The Australia Institute

Research that matters.

The liquor industry

Technical Brief No. 14
Aug 2012
ISSN 1836-9014

David Richardson

TAI

Technical Brief

The Australia Institute
Research that matters.

About TAI

The Australia Institute is an independent public policy think tank based in Canberra. It is funded by donations from philanthropic trusts and individuals, memberships and commissioned research. Since its launch in 1994, the Institute has carried out highly influential research on a broad range of economic, social and environmental issues.

Our philosophy

As we begin the 21st century, new dilemmas confront our society and our planet. Unprecedented levels of consumption co-exist with extreme poverty. Through new technology we are more connected than we have ever been, yet civic engagement is declining. Environmental neglect continues despite heightened ecological awareness. A better balance is urgently needed.

The Australia Institute's directors, staff and supporters represent a broad range of views and priorities. What unites us is a belief that through a combination of research and creativity we can promote new solutions and ways of thinking.

Our purpose—'Research that matters'

The Institute aims to foster informed debate about our culture, our economy and our environment and bring greater accountability to the democratic process. Our goal is to gather, interpret and communicate evidence in order to both diagnose the problems we face and propose new solutions to tackle them.

The Institute is wholly independent and not affiliated with any other organisation. As an Approved Research Institute, donations to its Research Fund are tax deductible for the donor. Anyone wishing to donate can do so via the website at https://www.tai.org.au or by calling the Institute on 02 6206 8700. Our secure and user-friendly website allows donors to make either one-off or regular monthly donations and we encourage everyone who can to donate in this way as it assists our research in the most significant manner.

LPO Box 5096
University of Canberra, Bruce ACT 2617
Tel: (02) 6206 8700 Fax: (02) 6206 8708
Email: mail@tai.org.au
Website: www.tai.org.au

Summary

This study aims to present a broad outline of the liquor industry in Australia and the influences on it. An important trend in this industry is the increasing dominance of Woolworths and Coles at the retail level and the consequences for the structure of the industry and the fortunes of the liquor suppliers. Much of Australian retailing is a duopoly and liquor retailing is increasingly heading that way.

The total value of liquor produced in 2009-10 in Australia was $10,383 million with a value added[1] of $3,356 million; a wages bill of $1,153 million; and a total employment of 20,629 people. Specific taxes on alcohol raised $3,853 million in tax in 2009-10, or 1.3 per cent of total revenue. On most measures wine is the biggest of the alcoholic beverage group, however, beer has a larger value added and greater profitability.

Beer is the most profitable sector of the liquor manufacturing industry and is dominated by two foreign-owned companies, SABMiller (Foster's) and Lion Nathan, which control almost 90 per cent of the Australian market. Coopers is the next biggest but accounts for only 3.6 per cent of sales. For possibly the first time in history, Australian-owned beer production is a minor part of Australian consumption.

The beer duopoly was reinforced recently by the Australian Competition & Consumer Commission (ACCC) decision to allow SABMiller to take over Foster's and so neutralise the potential competition from Pacific Beverages, already under control of SABMiller.

In the wine industry there are more players who tend to be much less profitable, with many reporting substantial losses in recent years. A higher number of producers with little market power puts them at a disadvantage vis-à-vis the strong retail duopoly especially when combined with the lack of consumer loyalty, a slump in global demand and the wine glut. The imbalance in market power has enabled the retail sector to squeeze profit margins in the wine industry.

The spirits industry is a little less well-known. The manufacturing of spirits is smaller in scale than the beer and wine sectors, being confined to the ready-to-drink market and using mainly imported spirits. A notable exception is the production of Bundaberg Rum by Diageo Australia. The major manufacturers do not publish financial performance data for their spirits divisions.

The liquor industry depends on a healthy demand for its product. On the latest figures Australians consume 2.2 standard drinks a day, down from the peak of 2.9 standard drinks a day in 1974-75. Beer is the largest source of alcohol, accounting for 42 per cent of all alcohol consumed in Australia. In contrast, beer comprised 76 per cent of all alcohol consumed in 1960. The gap has been filled by wine in particular, which rose from 12 to 37 per cent of alcohol consumed over the same period, while spirits rose from 12 to 20 per cent.

Alcohol consumption is worth some $9.7 billion and shows a strong seasonal pattern, with peaks in sales around the Christmas/New Year period. Sales in December tend to be over 80 per cent higher than sales in June, the quietest month for liquor sales. While most alcohol is consumed away from licensed premises, a considerable 38 per cent by value is consumed on licensed premises.

1 'Value added' is a measure of the economic activity involved in an industry; it abstracts from the value of the inputs used in that industry.

Discussions of the use and abuse of alcohol often revolve around issues such as the cost and availability of alcoholic beverages. The cost of alcohol has increased by 15 per cent relative to other consumer prices in Australia over the last two decades. During that period, however, Australian incomes have increased more rapidly so that, compared with 1980, Australian average weekly earnings go 46 per cent further in terms of the alcohol that can be purchased. Over the same period wine has become relatively cheaper than beer and spirits. Relative to wine, spirit prices have increased 70 per cent and beer 80 per cent. That in turn implies a large fall in the relative price of wine that would account for much of the switch in consumption towards wine.

The average Australian household consumes beer, wine and spirits in the proportions 48 to 32 to 20. Overall spending on alcohol as a proportion of the household budget increases with income. However, beer consumption tends to be flatter, with the suggestion of a small fall in the proportion spent as income increases.

While the alcohol industry is not a particularly large one,[2] it does represent an important customer for some other industries, in particular 'grains' and 'other agriculture'. It also accounts for a significant share of the output of the following industries: 'food and beverage services', 'wholesale trade', 'soft drinks, cordials and syrup manufacturing', 'glass and glass product manufacturing', 'grain mill and cereal' and 'metal containers and other sheet metal product manufacturing'.

The wholesale and retail trade in liquor is an important part of the liquor market in Australia. The mark-up on beer sold to consumers is 39.5 per cent, while the mark-up on wine, spirits and tobacco is 72.2 per cent. The developments in retail seem to be having important impacts on the liquor industry, much like the impacts on other industries such as groceries and some farm sectors. However, the data here is consistent with an increasingly powerful retail sector dominated by the Coles and Woolworths groups, who have squeezed out smaller retailers and then sought to make ever tougher deals with liquor suppliers and threaten established brands with 'home brands'. That strategy has been quite evident in wine but less so in beer and spirits, where the countervailing power of the suppliers is stronger—especially beer, where two companies dominate and new brands are hard to establish.

Despite the high concentration in the liquor retail sector, the ACCC recently allowed Woolworths to take over Cellarmasters, thereby increasing the concentration in wine retailing in particular. The high concentration in wine retailing seems to be producing higher retail mark-ups in wine, partly at the expense of wine producers. The complaints by grocery and other suppliers to Coles and Woollies seem to be echoed in the liquor industry.

2 The alcohol industry accounts for around 0.3 per cent of GDP and 0.2 per cent of employment.

Overview of alcohol manufacturing

Total sales of Australian liquor were $11,213 million in 2009-10, the latest year for which the ABS has published figures. The total value of production was comprised of wine production of $5,779 million, beer production of $4,966 million and spirits worth $468 million. Those figures and other indicators are shown in Table 1.

Table 1: Alcohol manufacturing in Australia: Key industry indicators, 2009-10.

	Wages and salaries	Sales and service income	Industry value added	Employment at end June	Employment per $m of value added
	$m	$m	$m	no.	No,
Beer manufacturing	303	4,966	1,863	3,604	1.9
Spirit manufacturing	20	468	98	318	3.3
Wine and other alcoholic beverage manufacturing	830	5,779	1,395	16,707	12.0
Total	1,153	11,213	3,356	20,629	6.1

Source: ABS (2011), *Experimental estimates for the manufacturing industry, 2009-10,* Cat no 8159.0, 12 December and IBISWorld (2012), *Spirit manufacturing in Australia*, March.

It is evident from the table that by any of the indicators, spirit manufacturing in Australia is the small cousin to beer and wine. However, the wine market is bigger than beer on all measures except for value added. It is apparent that wine production is much more labour intensive than beer production: beer employs barely a quarter of the people employed in the wine industry, even though it accounts for a larger value added than wine.

The liquor industry is a relatively small part of the Australian economy. Altogether liquor industry sales amount to 0.9 per cent of GDP. However, the industry's contribution to Australia's value added is 0.3 per cent and it employs some 0.2 per cent of all people employed in Australia.

Australian Taxation Office figures show that in 2009-10 the government collected $3,105 million in excise duty on alcohol.[3] Of that total $1,991 million came from beer and $1,114 million from spirits. In addition the budget papers show additional collections under the Wine Equalisation Tax worth $748 million in that year.[4] All in all, specific taxes on alcohol raised $3,853 million in tax in 2009-10 or 1.3 per cent of total revenue.[5]

[3] Australian Taxation Office (2011) *Taxation Statistics* at http://www.ato.gov.au/corporate/content.aspx?menuid=0&doc=/content/00268761.htm&page=19#P1345_65429

[4] Australian Government (2011) *2011-12 Budget Paper No 1*.

