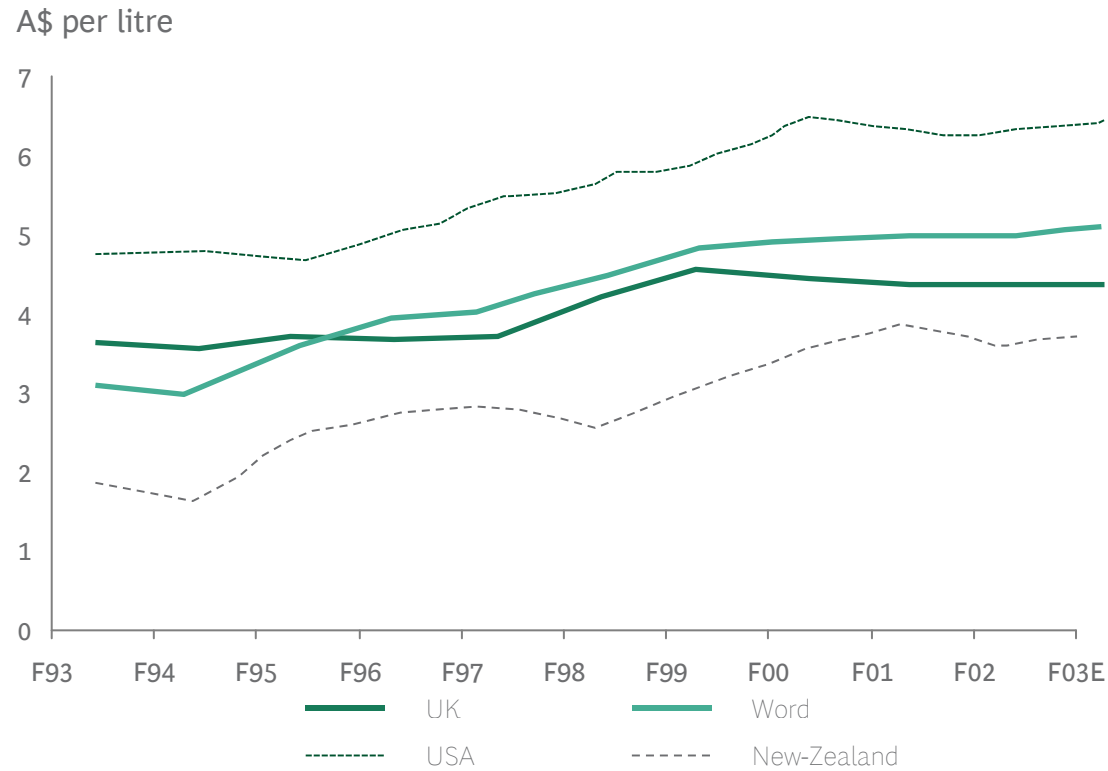
AVERAGE PRICE PER LITER ACHIEVED, F93-F03E



The average price per liter has grown at a CAGR of 6.1% p.a. over the last decade. However, this has slowed markedly over the last few years. Average price per liter grew just 0.7% in F02.

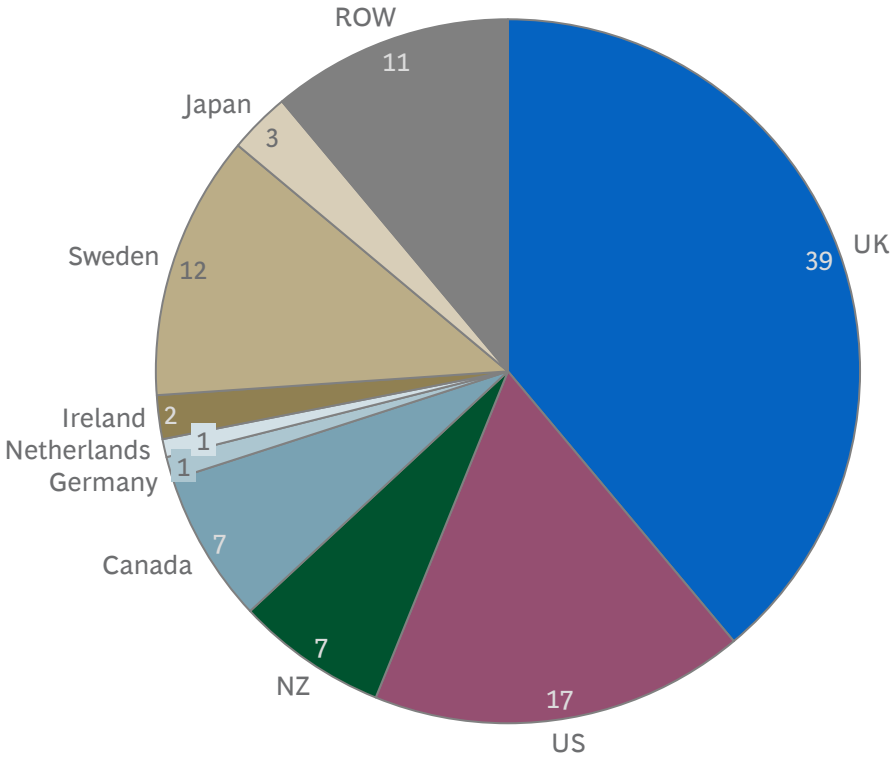
Source: "Wine Export Approval Reports", Australian Wine Export Council & Smith Barney estimates
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AVERAGE EXPORT PRICE PER LITRE ACHIEVED, BY KEY MARKET (F93-F03E)



The average price per liter has flattened due to a re-entry to lower price points in the UK and US (Yellowtail, Banrock Station, Rothbury Estate).

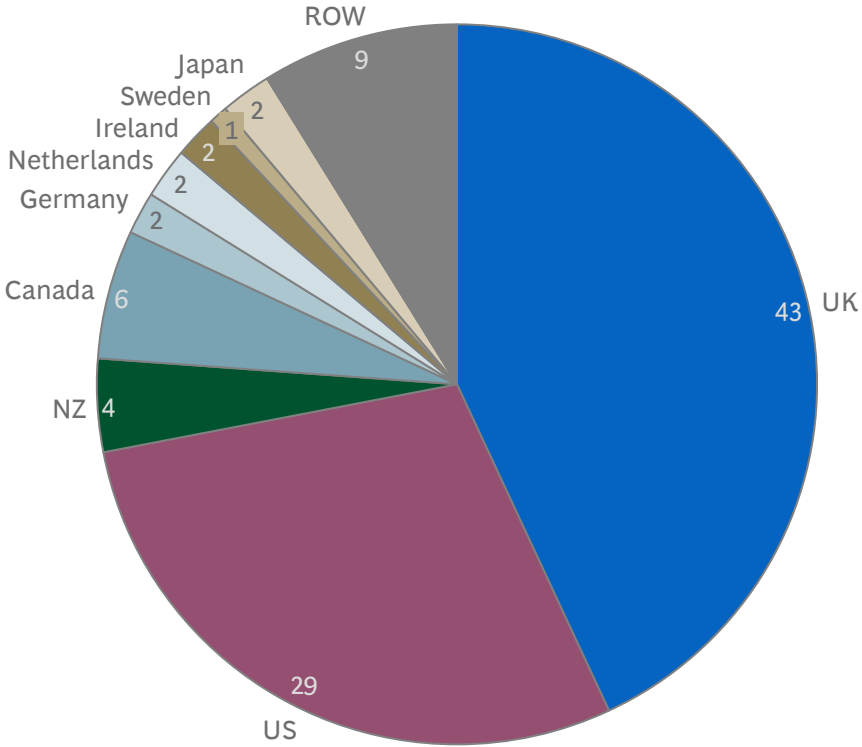
1992 AUSTRALIAN WINE EXPORTS (VALUE), BY KEY MARKET



The UK has always been the dominant market for Australian wine, but its significance grew throughout the 1990s.

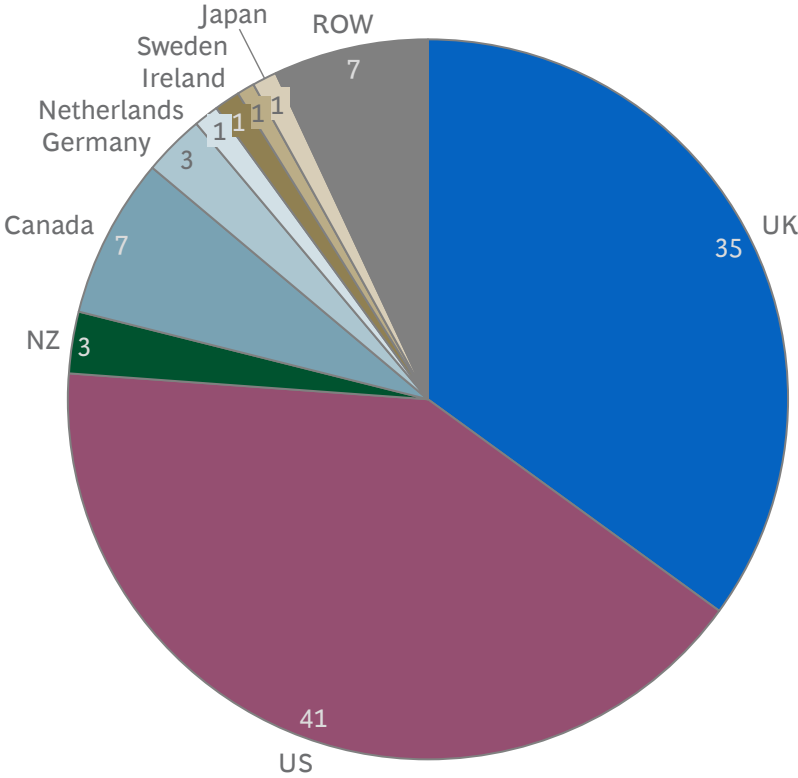
Source: "Wine Export Approval Reports", Australian Wine Export Council
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2002 AUSTRALIAN WINE EXPORTS (VALUE), BY KEY MARKET



The UK market remains the largest export destination with 43% share. The US is a clear #2 and made significant inroads at the expense of the UK.

