

Bulk Wine Broking

Bulk wine review



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Introduction

Bulk wine prices have fallen significantly during the last few years. What are the main determinants of bulk wine pricing in the Australian bulk wine market? What has been the impact of the recent planting boom on each variety and what is the outlook for bulk wine generally as we approach the 2004 vintage?

What determines the market price of bulk wine?

First and foremost is demand. As the bulk wine market within Australia is one of surpluses and shortfalls, demand is strongly influenced by available supply.

The second most important determinant of market price is wine quality: simply, the better the wine the greater the demand. For example, during the last quarter of 2003, we transacted 2002 Coonawarra Cabernet Sauvignon at \$6 per litre and \$0.40 per litre! Both wines were from the same vintage, region and variety, but of very different quality, leading to very different market demand. This translated into very different pricing outcomes.

Other less important factors in determining market price include:

- Appellation. This can be related to the first two factors and becomes increasingly important for better quality wines.
- Quantities. Smaller parcels sometimes sell for a premium. Big ▶

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- Payment terms & collection. These are usually one of the last items to be discussed in any sale negotiation and thus have relatively less influence on the market price of bulk wine.

All these factors play a part in bulk wine pricing on any given day, and a skilled bulk wine practitioner can successfully navigate his or her way through the myriad of combinations and permutations the marketplace generates. But the broader current of seasonal and longer-term trends in bulk wine pricing cannot be easily influenced by individual players as the following short review of the last few years illustrates:

Bulk wine after the planting boom - where are we now?

During the vineyard planting boom that occurred during the mid-late nineties, average grape prices rose strongly and average bulk wine prices soared. Growers and winemakers could sell all they could grow or make and unfilled export demand fuelled more investment in vineyards, many without contracts. Australia's market share of important international wine markets grew strongly.

Wineries also expanded to cope with the increased grape production, many with insufficient investment in brand development. But money was easy to come by - the wine industry had become a darling of the stock market. Financial commentators applauded the success of what seemed a model rural industry that added value at home and exported to the world. Banks were eager to lend to almost all wine businesses, perhaps with less-than-proper scrutiny of revenue-stream assumptions. The influx of debt and equity funds into the industry fuelled even further growth and asset prices of vineyards and wineries also rose strongly. There was profit in almost every link in the supply chain; the industry was on a roll.

But by 2001 sufficient supply pressures had started to grow that a top 20 winery (Normans) was placed into receivership and subsequently liquidated by its bankers. A massive crop in 2002 with excellent quality from the inland-irrigated areas led to many wineries overpaying and taking more grapes than hindsight dictated they should have. Grapes were left unharvested for the first time since the very early nineties. Some growers were paid not to pick. Inventories of high-priced wine ballooned and the industry struggled to deal with the large vintage. Bulk wine prices crashed as sellers emerged everywhere and buyers retreated with spectacular speed.

Suddenly, it seemed that the stock market was much less interested in wine as a number of listed companies announced profit downgrades and inventory write downs. The major banks reviewed their lending policies to wineries and vineyards, placing even more pressure on the industry. The music had stopped but lots of industry players could not adjust quickly enough. Many wineries had minimum-price grape contracts that were written during the planting boom. Separately, many vineyards had their grapes rejected by wineries as they struggled to adjust to tougher winery quality requirements. Profits were diminishing as price points tumbled and consumers had a field day with the bargains that were now on offer in liquor stores.

2003 was a smaller-than-average crop and this brought some relief, but by now, many players were nursing large financial wounds and big inventories. More receiverships and liquidations occurred, mostly of smaller wineries and a number of larger wineries were forced to merge. Furthermore, the Australian dollar was rising, squeezing export prices and reducing our competitiveness.

Winemaker confidence was at its lowest point for a decade, although the smaller 2003 crop brought a small (but false?) rally in grape and bulk wine prices and confidence. But even the success of new brands to the USA, such as Yellowtail and Black Swan, could not soak up the surplus inventories. By the end of 2003, the top four or five wine companies had surplus bulk stocks. Vineyard asset prices were softening.

Bulk wine pricing round-up

The following pricing history illustrates the wine industry's recent roller coaster ride illustrated above. All prices are ex-works for spot domestic sale for current vintage wine with short payment terms. ▶



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Inland irrigated Shiraz

At the end of 2001 vintage prices were \$1.70-\$2.20 per litre. One year later prices had fallen to \$1.30-\$1.50 and by the end of 2002 prices had stabilised to \$1.20-\$1.50 per litre. Since then prices have stayed within this range with remarkable stability.

Inland irrigated Merlot

Since the end of 2002 vintage, prices for good irrigated Merlot have basically mirrored irrigated Shiraz prices. But good Merlot is very hard to find and poorer parcels have recently only been achieving dry red prices (\$0.40-\$0.80).

Inland irrigated Cabernet Sauvignon

At the end of 2001 vintage prices were \$1.60-\$2 per litre. A year later spot prices had crashed to \$0.80-\$1.50 and by the end of 2002 prices had softened even further to \$0.60-\$1.30 per litre. Since then prices have recovered from these lows to trade at \$0.90-\$1.30 per litre.

Inland irrigated Chardonnay

At the end of 2001 vintage prices were \$1.30-\$1.40 per litre. One year later spot prices had firmed slightly to \$1.60-\$1.80 reflecting an undersupply of Chardonnay. The larger-than-expected 2002 vintage kept prices relatively subdued, but by the end of 2002 prices had further firmed to \$1.70-\$1.80 per litre. Since then prices have continued to rise to \$1.80-\$2.20 per litre. Chardonnay transactions without some red wine attached as part of the deal are rare.

Dry land reds

At the end of 2001 vintage prices were still at \$4-\$5.50 per litre. Prices were fairly sticky as most sellers in this market did not regularly trade bulk wine, but if they did, they hadn't sold bulk wine at a loss for a very long time. So they took some time to adjust to the oversupply environment. One year later prices had softened to \$3.30-\$4 and now prices are \$1.50-\$4. Well-known regions such as McLaren Vale, Barossa

and Margaret River still maintain a small premium over other dry-land regions, but this premium is diminishing as over supply increases. The best 5-10% of quality wines are maintaining excellent prices of \$3-\$4+, but most stocks are not selling at anywhere near their intrinsic value. Reds from lesser-known regions are nearer irrigated prices.

Dry land Chardonnay

At the end of 2001 vintage prices ranged from \$2-\$2.40 per litre. A year later prices had firmed to \$2.30-\$2.80 and now are in the high \$2 to low \$3 range. As with irrigated Chardonnay, transactions without some red wine as part of the deal are rare, although stand-alone Chardonnay deals can obtain a price premium.

Bulk wine and vintage 2004 - where are we going?

So, where is the bulk wine market now heading as we approach the 2004 vintage?

The key factors that will most likely answer this question all appear to be leading toward the following fairly unfavourable scenario for producers:

- high levels of carry-over bulk stock from previous vintages
- a rising Australian dollar, particularly against the US dollar
- a bigger than average crop in 2004.

If these factors all eventuate then it will no doubt lead to further industry pressure and subsequent rationalisation. Many players will struggle to deal with the amount of surplus bulk wine that is a legacy of the recent planting boom. Let's keep our fingers crossed that such a perfect storm scenario does not eventuate!

Jim Moularadellis is the principal of Austwine, a bulk wine broker which transacts 30-40 million litres of bulk wine within Australia in addition to exporting over 10 million litres of bulk wine per annum. He is a Certified Practising Accountant and holds an Honours degree in law from The University of Adelaide. Jim can be contacted on +61 (08) 8431 8344.

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