[5] These figures would have been higher but for the wine equalisation tax producer rebate of $240 million, the concessional rate of excise on draught beer worth $160 million and the various other 'tax expenditures' listed in Australian Government (2012), *Tax expenditures statement, 2011*, January.

Beer manufacturers

There are two dominant beer producers in Australia that control around 90 per cent of Australian beer production; a number of smaller and boutique producers accounts for the other ten per cent. Table 2 sets out the main beer manufacturers and their market shares.

Table 2: Beer manufacturing: Market shares (%)

Manufacturer	Market share (%)
Foster's (SABMiller PLC)	48.0
Lion Nathan National Foods Pty Ltd	41.3
Coopers Brewery Limited	3.6
Other	7.1
Total	**100.0**

Source: IBISWorld (2011) *Beer and Malt Manufacturing in Australia*, June

As can be seen from Table 2 the beer industry has two main players: **Foster's Group Limited** and **Lion Nathan**. Together they form a duopoly that controls just under 90 per cent of the Australian beer market. Foster's is now owned by SABMiller PLC following approval of the takeover by the Treasurer on 25 November 2011.[6] SABMiller is the second largest beer producer in the world; it has 11 per cent of the market[7] while the largest, Anheuser-Busch InBev NV, has 25 per cent of the world beer market.[8] With the earlier separation of Fosters into the wine division, which was floated as Treasury Wine Estates Limited, the remaining Foster's Group Limited was almost a pure beer play.[9] Foster's was making losses prior to its takeover, but those were losses on its wine holdings that were realised in the demerger. Foster's claims that its net earnings before interest and taxation in the Carlton United Breweries business was $847.8 million or 38 per cent of net sales revenue.[10] Those healthy results in the beer division were obtained despite a drop in sales volume by 5 per cent to 101 million '9 litre cases'.[11] Other observers have mentioned Foster's loss of market share and point out that iconic brands such as VB have fallen from 22 per cent of the market in 2008 to under 16 per cent in 2011.[12] While Foster's profit margin seems to have remained high, at least one commentator has referred to it as

[6] Swan W (2011*), Foreign investment decision*, media release no 145, 25 November. The conditions of the approval included that :
Operations will remain in Australia, Production facilities will not be moved offshore, and that Foster's iconic brand portfolio will be retained. (In Tasmania that includes the historic Cascade brewery.)

[7] Munson C 'What are the top 10 brewing companies? eHow Money http://www.ehow.com/list_6369301_top-10-brewing-companies_.html accessed 24 February 2012.

[8] 'Anheuser-Busch InBev' Wikipedia http://en.wikipedia.org/wiki/Anheuser-Busch_InBev accessed 24 February 2012.

[9] By 'pure play' in a market sector we mean a company that gives the investor an exposure to that market sector and that market sector alone. Foster's still retained some spirits interests.

[10] Foster's Group Limited (2011), *Annual Report 2011*.

[11] Foster's uses 9 litre cases as its measurement unit. These are the traditional cartons of beer comprising a dozen full-size bottles or two dozen cans.

[12] IBISWorld (2011), *Beer and Malt Manufacturing in Australia*, June.

'among the worst - run companies in Australia over the past 15 years'.[13] It failed to manage its beer brands whilst being distracted by the problems in its wine divisions.

Lion Nathan National Foods Pty Ltd (Lion) is the other main beer manufacturer in Australia, owning brands such as Tooheys, XXXX, Hahn, Swan and Boag's. Lion is also a major milk producer and so has suffered with the price war between Coles and Woolworths.[14] Lion is also the successor to National Foods, which has a number of product lines that rely on sales through the main retailers. Lion's beer interests have had a long history of ownership changes; Lion is now owned by the Japanese Kirin Brewing Group. Kirin does not provide separate financial information on its Australian beer business.[15] Prior to the takeover in 2008-09 Kirin earned $515.7 million before interest and taxation on sales of $1,589.0 million. That is 32 per cent of revenue, a little less than Foster's at 38 per cent.

The profit performance of Foster's CUB division and Lion's beer division reinforce the impression given in Table 1 that brewing is a capital intensive and profitable industry. There is, however, not enough information in the annual reports to indicate a rate of return on equity or other measures of relative profitability.

Coopers Brewery Limited is a private, family-owned company that has enjoyed a good deal of success in recent years as Coopers has become established as a niche brand in states outside its home state, South Australia. While not comparable, IBISworld reports a net profit after tax of $23.5 million in 2009-10 or 13 per cent of revenues of $179 million.[16]

Other brands account for a very small share of the beer market at 7.1 per cent. Unlike wine, Coles and Woolworths' private label beer brands, such as Dry Dock and Platinum Blonde, account for only 1.5 per cent of the market.[17]

Given the big two beer producers are foreign-owned, it means that around 90 per cent of the beer market is in the hands of foreign owners. Foreign ownership of Australian manufacturing raises a number of important issues, not the least of which is the ability of the local subsidiary to export from Australia when it is often the case that foreign markets are also serviced by the foreign parent or another of its subsidiaries. A former industry minister, Senator John Button, used to complain about the classic colonial culture of many of the foreign owners of Australian industry, who would refuse to allow Australian subsidiaries to export from Australia.[18] Button was referring to foreign-owned or controlled enterprises that establish subsidiaries in Australia with a brief to manufacture for the local market only (with perhaps some exports to the South Pacific), using old technology and little or no local R&D, design etc., having little regard for their competitiveness or productivity, and generally being inward-looking and isolated from the international market in which they could operate and to which they might otherwise export.

---

[13] Boyd A (2011), 'SABMiller a margin machine', *The Australian Financial Review*, 23 September.

[14] Sprague, J-A (2012), 'Lion cries over spilt $1.2 billion', *The Australian Financial Review*, 1 February.

[15] The most detailed segment that includes Australian beer is the overseas beverages segment. See Kirin Holdings Company Limited (2012), *Summary of Consolidated Financial Results for the year ended December 31, 2011*, 10 February at http://www.kirinholdings.co.jp/english/ir/pdf/2011/4q_tanshin.pdf accessed 24 February.

[16] IBISWorld (2011), *Beer and Malt Manufacturing in Australia*, June.

[17] Mitchell S (2011), 'Minnows stand aside as Goliath fights Goliath', *The Australian Financial Review*, 26 March.

[18] Button Sen JN (1985), 'Bounty (Commercial motor vehicles) Amendment Bill 1985, Second reading speech', *Senate Hansard*, 26 March, p. 819

Before the SABMiller takeover of Foster's, the former used to operate a joint venture with Coca-Cola Amatil called Pacific Beverages, which distributed beers from the SABMiller stable of brands as well as its own Bluetongue beer. Pacific Beverages had about 2 per cent of the market. According to IBISWorld there were plans to build another brewery; if that went ahead, it was thought that 'Pacific Beverages will pose a major threat to existing duopoly in the Australian beer market'.[19] However, the ACCC allowed SABMiller to take over Foster's knowing that the proposal was to include terminating the joint venture with Coca-Cola Amatil and bringing both Foster's and Pacific Beverages under the control of SABMiller. The ACCC seemed to think that competition between the duopoly and the small fringe of brewers would be enough to 'constrain the merged firm'.[20] By 'constrain' we assume that the ACCC meant that the remaining market participants would be sufficient to check any potential exercise of market power on the part of SABMiller.

The ACCC decision is remarkable in the circumstances. Given that two players in the Australian market were already controlling almost 90 per cent of that market, the ACCC should have insisted that the duopoly not be allowed to further extend their control of the market.

Wine manufacturers

By contrast with beer, the wine industry includes a larger number of Australian producers and the biggest producer has a lower market share. The main wine manufacturers in Australia are listed in Table 3.

While the Australian beer industry is a virtual duopoly, wine manufacturing appears much more competitive, with the largest player having just 11.5 per cent of the market. Many of the wine producers have declared large losses in recent years, suffering from both operating losses and asset write-downs. However, as will be discussed below, pricing pressure on the part of the retail sector has been an important constraint on the profitability of wine companies.

Table 3: Wine Manufacturers: Market shares (%)

Manufacturer	Market share (%)
Accolade Wines Holdings Australia Pty Limited	11.5
Treasury Wine Estates	10.5
Premium Wine Brands Pty Ltd	10.0
Casella Wines Pty Limited	6.6
Australian Vintage Limited	4.5
Other	56.9
Total	**100.0**

Source: IBISWorld (2011), *Wine Manufacturing in Australia*, June.

[19] IBISWorld (2011), *Beer and Malt Manufacturing in Australia,* June, p. 38.

[20] ACCC (2011), *ACCC not to oppose SABMiller's acquisition of Foster's Group,* media release, 28 September.

Accolade Wines Holdings Australia Pty Limited is the largest of the wine manufacturers, with 11.5 per cent of the domestic market. Accolade is the successor to BRL Hardy, which was purchased by Constellation Wines Australia and Europe (CWAE). Constellation bought BRL Hardy for $1.9 billion in 2003, but recently sold 80 per cent of it for just $230 million to a private equity firm (CHAMP) in February.[21]That experience is a good example of the extent to which the market has responded to the poor performance of the wine sector by writing down the value of the assets of the wine sector. According to IBISWorld, Accolade made a loss of $258.6 million in 2009-10, reflecting falling sales and asset write-downs.