2005E AUSTRALIAN WINE EXPORTS (VALUE), BY KEY MARKET



The US is expected to overtake the UK in F03E and have a dominant 41% share of Oz exports in F05E.

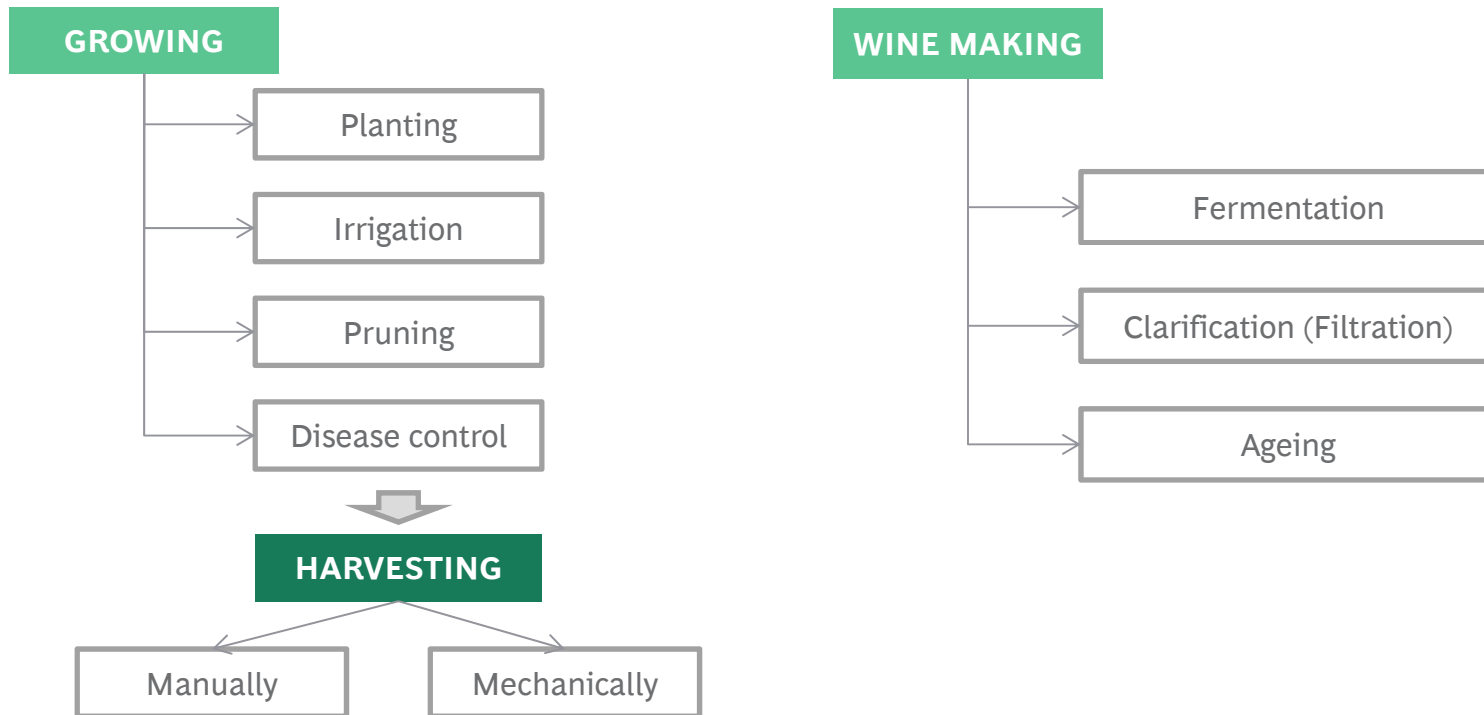
WINE PRODUCTION, EXPORTS AND CONSUMPTION (SELECTED COUNTRIES), 2002E

	Wine production (mL)	Wine production (cases)	Share of world production (%)	Wine exports (mL)	Exports as a proportion of production (%)	Wine consumption (mL)	Per capita consumption (L)
Italy	6,163	685	20	2,308	37	3,311	54.2
France	5,742	638	18	1,781	31	3,767	58.7
Spain	3,783	420	12	1,081	29	1,592	39.5
USA	2,239	249	7	301	13	2,124	10.8
Argentina	1,380	153		96	7	1,354	38.4
Germany	845	94	3	226	27	2,013	23.9
South Africa	812	90	3	165	20	415	8.6
Australia	1,205	134	4	471	39	364	19.8
Chile	709	79	2	342	48	303	18.2
Other	8,201	911	26	1,117	14	7,233	
World total	31,078	3,453	100	7,888	25	22,476	

Australia represents just 4% of worldwide wine production.
Australia exports more than it consumes domestically, however, the current oversupply masks it.

WINE PRODUCTION PROCESS – SUMMARY

The process of turning wine grapes (as distinct from table grapes) into wine is winemaking or oenology; viticulture refers to grape production—supplying the raw material.



HARVEST SIZE, PLANTINGS AND YIELD

Data for global wine production in relation to plantings are shown in the tables below.

Globally, the picture is reasonably stable. Chile and Australia both increased production yield per planted area. Their crude production yields rose by 60.0% and 27.8% respectively during 1993-99.

Argentina is the only country with a sharp drop in production in relation to planted area, which reflects the drop in overall production.

Plantings are useful as an indicator of forward production. The planted area increased by 13.7% in fiscal 2000 compared with a 24.6% increase the previous year.

WINE PRODUCTION BY COUNTRY

Countries	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Market Share	Cumulative Market Share	1999 Rank	10yr CAGR
Italy	7.696	7.597	6.101	6.033	5.487	5.979	6.869	6.230	5.925	5.620	5.854	5.056	5.419	5.400	20.9%	20.9%	1	-1.1%
France	7.322	6.944	5.753	6.100	6.553	4.269	6.540	5.329	5.445	5.561	5.705	5.356	5.267	5.229	20.2%	41.1%	2	-1.5%
Spain	3.587	3.828	2.267	2.896	3.866	3.134	3.403	2.549	2.257	1.964	3.170	3.608	3.032	2.520	9.7%	50.8%	3	-1.4%
USA	1.717	1.837	1.824	1.551	1.585	1.514	1.562	1.660	1.763	1.867	1.742	2.019	1.870	1.946	7.5%	58.3%	4	+2.3%
Argentina	1.857	2.455	2.063	2.032	1.404	1.450	1.435	1.447	1.546	1.644	1.368	1.350	1.267	1.251	4.8%	63.2%	5	-4.7%
Germany	1.006	894	932	1.434	949	1.017	1.338	972	1.038	1.105	830	850	1.080	1.035	4.0%	67.2%	6	-3.2%
South Africa	831	700	896	967	899	970	1.000	916	941	966	1.013	881	816	810	3.1%	70.3%	7	-1.8%
Australia	402	400	408	458	445	400	459	462	482	503	673	617	742	799	3.1%	73.4%	8	+5.7%
Chile	330	440	423	390	398	290	317	330	311	291	337	431	548	585	2.3%	75.6%	9	+4.1%
Romania	870	870	870	870	590	481	574	410	541	672	766	669	500	499	1.9%	77.6%	10	-5.4%
Serbia & Montenegro	-	-	-	-	-	-	-	-	-	280	349	403	403	464	1.8%	79.4%	11	n/a
Hungary	442	326	471	385	547	461	388	364	346	329	419	447	418	423	1.6%	81.0%	12	+0.9%
Bulgaria	326	359	350	289	293	255	197	201	210	220	350	330	330	385	1.5%	82.5%	13	+2.9%
Greece	478	434	435	453	353	402	405	338	361	384	411	399	383	378	1.5%	83.9%	14	-1.8%
Portugal	806	1.112	884	789	1.137	983	741	458	592	726	953	612	362	342	1.3%	85.3%	15	-8.0%
China/ Taiwan	-	-	-	85	90	300	310	350	375	400	300	320	355	324	1.3%	86.5%	16	+14.3%
Brazil	229	242	250	274	311	306	358	350	331	313	232	296	278	270	1.0%	87.6%	17	-0.1%
Poland	257	261	256	256	250	250	250	250	250	250	266	260	260	254	1.0%	87.6%	18	-0.1%
Croatia	-	-	-	-	-	-	-	-	-	179	196	226	228	251	1.0%	89.5%	19	n/a
Austria	223	223	350	258	317	309	259	187	205	223	211	180	270	249	1.0%	90.5%	20	-0.4%
Total World	33.500	32.500	27.790	28.510	28.290	25.850	29.350	25.930	25.439	25.611	27.053	26.146	25.878	25.200				-1.2%

WINE CONSUMPTION BY COUNTRY

Countries	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Market Share	Cumulative Market Share	1999 Rank	10yr CAGR
France	4.244	4.192	4.170	4.181	4.125	3.823	3.701	3.661	3.619	3.663	3.502	3.516	3.419	3.380	13.4%	13.4%	1	-2.1%
Italy	3.911	3.740	3.611	3.544	3.546	3.491	3.468	3.446	3.306	3.300	3.116	3.077	2.963	2.968	11.8%	25.2%	2	-1.8%
USA	2.214	2.198	2.078	1.976	1.940	1.768	1.803	1.703	1.741	1.778	1.909	1.978	2.008	2.089	8.3%	33.5%	3	+0.6%
Germany	1.810	2.005	2.023	2.069	2.071	1.936	1.934	1.835	1.840	1.821	1.884	1.887	1.870	1.880	7.5%	40.9%	4	-1.0%
Argentina	1.822	1.814	1.769	1.723	1.763	1.728	1.654	1.504	1.483	1.429	1.448	1.438	1.401	1.302	5.2%	46.1%	5	-2.8%
Spain	1.363	1.353	1.209	1.168	1.138	1.145	1.032	1.066	1.017	976	973	1.135	1.158	1.102	4.4%	50.5%	6	-0.6%
Russia	-	-	-	962	891	818	520	519	697	858	841	868	880	1.048	4.2%	54.6%	7	+0.9%
United Kingdom	591	629	649	668	665	667	679	710	739	750	769	844	853	863	3.4%	58.1%	8	+2.6%
Romania	639	342	646	391	603	441	565	435	427	574	588	530	567	674	2.7%	60.7%	9	+5.6%
Portugal	709	640	538	527	627	620	606	593	583	576	562	542	531	517	2.1%	62.8%	10	-0.2%
South Africa	315	315	315	330	316	329	329	314	340	355	363	359	367	409	1.6%	64.4%	11	n/a
Greece	236	317	299	300	331	330	325	365	352	362	358	369	382	376	1.5%	65.9%	12	+2.3%
Australia	346	340	344	325	316	309	327	323	332	333	335	352	369	366	1.5%	67.4%	13	+1.2%
Japan	86	99	118	129	135	117	101	121	136	157	189	232	233	316	1.3%	68.6%	14	+9.4%
Brazil	323	206	210	256	260	265	269	273	277	280	300	303	307	312	1.2%	69.9%	15	+2.0%
Switzerland	316	324	329	329	331	320	316	319	310	307	306	308	307	312	1.2%	71.1%	16	-0.6%
Hungary	249	231	220	237	287	299	307	324	299	272	308	294	293	301	1.2%	72.3%	17	+2.4%
Netherlands	217	214	218	221	217	231	242	232	241	256	266	273	289	294	1.2%	73.4%	18	+2.9%
Canada	258	255	266	259	248	238	235	233	232	238	246	258	268	271	1.1%	74.5%	19	n/a
Belgium	214	227	230	229	249	240	250	259	243	254	254	255	255	255	1.0%	75.5%	20	+1.1%
Total Top 37 Countries	21.686	21.758	21.257	21.766	22.038	21.102	20.854	20.630	20.531	20.878	20.772	21.045	21.038	21.336				-0.2%

