

# *The South African Wine Industry*

*Insights Survey 2011*



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# Foreword

It gives us pleasure to present the results of our South African Wine Industry Insights Survey 2011. The survey explored some of the issues facing local wine businesses, especially those associated with the financial results of the 2010 harvest and human resource management practices in the industry.

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

- Financial overview of producer cellars – 2010 harvest; 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 demarkated wine regions in South Africa. However, the section in this publication dealing with the 'Financial overview of producer cellars – 2010 harvest', only includes the results of 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 section on 'Human resource management' deals with the results of the industry as a whole.

## *Financial overview of producer cellars – 2010 harvest*

2010 is the eighth harvest since 2003 covered by our financial benchmarking survey. The results of the 2010 wine-grape harvest are presented with those of the four previous harvesting years being presented as comparative figures.

The survey again revealed some interesting findings on the financial results of this segment of the industry and the findings are presented on a national average basis. The focus remained on 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.

## *Human resource management*

This year the Wine Industry Insights Survey expanded on its initial high level overview of the Human Resource Practices in the industry conducted in 2010. The increased participation level and the additional questions posed to the respondents certainly provided us with more detailed information and assisted us to identify general and specific trends and to provide more comprehensive feedback on the key human resources challenges facing the wine industry.

The results of this year's Human resource management section of our survey are presented under the following headings:

- The HR Department & Staff Turnover
- HR Practices
  - Succession Planning
  - Recruitment
  - Training
  - Performance Management
- General human resources practices

## General

Over the past year we again saw a number of changes in the regulatory environment in which wine businesses operate. We finally saw the new Companies Act (No 71 of 2008) becoming effective on 1 May 2011. This new legislation will have a direct impact on the way businesses in South Africa operate and it is certainly very applicable to the wine industry. It is however anticipated that many wine companies will make use of the transitional provisions affording existing companies a two-year period after the act becomes effective to align their memorandums with the new requirements.

Maybe just as important to the wine industry is the new Consumer Protection Act (the CPA) which came into effect on 1 April 2011. The wine industry can certainly not ignore this new act because the CPA applies to any product which is sold for human consumption, which clearly includes wine. Ignoring the CPA may not only lead to hefty administrative fines (up to 10% of annual turnover), but (and perhaps more importantly) can also do considerable harm to a business' reputation.

A significant number of the clients of PwC are 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 remains to make a meaningful contribution to the industry with projects like this insights survey and work alongside industry leaders to provide advice and seek solutions on matters like business opportunities, risk, growth, compliance and general challenges facing the industry.

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.

If you would like clarification on any matters covered in this publication, please contact one of our team members listed on page 25 of this report.

We trust you will find this issue of the PwC publication: The South African Wine Industry Insights Survey 2011 interesting and beneficial to your business.



**Frans Weilbach**

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August 2011

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The total 2010 wine grape harvest was significantly lower than previous years, putting further financial pressure on the primary side of the industry.

# 1. 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. The information was obtained from questionnaires completed by designated individuals within the organisations as well as financial information provided by them, usually in the form of annual financial statements.*

## 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 two sections, 'Financial overview of producer cellars – 2010 harvest' and 'Human resource management'. The data was processed and analysed by PwC.

### **Financial overview of producer cellars – 2010 harvest**

On the production side the participants' crop composition remained stable regarding red/white as well as varietal classification, with only minor trend changes noted over the past number of harvests. The increase in non-producing hectares of the survey participants however, might be an indication of changes to come.

The total 2010 wine grape harvest was significantly lower than previous years, putting further financial pressure on the primary side of the industry. The lower tonnage yield per hectare contributed to the average primary production costs per hectare exceeding the average revenue per hectare, for both red and white cultivars. Smaller crops were also recorded in most southern hemisphere wine producing countries.

A very positive observation was that producer cellars recorded real growth in the selling price per litre for the second year in a row. This also assisted these cellars to maintain overall revenue levels even though volumes decreased as a result of the smaller harvest.

In general, expenses continued with its upward curve with labour, chemicals and finance charges still the major expense items in the income statement. Prices paid to primary producers per ton again showed a steady increase, but the smaller crop prevented this increase to have a more significant impact on their financial results.



28%

*Slightly weaker balance sheets were observed with the average equity ratio of the participating producer cellars dropping one percentage point to 28%.*

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. The competitive global economic environment and relative strength of the Rand will have to be considered in any export decision.

From a balance sheet structuring perspective, slightly weaker balance sheets were observed with the average equity ratio of the participating producer cellars dropping one percentage point to 28%. This was certainly anticipated given the lower average net profits recorded.

It would be fair to say that given the initial challenge posted by the relatively small harvest, the financial results of the 2010 harvest of the producer cellars could be regarded as satisfactory.

### **Human resource management**

As organisations are faced with the impact of the recession and the challenge of ensuring revenue growth, they are turning to effective human resources practices, including improved performance management, training and development and change management as part of the solution.

In this year's benchmarking survey, the human resources challenges have once more been highlighted. The traditional transactional nature of human resources practices are inadequate to effectively deal with the "people management" issues organisations face.

The key messages from this year's benchmarking survey includes the need to position the Human Resources Function strategically within the organisation, to position the Wine Industry as an employer of choice who is able to attract and to retain key talent, to improve performance management practice, to increase staff morale and motivation and to develop the quality of leadership at senior management and Board level. To achieve all this, a "step-up" to more strategic human resources practices has now become a priority.

### **Conclusion**

From the summaries of the main findings in both sections covered in this report, it is clear that there are still a number of issues that require special and maybe urgent consideration and attention by the role players in the industry.

Many of the challenges facing the industry are difficult to address, especially those caused by nature. It is however important for wine businesses to remain focused on improving those aspects over which they have control by actively monitoring key performance indicators and implementing appropriate action plans where necessary.





## *2. Financial overview of producer cellars - 2010 harvest*

### *2.1 Introduction*

The following section deals exclusively with the financial results of producer cellars for the 2010 harvest. The producer cellars in South Africa are responsible for producing the majority of wine in South Africa and we are proud to again have a significant number of these cellars participating in this survey.

The 2010 harvest has certainly had its challenges compared to recent years with adverse weather conditions prevailing during most of the growing season. The resulting smaller crop's impact on producer cellars' financial affairs is evident.

