



June 2020

Premier's Economic & Social Recovery Advisory Council

By email: secretariat.PESRAC@treasury.tas.gov.au

RE: Stakeholder Consultation

On behalf of the island's wine producers, Wine Tasmania welcomes the opportunity to provide a submission to the Premier's Economic and Social Recovery Advisory Council's first stage of consultation on the impacts of COVID-19.

Tasmanian Wine Sector

The Tasmanian wine sector conservatively contributes more than \$115M directly to the state's economy, encompassing agriculture (vineyards), manufacturing (wineries), hospitality and tourism (cellar door). This positions the Tasmanian wine sector in the state's top ten sectors, directly supporting 2,063 Full Time Equivalent positions, which represents 10% of total employment in the agriculture, forestry and fishing sector in Tasmania¹.

The focus by Tasmanian wine producers on quality, innovation and collaboration, supported by Wine Tasmania's market-led approach, has resulted in widespread recognition and demand for Tasmania's wine globally. This has led to some of the highest prices in the country being secured for Tasmania's wines and wine grapes and resulted in increased visitation to Tasmania and its cellar doors. Importantly, this interest is encouraging ongoing investment and growth by both new entrants and existing Tasmanian wine businesses.

95% of Tasmania's wine is sold within the domestic market, predominantly through the key sales channels of direct (cellar doors, online) and on-premise (restaurants / wine bars / independent retail).

Tasmania has 160 individual licensed wine producers throughout the state, with around 230 vineyards covering more than 2,000 hectares. The Tasmanian wine sector continues to be an important and growing contributor to trade and the economy, regional employment, tourism and the overall Tasmanian brand.

Wine Tasmania

Wine Tasmania is the peak body representing Tasmania's wine producers, with voluntary membership representing more than 98% of Tasmanian wine production through 105 state-wide producer members and 92 associated member businesses. Its key roles are to market and promote Tasmanian wine, to provide technical and extension support to wine producers and to represent and advocate their interests. All activities undertaken are designed to differentiate the Tasmanian wine sector and generate value for our members, in line with Wine Tasmania's Strategic Plan.

¹ *Wine Tasmania Economic Contribution of the Tasmanian Wine Sector, April 2018 -*

http://winetasmania.com.au/resources/downloads/Release_-_Tasmanian_wine_sector_economic_impact_FINAL.pdf

COVID-19 and the Tasmanian Wine Sector

What impacts are currently being seen by your sector or members (including clients / households / individuals as relevant in your context) and what impacts are anticipated in the coming weeks and months?

COVID-19 has significantly and negatively impacted Tasmanian wine businesses, as with many other businesses and individuals. These wine businesses have deliberately been focused on growing the reputation and value of Tasmania's premium wine and building sales through direct (cellar doors) and wholesale channels (predominantly focused on the on-premise segment - restaurants / wine bars, rather than off-premise / retail).

These focus areas of high value and cellar door / restaurant channels have created significant challenges through COVID-19 impacts, with cessation of tourism and closures of restaurants / bars effectively halting income. While national alcohol sales have increased, these are mainly through retailers (where Tasmanian wine has a limited presence) and at lower price points, with the average spend per bottle of wine dropping during COVID-19.

Exacerbating the pressure on Tasmanian wine businesses is the archaic distribution model and payment terms in the sector, where wine producers are expected to sell their wine at wholesale pricing, less a distributor margin of 30-45%, and to accept payment terms of 90+ days. This has resulted in a significant amount of unpaid debt for wine already dispatched and potentially on-sold to a restaurant / bar. This is reflected as income on a producer's profit and loss statement (potentially impacting on eligibility to access assistance packages), but may not soon (or ever) be repaid given the relaxed insolvency and payment rules introduced during COVID-19 and further anticipated business closures.

Agriculture, including vintage activities, were deemed essential and therefore able to continue throughout COVID-19. The Tasmanian vintage commenced in late February and concluded in early May. Changes to vineyard and winery operations to comply with social distancing and hygiene protocols were implemented, slowing down vintage activities a little. Expenditure on vintage activities needed to be outlaid, even after income slowed due to COVID-19. Nonetheless, wine producers were grateful to be able to continue vintage activities, with wines from 2020 to be released and provide income in future years, provided businesses can survive and evolve.

Wine generally retains its value and has a long shelf life, so producers have an asset and can continue to sell wine if new sales channels can be identified and leveraged. Some wine businesses have focused on building their direct sales through online and wine clubs over many years and have been able to leverage sales through these engaged audiences, albeit it not at a level to replace cellar door and wholesale sales.