Note : Consumption and production totals do not always agree due to fluctuation in stock levels and due to the inclusion of bulk exports for other applications—fortified wines—in the output numbers. We have based market share on world production of 25.2 billion liters.
Source: World Drink Trends 2000

SELECTED WINE PRODUCING COUNTRY PROFILES

FRANCE



Key points

- Massive reduction in overall level of both wine and alcohol consumption.
- Trading up is a positive; better marketing would firm this trend.
- Exports rising, but not always a clear winner.
- Substantial opportunity for consolidation and repositioning of the industry.

Despite a dramatic fall in consumption, France remains the world's largest wine consumer. Beer and spirits have moved to within sight of accounting for half of French alcohol consumption from just over one-third in 1980. Per capita wine consumption stands at 58 liters annually. Reduced alcohol intake can partly be explained by a trend towards the global norm. France was well ahead of other countries in terms of total intake. In addition, there have been cultural shifts away from weekday lunchtime wine consumption—largely in favor of mineral water.

However, there is at least trading up. In the past 20 years, the portion of AOC (Appellation d'Origine Contrôlée) wine consumed has increased from 30% to 50%, indicating that quality concerns have been increasing year-on-year. This presents a significant opportunity for wine companies with a commitment to marketing and an endorsement of higher-quality brands.

SELECTED WINE PRODUCING COUNTRY PROFILES

FRANCE



Exports of French wines increased steadily in the past five years. This trend will probably continue. However, our experience elsewhere in the beverage alcohol industry suggests that the French should be careful not to make two mistakes. First, a weak domestic industry rarely translates into a sustainably strong export market. Both Australia and California support their domestic wine industries wholeheartedly. Second, it is difficult to offset a major market that is in decline with the establishment of new markets. Note how Scotch whisky's failure in its largest market (the US) offset its progress in the newer markets. Furthermore, as our other country reviews show, the export market is very competitive. And although France has a leading overall position in the UK and in the US, Australia and new world wines have been growing at faster rates. The position with individual brands is more striking. The market leader in the US imported sector is now Concha Y Toro, the listed Chilean company, while the leading French brand is Georges Duboeuf, the sixth largest import.

The French wine industry could benefit from adopting some of the technology that has been one of the driving platforms for the new world wines success. Examples would be drip irrigation systems used extensively in Australia as well as the practice of using wood chips in the fermentation process to add oak flavors to the wine, as opposed to imparting that flavor through aging in oak barrels, which is a technique also perfected by the Australians. In some cases, French wine producers would like to adopt these technologies, however, they are prevented from doing so through stringent and often ancient regulations that prohibit such practices.

SELECTED WINE PRODUCING COUNTRY PROFILES

USA



Key points

- Strong domestic producer with rising demand for imports.
- Growth market with substantial trading up.
- Both listed and commercially minded private wine companies.

The US wine market is interesting because it combines strong domestic production with a growing import market. Overall, the US is a net wine importer. Moreover, per capita consumption is low. As a result, there is a significant opportunity for consumption to increase.

US wine companies tend to commit to a higher quality profile and to building brand awareness through advertising. While consumption is geographically diverse, production is concentrated in California—around 90% of US output in volume terms according to the Wine Institute. The US is the fourth largest wine producer in the world with total production of 1.9bn liters—equivalent to around 200m cases.

US wine consumption recovered in the mid-1990s and continues to have high potential. Per capita consumption is low for such a large wine producing country. In 1997, the US was the number 31 in the world on this basis with a minuscule intake of 7.4 liters per annum. This is half of the UK level and a mere 10% of the levels enjoyed in Southern Europe. In the second half of the decade, volume grew at a brisk 4% compounded annual rate.

SELECTED WINE PRODUCING COUNTRY PROFILES

USA



In addition to its positive underlying volume growth, the US market benefits significantly from trading up. According to data published by Allied Domecq, the high-premium segment (for them, >\$7 per bottle) in the past four years grew at a rate of 10–14% with the premium segment as a whole averaging 7%.

There were markedly faster rates than for the industry as a whole. The shift to premium wines is positive both for the domestic producers' profitability outlook and for exporters to the US.

The top five US wine brands enjoy a 30% share of the domestic premium market. While less concentrated in comparison with other US alcoholic beverages, this is relatively concentrated for premium wine brands when compared with other countries, and is consistent with a higher focus on advertising. Robert Mondavi spends 4–5% of sales on advertising, which is more than the major Australian listed companies spend in their domestic market.

In the 1990s, Americans doubled their consumption of imported wine, which increased from 21.2m cases in 1990 to 43.8m cases in 2000. The import share rose from 9.8% to 18%. Italy and France remain the largest exporters to the US. However, Australia has been comfortably the fastest growing. Brand building and a commitment to advertising is a critical component of success in the US wine market as a whole. The import sector is no different.

SELECTED WINE PRODUCING COUNTRY PROFILES

USA



Australia's Rosemount and Lindeman's are both among the top five imported US wine brands despite the country's overall volume share of only 14.0%. Chile, with an overall share of 13.3%, boasts the number one seller—Concha Y Toro. France's lack of commitment to brands is telling—only one of the top brands is French despite an overall imported share of 22.9%. Italian brands fare much better.

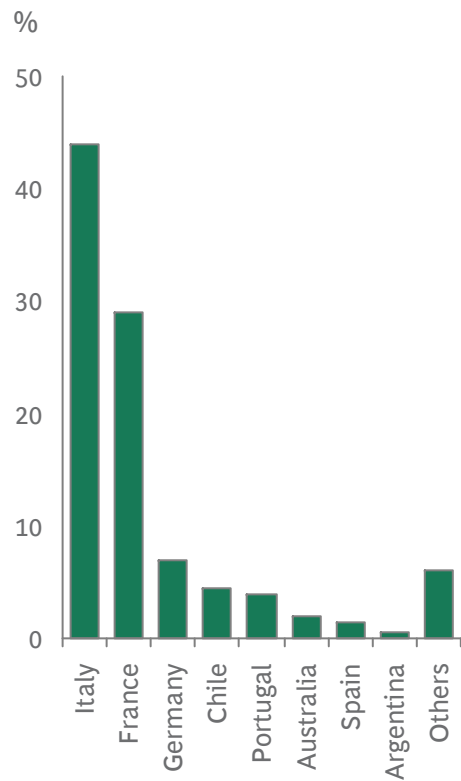
Wine production in the United States has increased dramatically in the past ten years, aided in many respects by technological innovations. A good example of this innovation is the drip irrigation system pioneered in California in the 70s and 80s. It is basically a long pipe with micro jets inserted with the trellises that allow vines to grow roots deeper into the ground, ensuring higher quality at a given yield. Additionally this form of irrigation is more efficient in water and fertilizer use, thereby allowing more arid land areas to be used for grape growth. The use of different soils increases the spectrum of wine characteristics from the grape allowing greater product differentiation and is also less stressful on the land, thereby ensuring yields in the long run. EU legislation however, prohibits Spanish, Italian and French producers from irrigating their lands, thereby crippling their ability to take advantage of this key development, which gives the US and countries like Australia an advantage in wine production.

U.S. wine producers also benefit from a relative lack of regulations that serve to restrict their production efforts—they are free to use whatever technologies they deem worth it to further the competitiveness of their products. Their European competitors are not so lucky.