The South African liquor market saw some significant changes in consumption patterns regarding choice of beverage over the past decade. Unfortunately wine only managed to hold its relative position over this period. It is therefore of utmost importance that South African wine businesses also consider and have a good knowledge of the global wine market. A recovering global economy is bound to have a positive impact on wine prices. The extent thereof for the South African wine industry will however also be subject to the performance of the Rand compared to the other global currencies over the next year.

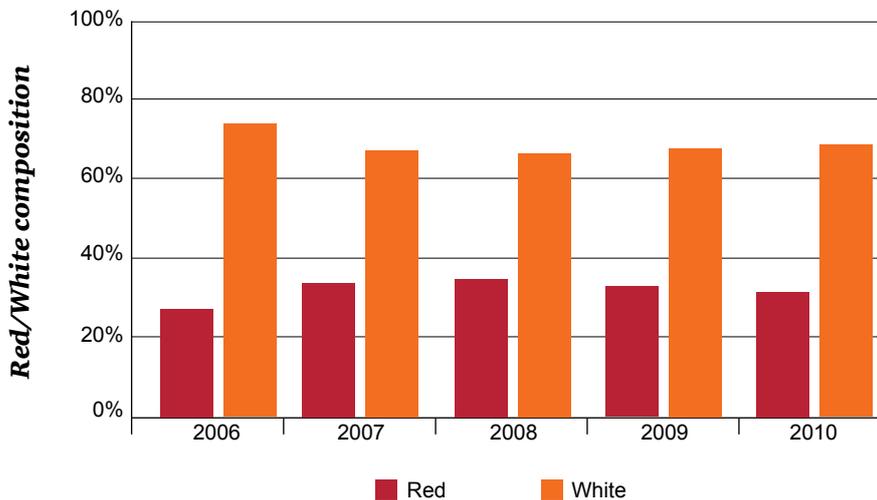
It is important that South African wine cellars continuously measure their profitability and compare their key performance indicators with those of their peers.

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 Industry as a whole, also taking into account the effect of the global economy.

## 2.2 Results/Findings

### 2.2.1 Production

Average tons pressed per cultivar										
Cultivar	2006 harvest		2007 harvest		2008 harvest		2009 harvest		2010 harvest	
	Tons	%								
Total red	4,471.78	27.0	5,259.79	33.7	5,562.41	34.0	4,931.15	33.1	4,272.25	32.8
Cabernet Sauvignon	962.16	5.8	1,101.74	7.1	1,271.23	7.8	1,056.49	7.1	931.54	7.2
Cinsaut	462.52	2.8	599.59	3.8	532.56	3.3	504.45	3.4	467.14	3.6
Merlot	642.87	3.9	673.04	4.3	711.35	4.3	678.86	4.6	563.74	4.3
Pinotage	785.81	4.7	885.73	5.7	941.98	5.8	788.38	5.3	656.60	5.0
Ruby Cabernet	512.85	3.1	564.26	3.6	616.51	3.8	484.71	3.3	467.42	3.6
Shiraz	859.53	5.2	1,038.90	6.7	1,114.56	6.8	1,059.85	7.1	951.22	7.3
Port varieties	27.40	0.2	15.82	0.1	16.16	0.1	20.38	0.1	21.29	0.2
Dry red	53.81	0.3	158.88	1.0	134.48	0.8	101.42	0.7	47.06	0.4
Other red	164.83	1.0	221.83	1.4	223.57	1.4	236.61	1.6	166.25	1.3
Total white	12,097.25	73.0	10,353.63	66.3	10,797.29	66.0	9,948.57	66.9	8,734.06	67.2
Chardonnay	733.74	4.4	925.01	5.9	1,108.86	6.8	1,112.40	7.5	1,015.27	7.8
Chenin Blanc	3,705.52	22.4	3,615.06	23.2	3,725.70	22.8	3,599.46	24.2	3,371.50	25.9
Colombar	3,554.52	21.5	2,932.04	18.8	2,975.36	18.2	2,574.96	17.3	2,237.84	17.2
Hanepoot	637.49	3.8	620.92	4.0	521.24	3.2	379.03	2.5	289.75	2.2
Riesling (Cape)	198.94	1.2	214.47	1.4	146.16	0.9	143.50	1.0	125.83	1.0
Sauvignon Blanc	537.23	3.2	693.89	4.4	816.95	5.0	814.72	5.5	891.54	6.9
Port varieties	14.93	0.1	4.97	-	4.50	-	7.46	0.1	29.35	0.2
Dry white	306.53	1.9	440.70	2.8	400.71	2.4	247.21	1.7	152.96	1.2
Other white	2,408.35	14.5	906.58	5.8	1,097.81	6.7	1,069.84	7.2	620.02	4.8
Total	16,569.03	100.0	15,613.42	100.0	16,359.70	100.0	14,879.72	100.0	13,006.31	100.0



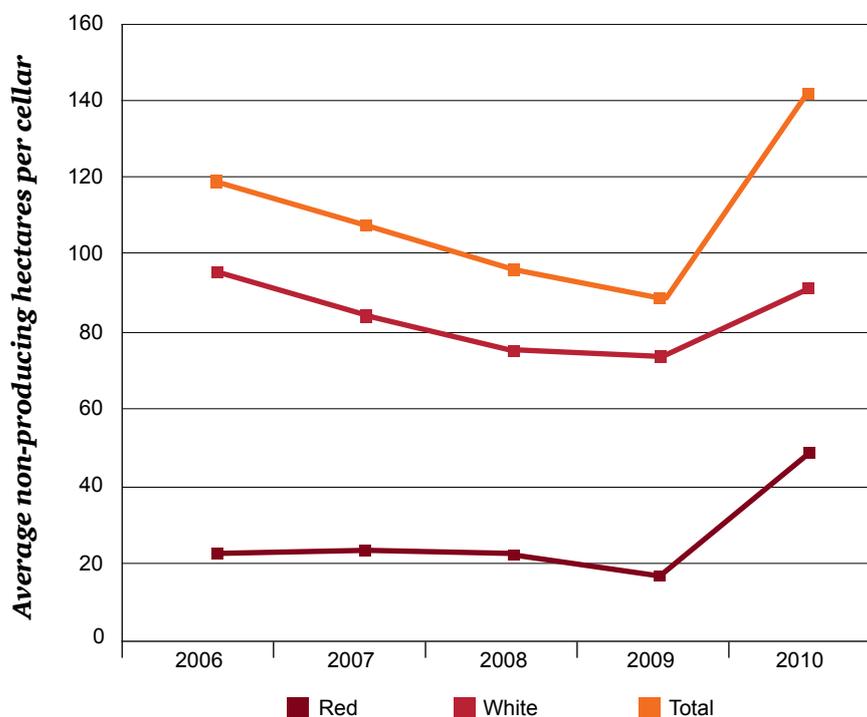
As expected, the average tons pressed by participating cellars have shown a significant decrease from the 2009 harvest. The decrease in the national crop sizes was close to 9% and this had a significant effect on profitability during the 2010 harvest. Due to adverse weather patterns, producers are finding it more and more challenging to constantly deliver maximum quality tons over the scale.

