The South African Wine Industry

Insights Survey 2010

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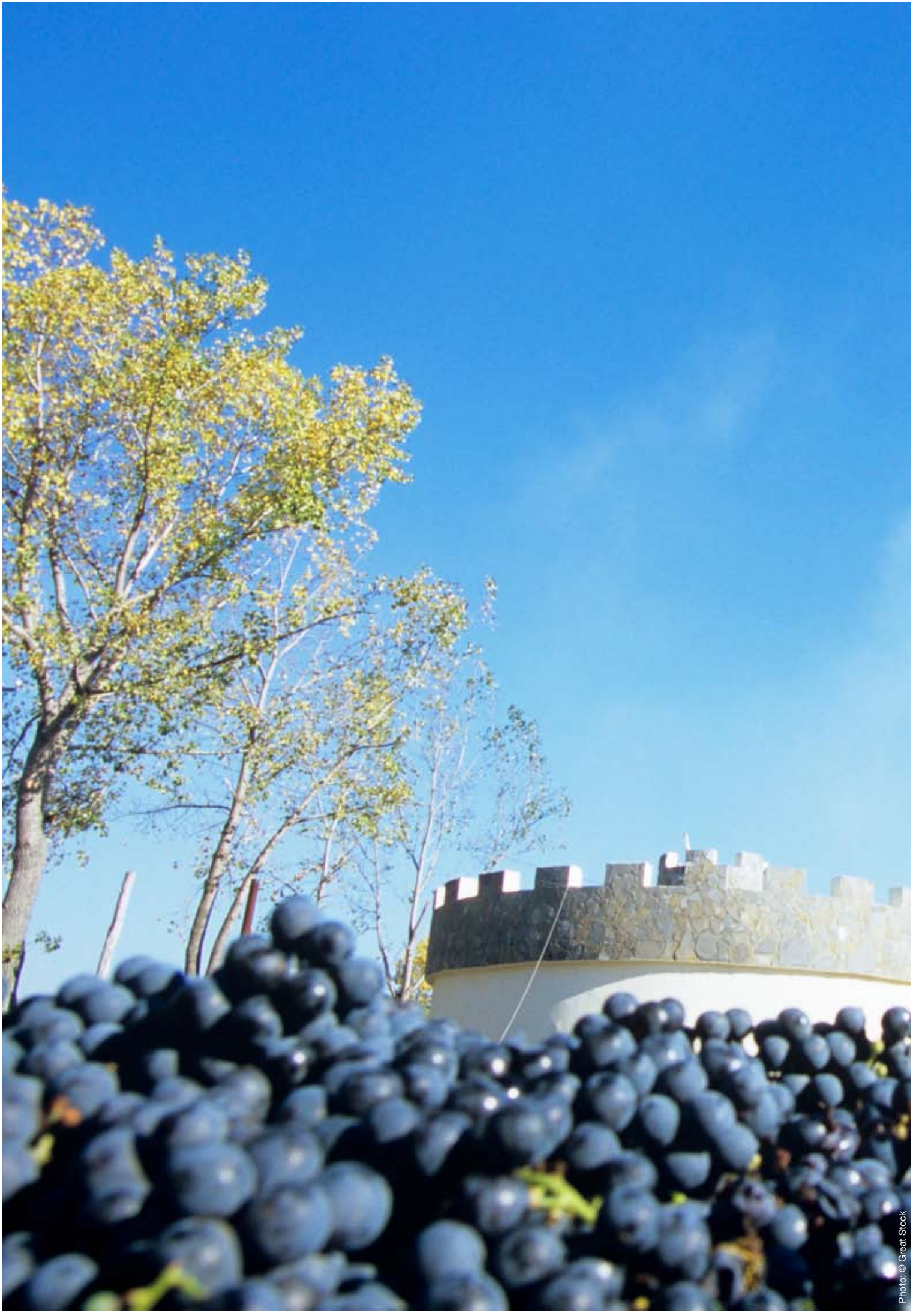
Contents



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1. Foreword

We are proud to present the results of our South African Wine Industry Insights Survey 2010, which explores issues facing local wine businesses and finds out how these businesses remain relevant and successful in these very challenging times.

In this year's survey we focused on three specific performance areas in the industry, namely:

- Financial overview of producer cellars – 2009 harvest;
- Supply chain activities; and
- Human resource management.

In general the participants in the survey are a combination of larger and smaller producer and private cellars from all the officially demarcated wine regions in South Africa. However, the section focusing on the financial overview of producer cellars, only deals with the producer cellar component of the industry (those cellars that traditionally process grapes from a certain group of producers into wine and market it), whilst the other two sections of the survey deal with the industry as a whole.

Financial overview of producer cellars – 2009 harvest

This is the seventh survey on this section of the industry and this year's report covers the financial results of the 2009 wine-grape harvest, with the results of the four previous harvesting years being presented as comparative figures.

The results of the survey presented in this report reveal some interesting findings on this segment of the industry. These include averages for certain key performance indicators in the following areas:

- production;
- profitability; and
- balance sheet structuring.

The high rate of annual participation of cellars in this section of the survey makes the results both highly representative and applicable.

Supply chain activities

This year's survey includes for the first time some of the wine supply chain activities (mostly outbound). PricewaterhouseCoopers is working in collaboration with Stellenbosch University and the CSIR in adding this new perspective.

As a first step, an initial exploratory assessment was done to gain a better understanding of what the current state of supply chain performance measurement is for the cellars' supply chains. The benchmarking approach followed intends to stay with standard definitions and reference frameworks in order to streamline future benchmarking and improvement through best practice interventions. This initial assessment could serve as a basis for proper quantitative benchmarking in the years coming.

Human resource management

Also included for the first time in this year's survey is a section on human resource management practices in which the survey results of the participating cellar respondents are presented. The 2010 focus has been on the human resource practices within the various cellars as well as the performance management culture they demonstrate.

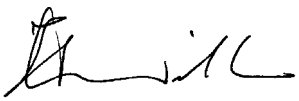
The survey further aimed at obtaining a high level view rather than an in-depth perspective on these two key areas. Future surveys will expand on these areas and might include further focus areas.

Since our previous survey South African businesses again saw some changes in the regulatory environment. A number of these might have a direct impact on wine businesses and should be considered by role players. Although we saw the release of the draft regulations to the new Companies Act (No 71 of 2008) late in 2009, the date at which the act will become effective has still not been determined, the Cooperatives Act (No 14 of 2005) is currently under revision and the Code of Governance Principles for South Africa – 2009 and the Report on Governance for South Africa – 2009, together referred to as King III, was released on 1 September 2009.

A significant number of PricewaterhouseCoopers' clients is involved in the wine industry. Our involvement in and appreciation of this segment of our economy, has over the years resulted in the development of experienced and knowledgeable professionals who understand the specific challenges the industry faces. Our aim is to make a meaningful contribution to the industry with projects like this survey and work alongside industry leaders to provide advice and seek solutions on matters like business opportunities, risk, growth and compliance.

A word of thanks to all the wine cellars that participated in the survey as well as all the representatives of the various organisations and institutions in the industry for their time, dedication and support, which made this report possible.

We trust you will find this issue of the PricewaterhouseCoopers publication: The South African Wine Industry Insights Survey 2010 thought-provoking and beneficial to your business.



Frans Weilbach
Director and Specialist Partner: Wine Industry
PricewaterhouseCoopers Inc.
Stellenbosch
August 2010

2. Executive summary

Background

This survey focuses on key performance indicators and issues affecting cellars in the South African wine industry. The survey participants are a combination of both producer and private cellars and the information was obtained from questionnaires completed by designated individuals within the organisations.

Main findings

The following summary of main findings is based on data received from the various cellars and is presented separately for each of the three sections. The data was processed by PricewaterhouseCoopers, as well as Stellenbosch University and the CSIR with regards to the section on supply chain activities.

Financial overview of producer cellars – 2009 harvest

Many of the findings of the survey were not necessarily unexpected, whilst one or two new issues surfaced after observing the results. On the production side the results clearly confirmed the stabilisation of the red/white cultivar mix with red now representing ±33% of the national wine-grape harvest for a number of years. In line with the South African industry as a whole, the participants also recorded a smaller crop compared to 2008 putting additional pressure on cost per ton in almost all the expense categories.

Despite the economic downturn, average wine prices increased since 2007 with the supply and demand for red wine becoming more synchronised. This is also observable in the relative decrease in red wine inventory levels.

The survey again confirmed that the participating producer cellars market the major portion of their produce locally for consumption or to be exported by the local buyers. With the relative strength of the Rand, it is not expected that many will embark on direct export programmes in the near future.

A very positive finding was that 2009 was the first harvest since 2004 where the average revenue per hectare exceeded the average primary production costs per hectare, for both red and white cultivars.

From a balance sheet structuring perspective, the average equity ratios of the participating producer cellars remained constant at around 30%. This is certainly not at a desirable level, but challenges to the industry over the past number of years presented little opportunity for aggressive retention of surpluses.

Supply chain activities

This benchmarking study aimed to firstly gain some insight into the context and complexity of the wine cellars' supply chains. Secondly, an assessment was made of the perceived performance and which recognised metrics were used for performance management. Ultimately benchmarking should be expanded to later make comparisons with industry leaders.

The indicators used to assess supply chain complexity gave some insight into the reality that the wine cellars face. A distinction should be made between the wine cellars primarily supplying the local market (local focus) and those also exporting a substantial percentage of their wines (export focus). The complexity of local-focused wine cellars' outbound supply chains is noticeably less than that of the export-focused cellars. Many of the local-focused wine cellars supply a substantial percentage of their wine in bulk to few large corporations (reducing their outbound supply chain scope and complexity but also margins). However, the export-focused wine cellars' supply chains are fairly complex and require specific capabilities to stand up to the fierce competition in these markets.

Although some of the wine cellars have started to follow a supply chain approach in managing their business, it seems that they are still in an early stage of adoption. This becomes evident in the outcome of the supply chain performance assessment. The best practice supply chain performance metrics related to demand forecasting, service (reliability & responsiveness),

cost and inventory are not fully utilised to assess their supply chain's health. However, it appears that the export-focused wine cellars tend to apply more of these best practice metric categories for supply chain performance management. Close cooperation between wine producers and cellar might exist due to the established business relationships. Nevertheless it seems that not enough information regarding supply chain performance is made available through best practice metrics or managed actively. The competitiveness of the SA wine industry is dependent on timely information made available throughout the supply chain from the markets served to the producers of grapes.

Human resource management

The focus of this section of the 2010 insights survey has been on the human resource (HR) management practices within the various cellars as well as the performance management culture they demonstrate. Key observations were:

- More than half of cellars have no dedicated HR capacity;
- Cellars have adequate recruitment and retention practices;
- Cellars have appropriate skills development plans;
- Employees have clear job descriptions and are recognised for their contribution;
- Cellars conduct fair performance evaluations using effective methods; and
- Employees receive fair and competitive compensation and personal milestones are recognised.
- Areas needing improvement are:
  - Communication between employee and employer; and
  - Training and skills development.

Conclusion

From the summaries of the main findings in all three sections covered in this report, it is clear that there are a number of issues that require special and maybe urgent consideration and attention by the role players in the industry. Guidance on actions to be considered on how to address some of the issues can be found in the section, "Recommended roadmap" on page 40.

3. Financial overview of produder cellars - 2009 harvest

3.1 Introduction

The South African wine industry, being one of the ten largest in the world, comprises of about 3,500 primary producers, 600 wine cellars and 100 bulk wine buyers. Although the wine-growing area stretches as far as the Orange River in the Northern Cape, it is predominately located in the Western Cape, towards the Olifants River in the north-west and the Karoo in the east.

The wine industry is generally acknowledged for the significant contribution it makes towards the Western Cape economy, especially when the linkage to the rest of the value chain is taken into account. The primary side of the chain is however more susceptible to adverse economic conditions and some of these businesses are experiencing a so called “price squeeze”.

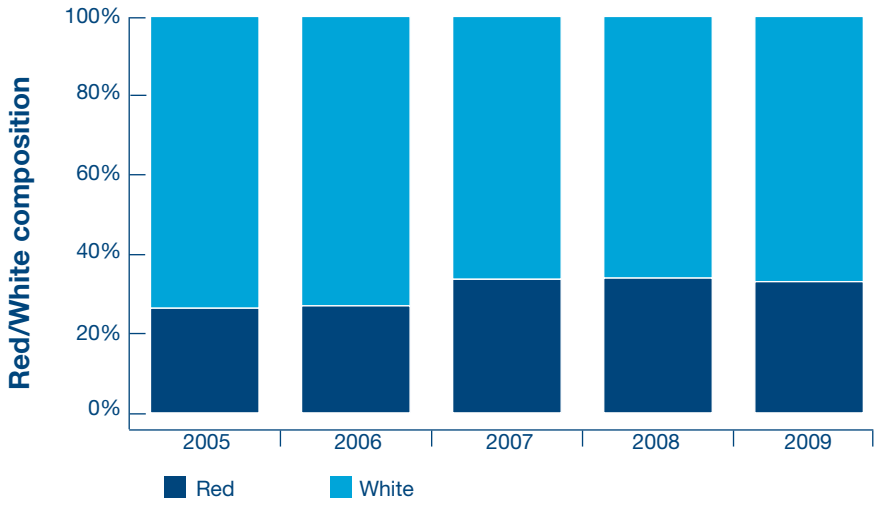
Producer cellars have played a large and important role in the development of the wine industry and even though this group represents less than one tenth of the number of cellars, they are responsible for the processing of more than three-quarters of the annual South African wine-grape harvest, this year totalling 1,3 million tons.

The following sections take a more in-depth look at the **production**, **profitability** and balance sheet **structuring** of producer cellars, against the backdrop of the South African wine industry as a whole, also taking into account the effect of the global economy.