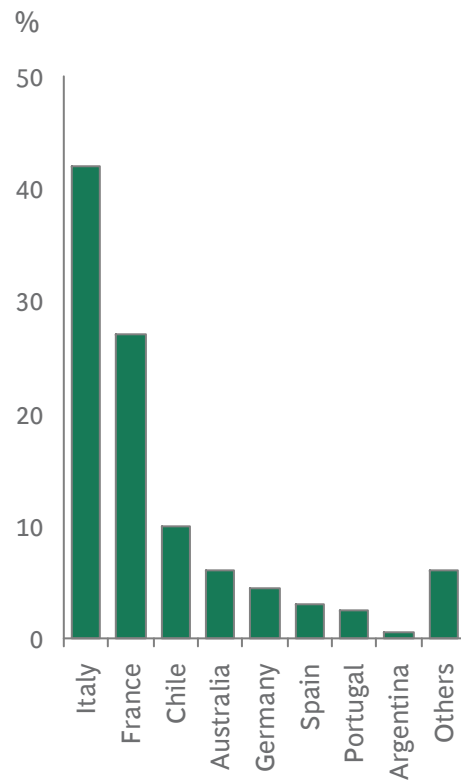
US – SHARE OF TABLE WINE IMPORTS BY ORIGIN



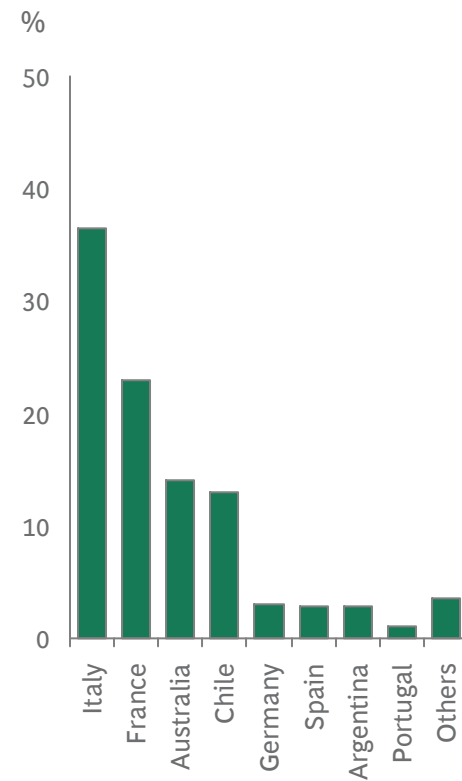
**EXPORTS BY VOLUME
(1990)**



**EXPORTS BY VOLUME
(1995)**



**EXPORTS BY VOLUME
(2000)**



SELECTED WINE PRODUCING COUNTRY PROFILES

AUSTRALIA



Key points

- Export-driven growth—quality, increasingly marketing-driven, and low-cost base.
- Domestic market stable.
- Dominated by listed companies which look to consolidate domestically and internationally.
- Looking to add new success stories to US and UK.

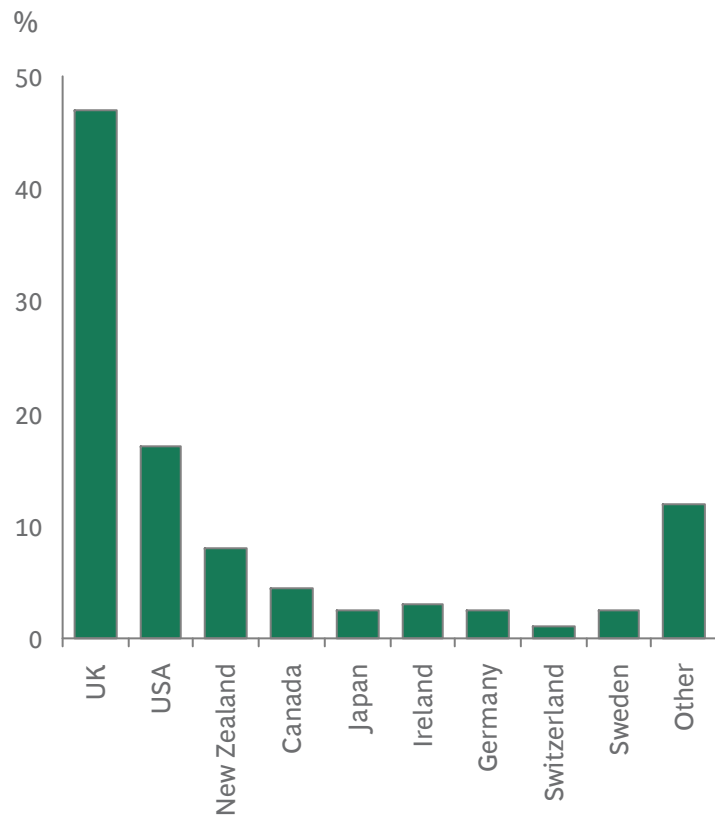
Dominance by listed companies that have access to equity capital, intelligent handling of distribution, a focus on quality and an unusually weak currency explain the success of the Australian wine industry. Domestic consumption remains steady—lifted more by population growth than taste changes—and provides a firm financial platform for international expansion.

The Australian wine industry's growth is based on international expansion. Domestically, the industry is fairly uninteresting. Australians drink around 20 liters of wine per year on average and have done so for the past two decades. The main barriers to domestic volume growth are relatively high taxes and Australia's maturity (in all senses) as an alcohol market. Moreover, taxes in Australia are levied on the value of the product, which inhibits the growth of the premium segment.

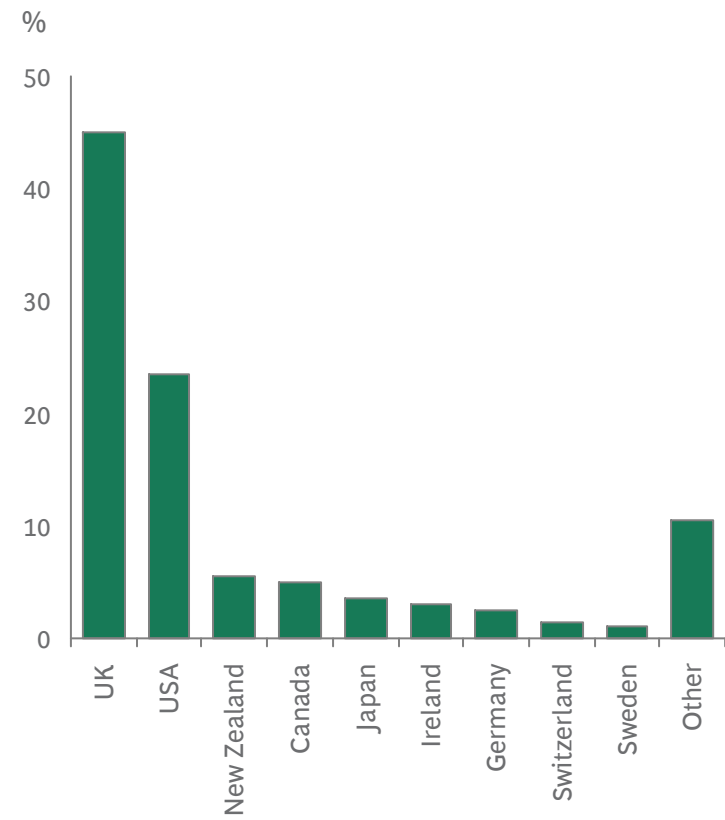
AUSTRALIAN WINE EXPORTS BY DESTINATION



EXPORTS BY VOLUME



EXPORTS BY VALUE



SELECTED WINE PRODUCING COUNTRY PROFILES

AUSTRALIA



The export market is where Australian wines have been conspicuously successful. Not only has Australia grabbed the number two status in the UK but is now number three in the US, having dislodged Chile. In the four years to 2000, Australian wine exports to America increased at a 30% compound rate—significantly faster than any of its main competitors. Australian exports to the US are already as much as one third of the Italians.

Furthermore, Australian wine vintages refer to the year in which the grapes are bottled—not to when they are picked. Thus, Australia can achieve greater consistency by blending grapes of different vintages.

As the above table shows, the UK and US absorb 65% of Australia's wine exports by volume. New Zealand, which relies on Australia to satiate its thirst for quality full-bodied red wines, takes up a further 9%.

Australia's successes have so far been in English speaking markets. However, this is less important as a measure of the winemakers' competence than the ability of Australia to sell into countries which are strong domestic producers. The US success is arguably a more positive indicator than the UK.

SELECTED WINE PRODUCING COUNTRY PROFILES

AUSTRALIA



Australia has a significant cost base advantage over other countries. In particular, when it competes in the US market it does so against companies whose land costs are massively higher. In terms of overall costs per case, Australian listed wine companies average, about half their North American counterparts.

From a technological standpoint, innovation in wine technology has helped the Australian wine industry launch itself upon the world. An example of innovation pioneered by the Australian producers is the use of oak during the fermentation process. Aging in oak barrels gives the wine its flavor (or bouquet), with the barrel size, age (newer is better) and oak type influencing the flavors imparted into the wine. While the use of oak barrels cannot be circumvented for the production of top-end wines, Australian wineries have adopted stainless steel vats to ferment their middle range wines in. By adding oak woodchips to the vats during fermentation, Australian wine producers add the desired oak flavors and gain a significant scale advantage over producers who adhere strictly to barrel fermentation. This practice is seriously outlawed in France, despite the significant cost advantage.

SELECTED WINE PRODUCING COUNTRY PROFILES

ITALY



Key points

- Fragmentation restricts profitability.
- Consumption volumes trading down but consumers trade up.
- Opportunities are in export and brand building.

Italy is the world's largest wine producer. Most of the country's winegrowers are part of a Cooperativa (i.e., they have co-operative ownership structures). These associations of winegrowers initially existed to optimize costs and secure distribution. At present, they represent the biggest operators in the industry, together with some well-known families, such as Caviro, Massaro, Coltiva (10,000 ha) and Cantine Riunite, or Zonin Family (1,500 ha) for table wine and premium wine, and Cinzano (Campari group), Gancia and Martini (Bacardi Group) for sparkling wines.

The average winery holds around 1 ha of land, although Northeastern wineries tend to be slightly bigger, around 1.26 ha, which reflects the co-operatives structure and the non-existence of major public companies (excluding Campari, which is mainly in sparkling). Though this average seems very low, it actually hides a very wide range of winery sizes, implying that, despite of a considerable fragmentation, there is a much room for consolidation.

SELECTED WINE PRODUCING COUNTRY PROFILES

ITALY



The larger wineries are found in Northern Italy, with the exception of Sicily. The other regions with extended acreage are Piedmont (Barbera, Barolo and Barbaresco), with around 1.5 ha and Tuscany (Chianti) with 1.4 ha. These averages compare with the Zonin family, holding around 1,500 ha spread across 7 prestigious wine regions, and the Coltiva co-operative, holding around 10,000 ha. In other words, there are large discrepancies in winery sizes and this has a direct impact on the wine industry in terms of brand building.

Critical size for production and marketing purposes is somewhat missing. Wine production fell by one third from 7,800m liters to 5,500m liters in the 15 years to 2000. The acreage utilization dropped by 10%. We expect this trend to continue as a result of three main factors:

- As indicated, the production network is very fragmented except for a limited number of large families. The existing myriad of small, family-owned wineries, who are not members of co-operatives, do not hold a brand name, nor is the quality of their product good enough to ensure survival in the long run. Therefore, these smaller winegrowers might disappear.
- In 1997, 39% of the heads of wineries were aged 65 plus and 46% were aged 45–64 years. The younger generation might be expected to sell out.
- Finally, the appellations restrict the production areas and the yields per hectare. Therefore, there will be a land constraint in terms of acreage.

