

# ***Are you still in the race?***

## **Agribusinesses Insights Survey 2012**

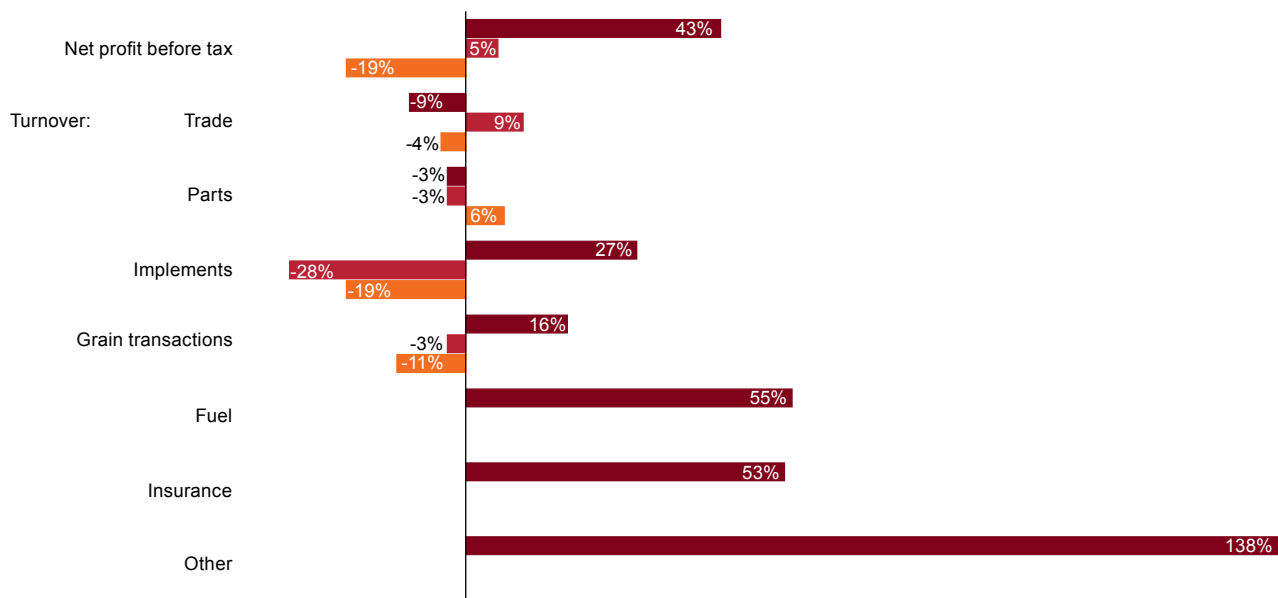


*There is a high level of confidence that agribusinesses' income will grow over the next 12 months.*

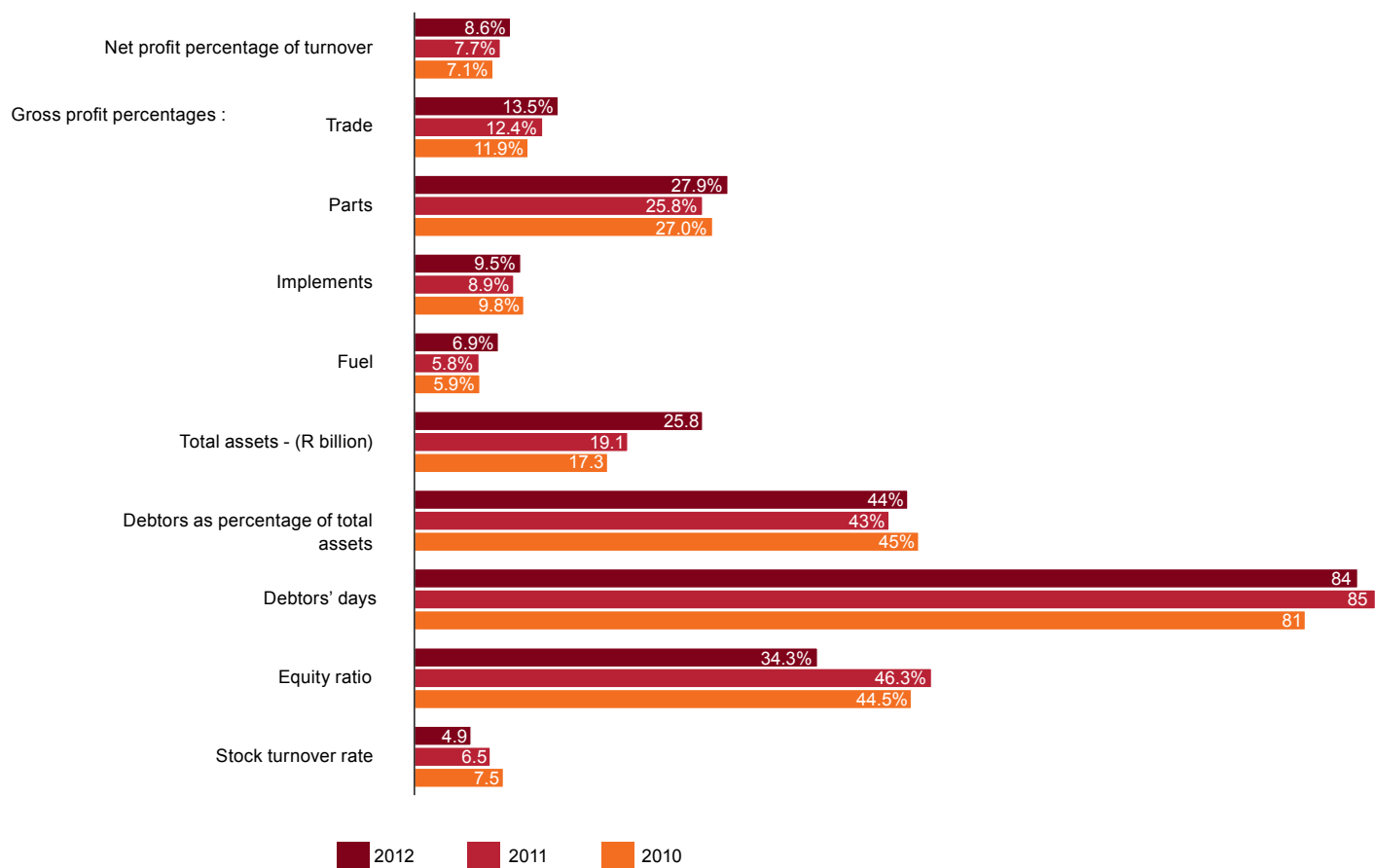


# Salient features

## Trends (year-on-year)



## Annual results





**65%**  
employment

**75%**  
trade

*In an African context, agriculture  
accounts for 65% of employment  
and 75% of domestic trade.*





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**Frans Weilbach**

National Agribusiness  
Industry Leader – PwC



## Preface

As the recent global economic crisis starts to ease, the South African economy is performing relatively well in comparison to other economies. The country is currently characterised by having an upper-middle income economy, with a gross national income that is only exceeded by 23 other nations. South Africa has a well-diversified economy with an average growth rate from 1994 to 2012 of 3.2% per annum (Department of Agriculture Western Cape, 2012). Agriculture, as an industry, has also shown more resilience to the economic crisis than most other industries (BFAP, 2011).

### ***Agriculture – a valuable contributor to the economy***

South Africa's agricultural industry, if viewed only as primary agriculture, is a relative small industry with an almost negligent contribution to GDP. However, strong backward and forward linkages from primary agriculture into the economy exist (often referred to as “before”, “at” and “after” the farm gate). The combination of the primary

agricultural industry and the chain of industries directly and indirectly involved in the production, transformation and provision of food, fibre, chemicals and pharmaceutical substrates are often referred to as the Agro-industry or Agribusinesses. To understand the full impact of the agricultural sector of South Africa, one has to view the sector in terms of this wider understanding. The wider Agro-industry contributes around 12% to the GDP of the country and carries large responsibilities in terms of eradicating poverty by creating opportunities for growth.

In an African context, agriculture accounts for 65% of employment and 75% of domestic trade. This means agriculture is likely to drive Africa's economic growth in the 21st century (United Nations Industrial Development Organization, 2011). South Africa will play a pivotal role in taking agriculture in sub-Saharan Africa to the next level – in terms of its own contribution as well as its partnerships with agricultural projects and operations in other countries.

The group of agribusinesses that was targeted for this benchmarking initiative, consists of a large and significant part of the wider agricultural industry of South Africa and which contribute substantially to the GDP of the country. In total they recorded a turnover of R45.2 billion (2011: R29.8 billion) during the period reviewed. They are strategic role players and leaders in the industry as they are in the middle of the agricultural value chain with direct links to primary producers on the one side and processing businesses on the other side.

The idea of this publication therefore is to provide thought leadership via the insights of business leaders and the benchmarking of their data to add value to the industry.

### ***Overview of 2012***

In the Department of Agriculture, Forestry and Fisheries' (DAFF) 2011/12 annual report the spotlight is mainly on key drives for food security to mitigate high food prices and food security for vulnerable communities. DAFF mentions that this would be

*Executives are fairly confident that the economic environment will remain relatively stable over the next 12 months.*

addressed though increased production capacity of subsistence and smallholder farmers, as well as promoting household food production. An estimated 72 000 smallholder farmers were reported to have received comprehensive agricultural support from the department; while over 47 000 subsistence farmers received production support (Farmer's Weekly, 2012).

The Rand gradually weakened against the Dollar during 2012, starting off in January 2012 with just over R8 to the Dollar and almost breaking the R9 barrier in December. This had a substantial impact on agricultural exports.

Another noteworthy event is the recent wage strikes and political unrest in the agricultural sector. Violent strikes erupted in November 2012, with protesters demanding higher wages for farm workers (Farmer's Weekly, 2012). The impact of the labour unrest could possibly affect South Africa's agricultural exports, but at the date of compiling this report the potential effect was not yet evident. It is also important to note that the opinions of chief executives were obtained prior to these events.

According to the Agricultural Business Chamber (Agbiz) and the Industrial Development Corporation (IDC), confidence levels in the agricultural business sector have increased by 6% in the third quarter of 2012. This is despite the political euphoria towards the Mangaung congress of the African National Congress and the Marikana mine shootings. The Agbiz-IDC

Agribusiness Confidence Index, measured on a quarterly basis from responses collected amongst executives of agribusinesses across the country, serving the entire agricultural sector, has come up positive (Business Day, 2012).

### **Highlights from the report**

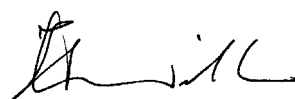
The chief executives of agribusinesses provided us with their valued opinion on certain strategic aspects of their business. Here are a few highlights:

- There is a high level of confidence that agribusinesses' income will grow over the next 12 months;
- Executives are fairly confident that the economic environment will remain relatively stable over the next 12 months;
- New geographical markets and especially opportunities in Africa will be pursued; and
- The greatest threat for business growth is the pressure created by government regulations.

These matters are discussed in more detail in the findings of the study.

We trust that the thought leadership conveyed through this publication will contribute to the industry in a practical way.

We welcome your feedback on our report and will be glad to discuss the findings and its implications with you.



### **Frans Weilbach**

National Agribusiness Industry  
Leader  
PricewaterhouseCoopers Inc.  
January 2013







**Dr Roelof Botha**  
Economic Advisor to  
PwC



# Economic outlook for 2013

*The New Year has been greeted with an abundance of good news in the economic domain, spearheaded by a new record high for the all share index (Alsi) on the Johannesburg Stock Exchange.*

## **Equity market rallies**

Most equity markets around the globe ended 2012 on a high note, with annualised capital gains of benchmark stock indices ranging from 8.4% in the US (Dow Jones) to 14.6% in Australia and 18.7% in Japan.

South Africa outperformed most, with a gain in the Alsi of almost 23% between the first week of January last year and early January 2013, sending the index to above the 40,000-level and more than doubling the market capitalisation on the JSE from the low of the recession.

The significance of robust and rising equity market prices is related to the so-called “wealth effect”, which increases the value of collateral via direct share investments, unit trusts and pension funds.

Combined with a healthy increase in the average dividend yield on the JSE over the past two years, this effect usually stimulates consumption expenditure, particularly for durables and semi-durables.

Add to this fortuitous development the prospect of record low interest rates remaining in place for most of 2013 (and possibly beyond), and it is clear that consumers may look forward to a continuation of rising per capita incomes over the next twelve months.

## **Vibrant emerging markets**

Although economic growth is likely to remain subdued or even stagnant in several European countries, emerging markets are expected to continue growing at a healthy pace.

No less than eight of the world’s ten largest diversified emerging markets are forecast to improve on the growth performance of 2012, with the East Asian region once again leading the way.



**Top-10 diversified emerging markets - 2012 GDP with growth forecasts for 2012 - 2013**

	GDP (\$b)	GDP growth (%)	
		2012	2013
China	8,250	7.7	8.5
Brazil	2,425	1	3.5
Russia	1,954	3.6	3.7
India	1,947	5.8	6.5
Mexico	1,163	4	3.7
Indonesia	895	6.3	6.4
Turkey	783	3.2	3.8
Argentina	475	2.1	3.6
Poland	470	2.1	1.7
South Africa	391	2.6	3.1

Sources: IMF; Economist Intelligence Unit

A cursory reflection on the regional composition of global GDP provides a large measure of comfort with regard to the ability of the world to withstand the weakness of several economies in Europe.

Most emerging markets will continue growing at relatively high rates in 2013 and the world's largest economy, the US, is expected to sustain a growth level of close to 2%. In combination, these countries generate 60% of global GDP.

The rapidly growing influence of developing economies is illustrated by the fact that, during the space of only four years since the 2008 recession, emerging markets have expanded their collective share of global GDP from 31% to 38%. This trend will continue well into the future and is primarily responsible for the prospect of higher global GDP growth in 2013.

The fiscal dilemma facing the Euro-area remains one of the few blots on a global economic outlook that seems to be improving by the day, although most of the affected countries are slowly but surely reducing fiscal imbalances.

According to the latest global economic outlook compiled by the United Nations, the European Union will improve its rate of real output growth from a negative figure of 0.3% in 2012 to a positive 0.6% in 2013.

### **US & Asia in good shape**

Growth prospects for the world's two largest economies remain sound. According to the latest forecasts by the Economist Intelligence Unit, the US is expected to grow at just below 2% in 2013, marginally lower than last year, whilst China is expected to improve its growth rate from 7.7% in 2012 to 8.5% this year.

A much-publicised deal was struck on New Year's Day to avoid a U.S. fiscal crisis, prompting a broad global equity market rally during the first week of January.

Although the legislative proceedings surrounding president Obama's fiscal strategy have not yet been fully resolved, approval by the House of Representatives of a plan backed by the Senate allayed fears that Republican objections to the heavy emphasis on taxes rather than spending cuts could have created a dangerous stalemate.

Other good news from the US includes positive sales forecasts, as surveyed by the Institute of Supply Management (ISM). Purchasing managers at factories anticipate sales growth of 4.6% and an increase in business investment of 7.6% in 2013. By comparison, service providers estimate revenue and capital spending growth in 2013 of 4.3% and 7%, respectively.

Economic growth in East Asia remains resilient despite the lacklustre performance of Europe. The World Bank has raised its 2013 economic growth forecast for China to 8.4%, citing continued strong domestic demand, increased exports and the faster implementation of large investment projects as key drivers.

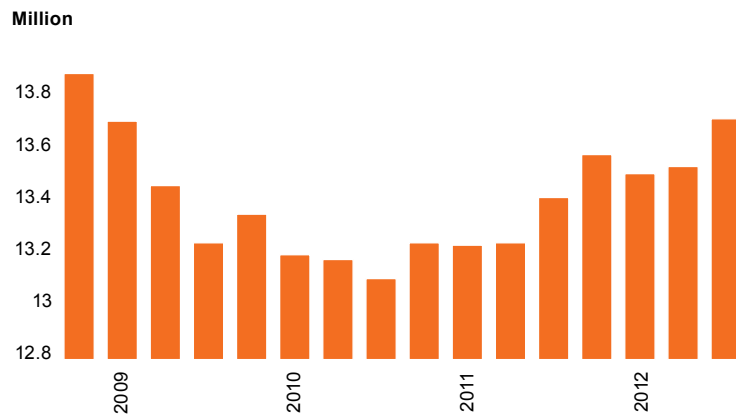
For developing East Asia as a whole, a growth rate of 7.9% is being predicted by the World Bank, representing an upward revision from an earlier forecast of 7.6%.

### **Domestic challenges**

An increasingly benign international economic environment will make it easier for South Africa's policy makers to deal with a number of daunting challenges on the domestic front, most notably an unstable & unproductive labour market.



## Total employment in the South African economy



*Other challenges facing government include the dysfunctional state of a growing number of local authorities, which serve to frustrate service delivery and the maintenance of infrastructure.*

During the second half of 2012, the country experienced unprecedented violence during labour unrest in the mining, transport and agriculture sectors, which has served to discourage investment flows into the country and also played a role in the downgrading of South Africa's sovereign debt ratings.

Other challenges facing government include the dysfunctional state of a growing number of local authorities, which serve to frustrate service delivery and the maintenance of infrastructure. Inefficiencies at all three levels of government also contribute to slowing down the pace of new infrastructure projects and constitute a key reason for heightened socio-political unrest in several regions.

Fortunately, the country's fiscal affairs are in good shape, with the budget deficit/GDP ratio having declined substantially since the end of the recession, whilst employment creation has also started to gather momentum. More than 600,000 jobs have been created since the third quarter of 2010 and this trend should continue in 2013.

The 2012 National Conference of the ANC, held in December, rejected nationalisation as a policy option, decided to regulate labour brokers (and not to ban them) and resolved to establish an integrity committee to fight corruption. Furthermore, the youth wage subsidy has been kept firmly on the agenda.

The significance of these decisions lies in the message that it sends to the ANC's influential alliance partner, Cosatu, namely that it is not going to bow to trade union pressure for a more populist and interventionist economic policy stance.

Domestic and international response to the outcome of the Mangaung Conference was overwhelmingly positive, especially from the business establishment.

Mangaung has witnessed a new commitment by government to follow prudent and market-friendly economic policies and sends a message of continuity and stability in the public administration of the country.

This bodes well for the prospects of substantially higher growth in 2013.



**Dr Roelof Botha**  
Economic Advisor:  
PricewaterhouseCoopers Inc.  
January 2013



This publication provides a summative overview consisting of the averages of the information obtained from all participants in the project.

We operate from 20 offices throughout the country and we are thus able to serve our clients in their own communities. This has made it possible for us to compile a representative measurement profile with reliable industry norms against which the industry and its role players can measure themselves.