Treasury Wine Estates (Treasury) is the world's largest stand-alone listed wine company,[22] following the split from Foster's in 2011. While we noted above that Foster's has been described as one of Australia's worst-run companies, more recently one broker says Treasury Wine Estates 'continues to demonstrate that it is making progress in turning the business around'.[23] In the pro-forma accounts published in its 2011 annual report,[24] Treasury claims its earnings before interest and tax were 9.7 per cent of sales That figure compares poorly with Foster's 38 per cent beer margin, mentioned above.

The split with Foster's followed a long history of Foster's attempts to build up its wine division though Australian and overseas acquisitions. Foster's was reported to have invested $7 billion in building up the division by way of acquisitions, but later was forced to write down $3.5 billion of that investment as a result of the problems associated with the wine industry.[25]

Premium Wine Brands Pty Ltd is owned by the French spirit and wine group Pernod Ricard, which took over the Orlando Wyndam Group in 1989. Premium owns some internationally successful brands such as Jacob's Creek, but in recent years has been making losses in Australia as a result of low demand and pressure from the Australian dollar.

Casella Wines Pty Limited represents 6.6 per cent of the market, is a family-owned company and is Australia's biggest wine exporter. The company made a profit in 2011, but only through successful currency hedging. Otherwise it would have declared a loss driven by its problems with the high Australian dollar and the impact on foreign sales.[26] Casella is best known for its Yellow Tail brand.

Australian Vintage Limited (AVL), formerly McGuigan Simeon Wines Limited, has a 4.5 per cent share of the market; however, unlike some of its competitors, it made a profit of $7.7 million in 2011 and $8.9 million in the previous year. AVL seems to have managed to remain profitable through some rationalization, cost control and

[21] Thompson S, Lacy C and Shore S (2011), 'Suitors circle Treasury Wine after SAB bid' ,*The Australian Financial Review*, 23 September.

[22] Thompson S, Lacy C and Shore S (2011), 'Talk of move on Treasury lukewarm', *The Australian Financial Review,* 3 December.

[23] Hartge-Hazelman B (2012), 'Treasury Wine Estates', *The Australian Financial Review*, 21 February.

[24] Treasury Wine Estates (2011), *Annual Report 2011*.

[25]Thompson S, Lacy C and Shore S (2011), 'Talk of move on Treasury lukewarm', The Australian Financial Review, 3 December.

[26] Sprague J-A (2012), 'Casella finds high dollar unpalatable', *The Australian Financial Review*, 24 January.

successful management of its brands. The company chair has said, 'We are now a low cost, flexible producer with a strong stable of brands'.[27]

The sector also has a number of minor companies, including several privately-owned family companies. There have been rationalisations, liquidations and asset sales and other indications of problems in this sector of the liquor industry.

Coles and Woolworths have a number of private label brands and sales of these brands seem to be the fastest growing segment of the wine market. Information about the brands is hard to come by, but there are references indicating that Coles and Woolworths have done well, for example, a statement to the effect that 'Woolworths has had great success with a range of its own wine labels'.[28] At the same time, another report notes that private labels make up less than 4 per cent of the domestic wines carried by Woolworths.[29] Yet it is also reported that Woolworths aims to double its sale of private label products to represent about a third of total sales.[30] That would put private label sales at about 15 per cent of total sales at the moment. While private label brands may make up only 4 per cent of the wines carried, stores do have strategies to move private label wines and other producers, such as De Bortoli, have complained that there is less shelf space for branded wines and that the private label brands are being discounted.[31]

Of course the private label strategy is not just confined to wine;. it appears to apply to beer and spirits as well. Another report observed:

> *Woolworths also plans to double the penetration of private-label liquor brands over the next four years, taking advantage of its stake in brewer Gage Roads and production, packaging and branding capacity acquired through the $340 million acquisition of direct mail wine merchant Cellarmasters in April.*[32]

Woolworths has a number of subsidiaries that, judging from their names, are likely to be involved in wine marketing and producing. Those include, among others: Cellarmaster Wines Pty Limited, Dorrien Estate Winery Pty Ltd, and Zimi Wines Pty Ltd.[33] By contrast Wesfarmers (Coles) only seems to have one subsidiary company that is recognisably involved in wine manufacturing – Philip Murphy Wine & Spirits Pty Ltd - although there are a number of subsidiaries involved in retailing, including Liquorland.[34] Of course, private labels are not necessarily sourced in house, but may be contracted out to independent suppliers. Woolies would appear to have a greater in-house capacity than Coles at the moment.

While two of the top three wine-makers are foreign-owned, the wine industry retains a much higher degree of Australian ownership than beer and indeed, spirits, to which we now turn.

---

[27] Australian Vintage Limited (2011), *2011 Annual Report,* p. 3.

[28] Boyd A (2011), 'Consumers lose in brand wars', The Australian Financial Review, 24 March.

[29] Greenblat E (2011), 'Supermarket private labels put the pressure on tough wine market' The Sydney Morning Herald, 14 November.

[30] Greenblat E (2011), 'Wineries over a barrel', The Land, 20 November

[31] Greenblat E (2011), 'Wineries over a barrel', The Land, 20 November

[32] Mitchell S (2011), 'Big chains in battle of the booze', *The Australian Financial Review*, 16 November.

[33] Woolworths Limited (2011), Annual Report 2011.

[34] Wesfarmers (2011), Annual Report 2011.

Spirits manufacturers

Within the spirits industry there are five main players who control 82 per cent of the market.[35] Those companies are listed in Table 4 in order of market share. Unfortunately none of those listed are pure plays, which makes it harder to ascertain the profitability of spirit manufacturing.

Table 4: Spirits manufacturers: Market share (%)

Manufacturer	Market share
	%
Diageo Australia Limited	26.2
LINZ Group Holdings Pty Limited	22.7
Coca-Cola Amatil Limited	11.3
Foster's Group Limited (SABMiller PLC)	11.0
Bacardi Lion Pty Limited	10.8
Other	18.0
Total	**100.0**

Source: IBISWorld (2011), Spirit manufacturing in Australia, September.

Diageo Australia Limited is the Australian subsidiary of Diageo PLC, a UK company. It manufactures the iconic Bundaberg Rum in Australia and imports a number of well-known spirits such as Smirnoff and Johnnie Walker. In addition it manufactures a number of ready-to-drink (RTD) items. Diageo's profitability was hurt by the tax on RTDs, as was that of the other spirits manufacturers. Its net profit after tax in Australia fell from a peak of $54.2 million in 2006-07 to $22.2 million in 2009-10. The latter figure represents 4 per cent of revenue.

LINZ Group Holdings Pty Limited is a subsidiary of NZ owned Independent Distillers; it specialises in RTDs such as Vodka Cruiser and Woodstock Bourbon and Cola, and has production facilities in Australia.

Coca-Cola Amatil Limited (CCA) is the third largest distributor of spirits through its subsidiary, Pacific Beverages, which it jointly owns with SABMiller. CCA is an Australian company that manufactures and distributes the Maxxium range of RTDs, comprising mainly Jim Beam mixes, but it also distributes the Jim Beam bottled spirits range. CCA does not separately report its results for the liquor division.[36] CCA was known to be interested in taking over Foster's spirit and RTD interests with the SABMiller takeover.[37] However, it now appears that CCA has declined to purchase the SABMiller share and instead will have the CCA share purchased by SABMiller.[38]

[35] IBISWorld (2011), Spirit manufacturing in Australia, September.

[36] CCA's annual report does provide a segment analysis in terms of geographical divisions rather than by types of beverages.

[37] Mitchell S (2011), 'CCA already plans a return to beer', *The Australian Financial Review*, 22 June.

[38] LaFrenz C and Sprague J (2012), 'CCA opts out of Foster's tilt', *The Australian Financial Review, 5 March*.

Foster's Group Limited was a significant supplier of imported bottled spirits as well as a range of RTDs. However, as noted above, Foster's has been taken over by **SABMiller PLC**. Foster's did not report separate results for its spirits division so we are unable to comment on its profitability.