SELECTED WINE PRODUCING COUNTRY PROFILES

ITALY



Lower production is being offset by improved quality. This is mainly driven by two factors:

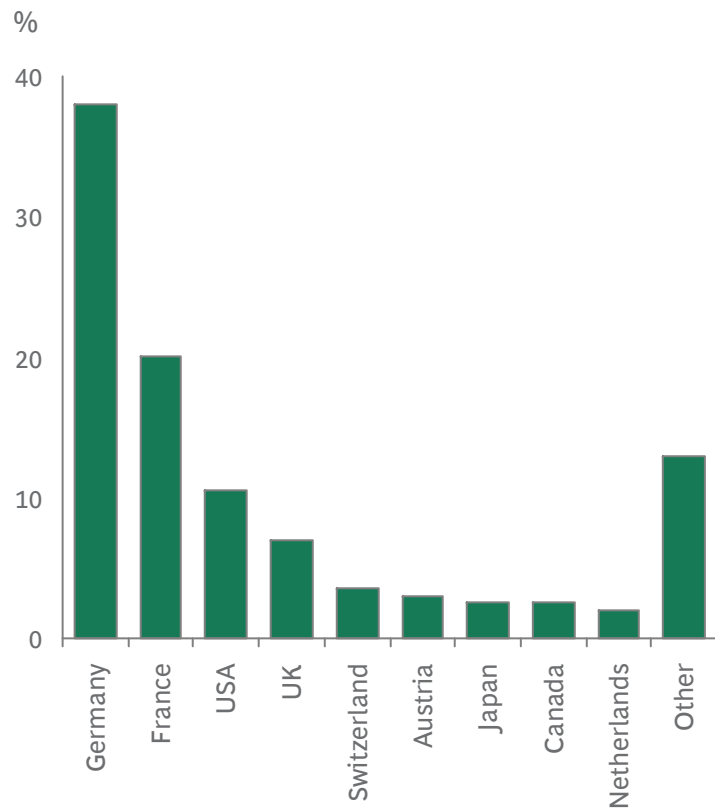
- As domestic consumption decreases every year, wineries look at opportunities to grow abroad. The image of Italian wine is well established. But competition is tough in major markets such as the US, the UK, Japan or Germany. Therefore, brand building will gradually become a necessity to compete in the export market of good quality wines.
- More emphasis is attributed to good quality wines and their origin and the appellations are one of the tools used to leverage on quality and drive prices higher. Government and related agencies fully support and promote the appellation system.

Italian winemakers have growth potential both in Italy, attributable to trading up, and abroad where, despite intense competition, the country's profile remains strong.

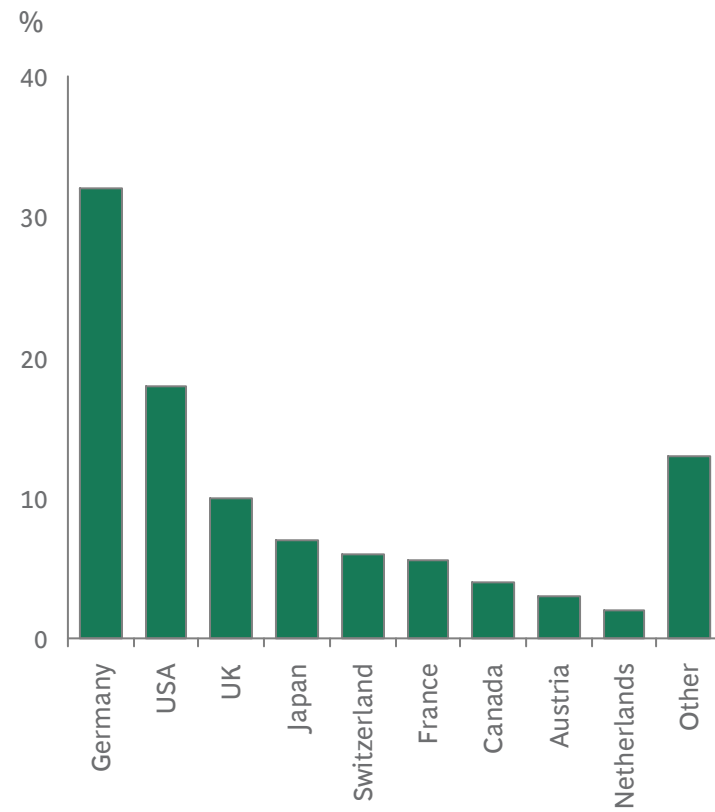
ITALY – WINE EXPORTS BY VOLUME AND BY VALUE



EXPORTS BY VOLUME



EXPORTS BY VALUE



KEY WINE MAKING METRICS – JULY 2002

	Commodity	Premium	Super Premium	Ultra Premium
Prices for crushed and delivered grapes (US\$ / Ton)				
• Australia	\$75	\$400	\$1,500	\$2,000
• Chile	\$85	\$450	\$2,000	\$4,000
• France	\$125	\$700	\$5,000	\$12,500
• Italy	\$95	\$600	\$3,500	\$7,500
• United States	\$150	\$500	\$3,600	\$5,000
Cases per Tonne	85	70	63	55
Bottles per Case	12	12	12	12
Average production & bottling cost per bottle (US\$)¹	\$0.80	\$0.90	\$1.60	\$2.10
	\$1.50	\$4.00	\$8.00	\$20.00
Average wholesale price per bottle (US\$)¹				
Freight cost (US to Australia or Australia to US) (US\$/btl)	\$0.60	\$0.60	\$0.60	\$0.60

1. Average cost and price are the same for all competitors
THE BOSTON CONSULTING GROUP

Press Search Articles

US WILL BE A KEY MARKET

(1/2)

By Lucia Isabel

2 July 2003

Herald and Weekly Times

(c) 2003 Herald and Weekly Times Limited

The Australian wine industry's golden future may lie with the United States.

Australian Wine and Brandy Corporation senior analyst Lawrie Stanford said the nation's export performance was beginning to plateau in our largest export destination, the United Kingdom. Mr Stanford said the US was the industry's biggest growth prospect.

"The US is rapidly approaching our value performance in the UK, so it seems our golden future may be with the US," he said.

"We have a concentration of sales in the popular premium and top-end wines."

But the competition will be fierce, particularly from France, where growers are calling for authorization to blend varietal wines, more liberal winemaking techniques, such as oak chip use, a proactive branding policy, and consumer-driven research. Mr Stanford, a key speaker at the NSW Wine Industry Association seminar, said domestic wine sales were growing at 2 percent a year, but the export market was where the industry's future lay. Australian exports make up just 5 percent of world volume and 7 percent in terms of value.

"This means we could be trodden on quite easily, particularly by France, or there is still a lot of expansion we could still do," Mr Stanford said.

He said the industry needed to target the emerging wine consuming nations of Denmark, Netherlands, the UK, Sweden, Ireland, Finland and Japan.

US WILL BE A KEY MARKET

(2/2)

By Lucia Isabel

2 July 2003

Herald and Weekly Times

"We are doing well in all these markets because emerging wine consumers don't want to be intimidated by wine; they want to work out what they do like," Mr Stanford said.

"We label our wine in a friendly way. We ensure it is branded and consumers are not being looked down on."

Mr Stanford said the emerging markets represented different opportunities for Australian wine producers. Germany and Japan offer niche opportunities, while the US and Canada were volume markets for good-value wine.

"We are well established in the UK and have category status. The distributors have the attitude that it's a must-have category," Mr Stanford said. "We are now ready to move on to regional wine (branding)."

Cowra vigneron David O'Dea said the bias towards export was strong and the domestic market should not be ignored.

Mr O'Dea said Queensland was emerging as an important market. "They want different wines to what we sell in Victoria and NSW," he said. "They are looking for chilled, lighter reds and more fruit-driven wines."

REGULATIONS CUT INTO OLD WORLD WINE PRODUCERS **COMPETITIVENESS**

(1/3)

By Paul Tranter

20 September 2002

The Times

A large part of the performance gap between the New World and Old World wine countries is explained through an examination of the differences in the regulatory framework and the activities of institutions in each country/region. Essentially, the New World has taken a market-driven approach to the development of the wine industry, while the Europeans have taken a more protectionist approach facilitated through the Common Agriculture Policy (CAP).

There are some reasons surrounding this approach: -wine has a high contribution value to final agriculture output in the major markets (5.4% in Spain, 14.3% in France and 9.8%) Additionally it is the most significant agricultural export product and the areas that are under vine are susceptible to soil erosion if vines are removed.

Alongside the CAP, a network of Appellation Control Committees polices the production in Old World countries. In France these Appellation Committees were first established in 1930 and are responsible for setting the minimum requirements for each wine region. The original and still existing intention of these Control Committees is to protect the standard of the wine produced within the region. Wines that pass the prescribed tests are then branded with the appellation control stamp. In reality the application of these regulations has led to an endorsed legacy of rigid wine techniques within the French industry denying local winemakers of access to much of the innovation adopted by the less regulated New World Wine Countries.

REGULATIONS CUT INTO OLD WORLD WINE PRODUCERS **COMPETITIVENESS**

(2/3)

By Paul Tranter

20 September 2002

The Times

The appellation regulation is highly prescriptive, touching all parts of the wine-making process, and its application can result in seemingly perverse outcomes. For example, the alcohol content of a Sauvignon Blanc wine grown in Bordeaux is restricted to no greater than 12.5%. However given the influence of weather, often growing conditions and limited harvesting opportunities can combine to produce a ripe crop that, if processed naturally, would result in the wine exceeding the allowable limit of 12.5%. In the New World the winemaker would be delighted, sensing an opportunity to produce a powerful fruity wine that could be differentiated from other competitors or alternatively, blended with other wines to ensure product consistency. However in the Old World of Bordeaux the winemaker is restricted to two much more grim alternatives, either use production processes to effectively water down the wine, or alternatively to break the law and produce a wine that doesn't conform to the regulation.