## *The publication*

As the largest professional services organisation internationally and in Southern Africa, PwC has accumulated specialised agricultural knowledge over many years and is committed to adding value and expertise to the industry. We engage closely with the South African agricultural industry on a continuous basis and provide services to a large number of agribusinesses. Having been involved in several benchmarking studies in the agricultural environment we have gained an invaluable knowledge and know-how that we apply in this publication. For this reason we believe we are well positioned to publish a formal benchmarking profile of this nature on the South African agricultural industry.

We operate from 20 offices throughout the country and we are thus able to serve our clients in their own communities. This has made it possible for us to compile a representative measurement profile with reliable industry norms against which the industry and its role players can measure themselves.

Preparation and data collection commenced in September 2012. In order to compile a reliable and

meaningful benchmark, the leading role players in the industry were approached once again for their inputs, according to which additional key performance indicators were identified.

The participants to this study are agribusinesses with operations that are mainly (but not exclusively) focused on delivering agricultural and related services to primary producers. They are also closely involved with the marketing of agricultural and related products. These businesses were historically registered as agricultural co-operatives. As mentioned, the geographical representation of participants is very good. The publication provides a summative overview of the industry consisting of the averages of the information obtained from all participants in the project. Weighted averages have been primarily used. A weighted average represents a calculation where a weight is linked to the results and size of each participant.

The number of participants and the large extent to which the various role players in the industry participated in and lent their support and approval to the project convinced us that the

results can be regarded as representative and relevant. As a reliable source of information on the agricultural industry we believe that agribusinesses can use this benchmarking profile with great success as an aid to make informed decisions about, inter alia, efficient business structuring, improved cost management and increased profitability.

This document is a compilation of findings and interpretation of the information received from participants to this project. Trends in the industry are discussed and represented in tables and graphs with explanatory notes.

This year's publication is presented with a focus on the following areas:

- Outlook from chief executives
- Profitability analysis
- Balance sheet structure
- Trade division overview
- Grain silos
- Insurance

The international policy of PwC is that no results of benchmarking surveys may be made available unless there were at least seven participants. Consequently no results are published



where fewer than the prescribed number of participants provided the required information. Please keep in mind that the information of all the participants was not necessarily included in all the comparisons. In some cases certain information relating to specific participants was not considered in determining averages, for valid reasons justifying or necessitating exclusion (such as incomplete information, etc.).

For more information regarding the benchmarking profile or the specialised services we offer to the agricultural industry, please contact:

<b>National</b>	<b>021 815 3000</b>
Frans Weilbach	
<b>Western Cape</b>	<b>021 815 3000</b>
Frans Weilbach	
<b>Bloemfontein</b>	<b>051 503 4100</b>
Deon Pretorius	
<b>Mafikeng</b>	<b>018 386 4700</b>
Gert Odendaal	
<b>Menlyn</b>	<b>012 429 0000</b>
Pieter Vermeulen	
<b>Nelspruit</b>	<b>013 754 3300</b>
Pieter Pretorius	
<b>Port Elizabeth</b>	<b>041 391 4400</b>
Sunette Williams	
<b>Pietermaritzburg</b>	<b>033 347 8600</b>
Des Fourie	
<b>Sunninghill</b>	<b>011 797 4000</b>
Heinz Zastrau	

### **The services rendered by our Agricultural Industry Group include:**

- Assurance services (accounting, management accounts, internal audit, audit and independent reviews);
- Management control (system and internal controls);
- Entrepreneurial advice (financial, tax, secretarial and business advice);
- Tax (corporate, international, transfer pricing, indirect tax, immigration, personal, reward, employment, compliance);
- Information technology services (development and implementation of IT strategies, software package selection, training and support);
- Transaction support (structuring, contracts, viability and due diligence investigations);
- Forensic investigations and legal support;
- Land reform assistance;
- Estate and trust administration;
- Human resources (staffing and succession planning, organisational structure and roles, performance and reward management, training and development, HR policy development, support with labour court and arbitration matters, systems, benchmarking and due diligence);
- Secretarial services (records, returns, registers, incorporation of new companies, updating and redrafting of MOI's); and
- Black Economic Empowerment (strategic analysis and revision, implementation, compliance, staff workshops).

**Anneline Hugo**  
Advisory- Agriculture  
Assistant Manager

**Marli Oostenbrink**  
Advisory- Agriculture  
Consultant

**Junior Basson**  
Assurance – Agriculture  
Manager

PricewaterhouseCoopers Inc.  
January 2013





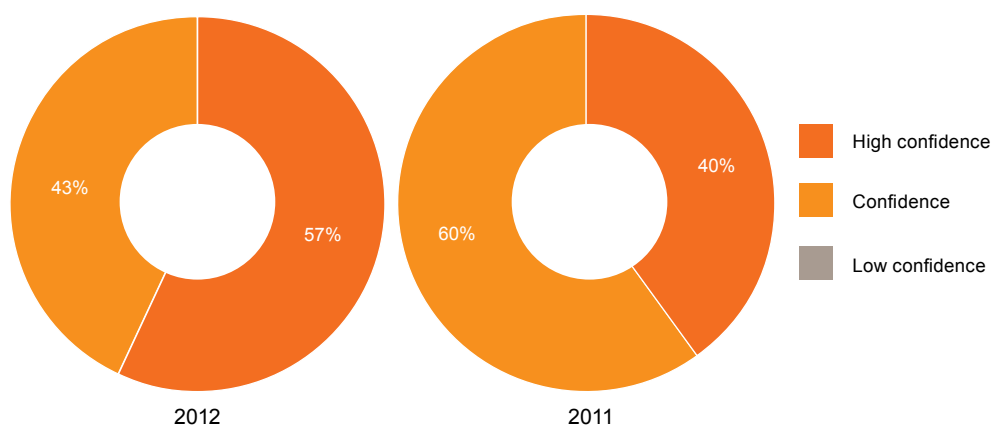


# 1. Outlook from chief executives

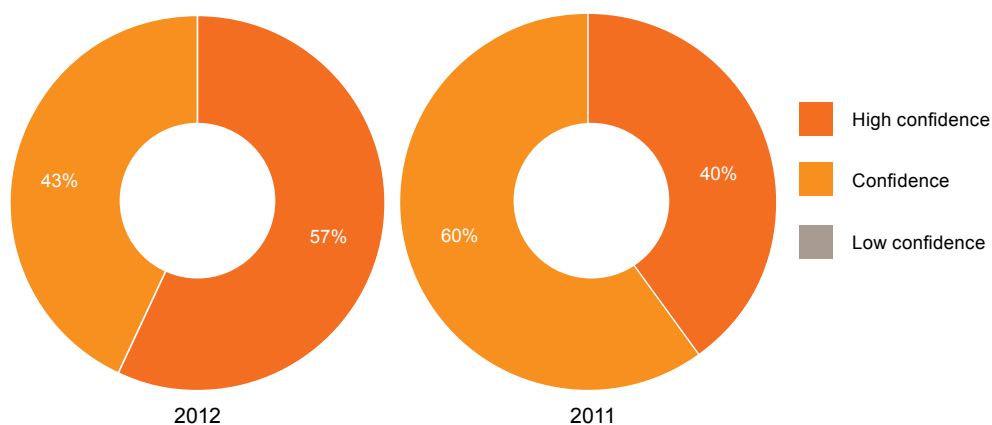
*This section provides real and relevant feedback from Chief Executive Officers (CEOs) of agribusinesses, obtained through a detailed survey. Thus, an overview is provided of the most important strategic issues impacting on decision-making in the agribusiness environment. Since the respondents represent a large geographical proportion of the agricultural sector, their views can be regarded as reasonably representative and very insightful.*

## 1.1 The future of income growth

A substantial percentage (57%) of respondents indicated a **high level of confidence** towards expected income growth of their businesses over the next 12 months. This high confidence level, which increased from 40% in 2011, is comforting in light of the current local and global economic climate which also had its influence on the agricultural sector.

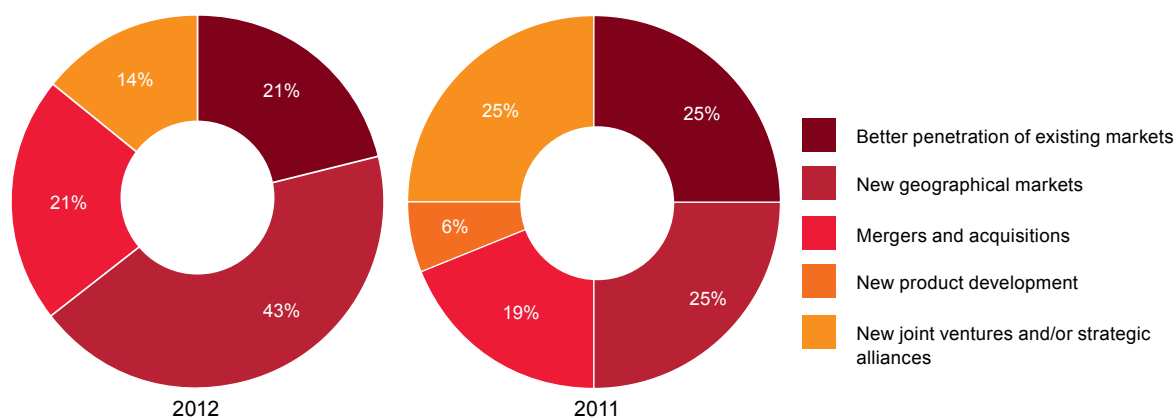


The expectation for income growth over the next three years is exactly the same as for the next 12 months, indicating that respondents are expecting a relatively stable environment and **do not expect that much will change** in terms of economic circumstances influencing their income.

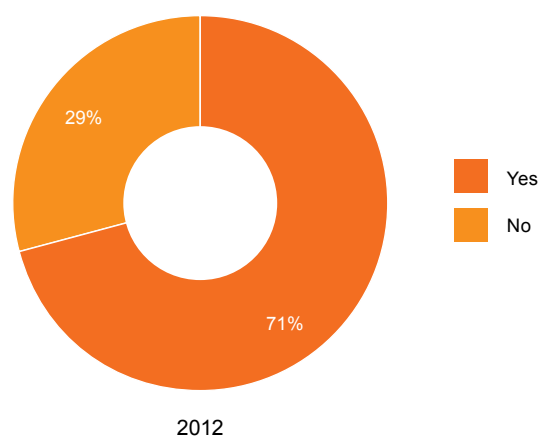


## 1.2 Opportunities for growth

On being prompted on the main reasons for the growth expectations for their agribusinesses in the coming 12 months, 43% of respondents indicated that **new geographical markets** present the most opportunities for them. In the previous year no specific reason was evident.



An overwhelming 71% of respondents indicated that they would consider business opportunities in the **rest of Africa**. This is in line with the view of the exploration of new geographical markets as opportunity for growth. According to the Department of Agriculture, Western Cape (2012), improved political and macro-economic stability is one of the primary reasons behind improved economic growth in Africa. Furthermore, per capita production of agricultural products has increased through the last three decades, contributing to the allure of diversification into Africa.



## 1.3 Threats for business growth

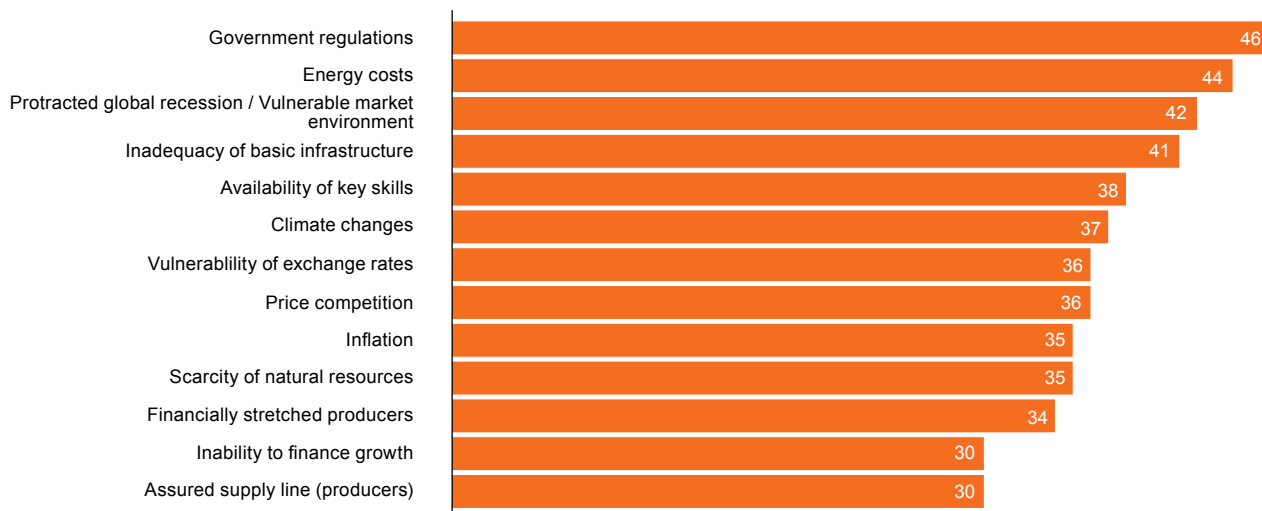
The main five perceived threats for business growth as specified by CEOs are:

- Government regulations
- Increasing energy costs
- Protracted global recession / Vulnerable market environment
- Inadequacy of basic infrastructure
- Availability of key skills

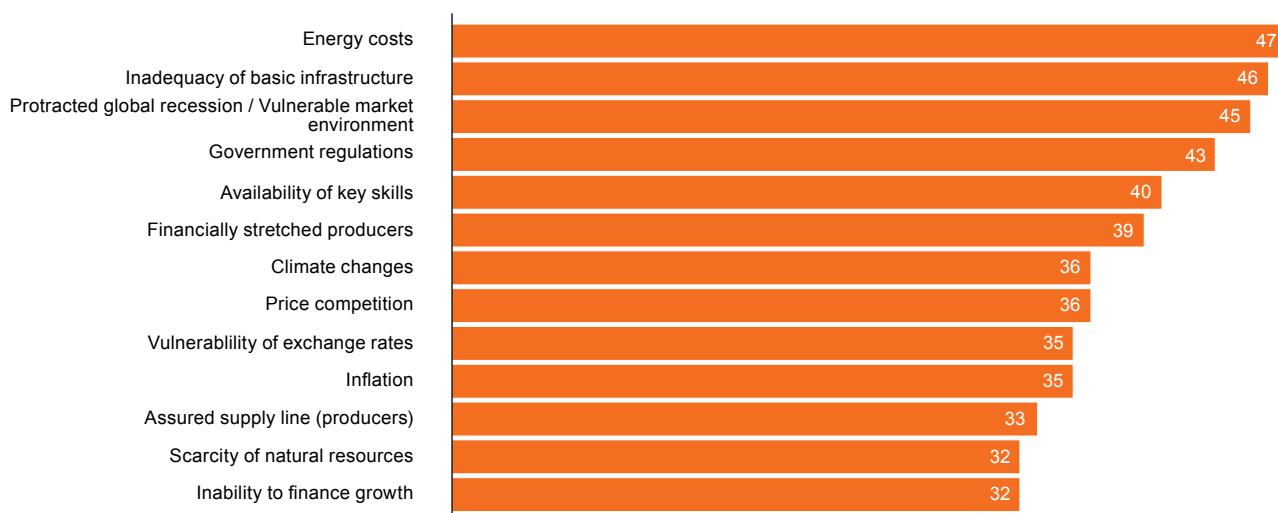


The same five threats were also identified in 2011, although the order of importance changed. A significant change is the move of **Government Regulations** to the top position. The importance of this item increased over the past number of years, which might be an indication that the industry has become more regulated and that respondents are finding it increasingly difficult to keep up with the demands of compliance.

One of the prominent regulatory frameworks needing constant attention is that of Broad-based Black Economic Empowerment (BEE). In this regard, the Draft Sector Code for Agriculture was published for public comment in January 2012 and the Revised Broad-based BEE Codes of Good Practice was published for public comment in October 2012. These developments again require businesses to assess their level of compliance. This is also indicated as one of Human Resources (1.6) greatest challenges.



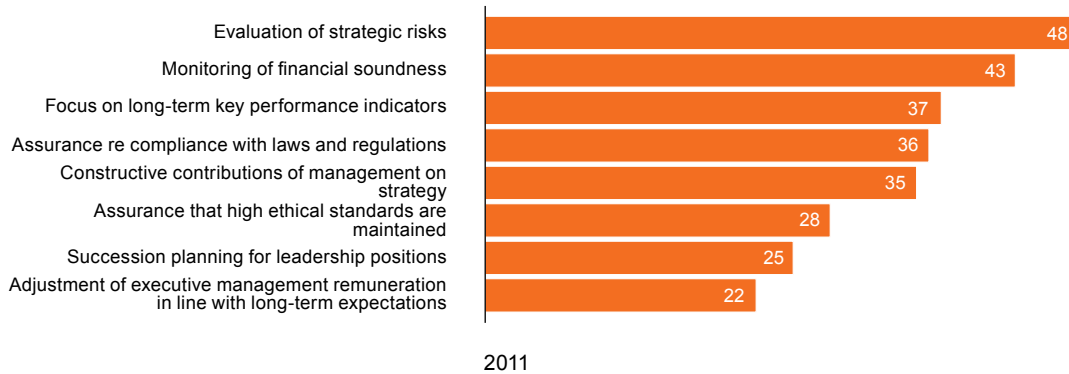
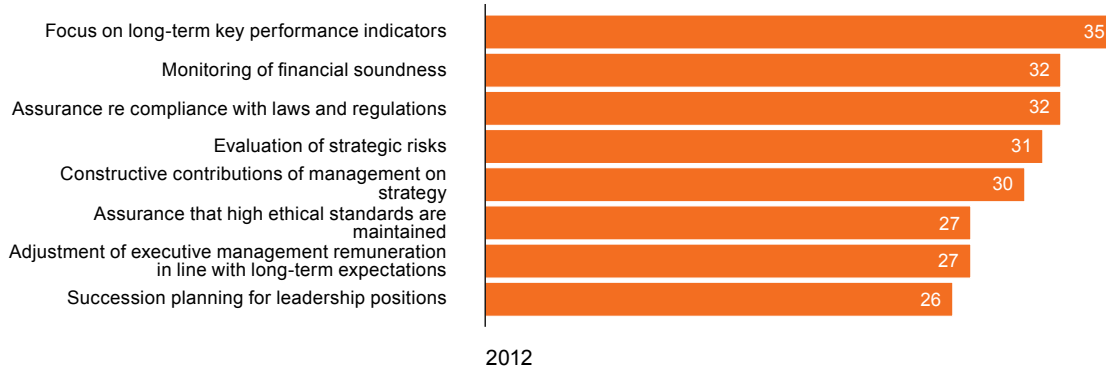
2012



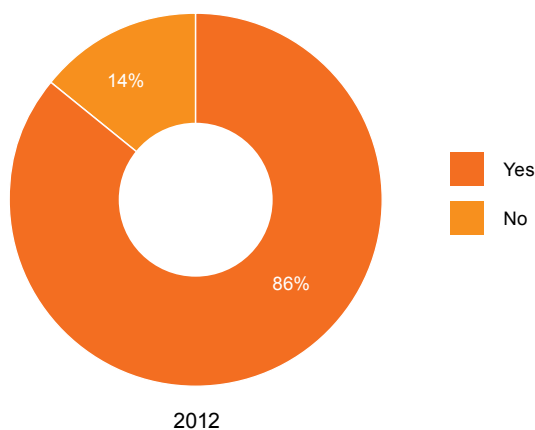
2011

## 1.4 Risk management

On being asked to what extent the board of directors is changing its conduct as a result of the economic downturn, respondents indicated that there has been a greater focus on **long-term key performance indicators**, followed by the monitoring of financial soundness and assurance related to compliance with laws and regulations. In 2011, respondents awarded the highest importance to the evaluation of strategic risks. It seems as if boards of directors have progressed from risk assessment as a way of addressing the impact of the sluggish economy to performance management.



