

# The wine industry in australia



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## **Introduction**

For its quality and customer value, Wine industry in Australia is famous around the world and has a long history for it due to many physical, social and human environmental reasons. For foreign companies, it is not an easy task to enter in to its wine market. This report will use Porter's Diamond of national advantage for an analysis of the current developing situation of Australian wine industry. In Australia, wine industry is a major industry and hence it brings lots of job opportunities. Wine grapes grow well in their suitable natural environment, including climate, temperature and rain fall and the high level of quality is guaranteed by their professional skill. The related industries, such as transportation, grape growing and so on are also developing in a high speed, which could do a favor to the wine industry along with newly emerging new industry, wine tourism.

In this report, Porter's national diamond would be explained and then would be employed to analyze the current condition of Australian wine industry. Critical evaluation is essential to provide advantages and disadvantages the Australian market bring to the wine industry. Conclusions and recommendation are given at the end of this report as future guidelines on how to move further.

## **Analysis**

### **Porter's National Diamond**

Many tools have been identified as results of study or research of various learned men, such as tools of SWOT, PESTEL, and PLC to analyze the macro environment of a given country and Porter's national diamond is a widely

and commonly used tool for such tasks. It is important to remember that there are so many factors to bear in mind when referring to the environment of a particular industry, as it is hard to identify which factor should come first. Different tools have different leans and influence when they are used to analyze the environment. Porter's national diamond has four main determinants, which are factor conditions, related and supporting industries, demand conditions as well as strategy, structure and rivalry.

Porter's diamond model suggests that when there are some nations and industries within nations become more competitive than others on a global, then there are inherent reasons to it. The argument is that the national home base of such industries provides those industries with specific factors, which will potentially create competitive advantages on a global scale.

Porter's model has four determinants of national advantage, and they are shortly described below:

### **Factor Conditions**

Factor conditions are those factors that can be utilized by companies in any nation which relates to resources the company has available which may consist of the amount of natural resources, skilled labour and or innovative product developers the company has in producing a high quality service or product. Factor conditions can be factors with high advantage found within a country that are subsequently build upon by companies to more advanced factors of competition.

Some examples of factor conditions:

Highly skilled workforce

Linguistic abilities of workforce

Rich amount of raw materials

Workforce shortage

### **Demand conditions**

When the local market for a certain product is larger and more demanding locally than in foreign markets, local firms tend to always emphasis more on improvements than foreign companies. This will increase competitiveness of local exporting companies globally and will be able to recognize the level of demand of the product or services they provide and how well they are able to meet these consumer demands.

### **Related and Supporting Industries**

Home country companies will potentially get more cost efficient and receive more innovative parts and products when supporting industries and suppliers locally become competitive. The more competitive those supporting companies are most likely to result in higher product sales.

### **Firm Strategy, Structure, and Rivalry**

The structure and management systems of firms in different countries can potentially affect competitiveness and how well a company is able to use its existing organizational structure whether it is hierarchal or flat, to strategize against current and potential competitive companies.

Business leaders can analyse and identify which competitive factors reside in their company's home country by using Porter's diamond, and how and which of these factors can be utilized to gain global competitive advantages. During a phase of internationalisation, Business leaders can also use the Porter's diamond model analyse if home market factors support the process, even if the conditions found in the home country are able to create competitive advantages on a global scale.

Business leaders can use this model to asses in which countries they would want to invest and to assess which countries are most likely to be able to sustain growth and development.

### **Factor Conditions in Australian Wine Industry**

Factor conditions could be divided into two resources as home grown resources and highly specialized resources. As Michael Porter described, the home grown resources could be acquired by advanced technology due to the importance of it is reduction. However, when industries which are largely related to natural products, one cannot neglect how important home grown resource could be. This is very much appropriate for the industry discussed here, wine industry as the various grapes are its raw material, so they play an extremely important role in wine making process, and not only the quality, but also the variety makes a difference on the quality of wine.

The climate in Australia has the beneficial condition to plant grapes. Plenty of sunshine, steady state of climate, fertile soil as well as less pollution aids the industry of grape planting. Australians have a special feeling for making wines. The skills to make wine and relative population engaging in grape

growing and wine making is huge regardless of the fact that the number of total population is not large, or even small and many universities in Australia have the specific major related to wine making and wine marketing as well. This could provide the skilled people for wine industry on one hand and on the other hand, wine making to be treated as a major in university could promote the technological innovation and technical progress. The famous wine producing areas in Australia include New South Wales, South Australia, the State of Victoria, Western Australia and Tasmania.

In one word, this is a big opportunity for multinational corporations to enter in to and make full use of this natural resource, the skilled workforce, and advanced wine making technology that Australia has to offer even though the home grown resource or the specialized resource in Australia owns the comparative advantage for the development of wine industry.