On a macro level, the appellation framework (a) underwrites production (b) restricts growth and output and (c) limits the use of technology. The following table in exhibit 17 highlights the differences in regulation between France and Australia across an assortment of winemaking activities. As a result, Old World producers are limited in their ability to innovate and meet changing customer's demands. Additionally, the appellation quality control mechanisms are not end-product focused (they primarily govern the inputs), which means that there are free-rider incentives for the Old World producers—it is not uncommon to have wide variability within a given appellation which undermines the value of the appellation structure and prevents the establishment of successful brands.

REGULATIONS CUT INTO OLD WORLD WINE PRODUCERS COMPETITIVENESS

(3/3)

OVERVIEW OF THE REGULATORY CONSTRAINTS IN FRANCE AND AUSTRALIA

	Regulation	France	Australia
Land & New supply	Geographical appellation zones	Strictly regulated	Recent formation of geographical zones e.g. Adelaide Hills vs. Coonawarra
	Grape varietal planted	Strict rules stipulating the grape varietal to be planted within certain regions, e.g. only Merlot and Cabernet in Bordeaux	Completely unregulated. While some areas have larger concentrations of varietals the winemakers is free to diversity
	Vine plantings	Ban on new planting until 2010. Some re-planting rights—strictly regulated. No secondary markets for traded rights	Unregulated growth allowed subject to Town Planning
Production & harvesting	Irrigation	Widely prohibited	Modern drip irrigation practices widely adopted
	Grape picking	Some areas restricted to hand picking	Unregulated. Winemaker is free to choose.
Fermentation	Use of oak chips as opposed to barrels	Illegal	Widely adopted as a cheaper method to introduce oak complexity into the wine
	Strength of alcohol content	Threshold levels must not be exceeded	Winemakers free to experiment and innovate
Marketing & distribution	Size of area under labels	Restricted to 177 cases per acre per label. Any excess must be sold under secondary labels	Unregulated
	Grape varietal packaged & bottled	Strict rules control the grape varietals allowed to be blended	Unregulated
	Label information	Strict adherence to appellation criteria. Grape varietal must not be advertised on front of label	Winemaker free to brand and label product in accordance with regular commercial laws
	Treatment of excess production	Surplus purchased by Government under the Common Agricultural Policy	Markets adjusts prices through supply and demand

LOOKING UP DOWN UNDER FAST-GROWING AUSTRALIA WINE INDUSTRY SECOND-BIGGEST SELLER IN THE U.S. (1/3)

BLOOMBERG NEWS – 29 April 2003
Pittsburgh Post-Gazette

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ADELAIDE, Australia

Adelaide is in the heart of the world's fastest-growing wine region. Australian-based companies have captured more than 10 percent of the \$13.8 billion international wine trade, according to Dutch agribusiness lender Rabobank International. And the value of Australia's wine exports has grown an average of 33 percent a year since 1986, reaching \$1.48 billion in the year ended in March, says Australian Wine and Brandy Corp., a government regulatory body.

Australia became the largest wine exporter to Britain last year, overtaking France. And in the United States, it's now the second-biggest source of imports behind Italy, and its sales volume grew 67 percent last year, according to Salomon Smith Barney, now called Citigroup Global Markets Inc. California wine sales, which have 70 percent of the U.S. market, grew by 3 percent.

"The growth of Australian wine sales in the U.S. is staggering," said Jon Fredrikson, CEO of Woodside, Calif.-based wine industry consulting group Gomberg, Fredrikson & Associates. "The Aussies have shown the French how to write the book when it comes to marketing."

LOOKING UP DOWN UNDER FAST-GROWING AUSTRALIA WINE INDUSTRY SECOND-BIGGEST SELLER IN THE U.S. (2/3)

BLOOMBERG NEWS – 29 April 2003
Pittsburgh Post-Gazette

Climatically perfect

The secret of Australia's success, says California wine consultant Robert Nicholson, is that its wines are simply better values than their California and European rivals. "They over deliver for the price," said Nicholson, principal of International Wine Associates, which has advised on \$650 million worth of wine industry mergers and acquisitions in the past 10 years. "You can get the same quality from a \$7 bottle of Australian wine as you can from a \$9 or \$10 Californian equivalent."

Australian winemakers and their rivals cite several reasons for that ability to deliver. Most important, they say, are cost and climate. Australia, a country the size of the mainland United States with a population of just 19 million – less than that of Texas – has abundant cheap land. A sweeping, sunny 1,860-mile arc of that territory, between the barren outback and the modern cities built on the coast of southern Australia, is climatically perfect for growing grapes, says Nicholson. Australia's first white settlers, British convicts who'd been deported to Australia to set up the colony of New South Wales around Sydney Cove in 1788, planted vines soon after their arrival.

Fifty years later, non-convict European immigrants settling outside Adelaide in the colony of South Australia began growing grapes in the Barossa Valley and the McLaren Vale. Today, South Australia is the country's most important wine-growing area.

"You can buy the land and plant a vineyard in McLaren Vale for a low price per acre," says wine consultant Fredrikson. "In Sonoma, here in California, it would cost you two or three times as much. In the Napa Valley, it would be four or five times higher."

LOOKING UP DOWN UNDER FAST-GROWING AUSTRALIA WINE INDUSTRY SECOND-BIGGEST SELLER IN THE U.S. (3/3)

BLOOMBERG NEWS – 29 April 2003
Pittsburgh Post-Gazette

Few restrictions

Millar says cost is only one Australian advantage. Another is the fact that Australia lacks the regulations that restrict so-called old-world producers in Europe.

Many French winemakers have to operate under the Appellation d'Origine Contrôlée system – a set of rules that restricts them to using only those grapes from their immediate locality and of specified varieties.

"The rules in France are much too strict," said Pernod-Ricard's Patrick Ricard. "As long as France cannot change them, it will not be in a good position to compete against wines of the new world."

In Australia, winemakers face few such restrictions. They can use grapes from any of scores of wine-growing areas stretching from the Hunter Valley just inland from the Pacific Ocean north of Sydney to the Margaret River on the Indian Ocean south of Perth in Western Australia.

France's share of the international wine trade has declined to 40 percent from 50 percent in the past 10 years, according to the Federation of French Wine and Spirits Exporters.

ANSWERS (1/2)

Overview of possible answers

Q1 . I BELIEVE THE US SHOULD BE THEIR #1 PRIORITY. IS THIS CORRECT? WHAT MAKES THIS COUNTRY ATTRACTIVE FOR THEM?

To answer this question, you need to focus on key issues to analyze the market, including: what is the market size and its historical growth? Is it profitable? Is there a future potential for growth?

We suggest an approach in 3 slides:

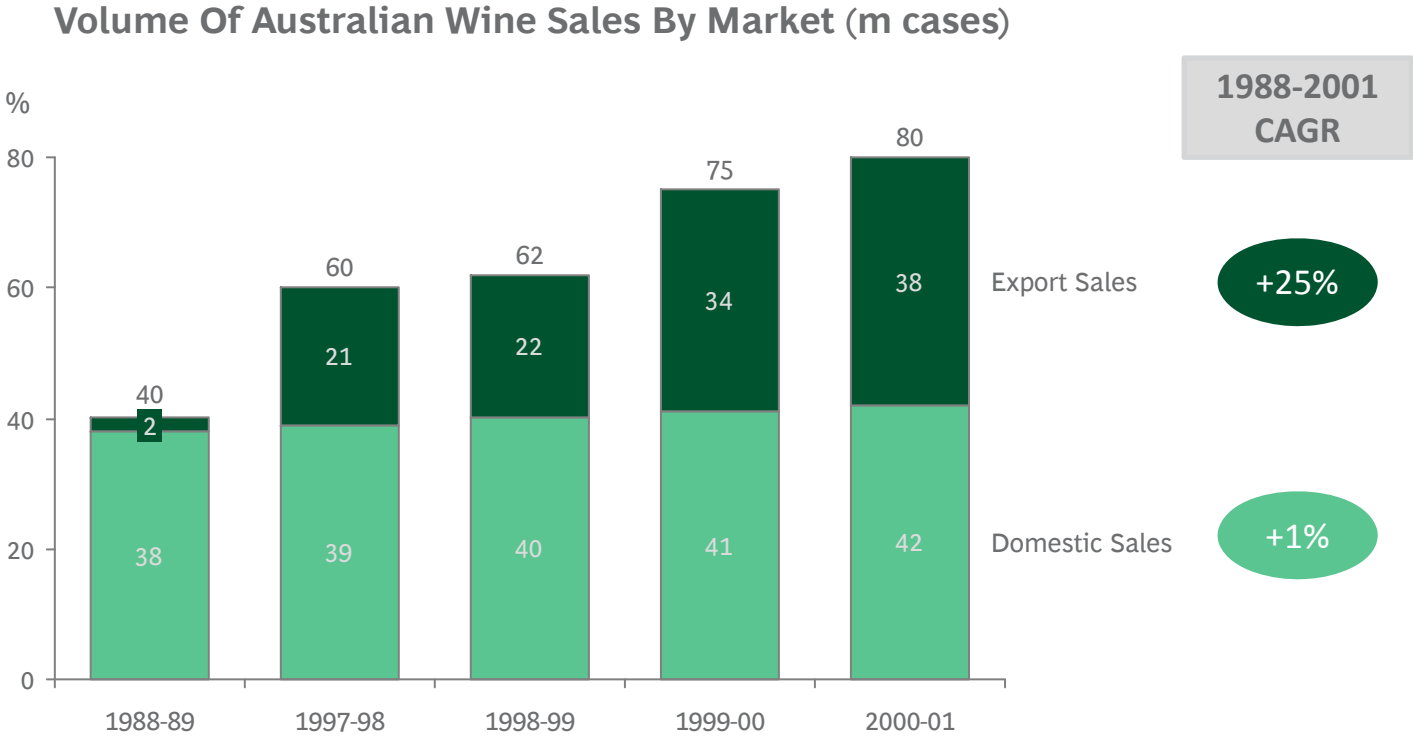
- Illustration of the need for Australian wines companies to focus on exportations due to a flat domestic market
- Comparison between the different potential markets (volume, growth, prices) showing US is attractive in both volume and price
- Illustration of positive market outlook: low consumption in the US and low market penetration of Australian wine companies

It is also possible to illustrate the threat of competition in the US market (especially as US is self-sufficient in terms of production).