A total of 86% of participants indicated that their organisations **have a risk committee and a formal risk management strategy** that evaluates the impact of changes in the risk environment. According to King III, companies should “exercise leadership to prevent risk management from becoming a series of activities that are detached from the realities of the company’s business.” Agribusinesses thus are in line with the proposed King III guidelines by having a formal risk management strategy and a risk committee in place.

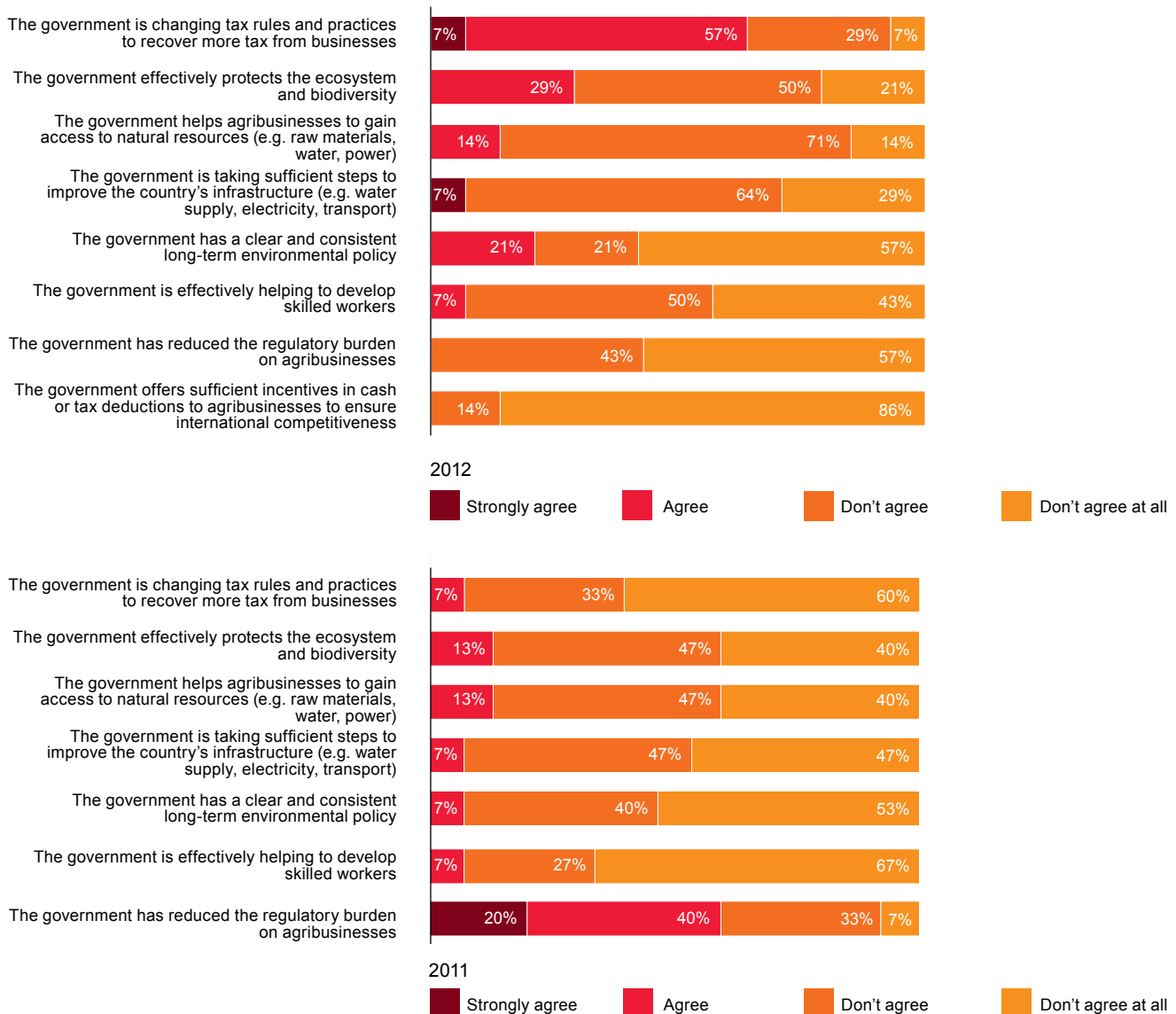


## 1.5 The role of government

The reaction of participants to the government's role in the economy was again **negative**, particularly pertaining to:

- Incentives for agribusinesses to improve international competitiveness
- Regulatory burden on agribusinesses
- Improving the country's infrastructure
- Protection of biodiversity and the ecosystem
- Facilitation of access to natural resources

There was agreement amongst most of the respondents that **government is not doing enough to support agribusiness** in general, especially if compared with their industry peers in other countries.



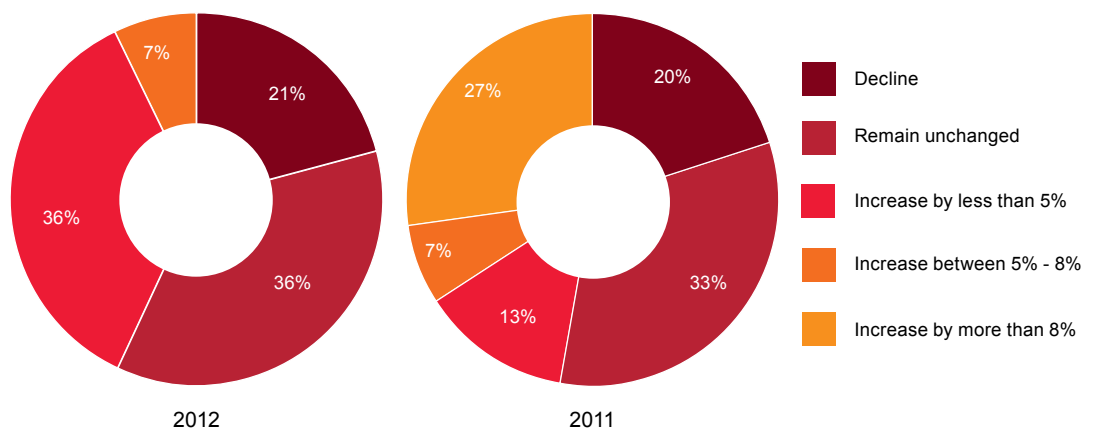
## 1.6 Human resources (HR)

Human Resources as management area is strategic and comprehensive in nature, involving the establishment of policies, practices and administrative structures that focus on a business' most valuable resource- its people (SHRM Foundation, 2008).

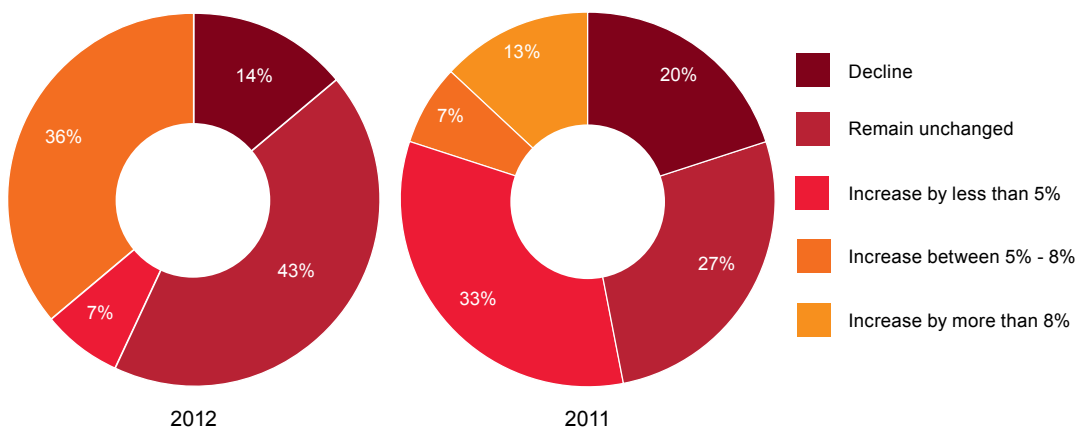
It is important for agribusinesses to adopt a human resource strategy that enable their employees to contribute and perform at the highest level possible. In supporting employees to improve their skills, attitudes and behaviour and focus to decrease employee turnover, participants can enable their businesses to meet their strategic goals, including productivity, quality and customer satisfaction.

### Personnel numbers

There has been a **slight increase in personnel numbers during 2012**. In total 43% of respondents indicated that the personnel numbers increased by up to 8%. It is noticeable that the data from 2011 indicated that personnel numbers remained constant during that period. Decision-making in this regard reflects that agribusinesses started feeling a little bit of relief coming out of the recession.



Over the next 12 months, a larger group of respondents (43%) **expects that personnel numbers will remain constant**. No respondents however expect growth in personnel numbers of more than 8%.





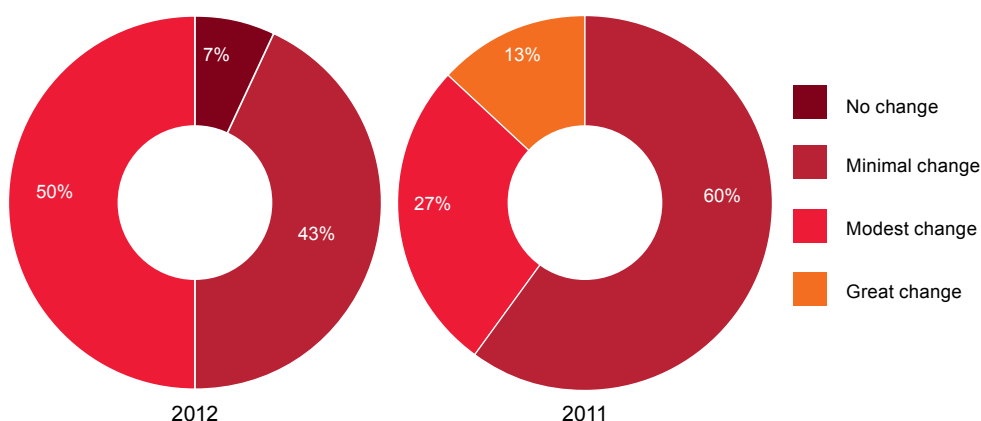
## Human Resource Strategy

A human resource strategy can be defined as a business' intentional use of human resources to assist the business to gain or maintain a competitive edge against its competitors in the marketplace. Human resource strategies need to simultaneously focus on building skills, motivation and behaviour for a successful business strategy (SHRM Foundation, 2008).

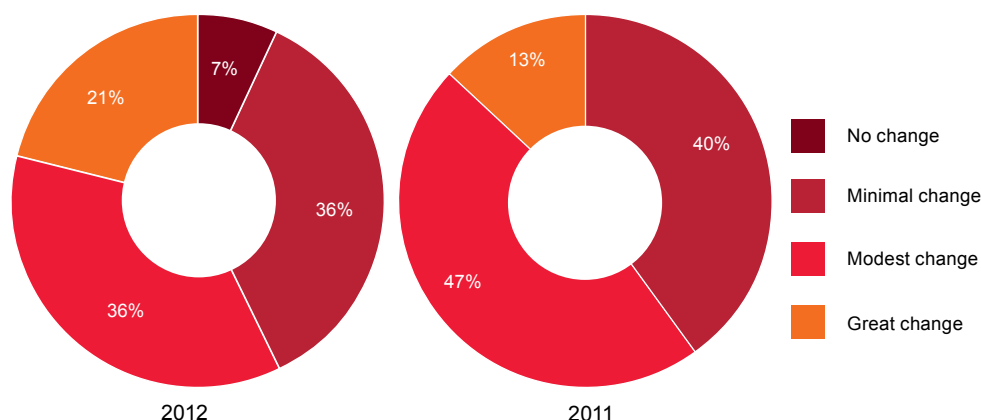
Changes in the economic environment as well as human resource practices and processes that are increasing in complexity are constantly posing new challenges to agribusinesses and their leadership. This requires an adapted approach to the businesses' human resource strategies.

Participants were again asked to what extent certain aspects of their human resource strategies would have to be adapted as a result of economic conditions. There is definitely a trend amongst agribusinesses towards better defined human resource strategies that address more issues. The possible adaptation of the strategy was tested with respondents with regard to specific subjects:

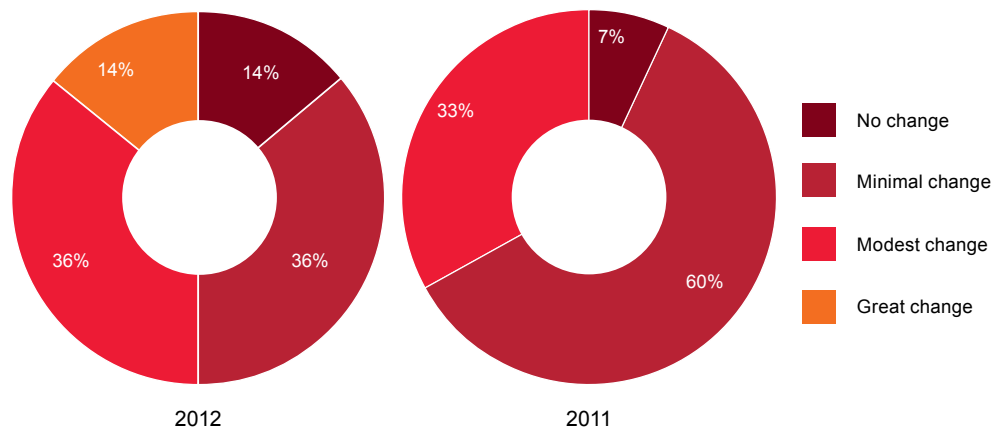
**Management of people in times of change:** 93% of participants indicated that change would be inevitable, though all of these respondents believed such change to be only moderate or minimal in nature. During 2011 though, 100% of respondents indicated the inevitability of change. Agribusinesses need to be flexible, adaptable and resilient to respond successfully to the challenges of today's constantly changing market conditions. Managing people through change involves motivating employees to collaborate and providing clear goals and defined roles as well as a realistic analysis of business systems, processes, structures, strategies and leadership approaches to determine the actual need for change.



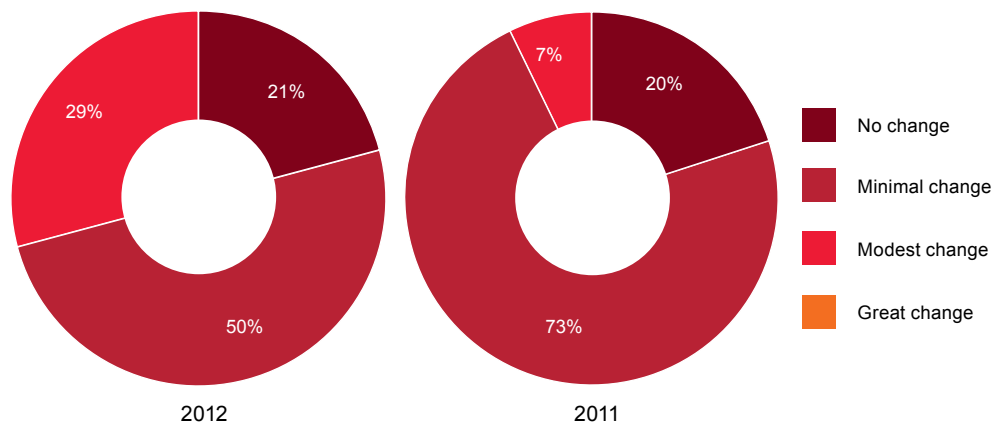
**Training and development programmes:** Again 93% of participants indicated that a change would be brought about in terms of training and development. A larger number of participants (21%) than in the previous year (13%) believe that this change will have a major impact. It is important that participants assess training needs within their business and also plan accordingly to meet these needs as training and development facilitate the optimal utilisation of human resources that in return assist employees to achieve the organisational goals as well as their individual goals.



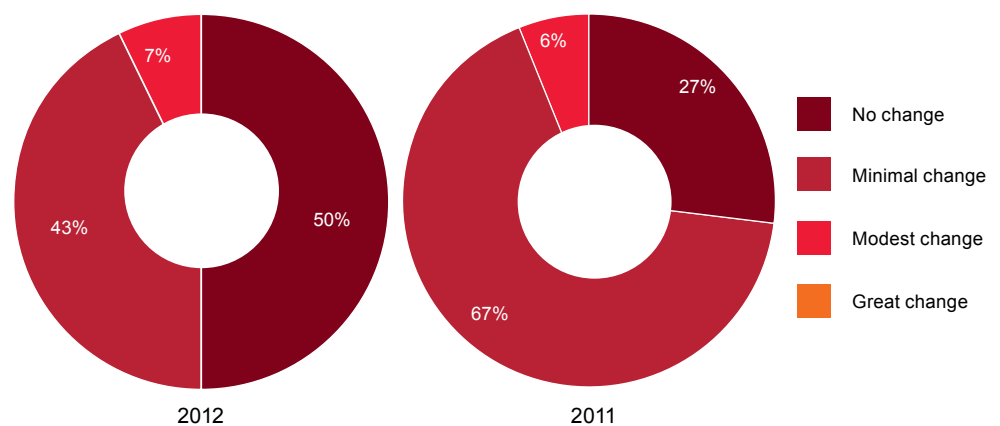
**Personnel involvement programmes:** Employee involvement programmes promote business loyalty by encouraging employees to take ownership of their role in the business. These programmes can also improve productivity, workplace safety and the business' future. In total 86% of respondents believe that their HR strategies would change in terms of these programmes. Compared to 2011, more respondents believe that such a change would have great impact (14% compared to 0% in 2011).