3.2 Results/Findings

3.2.1 Production

Average tons pressed per cultivar										
Cultivar	2005 harvest		2006 harvest		2007 harvest		2008 harvest		2009 harvest	
	Tons	%	Tons	%	Tons	%	Tons	%	Tons	%
Total red	**4,190.82**	**26.4**	**4,471.78**	**27.0**	**5,259.79**	**33.7**	**5,562.41**	**34.0**	**4,931.15**	**33.1**
Cabernet Sauvignon	796.00	5.0	962.16	5.8	1,101.74	7.1	1,271.23	7.8	1,056.49	7.1
Cinsaut	371.19	2.3	462.52	2.8	599.59	3.8	532.56	3.3	504.45	3.4
Merlot	602.80	3.8	642.87	3.9	673.04	4.3	711.35	4.3	678.86	4.6
Pinotage	849.13	5.4	785.81	4.7	885.73	5.7	941.98	5.8	788.38	5.3
Ruby Cabernet	511.93	3.2	512.85	3.1	564.26	3.6	616.51	3.8	484.71	3.3
Shiraz	890.37	5.6	859.53	5.2	1,038.90	6.7	1,114.56	6.8	1,059.85	7.1
Port varieties	24.92	0.2	27.40	0.2	15.82	0.1	16.16	0.1	20.38	0.1
Dry red	28.73	0.2	53.81	0.3	158.88	1.0	134.48	0.8	101.42	0.7
Other red	115.75	0.7	164.83	1.0	221.83	1.4	223.57	1.4	236.61	1.6
Total white	**11,676.55**	**73.6**	**12,097.25**	**73.0**	**10,353.63**	**66.3**	**10,797.29**	**66.0**	**9,948.57**	**66.9**
Chardonnay	672.26	4.2	733.74	4.4	925.01	5.9	1,108.86	6.8	1,112.40	7.5
Chenin Blanc	3,634.17	22.9	3,705.52	22.4	3,615.06	23.2	3,725.70	22.8	3,599.46	24.2
Colombar	3,913.27	24.7	3,554.52	21.5	2,932.04	18.8	2,975.36	18.2	2,574.96	17.3
Hanepoot	688.88	4.3	637.49	3.8	620.92	4.0	521.24	3.2	379.03	2.5
Riesling (Cape)	176.68	1.1	198.94	1.2	214.47	1.4	146.16	0.9	143.50	1.0
Sauvignon Blanc	517.27	3.3	537.23	3.2	693.89	4.4	816.95	5.0	814.72	5.5
Port varieties	11.19	0.1	14.93	0.1	4.97	-	4.50	-	7.46	0.1
Dry white	328.32	2.1	306.53	1.9	440.70	2.8	400.71	2.4	247.21	1.7
Other white	1,734.51	10.9	2,408.35	14.5	906.58	5.8	1,097.81	6.7	1,069.84	7.2
Total	**15,867.37**	**100.0**	**16,569.03**	**100.0**	**15,613.42**	**100.0**	**16,359.70**	**100.0**	**14,879.72**	**100.0**



During the past decade there was a significant swing towards red wine production in the South African wine industry, increasing from 19% in 2003 to 33% in 2009. The fastest growing red cultivars were Cabernet Sauvignon and Shiraz for which production doubled since 2003.

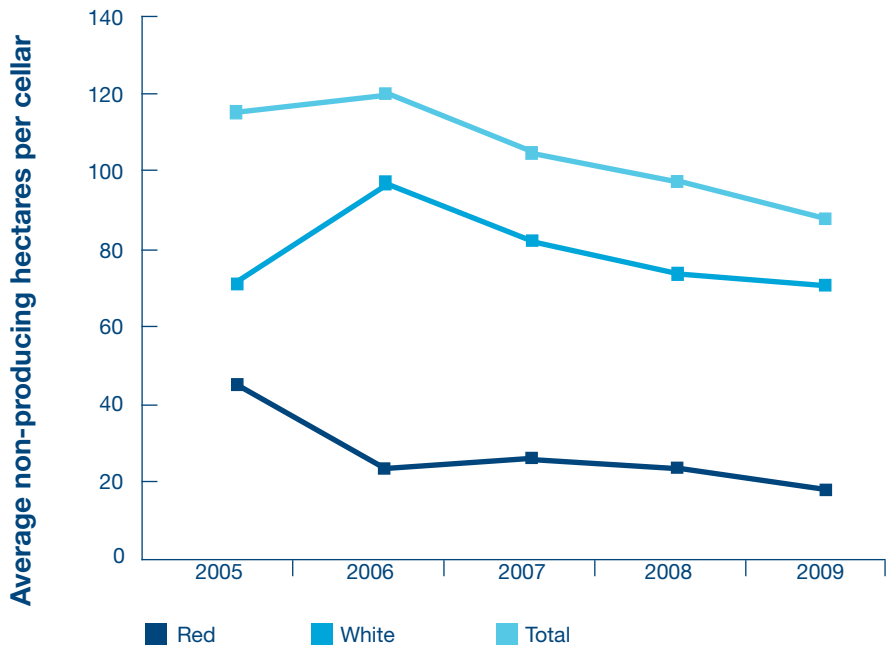
Since 2007 the red wine production seems to have stabilised at a third of total production. White wines gained momentum due to increasing white wine prices and red wine prices being under pressure due to a surplus inventory situation. Sauvignon Blanc showed the fastest growth amongst white varieties, most notably since 2007 and more than doubling since 2003.

The national 2009 harvest is down from the record 2008 level, with the comparative participating producer cellars also showing a 3% decrease in total tons pressed. Market results currently indicate a further decrease in 2010 of more than 8% of the total harvest as a result of various adverse weather conditions affecting the 2010 crop.

3.2 Results/Findings

3.2.1 Production (continued)

Average producing hectares per cultivar										
Cultivar	2005 harvest		2006 harvest		2007 harvest		2008 harvest		2009 harvest	
	Ha	%	Ha	%	Ha	%	Ha	%	Ha	%
Total red	**425.86**	**31.7**	**434.93**	**32.2**	**454.64**	**40.9**	**473.55**	**40.0**	**443.68**	**41.5**
Cabernet Sauvignon	108.56	8.1	120.62	8.9	126.64	11.4	137.90	11.7	124.85	11.7
Cinsaut	36.28	2.7	39.37	2.9	41.66	3.7	38.36	3.2	37.14	3.5
Merlot	61.52	4.6	59.53	4.4	57.51	5.2	60.09	5.1	55.10	5.2
Pinotage	76.95	5.7	73.78	5.5	75.62	6.8	75.83	6.4	68.45	6.4
Ruby Cabernet	36.10	2.7	34.11	2.5	38.21	3.4	35.73	3.0	33.17	3.1
Shiraz	86.92	6.5	83.56	6.2	85.85	7.7	93.64	7.9	93.30	8.7
Port varieties	3.16	0.2	3.12	0.2	2.29	0.2	1.96	0.2	2.23	0.2
Dry red	2.60	0.2	4.36	0.3	8.53	0.8	9.48	0.8	8.04	0.8
Ander rooi/Other red	13.77	1.0	16.48	1.2	18.32	1.6	20.56	1.7	21.39	2.0
Total white	**917.21**	**68.3**	**913.93**	**67.8**	**657.57**	**59.1**	**709.41**	**60.0**	**625.87**	**58.5**
Chardonnay	66.04	4.9	74.81	5.5	90.75	8.2	104.00	8.8	94.54	8.8
Chenin Blanc	256.32	19.1	255.97	19.0	267.40	24.0	272.99	23.1	240.42	22.5
Colombar	172.26	12.8	156.59	11.6	129.31	11.6	143.26	12.1	112.61	10.5
Hanepoot	41.07	3.1	34.27	2.5	31.83	2.9	26.79	2.3	19.67	1.8
Riesling (Cape)	15.33	1.1	14.62	1.1	16.17	1.5	14.71	1.2	11.92	1.1
Sauvignon Blanc	50.07	3.7	56.95	4.2	59.18	5.3	73.33	6.2	71.87	6.7
Port varieties	0.74	0.1	0.86	0.1	0.31	-	0.36	-	0.56	0.1
Dry white	23.99	1.8	17.65	1.3	12.75	1.1	19.11	1.6	15.08	1.4
Other white	291.38	21.7	302.21	22.4	49.87	4.5	54.86	4.6	59.21	5.5
Total	**1,343.08**	**100.0**	**1,348.86**	**100.0**	**1,112.20**	**100.0**	**1,182.96**	**100.0**	**1,069.55**	**100.0**



Major cultivars have not changed much since 2003 with Cabernet Sauvignon, Chenin Blanc and Colombar remaining the top three most planted cultivars. Other cultivars like Shiraz, Chardonnay and Sauvignon Blanc have increased significantly in popularity since 2003 and make up the following three.

Non-producing hectares showed a steady decline since 2005 with specifically red varieties not in production decreasing by more than 60%. One of the reasons could be the price squeeze leading to plantings being put on hold and producers not replacing vineyards as often as previously. It also indicates the reactive nature of the industry, reacting to the surplus of red wine and resulting in a decrease in the red wine prices at that stage.

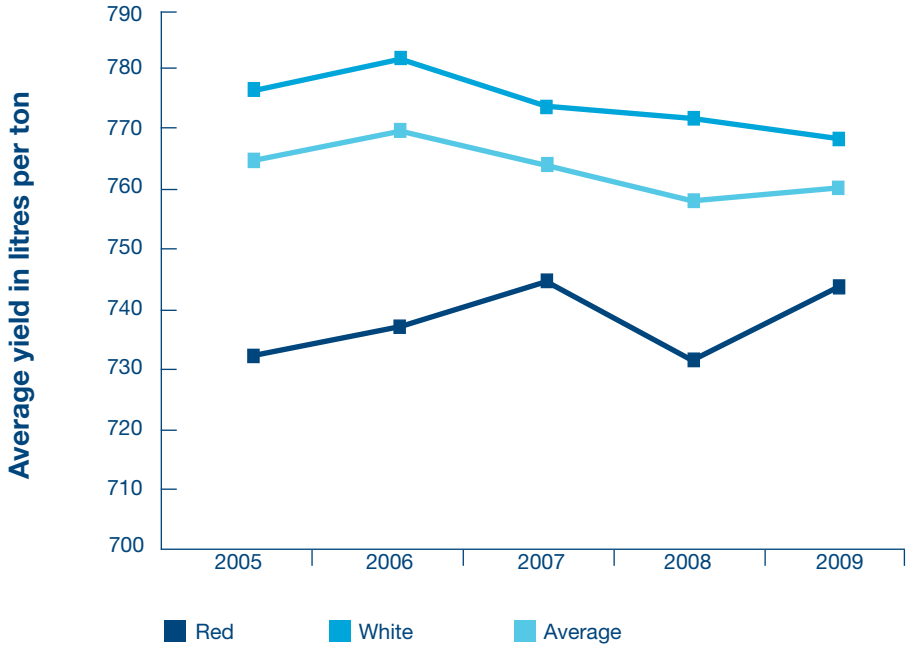
This is in line with the trends in the South African wine industry as a whole and also globally where most commentators and statistics indicate a stabilisation in plantings.

Going forward it seems that producers are again focusing on higher yielding white cultivars like Chenin Blanc and Colombar in order to increase profitability. Producers should however also keep in mind the age of their current vineyards in the light of the apparent adjusted replacement schedule.

3.2 Results/Findings

3.2.1 Production (continued)

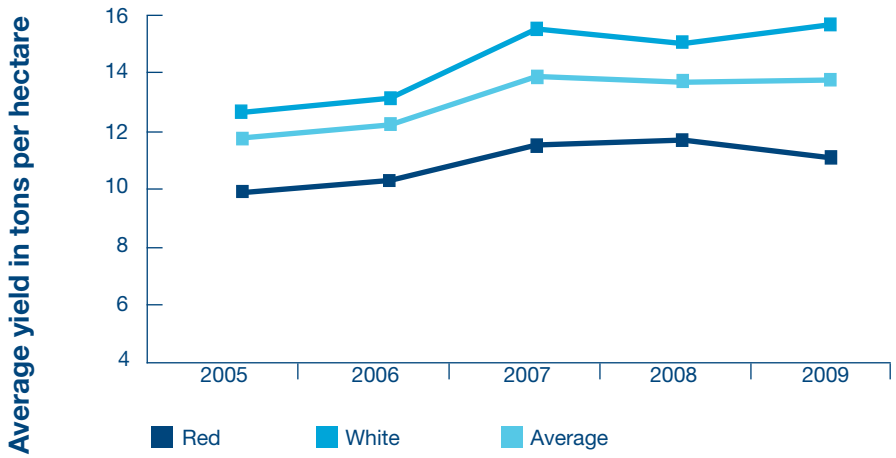
Product	Average litres produced per product composition									
	2005 harvest		2006 harvest		2007 harvest		2008 harvest		2009 harvest	
	L	%	L	%	L	%	L	%	L	%
Drinkwine	8,129,519	66.8	8,196,181	64.0	8,673,993	72.5	8,998,674	72.3	8,973,395	79.1
Rebate wine	1,363,274	11.2	1,326,223	10.4	1,510,016	12.6	1,350,067	10.9	882,026	7.8
Distilling wine	1,130,852	9.3	1,357,964	10.6	1,059,439	8.9	1,133,637	9.1	815,496	7.2
Juice	1,493,221	12.3	1,838,084	14.4	604,130	5.0	772,752	6.2	553,240	4.9
Other	60,335	0.5	81,169	0.6	120,630	1.0	184,065	1.5	123,293	1.1
Total	**12,177,201**	**100.0**	**12,799,621**	**100.0**	**11,968,208**	**100.0**	**12,439,196**	**100.0**	**11,347,450**	**100.0**



A lot of emphasis has been put on key performance indicators like the percentage drinkwine produced, the yield in litres per ton and the yield in tons per hectare as key drivers of profitability during the past number years.

Some fluctuations in the composition of production did occur from year to year due to, for instance, a larger demand for rebate wine. Cellars often attempt to balance the lower price and faster payment of these products with the relatively higher prices normally associated with drinkwine. Overall however, there was an increase of about 9% in the share of drinkwine since 2003.

The average yield per ton of 763 remained between 759 and 772 since 2003 and is in line with the national average.



Although the average yield in tons per hectare for red cultivars has declined in 2009, the producer cellars were able to maintain the increased levels noted in 2007 and 2008 on average.

