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Wine Clusters Equal Export Success

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Abstract

The export success of the Australian wine industry continues to gain momentum. As this phenomenon becomes increasingly apparent, more and more studies are focusing on the association between levels of export intensity among firms within a wine cluster as opposed to those in non-cluster environments. The general claim is that clusters provide highly productive environments that encourage greater export awareness among firms, create conditions more conducive to international marketing, provide greater brand awareness and thereby facilitate increased levels of export activity. The author has recently completed a number of studies that, at least in the Australian context, substantiate these claims. In this brief time-series study the focus is largely restricted to export activity, assessing all Australian wine firms listed in the 1993, 1998 and 2004 Wine Industry Directories. Comparisons are drawn between growth in the number of firms, the percentage of firms exporting and the average number of export markets per firm, within cluster (South Australia) and non-cluster (other states) environments. Data from the author's other studies are also drawn on to add more meaning to these comparisons.

Keywords

clusters, wine, export, innovation

Disciplines

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Wine Clusters Equal Export Success

David Aylward

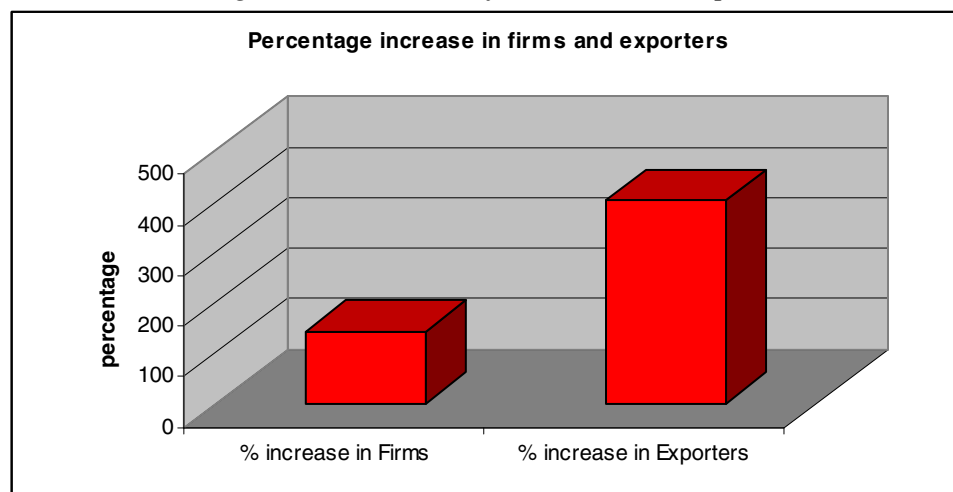
The export success of the Australian wine industry continues to gain momentum. As this phenomenon becomes increasingly apparent, more and more studies are focusing on the association between levels of export intensity among firms within a wine cluster as opposed to those in non-cluster environments. The general claim is that clusters provide highly productive environments that encourage greater export awareness among firms, create conditions more conducive to international marketing, provide greater brand awareness and thereby facilitate increased levels of export activity.

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Findings

Generally, the export performance of Australian wine firms over the past decade has been remarkable. We are now the 4th largest exporter in the world even though we are only the 10th largest grape producer. In 1993 we exported \$343 million worth of wine. In 2003 the figure was just shy of \$2.4 billion. Sales to the US in this year jumped 39%, surpassing exports to the UK and replacing France as the 2nd biggest exporter to the US (The Advertiser, 20 April, 2003). In this period the number of Australian wine firms grew by 143% from 737 firms in 1993 to 1798 firms in 2004. Exporters, however, grew by 402% from 180 in 1993 to 905 in 2004.