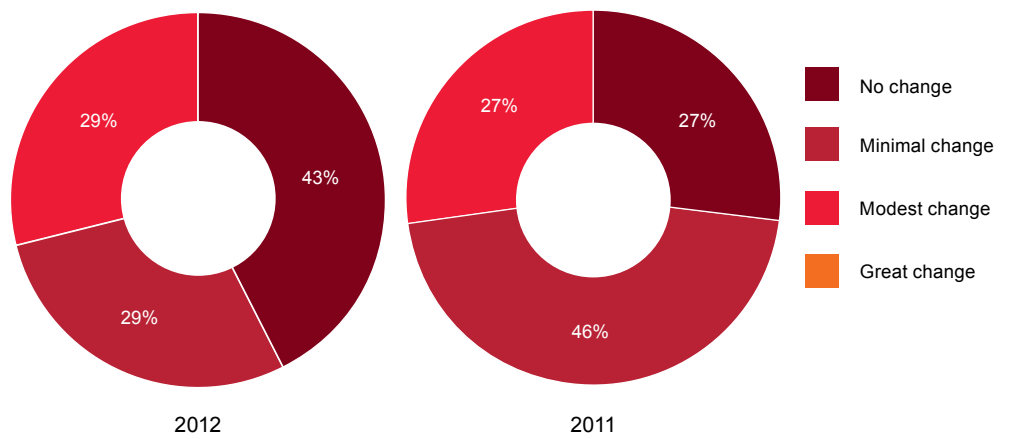
**Remuneration levels:** 79% of participants indicated that their strategy for remuneration levels would change. This feedback is very similar to that of 2011, except that more respondents indicated that they expect a modest change instead of only a minimal change.



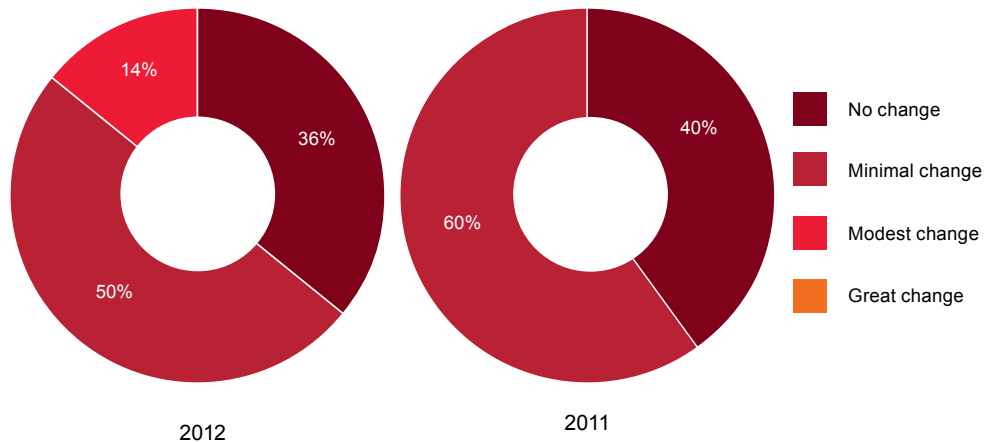
**Flexible work environment:** An overwhelming 50% of participants reflected that they do not expect any changes in terms of this aspect of their HR strategy and 43% perceive a minimal change. In 2011 only 27% of respondents expected no change.



**Using external specialists:** 43% of respondents indicated that they do not believe their HR strategy will change regarding the use of external specialists. This figure compares to only 27% in 2011.

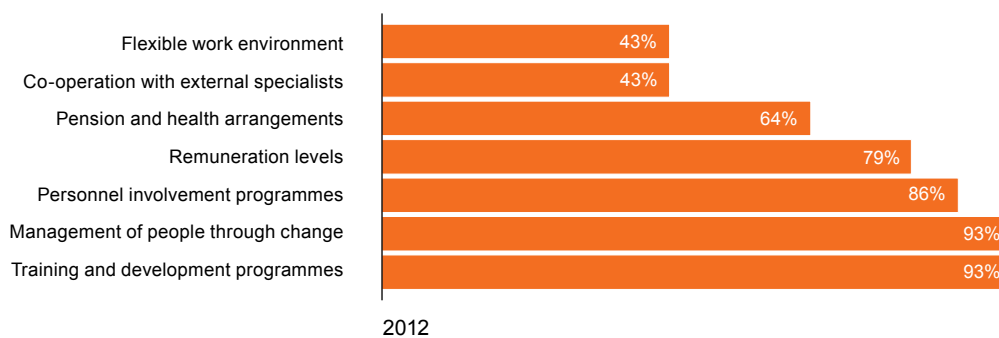


**Pension and health plan arrangements:** 64% of respondents perceive that their HR policy might be amended to address new plan arrangements, compared to 60% in 2011.



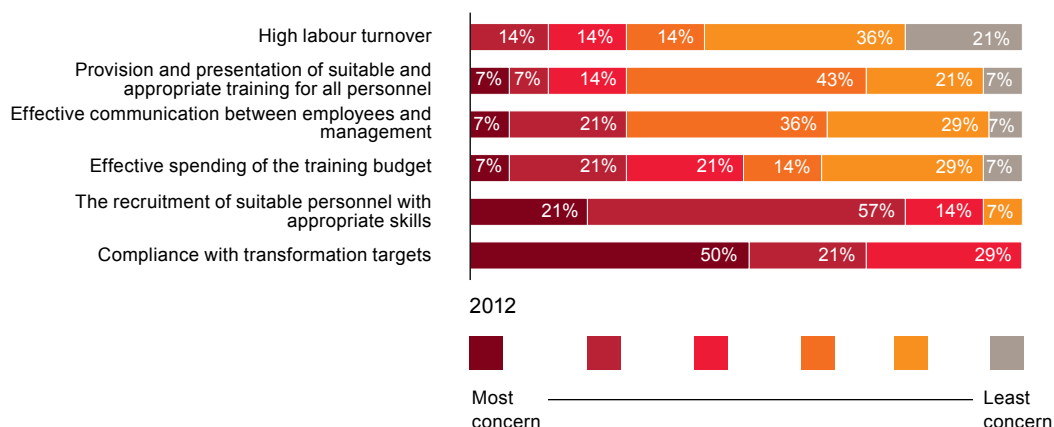
In summary, one can see that the three elements that will most definitely be adapted in the HR strategies of respondents are :

- Training and development programmes
- Management of people in times of change
- Personnel involvement programmes



## Human Resource challenges

The greatest human resource challenges for businesses were indicated as follow:



The two most prevalent challenges for CEOs of agribusinesses are:

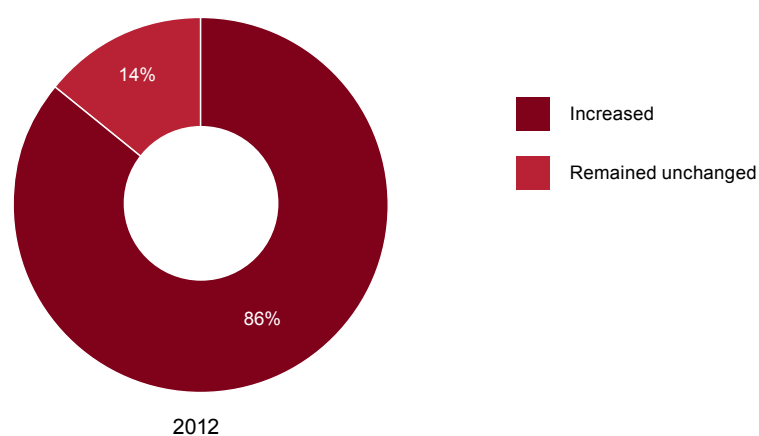
- Compliance with transformation targets
- Recruitment of suitable personnel with appropriate skills

These two challenges actually go hand-in-hand for many, as they struggle between the pressure of compliance targets and the need for suitably qualified and skilled employees. There is also generally a need in agriculture as an industry to attract more Employment Equity (EE) candidates in managerial levels.

## Training

Training plays an integral role in agribusinesses' success as it provides an opportunity and broad structure for the development of human resources' technical and behavioural skills. It also helps the employees in attaining personal growth. By nurturing a learning culture and engaging in exercises aimed at furthering skills development, an increase in the productivity of the employees are noted that further assists the business to achieve their long-term goals.

**Budget:** 86% of participating CEOs indicated an increase in their training budget over the past year and 14% indicated that their budget remained unchanged.



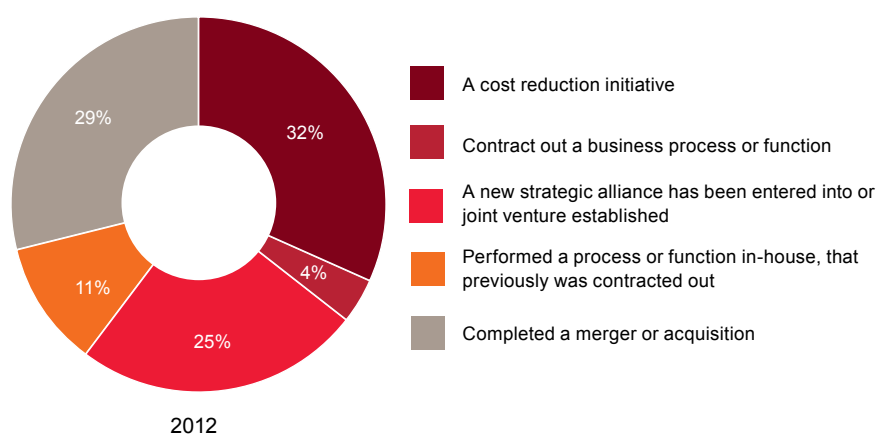
**Priorities:** CEOs indicated their training priorities for the coming year by rating the following subjects in order of importance:

Rating 2012	Rating 2011	Training subject
1	1	Managerial development
2	4	Leadership development
3	3	Supervisors training
4	2	Technical skills development
5	6	Financial management training
6	5	Interpersonal skills
7	7	Conflict management
8	-	Personal finance training

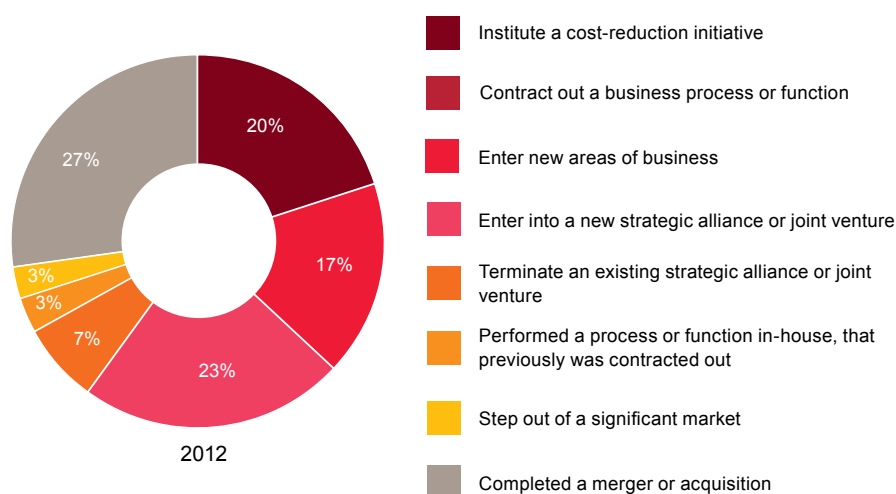
The priority rating remained very similar to 2011.

### 1.7 Expansion and restructuring considerations

Participants were prompted to indicate which **restructuring activities** they embarked on during the last 12 months. In total 32% indicated a cost reduction initiative and 29% indicated an amalgamation or acquisition.

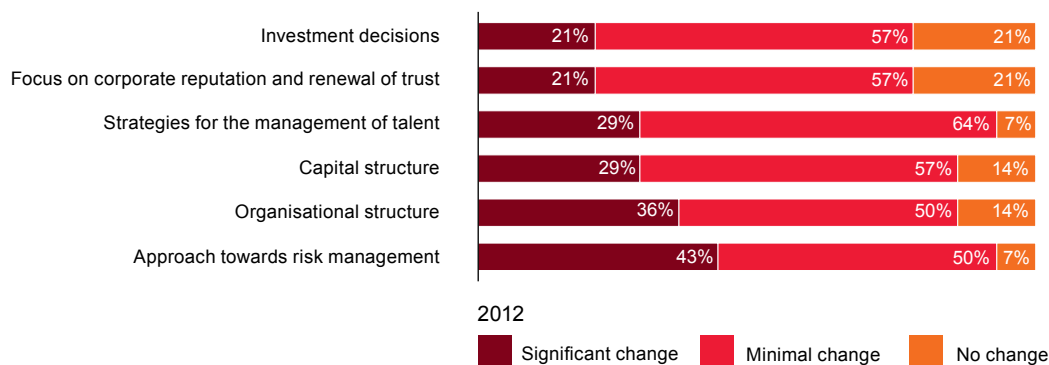


During the following 12 months, 27% of participants are planning for amalgamations or acquisitions and 23% are planning to venture into new strategic alliances or joint ventures.





In the light of the sluggish global and local economic circumstances, participating CEOs expect changes to the following areas of their business strategy, their operational model and their organisation:



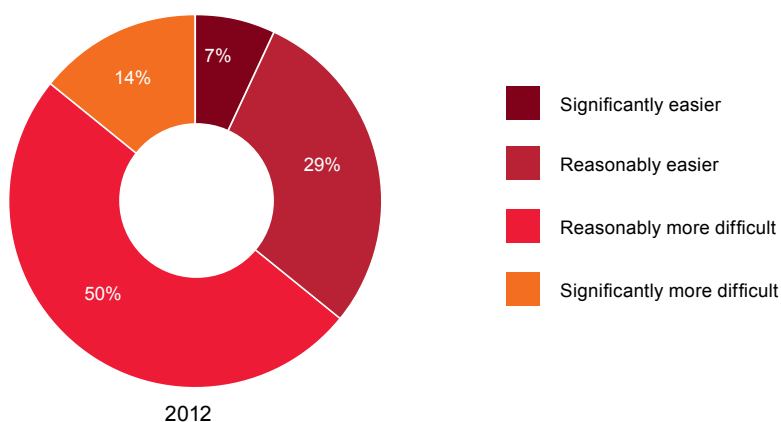
The most significant changes are expected in their approach towards risk management as well as their organisational structure.

## 1.8 Local economy

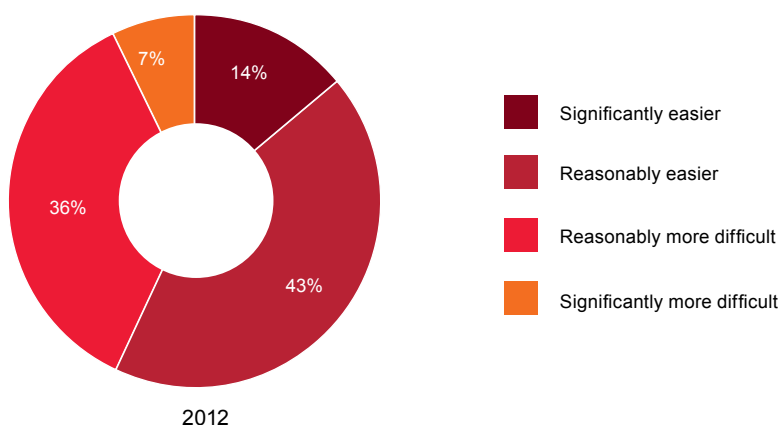
The expectation amongst 43% of respondents is that the local economy will regress, while 36% of respondents indicated a perception that it will remain unchanged.

### Access to finance

64% of participants expect that access to bank finance will become increasingly difficult and only 36% of respondents expect that it will become more accessible.



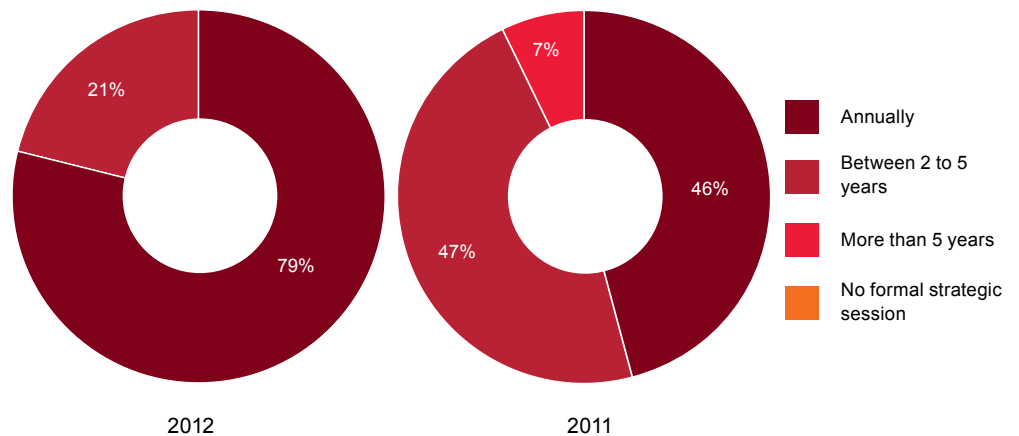
57% of participants believe that access to finance from alternative investors will become easier and 43% that it will become increasingly challenging.



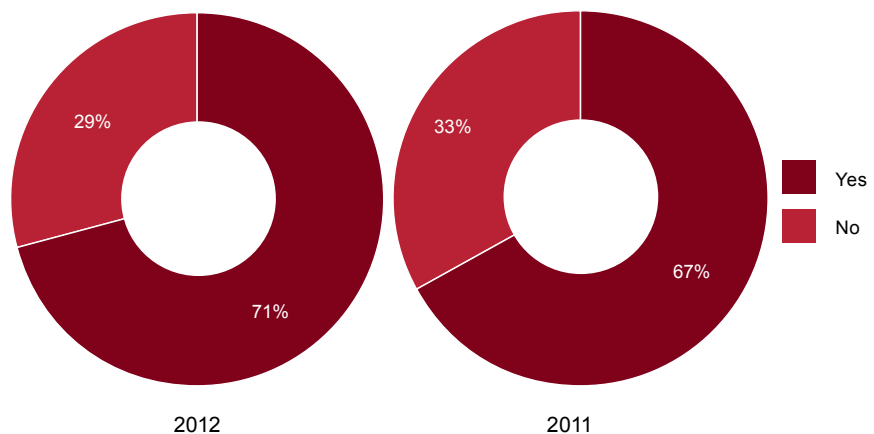
## 1.9 Strategy

Foresight and strategic planning is seen as one of the criteria for good management and successful planning. As a conceptual tool for acquiring insight and understanding, foresight and strategic thinking prepares businesses for a wider variety of environmental contingencies by considering the broader picture, rather than just focusing on the intricate financial detail of short-term decisions. As mentioned by the Department of Agriculture, Western Cape (2012), the objective of a business strategy is to prepare the business for future success and to conceive and secure the future of that organisation.