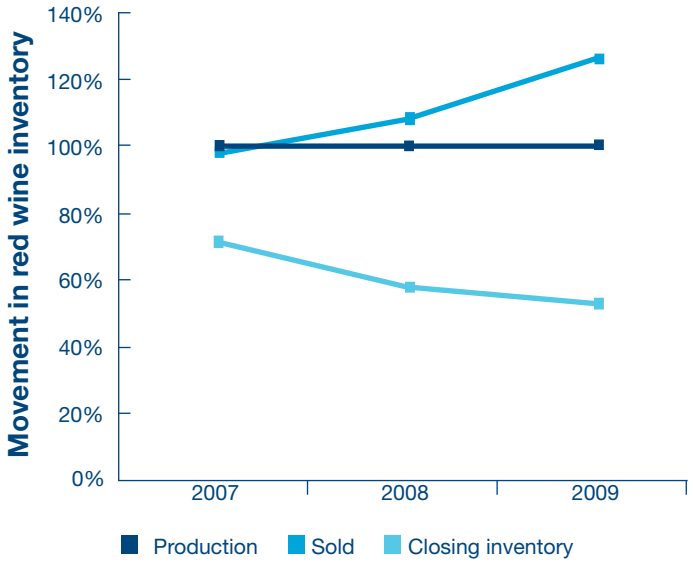
The yield in tons per hectare continues to be a significant key performance indicator. This is evident from the higher revenue per hectare achieved on average by white cultivars compared to red cultivars.

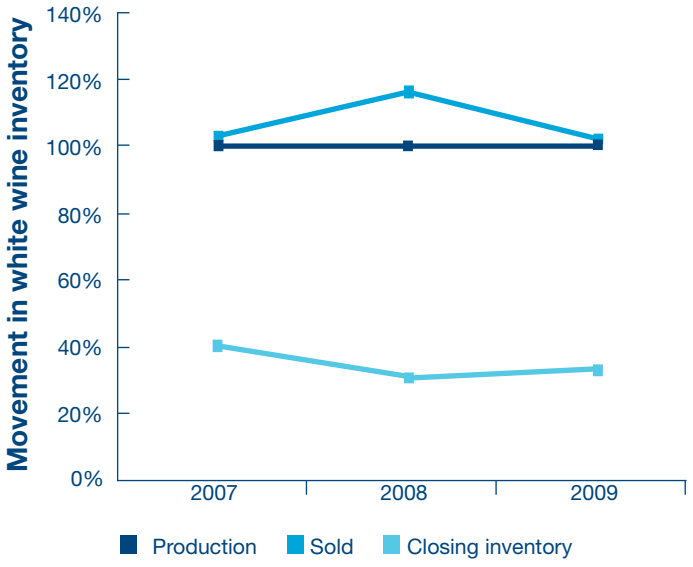
This is also evident when comparing different regions where the revenue per hectare for producers often differs significantly due to inherent different yields in tons per hectare achievable. Producers need to perform a delicate balancing act between yield in tons per hectare and quality to achieve the desired target income to make farming viable.

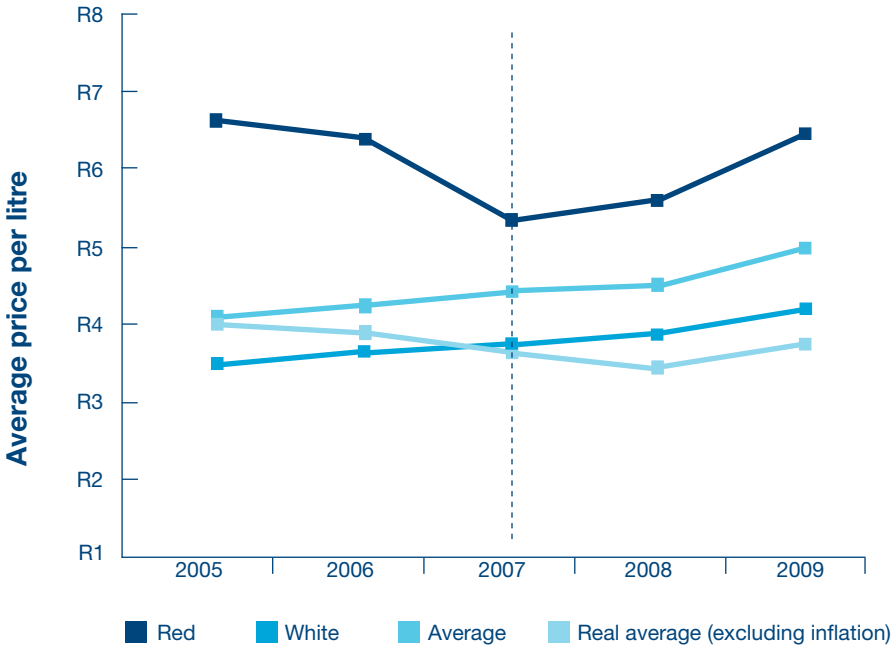
3.2 Results/Findings

3.2.2 Profitability

Income statement (Average per cellar)										
Wine and related products	2005		2006		2007		2008		2009	
	R	R/ton	R	R/ton	R	R/ton	R	R/ton	R	R/ton
Sales	55,386,034		47,237,918		46,544,207		55,537,348		57,981,093	
Opening inventories	23,723,723		21,124,537		18,931,555		20,743,837		19,841,361	
Closing inventories	22,999,744		20,832,405		20,670,808		19,788,300		21,657,617	
Net profit before tax	564,669	35.59	146,811	8.86	747,412	47.87	1,172,439	71.67	1,872,263	125.83
Tax	112,405	7.08	56,668	3.42	269,584	17.27	273,784	16.74	664,018	44.63
Net profit for the year	452,264	28.50	82,168	4.96	477,828	30.60	898,655	54.93	1,327,267	89.20







The surplus inventory situation regarding red wine seems to have come to an end with sales/demand outgrowing production/supply and inventory levels decreasing since 2007.

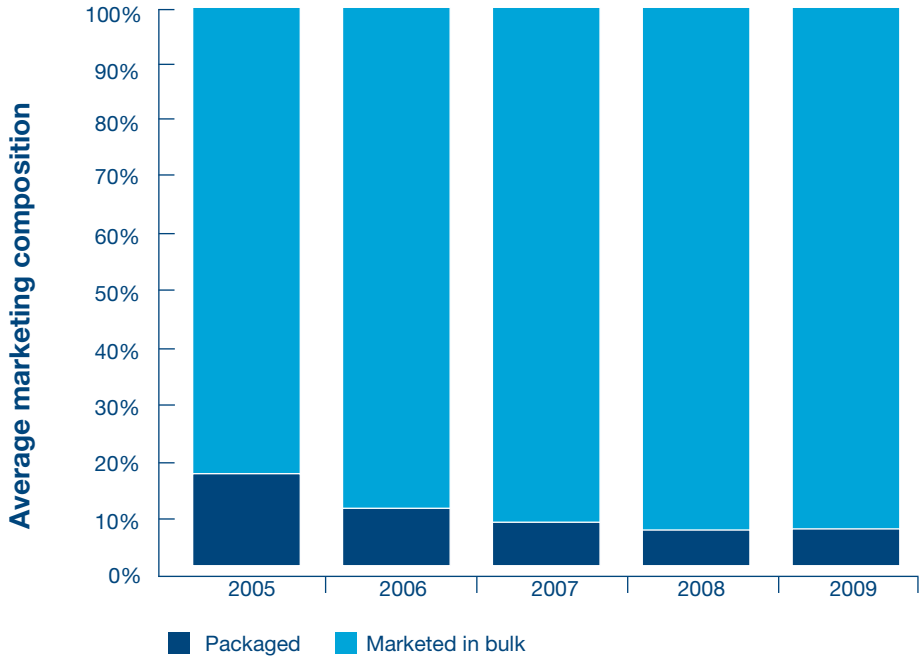
Demand for white wine continued to be stable with a slight decrease from 2008 to 2009.

Overall it had a positive effect on the average price per litre at which wine was sold since 2007. Despite the economic downturn an upward trend is noticed, with wine on average selling at R4.54 per litre in 2009, R0.58 more than in 2008.

An encouraging observation is that for the first time since 2004, an increase in the real selling price for wine (average price, excluding the effect of inflation), is noted.

3.2 Results/Findings

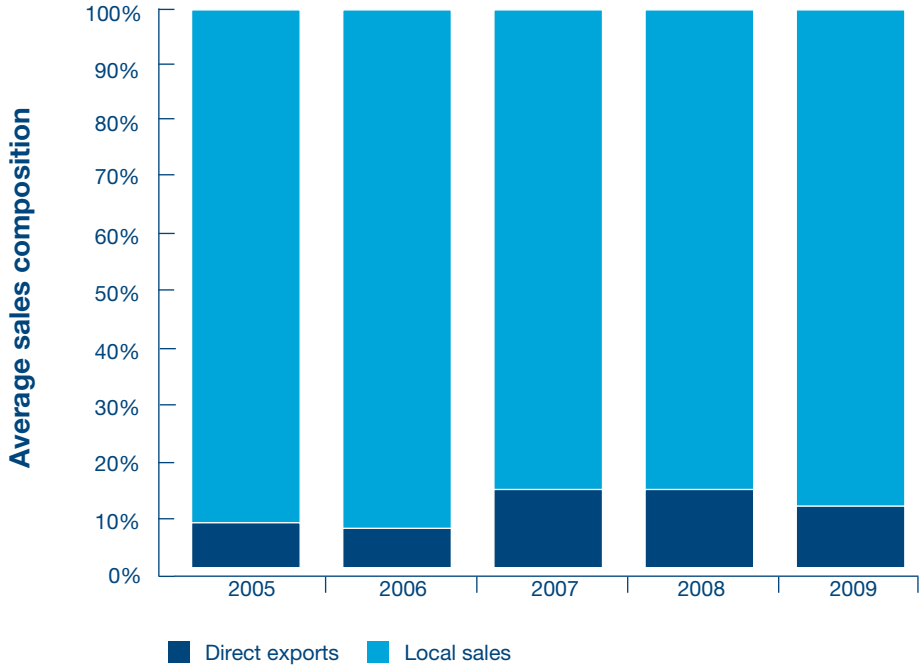
3.2.2 Profitability (continued)



In previous surveys cellars indicated that the strength they admire most from their leading competitors was their branding. However, although more than 50% of producer cellars regard themselves as self-marketers, the percentage of their wine marketed in bulk continues to increase. Packaged wine sold decreased from 17% of the total sales in 2003 to 6% in 2009.

As indicated, there are more than 600 wine cellars in South Africa, giving rise to even more brands. Cellars are therefore understandably careful when considering the capital layout required to create an own brand. On the other hand cellars run the risk of aligning themselves mainly on the primary side of the value chain. Without direct access to the customers and brands they are most probably rather "price takers" than "price makers".

Current trends already indicate that the primary side of the value chain are experiencing a so called "price squeeze", because of increasing costs and an inability to pass the cost on to the consumer due to being "price takers". Cellars should also take note that research indicates that as an economy grows, the primary side becomes smaller while businesses higher up in the value chain, with access to customers and brands, continue to grow.



Exports of South African wines have increased significantly over the past two decades to about 50% of total production in 2009. This was partly necessitated by excess supply over local demand as well as a weakening Rand improving global competitiveness.

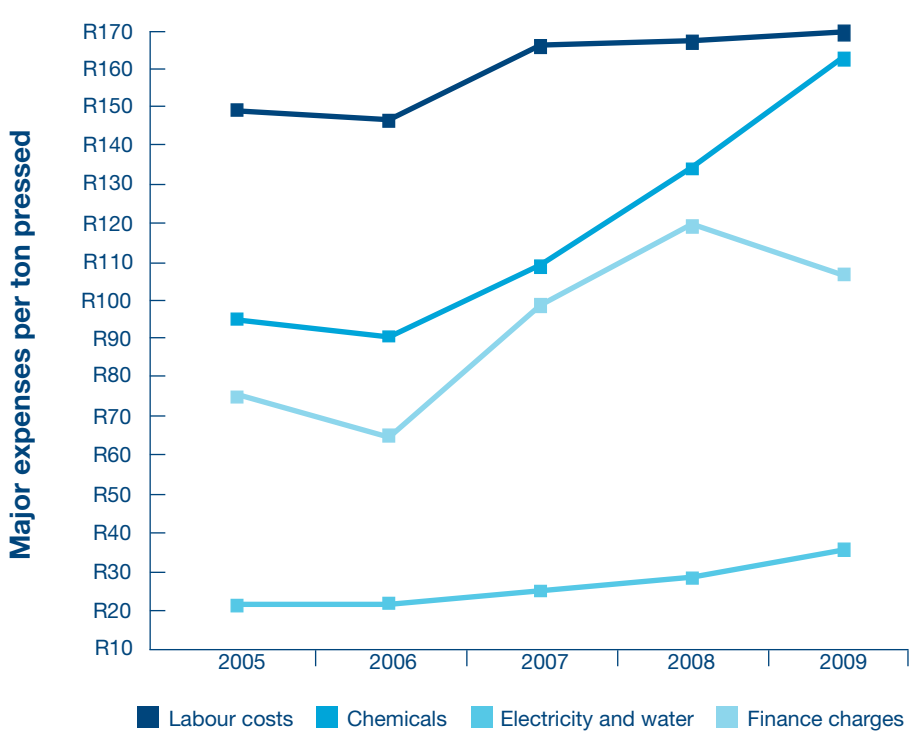
The rand weakened from about R2/$ in 1988 to almost R14/$ in 2001. It then strengthened to about R6/$ in 2005 before weakening towards R12/$ in 2008. Since 2008 it has been strengthening again. Due to its dependency on exports, the exchange rate will remain crucial to the profitability of the wine industry.

In comparison to the national industry, producer cellars export only about 11% of their production directly. Some producer cellars have an interest in export companies, but mostly they sell to bulk wine buyers or wholesalers which export the wine. Even though many producer cellars do not export directly, they will still be influenced by a stronger Rand since a price decrease will most probably be passed on to them.

