

Strategic implications of the recommendations arising from the Senate Inquiry into the Australian wine industry 2016.

1. Introduction

The twelve recommendations are listed in Appendix 1. They have been matched to the Terms of Reference for the inquiry. The terms have no strong logic for inclusion other than that they deal with various aspects of the wine industry. The WET rebate and Code of Conduct issues potentially affect developments across five of the terms of reference. There is no concept of them fitting a framework that will build towards a coordinated objective. They reflect issues raised by members of the Senate, arising out of various forms of public representations and prior experience with the unresolved issues from the 2005 Inquiry. The topics nominated for consideration include: market failure, profitability, the Wine Equalisation Tax rebate, levies for research and development, the power and influence of the retail channels, market intelligence, the wine industry support for rural communities and five minor topics.

From a political and governance perspective the topics chosen could ultimately lead to revision of specific existing laws and regulations, for example, involving competition, codes of conduct and taxes. Irrespective of resulting action or lack of it, industry winners and losers will emerge on an item by item basis. That factor alone will guarantee that further resources will be required to re-create coordination and integration towards the primary strategic objective of a return to profitability.

Even if important changes are made to the laws and regulations concerning, for example, the wine equalisation tax rebate, there is no guarantee that the industry priorities will prevail. The WFA announced that it will, “continue to support the Government’s decision making process...” This leaves the industry in a position of uncertainty with respect to implementation of a key strategic objective, namely, obtaining funding for marketing expenditures to drive export sales (WFA Actions for Industry Profitability 2014-16).

From a commercial perspective, the terms of reference for the inquiry raise several strategic topics: the extent of any market failure (terms of reference, item ‘a’), the WET rebate (item ‘d’), the profitability of the end to end value chain (item ‘c’ amended), the power and influence of retailers (item ‘g’), and the adequacy of market intelligence (item ‘h’). These items are correlated to the industry’s own listing of strategic issues (Appendix 2). It will be argued that it is possible to develop a coherent strategy involving both single issues and an integrated approach.

2. Strategic management

As a consequence of the uncertainties associated with the government inquiry process, but with an urgent need to improve commercial performance, over a relatively short term, the industry will need to build on the synergies available from a combination of the most recent WFA, WGGA and AGWA strategic plans. Cooperation and integration, internal to the industry organisation structure, have been discussed over a lengthy period and further progress is needed. A framework is required and its constituent elements defined. A framework ensures that important issues are not missed within the limits of the

stated boundaries. Strategy is a managerial process for handling both opportunities and risks and a course of action determined. The issues subject to this form of management are normally material, in the context of the organisation and will have an impact over the long-term. The normative approach to strategy formation is that it is the most senior form of planning and organising towards achieving the objectives of the business. The business under consideration is the Australian wine industry at the 'whole of industry' level. Given the dynamic nature of change in business, the five strategic issues identified in relation to the Senate Inquiry will be assessed against industry objectives using a framework comprised of four components: process, content, implementation and review.

'Process' refers to the formal and informal means to synthesise and assess the fundamental objectives and tactics regarding the opportunities and risks under review. In respect of the Senate Inquiry, the different chapters of the report weigh the arguments, on which the recommendations are based. The arguments are substantiated by references from material received and other government reports such as the 'Discussion paper on the wine equalisation tax rebate' (Treasury 2015). The report was written by the secretariat for the Rural and Regional Affairs and Transport References Committee (RRAT). There is no description of the process applied. The final report includes issues identified but not resolved beyond the stage of recommendations. An earlier Senate Inquiry (2005) covered some of the same issues as raised in 2015-16. In respect of the earlier inquiry a report with recommendations was produced. There has been no subsequent publication of a formal cost-benefit analysis regarding the recommendations made. Even where action was taken the subsequent results have proven to be disappointing, for example, as concerning the number of signatures and volume of production covered by the voluntary Code of Conduct.

The noted political contributors for the 2015-16 Inquiry include six committee members from the Senate, and the involvement of a further 9 on an undisclosed basis. The secretariat involved 11 officers who in total contributed 95 months of work. There were four officers who worked on the Inquiry over its full course.

Content includes all the data, intelligence, historical, current and, as projected, relevant to the issue. Apart from the prior experience of given Senators associated with the 2005 report and developments since, intelligence for the current inquiry was gathered from: submissions (41 of them), tabled documents (7), public hearings (3) and other witnesses. No costings associated with the creation of this database have been published. Concerning the industry contribution, the documents presented were mainly drawn from pre-published reports. There are, in addition, numerous examples of further work being undertaken to update data. In other words this inquiry has absorbed additional resources on the part of industry participants.