It is comforting to see that all participating CEOs indicated that they **do have a business strategy** in place, while 79% indicated that they engage in **annual strategic planning**, compared to 46% in 2011.

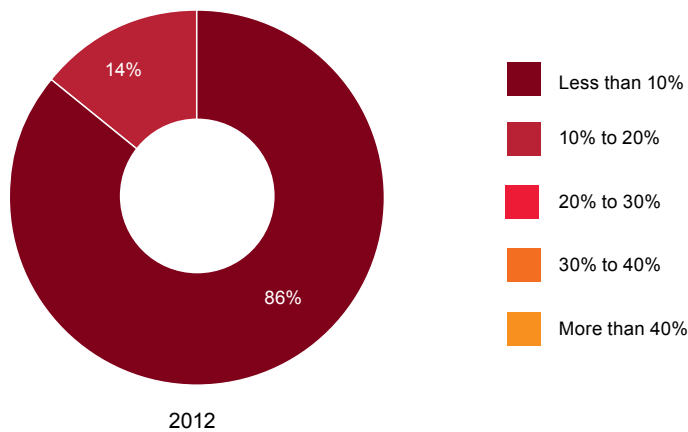


A corporate governance system is the system by which businesses are directed and controlled and thus plays an integral role in the business' strategy. 71% of respondents have a formal corporate governance system that monitors the implementation of their strategy, compared to 67% in 2011.

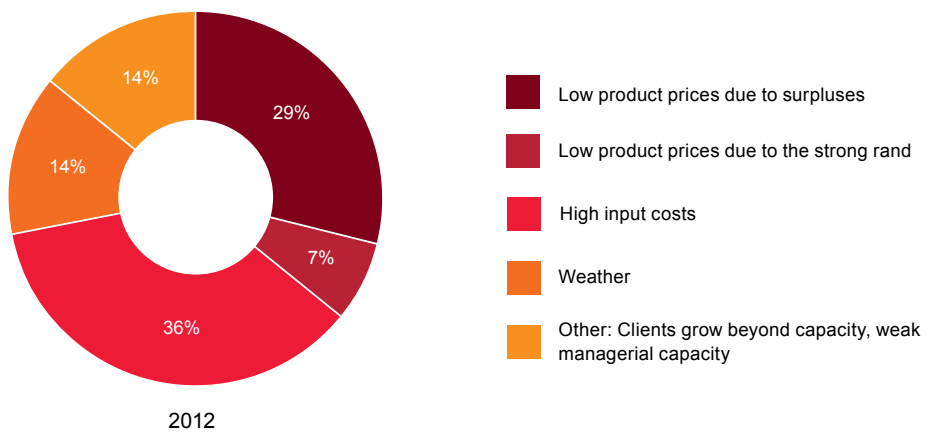


### 1.10 Credit policy

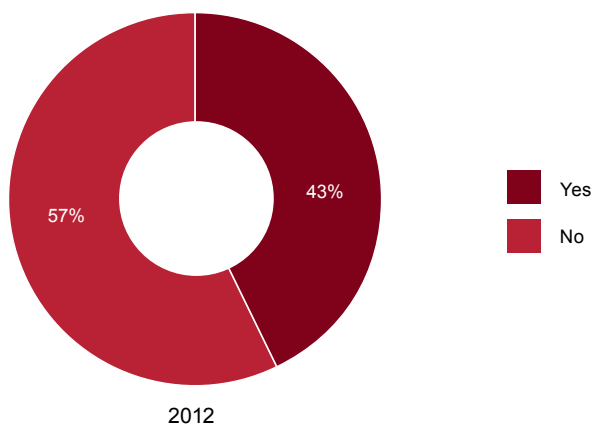
Credit policies help govern the lending or credit activities of a business and the significance of credit policies can be realised in the operational efficiency of businesses. 86% of respondents indicated that less than 10% of their debtors will not be able to settle their debt for the current year.



The **main reason for long outstanding debt**, according to 36% of respondents, is high input costs. 29% of respondents indicated the main reason to be insufficient prices obtained by producers for their products due to surpluses.



57% of respondents indicated that they **do not consider setting up special bridging facilities** to accommodate producers who cannot settle their debt due to lower product prices. 43% do consider this option.



86% of participants expect no changes in their organisation's credit policy for the coming season.









## 2. Profitability analysis

### 2.1 Asset turnover rate

The asset turnover rate is a financial ratio that measures the efficiency of agribusinesses' use of their assets in generating sales revenue or sales income to the business. As agribusinesses continually strive to increase their market share by utilising their assets, adding value to their stakeholders and customers and through diversifying and the development of new products, the asset turnover rate becomes an important consideration for these businesses.

The contributions of the various divisions to turnover over the past two years were as follows:

	2012	2011
Grain	42%	51%
Trade	20%	31%
Fuel	6%	5%
Implements	7%	3%
Parts	3%	2%
Other	22%	8%

It is evident that agribusinesses are less reliant on grain sales and are diversifying their activities by increasingly focusing on other contributors to turnover.

The increase/ (decrease) in turnover of the various departments in comparison with that of the previous period was as follows:

	2012
Grain	14%
Trade	(10%)
Fuel	35%
Implements	21%
Parts	(4%)
Other	92%

The increase of 14% of the **grain divisions** can be ascribed to harvests being greater than expected in large parts of the country.

**Trade divisions** are experiencing constant pressure from large retailers in the country, resulting in mergers and cooperation agreements in these divisions to become more competitive. The stability of trade divisions is largely determined by credit supply. Increasingly, trademarks for these divisions are being established and expanded nationally.

### 2.1 Asset turnover rate

The asset turnover rate is calculated by expressing the sales total as a ratio of the total assets applied, excluding share investments, to generate the relevant turnover.

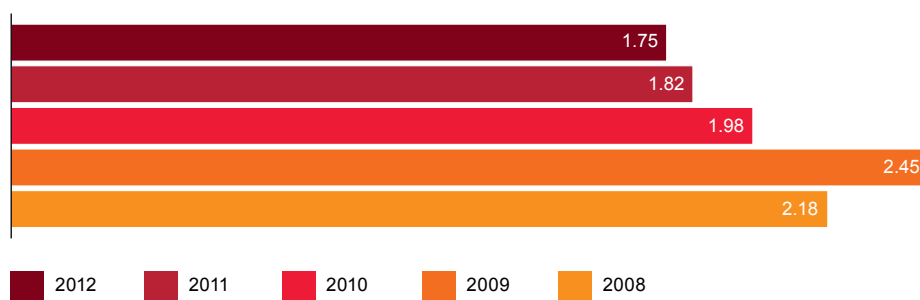
For the purposes of the survey, turnover is the figure as reflected by the annual financial statements. Only the commission on direct sales is included in the calculation. Stock write-offs and payment discounts granted are added to the cost of sales. Conversely, trade discounts are adjusted in the turnover figures.

Higher fuel prices directly led to a higher turnover rate in **fuel divisions**.

The considerable increase in the **implements divisions** of 21% is due to an increase in the purchasing of new implements. This can be ascribed to the improved agricultural circumstances in the current year under review. In contrast, the **parts divisions** experienced a further decline of 4% partly due to the fact that implements are rather replaced than maintained or repaired.

The 92% increase in the **other divisions** can be attributed to agribusinesses that are diversifying their operations.

#### Asset turnover rate

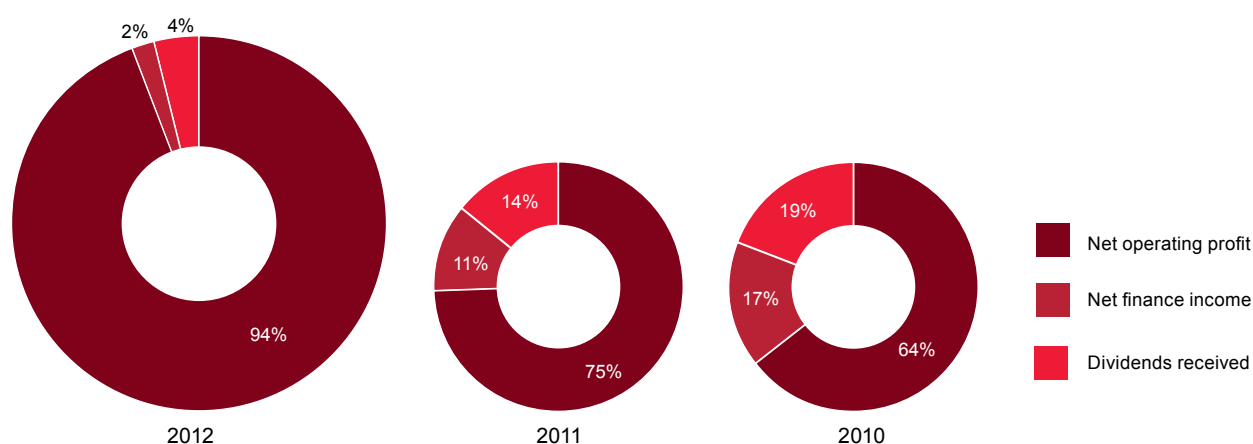


The asset turnover rate decreased for the third year in a row, which might be an indication that the effects of a sluggish global and local economy are still seen in the agricultural sector. Agribusinesses maintained their focus on their core business operations, but it is evident that there is also a new focus on value adding activities. In addition to the mere handling of products, agribusinesses are now considering various options to add value to primary raw materials and products within the agricultural environment. Unlocking value and making full use of synergies within agribusinesses can ensure sustainability over the longer term.

## 2.2 Net income composition

Net income comprises net operating profit, net financing income and dividends received.

#### Net income composition



The operating profit of the participants, showed a significant increase from 75% to 93% against the previous year. This while net financing income and dividends received declined from 11% to 2% and from 14% to 4% respectively.

Credit control remains the most sensitive of all the activities, with net financing income that flows from credit supply. Some agribusinesses handle it as a separate profit centre so that the effectiveness of this division can be monitored more closely. Bad debt obviously poses a great threat to the results of this division. Further did the equity structure shift to more debt (3.2) which also contributed to the decrease in net financing income.

Dividend income made a substantial contribution to the income of some participants holding dividend yielding shares in the Pioneer Foods Group, a significant player in the food and beverage industry in Southern Africa. The unbundling of these investments over the past year saw the shares now sitting in separate legal entities or directly in the hands of the shareholders of the agribusinesses. This resulted in a significant decrease in the dividend income of the participating agribusinesses.

## 2.3 Asset yield rate

The asset yield rate is a ratio that indicates the profitability of the business' assets. The profit is measured against the total assets applied during the period concerned. The ratio aims to assess the effectiveness of the assets in total, the core assets and the investments separately.

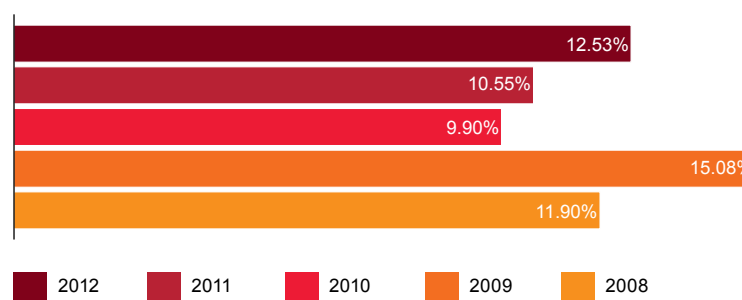
Agribusinesses should be able to improve their asset yield rate further by adapting a more strategic approach to asset management. A structured approach for identifying improvement opportunities that yield an excellent return on investment while increasing safety and regulatory adherence to policies and procedures should be developed. With this approach, agribusinesses can drive higher productivity, control costs and become high-performing asset managers.

It is important that asset management strategies are assessed continually to determine whether the full market potential is being achieved and whether there is room for improvement.

It should also be noted that the yield on the total assets of agribusinesses that finance their own activities will generally be lower than other industries on account of the need on the part of agricultural clients for longer than standard credit terms.

### 2.3.1 Asset yield rate- before adjustments

#### Asset yield rate



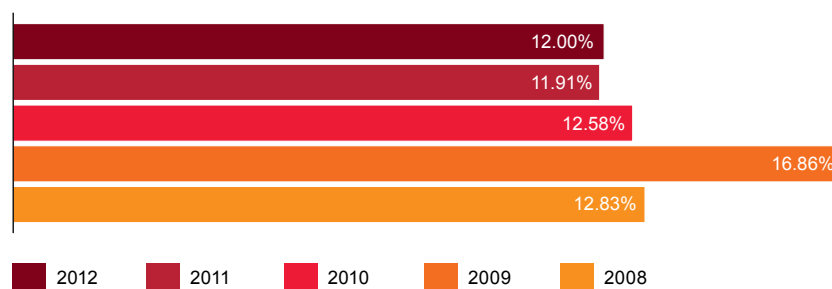
#### 2.3.1 Before adjustments

The asset yield rate represents the agribusinesses' net profit before interest paid and tax, as a percentage of the total assets. In the case of groups, the minority interest in the net profits is not excluded.

The asset yield rate increased from 10.55% to 12.53%. The increasing asset yield trend continues from the previous year and it might be an indication that agribusinesses are progressing towards a position of more efficient asset management.

### 2.3.2 Asset yield rate- after adjustments

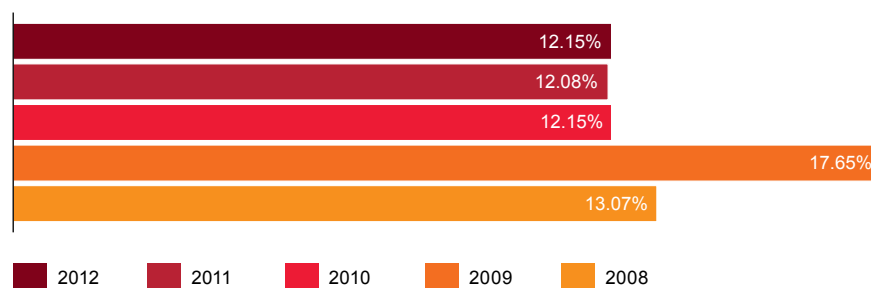
#### Asset yield rate adjusted



With the exclusion of exceptional items, this ratio aims to enhance comparability. It is, however very subjective since the participants determines the items to be excluded. The adjusted asset yield rate however remained unchanged from 2011 to 2012.

### 2.3.3 Asset yield rate- investments excluded

#### Asset yield rate excluding share investments



The asset yield rate – excluding share investments remained unchanged over the last three years, indicating agribusinesses consistent yield out of core business assets.

### 2.3.2 After adjustments

*This ratio represents the yield rate of the agribusinesses' assets in total, after the following adjustments:*

- Depreciation;
- Exceptional items;
- Bonuses and preferential discounts to members; and
- Amortisation of intangible assets.

*Exceptional items include any item which, in the participant's opinion, substantially affected its net income from normal business transactions for the year and which should not be taken into account.*

**Total asset adjustments comprise the exclusion of:**

- Revaluation of property, plant and equipment; and
- Intangible assets.

### 2.3.3 Investments excluded

*In this calculation, investments and investment income in listed and unlisted shares are excluded from the calculation of total assets and net income. Investment income represents mainly dividends received.*

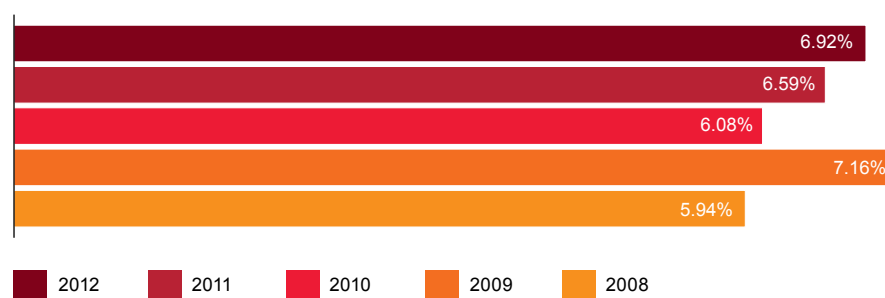


## 2.4 Net profit percentage

Profitability is measured by expressing actual profit as a percentage of actual turnover achieved. The effectiveness of transactions is thus measured.

During the past years agribusinesses focussed on the maintenance of profitability through strong cost management and retention of market share. During the period under review, the net profit percentage remained relatively stable.

### Net profit percentage



## 2.5 Gross profit percentages

This ratio is calculated on the results of identified departments and provides an indication of the gross profit percentages achieved departmentally. In 2012, participants also indicated their gross profit percentages for direct parts sales and not only for stock parts sales.

Agribusinesses usually achieve specific margins on their stock order to cover all overhead costs and to maintain reserve funds for the expansion or maintenance of facilities. Contrasting to producers, these businesses are more flexible and can to a greater extent adapt themselves rapidly to changing circumstances. They maintain a fixed performance policy and only adapt prices as market conditions change. For this reason there was not much change in their profit percentage against the previous year. Producers are exposed to cyclical conditions and are forced to purchase their inputs at prevailing prices.