Bacardi Lion Pty Limited is an Australian joint venture between Japanese-owned Lion Nathan, mainly known for its beer manufacturing, and Bacardi Martini, a subsidiary of Bacardi Limited, an international family-owned company. Bacardi-Lion had revenues of $76 million in 2009-10.[39]

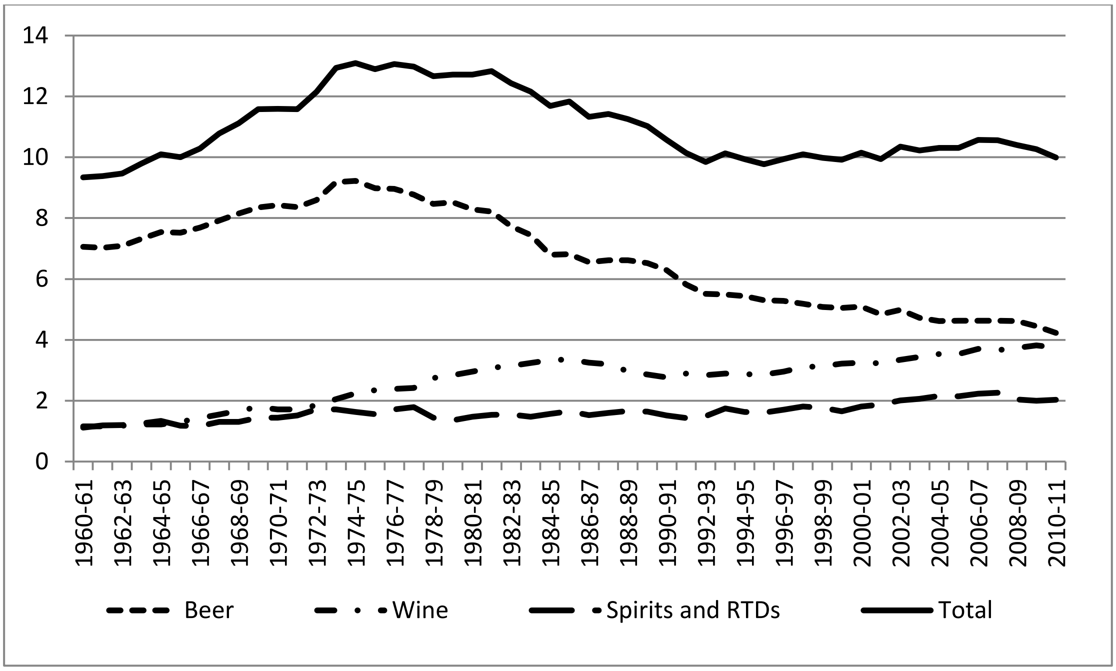
It is interesting to observe that of the major players discussed here, only Coca-Cola is Australian-owned, albeit subject to a 29.5 per cent share owned by The Coca-Cola Company (US).[40]

Alcohol consumption in Australia

In this section we examine what Australians are drinking and how those drinking patterns have changed over time.

Figure 1 shows the average consumption of alcohol per person aged 15 years and over. The figures are broken down into beer, wine and spirits (with the latter including RTD beverages). Instead of money values or volume of beverage, these figures give the actual alcohol content of the drinks being consumed.

Figure 1: Consumption of pure alcohol, per capita annual figures by type of beverage (litres)



Source: ABS (2012), *Apparent consumption of alcohol, Australia, 2010-11*, Cat no 4307.0.55.001, 3 May.

[39] IBISWorld (2011), Spirit manufacturing in Australia, September.

[40] Both directly and through a controlled entity. See Coca-Cola Amatil Limited (2010), *Annual Report 2010*. Coke is such an iconic American brand that many people may be surprised to learn that the Australian subsidiary is majority Australian-owned.

Alcohol consumption per capita increased from 1960 until the mid-1970s and then moderated towards the early to mid-1990s. Since then consumption has increased marginally towards a present level of 10.0 litres of pure alcohol per annum. One standard drink is 12.5 mL of pure alcohol, so the average Australian consumes 2.2 standard drinks per day. This is less than the 2.9 standard drinks consumed per day in 1974-75.

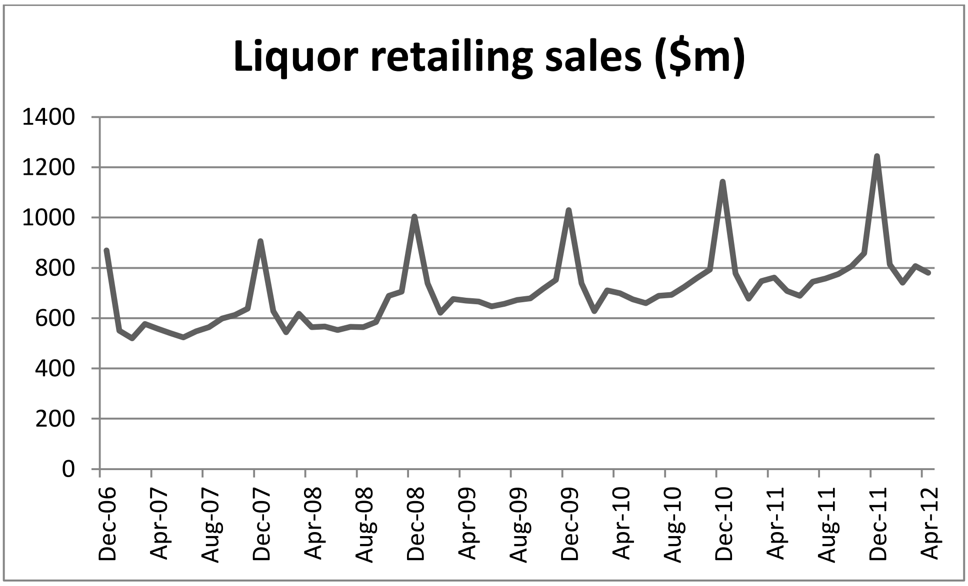
In 1960, beer accounted for 76 per cent of all alcohol consumed; this figure fell to 42 per cent by 2010-11. Meanwhile, consumption of wine rose from 12 per cent to 37 per cent (a threefold increase), and spirits rose from 12 per cent to 20 per cent of all alcohol consumption. While these figures are based on domestic sales, the ABS claims all these figures also 'contain an estimated component for home production',[41] which would include an allowance for home brewers.

When do Australians drink?

When Australians drink is just as important as what they drink. Consumption of a given volume of alcohol can have radically different outcomes depending on whether the pattern of consumption is fairly steady, or involves periods of little or no consumption interspersed with periods of high consumption.

Figure 2 shows monthly liquor sales from December 2006 to April 2012. As might be expected, liquor sales follow a strong seasonal pattern.

Figure 2: Monthly liquor sales ($ million)



Source: ABS (2012) Retail trade, Australia, Apr 2012, Cat 8501.0, 30 May.

The seasonal pattern of liquor sales in Australia shown in Figure 2 is very pronounced, with sales in December up to 85 per cent higher than sales in the 'slowest' month, which tends to be February. Overall in the 12 months up to September 2011, total retail sales were $9,724 million or $810 million a month. The actual monthly sales ranged from a low of $689 million in June 2011 to a high of $1,245 million in December 2011.

[41] ABS (2012), Apparent consumption of alcohol, Australia, 2010-11, Cat no 4307.0.55.001, 3 May.

Unfortunately domestic violence also peaks in the months of December and January, with higher numbers of incidents during the Christmas period and on New Year's Day, Melbourne Cup day and other public holidays.[42] This should be no surprise given that drinking habits are a risk factor in domestic violence.[43]

Where do Australians drink?

The ABS publishes two main sets of tables that allow us to examine the question of where people consume alcohol. First, the household expenditure survey records expenditure according to whether people are buying alcohol at a licensed venue (bar, tavern or restaurant) or whether they are buying to consume away from licensed premises, which would mainly involve consuming at home or at a friend or relative's home. Those figures show that people consume 38 per cent of alcohol purchases by value on licensed premises, amounting to a household expenditure of $12.03 per week. We consider that data source in more detail below when we address the different patterns of consumption among different income groups.

The other main source of ABS data comes from the input-output tables; Table 5 summarises the relevant parts. This table looks at where Australian produced alcoholic beverages are used, that is, their destination.[44] Note that the values do not include taxes or wholesale and retail mark-ups, hence they should not add up to the amount consumed as shown in Figure 1.

Table 5: Total production of alcoholic beverages by destination and value, 2007-8 ($m)

Product	Industry			Final Consumption Household expenditure	Exports
	Accommodation	Food and Beverage Services	Total		
Beer	181	1,118	1,366	2,188	156
Wine, spirits and tobacco	195	1,520	2,732	3,307	3,651
Total	**375**	**2,637**	**4,098**	**5,495**	**3,808**

Source: ABS (2011), Australian National Accounts: Input-output tables – Electronic publication, 2007-08 final, Cat no 5209.0.55.001, 25 October.

The interpretation of Table 5 can be clarified by looking at the row for beer manufacturing. That row shows that $181 million in beer sales went into the accommodation industry, and $1,118 million went into the food and beverage services industry, essentially bars, taverns and restaurants. The total amount used in other industries was $1,366 million. In addition to the two industries just mentioned, small amounts not shown here went into other industries such as finance, gambling and sports and recreation. Final consumption by households was $2,188 million with a small amount, $156 million, representing exports. The analogous figures for wine, spirits and tobacco are given in the next row and the totals are given at the bottom.

---

[42] A Morgan and H Chadwick (2009) 'Key issues in domestic violence', *Australian Institute of Criminology: Research in Practice no 7*, December.

[43] Morgan and Chadwick (2009).

[44] Unfortunately the ABS aggregates wine, spirits and tobacco as one category.

Overall Table 5 shows that most of the domestically consumed alcohol (and tobacco) is consumed directly by households. However, a large share is also consumed by people as part of an accommodation experience or, even more important, as part of a purchase of food and beverage services at outlets such as bars, taverns and restaurants.