There is a broader impact on Tasmanian wine businesses through changes to their customer circumstances - both the public (individual Tasmanian wine lovers / cellar door visitors) and the trade (wholesale customers, such as distributors, restaurants, wine bars, independent retail). The Tasmanian wine customer of yesterday is different to that of the future and it will take some work to identify new customers for businesses to target, convert and retain.

Earlier easing of restrictions is welcome, however Tasmanian wine businesses need more than just our very supportive residents to purchase their wines. Interstate travel and initiatives to encourage wholesale customers around the country to choose Tasmanian will be key factors in recovery.

We are anticipating sales income for Tasmanian wine businesses to be significantly reduced for the coming 12+ months.

What factors are likely to shape the medium and longer-term impacts for your sector/members?

Successfully identifying and targeting the new Tasmanian wine consumer will allow new sales channels and segments to be explored. This includes members of the Tasmanian wine loving community, who still have employment, disposable income and are interested in provenance and supporting small businesses / producers. It also includes members of the wine trade (distributors / restaurants / wine bars / independent retailers), whose future is unknown.

The Tasmanian wine consumer is also likely to be the Tasmanian seafood / meat / cheese consumer, visitor to the island and its restaurants, events and other experiences. Potential collaboration on insights and promotion would be valuable.

For Tasmanian wine businesses, resumption of interstate travel and tourism is particularly important. Selling wine directly to the end consumer is the most profitable channel for wine businesses, with a cellar door experience allowing for a deeper connection and loyalty to be built.

Many Tasmanian wine businesses have been focused on building their online / wine club audiences, while others have had to quickly set up their online shopping and delivery capabilities. The Digital Ready program is valued, and it would be good to explore further opportunities for promotion of Tasmanian products.

There is a lot of noise and competition in the digital promotion and e-commerce space and providing an overarching Tasmanian umbrella would help to differentiate and make an impact. The Buy Something Tasmanian website may be a platform to utilise, with some improvements to its searchability, consistency of individual producer listings and categories, and refocusing to an interstate audience.

Taking this one step further to support e-commerce as well as consolidation of warehousing, freight and logistics would be of significant benefit to Tasmanian wine (and other) businesses. A lot of Tasmanian wine is dispatched around the country as single cases via Australia Post. While Wine Tasmania has negotiated preferred shipping rates for its members, the costs are exorbitant and there is an expectation from customers that free freight is offered. Establishing a mainland-based hub to consolidate, warehouse and dispatch products would significantly reduce freight costs and timeframes and be of benefit for many Tasmanian businesses in the long term.

Ensuring the Tasmanian community (business and public) is encouraged to buy and support local is a key focus. For Tasmanian wine businesses, this is particularly relevant for the restaurant / hospitality sector and we would be pleased to partner with other Tasmanian products to encourage, incentivise and reward support for local produce.

For Tasmanian wine producers, proactive promotion to targeted interstate audiences - public and trade is a high priority. Again, these customers are likely to also purchase other Tasmanian beverages and food, and there may be opportunity for collaboration.

Exploring alternative wine distribution models and channels is also being considered, both for domestic and export markets.

While there are cash flow pressures on businesses, it is critical that a focus on retaining and building Tasmania's high value proposition continues.

It would be great to see increased collaboration between Government agencies to play a facilitation and promotional role. Tourism, trade (local, interstate and export), brand and promotion are all interconnected, even if they fall into different departments and units.

What data or information can currently be provided to the Council on the nature and magnitude of impacts for your sector/members?

The direct economic contribution of the Tasmanian wine sector is more than \$115M annually through agriculture, manufacturing and tourism. Tasmania's average annual wine production is just over 1M cases (dozens), at a conservative approximate average retail value of \$32/bottle equalling \$400M in wine sales. 95% of Tasmania's wine is sold in the domestic market, around 55% on the Australian mainland and 40% on-island, most to interstate visitors via cellar door and hospitality. The majority of wine sales have stalled.

What mitigation measures are currently in place that aim to address these impacts?

Individual wine producers are focusing on driving direct wine sales through their websites and wine clubs. They are engaging with their wholesale customers regarding outstanding debts and reestablishment of wholesale sales if and when possible. They have reduced costs where possible and are focused on modifying their business models and activities in response to COVID-19.

