

VINFLUENZA

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- Wine businesses around the world – especially Australian – must navigate at least two phases of the Corona Crisis.
- The acute short-term phase is already excruciating – especially for on-premise. Predictions are best guesses and anecdotal but they are bleak. The banks are probably holding the best data through credit card use.
- We are unlikely to return to normal, but probably a 'new' normal. Expect recession, consolidation of dominant payers, vastly different outcomes based on sales channels and enduring shifts in consumer behaviour.
- For those who survive, the second phase will be the medium-term (hopefully) recession. This will have its differences vis-a-vis the 1990s (interest rates, for example), but there will also be lessons.

Contrary to the stereotypes, Australian wine is now real business. As the world's fifth largest exporter – including over \$1.1 billion to China – it is estimated to contribute over \$40 billion to the Australian economy. Wine is one of our few remaining industries with fully value-added, branded production and a rare example of Australia doing luxury well. What happens in wine matters.

The end point of the Corona Crisis defies prediction but it will have at least two phases. The acute short-term shock to the hospitality industry is already devastating, with dire predictions from banks, pundits and industry veterans. Already notorious for slow payments, as hospitality businesses fold, so too will the more fragile wine distributors and this is when it will really hit wineries.

One trend to watch will be online and other direct sales channels. Outlets such as Dan Murphy's, The Wine Collective, Vino Mofo and even QANTAS, have such a head start in logistics and market reach that they should be able cement their dominance. Anecdotal, online sales of wine increased considerably in China during their containment phase – albeit from a relatively low base – and it is easy to see the same thing happening around the world. The extent to which this becomes a permanent shift will have important implications for wine producers everywhere.

As the medical crisis passes its peak, things will start to resemble our previous normal – just as it is in China. Our connections there tell us that the containment phase was dreadful but most cities are returning to normal, government stimulus is helping and some estimates are that the wine trade has returned to approximately 30-40% of its prior activity. The big difference however, is that we will be going into a global recession.

In the second phase, there will be important differences between this recession and that of the 1990s – interest rates being the most obvious. To paraphrase Mark Twain, even if history does not repeat, it will probably rhyme. The last one was awful, as anyone over 45 years of age will remember and I know one winery which had two of their three distributors across Australia go bankrupt. Trading back from that was exhausting.

It was similarly tough for James Halliday, AM, who had just founded Coldstream Hills in 1985. "We were amongst the first wineries to notice sales falling and dropped our price for members from \$25 to \$20. Interest rates were killing us and then there was a report – flawed in my view – spelling doom for wineries, so banks were calling in loans from lots of wine businesses. I got a call from our account manager saying our overdraft wouldn't be rolled over and he was under strict instructions not to give me his boss' name. Then I remembered a chap who worked for me in my merchant banking days in the 1970s had risen through the ranks there and I was able to track him down. He sorted it out in 15 minutes. It was a really wild and woolly time."

As more distributors, retailers and hospitality venues fold, consumers around the world will also trade down in price. Unfortunately for wine producers, all of this follows a 2020 season when many (but not all) regions have been grappling with drought, bushfires and low yields, so many will not re-plant, redevelop or survive. This will present opportunities for players who have the capital and the right routes to market.

The sun will eventually rise again but it will shine down on a very different wine world.

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