White cultivars continue to dominate with two thirds of all tons pressed, in contrast with many other top-ten wine producing countries where red cultivars are dominating.

## 2.2 Results/Findings

### 2.2.1 Production (continued)

Average producing hectares per cultivar										
Cultivar	2006 harvest		2007 harvest		2008 harvest		2009 harvest		2010 harvest	
	Ha	%								
<b>Total red</b>	<b>434.93</b>	<b>32.2</b>	<b>454.64</b>	<b>40.9</b>	<b>473.55</b>	<b>40.0</b>	<b>443.68</b>	<b>41.5</b>	<b>421.34</b>	<b>40.5</b>
Cabernet Sauvignon	120.62	8.9	126.64	11.4	137.90	11.7	124.85	11.7	115.45	11.1
Cinsaut	39.37	2.9	41.66	3.7	38.36	3.2	37.14	3.5	34.90	3.4
Merlot	59.53	4.4	57.51	5.2	60.09	5.1	55.10	5.2	56.88	5.5
Pinotage	73.78	5.5	75.62	6.8	75.83	6.4	68.45	6.4	63.73	6.1
Ruby Cabernet	34.11	2.5	38.21	3.4	35.73	3.0	33.17	3.1	35.28	3.4
Shiraz	83.56	6.2	85.85	7.7	93.64	7.9	93.30	8.7	89.56	8.6
Port varieties	3.12	0.2	2.29	0.2	1.96	0.2	2.23	0.2	3.15	0.3
Dry red	4.36	0.3	8.53	0.8	9.48	0.8	8.04	0.8	4.05	0.4
Other red	16.48	1.2	18.32	1.6	20.56	1.7	21.39	2.0	18.35	1.8
<b>Total white</b>	<b>913.93</b>	<b>67.8</b>	<b>657.57</b>	<b>59.1</b>	<b>709.41</b>	<b>60.0</b>	<b>625.87</b>	<b>58.5</b>	<b>617.90</b>	<b>59.5</b>
Chardonnay	74.81	5.5	90.75	8.2	104.00	8.8	94.54	8.8	98.61	9.5
Chenin Blanc	255.97	19.0	267.40	24.0	272.99	23.1	240.42	22.5	240.78	23.2
Colombar	156.59	11.6	129.31	11.6	143.26	12.1	112.61	10.5	122.04	11.7
Hanepoot	34.27	2.5	31.83	2.9	26.79	2.3	19.67	1.8	20.28	2.0
Riesling (Cape)	14.62	1.1	16.17	1.5	14.71	1.2	11.92	1.1	11.27	1.1
Sauvignon Blanc	56.95	4.2	59.18	5.3	73.33	6.2	71.87	6.7	73.37	7.1
Port varieties	0.86	0.1	0.31	-	0.36	-	0.56	0.1	2.44	0.2
Dry white	17.65	1.3	12.75	1.1	19.11	1.6	15.08	1.4	12.06	1.2
Other white	302.21	22.4	49.87	4.5	54.86	4.6	59.21	5.5	37.04	3.6
<b>Total</b>	<b>1,348.86</b>	<b>100.0</b>	<b>1,112.20</b>	<b>100.0</b>	<b>1,182.96</b>	<b>100.0</b>	<b>1,069.55</b>	<b>100.0</b>	<b>1,039.25</b>	<b>100.0</b>



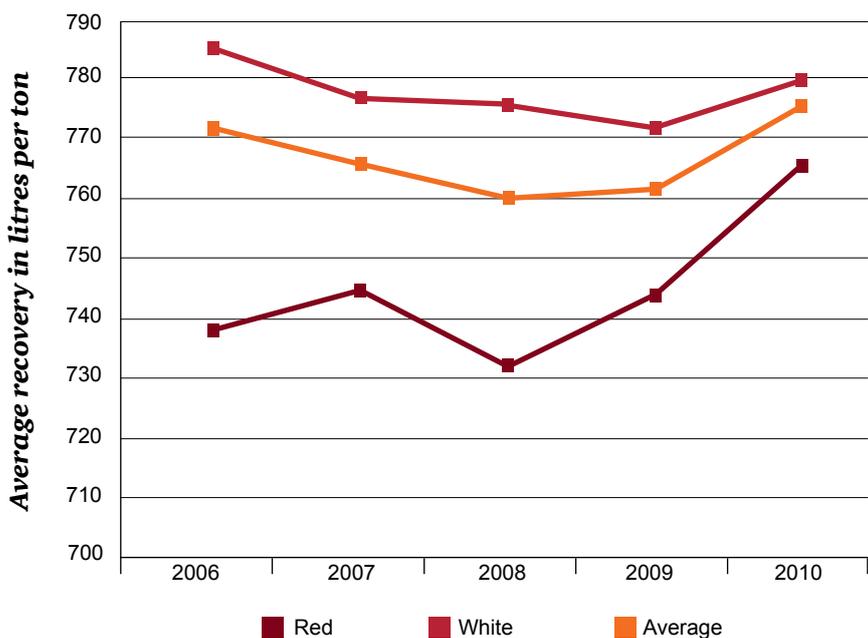
Cabernet Sauvignon, Chenin Blanc and Colombar remained the top cultivars in terms of producing-hectares.

A significant increase in non-producing hectares across the participant-cellars could be indicative of aggressive uprooting and replanting-programs being undertaken in order to keep up with ever-changing global trends. This will inevitably put strain on producers' cash-flows, given the time lapse between planting the vines and reaching optimal production.