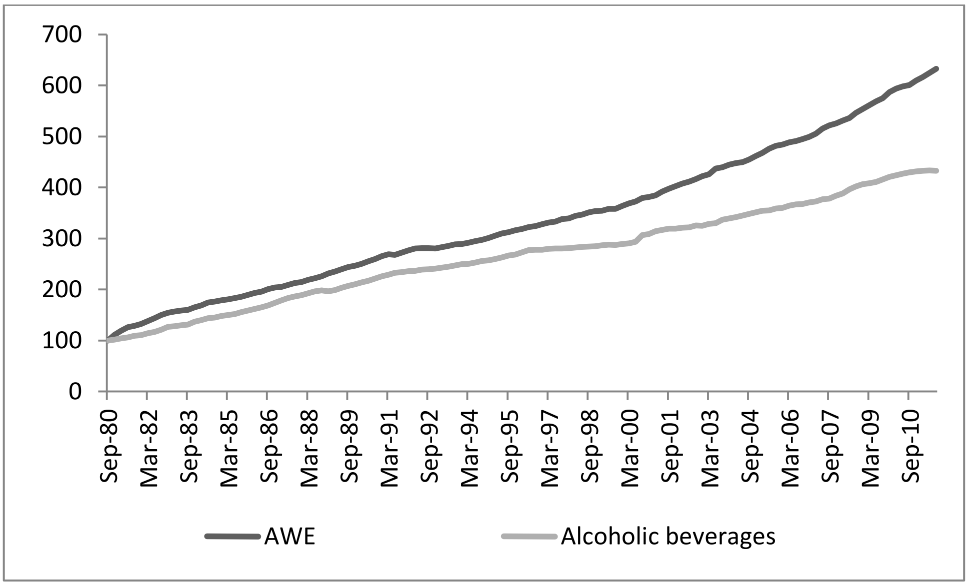
Alcohol's affordability?

The price of alcohol is an important issue, given the strong evidence that price has a strong effect on the consumption of alcohol. There is a large body of evidence that the cost of alcoholic beverages 'influences per capita consumption levels of ethanol, as well as the incidence of alcohol abuse and its health-related consequences'.[45] One study puts it that:[46]

> *excise taxes on alcoholic beverages are effective alcohol-control measures that can be used to promote public health*.

A major issue here is the affordability of alcohol and how it moves over time. 'Affordability' is of course a relative concept so it is important that the prices of alcoholic beverages are compared with a measure of people's earnings. Figure 3 attempts to do that by showing how the prices of alcoholic beverages have moved relative to average weekly earnings (AWE).[47]

Figure 3: Alcoholic beverage prices relative to average weekly earnings (AWE). Sept 1980 = 100



Source: ABS (2011) Consumer price index, Australia, Cat No 6401.0; RBA Statistical tables.

Starting out at a common base of 100 in September 1980 an increase in the price of alcoholic beverages relative to average weekly earnings would imply a fall in the

[45] PJ Cook and MJ Moore (2002), 'The economics of alcohol abuse and alcohol-control policies', Health Affairs, vol 21, March, pp. 120-33.

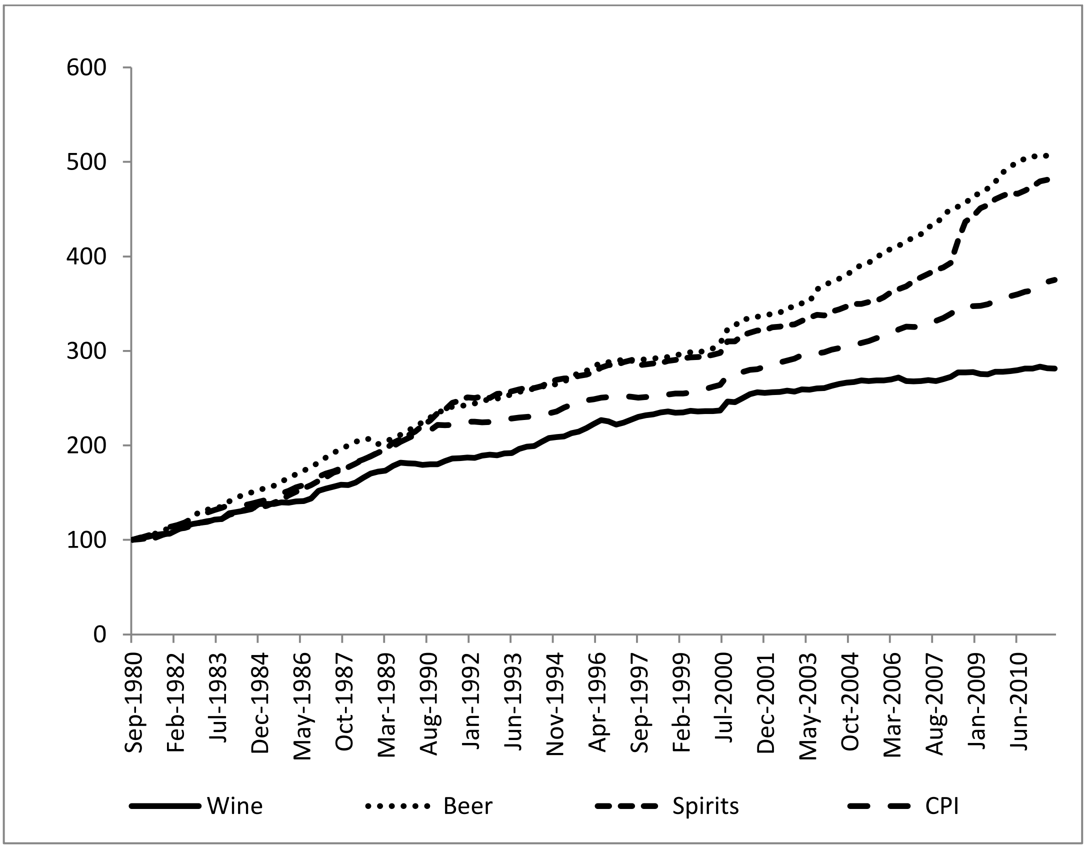
[46] PJ Cook and MJ Moore (2002) 'The economics of alcohol abuse and alcohol-control policies', Health Affairs, vol 21, March, pp. 120-33.

[47] The measure here is average weekly ordinary-time earnings for full-time adults using the total for the public and private sectors.

affordability of alcohol. On the other hand a reduction in the prices of alcoholic beverages relative to average weekly earnings would imply an increase in affordability. Figure 3 shows that relative to average weekly earnings the index of alcoholic beverage prices has fallen considerably over the period since 1980. While the prices of alcoholic beverages increased by a factor of 4.3, average weekly earnings increased by a factor of 6.3. Put differently, since 1980 average weekly earnings go 46 per cent further in alcohol purchases.

Of course the prices of different beverage types have increased at different rates. Figure 4 shows the separate price indices for wine, beer and spirits and compares those with the overall consumer price index (CPI).

Figure 4: Movement in the prices of beer, wine and spirits, index Sept 1980 = 100



Source: ABS (2011), Consumer price index, Australia, Cat No 6401.0

The striking feature of Figure 4 is the movements of the prices of beer, wine and spirits relative to each other. Relative to wine, spirits prices have increased 70 per cent and beer prices have increased by 80 per cent. Spirits and beer prices have also increased relative to the CPI while wine prices have fallen 25 per cent relative to the CPI. Those figures no doubt explain a lot of the movement in sales trends away from beer and spirits and in favour of wine, as shown in Figure 1. The interesting question is the wide discrepancy between movements in wine prices and those of spirits and beer. Part of the explanation is likely to be the existence of a duopoly in beer and a more competitive environment in wine-making. Duopolies are in a position to fight against competition and, indeed, exert countervailing pressure against the retail sector, as is argued below. Wine also receives a more favourable tax treatment compared with beer and spirits.

The decline in the relative price of wine means it is much the cheapest form of alcohol and is often associated with antisocial or excessive drinking. A standard drink containing 12.5 ml of alcohol can be obtained for 36 cents via cheap cask wine compared with $1.75 for beer and $2.52 for ready-to-drink beverages.[48]

Who drinks what?

This section relies heavily on the recently released household expenditure survey which, among other things, reported on households' expenditures on beer, wine and spirits. Those results are shown in Table A1 (in the Appendix), which show that the average household spends $32.35 per week on alcoholic beverages. Of that weekly total, $12.58 is spent on beer, $8.47 on wine and $5.35 on spirits;[49] that is, 48 per cent is spent on beer, 32 per cent on wine and 20 per cent on spirits. These proportions are very similar to the proportions of alcohol consumed, as illustrated inFigure 1. People are spending slightly more on beer than the proportion of alcohol consumed in beer would suggest, while the opposite is the case for wine. The proportion people spent on wine is less than the proportion of alcohol obtained from wine.

For the most part higher income households spend more on different beverages than do lower income households. The main exception is 'other' alcoholic beverages, where the amounts are very small for all groups. However, it helps to view these figures as percentages of total expenditure, as presented in Table A2 (in the Appendix).