3.2 Results/Findings

3.2.2 Profitability (continued)

Analysis of expenses attributable to bulk and packaged wine										
Expense	2005		2006		2007		2008		2009	
	Bulk wine	Packaged	Bulk wine	Packaged	Bulk wine	Packaged	Bulk wine	Packaged	Bulk wine	Packaged
	R/ton	R/L	R/ton	R/L	R/ton	R/L	R/ton	R/L	R/ton	R/L
Labour costs										
Permanent	133.45	0.41	127.00	0.87	140.86	0.41	139.56	0.59	160.42	0.70
Temporary	8.85	0.01	13.40	0.02	15.93	0.07	18.03	0.09	17.79	0.15
Insurance	10.60	0.03	8.82	0.06	10.71	0.02	10.58	0.02	13.08	0.03
Marketing and sales expenses	25.75	1.46	17.45	1.89	19.16	1.30	31.86	1.18	27.49	1.48
Bottling and packaging costs	8.20	2.07	1.70	2.95	11.27	2.67	2.03	2.72	4.99	4.26
Chemicals, cleaning and filtration materials	92.38	0.11	88.48	0.14	105.01	0.08	128.18	0.15	154.35	0.16
Distribution costs	16.80	0.54	23.54	0.43	19.26	0.21	24.79	0.23	18.38	0.37
Sundry administrative expenses	40.69	0.18	42.82	0.58	68.13	0.16	53.46	0.15	64.89	0.63
Sundry cellar expenses	26.94	0.06	34.15	0.06	32.62	0.03	28.19	0.20	38.20	0.28
Electricity and water	23.79	0.02	23.58	0.04	26.93	0.03	29.86	0.06	36.48	0.08
Finance charges	74.28	0.22	63.53	0.39	94.80	0.17	114.35	0.26	101.53	0.22
Rent paid	14.10	0.01	17.99	0.03	5.12	0.02	6.97	0.04	9.11	0.03
Repairs, maintenance and cellar consumables	53.24	0.12	43.99	0.12	53.26	0.09	53.41	0.12	76.51	0.21
Telephone and postage	5.43	0.01	4.78	0.03	5.34	0.01	4.55	0.01	4.54	0.03
Depreciation	107.95	0.11	71.45	0.18	78.43	0.08	78.38	0.12	84.07	0.22



Whilst the average sales price increased by about 19.5% over the past three years, expenses increased by double that. This is a further indication that cellars were not able to recover all the increases from consumers. Most notably is the increase in the cost of chemicals of 74% over the past three years.

Another concerning factor is the inability of the cellars, being price takers, to pass on the full effect of the increase in excise duty to the consumer. Excise duty on natural wine increased from 89c in 2003 to R1.98 per litre in 2009. If it is argued that the consumer would pay the same price for wine if there was no increase in excise duty and that the full difference above could be passed on to the producer, it would relate to about R830 per ton.

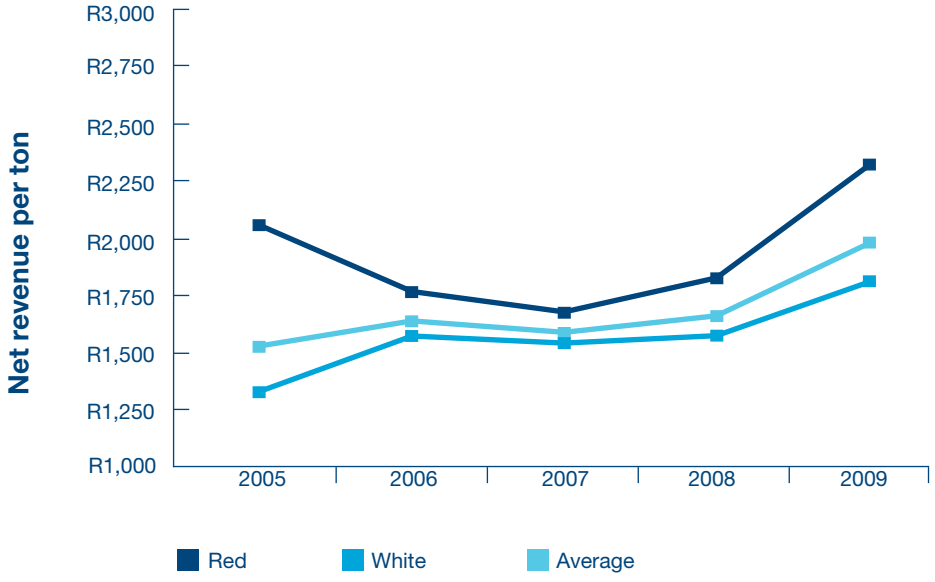
Labour costs remain the largest expense, underlining the important contribution the wine industry makes to employment in the Western Cape.

On a positive note, the lower interest rates during 2008 and 2009 resulted in some savings to cellars on finance charges, even though, on average, interest-bearing debt per cellar was more in 2009 than in 2008.

3.2 Results/Findings

3.2.2 Profitability (continued)

Cultivar	Net revenue per ton								
	2005		2006		2007		2008		2009
	Provisional	Final	Provisional	Final	Provisional	Final	Provisional	Final	Provisional
	R/ton	R/ton	R/ton	R/ton	R/ton	R/ton	R/ton	R/ton	R/ton
Total red	**2,022.08**	**2,129.48**	**1,821.77**	**1,814.81**	**1,717.85**	**1,787.16**	**1,879.76**	**1,986.62**	**2,414.28**
Cabernet Sauvignon	2,535.55	2,555.60	2,026.29	2,135.35	1,929.78	2,108.99	2,126.23	2,291.52	2,643.95
Cinsaut	1,508.18	1,499.12	1,513.94	1,374.44	1,422.65	1,451.66	1,461.60	1,430.85	1,845.82
Merlot	2,165.58	2,274.73	1,896.80	1,824.20	1,838.96	1,870.90	1,915.41	2,075.52	2,521.17
Pinotage	1,864.87	2,025.42	1,788.57	1,797.87	1,700.60	1,741.69	1,797.70	1,893.83	2,314.76
Ruby Cabernet	1,590.29	1,666.92	1,481.61	1,398.36	1,329.08	1,356.42	1,509.72	1,603.71	1,977.18
Shiraz	2,124.28	2,389.73	2,010.89	2,062.05	1,923.83	1,955.70	2,093.83	2,265.65	2,730.40
Port varieties	2,051.73	2,052.76	1,798.44	1,531.90	1,889.56	1,973.40	2,157.71	2,174.26	2,242.31
Dry red	1,692.09	1,593.84	1,542.44	1,413.86	1,393.44	1,424.15	1,941.44	1,574.50	2,037.91
Other red	1,743.79	1,758.40	1,524.67	1,470.42	1,408.84	1,427.36	1,602.69	1,725.78	2,281.30
Total white	**1,299.31**	**1,344.31**	**1,393.63**	**1,608.59**	**1,574.71**	**1,592.08**	**1,610.26**	**1,702.16**	**1,865.84**
Chardonnay	2,459.84	2,598.73	2,477.49	2,479.39	2,325.02	2,486.07	2,457.58	2,580.84	2,644.49
Chenin Blanc	1,279.21	1,351.11	1,467.28	1,508.36	1,518.32	1,489.01	1,507.42	1,558.79	1,724.60
Colombar	1,116.42	1,118.61	1,171.67	1,387.09	1,323.66	1,333.68	1,344.81	1,419.45	1,592.69
Hanepoot	1,168.69	1,202.55	1,375.50	1,427.41	1,430.54	1,435.19	1,390.90	1,513.04	1,662.39
Riesling (Cape)	1,391.24	1,417.04	1,543.57	1,574.54	1,513.05	1,513.29	1,375.28	1,395.85	1,623.71
Sauvignon Blanc	2,669.55	2,824.55	2,844.09	2,751.06	2,564.28	2,641.06	2,620.56	2,903.61	2,838.81
Port varieties	1,864.07	1,902.59	1,971.84	1,404.28	1,901.92	1,889.21	1,904.36	1,902.33	2,595.05
Dry white	1,125.41	1,160.74	1,312.37	1,297.63	1,205.96	1,208.25	1,169.68	1,258.38	1,390.87
Other white	967.40	992.60	953.32	1,352.43	1,379.36	1,410.89	1,366.09	1,420.85	1,657.10
Total	**1,490.21**	**1,557.72**	**1,509.18**	**1,677.55**	**1,622.93**	**1,658.80**	**1,701.89**	**1,805.81**	**2,047.59**



In line with increasing sales prices for wine, the revenue per ton also increased on average. A further positive sign is the better-than-expected results for the 2008 harvest, with the final revenue per ton up by more than R100 per ton from the initial expectations, on both red and white varieties.

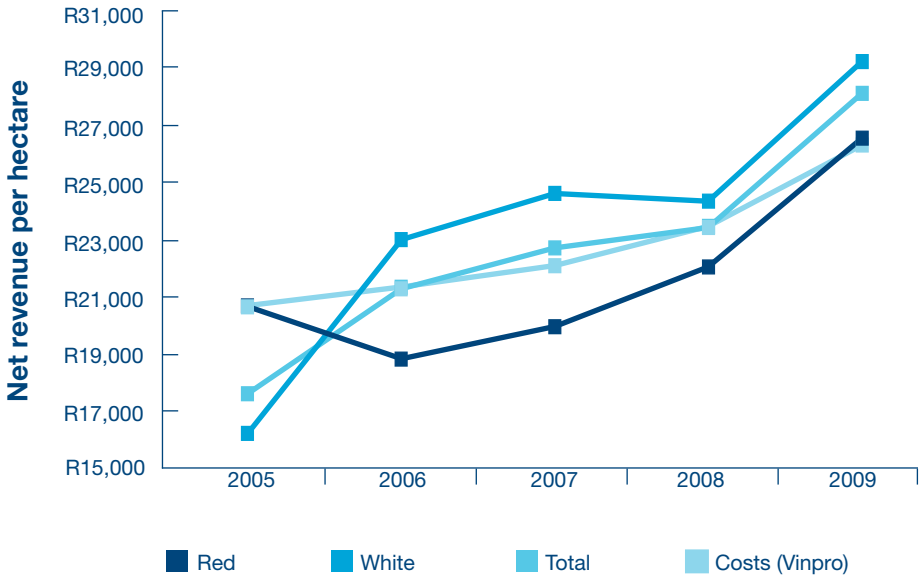
While current sentiments are positive, the market remains very competitive and although the global market holds great opportunities and growth for the wine industry, it also puts forward some new challenges and global proportions to old ones.

Apart from the current strong Rand having an impact on the competitiveness of South African wines in the export market, world consumption is also slowing, partly due to the global economic downturn. From a South African perspective, wine consumption per capita has been decreasing over the past decade and wine is also losing ground against other products like beer and RTD's ("ready-to-drink" beverages).

3.2 Results/Findings

3.2.2 Profitability (continued)

Net revenue per producing hectare									
Cultivar	2005		2006		2007		2008		2009
	Provisional	Final	Provisional	Final	Provisional	Final	Provisional	Final	Provisional
	R/ha	R/ha	R/ha	R/ha	R/ha	R/ha	R/ha	R/ha	R/ha
Total red	**19,898.72**	**20,608.22**	**18,731.15**	**18,679.32**	**19,874.07**	**18,661.48**	**22,080.05**	**22,829.99**	**26,833.03**
Cabernet Sauvignon	18,592.09	18,744.28	16,163.81	17,056.69	16,788.43	17,497.59	19,601.31	20,471.91	22,372.73
Cinsaut	15,430.24	15,772.68	17,783.88	16,137.00	20,473.64	18,979.80	20,292.29	19,308.87	25,073.56
Merlot	21,219.45	22,070.77	20,483.64	19,750.97	21,520.66	20,780.17	22,674.87	23,915.96	31,061.75
Pinotage	20,579.13	21,649.56	19,049.16	18,895.19	19,918.26	18,655.10	22,332.40	22,920.54	26,660.52
Ruby Cabernet	22,549.54	23,527.73	22,276.93	21,591.47	19,629.32	15,393.51	26,046.24	28,408.92	28,896.09
Shiraz	21,759.23	23,356.33	20,685.63	21,634.83	23,279.67	22,002.61	24,922.20	25,807.30	31,014.87
Port varieties	16,170.15	16,562.85	15,793.43	9,832.23	13,065.88	13,517.51	17,763.19	18,932.86	20,462.56
Dry red	18,688.88	17,538.74	19,044.94	18,062.64	25,944.03	25,990.09	27,549.62	22,342.93	25,694.75
Other red	14,659.66	16,403.84	15,253.99	14,164.54	17,062.02	11,867.79	17,424.89	19,974.41	25,234.17
Total white	**16,540.90**	**15,938.60**	**18,447.22**	**23,089.27**	**24,794.50**	**22,469.64**	**24,508.19**	**25,037.42**	**29,658.47**
Chardonnay	25,038.17	25,751.94	24,300.55	23,991.42	23,699.33	23,191.80	26,202.13	27,297.50	31,117.51
Chenin Blanc	18,136.71	17,354.65	21,240.86	20,168.70	20,526.38	18,086.51	20,572.66	20,092.25	25,819.77
Colombar	25,362.27	24,676.85	26,596.86	26,337.20	30,013.98	25,658.25	27,930.06	28,174.25	36,419.46
Hanepoot	19,603.88	19,010.11	25,587.70	25,640.91	27,905.40	27,280.21	27,065.08	30,069.48	32,029.37
Riesling (Cape)	16,031.41	16,446.07	21,002.66	20,695.18	20,069.42	18,849.74	13,665.42	14,384.73	19,545.96
Sauvignon Blanc	27,576.68	27,946.99	26,831.31	26,455.18	30,064.77	29,089.87	29,194.10	31,609.32	32,181.06
Port varieties	28,194.87	28,777.46	34,193.52	24,531.74	30,866.87	30,660.58	23,958.44	23,932.81	34,793.06
Dry white	15,403.53	16,872.84	22,797.20	15,664.01	41,687.98	30,222.87	24,525.57	25,399.65	22,801.30
Other white	5,758.69	5,997.99	7,597.29	27,522.60	25,075.57	21,258.25	27,337.61	31,189.18	29,942.08
Total	**17,605.60**	**17,400.73**	**18,538.77**	**21,272.47**	**22,783.16**	**20,909.48**	**23,536.19**	**24,105.51**	**28,486.40**



The higher revenue per hectare achieved by white varieties compared to red varieties, is evidence of the significant influence of tonnage yield per hectare.