## 2.2 Results/Findings

### 2.2.1 Production (continued)

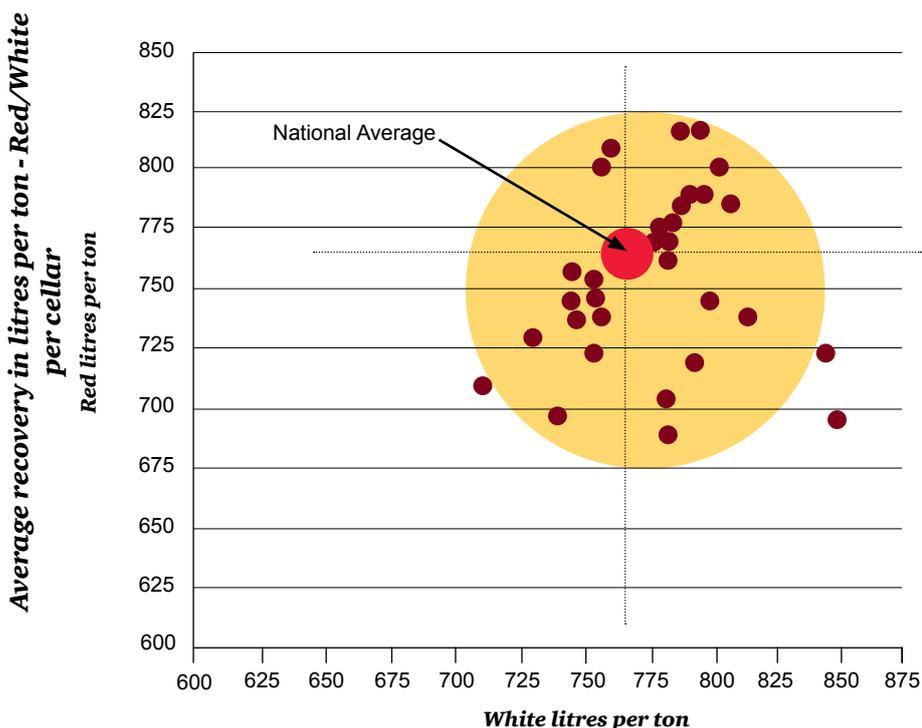
Average litres produced per product composition										
Product	2006 harvest		2007 harvest		2008 harvest		2009 harvest		2010 harvest	
	L	%	L	%	L	%	L	%	L	%
Drinkwine	8,196,181	64.0	8,673,993	72.5	8,998,674	72.3	8,973,395	79.1	8,654,879	85.8
Rebate wine	1,326,223	10.4	1,510,016	12.6	1,350,067	10.9	882,026	7.8	350,525	3.5
Distilling wine	1,357,964	10.6	1,059,439	8.9	1,133,637	9.1	815,496	7.2	610,553	6.1
Juice	1,838,084	14.4	604,130	5.0	772,752	6.2	553,240	4.9	405,177	4.0
Other	81,169	0.6	120,630	1.0	184,065	1.5	123,293	1.1	66,932	0.7
<b>Total</b>	<b>12,799,621</b>	<b>100.0</b>	<b>11,968,208</b>	<b>100.0</b>	<b>12,439,196</b>	<b>100.0</b>	<b>11,347,450</b>	<b>100.0</b>	<b>10,088,065</b>	<b>100.0</b>



The 2010 harvest showed a definite increase in the percentage drinkwine produced, continuing the trend since 2007. The drinkwine-component of the crop have increased from 64% in 2006 to almost 86% in 2010.

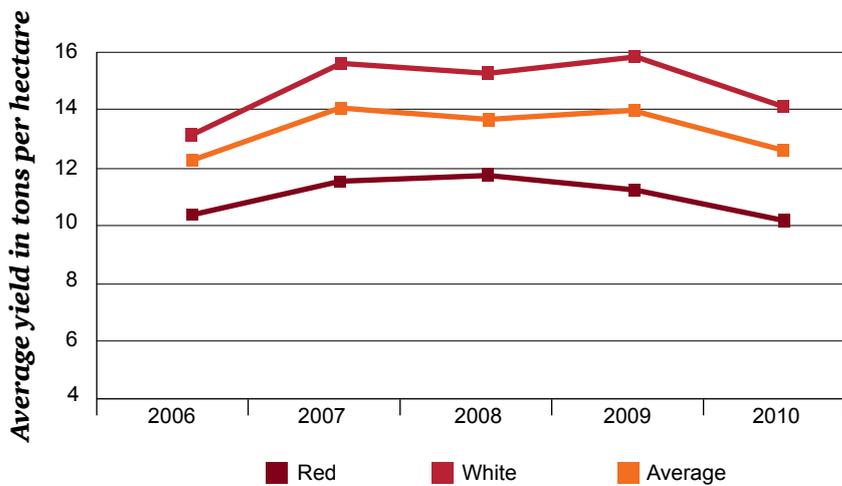
The increase in drinkwine were mainly at the expense of rebate wine, decreasing from 12.6% in 2007 to less than 4% in 2010. Cellars should continue to consider the optimal ratio between drink-, rebate- and distilling wine, balancing optimal price with timing of cash-flows.

The average recovery of 776 litres per ton for participating cellars is a significant increase compared to previous harvests, which is also in line with an increase noted on a national basis.