### 2.4 Net profit percentage

Net profit is defined as follows:

Net profit before tax and interest paid, adjusted for:

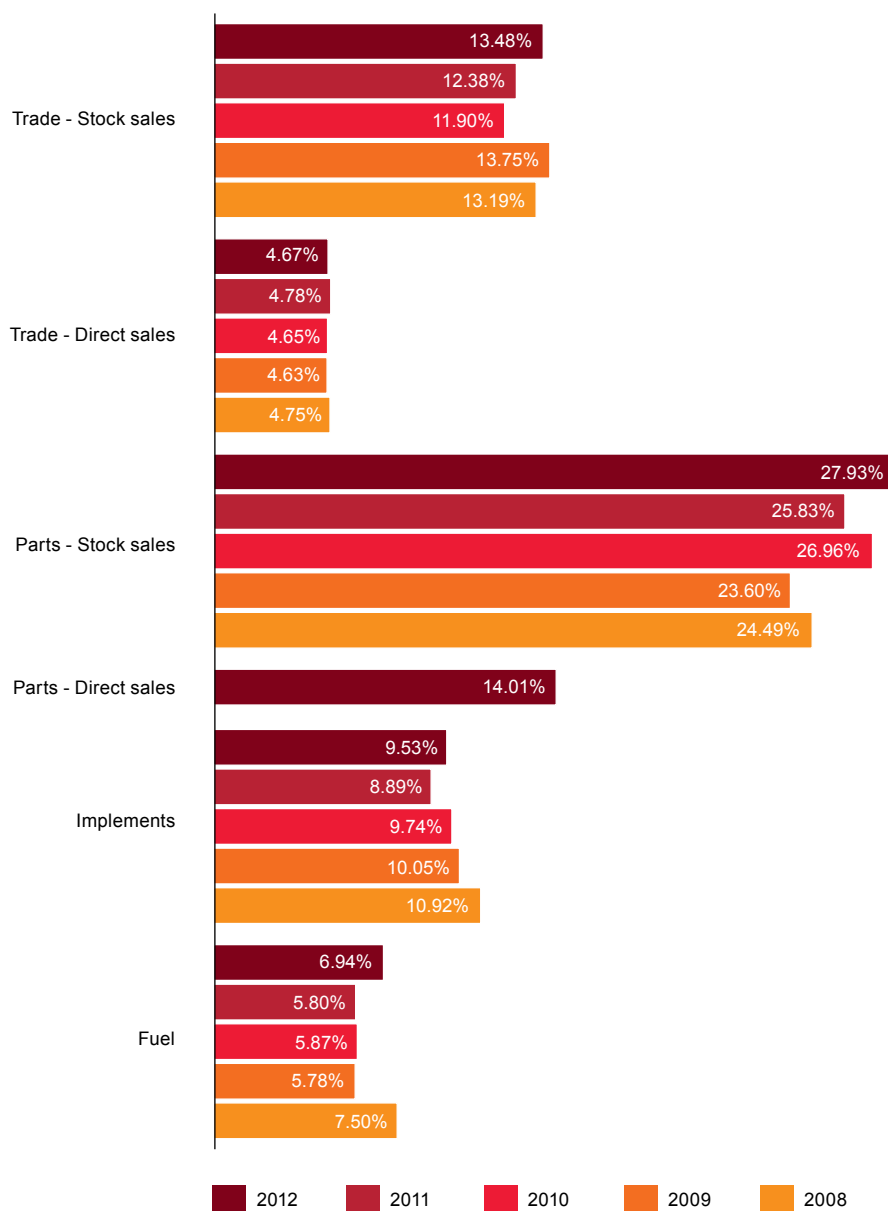
- Exceptional items;
- Depreciation on property, plant and equipment;
- Preferential discounts and bonuses granted to members;
- Write-offs of intangible assets; and
- Investment income.

Turnover is calculated as follows:

Sales of stock and services, excluding value added tax. In the case of direct transactions, only the commission portion is included. Trade discounts granted are deducted in the calculation of turnover. The silo income is taken into account as accounted for in the various annual financial statements.

Investment income represents mainly dividends earned from listed and unlisted investments.

## Gross profit percentages



The gross profit percentages of all the participants in respect of trade and implements do not differ significantly from each other. There was an increase in the gross profit percentages of trading stock sales from 26% to 28% as well as an increase from 6% to 7% on fuel.

The majority of agribusinesses make use of an agricultural advisory services component, which provides a support function. It is thus not regarded as a division with the object of pursuing profit, but it nevertheless does have a major impact on other divisions and promotes good relationships with primary producers.

### 2.5. Gross profit percentages

#### **Turnover is defined as follows:**

Sales of stock and services, excluding value added tax. In the case of direct sales, only the commission portion is regarded as the gross profit. Trade discounts granted are deducted in the calculation of turnover.

#### **Cost of sales is defined as follows:**

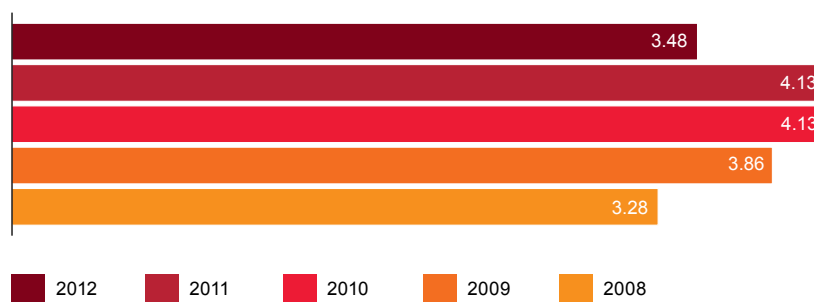
Cost of sales of stock, excluding value added tax. Trade discounts received are included in calculating the cost of sales. The costs associated with direct transactions are excluded.

## 2.6 Interest coverage

This ratio indicates the capacity of the agribusiness to settle interest commitments on its outstanding debt from net income. Agribusinesses should aim to maintain sustainable profits that exceed their interest charge at predetermined levels.

It should be noted that interest coverage is a highly variable measure - it is consequently meaningful to establish guidelines for setting acceptable levels of interest coverage. Please refer to the definition for further details.

### Interest coverage (times covered)



Although interest rates remained relatively stable, debt increased (3.2). With net profit remaining constant as explained in 2.4, interest coverage declined from 4 times to 3 times.

## 2.7 Directors' remuneration

Only the remuneration for non-executive directors was reviewed for the purposes of this survey. This includes all remuneration received by directors on an annual basis, excluding travel costs.

	Highest	Average
	R	R
Chairman	707 794	326 494
Deputy Chairman	431 646	200 004
Other	356 432	139 145

In line with the King III report on corporate governance and the accompanying greater demands for directors to carry responsibility, their remuneration is reviewed annually. The Remuneration Committee is mainly responsible for the annual review. In some cases it is a fixed amount and in other cases there is a performance element built into the calculation.

The average travel allowance for the past period was R3.81 per kilometre with the highest travel allowance being R4.66 per kilometre.

## 2.6 Interest coverage

Net income is defined as follows:

Net income before tax and interest paid, adjusted for:

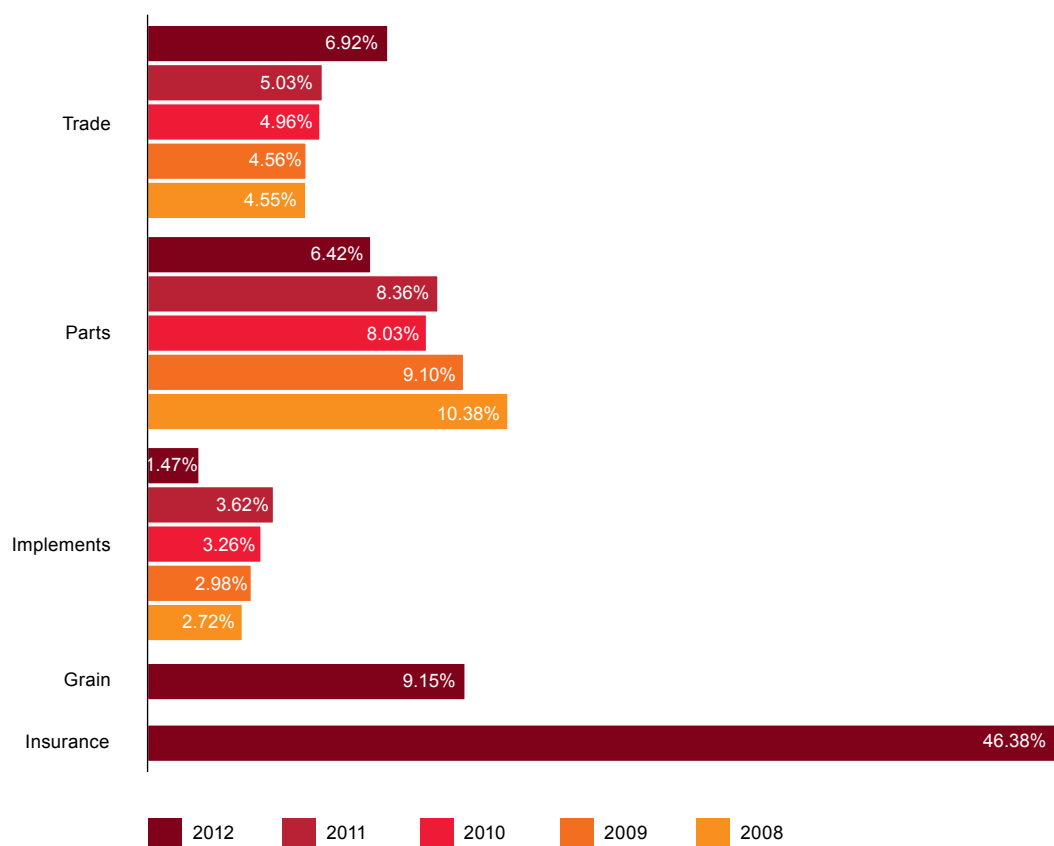
- Exceptional items;
- Depreciation on property, plant and equipment;
- Preferential discounts and bonuses granted to members; and
- Write-offs of intangible assets.

Interest paid includes leasing costs.

## 2.8 Personnel costs

The ratio of personnel costs as a percentage of the departmental turnover was calculated for identified departments and provides an indication of the personnel costs for the department concerned. Additional departments that were included in the current period of review are insurance and grain.

### Personnel costs as % of turnover



The decline in implements division personnel costs from 4% to 1% can be owed to the increase in implement sales during the year (2.1). The increase in personnel costs in the trade divisions (5% to 7%) can be ascribed to an increase in the number of branches. In the case of the parts divisions, a decline from 8% to 6% was nevertheless noticed.

No meaningful comparison could be drawn for the workshop, grain marketing and grain trading departments, possibly due to interpretation and recording differences between the participants.

## 2.8 Personnel costs

Turnover is defined as follows:

*Sales of stock and services, excluding value added tax. Trade discounts granted are deducted in the calculation of turnover.*

Personnel costs are defined as follows:

*They comprise personnel costs that can be directly attributed to the department concerned. This specifically excludes directors' remuneration and personnel costs of the head office personnel (administrative).*

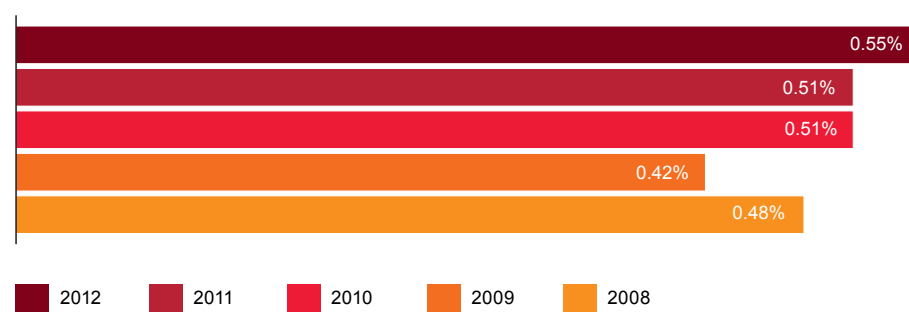
## 2.9 Information Technology costs

The availability of information management plays an integral role in the success of agribusinesses in a continually changing agriculture and economic environment. The focus, aside from data integrity and reporting, is also on added value, technology utilisation and critical management information.

The rapid innovation and growth in technology and information management resulted in the development of information systems that have vast potential for agribusinesses. Large amounts of information can be automatically or semi-automatically captured, stored, processed and interpreted. This enables agribusinesses to make informed and timeous decisions.

Over the past few years it has been evident that agribusinesses are increasing their information technology capacity to leverage the benefits of an ever-changing technology environment. The information technology costs ratio provides an indication of information technology costs as a percentage of turnover.

### Information technology costs as % of turnover



The total expenditure on information technology among agribusinesses in the period under review showed a slight increase. Currently most of the agribusinesses have in-house IT capacity. Each one adapts its systems to its own needs. The vitally important role that information technology plays in the success of agribusinesses remains an important consideration when decisions on systems are made.

## 2.9 Information technology costs

*Information technology costs comprise repair/maintenance, depreciation, licence fees, leasing costs, salaries of the computer departments and consultation fees to outside parties.*

*Turnover is the sale of stock and services, excluding value added tax. In the case of direct sales, only the commission portion is taken into account. Trade discounts granted are deducted in the calculation of turnover.*





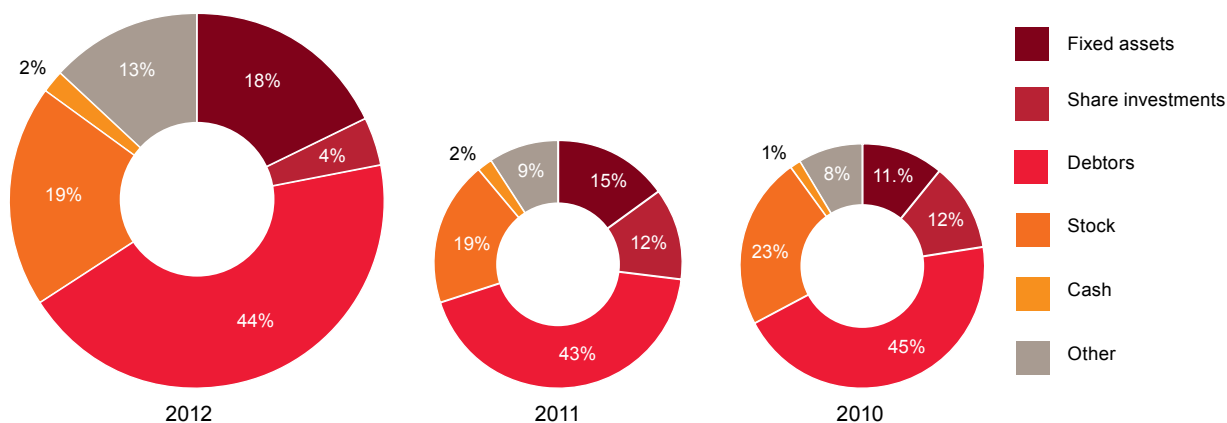
# 3. Balance sheet structure

*In this section, the balance sheet structure of the participants is discussed. The balance sheet provides a summary of the financial balances of a business, including assets, liabilities and ownership equity.*

## 3.1 Total asset composition

Participants' total asset composition was measured in terms of fixed assets, share investments, debtors, stock, cash and other assets as illustrated in the graph below.

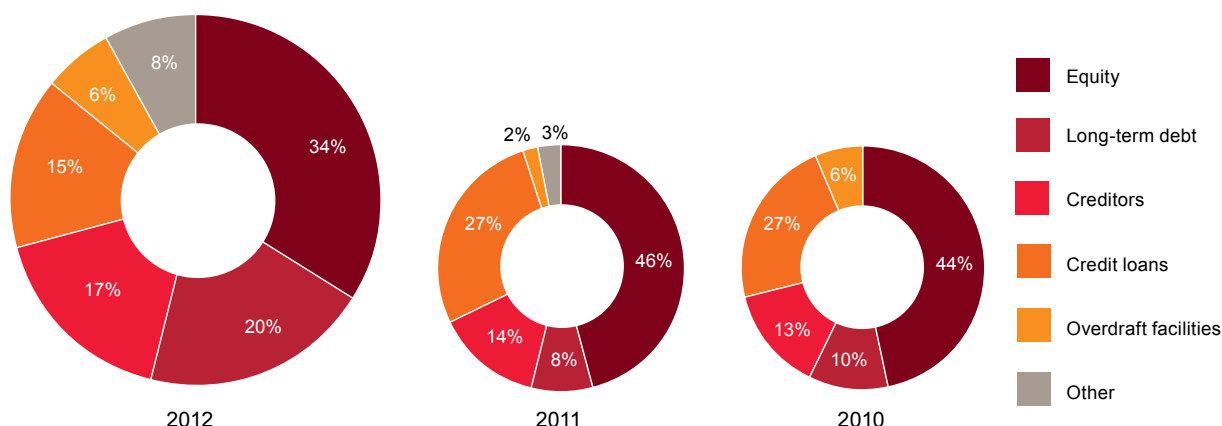
Balance sheet structure



If the structure of agribusinesses' balance sheets is compared between 2012 and 2011, the most prominent figure is the percentage for share investments that declined significantly from 12% in 2011 to 4% in 2012. As already discussed in Section 2 (Profitability), this decline can most likely be ascribed to the fact that a number of agribusinesses unbundled their share investments in the Pioneer Foods Group.

## 3.2 Equity and liabilities composition

Equity and liability structure



### 3.1 Total asset composition

The balance sheet structure was compiled from the monthly averages of debtors, stock, creditors and short-term financing in order to eliminate seasonal fluctuations. The remainder of the assets and liabilities represent the values as they appear on the balance sheet dates of the participants.

### 3.2 Equity and liabilities composition

Refer to 3.5 for an explanation of equity and liabilities.

The average equity ratio declined from 41% in 2011 to 37% in 2012. This might also be the result of the unbundling transactions (see 3.1) with some of the relevant shares being distributed to participant shareholders as well as the fact that some participants financed their expansions with bank debt.

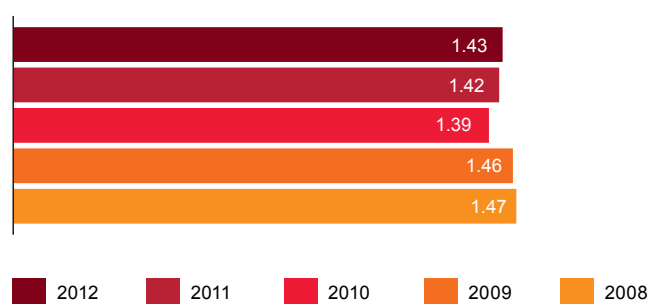
### 3.3 Working capital ratio

This ratio gives an indication of the ability of the business to meet its short-term commitments.

Agribusinesses play a vital role in obtaining finance for producers and act with bankers as a conduit for financial aid to finance producers' inputs.

Agribusinesses were again obliged to find new facilities to accommodate the demand for operating capital.

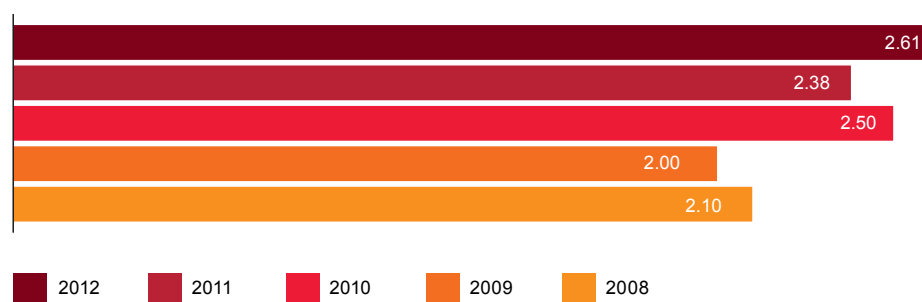
#### Working capital ratio (Total)



The working capital ratio for agribusinesses remained stable for the past number of years.

To obtain a better measurement, a comparison of the working capital ratio was obtained by excluding the funds acquired exclusively for financing producers.

#### Working capital ratio (excluding cash credits and long-term financing)



This ratio showed marginal improvement over the past few years.