Instead of the three slides version, you could also have illustrated the attractiveness of the US market on a single slide by comparing it with other countries on key market drivers (volume, growth, prices, consumption per capita, etc.).

AUSTRALIAN WINE PRODUCERS NEED TO FOCUS ON EXPORTS

FLAT DOMESTIC MARKET WHILE EXPORTS HAD A ~25% ANNUAL GROWTH RATE, FROM 1988 TO 2001

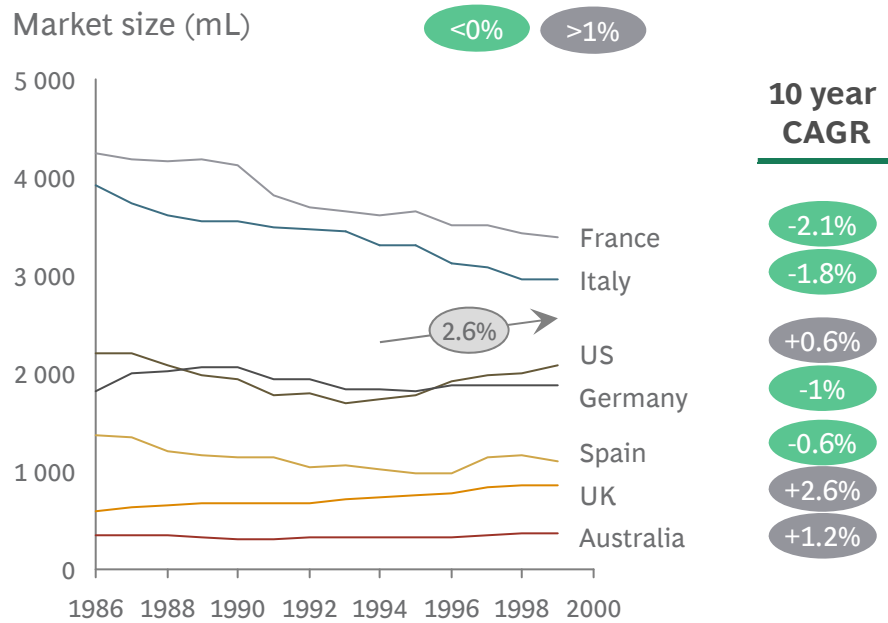


Source : ABS Cat No 8504.0 & Smith Barney estimates
THE BOSTON CONSULTING GROUP

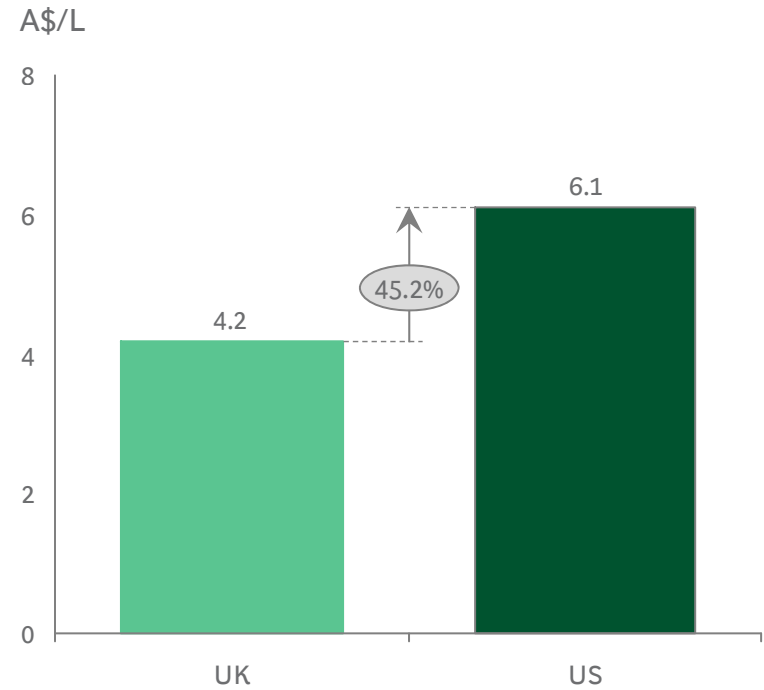
US IS THE MOST ATTRACTIVE MARKET IN BOTH VOLUMES & PRICES

3RD LARGEST MARKET WITH ~3% GROWTH OVER THE PAST 5 YEARS AND HIGH PRICING REALIZATION

WINE CONSUMPTION PER COUNTRY (1986-1999)



AVERAGE EXPORT PRICE IN 2002 IN US VS. UK



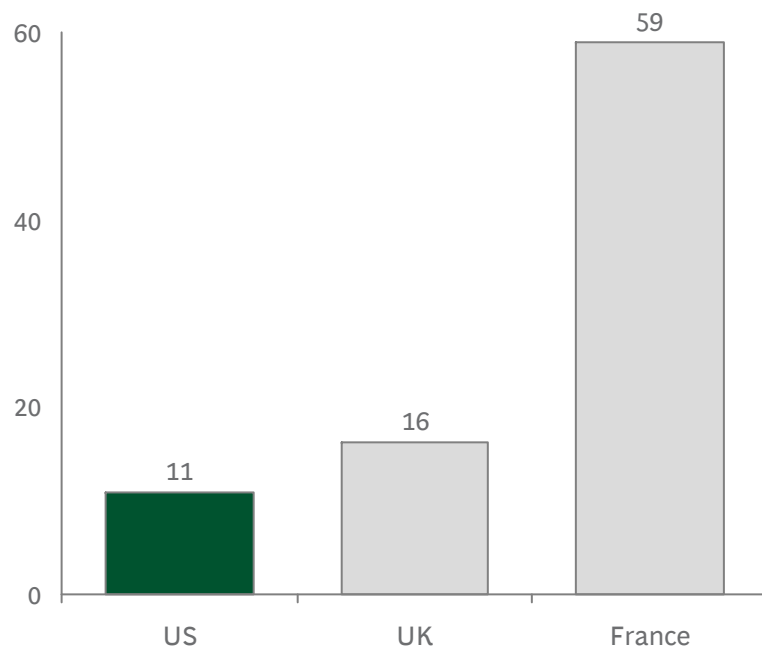
Note: mL = million liters
 Source: World Drink Trends 2000 export approval reports, Australian Wine Export Council & Smith Barney estimates

PRICE LEVEL COULD EVEN INCREASE MORE IN THE U.S. GIVEN CURRENT TRENDING-UP PHENOMENON

GROWTH POTENTIAL IN THE US GIVEN LOW CONSUMPTION PER CAPITA, ESP. FOR AUSTRALIA THAT CURRENTLY HAS A LOW PENETRATION RATE

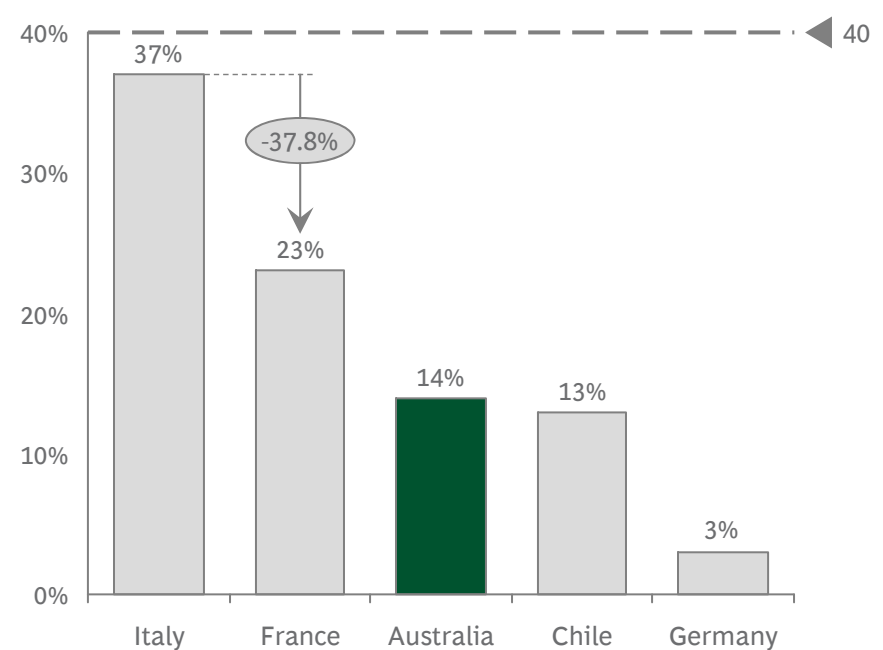
PER CAPITA CONSUMPTION IN THE US WAY BELOW UK AND FRANCE

Per capita consumption in 2002 (L)



AUSTRALIA 3RD EXPORTER IN THE US, FAR BEHIND LEADERS AND WITH A SHARE LOWER THAN IN THE UK

Import shares in the U.S. in 2000 (by volume), in %



1. Hypothesis: UK per capita consumption calculated as 150% of US (was 200% in 1997 when US had 7.4L/capita consumption)
Source: Impact Databank, press

Q2. WHICH PRODUCTS HAVE THE HIGHEST CHANCE OF BEING PROFITABLE AND COMPETITIVE IN THE US?

They currently have different options in mind in terms of priority products to enter the U.S. market with. This is a major issue for them because product marketing decisions require long term planning to take into account the grape-to-bottle lead-time so please address it as deeply and accurately as possible.

This is a quantitative question, all the information needed being in page 18 (Key Wine Making Metrics).

The easiest way to present the results is through a table of data comparing Australian vs. US costs (US internal competitors being the highest threat).