In line with the rest of the South African wine industry, producers are acting on this and new plantings relate predominately to the higher revenue yielding white cultivars. However, when deciding on what to plant, producers need to take into account the revenue yield as well as the estimated medium to long term demand for the specific product to avoid creating a potential over supply situation.

It should also be noted that 2009 is the first harvest since 2004 where the average revenue per hectare is more than the average primary production costs per hectare, for both red and white cultivars.

3.2 Results/Findings

3.2.3 Structuring

Balance sheet (Average per cellar)	2005	2006	2007	2008	2009
	R	R	R	R	R
Assets					
Non-current assets	21,942,600	26,372,090	26,155,697	28,913,668	30,346,382
Property, plant and equipment	19,665,232	22,975,087	23,321,425	26,139,623	27,745,501
Investments	2,255,638	3,358,489	2,818,989	2,754,155	2,517,185
Deferred tax assets	21,730	38,514	15,283	19,890	83,696
Current assets	38,861,752	35,702,171	37,531,373	39,379,503	41,870,475
Inventories	23,939,534	21,840,596	21,460,768	20,847,481	22,526,245
Wine	22,999,744	20,832,405	20,670,808	19,788,300	21,657,617
Other	939,790	1,008,191	789,960	1,059,181	868,628
Trade and other debtors	12,536,495	11,957,265	13,753,650	16,382,114	16,812,555
Bank and cash	2,385,723	1,904,310	2,316,955	2,149,907	2,531,675
Total assets	**60,804,352**	**62,074,261**	**63,687,071**	**68,293,171**	**72,216,857**
Equity and liabilities					
Capital and reserves	16,274,705	18,509,240	18,494,341	19,741,704	20,764,483
Share capital	4,414,657	4,164,657	4,302,876	4,783,717	4,742,382
Reserves	10,059,137	12,657,510	13,189,536	14,176,458	15,274,328
Members' funds	1,800,910	1,687,073	1,001,929	781,528	747,772
Non-current liabilities	14,301,623	14,900,182	11,863,781	13,269,637	14,223,281
Long-term borrowings	12,534,229	12,047,814	8,707,349	9,794,468	10,608,758
Deferred tax liabilities	1,365,746	2,515,483	2,835,087	3,172,946	3,361,393
Deferred income	401,648	336,885	321,344	302,223	253,129
Current liabilities	30,228,024	28,664,839	33,328,949	35,281,830	37,229,094
Trade and other creditors	14,463,797	13,868,949	13,986,227	16,015,280	14,323,157
Producers	14,726,656	13,943,376	18,115,239	18,808,073	21,844,931
Bank overdrafts	1,037,572	852,515	1,227,484	458,478	1,061,006
Total equity and liabilities	**60,804,352**	**62,074,261**	**63,687,071**	**68,293,171**	**72,216,857**

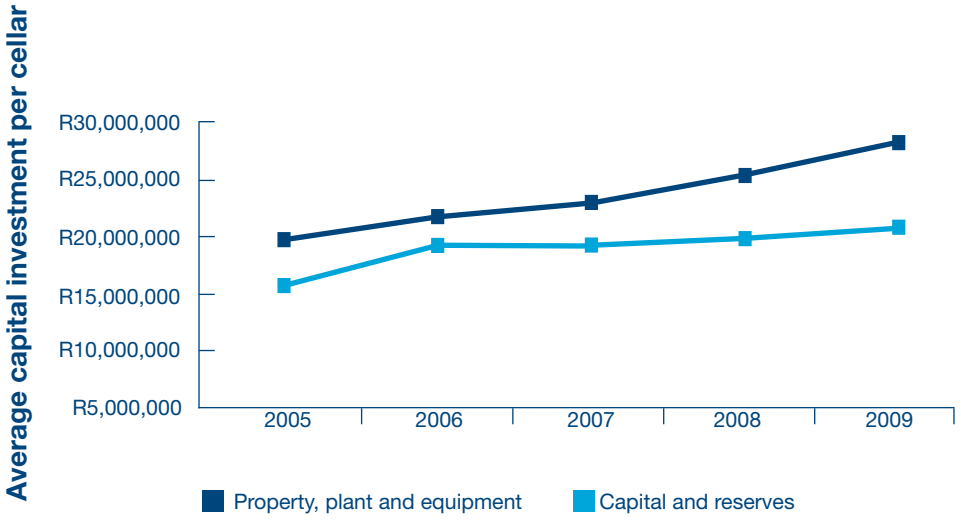
Ratios	2005	2006	2007	2008	2009
Own capital vs Loan capital					
Own capital	27%	30%	29%	29%	29%
Loan capital	73%	70%	71%	71%	71%
	100%	100%	100%	100%	100%
Current ratio	1.29:1	1.25:1	1.13 :1	1.12 :1	1.12 :1
Acid test	0.49:1	0.48:1	0.48 :1	0.53 :1	0.52 :1
Non-current assets vs Non-current liabilities	1.50:1	1.80:1	2.20 :1	2.18 :1	2.13 :1
Inventory turnover rate (times per year) (Note 1)	2.4	2.3	2.4	2.7	2.8
Debtors days outstanding (days)	80	84	100	100	104
Return on investment (%) (Note 2)	14%	9%	13%	17%	17%

(Note 1: Since most of the respondents value wine inventories at the expected realisation prices, the inventory turnover rate is based on turnover instead of cost of sales.)

(Note 2: Return on investment is calculated as earnings before interest and tax (EBIT) as a percentage of Capital and reserves.)

3.2 Results/Findings

3.2.3 Structuring (continued)



Producer cellars have kept up expansion programmes over the past five years and property plant and equipment remains the largest asset on the balance sheet.

Expansions have usually been financed with a combination of own and loan capital. Although at a less than desirable level, the average equity ratios of the participating producer cellars remained constant at around 30%. The relatively low own capital contribution is the result of a tendency over the past number of years to rather pass on the major portion of available surpluses to producers.

3.3 Conclusion

Despite the economic downturn it was a relatively good season for producer cellars and although production was down, prices showed an upward trend and filtered through to the producers. Producer cellars are doing better on some key performance indicators like tonnage yield per hectare and should continue to balance yield with quality.

Cost increases are however still an issue and cellars find themselves in a price squeeze, unable to pass on the full effect of these increases to consumers. Apart from understanding and managing cost and income drivers, producer cellars will also need to take a long term view on their position in the value chain and consider how they aim to get direct access to customers and brands in order to become “price makers” and not remain “price takers”.

Overall the global environment remains competitive and the exchange rate (current strong Rand) and global supply and demand (currently slowing) will continue to impact significantly on all cellars.

4. Supply chain activities

4.1 Introduction

Wine industry business context and trend

For the last couple of years the wine industry has been in a downward cycle with decreasing prices, increasing costs and a stronger Rand. The average red wine prices have fallen by a third since 2003, while the average white wine prices have increased with less than 20%. In addition the Rand has strengthened by 30% against the Pound, 35% against the Euro and 25% against the US Dollar since 2008 (Thomas, 2010a).

The grape production in the 2009/2010 season is down by approximately 9%, which means that many wine cellars will be operating at below capacity, thereby increasing their cost of production per ton of grapes. To this must be added the steep increase in electricity prices (Thomas, 2010a).

Many of the wine cellars supply mainly to the domestic market. Domestic wine consumption has fallen with approximately 2% annually over the past decade and accounted for only 7.6% of the South African alcoholic beverage market in 2009, while beer dominated the market with almost 80% of the consumption by volume (Thomas, 2010b).

Competition on the international market is stiff, with worldwide overproduction and numerous brands. This year more than 10 000 wines were entered into the International Wine Challenge (WOSA, 2010). The supply chain has therefore become a critical success factor in providing the market with the reliable supply of wine at a competitive price, while at the

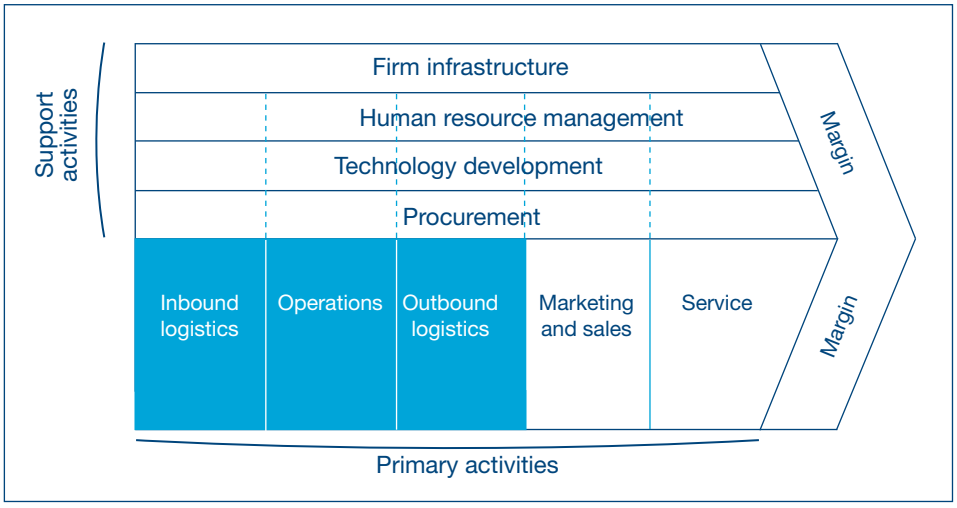
4.1 Introduction

same time aiming to reduce the total supply cost (all having a significant impact on the bottom line).

The competitiveness of the SA wine industry is dependent on timely information that moves backwards through the supply chain from the market to the producer. Having access to the correct information for decision making, efficient coordination and execution will become more and more crucial to enable supply chain performance that meets or exceeds competitive requirements.

Supply chain approach, imperatives and implications

A business' value chain provides the context for its supply chain (relate to diagram below). A supply chain (SC) is the physical representation of a business' value chain. The anticipated demand for final products, the production facility(ies) and sources of feedstock are the primary determinants of what supply chain activities would be required. The supply chain forms a critical part of a business' value chain since it deals with three of the five primary business activities (upstream supply, manufacturing and outbound logistics). To ensure customer satisfaction while meeting an organisation's aspirations, proper coordination of the supply chain becomes crucial. The supply chain, or value chain, are generic names of the process that integrates the different business activities in order to convert grapes into finished products and to transfer them to the ultimate consumers.



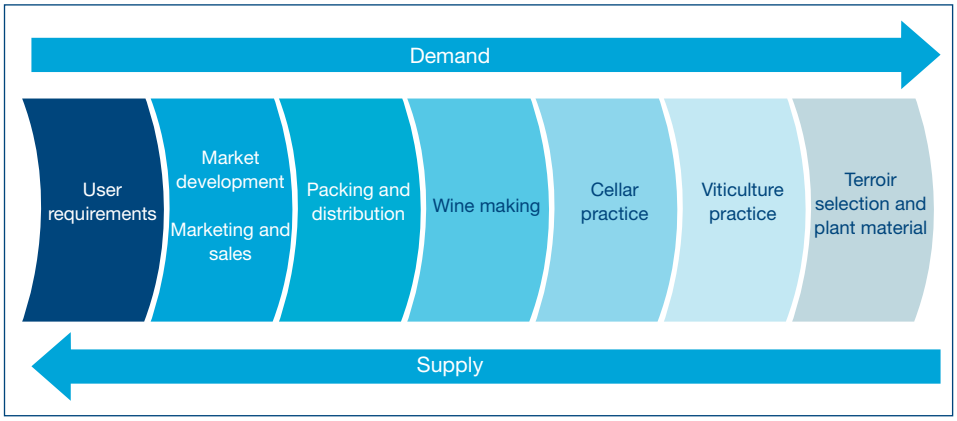
A generic value chain model (Porter, 1985)

4.1 Introduction

Savvy business executives understand that a well-managed supply chain can help them succeed on the four dimensions of competitiveness (cost, quality, response time, and flexibility). To put this in context it is fitting to define what supply chain management (SCM) entails:

'Supply chain management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party service providers and customers. In essence, supply chain management integrates supply and demand management within and across companies.' (Council of Supply Chain Management Professionals, 2010)

A market-directed wine "demand" chain can typically be illustrated by the following diagram. The demand and requirements from end users should drive and direct supply (as indicate by the opposing arrows). Dealing with seasonal demand and variable supply realities don't make this balancing act easy. The long supply lead time of winemaking also makes responding to changes in demand a big challenge. Exporting wine adds to this lead time (in some cases up to 8-12 weeks) and further complicates supply chain operations.



A generic demand/supply chain model for the wine industry

There is a clear and direct link between how effectively supply chain activities are executed and how well the business performs. Two of a firm's most important stakeholders need to be satisfied simultaneously —customers and shareholders. Customers are impacted most directly by the supply chain, shareholders more so by corporate financial performance.

4.1 Introduction

What is the burning imperative/motivation to improve your supply chain?

A number of interesting statements regarding the supply chain:

1. Companies with mature/integrated supply chain processes are far more profitable, hold much less inventory, and have superior delivery performance compared to their less advanced competitors... (The Performance Measurement Group, 2003)

2. There is a very high correlation between companies who have grasped the nettle of complexity and who have developed value chain capability on the one hand, and success on the other (Complexity Masters)… (supplychainforesight, 2008)

3. The supply chain typically represents 60% - 90% of an organisation's cost structure. A mere 10% reduction in supply chain costs can bring about a 40% - 50% improvement in before tax profits... (Supply-Chain Council, 2009)

4. when selecting a critical few supply chain measures to track, organizations must be cognizant of the need for two primary factors. One is a balance of financial and non-financial indicators, and the other is a balance of leading, current, and lagging indicators... (Higgins & Hack, 2004)

What does benchmarking in the supply chain mean?