### 3.3 Working capital ratio

*This is the ratio of current assets to current liabilities. For benchmarking purposes, the monthly averages of debtors, stock, cash credits and creditors are used. For all the other items, the amounts as at balance sheet date are used.*

*For the alternative calculation, credit loans, cash credits and long-term financing earmarked for short-term input financing are excluded from current assets and current liabilities.*

### 3.4 Acid-test

The acid test or quick assets ratio is a stringent indicator that determines whether a firm has enough short-term assets to cover its immediate liabilities without selling inventory. The acid-test is far more strenuous than the working capital ratio, primarily because the working capital ratio allows for the inclusion of inventory assets. It is calculated by expressing the sum of cash, accounts receivable and short-term investments, over current liabilities.

#### Acid-test



The weighted average for this ratio, based on the current year's data, is 0.98 to 1 which might be acceptable for agribusinesses.

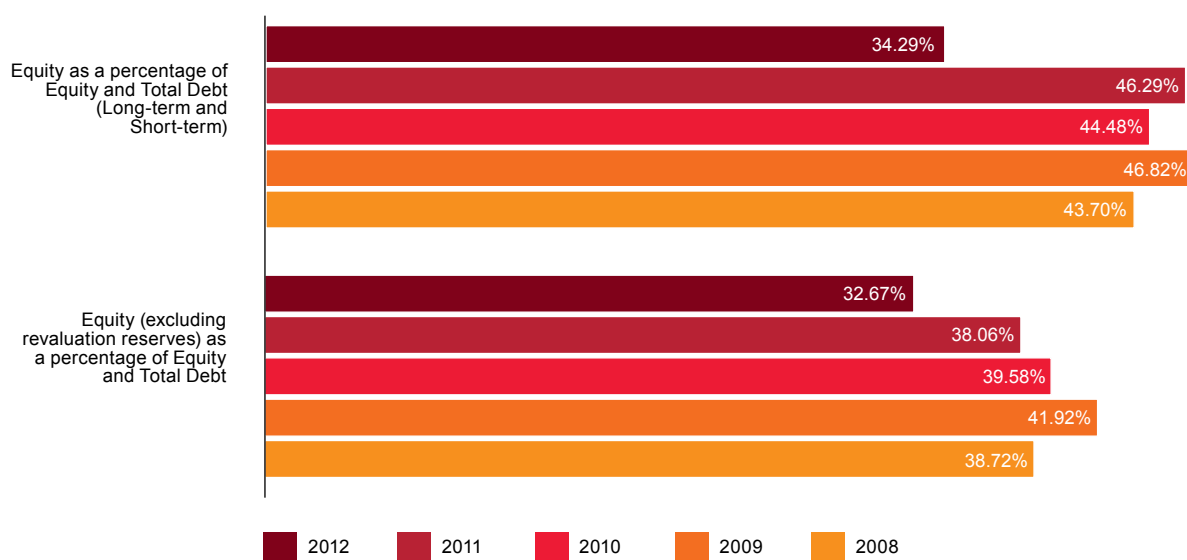
### 3.5 Equity ratios

#### 3.5.1 Equity as a percentage of equity and total funds

This indicates the extent to which the entity finances its assets itself through equity, or is dependent on debt. This is therefore a measure of the agribusiness' financial gearing. The capital and reserves of the industry are expressed as a percentage of total funds utilised.

Two comparisons are made here. The ratio is firstly determined in accordance with the current financial results, as accounted for in the annual financial statements. Alternatively, to achieve a better comparison between businesses, revaluations are excluded.

#### Equity ratios



A significant decline can be noted from the 2011 to the 2012 ratio. Again the unbundling transactions (see 3.1 and 3.2) played a role in this change.

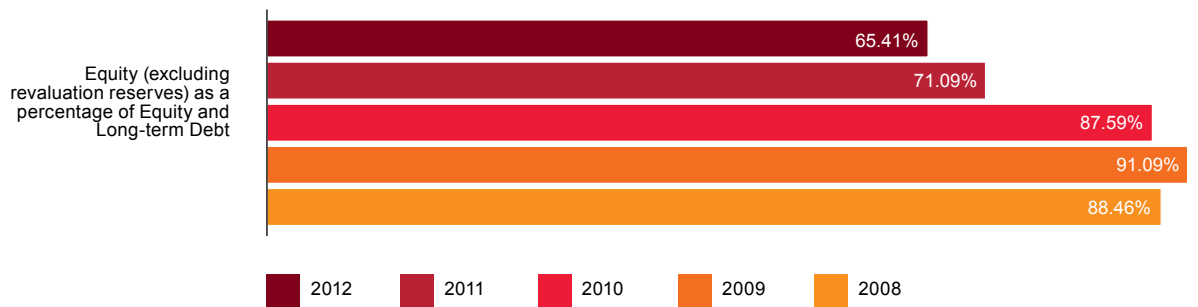
#### 3.5.1 Equity ratios

*Debt includes all interest-bearing obligations, current liabilities and deferred tax. Equity includes all capital and reserves.*

*Revaluation reserves represent revaluations of property, plant, equipment and investments.*

### 3.5.2 Equity (excluding revaluation reserves ) as a percentage of total funds

#### Equity ratio – excluding revaluation reserves



Again a decline is evident from the 2011 to the 2012 ratio for the reasons stated above.

### 3.5.2 Equity (excluding revaluation reserves ) as a percentage of total funds

Debt includes all interest-bearing obligations, current liabilities and deferred tax. Equity includes all capital and reserves.

Revaluation reserves represent revaluations of property, plant, equipment and investments.

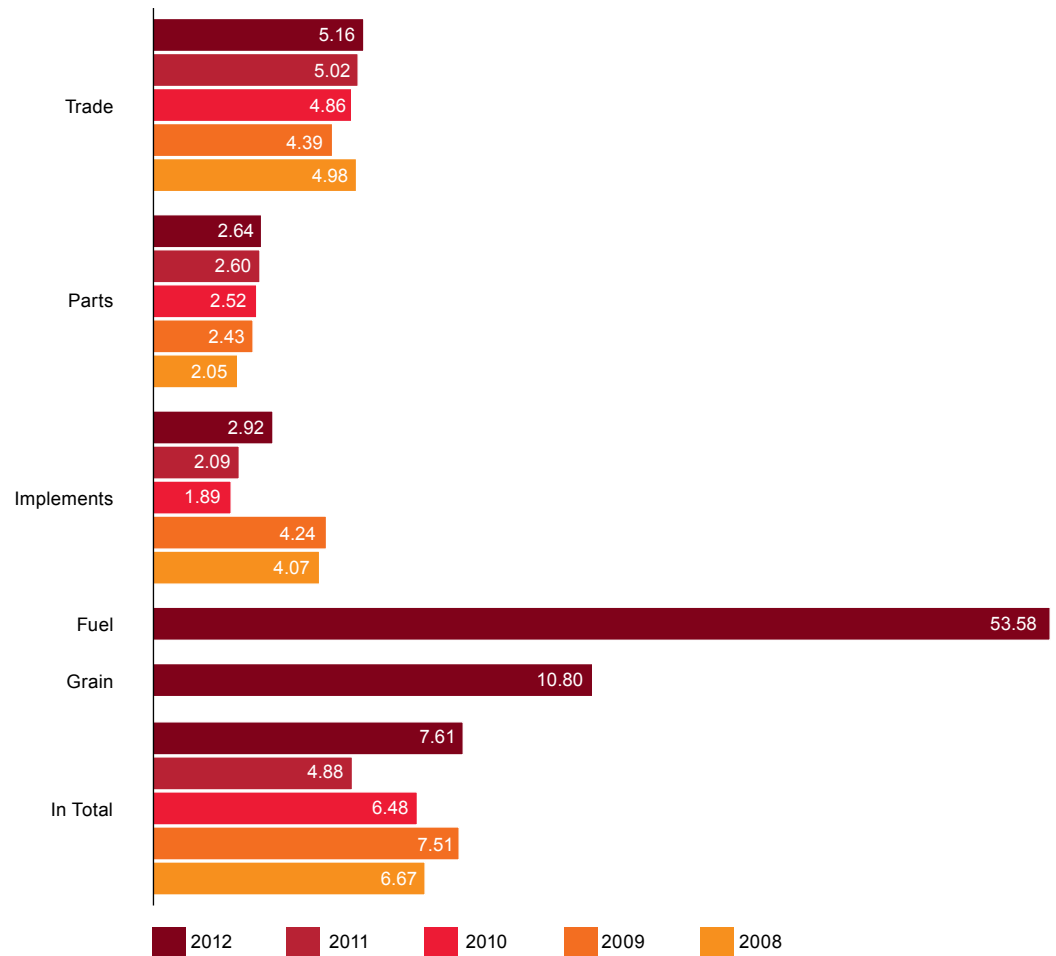
## 3.6 Stock

### 3.6.1 Stock turnover rate

The stock turnover rate indicates the average number of times per year that stock is traded. The higher the turnover rate, the more effective is the investment in stock. If the turnover rate is low, it leads to, amongst other things, higher costs of financing, storage and personnel costs and insurance. It can also indicate old or obsolete stock which potentially should be written off.

Stock levels must be managed properly, with the objective being a reduction in stock. Purchases are mostly adjusted according to a centralised system with a sharper focus on product series and categories. Effective stock management also leads to more effective balance sheet structures.

#### Stock turnover rate



The results of all the divisions illustrated above indicate a moderate increase. It is comforting to see that agribusinesses are still effectively turning stock at an increasing rate.

#### 3.6.1 Stock turnover rate

*This ratio is calculated by dividing the cost of sales by the average stock.*

##### Cost of sales

*Cost of sales represents the calculation as defined in 2.5 above.*

##### Average stock

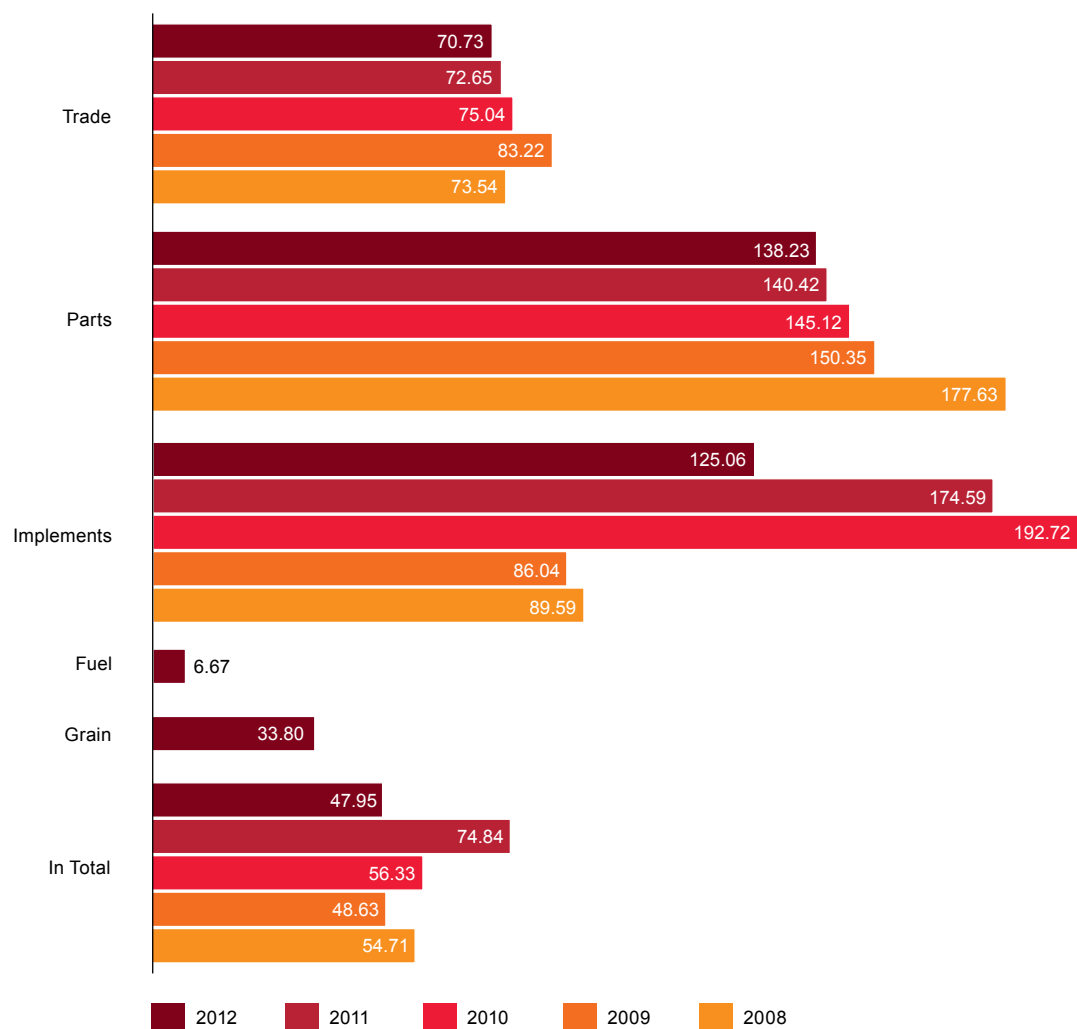
*The monthly average stock is used for the purposes of this calculation, due to the cyclical nature thereof.*



### 3.6. 2 Stock days

This ratio indicates the number of days that it takes to dispose of stock. The result should be in line with the stock turnover ratio, although it measures days instead of trading occurrences of stock.

#### Stock days



#### 3.6.2 Stock days

This ratio is the same as that in 3.6.1, except that it is expressed in the number of days instead of the number of times the stock is turned over.

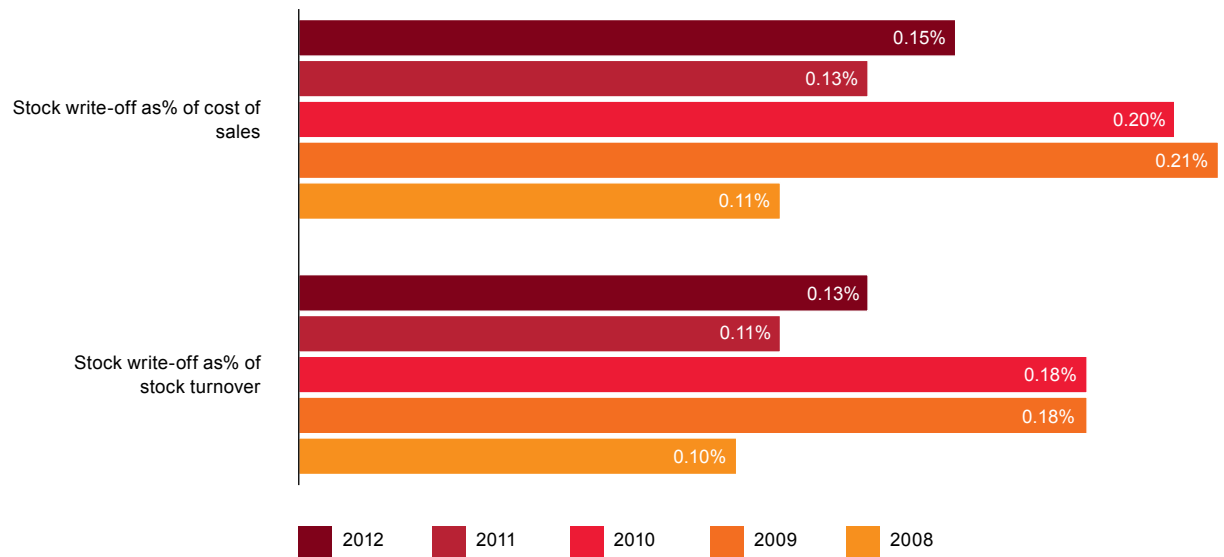
For the definition of cost of sales and average stock, refer to the definitions in 3.6.1 above.

### 3.6. 3 Stock shrinkage as a percentage of cost of sales/ turnover

This ratio represents the stock written off during the year due to price reductions, shortfalls, obsolescence or theft.

Due to the effect of shrinkage on different gross profit percentages, participants requested that the shrinkage factor be calculated on turnover as well as cost of sales.

#### Stock shrinkage

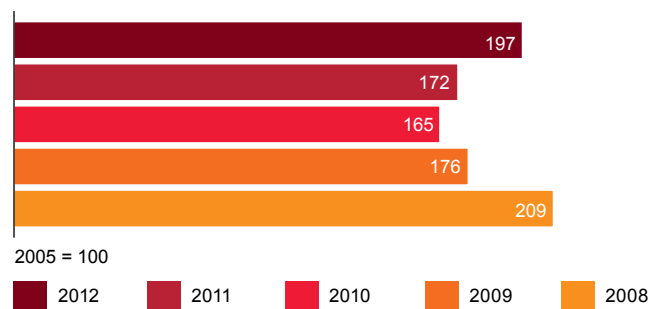


This year's data shows a slight increase in stock shrinkage compared to 2011. This is an indication that a larger quantity of stock could not be turned and had to be written off. Stock management remains a major priority in all divisions.

### 3.6. 4 Fertiliser and pesticides

All of the participants in the survey were requested to provide the cost price of the fertilisers and pesticides most traded in their respective areas over the past number of years. Resulting from this, a price index was compiled:

#### Fertiliser



#### 3.6.3 Stock shrinkage

Stock shrinkage represents the monetary value of all stock write-offs.

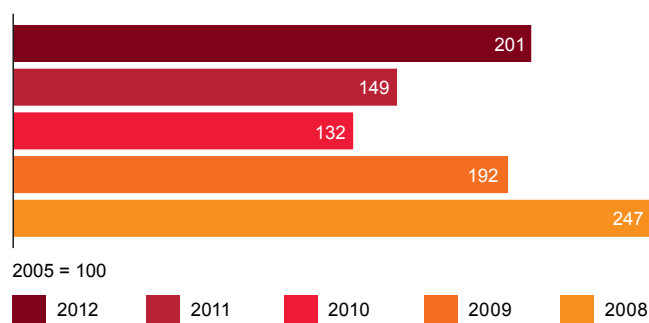
Cost of sales

Cost of sales represents the calculation as defined in 3.6.1 above.

Turnover

Turnover is defined in 2.5 above.

## Pesticides



The price of fertiliser as well as pesticides declined gradually from 2008 until 2010. Since 2010, however, it has been increasing again. It has not equalled the 2008 price, but is on an upwards curve.

## 3.7 Debtors

### 3.7.1 Debtor days

The ratio for debtor days gives an indication of how long it takes for the business to collect from its debtors. The ratio is calculated by comparing the average outstanding debtors in the period with the turnover that was generated.

The world-wide economic downturn has challenged businesses in gaining access to finance.

Financing is a good facilitator for the rest of the business. The establishment of effective and purpose-made financing products is an important part of putting producers and agribusinesses in a position to manage their objectives optimally, to everyone's advantage.