## 2.2 Results/Findings

### 2.2.1 Production (continued)



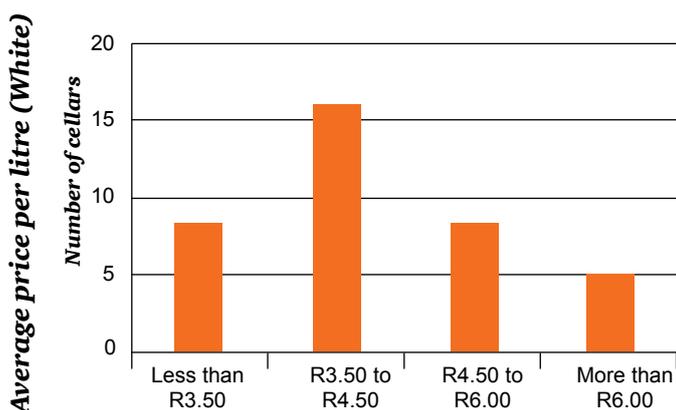
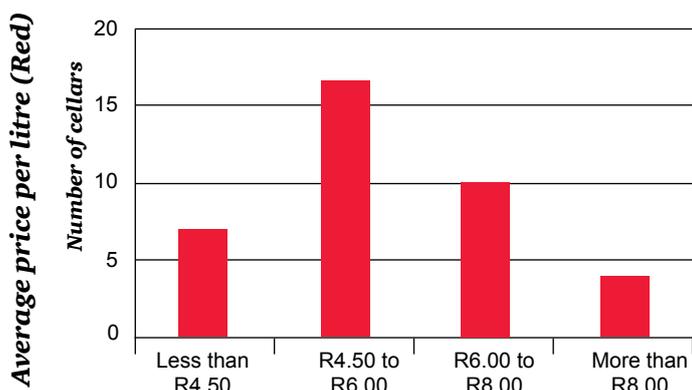
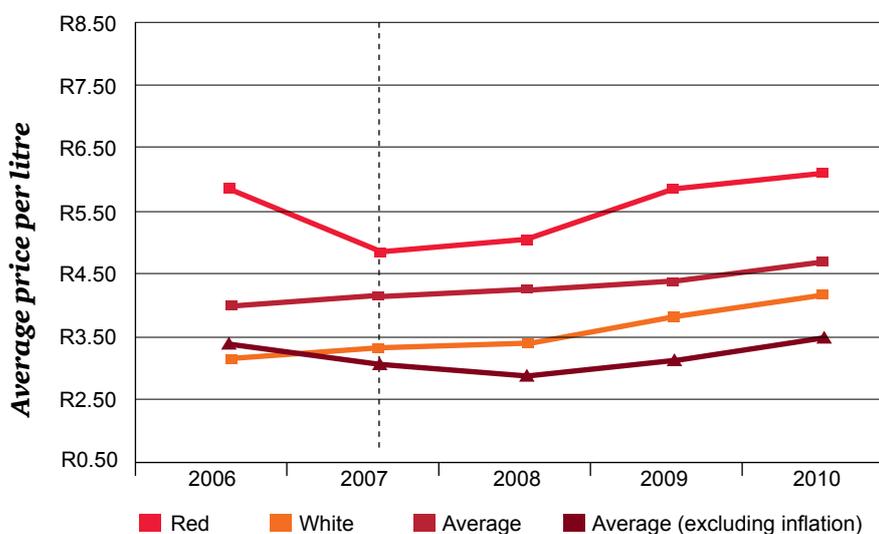
Given the adverse weather conditions recorded during the 2009 growing season, it is not surprising to see a decrease in average yield in tons per hectare for the 2010 harvest. The average yield dropped to levels last seen during the 2006 harvest.

The constant pressure on input costs regarding developing and maintaining the vineyards, makes the tons yielded per hectare a crucial factor in determining the profitability and sustainability of primary grape producers. It is therefore a key performance indicator that should be monitored continuously.

## 2.2 Results/Findings

### 2.2.2 Profitability

Income statement (Average per cellar)										
Wine and related products	2006		2007		2008		2009		2010	
	R	R/ton	R	R/ton	R	R/ton	R	R/ton	R	R/ton
Sales	47,237,918		46,544,207		55,537,348		57,981,093		57,558,271	
Opening inventories	21,124,537		18,931,555		20,743,837		19,841,361		22,080,838	
Closing inventories	20,832,405		20,670,808		19,788,300		21,657,617		22,431,089	
Net profit before tax	146,811	8.86	747,412	47.87	1,172,439	71.67	1,872,263	125.83	672,062	51.67
Tax	56,668	3.42	269,584	17.27	273,784	16.74	664,018	44.63	432,614	33.26
Net profit for the year	82,168	4.96	477,828	30.60	898,655	54.93	1,327,267	89.20	477,490	36.71



In spite of the smaller 2010 harvest, higher prices enabled producer cellars to maintain revenue-levels for the last 2 to 3 years. Profitability remains under pressure, with relentless annual increases in production costs not being passed on to the end-consumer.

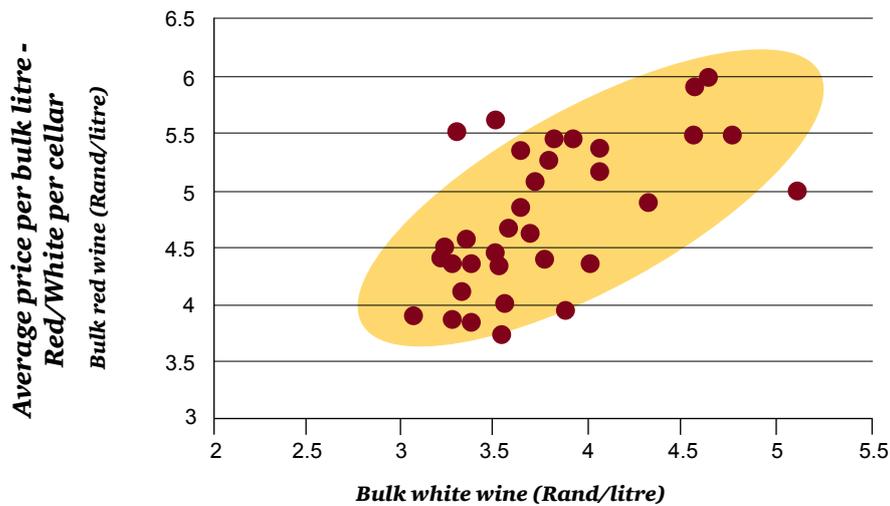
White varieties continued to show encouraging growth in price per litre, moving towards an average price of R4.50 per litre. Red varieties showed increases in line with inflation levels, breaking through the R6.00 barrier (last in 2004/5).

Despite the positive growth in wine prices, the relative strength of the Rand to other currencies as well as the slow recovery of the global economy continue to postpone the much-needed market-adjustment in wine prices.

A very positive observation is that a real growth in the selling price of wine was now recorded for 2 years in a row.