For the purpose of this benchmarking study, the Supply-Chain Council's SCOR reference model is used as a standard repository to aid in future communication. SCOR is a supply chain process reference model containing over 200 process elements, 550 metrics, and 500 best practices including risk and environmental management. The model is organized around the five primary management processes of: Plan, Source, Make, Deliver and Return (Supply-Chain Council, 2008).

Benchmarking is a continuous process of measuring against the competitors, or those companies recognized as industry leaders. It enables leaders to see the potential for breakthrough gains and apply / adapt certain best practices that helped other companies achieve high performance. Firms can compare their supply chain performance with best practices at the performance metric, process, and strategic levels (Boyson et al., 1999). The age old principle of "...you can't manage what you can't measure..." also applies to supply chain performance management.

This benchmarking study aims to firstly gain some insight into the context and complexity of the participating cellars' supply chains. Secondly, an assessment is made of the perceived performance and which recognised metrics are used for performance management. Ultimately benchmarking should be expanded to later make comparisons with industry leaders.

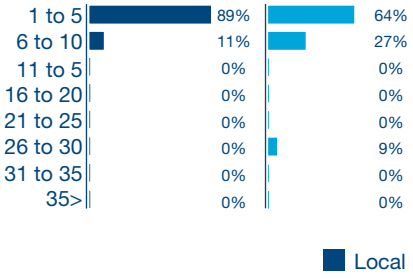
4.2 Results/Findings

4.2.1 Wine supply chain reality

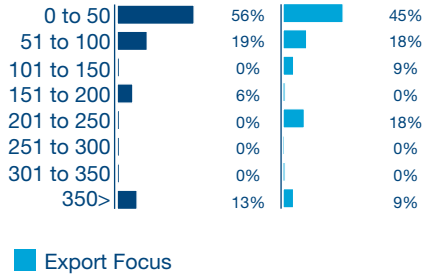
In this section a number of contextual/complexity indicators are presented from the cellar surveys completed. A distinction is made between the wine cellars primarily supplying the local market (local focus) and those also exporting a substantial percentage of their wines (export focus).

- Most of the local-focused cellars supply 1 to 5 market segments with approximately 50 active customers. The export-focused cellars supply to slightly more market segments with approximately 75 active customers (some have more than 1200 active customers).

Number of markets segments served

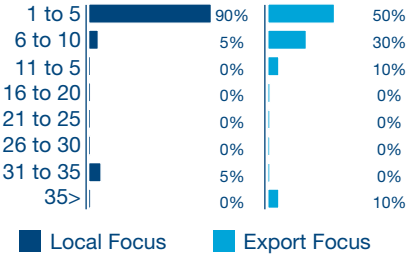


Number active customers

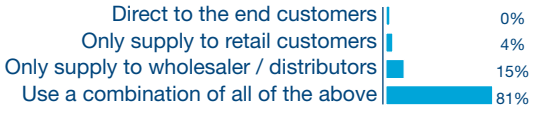


- These markets are served by 1 to 5 different brands through a mixture of sales channels.

Number of different brands



Sales channel

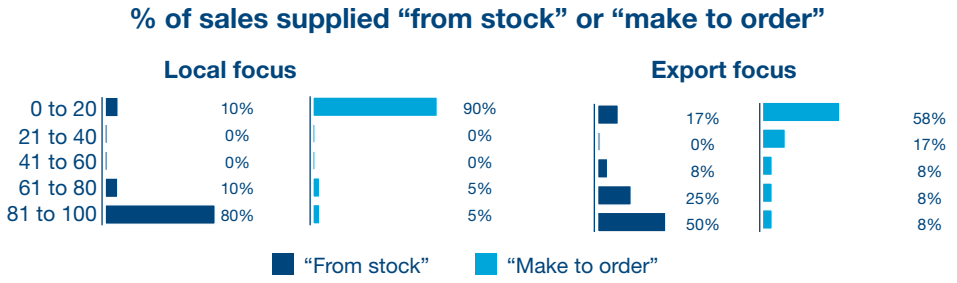


4.2 Results/Findings

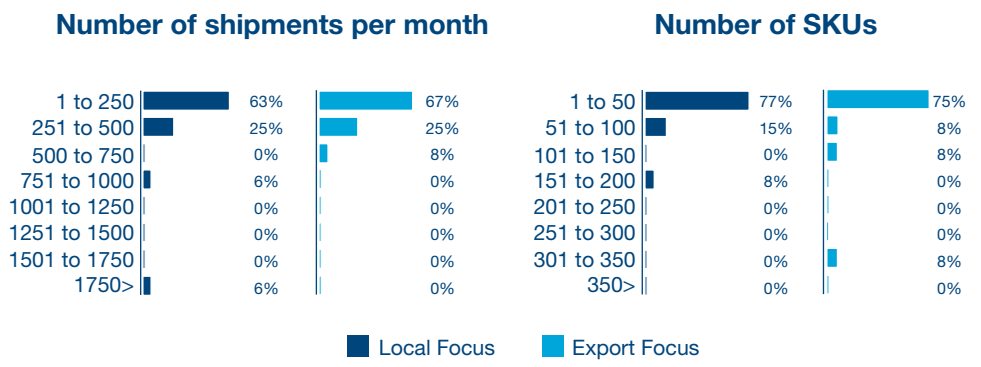
4.2.1 Wine supply chain reality (continued)

- All the local-focused cellars sell more than 80% of their wine in the local market with less than 20% of the volume being exported. For the export-focused cellars, more than 50% of sales are exported.

- More than 80% of sales are supplied “From Stock” for the local-focused cellars. Export-focused cellars tend to supply a bit more “Make to Order”. This would relate to “Bottle to Order” or “Label to Order”.



- These sales are made through approximately 145 shipments / delivery notes per month. As would be expected, the export-focused cellars tend to have more shipments as a result of more “Make to Order”. Cellars typically keep up to 50 finished product item codes (SKUs).

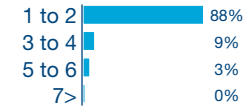


4.2 Results/Findings

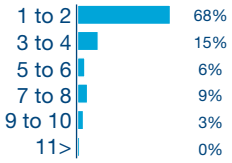
4.2.1 Wine supply chain reality (continued)

- Each cellar has 1 or 2 wine producing locations and also uses 1 or 2 warehouses / distribution centres (whether owned or outsourced).

Number of producing locations

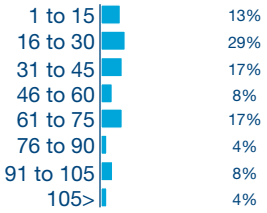


Number of Whouse/DCs used

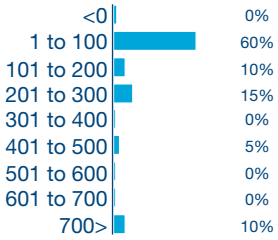


- Each cellar uses approximately 35 direct suppliers and maintains about 100 different input material item codes (some as many as 800).

Number of direct suppliers



Number of input materials



4.2.2 Supply chain performance

The current perception of supply chain performance and the measurement status are portrayed in the following paragraphs.

Current situation

Most of the local-focused cellars are of the opinion that they equal their competition in terms of their supply chain meeting their stakeholders' requirements as well as in terms of their overall logistics / supply chain

4.2 Results/Findings

4.2.2 Supply chain performance (continued)

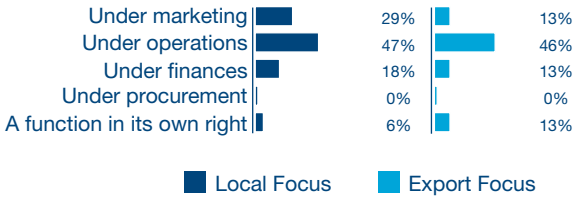
performance. However, the export-focused cellars view their ability to meet their stakeholders' requirements and overall logistics / supply chain performance as lower than their competition.

Meeting stakeholder requirements

Overall logistics/Supply chain performance

The logistics / supply chain responsibility primarily resorts under operations or marketing with only a few having logistics as a function in its own right. For the export-focused cellars, there could be a trend to rather start positioning logistics / supply chain responsibility under the operations or logistics function in order to deal with operational complexities that export bring to the fore.

Supply chain responsibility



4.2 Results/Findings

4.2.2 Supply chain performance (continued)

The areas that cellars commended themselves in are (where they are doing well):

- “Very good image in the market”
- “Excellent product”
- “Value for money”
- “Client relationship and communication”
- “Continuity of supply”
- “Service levels”
- “Flexibility in production”
- “On time delivery, short lead times”
- “Producing stock for orders”
- “Production based on forecast demand”
- “Good bulk wine market and”
- “Stock levels of bottled wine constant”
- “Stock control and current stock levels”

The logistics/supply chain aspects, areas or practices that need improvement were indicated as:

- “Marketing of bottled wine / marketing in the Western Cape/ market penetration”
- “Communication – internal and external to the cellars”
- “Measuring supply chain performance using KPIs”
- “Demand forecasting”
- “Lead time with some clients”
- “Service strategy”
- “RSA distribution and warehousing”
- “Logistics”
- “Input material inventory levels should reduce”

Measurement status

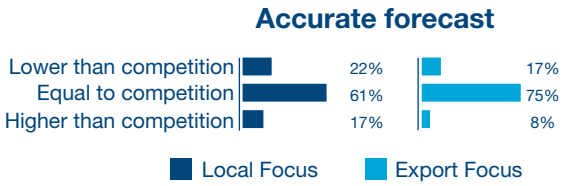
The results for the survey related supply chain performance metrics used to assess supply chain health are shared in the following paragraphs. The specific performance attributes related to demand, service (reliability & responsiveness), cost and assets are covered.

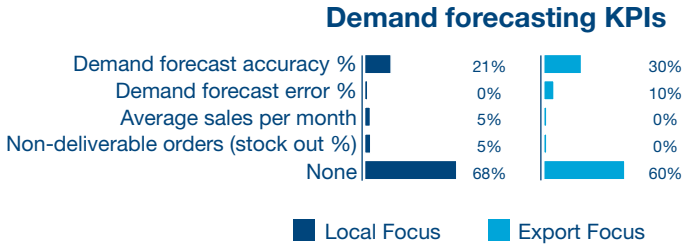
4.2 Results/Findings

4.2.2 Supply chain performance (continued)

Demand forecasting

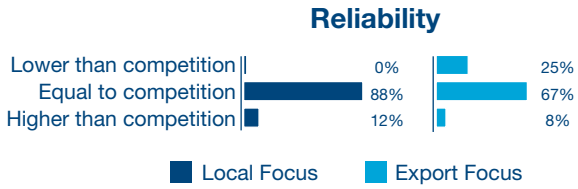
The capability of cellars to accurately forecast the future sales (demand) is perceived as equal to their competition. Although some measurement is done, on average 66% of the cellars don't use any form of demand forecasting accuracy metric. It does seem that the export-focused cellars are starting to make more use of demand forecast accuracy % as a metric.

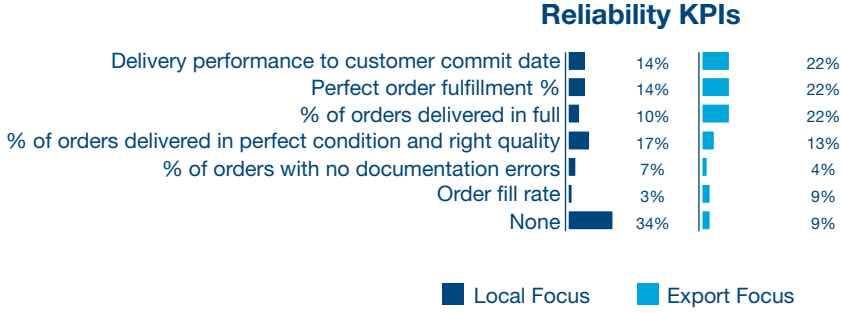




Reliability

Supply chain reliability is viewed by most cellars to be on par with their competition. Cellars indicate that they use a wide variety of reliability metrics. On average 40% of the cellars don't using any form of reliability metric. The export-focused cellars are starting to use more reliability metrics.



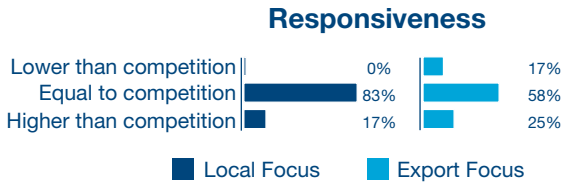


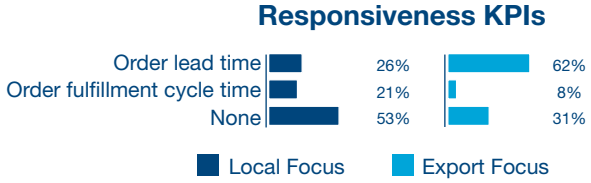
4.2 Results/Findings

4.2.2 Supply chain performance (continued)

Responsiveness

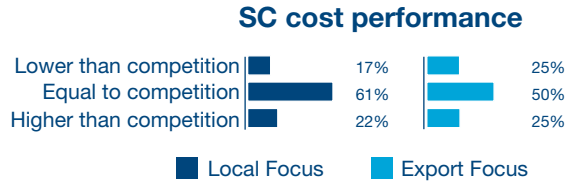
There are 20% of the cellars that view their current supply chain responsiveness as higher than the competition, while 73% of them perceive it as being equal to their competition. Order lead time is primarily used by the export-focused cellars to track the supply chain responsiveness performance. However, on average 47% of the cellars don't use any form of responsiveness metric.

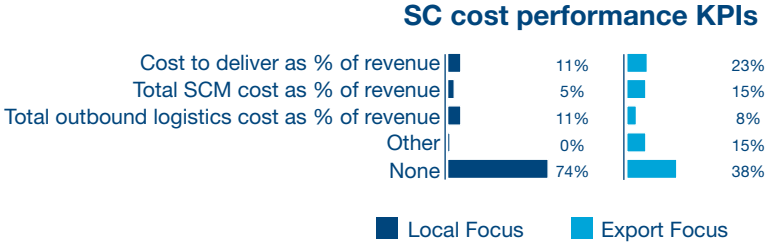




Supply chain cost performance

Most of the local-focused cellars perceive their supply chain cost performance (the cost associated with operating the supply chain) as equal to their competition, whereas the export-focused cellars view their cost performance as better than their competition. Although some measurement is done, on average 66% of the cellars don't use any form of supply chain cost performance metric.