On their behalf, Wine Tasmania is increasing its promotion of Tasmanian wine and encouragement to buy directly from producers. A new collaborative online shop has been launched, with Wine Tasmania managing promotion, sales and logistics. Private / corporate sales channels have also been identified and Wine Tasmania will coordinate promotion, wine offers, sales and logistics on behalf of members.

A new digital marketing campaign is being progressed as well as new promotional initiatives to encourage wine trade in Tasmania and interstate to choose Tasmanian wine. Opportunities to reconfigure the traditional distribution model are being investigated, as well as collaboration on warehousing and logistics.

What impacts are not being mitigated or for which there is no plan in place to mitigate?

It is highly likely that there will be further business closures and difficulties in the hospitality (restaurant / wine bar) and wine distribution sectors. This will directly impact on Tasmanian wine businesses, as customer networks constrict, potentially with unpaid debts and unrecoverable wine.

Consumer behaviour and purchasing is changing, with people generally spending less, including on a bottle of wine. The impact on travel and the visitor economy is yet to be fully determined.

It is difficult to predict, counter or mitigate these challenges other than by investing in promotion and differentiation of the Tasmanian (Wine) Brand and trying to identify, target and attract new customers.

What responses, both within the sector and more broadly, are front-of-mind and over what timeframes - what should be stopped, what should continue and what should be started?

As per previous comments, key recovery priorities in the short and medium term include overarching and collaborative Tasmanian promotion, exploring distribution models, sales logistics / freight consolidation, customer and visitor insights, and restarting the visitor economy, with a busy summer period particularly important for wine and hospitality businesses and regional areas.

Cash flow is one of the biggest pressures on wine and other businesses. This can sometimes lead to short term initiatives, such as discounting, to generate cash. It has taken a very long time to build Tasmania's premium (wine) reputation and positioning and it is imperative to retain and build this positioning.

What would help create or build business/consumer/community confidence?

As previously mentioned, collaboration - across businesses, sectors, community and Government. Strong promotion of Tasmania's differentiated brand, stories and premium positioning. Management of COVID-19 risks. Reopening borders and encouraging interstate visitation when appropriate.

The Tasmanian Government should be recognised for its proactive leadership and role in managing COVID-19, including border control, business assistance packages and dissemination of information. There have been some positive signs of collaboration across business and Government agencies.

There is an equally important role in the medium-term recovery phase, with many businesses (particularly small) and sectors facing day-to-day challenges and businesses that may not survive or will take a long time to recover. This has an impact on regional communities, the visitor experience, trade, brand and the economy.

It will be important for Government to continue to engage and consult with peak bodies, businesses and sectors contributing to the economy and regional communities, in a streamlined and coordinated fashion, to facilitate greater collaboration across the Tasmanian community, Government departments and agencies to support businesses and drive agreed outcomes for the state over the coming months.

Finding ways to support businesses with what they need while recognising their focus on day-to-day operations and sustainability will be important. Government can assist by streamlining information, points of contact and cross-agency collaboration, and through understanding and supporting sector priorities. Peak bodies can play a role on behalf of their members in highlighting sector priorities and disseminating information, noting for many resources are and will be even further limited.

As an example, Wine Tasmania has 2.5FTEs, with its key role being to promote the Tasmanian wine sector and its 105 wine producer members. Participation in the Agricultural Coordination Group has been valued, however opportunities to participate and collaborate on priority trade (local, interstate, export), hospitality and tourism initiatives have been somewhat limited. There has been a significant amount of information and contact from across different parts of Government and this does not always appear to have been coordinated. Initiating and evolving activities to promote and position the sector for recovery have and will need to take priority, while also providing input to Government and disseminating information to wine businesses. We will proactively reduce voluntary membership fees in recognition of the pressure on our wine producer members, which will create further resource challenges.

For wine businesses, recovery will be 12+ months, and business will not revert to 'normal' or the pre-COVID-19 landscape. There will be changed consumer behaviour and spending, new customers / tourists and market channels to identify and secure, changes to business and distribution models and new promotional initiatives to undertake.

What would help your sector/members re-employ where there have been reductions in jobs, or grow employment levels?

In line with previous comments, generating income, including through tourism and visitation to cellar doors. Initiatives such as consolidating freight and logistics. Overarching promotion and differentiation of Tasmania. Identifying the new Tasmanian customers / visitors and helping businesses target, convert and retain these customers.

Please contact me if you would like to discuss any further details.

Yours sincerely,



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