## 2.2 Results/Findings

### 2.2.2 Profitability (continued)



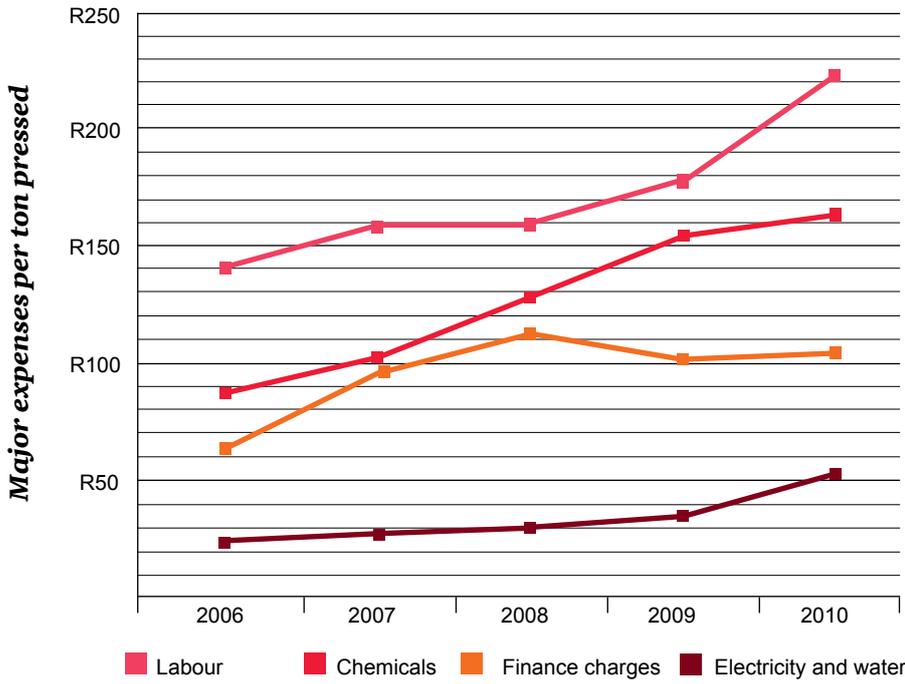
It was generally found that a cellar achieved relatively high or relatively low prices for both its red and white bulk wines. This might be the result of a specific cellar's approach to quality and marketing programs applied consistently to both red and white wines.

Analysis of expenses attributable to bulk and packaged wine

Expense	2006		2007		2008		2009		2010	
	Bulk wine	Packaged								
	R/ton	R/L								
Labour										
Permanent	127.00	0.87	140.86	0.41	139.56	0.59	160.42	0.70	196.89	0.57
Temporary	13.40	0.02	15.93	0.07	18.03	0.09	17.79	0.15	24.97	0.14
Insurance	8.82	0.06	10.71	0.02	10.58	0.02	13.08	0.03	16.79	0.03
Marketing and sales expenses	17.45	1.89	19.16	1.30	31.86	1.18	27.49	1.48	34.14	1.15
Bottling and packaging	1.70	2.95	11.27	2.67	2.03	2.72	4.99	4.26	-	5.03
Chemicals, cleaning and filtration materials	88.48	0.14	105.01	0.08	128.18	0.15	154.35	0.16	164.12	0.14
Distribution	23.54	0.43	19.26	0.21	24.79	0.23	18.38	0.37	30.32	0.34
Sundry administrative expenses	42.82	0.58	68.13	0.16	53.46	0.15	64.89	0.63	84.38	0.71
Sundry cellar expenses	34.15	0.06	32.62	0.03	28.19	0.20	38.20	0.28	43.70	0.32
Electricity and water	23.58	0.04	26.93	0.03	29.86	0.06	36.48	0.08	54.25	0.07
Finance charges	63.53	0.39	94.80	0.17	114.35	0.26	101.53	0.22	107.22	0.20
Rent paid	17.99	0.03	5.12	0.02	6.97	0.04	9.11	0.03	6.37	0.03
Repairs, maintenance and cellar consumables	43.99	0.12	53.26	0.09	53.41	0.12	76.51	0.21	87.68	0.15
Telephone and postage	4.78	0.03	5.34	0.01	4.55	0.01	4.54	0.03	4.77	0.02
Depreciation	71.45	0.18	78.43	0.08	78.38	0.12	84.07	0.22	115.09	0.15

## 2.2 Results/Findings

### 2.2.2 Profitability (continued)

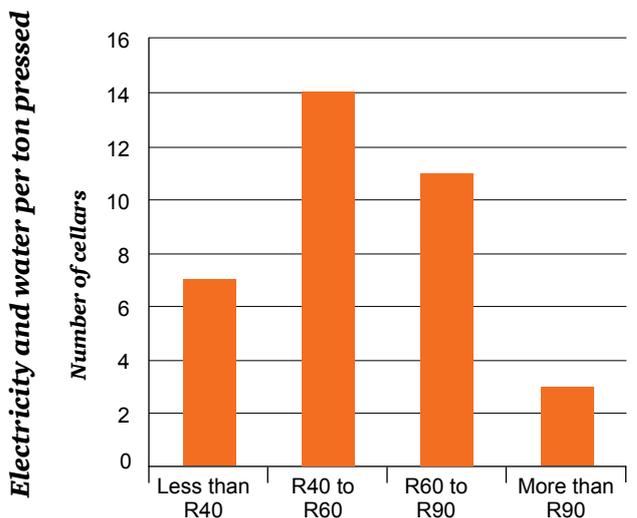
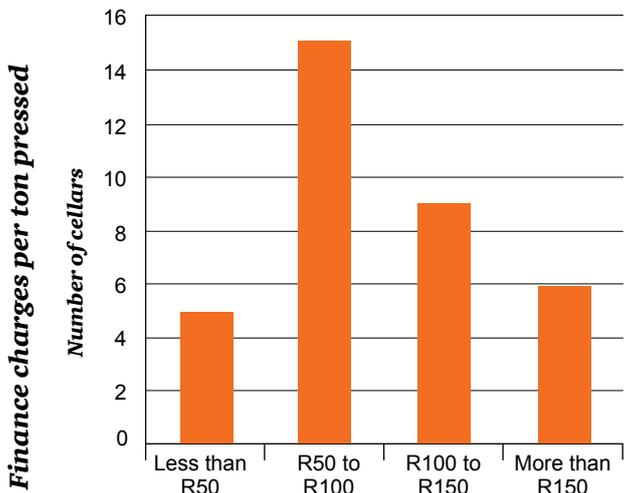
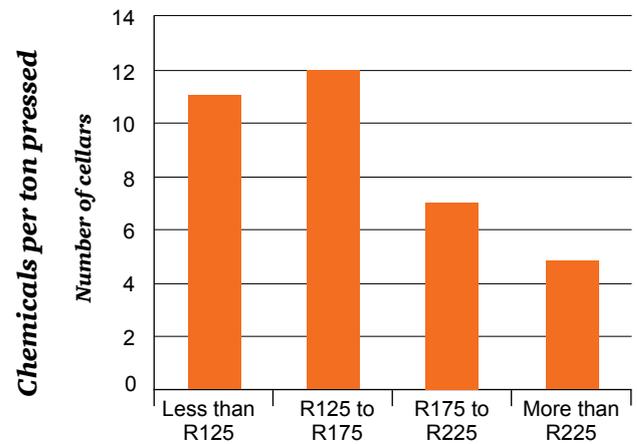
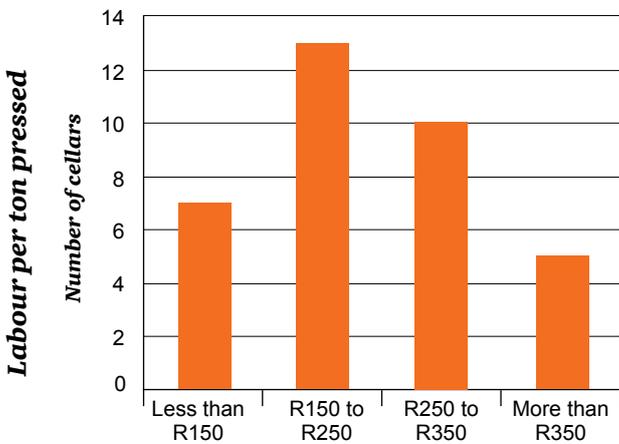