Chart 1: Percentage increase in wine firms and wine exporters 1993-2004



However, if we dissect these numbers by state, or cluster and non-cluster environments, we see some significantly varied patterns. In 1993 24.4% of Australian

wine firms exported. Only 20.2% of NSW wine firms exported, while for Victoria, exporters accounted for 21.5% of firms, for Western Australia 22.8%, for Tasmania, 26.4% and for South Australia it was 36.5% or 68 firms. Five years later in 1998, all states with the exception of Tasmania exported more and had more of their firms exporting. The percentage of firms exporting in NSW had jumped to 31.3%, in Victoria to 27.8%, in Western Australia to 31.2% and in South Australia, to 57%.

It was in the period 1998-2004, however, that we see the most dramatic rises. These rises reflect a number of factors, including a fall in the Australian dollar, but more importantly, a combination of industry factors emerging from the 2025 vision introduced in 1996. This vision is based on a strategy that “articulates the Australian wine industry's direction, ambitions and requirements for the next 30 years” (GWRDC website). It is also a strategy in which is embedded the international branding of Australian wine (brand Australia) and the systemic promotion, extension and adoption of research and development within the industry. The 2025 vision brought about a fundamental change in the culture of the Australian wine industry. This change saw the industry emerge as a truly ‘global player’. We can see from the table below just what this meant in terms of exports, particularly in the case of the industry’s dominant cluster (SA).

Table 1: Growth in the Percentage of Firms that Export – by State

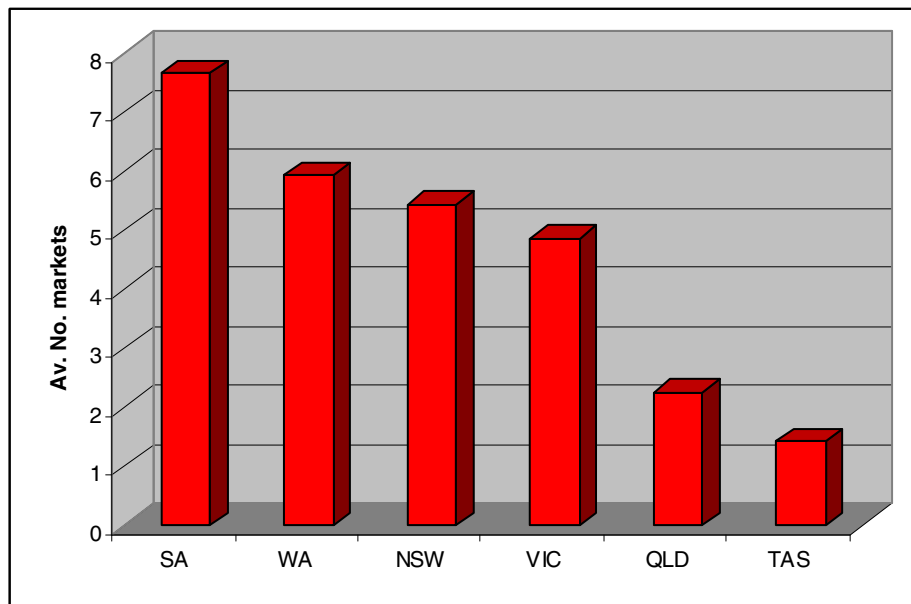
YEAR	ACT	NSW	VIC	QLD	SA	WA	TAS
1993	0%	20.2%	21.5%	4.7%	36.5%	22.8%	26.4%
1998	20%	31.3%	27.8%	13.1%	57%	31.2%	12.5%
2004	0%	40.3%	45.3%	11.9%	77.3%	56.1%	33.7%

Note: In the case of ACT the numbers are insignificant and % therefore meaningless.

As the table shows, a remarkable 77% of South Australian wine firms were exporting in 2004. This is higher than for any other state in Australia. Significantly, it is also considerably higher than for the most prominent of other New World wine clusters, including the Napa and Sonoma Valleys in California, the Marlborough region in New Zealand and Stellenbosch in South Africa.