The figures in Table A2 are very interesting. The figures show that lower income earners spend a lower percentage of their budget on alcohol than do higher income groups. In addition, each group spends a higher percentage of their budget on alcohol than the group/s with lower incomes. This is generally also the case for each subgroup, but there are some minor exceptions. For example, the second income quintile spends 1.07 per cent of its income on beer while the third, fourth and fifth spend 1.02, 1.05 and 1.02 per cent respectively. Because the figures are so close we would want to describe them as 'flat' rather than definitively saying they fall with income. That is important; a good whose share of total expenditure falls as income increases is said to be an 'inferior good'. On the other hand, a good whose share of expenditure increases with increases in income is said to be a 'superior good'. Wine tends to display such characteristics, but the effect is not strong. The small apparent effect here may well be due to sampling error in the household expenditure tables.

Incidentally, these findings are consistent with the earlier finding in Richardson and Denniss (2011) that age pensioner households tend to drink less as a proportion of their expenditure than other households.

The size and role of the alcoholic beverages industry

The manufacture of alcoholic beverages is a significant industry in Australia and so are the industries supplying the inputs that go into manufacturing alcoholic beverages. The ABS input-output tables are invaluable in helping us to better understand the industries that supply the alcoholic beverage industry. Table **6** includes those industries that supply inputs worth at least $100 million, or one per cent of their output, to the alcoholic beverages and tobacco industries.

---

[48] Richardson D and Denniss R (2011) *The Australian wine tax regime: Assessing industry claims*, The Australia Institute Technical Brief no 10, September.

[49] The rest is not defined or is other alcoholic beverages, cider and other similar drinks.

Table 6: Sales of major industries providing inputs into the alcohol and tobacco industries ($m)

Supplying industry	Sold to:-			Share of sales going to alcohol industry
	Beer manufacturing	Wine, Spirits and Tobacco	Total alcoholic beverages and tobacco	(%)
Other Agriculture	1	1 641	1 642	10.26
Sheep, Grains, Beef and Dairy Cattle	440	299	740	2.67
Food and Beverage Services	153	250	404	0.73
Wholesale Trade	109	221	330	0.3
Paper Stationery and Other Converted Paper Product Manufacturing	130	188	319	3.67
Road Transport	153	145	298	0.66
Finance	190	92	282	0.34
Professional, Scientific and Technical Services	63	195	257	0.18
Soft Drinks, Cordials and Syrup Manufacturing	3	198	201	3.91
Transport Support services and storage	145	37	182	0.42
Building Cleaning, Pest Control, Administrative and Other Support Services	21	133	154	0.24
Glass and Glass Product Manufacturing	29	124	153	7.69
Grain Mill and Cereal Product Manufacturing	151	0	151	2.68
Metal Containers and Other Sheet Metal Product manufacturing	113	27	140	2.63
Total supplying industries	2 044	4 808	6 852	0.27

Source: ABS (2011), Australian National Accounts: Input-output tables – Electronic publication, 2007-08 final, Cat no 5209.0.55.001, 25 October.

Table 6 clearly shows that agriculture is the biggest input into the alcoholic beverages and tobacco industries. Other agriculture, which includes viticulture, accounts for $1,642 million worth of inputs, or 10.26 per cent of the output of that industry. Hence other agriculture relies significantly on sales to the alcoholic beverages and tobacco industries. Sheep, grains, beef and dairy cattle, of which grains would be the largest component, supplies inputs worth $740 million, or 2.67 per cent of the output of that industry. The next largest inputs are food and beverage services at $404 million and wholesale trade at $330 million. The remaining inputs are much smaller; however, there are some manufacturing industries for which alcoholic beverages (and tobacco) are an important source of their income. Those are soft drinks, cordials and syrup manufacturing, who sell 3.91 per cent of their output to alcoholic beverages; glass and glass product manufacturing with 7.69 per cent of its output going to alcoholic beverages; grain mill and cereal at 2.68 per cent and metal containers and other sheet metal product manufacturing at 2.63 per cent. Arguably the viticulture industry could be included in the wine manufacturing industry, which would make the latter appear much bigger. Nevertheless, the total intermediate goods used in beer, wine, spirits and tobacco are valued at $6,852 million, which suggests that much of the income and employment created by the existence of the liquor industry is outside the industry itself.

One of the features of the input output tables is the difference between the factor incomes generated in the production of beer as compared with wine and spirits. To show these more clearly, Table 7 highlights some of the important features by showing the wages and non-wage incomes as a share of the total income produced.

Table 7: Income shares in production of beer, wine, spirits and tobacco (%)

	Beer manufacturing	Wine, spirits and tobacco	All industries
Wages (compensation of employees)	21.7	42.5	47.2
Non-wage income	78.3	57.5	52.8
Total income	**100.0**	**100.0**	**100.0**

Source: ABS (2011), Australian National Accounts: Input-output tables – Electronic publication, 2007-08 final, Cat no 5209.0.55.001, 25 October.

Table 7 shows that wages are a relatively low share of value added in beer manufacturing at 21.7 per cent, compared with wine etc at 42.5 per cent. The national average that year was 45.4 per cent of value added. On those figures wine, spirits and tobacco are close to the national average, with a wage share just below the national average and profit share just above it.

The input-output data so far discussed describes what goes on up to and including the manufacturing stage. After that, most of the liquor intended for distribution in Australia moves into the wholesale and retail sectors.[50]

Who is making the money?

We now turn to examine how the retailing of liquor translates into revenues for the retail industry. As it happens the ABS publishes data on retail mark-ups by type of product. Those figures are shown in Table 8. Unfortunately we must rely on the ABS

[50] A lot of it is also exported.

product classifications, which give separate figures for beer, but aggregate those for wine, spirits and tobacco.

Table 8: Wholesale and retail mark-ups on beer, wine, spirits and tobacco

	Used by:			
Beer	Other industries (such as restaurants and hotels)	Households as consumption	Exports	Total Supply
Beer sales	1,366	2,188	156	3,732
Wholesale mark-up	181	478	26	684
Retail mark-up	2	386	20	408
Wholesale and retail	183	864	46	1,092
Wholesale and retail - per cent of sales	13	40	30	29
	Used by:			
Wine, Spirits and Tobacco	Other industries (such as restaurants and hotels)	Households as consumption	Exports	Total Supply
Wine, Spirits and Tobacco sales	2,732	3,307	36,51	10,076
Wholesale mark-up	237	639	541	1,417
Retail mark-up	16	1,748	38	1,801
Wholesale and retail	253	2,387	579	3,218
Wholesale and retail - per cent of sales	9	72	16	32

Source: ABS (2011), Australian National Accounts: Input output tables – Electronic publication, 2007-08, Final, Cat no 5209.0.55.001, 25 October.

Table 8 shows that the wholesale and retail mark-ups on beer are 29.3 per cent overall, while for wine it is 31.9 per cent. However, for direct sales to the consumer the mark-up increases to 39.5 per cent for beer and 72.2 per cent for wine, spirits and tobacco.

We noted earlier that wine production seems to be less profitable than beer manufacturing. From Table 8 it also appears that the retailers have managed to earn a relatively higher margin on wine and spirits than they do on beer. On the other hand, wine may be more costly to sell, since retailers have to hold a larger variety of wine compared with beer and spirits lines. For example, Dan Murphy's website on 17 November claimed to have for sale the Australian beverages shown in Table 9.

Table 9: Australian alcoholic beverages available at Dan Murphy's

Product	Number
Beers	255
All wines	3,246
Red wine	1,955
White wine	954
Sparkling and Champagne	194
Fortified	143

Source: Dan Murphy's website at: http://danmurphys.com.au/dm/home?FOLDER%3C%3Efolder_id=2534374302025910 accessed 17 November.

As Table 9 shows, there is much less variety in beers than there is among wines. Even then, the 255 Australian beers for sale are dominated by a few makers. For example the Foster's Group[51] accounts for at least 53, or a little over 20 per cent of those beers.[52] By volume beer manufacturing looks much more concentrated, as shown in Table 2. The top two producers account for 89 per cent of beer sales; Fosters Group accounts for 48 per cent of beer sales in Australia and Lion Nathan National Foods supplies 41 per cent. By contrast wine appears much more competitive, as we saw in Table 3, with the largest producer accounting for just 12 per cent of wine sales and the next four manufacturers accounting for 11, 10, 7 and 5 per cent of wine sales respectively.

It is clear that beer manufacturing in Australia is a fairly concentrated industry dominated by the duopoly between Foster's and Lion Nathan. There is the strong likelihood that the retailers have managed to exert more downward price pressure on wine producers than they have managed to impose on the beer producers. While IBISWorld acknowledges the pricing power of the two dominant beer producers it suggests that the growing retail dominance of Coles and Woolworths is putting pressure on beer margins. Perhaps the future will see Coles and Woolworths develop strategies to further squeeze profit margins in beer and shift a good part of the beer profits into beer retailing—just as they seem to have done with wine.

Like the market for groceries, liquor retailing is dominated by Coles and Woolworths, which have respective sales of $2.8 billion and $5.9 billion out of a total market in packaged liquor worth $16 billion.[53] That is, Coles and Woolworths account for 54 per cent of the market in packaged liquor.