Most of the expense items showed inflation-beating increases. Labour remained the single largest expense for producer cellars, escalating to more than R220 per pressed ton.

Chemicals, whilst still aggressive, did not increase at levels noted in 2007, 2008 and 2009.

While interest rates remained at a relatively low level, the increase in cost per ton indicates higher average finance-levels compared to 2009.

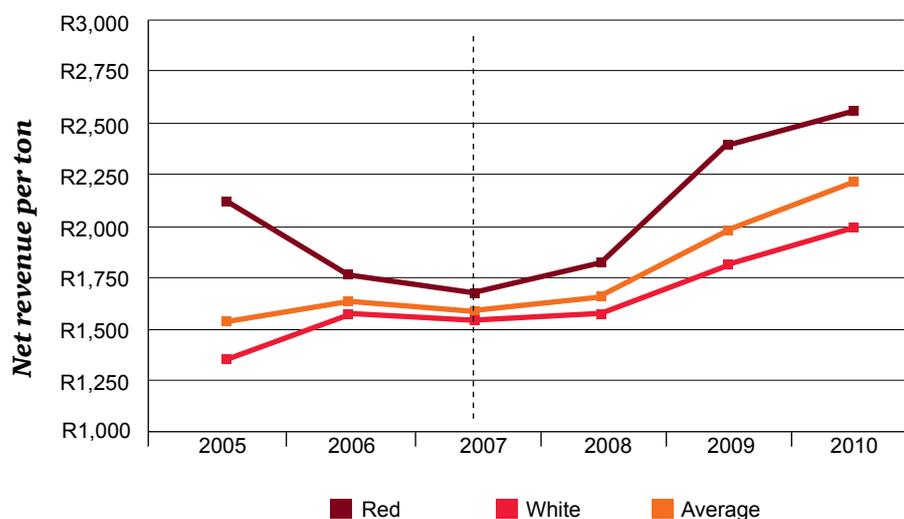
Although worrying, the steep increase in electricity cost is in line with other businesses in the South African economy.



## 2.2 Results/Findings

### 2.2.2 Profitability (continued)

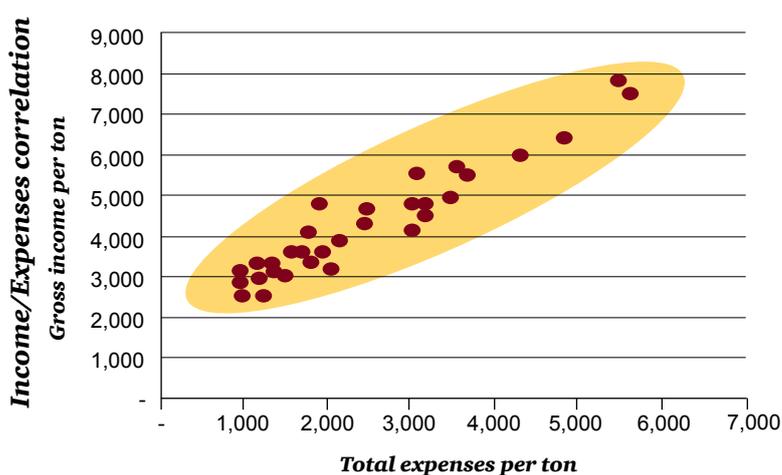
Net revenue per ton									
Cultivar	2006		2007		2008		2009		2010
	Provisional	Final	Provisional	Final	Provisional	Final	Provisional	Final	Provisional
	R/ton								
Total red	<u>1,821.77</u>	<u>1,814.81</u>	<u>1,717.85</u>	<u>1,787.16</u>	<u>1,879.76</u>	<u>1,986.62</u>	<u>2,414.28</u>	<u>2,459.40</u>	<u>2,568.58</u>
Cabernet Sauvignon	2,026.29	2,135.35	1,929.78	2,108.99	2,126.23	2,291.52	2,643.95	2,758.53	2,785.75
Cinsaut	1,513.94	1,374.44	1,422.65	1,451.66	1,461.60	1,430.85	1,845.82	1,835.15	2,045.32
Merlot	1,896.80	1,824.20	1,838.96	1,870.90	1,915.41	2,075.52	2,521.17	2,568.01	2,662.25
Pinotage	1,788.57	1,797.87	1,700.60	1,741.69	1,797.70	1,893.83	2,314.76	2,359.05	2,532.83
Ruby Cabernet	1,481.61	1,398.36	1,329.08	1,356.42	1,509.72	1,603.71	1,977.18	2,094.55	2,312.86
Shiraz	2,010.89	2,062.05	1,923.83	1,955.70	2,093.83	2,265.65	2,730.40	2,680.07	2,758.38
Port varieties	1,798.44	1,531.90	1,889.56	1,973.40	2,157.71	2,174.26	2,242.31	2,395.66	2,395.87
Dry red	1,542.44	1,413.86	1,393.44	1,424.15	1,941.44	1,574.50	2,037.91	2,224.28	2,385.23
Other red	1,524.67	1,470.42	1,408.84	1,427.36	1,602.69	1,725.78	2,281.30	2,327.95	2,352.71
Total white	<u>1,393.63</u>	<u>1,608.59</u>	<u>1,574.71</u>	<u>1,592.08</u>	<u>1,610.26</u>	<u>1,702.16</u>	<u>1,865.84</u>	<u>1,915.84</u>	<u>2,002.46</u>
Chardonnay	2,477.49	2,479.39	2,325.02	2,486.07	2,457.58	2,580.84	2,644.49	2,745.22	2,703.19
Chenin Blanc	1,467.28	1,508.36	1,518.32	1,489.01	1,507.42	1,558.79	1,724.60	1,746.38	1,848.40
Colombar	1,171.67	1,387.09	1,323.66	1,333.68	1,344.81	1,419.45	1,592.69	1,600.60	1,669.22
Hanepoot	1,375.50	1,427.41	1,430.54	1,435.19	1,390.90	1,513.04	1,662.39	1,762.03	1,812.22
Riesling (Cape)	1,543.57	1,574.54	1,513.05	1,513.29	1,375.28	1,395.85	1,623.71	1,645.38	1,802.04
Sauvignon Blanc	2,844.09	2,751.06	2,564.28	2,641.06	2,620.56	2,903.61	2,838.81	2,907.94	2,847.45
Port varieties	1,971.84	1,404.28	1,901.92	1,889.21	1,904.36	1,902.33	2,595.05	2,451.55	2,567.29
Dry white	1,312.37	1,297.63	1,205.96	1,208.25	1,169.68	1,258.38	1,390.87	1,518.23	1,634.60
Other white	953.32	1,352.43	1,379.36	1,410.89	1,366.09	1,420.85	1,657.10	1,737.31	1,874.09
Total	1,509.18	1,677.55	1,622.93	1,658.80	1,701.89	1,805.81	2,047.59	2,092.88	2,188.42



