# The liquor industry

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## 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.

## Outcomes

The total value of liquor produced in 2009-10 in Australia was $10,383 million with a value added 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 The major manufacturers do not publish financial performance data for their spirits divisions.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.

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.

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