Thanks to the entry of new role-players with unique financing products, financing in the agricultural sector is now becoming more competitive. Agricultural financing is systematically moving away from asset-secured to commodity-secured financing, and this puts more emphasis on the repayment and management capacity of producers. These days agribusinesses are required to display greater transparency to producers desiring credit, and also to reveal their marketing plans. The National Credit Act puts further pressure on credit providers to ensure that clients have sufficient repayment capacity and security before financing is granted. Despite the systematic move towards commodity-secured financing, farm properties were still the main source of security that clients could offer. And despite the fact that politicians and journalists sometimes make rash statements, land values have not declined. The number of transactions might have declined as a consequence of city dwellers being less interested in agricultural land and the Green Paper about the redistribution of land, but land prices are at least remaining constant. Due to the great increase in electricity costs, the profitability of irrigation land is now becoming a problem. However, declining interest rates, in times when commodity prices have proved very volatile, have offered producers some slight relief.

### 3.7.1 Debtor days

*Average debtors*

*This is the monthly average gross debtors, including carry-over debt.*

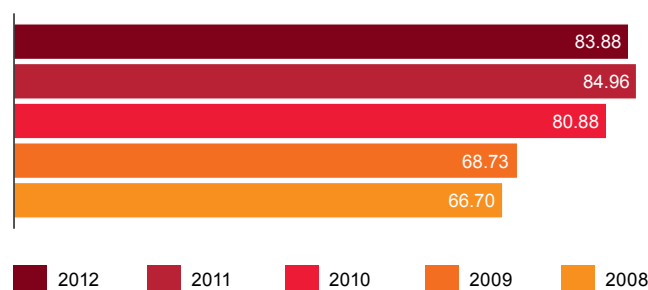
*Turnover*

*Turnover represents gross turnover, but other than in the case of 2.5 above, gross direct sales are taken into account in the calculation. Because direct turnover is also financed by agribusinesses, it was decided to amend the definition of turnover in this case.*

Agribusinesses are, however, acting innovatively by continually announcing new financial products. Examples are livestock loans, term loans, direct producers' storage loans, pasture conversion loans, resource improvement loans, instalment sale financing products, loans for the electrification of fences and multi-risk insurance-based products.

As part of an attempt to establish greater financing capacity and to structure balance sheets better, some agribusinesses are currently in the process of or considering selling their finance book to financiers.

### Debtor days

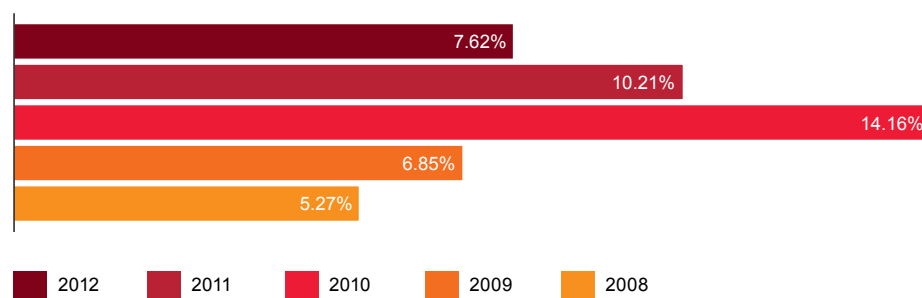


As evident in the graph, debtor days have steadily been increasing since 2008, indicating that producers are experiencing challenges with cash flow. Two of the main reasons for outstanding debt, provided by CEOs, are high input costs and lower product prices.

### 3.7.2 Carry-over debt as a percentage of debtors

This ratio indicates the extent to which producers were unable to settle their input costs out of the returns on their harvests.

### Carry-over debt



There has been a decline in carry-over debt as percentage of debtors from 2011 to 2012. This decline can be ascribed to better agricultural circumstances as well as better recovery by producers.

### 3.7.2 Carry-over debt

Carry-over debt represents the production loans which have not yet been settled at the end of the season. It also includes special arrangements made with producers to settle debt over a longer term.

#### Debtors

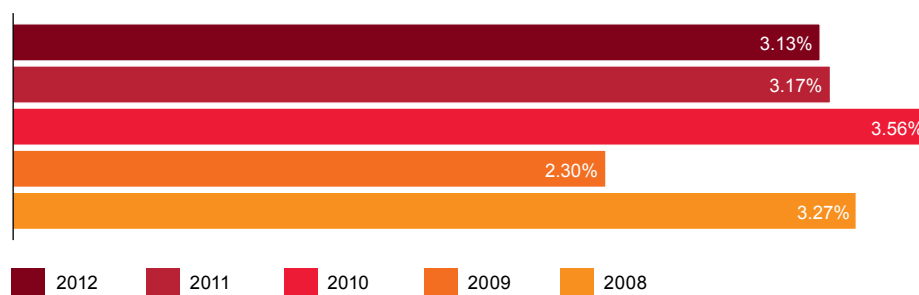
This is the gross monthly average debtors as defined in 3.7.1 above.

### 3.7.3 Provision for impairment of debtors as a percentage of total debtors

This measurement indicates to which extent the management of agribusinesses doubts the recoverability of debtors. Carry-over debt is the determining factor here. As mentioned above, carry-over debt has reduced and consequently also provision for the impairment of debtors.

Bad debt is directly related to the provision for impairment. This provision should thus be seen as the forerunner of bad debt. Agricultural conditions over the past few years have compelled the management of agribusinesses to operate more conservatively.

#### Provision for impairment of debtors

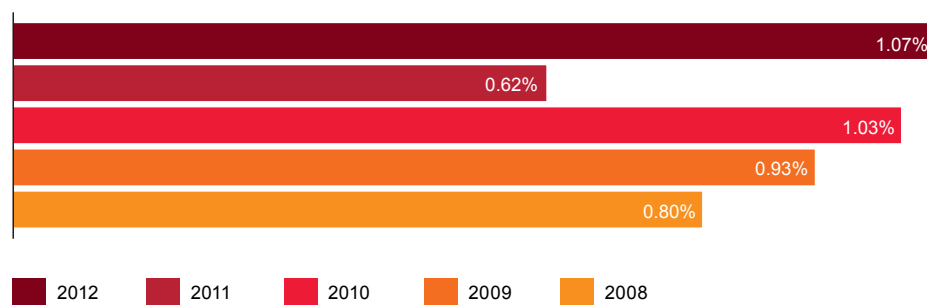


The provision for impairment of debtors as percentage of total debtors has remained relatively constant from 2011 to 2012. This is an indication of good management of debtors.

### 3.7.4 Bad debts as a percentage of average debtors

Bad debts have increased from 2011 to 2012, but remained roughly on the same level over the past number of years.

#### Bad debts



### 3.7.3 Provision for impairment of debtors

This is the amount set aside for impairment, as calculated on the participants' balance sheet dates.

#### Debtors

Unlike the definition in 3.7.1, the provision is based on debtors as indicated on balance sheet dates.

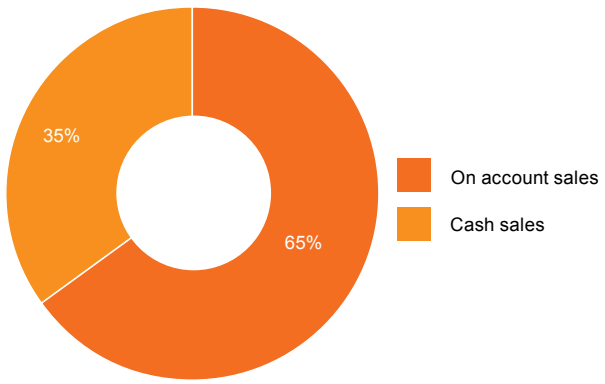
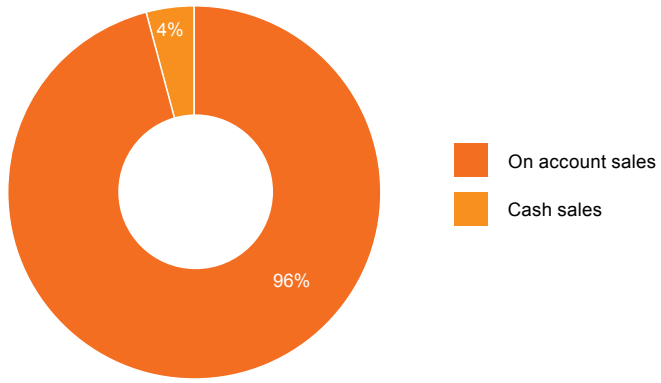




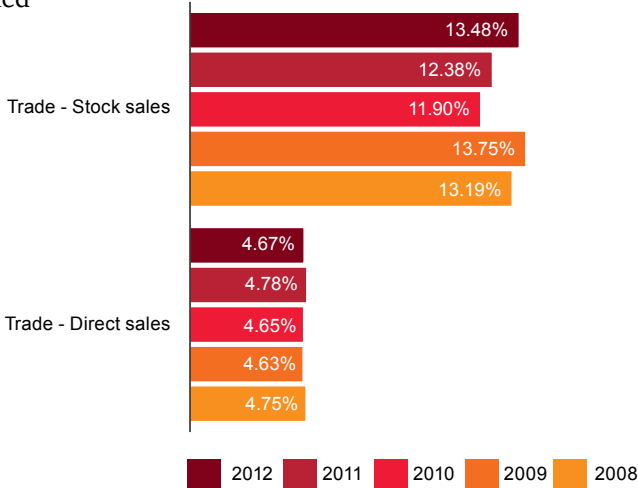
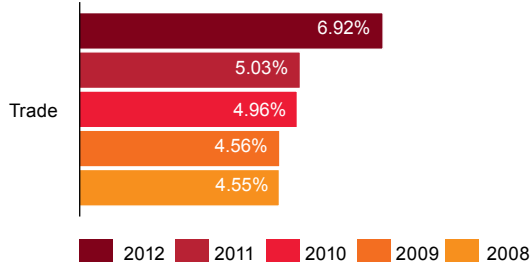




## 4. Trade division overview

The trade divisions of agribusinesses are of key importance in building client loyalty and sustainable relationships. If the trade division is doing well, it is also a good indication of the general health of the business. Because of the importance of this business area, a separate section in the publication is now dedicated to it. This section provides an overview of trade divisions' performance for 2012. In years to come this section of the report will grow as we begin to compare data from different years. The current section sets the baseline against which data for consecutive years can be benchmarked.

Trade related measurement	Comments	Graphs
<b>Stock sales and direct sales</b>	A substantial percentage of sales are on account (65% for stock sales and 96% for direct sales commission). These sales take longer to recover on the one side, but on the other side customers often tend to buy more when they have the facility of an account that they can settle over a period of time	<p><b>Stock sales</b></p>  <p>2012</p> <p><b>Direct sales</b></p>  <p>2012</p>
<b>Average sales per square meter</b>	The average sales per square meter for 2012 were R7,690. Sales for individual responses range between roughly R2,000 and R35,000 per square meter.	

Trade related measurement	Comments	Graphs																									
<b>Average Rand sales per invoice</b>	The average Rand sales per invoice were R1,029 for sales on account and R357 for sales in cash.	<b>Average Rand sales per invoice</b>  <table><tr><th>Sales Type</th><th>Average Rand sales per invoice</th></tr><tr><td>Account sales</td><td>1,029</td></tr><tr><td>Cash sales</td><td>357</td></tr></table>	Sales Type	Average Rand sales per invoice	Account sales	1,029	Cash sales	357																			
Sales Type	Average Rand sales per invoice																										
Account sales	1,029																										
Cash sales	357																										
<b>Invoices printed</b>	<p>On average 927,881 invoices were printed for cash sales and 570,284 for account sales. Invoices for cash sales are substantially more because these are often smaller amounts that customers spend on an ad hoc basis.</p> <p>This is a good indicator of the average quantity of customers entering the trading branches during the year.</p>	<b>Total invoices printed</b>  <table><tr><th>Sales Type</th><th>Total invoices printed</th></tr><tr><td>Account sales</td><td>570,284</td></tr><tr><td>Cash sales</td><td>927,881</td></tr></table>	Sales Type	Total invoices printed	Account sales	570,284	Cash sales	927,881																			
Sales Type	Total invoices printed																										
Account sales	570,284																										
Cash sales	927,881																										
<b>Average turnover per branch</b>	The average turnover per trade division branch for 2012 is R28 million. This ranges between a minimum of R15 million and a maximum of R67 million.																										
<b>Gross profit</b>	The gross profit percentages remained reasonably stable over the past number of years.	 <table><tr><th>Sales Type</th><th>Year</th><th>Gross Profit Percentage</th></tr><tr><td rowspan="5">Trade - Stock sales</td><td>2012</td><td>13.48%</td></tr><tr><td>2011</td><td>12.38%</td></tr><tr><td>2010</td><td>11.90%</td></tr><tr><td>2009</td><td>13.75%</td></tr><tr><td>2008</td><td>13.19%</td></tr><tr><td rowspan="5">Trade - Direct sales</td><td>2012</td><td>4.67%</td></tr><tr><td>2011</td><td>4.78%</td></tr><tr><td>2010</td><td>4.65%</td></tr><tr><td>2009</td><td>4.63%</td></tr><tr><td>2008</td><td>4.75%</td></tr></table>	Sales Type	Year	Gross Profit Percentage	Trade - Stock sales	2012	13.48%	2011	12.38%	2010	11.90%	2009	13.75%	2008	13.19%	Trade - Direct sales	2012	4.67%	2011	4.78%	2010	4.65%	2009	4.63%	2008	4.75%
Sales Type	Year	Gross Profit Percentage																									
Trade - Stock sales	2012	13.48%																									
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	2010	11.90%																									
	2009	13.75%																									
	2008	13.19%																									
Trade - Direct sales	2012	4.67%																									
	2011	4.78%																									
	2010	4.65%																									
	2009	4.63%																									
	2008	4.75%																									
<b>Personnel cost</b>	Personnel cost showed an increase from 2011 to 2012.	 <table><tr><th>Year</th><th>Personnel Cost Percentage</th></tr><tr><td>2012</td><td>6.92%</td></tr><tr><td>2011</td><td>5.03%</td></tr><tr><td>2010</td><td>4.96%</td></tr><tr><td>2009</td><td>4.56%</td></tr><tr><td>2008</td><td>4.55%</td></tr></table>	Year	Personnel Cost Percentage	2012	6.92%	2011	5.03%	2010	4.96%	2009	4.56%	2008	4.55%													
Year	Personnel Cost Percentage																										
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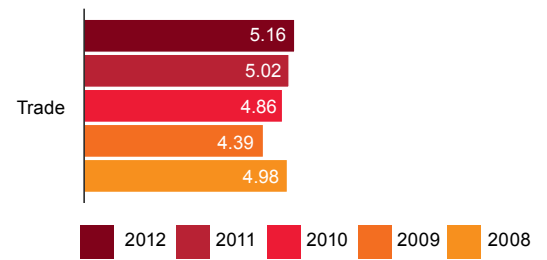
## Trade related measurement

## Comments

## Graphs

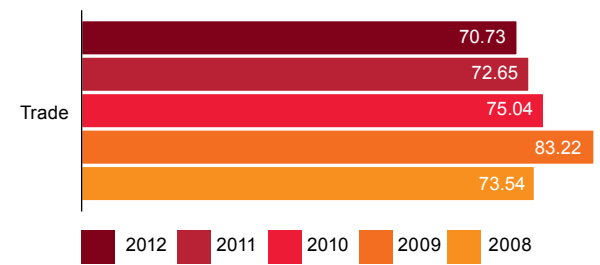
### Stock turnover rate

Refer to 3.6.1



### Stock days

Refer 3.6.2





# 5. Grain silos

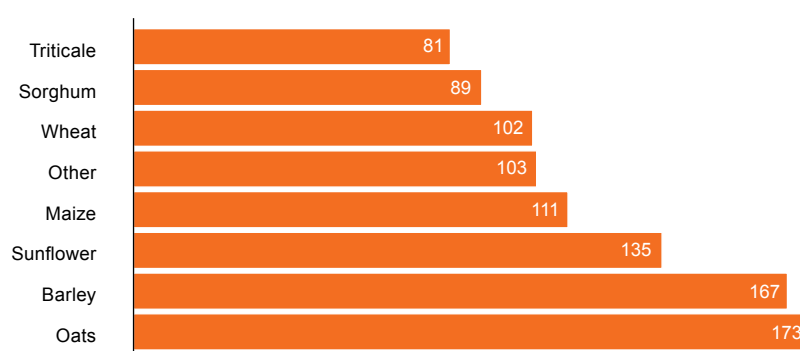
## 5.1 An overview

Grain silos are utilised for the mass storage of various grain types including barley, grain sorghum, oats, wheat, triticale, maize, sunflowers and other. Grain silos are situated throughout South Africa with a high concentration in the North West Province. Agribusinesses indicated that the average age of grain silos is 38 years. The expected utility duration (lifetime) of silos is 42 years and 74% of the average total tonnes produced in the traditional service area of agribusinesses are currently supplied to them.

## 5.2 Number of days that grain is stored in silos

As illustrated in the graph below, participants provided feedback on the average number of days that grain is stored in silos. The average number of days that grain is stored in silos for the different commodities range from 81 for triticale to 173 for oats.

Average days – grain in silos



2012

## 5.3 Silo utilisation

Competition in the grain market, specifically in terms of silo utilisation, increases every year and margins are under pressure. Participants indicated that silo's are being utilised at 76% on average throughout the harvesting season.

Silo utilisation



2012

Various projects relating to grain handling are currently enjoying attention, such as smoking methods, better stock control and the down-management of the transport cost account on grain from road silos. The price risk management service provided by grain marketing divisions serves as an incentive with grain handling and helps producers in their decision-making.

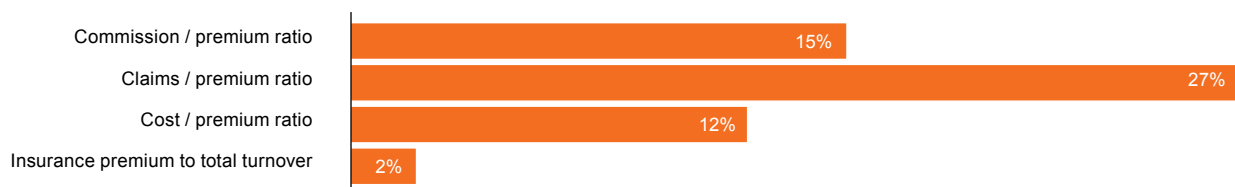




## 6. Insurance

Respondents were prompted to provide insight into the insurance services that an agribusiness provides to its customers. This serves as a good benchmark for future measurements. The main ratios are illustrated here:

### Insurance – summary



2012



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