It is interesting to consider how Coles and Woolworths seem to be able to exert more downward price pressure on wine compared with beer. We observed above that beer

[51] The Foster's group was taken over by SABMiller .

[52] The relevant brands included in this figure are Carlton (11), Matilda Bay (9), VB (8), Cascade (8), Fosters (4), Crown Lager (4), Pure Blonde (4), Melbourne Bitter (3), Reschs (1) and Sheaf (1).

[53] The figures come from Citigroup. See S Mitchell (2011), 'Big chains in battle of the booze', The Australian Financial Review, 17 November.

is a more concentrated industry, which would give beer producers more countervailing power against the large retailers in particular. That contrasts sharply with the less concentrated structure of the wine industry, and indeed the spirits industry. This means that before the separation of Foster's and Treasury, the Foster's group would have had much more marketing power in relation to beer than with wine. The lack of economic power on the part of the second largest wine producer was illustrated recently when Treasury cut the discounts it was giving to retailers on its lower priced, high volume wines 'only to have the strategy backfire'.

> *Retailers simply dumped Treasury from its shelves, making it difficult for the group to sell its Berringer, Rosemount and Penfolds labels. Treasury has since returned to offering discounts to lift sales.*[54]

In addition to the effects of different concentrations in the two industries, the intrinsic nature of the two commodities may account for some of the additional bargaining strength in beer. In particular, whatever the reason, beer consumers seem to show more brand loyalty than wine consumers. The difference between beer and wine was summed up by a 'liquor industry source' who said that:

> *Wine consumers are driven by choice rather than loyalty and wine brands are easily substituted…But beer is a branded product and consumers drink the label*.[55]

An implication is that consumers are less likely to notice or even care if they cannot find a specific wine in a particular retail outlet. Wine consumers may be influenced by price, look of label, or search for a wine style or wine-making region.

Note also that much of the price pressure on wine in particular is due to competition from Coles and Woolworths' own brands. IBISWorld has forecast that private label wine will grow from almost nothing over 10% market share in the ten years to 2013. Supermarkets, of course, are in a position to drive sales of their own label wine by undercutting branded products, depressing prices and undermining producers' profitability. IBISWorld also observed:

> *Woolworths recently reported that own-brand wine sales were the biggest growth area in its liquor retailing business over the first half of 2009-10, with brands like Baily & Baily, Crittendon and Vivant growing strongly. Wesfarmers has recorded similar growth for its own label wine with brands including Robinsons Marlborough Sauvignon Blanc and Pensilva McLaren Vale Shiraz. As of 2010, private label wine accounted for about 8.0% of wine sold and IBISWorld forecasts this will grow to over 10% by 2013. Supermarkets drive sales of own label wine by undercutting branded products, depressing prices and undermining producers' profitability*.[56]

Coles and Woolworths are able to market home brand groceries in their own stores to put downward pressure on grocery suppliers; however, traditional home brands with their plain labels are unlikely to be attractive to consumers of beer and wine lines. As a compromise the private label is often essentially a home brand but comes with an attractive name, label and, often, a description of a quaint winery with an

[54] Sprague J-A (2012), 'Casella finds high dollar unpalatable'*, The Australian Financial Review,* 24 January.

[55] Mitchell S (2011), 'Minnows stand aside as Goliath fights Goliath', *The Australian Financial Review*, 26 March.

[56] IBISWorld *Wine manufacturing*

apparent history. Unlike traditional home brand groceries, it is often difficult for consumers to tell if the wine is a genuine branded wine or not. To be fair it must be admitted that the product itself is the equal in quality of branded wines of the same style and at the same price point.[57]

In the case of other home brand strategies, the then Minister for Manufacturing, Senator Kim Carr, commented in reference to groceries:

> *Our supermarkets are increasingly using their home brands, they are increasingly eroding brand loyalty and they are forcing suppliers to operate on wafer-thin margins*.[58]

Exactly the same is true for wine and beer, although both Coles and Woolworths seem to have made more progress with wine than beer.

Professor David Hughes of the University of Kent Business School makes the point in relation to Coles and Woolworths: ‘When you have a great deal of market power in the hands of one or two retailers, you will have abuses of power. That's in the nature of things’.[59] However, to date Coles and Woolworths seem to be unassailable. For example, the ACCC recently allowed Woolworths to take over Cellarmasters, a wine retailer that operates mainly online. Although Woolworths necessarily gained a greater share of the retail market through this takeover, the ACCC emphasised the distinction between online liquor sales and ‘bricks and mortar’ liquor retail stores, and suggested that the two were different markets.[60]

The ACCC decided to treat the retail wine industry as split into two distinct markets, The ACCC found that Cellarmasters has a very small share of the retail wine market at around 3 per cent, although it had an estimated 20 per cent of the online/direct wine sales market. By contrast, the ACCC said that Woolworths’ share of the retail bottled wine market is estimated by at between 25 per cent and 40 per cent. However, Woolworths had less than one per cent of the online/direct wine sales market.[61] Arguably, given their already high market power (as evidenced in their ability to determine the prices paid to suppliers) any extension of the wine market by way of takeover on the part of either Coles or Woolworths is anti-competitive.

The ACCC insistence that online and physical retail are different markets is difficult to follow, given all the attention being given to other retailers’ claims that their business is being eroded by online marketers. For example Gerry Harvey, Harvey Norman’s executive chair, said that 95 per cent of retailers were ‘under stress’.[62]

---

[57] This is of course a subjective opinion on the part of the author, but there is no evidence that private labels are in any sense inferior to branded wines.

[58] AAP (2012), ‘Minister puts Coles, Woolworths on notice’, *The Australian Financial Review*, 28 February.

[59] Quoted in S Washington (2011), ‘It’s war, but how low can they go’, Sydney Morning Herald, 26 November.

[60] ACCC (2011), ACCC not to oppose Cellarmasters sale, media release, 21 April.

[61] ACCC (2011), ’Woolworths Limited - proposed acquisition of The Cellarmasters Group’, Public Competition *Assessment*, 27 May.

[62] LaFrenz C (2011), ‘Trading stock: Harvey Norman Holdings (HVN)’ *The Australian Financial Review,* 2 December.

Conclusion

This study presented a broad outline of the liquor industry in Australia. This is a significant industry that generates a good deal of income and employment, both directly and indirectly. It is also a significant source of taxation for the Federal Government, generating almost $4 billion in tax revenue. On most measures wine is the biggest of the alcohol beverage group; however, beer has a larger value added and greater profitability.

Beer and spirits manufacturing is largely foreign-owned, while wine manufacturing is largely Australian-owned with the exception of two big wine producers, Accolade Wines and Premium Wine Brands.

Australians have moderated their consumption of alcohol since it peaked on a per capita basis in the mid-1970s. In addition Australians have switched their drinking patterns away from beer and towards wine and, to a lesser extent, spirits. By value Australians purchase liquor products worth $9.3 billion from retail establishments and they probably purchase a little over half again by value from bars, taverns, restaurants and similar establishments. Aggregate consumption has been drifting upwards over time but is highly seasonal, with large peaks over the Christmas/New Year period.

The cost of alcohol has increased by 15 per cent relative to other consumer prices in Australia. However, wine has become relatively cheaper than beer and spirits. Relative to wine, spirit prices have increased 70 per cent and beer 80 per cent. Alcohol tends to be what economists call a ‘superior good’ in that the proportion of the household budget spent on alcohol increases as income increases. However, within that group of beverages beer may be an exception, since the proportion spent is either flat or declining slightly with income.

While the alcohol industry is not a large one, it does represent an important customer for some other industries, in particular ‘grains’ and ‘other agriculture’. It also accounts for a significant share of the output of the following industries; ‘food and beverage services’, ‘wholesale trade’, ‘soft drinks, cordials and syrup manufacturing’, ‘glass and glass product manufacturing’, ‘grain mill and cereal’, and ‘metal containers and other sheet metal product manufacturing’.

The wholesale and retail trade in liquor is an important part of the liquor market in Australia. The mark-up on beer sold to consumers is 39.5 per cent, while the mark-up on wine, spirits and tobacco is 72.2 per cent. The developments in retail seem to be having important impacts on the liquor industry, much like those on other industries such as groceries and some agricultural industries. The data here is consistent with an increasingly concentrated retail sector dominated by the Coles and Woolworths groups, who have squeezed out smaller retailers, sought to make ever tougher deals with liquor suppliers and are threatening established brands with private labels, which are really just ‘home brands’. That strategy seems to have been quite successful with wine. It is less so with beer and spirits, where the countervailing power of the suppliers is stronger—especially beer, where two companies dominate and new brands are hard to establish. Consumers tend to be loyal to the beer brands, whereas they seem more willing to experiment with wine—behaviour that plays into the hands of the large retailers, who have a number of strategies that enable them to increase their margins at the expense of the suppliers.