Implementation, in a business sense, is normally comprised of the range of decisions and activities ranging from organisational details, through tactics, budgets, to performance reporting. The recommendations from the current report do not constitute a commitment for action on the part of any branch of the government. The expectation is that the government will respond within six months, but its final decision can be either to accept or reject the whole or part of the recommendations (WFA February 2016). The critical point being that the strategic needs of the industry are not necessarily the most significant factor.

The review step in the process is to assess performance, both achieved and in respect of any developing trends. The data may be integrated into other broader performance indicators such as returns on assets or changes in market share. Of equal significance are the aspects of 'economic learning', embracing not just objective data, but also the human and organisational aspects of cognition, cooperation and other socio-economic developments that in summary represent changes to 'core competencies'. Following the review there needs to be some formal indication of renewed commitment or changes to be made, for example, regarding the objectives. As indicated above, the review process is largely absent from the political process. Unfortunately the business approach is not any better. Individuals can benefit from experience and modern database management can make available historical records but, managerial performance requires more than ad-hoc development. One obvious practical question arising out of the current exercise is; why are industry issues at a strategic and tactical level passed to government, or politicians in general, for resolution?

3. Assessment and next steps

Based on the above arguments it is evident that the Inquiry approach differs in important aspects from the requirements of strategy. The deficient aspects include: the time and cost of creating 'content', the delay between any assessments and final decisions, the lack of continuity or any form of review of the achievements of the process. An inherent limitation is that there is no commitment to the 'implementation' phase. Within the government approach the selection of topics, collection of data, its analysis and decisions are all conducted by different parties, lacking the most basic form of any feeling of joint responsibility for what is, or is not, accomplished.

For the time being the inquiry approach, with its lack of a suitable framework, is practiced in more or less similar form, by other governmental instrumentalities. This leaves the wine industry and others who are hungry to a fate similar to that of Oliver Twist, awaiting his nemesis at the hands of Mr Bumble, the workhouse master.

Back in the commercial world, there remain strategic issues to be resolved, for example, an agreed approach to the wine equalisation tax rebate. This is an issue that is both a form of market failure and with a significant impact on the profitability of some with on-going consequences for regional communities. This and the other strategic issues will be addressed in a series of short papers, the last of which will include an integrated perspective towards strategy.

Assessment of Recommendations in relation to the Terms of Reference																						
													Appendix 1									
reference: Rural and Regional Affairs and Transport References Committee: Australian grape and wine industry, Feb 2015																						
Terms of Reference																						
paraphrased		a) market failure			b) legislation, regulations, inhibit, support progress			c) Profitability wine grape growers			d) Impact WET		e) Equity of		f) AGWA levy collect		g) Power, influence retailers		h) Adequac		i) Support	
level of impact		Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect			
Recommendations																						
Number : paragraph																						
1 : 2.84, phase out WET rebate																						
		✓		✓		✓		✓						✓					✓			
2 : 3.13, differentiated labelling																						
			✓		✓				✓								✓					
3 : 3.32, commercial agreements																						
			✓	✓			✓		✓		✓			✓			✓		✓			
4 : 3.46, AusPost harmonisated agreements																						
			✓		✓														✓			
5 : 3.51, RSA standardisation																						
			✓		✓																	
6 : 4.26, matching R&D levies																						
				✓	✓				✓	✓			✓						✓			
7 : 4.34, data; roles AGWA, ABS																						
				✓		✓			✓			✓		✓		✓	✓		✓			
8 : 4.35, Vineyard census																						
					✓				✓			✓				✓			✓			
9 : 4.60, roles of AGWA, EMGDS in increasing exports																						
							✓								✓		✓		✓			
10 : 4.61, increase funding export market development																						
							✓								✓	✓			✓			
11 : 5.33, review code of conduct																						
		✓				✓					✓			✓		✓			✓			
12 :5.34, consider mandatory code of conduct																						
		✓				✓					✓			✓			✓		✓			
Dissenting Reports																						
Edwards & Heffernan		WET rebate should be separate review to Tax White Paper			Increase funding,transition phase;																	
		Needing tighter definition of recipients			to encourage exports																	
		Transitional arrangements required			to facilitate consolidation									Inquiry ACCC handling misuse market power								
Australian Greens		Change wine to volumetric tax basis						abolish WET rebate														
Xenophon		return rebate to original purpose			provide industry support for transitional period			shut down schemes		introduce divestiture powers								effects test in respect of abuses of power move to mandatory code of practice				