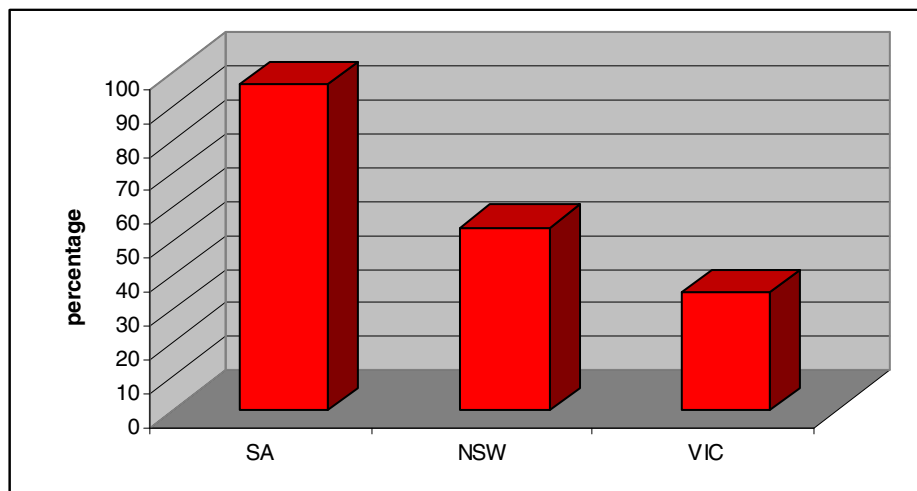
Yet the above table only provides part of the picture. If we look at the average number of export markets per exporting firm, South Australia’s leading position is further validated. In 1993, the average number of markets per South Australian exporter was an unremarkable 3.3, similar to NSW at 3.2, Western Australia at 3 and Victoria at 2.9 markets. As the chart below shows, however, the story in 2004 is a very different one. For South Australia, the average is now 7.66 markets per firm, representing a growth rate over the period of 132% compared to 5.93 markets for Western Australian firms (growth rate of 97% - an emerging export cluster), 5.44 for NSW firms (growth rate of 70%) and 4.86 for Victorian firms (growth rate of 67%).

Chart 2: Average number of export markets per exporting firm - 2004



These data were then combined with those of another recent study by the author (2004) on the association between innovation and export levels within cluster and non-cluster environments. Of the 100 in-depth interviews carried out in this study, South Australian respondents who reported an increase in exports as a percentage of sales (export intensity), recorded an average 96.4% growth. This compared with 54% growth for NSW and only 35% growth for Victoria. In addition, 78% of South Australian respondents claimed that absolute export levels had also increased in this period as opposed to 56% for NSW and 44% for Victoria.

Chart 3: Export sales increase as a % of total sales over past 3 years



Contrary to the popular belief that South Australia is more export intensive due to growth in large wine firms, the Directory data show that the vast majority of new firms emerging in South Australia between 1993 and 2004 were in the micro category (less than 20 tonnes). This growth represented a 646% increase, eclipsing growth rates in this category for all other states. As the micro firm category is traditionally the least

export intensive, these data further reflect South Australia's ability to articulate new firm growth, regardless of size, into exporter growth.

To conclude, this so-called 'ability' is in fact, the growth of a multi-faceted environment sustained by an intense concentration of the industry's national suppliers, export councils, advisory bodies, research organisations, regulators, education councils and funding coordinators. It is no accident that in the same 2004 study which so effectively demonstrated South Australia's export leadership, core innovation indicators were also perceived as far more evident in this state. For example, 66% of SA respondents believed that exporting made their firm more innovative, compared with an average of 41% for NSW and Victoria. The industry's research and analytical services had been accessed by 68% of South Australian respondents in the past year, compared with an average of only 32% for NSW and Victoria. Collaboration with other wine firms involved 64% of South Australian respondents compared with 44% for NSW and Victoria. Finally, in relation to a leading innovation measure – 'technical innovation', 22% of South Australian respondents believed that this was central to their competitive advantage. This compared to an average of only 8% for NSW and Victorian respondents.

In other words, the South Australian wine industry is an intense industrial cluster, where research and development as well as government and private infrastructure provide the framework for a rapidly evolving nexus of innovation and export activity.