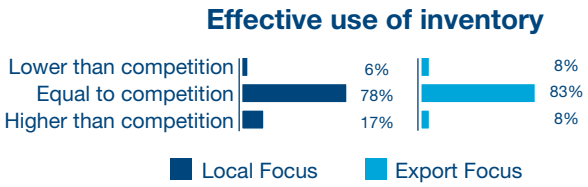


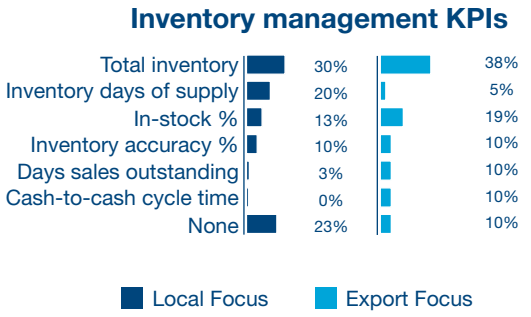
4.2 Results/Findings

4.2.2 Supply chain performance (continued)

Effective use of inventory

The cellars perceive their effective use of inventory as equal to their competition. A wide variety of inventory metrics is used while on average, 30% of cellars indicate that they do not use any form of inventory metric. The export-focused cellars are starting to use more comprehensive inventory metrics.





What supply chain improvements are planned for?

Although limited, some interventions are planned to introduce new good practices / approaches / strategies to enhance the performance of the supply chain:

- “New marketing strategy”
- “Developing new markets and products”
- “Representative in the Western Cape”
- “New partners in the local market for distribution”
- “Dedicated logistics department“
- “Full implementation of EZYWine”
- Just-in-Time production
- New cellar technology
- Improved on-time delivery
- Acquire store for bottled stock

4.3 Conclusion

The indicators used to assess supply chain complexity gave some insight into the reality that the wine cellars face. A distinction should be made between the wine cellars primarily supplying the local market (local focus) and those also exporting a substantial percentage of their wines (export focus). The complexity of local-focused cellars' outbound supply chains is noticeably less than that of the export-focused cellars. Many of the local-focused wine cellars supply a substantial percentage of their wine in bulk to few large corporations (reducing their outbound supply chain scope and complexity but also margins). However, the export-focused wine cellars' supply chains are fairly complex and require specific capabilities to stand up to the fierce competition in these markets.

Although some of the cellars have started to follow a supply chain approach in managing their business, it seems that they are still in an early stage of adoption. This becomes evident in the outcome of the supply chain performance assessment. The best practice supply chain performance metrics related to demand forecasting, service (reliability & responsiveness), cost and inventory are not fully utilised to assess their supply chain's health. However, it appears that the export-focused cellars tend to apply more of these best practice metric categories for supply chain performance management. Close cooperation between producers and cellar might exist due to the established business relationships. Nevertheless it seems that not enough information regarding supply chain performance is made available through best practice metrics or managed actively. The competitiveness of the SA wine industry is dependent on timely information made available throughout the supply chain from the markets served to the producers of grapes.

5. Human resource management

5.1 Introduction

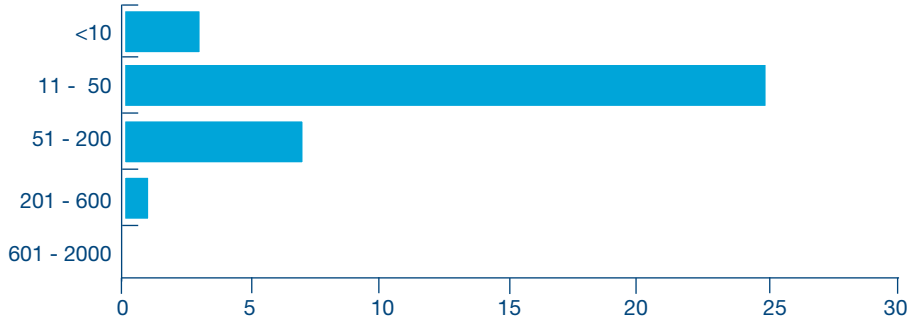
In this section the human resource management practices for the participating cellar respondents are presented. As businesses grow, their policies and procedures need periodic review to make sure they are responsive to the needs of the changing employee base, and to fix them if they are not. Culture on the other hand is about people. It can be thought of as the sum total of the beliefs, values and behaviours of individuals within a given group, and it is a means by which norms of acceptable behaviour are established. The right organisational culture is critical to improving the effectiveness of performance management. Understanding human resource practices and the performance management culture within the industry can assist in developing appropriate solutions and practices.

This year's insights survey focused on obtaining a high level view rather than an in-depth perspective on these two key areas. Future surveys will expand on these areas and might include further focus areas.

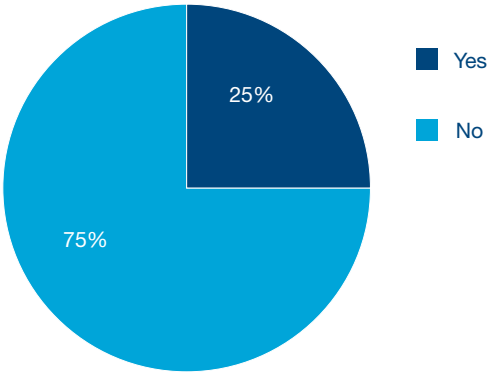
5.2 Results/Findings

More than half of cellars have no dedicated HR capacity.

Most of the cellars have between 11 and 50 employees with only one larger than between 51 and 200 of employees. Around 25% of cellars have an HR unit and all these units consist of around 1 to 2 employees. In addition around 22% of cellars make use of labour consultants or contractors to assist with the HR practices.



Number of employees

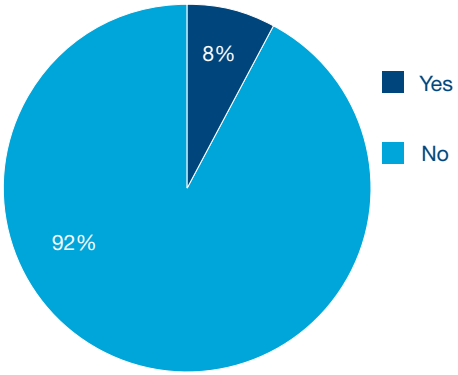


HR unit

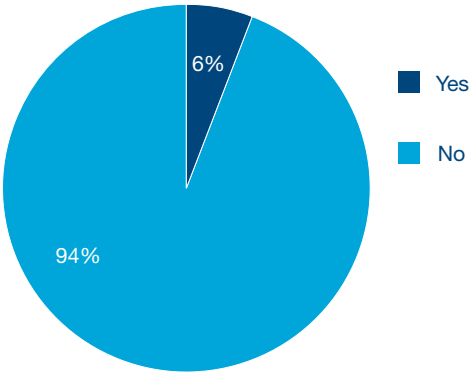
5.2 Results/Findings

Most cellars do not have a high staff turn-over rate and are not losing some of their best employees. If new employees are required current recruitment methods are sufficient and the right kind of personnel is attracted.

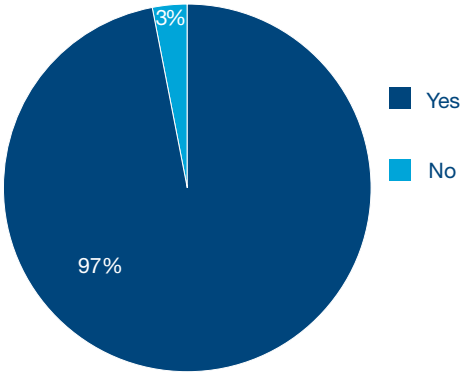
Cellars have adequate recruitment and retention practices.



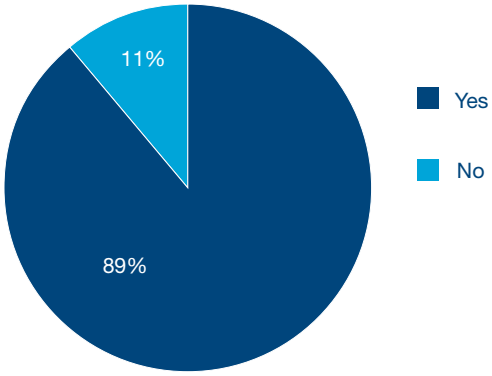
High staff turn-over



Best employees are lost



Efficient and suitable recruitment

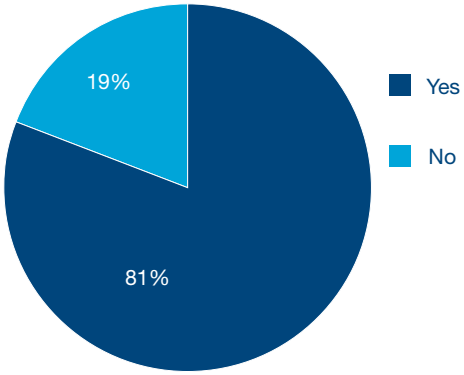


Right kind of personnel is attracted

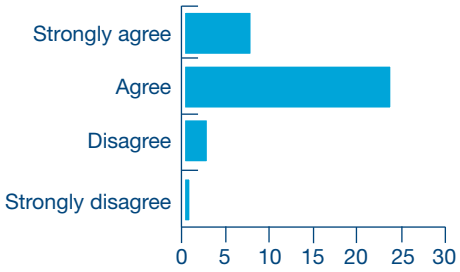
5.2 Results/Findings

Cellars have appropriate skills development plans.

Most cellars have a skills development plan which they are of the opinion is aligned to the business needs of its operations.



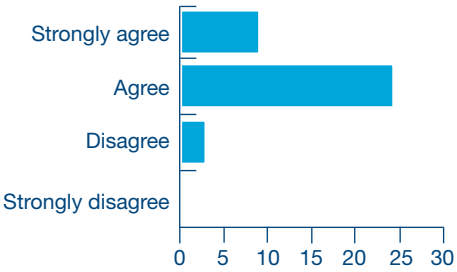
Skills development plan



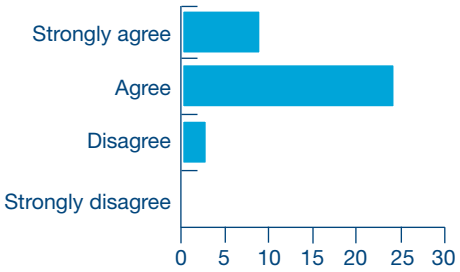
Aligned to business needs

Employees have clear job descriptions and are recognised for their contribution

Most cellars are of the opinion that they have clearly defined job descriptions and that each staff member is fairly recognised for the contribution they make.



Employees have clear job descriptions

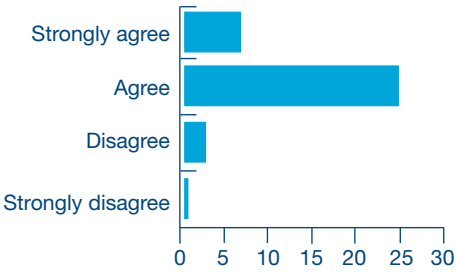


Employees are recognised for their contribution

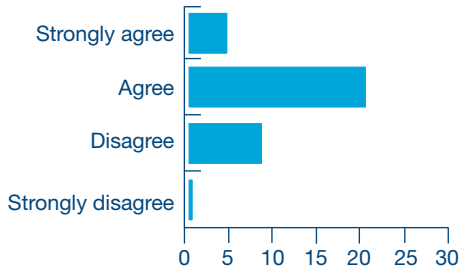
5.2 Results/Findings

Most cellars are of the opinion that employee's performance evaluations are fairly conducted and that they use effective methods for evaluating staff performance.

Cellars conduct fair performance evolutions using effective methods



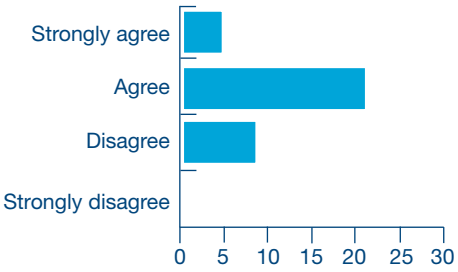
Performance evaluations are fair



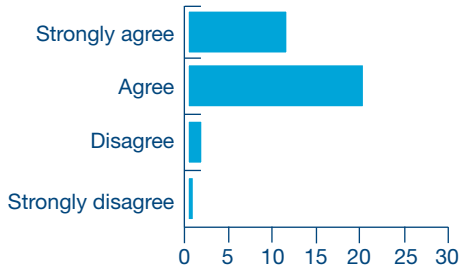
Performance evaluation methods are effective

Most cellars are of the opinion that they recognised employee's personal milestones and that compensation is fair and competitive according to industry standards.

Employees receive fair and competitive compensation and personal milestones are recognised



Personal milestones are recognised



Competitive compensation

5.2 Results/Findings

The HR areas that cellars commended themselves in are:

- “Good personnel policy, disciplinary procedures and hearings & recruitment procedures.”
- “Record keeping, regular meetings held with personnel, EE Forum established. All employees are handled equally regarding all practices and company rules. Internal promotion of staff if position becomes available.”
- “All workers are given the opportunity to discuss problems with management. Service contracts and a good compensation programme are in place.”

The following HR areas or practices that need improvement were indicated:

- “Better communication between employee and employer.”
- “Skills development.”
- “Employee evaluation can be improved.”
- “We can give more attention to relevant training as well as internal training.”
- “Training and skills development.”

6. Recommended roadmap

Background

The findings in this report clearly indicate a number of difficult issues wine cellars (both producer and private cellars) should address in the foreseeable future. Aspects needing attention for any one cellar might very well be found across the entire value chain of the industry where it plays a role.

Consequently we provide some guidance on actions that could be considered for each of the three areas of focus in this report.

