KPMG

Wine Industry Insights

Key Emerging Issues – February 2023

The Australian wine industry is resilient, with wine grape growing, winemaking and wine tourism contributing significantly to Australia's economy. Recently, wine supply and demand has faced meaningful challenges, with the COVID-19 pandemic and China's tariffs being key factors influencing stability and growth. There are many ways wine sector businesses can respond to manage risk and step into opportunities. Tim Mableson and Tim Plenderleith explore some opportunities for wine businesses which could have a positive and immediate impact on their operations and profitability.

Cyber awareness

Protecting your business from cyber risks and building resilience around your sensitive data and your customers (or wine club/e-commerce) data while meeting compliance obligations is important in today's digital world. To help you validate your cyber security awareness, KPMG has developed a Cyber Maturity Assessment (the initial assessment is free for SMEs) to establish your views and position on cyber security so that an action plan can be considered.

Global supply chain issues

Disruptions to supply chain operations are set to continue for the foreseeable future, whether they be existing or new geopolitical conflicts, inflationary pressures and the recessionary environment, climate change weather events, or other issues yet to emerge. They can all impact access to goods and how they flow to their final destination, create logistics bottlenecks, workforce challenges and surge prices, among other concerns.

Future success managing your supply chain depends upon being purpose-built and built to last. KPMG has developed Operational and Supply Chain Diagnostic Tool to help enhance your business agility and futureproof your supply chain system.

Drive for resilience, productivity and traceability

Through a recent survey of global companies, 71% highlighted raw material costs as their number one supply chain threat for 2023. Wine business are reporting shortages in packaging and production materials, while simultaneously experiencing logistics headaches transporting their wine to consumers.

A well-orchestrated operations strategy with integration and a holistic approach to technology, procurement and operations, will drive a positive impact to the balance sheet.

Historically procurement functions have been an arm's length away from the operational impacts and opportunities they can drive, focussing more on volume as an input, rather than quality and yield as an output. A mature, outcome-based procurement function can drive supplier performance, product yield and quality. A recent study KPMG conducted identified quality standard and yield differences of up to 30 percent from different growers within the same grade of fruit. As the grape variety sourcing model continues to expand and pressures mount on operational teams and performance, an integrated approach, visibility and traceability from vineyard to bottle is fundamentally important for a wine business looking to succeed with its grape procurement operations and meeting changing consumer expectations including around sustainability. KPMG has recently launched a report series for the Consumer Packaged Goods sector to enable wine businesses grappling with legacy technology and a diverse path to purchase landscape across multiple channels and markets to focus on profitability, growth and a way forward.

Asset utilisation and efficiency of production

As the Australian wine industry continues to embrace challenges, it increases the reliance on winemakers to ensure an appropriate emphasis is placed on asset utilisation and efficiency of production, to stem the impacts to the balance sheet.

The recently announced $15 billion National Reconstruction Fund (NRF) partly focused on rebuilding sovereign food and beverage capability, presents an opportunity for small to medium wine businesses to leverage the program to build. However, the impetus will also be on larger wine businesses to ensure they are leveraging the efficiency and optimal use of their dispersed asset base. The NRF also has a major focus to support industry drive to reduce energy usage and carbon footprint.

While there continues to be wine industry restructuring through acquisition and divestment of assets and production capacity, the imperative is to ensure acquired assets are seen as the vehicle to a highly efficient operation, not just additional capacity. Through a recent engagement led by Tim Plenderleith, KPMG's national team of asset specialists reworked the businesses asset management strategy which achieved a reduction in maintenance labour burden by 35%, together with an increase in asset availability of 7%.

In addition to driving operational efficiency, an optimised and robust asset management strategy and detailed fixed asset register can increase auditable depreciation schedules, together with mitigating valuation risks on balance sheet asset values, which is relevant for financiers working with wine businesses. In select areas, we have found an improved technical-based focus on detailed asset depreciation schedules and analysis on capital expenditure and operational expenditure ratios and lifecycle costing has increased depreciation by up to 30%.

The wine industry as a whole is facing a fundamental shift in labour, with skills, capability and cost increasing, however capacity decreasing. This fundamental shift in the industry, ignoring any impacts of COVID-19, emphasises the requirement to have a holistic approach to labour, efficiency and automation.

During a recent project and through a mature review of efficient operations, KPMG was able to help a business to reduce raw material touch points by 97%, while increasing flexibility in production, reducing time and reducing energy consumption by 25%.

This outcome was achieved through detailed analysis of the 'efficient operation' required in a highly automated future with a digitally enabled workforce, rather than a traditional focus on asset sizing to create volume throughput.

KPMG has developed a robust methodology and simplistic system to enable you to review your Target Operating Model, provide clarity around, and understand an operational re-set and the potential of your asset base.

ESG footprint and energy usage

Supporting your business to have a positive impact on the community, while ensuring your business is sustainable, have long been integral to achieving corporate environmental, social and governance (ESG) initiatives.

There are increasing demands from the consumer to ensure ESG, traceability and provenance of food and beverage-related products.

In 2023, regulators and other important stakeholders (such as retailers and the finance community) will likely demand a focus on scope 3 emissions control.

You may be expected to make informed decisions to reduce these emissions, and 'greenwashing' will not pass scrutiny. Adding to the pressure will likely be a shift in investor activity towards organisations that can prove their scope 3 emissions are low.

Global retailers (particularly supermarket chains), banking institutions and private equity want to see that their portfolio is aligned to sustainable organisations.

ESG footprint and energy usage cont.

While the majority of large-scale industrial businesses may be enjoying low energy costs locked in during 2020/21, the reality is that the renegotiation process could involve energy prices rising five-fold, becoming a major profit and loss factor.

A recent KPMG engagement with a food and beverage producer noted energy costs had risen from a $30 million annual spend to a $90 million annual spend with the same demand profile.

While many businesses are focused on driving a net-zero future, and indeed the Australian grape and wine community will have a roadmap to achieve net zero carbon emissions across the sector based on a recent new investment commissioned by Wine Australia, the challenges in energy and carbon footprint require a holistic strategy integrating technological, operational and procurement changes to achieve a reduction in both energy consumption and environmental footprint.

KPMG can help you understand what ESG means for your business and equip you with the insights, advice and technologies you need to accelerate your ESG journey.

Please contact Tim Mableson to arrange a demonstration of this free sector centric ESG Diagnostic tool developed specifically for SMEs, which includes specific insights, predictions, risks and opportunities for wine participants, all key ingredients designed to help wine business resilience.

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