### **Related and Supporting Industries in Australia**

Related and supporting industries include transportation, grape growing, wine marketing. At present, Australians could make wine from a level of junior to average to high quality. They export their products to the whole world and they include the famous brand names such as Shiraz, Semillon etc. The Australian government indeed keeps a watchful eye on the development of wine industry and its related industries. To aid the transportation of grapes and wine they construct railways and roads and to enhance the innovation and technological development in wine making they invest a huge amount of money. The objective of all of these is to develop the wine industry and make it well known to the world.

The power of one specific company on its own can be weak, even if it is a multinational company. The building of infrastructure is relatively a huge project, and that can be beyond the ability of a company. Due to that, as the Australian government put much emphasis on the wine industry; it is willing to invest into their related industries as well. The smooth data and skill transportation ensure the communication among wine manufacturing inside the country as well as among the world. This guarantees the information technology sharing and synchronization. This could also expand the potential market as the development of related leisure industry could also excite the wine industry for the reason of people willing to enjoy themselves.

### **Demand Condition in Australian Wine Industry**

The demand condition as Porter's national diamond describes gets more attracted to the conditions of demanding domestically instead of in foreign countries or foreign markets. However, the demanding factor in Australia, according to this transformational analysis could help the company to realize the target market. Although the output of wine in Australia is huge, the need would inevitably make almost everybody being fond of wine, which automatically results in the much huger demand markets.

According to Porter's theory, when there are demanding and captious customers it encourages the continuous improvement of products and services immensely. As an addition, this continuous improvement could also help in order to lift the comparative advantage among rivalry.

## **Strategy, structure and Rivalry analysis**

Strategy and structure are some factors that play a major role in pointing out the significance of the inner environment of a concerned company. It is a macro analysis of environment in the running of the specific business.

However, it is very important that the company pays close attention to its company structure and strategy so as to check if it is suitable for the expansion and could be the winner in the fierce global competition. Rivalry analysis as described in Porter's national diamond also put much more attention on what is situated in interior part of the country and for purpose of this report, this analysis also inclines to the rivalry in Australia.

There are many famous wine production areas in Australia, such as Barossa Valley in South Australia, which is well known for high grade varieties. The most famous winery in South Australia is the winery of Penfolds and that is the nature place of top level quality wine of Penfolds Grange. All these related winery information could have a general overview before it enter in to a new market, including its advantages and disadvantages. By doing so, the company can overcome the disadvantage of having its rivalry and have an increased advantage.

## **Critical Evaluation of the Porter's National Diamond Model**

The environment of investment is so complex and that is formed by many factors. Porter's national diamond model does a favour to the marketers by subdividing the factors that needs to be concerned and facilitate the analysis by giving attention to the key points.



By analyzing the Australian wine industry thoroughly through Porter's national diamond model, marketers could understand the advantages and disadvantages in the wine industry better. The factor condition assists the wine making industry by leading many companies to choose Australia as their prime location for wine making. The related and supporting industries also encourage and facilitate the development of wine industry as there are years of development and the government's highlight. The demand for wine in Australia is huge and Regardless of the fact that there are many wineries and vineyard all around Australia, there is still existing niche for new companies to come in and launch their new products that could eventually bring different flavor and feelings. Generally speaking, all of the factors analyzed above belong to the merits in welcoming the foreign companies.

When turning to analyze the disadvantages of Australian wine industry, while considering the long history of wine making industry in Australia, and with its large volume of wine that they aim to export, the cost performance is relatively higher than products from other countries. As described by Michael Porter, while this could boost the innovation of companies to win in the battle of competition on one hand, In spite of that, on the other hand, this could lead newcomers bring too much attention to competition. It is an inevitable fact that new products for customers are weak to compete with the local fame brand and launching activities for them are costly. With all these circumstance, the competition is highly unlikely to ensure the success.

## **Conclusions and Recommendations**

To conclude, when entering into a new market, there are many existing factors to keep in mind. Porter's national diamond could do marketers an

immense favour by allowing them to master the macro environment in Australian wine industry. Generally speaking, factor condition, demand condition, related and supporting industries and rivalry could encourage the entering activities. It is worth noting that the high cost performance of Australian wine could also become strong competitors of new comers. This would increase the cost of the new comer to some extent.

As for recommendations, the initial cost relatively huge and for companies, regardless it is a small sized or multinational, the cost factor being under control as possible as it can quite beneficial. Another thing is choosing the location for wine making and as described above, there are many areas suitable for wine making and different competitors distributing in Australia. As a result, much attention should also be reserved for location choosing.