Financial overview of producer cellars – 2009 harvest

Checking the results of a decision against its expectations shows executives what their strengths are, where they need to improve, and where they lack knowledge or information. Detailed information regarding production, profitability and balance sheet structuring can be great assets in determining strategic directions for any business. This survey gives producer cellars an ideal opportunity to benchmark themselves, in various areas, against other participating cellars in the industry as a whole, cellars of similar size as well as other cellars in their region.

Detailed reports, disclosing comparable cellar-specific information can be compiled from our database and have been incorporated, with much success, into strategic sessions held with participating producer cellars in recent years.

Although it is important to note that no two cellars are identical, benchmarking certain key performance areas against similar cellars might give valuable insights on the appropriateness of financial strategies, indications of future risks, or confirmation that the cellar's financial results are in line or even exceeding those of its peers.

Supply chain activities

Wine cellars can take several important steps to help establish the link between effective supply chain management and improved financial performance. The elements of the Supply-Chain Council's SCOR reference model model contain important supply chain-related performance drivers, while the business performance metrics, Economic Value Add (EVA) represent important business-related outcomes. Understanding the link between supply chain performance objectives and business outcome measures is fundamental to achieving improved financial performance of wine businesses. EVA emphasizes and isolates activities that help to drive value creation. Those activities may be generally categorized as revenue, costs and assets. Supply chain performance enhancement in the areas of demand forecasting, service level, cost and inventory can directly impact on these categories.

World-class supply chain performance measurement is not necessarily about how much you measure. Rather it is about how well you measure and how well you act upon those measurements. A phased implementation of performance measurement is proposed. As a first step a set of agreed and standardized metrics must be established for performance management and future benchmarking amongst the wine cellars. Some assistance might be needed with the interpretation and application of standardized definitions. Secondly formal measurement must start and the required information generated must be maintained on a monthly basis to track performance. Measurement should become a routine operation, responsibility allocated and information must be visible to all key stakeholders. Specific targets for improvement in each performance management area must be set and actively managed. Lastly, with continuous measuring and reporting taking place, proper benchmarking can initiate on key selected performance metrics. This will further aid wine cellars in identifying performance gaps and advancing their supply chains' effectiveness and efficiency.

Human resource management

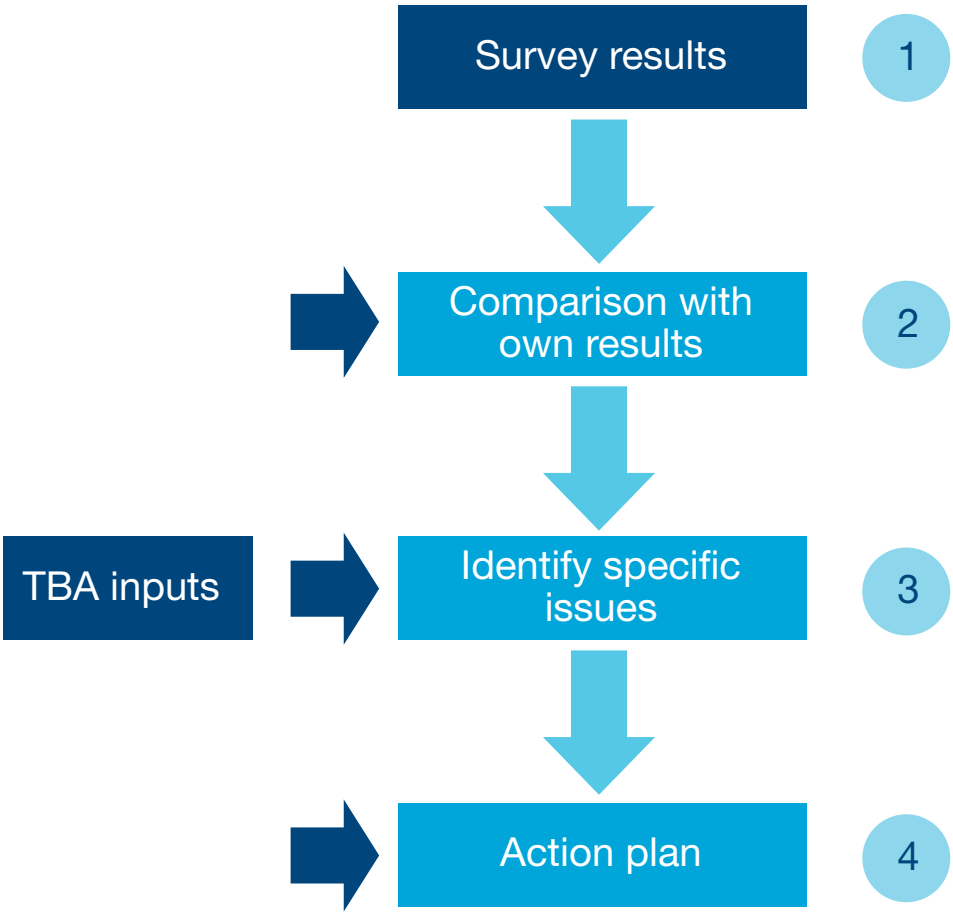
This insights survey highlights some high level issues within the Human resource (HR) practices of the various cellars. To better understand the real business issues these observations identified, a more in-depth assessment is required. This will include greater personnel involvement across staff levels and various information gathering techniques.

Cellars wanting to improve their HR practices can embark on various initiatives on their own or in partnership with a service provider in a drive to achieve this goal. The following are examples of such initiatives:

- Measure own HR effectiveness including the view of all employees;
- Review HR policies, staff structures, reporting lines, job descriptions, etc.;
- Continuously improve / review communication channels; and
- Measure return on investment on all training.

Conclusion

The basic process that should be followed could be illustrated as follows:



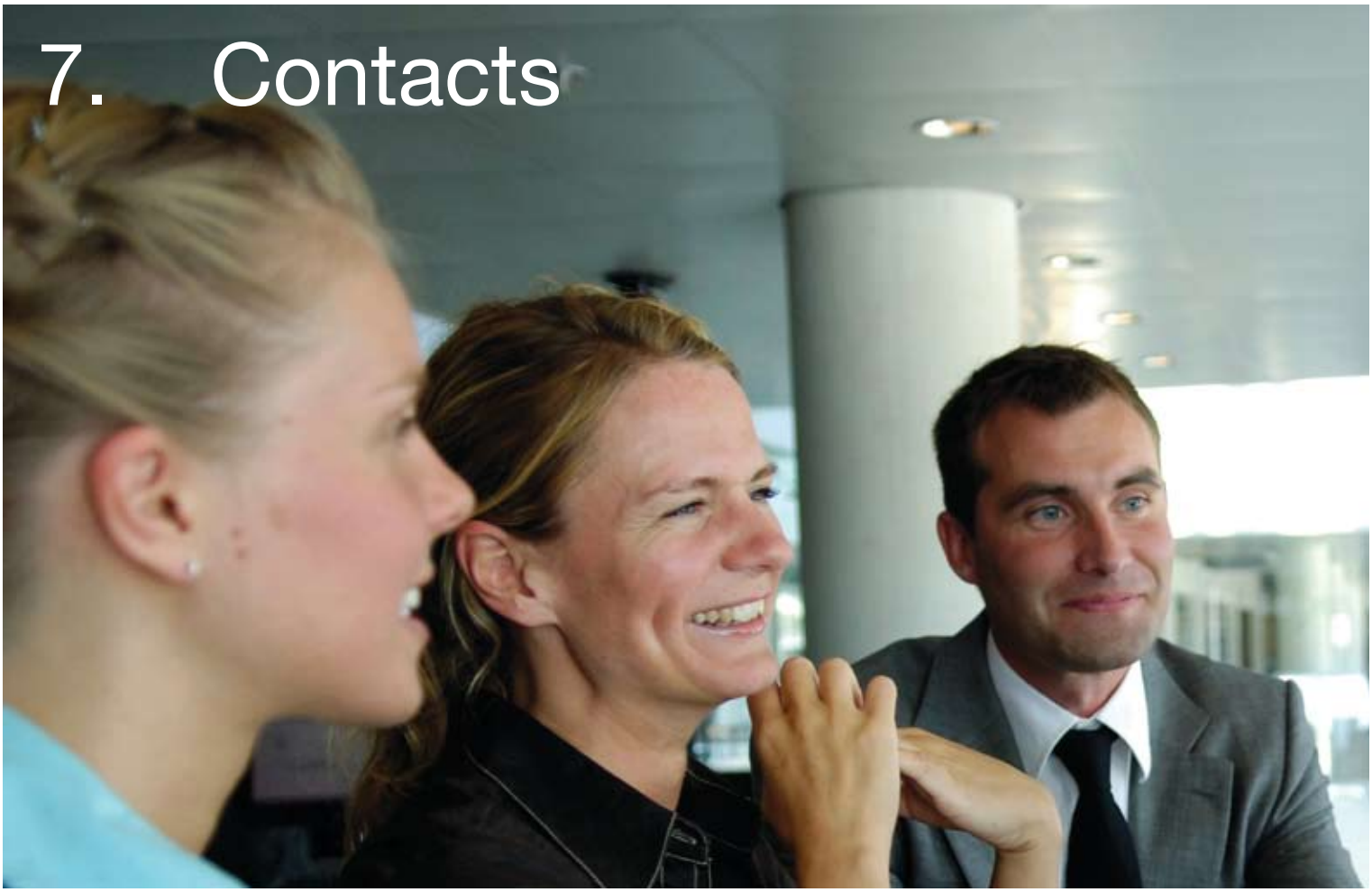
Recommended roadmap

In a year when the South African wine industry will be busier than ever and will have to grapple with a number of difficult issues (unpredictable weather patterns, increasing production costs, strong Rand and a smaller 2010 harvest, to name just a few), the evaluation of its performance and the identification of areas for improvement will be important.

PricewaterhouseCoopers's alliance and involvement with the South African wine industry extends over many years. Our thorough knowledge of the industry, our expertise in rendering various services relating to both producer as well as private cellars and our unequalled footprint in South Africa mean that we are excellently positioned to assist all stakeholders in the South African wine industry.

As the largest supplier of a wide range of financial and related services to the industry, we have a committed wine industry network that focuses on rendering specialised services to the wine sector (refer to page 44 for contact details).

7. Contacts



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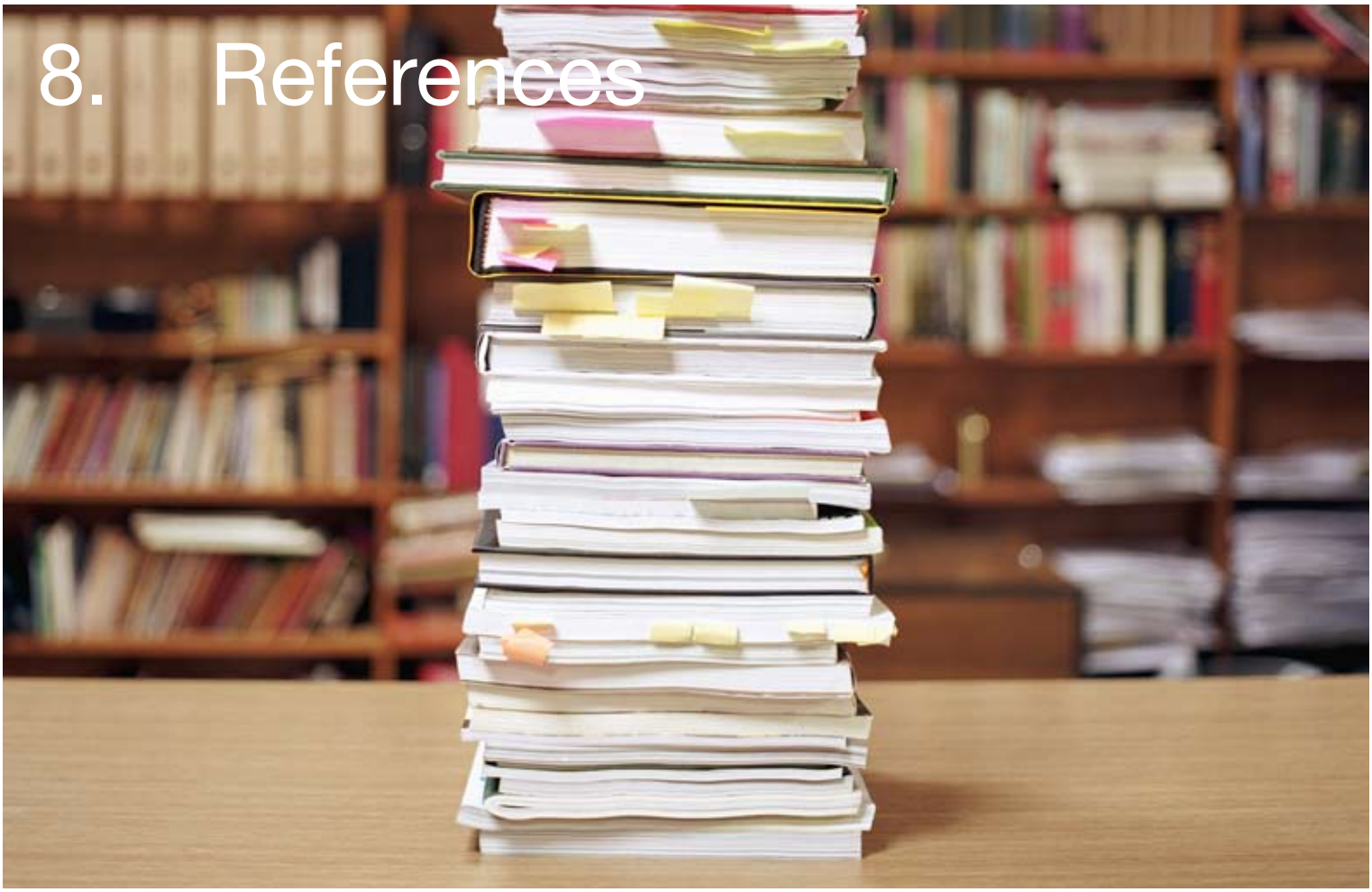
8. References



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