CHÂTEAU BOOMERANG SHOULD FOCUS ON HIGH RANGE SEGMENTS, AND ESPECIALLY ON SUPER PREMIUM CATEGORY

Per bottle, US\$	Commodity		Premium		Super Premium		Ultra Premium	
	Australia	US	Australia	US	Australia	US	Australia	US
Price	1.5	1.5	4	4	8	8	20	20
Grapes	0.1	0.1	0.5	0.6	2	4.8	3	7.6
Production	0.8	0.8	0.9	0.9	1.6	1.6	2.1	2.1
Shipment	0.6	-	0.6	-	0.6	-	0.6	-
Total cost	1.5	0.9	2.0	1.5	4.2	6.4	5.7	9.7
Margin	-	0.6	2.0	2.5	3.8	1.6	14.3	10.3
Margin (%)	-	37%	51%	63%	48%	20%	71%	52%
Australian Wine Cost Advantage ¹	None		None		66%		59%	

Margin also makes Ultra Premium interesting but:

- Lower cost advantage
- Smallest volume
- Fierce competition of France and Italy

1. Ratio between Australian and US total cost per bottle
 Source: Key Wine Making Metrics 2002; BCG analysis
 THE BOSTON CONSULTING GROUP

Q3 . WHAT ARE THE STRENGTHS THAT MAKE AUSTRALIAN WINES COMPETITIVE IN THE US MARKET VS. THEIR MAIN COMPETITORS?

You can create two slides: the first one to list what the key success factors (KSFs) are in this industry, the second one to compare the different countries on each of them.

The other option is to create only one slide that compares the different countries and illustrate in your oral presentation why you chose these KSFs, e.g.:

- Legislation: drives the ability to use techniques enhancing quality, at lower cost and allowing simple branding based on varietals
- Land availability and climatic conditions: drives cost of land and cost of grapes (through yield) as well as quality
- Volume of exports & consolidation: allows for economies of scale in distribution and branding among others

If you have enough time left, you can also prepare an Executive Summary to list the key messages of your presentation on a slide, but don't forget your overall presentation should not exceed 5 slides maximum.

AUSTRALIA HAS SIGNIFICANT COMPETITIVE ADVANTAGES ON KEY SUCCESS FACTORS IN THIS INDUSTRY

	Australia	US	Europe ¹	Chile
Legislation	+	+	-	+
Land & climate	+	-	-	?
Export volume (mL)	471	301	5 396	342
Consolidation	+	+	-	?
Grapes costs	+	-	-	-

1.France, Italy, Spain and Germany

**AUSTRALIA ADVANTAGE IS PROBABLY SUSTAINABLE
(E.G. LONG LEAD TIME FOR LEGISLATION TO BE RELAXED)**

ANSWERS (2/2)

Examples of slides
prepared by three
BCG candidates
(initially hand-written)

MARKET SHOULD BE PRIORITY #1 TO GROW SALES

US IS THE FASTEST GROWING MARKET ABOVE TOP 3 EXPORT COUNTRIES

DOMESTIC MARKET

	UK	US	CANADA
% of total sales (2003)	43%	29%	6%
2003 growth (value)	~+15%	~+60%	~+30%
Expected % of sales (2005)	35%	41%	7%
Average price per liter (2003)	~4	~6	N.a.

- Flat in 2002
- Declined over past 2 decades
- Fierce competition
- High taxes

CHATEAU BOOMERANG SHOULD FOCUS ON ULTRA PREMIUM WINES TO ENTER 115 MARKET

SIMPLIFY P&L FOR AUSTRALIAN WINE PROTECTION (115\$)

	COMMODITY	PREMIUM	SUPER PREMIUM	ULTRA PREMIUM
Cost of groups (1 tonne)	75\$	400\$	1500\$	2000\$
Crates (12 bottles / crate)	85	70	63	55
Grapes cost / bottle	-0.1	-0.5	-2	-3
Other costs / bottle (0.6\$ for freight)	-1.4	-1.5	-2.2	-2.7
Total cost / bottle	-1.5	-2.0	-4.2	-5.7
Selling Price (average)	1.5	4.0	8.0	20.0
Potential Margin per bottle	0	+2.0	+3.8	+14.3
Volume Share of US Market	27%	28%	14%	24%

- Ultra premium segment would be the most profitable one for Australian wines (~14\$/bottle)
- Ultra premium segment represents 24% of US market
- Premium segment has been growing faster than market over past

AUSTRALIA HAS STRENGTHS IN BOTH INDUSTRIALIZATION AND SALES & MARKETING PROCESS TO OUTPERFORM COMPETITION IN U.S.

INDUSTRIAL PROCESS

- Cost efficiency
- Lack of regulation
- Innovation capacity (eg. stainless steel vats with oak woodship)
- Expansion capacity (climate & land)

SALES & MARKETING

- Clarity of offer & quality of products
- Strong brands (Rosemount and Linderman already in top 5 brands in US)
- Already 3rd supplier in US market
- Environmentally friendly perception of Australia

CHATEAU BOOMERANG SHOULD FOCUS ITS EFFORT ON EXPORTING TO THE U.S. MARKET

FOCUS ON EXPORTS

- Australian domestic market is saturated and cannot support production growth
 - production grew by >50%¹ in the 2nd half of the 90s, while consumption remained stable (~2% growth/year)²
- Australian winemakers have demonstrated their competitiveness in terms of exporting
 - yearly growth of >20%³ in a flat global consumption market¹

US MARKET AS KEY DESTINATION

- US is a big and growing market has still a lot of potential
 - #3 worldwide with >2bn liters in 1000¹ with ~20% of growth over 5 years
 - wine consumption per capital at ½ UK level (1997)⁴
- Is becoming the biggest destination of exports and more attractive than the traditional UK market for Australian winemakers
 - Is to pass the UK as #1 destination between 2002 and 2005
 - trading up trend leads to more profitable premium and above wines
 - Average exports price to US 50% higher than to UK⁵
 - Less retailers concentration in the US meaning less pressure on prices

SUPER PREMIUM AND ULTRA PREMIUM PRODUCTS TO BE PUT FORWARD IN PRIORITY

	COMMODITY	PREMIUM	SUPER PREMIUM	ULTRA PREMIUM	COMMENT
Value share	27%	28%	14%	32%	A potential close to ½ of the value share
Growth (volume)	<4%	~7%	10-14%	10-14%	Fastest growing segments with a growth 3x times the market average (4%)
Profitability	~2%	~50%	~50%	72%	Top segments are the most profitable
Competitiveness					
Cost advantage	-- (50% higher than US)	- (25% higher than US concentrated)	++ (V3)	- (25% higher than US concentrated)	Although profitable, fragile position in the highly concentrated premium segment
Brand impact/marketing	++ (friendly branding)	++	++ (friendly branding)	++	Strong cost advantage on super premium and ultra premium combined with an overall favorable brand position

AUSTRALIAN WINES HAVE SEVERAL KEY ADVANTAGES THAT ALLOW THEM TO COMPETE SUCCESSFULLY IN THE U.S.

ADEQUATE MARKETING & BRANDING

- Clarity and diversity of offer, innovation
- Strong brands supported by efficient communication
- Friendly labeling ensuring (inexperienced) consumers "are not being looked upon"

LOW PRODUCTION COST & PRODUCTIVITY

- Cheap and abundant land, flexibility
- Productive soil thanks to favorable climate and use of irrigation (banned in Europe)
- Innovation in production techniques (e.g. use of oak chips instead of barrels) & flexibility in terms of grape selection and picking

QUALITY & VALUE FOR MONEY

- Perceived quality higher than US competitors (10\$ for a Californian wine and 7\$ for an Australian wine for comparable quality)

ATTRACTIVENESS OF U.S. MARKET FOR AUSTRALIAN EXPORTS IS DRIVEN BY VOLUME POTENTIAL AND GROWTH OF PREMIUM

U.S. MARKET IS A 2ML P.A. MARKET, N°3 IN THE WORLD

- Growing 4% p.a. in volume since the mid 90's
- With consumption per capita still low compared to Western Europe (10l/year vs. 40l/year)
- Where Australian wines perform extremely well: market share increased from 2% in 1990 to 14% in 2000 for wine import in the US

MARKET IS TRADING UP SIGNIFICANTLY

- Average export price of Australian wine is the highest in the US
 - US: 6A\$ / L
 - UK: 4A\$ / L
 - NZ: 3.5A\$ / L
- High premium market (bottles >7\$) has grown 10–14% p.a. over the last 4 years
- Total premium growth: 7% p.a. vs. 4% for the global market

Source: US market report, ABS, Dutrac-Rosset 2001, Australian Wine Export Council & Smith Barney estimates

CLEAR MARKET PREMIUMIZATION & LIMITED PRESSURE ON PRICE ON HIGH-END

AUSTRALIAN WINES ALREADY HAVE A GOOD VALUE FOR MONEY IMAGE AND CAN FURTHER MOVE INTO HIGHER ENDS SEGMENTS

SUPER PREMIUM MARKET

- Represents about 10% of current market
- Growing above 5% p.a.
- Competition from France can be strong but only if regulations are smoothed in Europe

ULTRA PREMIUM MARKET

- Represents about 5% of current market
- Growing above 10% p.a.
- Building strong brand is key in the U.S. market and Australia is good at it.

In Premium, competition from US domestic production is fierce

Australian wines much more competitive and profitable

	US\$ PER BOTTLE	COMMODITY	PREMIUM	SUPER PREMIUM	ULTRA PREMIUM
Wine cost split	AUS	1.47	1.89	3.67	4.66
	FR	1.32	1.98	6.90	14.75
	US	0.95	1.39	5.13	7.00
Sales price		1.5	4.0	8.0	20.0
Benefits for AUS wines		0.03 (2%)	2.11 (53%)	4.33 (54%)	15.34 (77%)

THE KEY FACTORS ENABLING HIGH COMPETITIVENESS OF AUSTRALIAN WINES IN THE U.S. MARKET ARE REGULATION AND LOW COST OF LAND

EASY REGULATION

- Better productivity
 - All varieties can be planted
 - Grapes can be watered
 - Picking can be made by machines
 - No limit on production per acre
- Cheaper transformation process
 - Oak chips introduced in inox barrels
 - No constraints on alcohol content
 - Additives can be used

ON AN EASY LAND

- Good climate
 - Sunny
 - Moderate temperature on the south
- Cheap land
 - Vast country with low population
 - Land 2 to 3 times cheaper than in California

Source: Press releases

IF REGULATIONS REMAIN VERY STRONG IN EUROPE, AUSTRALIA IS LIKELY TO KEEP ITS COST ADVANTAGE