Strategic issues in relation to terms of Senate Inquiry 2016									
reference: Rural and Regional Affairs and Transport References Committee: Australian grape and wine industry, Feb 2015									
Strategic plans: WFA, WGGGA, AGWA, AWRI, TWE, Australian Vintage, Pernod Ricard, Coles, Woolworths, Appendix 2									
Strategic Issues: based on industry documentation			Terms of reference	Recommendations	Dissenting				
	Level 1	Level 2							
1	Profitability	cash flows return on sales return on investment (ROI) growth:markets, market shares market share: corporate, value chain Total value chain ROI net government intervention CBA	Supply chain perspective: members or stakeholders Access export markets	c) Profitability, wine grape growers	1 : 2.84, phase out WET rebate 10 : 4.61, increase funding export market development 3 : 3.32, commercial agreements 6 : 4.26, matching R&D levies 7 : 4.34, data; roles AGWA, ABS 8 : 4.35, Vineyard census 9 : 4.60, roles of AGWA, EMGDS in increasing exports 11 : 5.33, review code of conduct	Tighter de Change ba			
2	Intelligence, database, analysis	market research to monitor developments R&D programs, implementation Value chain, end to end performance Operational performance	Develop 'Over the top system' to integrate strategic data	h) Adequacy market intelligence	3 : 3.32, commercial agreements 7 : 4.34, data; roles AGWA, ABS 8 : 4.35, Vineyard census 9 : 4.60, roles of AGWA, EMGDS in increasing exports 10 : 4.61, increase funding export market development 11 : 5.33, review code of conduct 12 :5.34, consider mandatory code of conduct				
3	Organisation structures	Classical industry, wine grapes, winemaking, bottling Complete value chain R&D	Cooperation, integration WFA, WGGGA and State associations channels of distribution to market Cooperation export markets 3 levels; basic, applied, implementation	a) market failure e) Equity of representation in relation to levies f) AGWA levy collection g) Power, influence retailers i) Support for regional communities	1 : 2.84, phase out WET rebate 2 : 3.13, differentiated labelling 3 : 3.32, commercial agreements 4 : 3.46, AusPost harmonised agreements 5 : 3.51, RSA standardisation 6 : 4.26, matching R&D levies 7 : 4.34, data; roles AGWA, ABS 8 : 4.35, Vineyard census 9 : 4.60, roles of AGWA, EMGDS in increasing exports 11 : 5.33, review code of conduct 12 :5.34, consider mandatory code of conduct	Transition abolish we shut down			
4	Government interventions	General Specific	tax, general,specific free trade agreements licensing export/import regulations conditions of employment Food Standards R&D levies and PPE approach exports labelling GI water, availability, markets energy	b) legislation, regulations, inhibit, support progress d) Impact WET rebate on supply chains	1 : 2.84, phase out WET rebate 2 : 3.13, differentiated labelling 3 : 3.32, commercial agreements 4 : 3.46, AusPost harmonised agreements 5 : 3.51, RSA standardisation 6 : 4.26, matching R&D levies 7 : 4.34, data; roles AGWA, ABS	wet rebate tighter de transition; change tax introduce effects tes move to m new inqui			

References

- Rural and Regional Affairs and Transport References Committee: Inquiry into the Australian Grape and Wine Industry, Report published February 12, 2016.
- AGWA, 2015, Strategic Plan 2015-2020.
- AGWA, 2015, Economic Contribution of the Australian wine sector, Gillespie Economics, 2015.
- AGWA Annual Report 2014-15.
- Winemakers Federation Australia (WFA), Actions for Industry Profitability 2014-2-16.
- WFA: Wine Industry Report: Expert report on the profitability and dynamics of the Australian wine industry, Centaurus Partners 2013.
- WFA, Board's consideration of WET Rebate Reform and Senate Inquiry Recommendations, 19/Feb/2016, www.wfa.org.au/information.
- WGGA, VineBiz 2008, Scholefield & Robinson 2008, Regional Vineyard Benchmarking Report.
- WGGA, Senate Inquiry into the Wine Industry agrees that change is needed, wgga.com.au/archives/10143.
- Pernod Ricard, Annual Report 2014-2015.
- Pernod Ricard 5 Strategic Drivers, www.pernod-ricard.com/633/group/5-strategic-drivers.
- AWRI, Annual Report 2014.
- AWRI Research, Development and Extension Plan 2013-2018.
- Treasury Wine Estate, Annual Report 2015/ section on TWE strategy pp10-11.
- Australian Vintage Ltd, Annual Report 2015/ key strategies p7.
- Productivity Commission, September 2014, 'Relative costs of doing business in Australia: Retail Trade.
- Coles Annual Report 2015/ Transforming Liquor, p 19.
- Woolworths 2015, 'Announces new strategies to win over grocery shoppers', AFN, Sophie Langley, 2015
- Australian Tax Office, Administration of the Wine Equalisation Tax, Auditor General report No2 2010-11, Performance audit.

Australian Government, The Treasury, Costing Minute, AFTS proposal-alcohol tax system. 10/11/2009.

Treasury, Wine equalisation tax rebate: Discussion paper August 2015.

Henry K, Future Tax System, E5 Alcohol taxation, pp431-443

Supporting Australian Wine, Submission to the Federal Government, October Tax Forum, September 2011.

Harper I, Competition Policy Review, final report March 2015.