This page is intentionally left blank

Appendix

Table A1: Drinking patterns across income groups ($ per week)

		Gross Household Income Quintile					
		Lowest	Second	Third	Fourth	Highest	All Households
Alcoholic beverages		10.76	19.58	31.17	39.47	60.83	32.35
Alcoholic beverages nfd		1.14	2.26	5.80	7.08	11.26	5.51
	Alcoholic beverages nfd	0.01	0.08	0.16	0.19	0.23	0.13
	off licensed premises	0.31	0.49	1.37	1.14	1.92	1.05
	on licensed premises	0.82	1.70	4.27	5.75	9.12	4.33
Beer nfd		4.73	8.68	11.95	15.48	22.09	12.58
	Beer nfd	0.04	0.05	0.09	0.05	0.04	0.05
	off licensed premises	3.10	6.09	7.84	9.85	12.24	7.82
	on licensed premises	1.60	2.54	4.02	5.58	9.80	4.71
Wine nfd		3.16	5.04	7.50	9.77	16.91	8.47
	Wine nfd	0.04	0.03	0.04	0.90	0.18	0.24
	off licensed premises	2.73	4.02	6.45	7.26	13.43	6.78
	on licensed premises	0.39	0.99	1.01	1.61	3.31	1.46

		Gross Household Income Quintile					
		Lowest	Second	Third	Fourth	Highest	All Households
Spirits nfd		1.68	3.30	5.33	6.35	10.07	5.35
	Spirits nfd	-	-	0.02	0.03	0.01	0.01
	off licensed premises	1.55	2.42	4.10	4.69	6.85	3.92
	on licensed premises	0.13	0.88	1.21	1.64	3.21	1.41
Other alcoholic beverages nfd		0.04	0.29	0.59	0.77	0.50	0.44
	Other alcoholic beverages nfd	-	-	0.11	0.10	0.03	0.05
	off licensed premises	0.02	0.27	0.29	0.51	0.26	0.27
	on licensed premises	0.02	0.03	0.19	0.17	0.21	0.12

Source: ABS (2011), Household expenditure survey, Australia: Detailed expenditure items, 2009-10, Cat no 6530.0, 6 September. In the table ‘nfd’ or ‘not further defined’ indicates that there are no further details allowing an item to be broken down into finer categories.

Table A2: Drinking patterns across income groups, share of expenditure (%)

		Gross Household Income Quintile					
		Lowest	Second	Third	Fourth	Highest	All Households
Alcoholic beverages		1.92	2.40	2.67	2.67	2.82	2.62
Alcoholic beverages nfd		0.20	0.28	0.50	0.48	0.52	0.45
	Alcoholic beverages nfd	0.00	0.01	0.01	0.01	0.01	0.01
	off licensed premises	0.06	0.06	0.12	0.08	0.09	0.08
	on licensed premises	0.15	0.21	0.37	0.39	0.42	0.35
Beer nfd		0.85	1.07	1.02	1.05	1.02	1.02
	Beer nfd	0.01	0.01	0.01	0.00	0.00	0.00
	off licensed premises	0.55	0.75	0.67	0.67	0.57	0.63
	on licensed premises	0.29	0.31	0.34	0.38	0.45	0.38
Wine nfd		0.57	0.62	0.64	0.66	0.78	0.69
	Wine nfd	0.01	0.00	0.00	0.06	0.01	0.02
	off licensed premises	0.49	0.49	0.55	0.49	0.62	0.55
	on licensed premises	0.07	0.12	0.09	0.11	0.15	0.12
Spirits nfd		0.30	0.40	0.46	0.43	0.47	0.43

	Gross Household Income Quintile					
	Lowest	Second	Third	Fourth	Highest	All Households
Spirits nfd	-	-	0.00	0.00	0.00	0.00
off licensed premises	0.28	0.30	0.35	0.32	0.32	0.32
on licensed premises	0.02	0.11	0.10	0.11	0.15	0.11
Other alcoholic beverages nfd	0.01	0.04	0.05	0.05	0.02	0.04
Other alcoholic beverages nfd	-	-	0.01	0.01	0.00	0.00
off licensed premises	0.00	0.03	0.02	0.03	0.01	0.02
on licensed premises	0.00	0.00	0.02	0.01	0.01	0.01

Source: ABS (2011), Household expenditure survey, Australia: Detailed expenditure items, 2009-10, Cat no 6530.0, 6 September.

References

'Anheuser-Busch InBev' Wikipedia http://en.wikipedia.org/wiki/Anheuser-Busch_InBev accessed 24 February 2012.

Australian Bureau of Statistics (ABS) (2010), Australian wine and grape industry, Cat no 1329.0, 7 December.

ABS (2010), Experimental estimates for the manufacturing industry, 2008-09, Cat no 8159.0, 16 December

ABS (2011), Australian National accounts: Input-output tables – Electronic publication, 2007-08 final, Cat no 5209.0.55.001, 25 October.

ABS (2010), Australian wine and grape industry, Cat no 1329.0, 7 December.

ABS (2011), Apparent consumption of alcohol: Extended time series, 1944-45 to 2008-09, Cat no 4307.0.55.002, 18 January.

ABS (2011), Consumer price index, Australia, Cat No 6401.0

ABS (2011), Household expenditure survey, Australia: Detailed expenditure items, 2009-10, Cat no 6530.0, 6 September.

ABS (2011), Retail trade, Australia, Sep 2011, Cat 8501.0, 3 November.

ABS (2012), Apparent consumption of alcohol, Australia, 2010-11, Cat no 4307.0.55.001, 3 May.

Australian Competition & Consumer Commission (ACCC) (2011), ACCC not to oppose Cellarmasters sale, media release, 21 April.

ACCC (2011), ACCC not to oppose SABMiller's acquisition of Foster's Group, media release, 28 September.

ACCC (2011),'Woolworths Limited - proposed acquisition of The Cellarmasters Group', Public Competition Assessment, 27 May.

Australian Government (2011), 2011-12 Budget Paper No 1.

Australian Government (2012), *Tax expenditures statement,* 2011, January.

Australian Taxation Office (2011), Taxation Statistics at http://www.ato.gov.au/corporate/content.aspx?menuid=0&doc=/content/00268761.htm&page=19#P1345_65429

Australian Vintage Limited (2011), *2011 Annual Report*

Boyd A (2011), 'Consumers lose in brand wars', *The Australian Financial Review*, 24 March.

Boyd A (2011), 'SABMiller a margin machine', *The Australian Financial Review*, 23 September.

Coca-Cola Amatil Limited (2010), *Annual Report 2010*.

Cook PJ and Moore MJ (2002), 'The economics of alcohol abuse and alcohol-control policies', *Health Affairs,* vol 21, March, pp. 120-33.

Foster's Group Limited (2011), *Annual Report 2011*.

Greenblat E (2011), 'Supermarket private labels put the pressure on tough wine market', *The Sydney Morning Herald*, 14 November.

Greenblat E (2011), 'Wineries over a barrel', *The Land*, 20 November.

Hartge-Hazelman B (2012), 'Treasury Wine Estates', *The Australian Financial Review*, 21 February.

IBISWorld (2011), *Beer and Malt Manufacturing in Australia,* June.

IBISWorld (2011), *Spirit manufacturing in Australia*, September.

IBISWorld (2011), *Wine Manufacturing in Australia*, June.

Kirin Holdings Company Limited (2012) *Summary of Consolidated Financial Results for the year ended December 31, 2011*, 10 February at http://www.kirinholdings.co.jp/english/ir/pdf/2011/4q_tanshin.pdf accessed 24 February.

LaFrenz C (2011), 'Trading stock: Harvey Norman Holdings (HVN)', *The Australian Financial Review,* 2 December.

LaFrenz C and Sprague J (2012), 'CCA opts out of Foster's tilt', *The Australian Financial Review*, 5 March.

Mitchell S (2011), 'Big chains in battle of the booze', *The Australian Financial Review*, 17 November.

Mitchell S (2011), 'Minnows stand aside as Goliath fights Goliath', *The Australian Financial Review*, 26 March.

Morgan A and Chadwick H (2009), 'Key issues in domestic violence', *Australian Institute of Criminology: Research in Practice no 7*, December.

Munson C 'What are the top 10 brewing companies? eHow Money http://www.ehow.com/list_6369301_top-10-brewing-companies_.html accessed 24 February 2012.

Dan Murphy's website at: http://danmurphys.com.au/dm/home?FOLDER%3C%3Efolder_id=2534374302025910 accessed 17 November.

Richardson D and Denniss R (2011), *The Australian wine tax regime: Assessing industry claims,* The Australia Institute Technical Brief no 10, September.

Sprague J-A (2012), 'Casella finds high dollar unpalatable', *The Australian Financial Review,* 24 January.

Sprague J-A (2012), 'Lion cries over spilt $1.2 billion', *The Australian Financial Review*, 1 February.

Swan W (2011), 'Foreign investment decision', *Media Release No 145 by Deputy Prime Minister and Treasurer, the Hon Wayne Swan*, 25 November.

Treasury Wine Estates (2011), *Annual Report 2011*.

Washington S (2011), 'It's war, but how low can they go', *Sydney Morning Herald*, 26 November.

Wesfarmers (2011), *Annual Report 2011*.

Woolworths Limited (2011), *Annual Report 2011*.