Red wine have showed positive growth in net revenue per ton, with annual increases of up to 10% for certain cultivars.

Whilst white cultivars showed steady increases, certain cultivars are under pressure, including Chardonnay and Sauvignon Blanc realising lower net revenues per ton in 2010.

The positive trends established since 2008 continued with increased average net revenue per ton recorded for both red and white varieties.

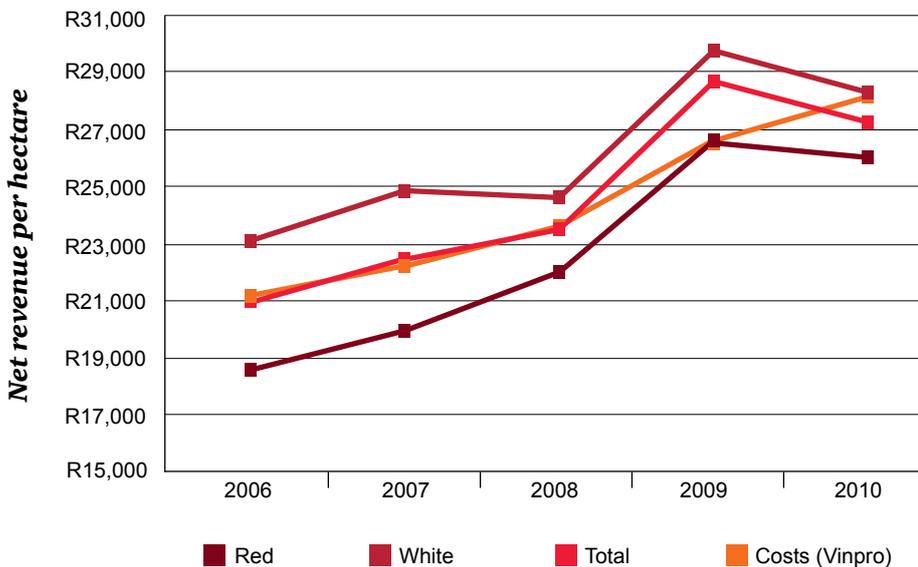


A positive correlation was observed between gross income and expenses per ton at most of the participating cellars, suggesting a stable net profit percentage at cellar level.

## 2.2 Results/Findings

### 2.2.2 Profitability (continued)

Net revenue per producing hectare									
Cultivar	2006		2007		2008		2009		2010
	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	18,731.15	18,679.32	19,874.07	18,661.48	22,080.05	22,829.99	26,833.03	28,095.65	26,109.60
Cabernet Sauvignon	16,163.81	17,056.69	16,788.43	17,497.59	19,601.31	20,471.91	22,372.73	23,986.31	22,476.60
Cinsaut	17,783.88	16,137.00	20,473.64	18,979.80	20,292.29	19,308.87	25,073.56	25,647.64	28,138.57
Merlot	20,483.64	19,750.97	21,520.66	20,780.17	22,674.87	23,915.96	31,061.75	32,383.70	26,385.19
Pinotage	19,049.16	18,895.19	19,918.26	18,655.10	22,332.40	22,920.54	26,660.52	28,327.18	26,095.73
Ruby Cabernet	22,276.93	21,591.47	19,629.32	15,393.51	26,046.24	28,408.92	28,896.09	30,892.99	30,645.32
Shiraz	20,685.63	21,634.83	23,279.67	22,002.61	24,922.20	25,807.30	31,014.87	31,392.52	29,296.10
Port varieties	15,793.43	9,832.23	13,065.88	13,517.51	17,763.19	18,932.86	20,462.56	22,011.14	16,191.06
Dry red	19,044.94	18,062.64	25,944.03	25,990.09	27,549.62	22,342.93	25,694.75	31,730.56	28,515.30
Other red	15,253.99	14,164.54	17,062.02	11,867.79	17,424.89	19,974.41	25,234.17	25,872.10	21,320.78
Total white	18,447.22	23,089.27	24,794.50	22,469.64	24,508.19	25,037.42	29,658.47	31,116.57	28,322.75
Chardonnay	24,300.55	23,991.42	23,699.33	23,191.80	26,202.13	27,297.50	31,117.51	33,076.57	27,832.26
Chenin Blanc	21,240.86	20,168.70	20,526.38	18,086.51	20,572.66	20,092.25	25,819.77	27,253.06	25,881.68
Colombar	26,596.86	26,337.20	30,013.98	25,658.25	27,930.06	28,174.25	36,419.46	36,809.62	30,607.49
Hanepoot	25,587.70	25,640.91	27,905.40	27,280.21	27,065.08	30,069.48	32,029.37	32,877.69	25,886.56
Riesling (Cape)	21,002.66	20,695.18	20,069.42	18,849.74	13,665.42	14,384.73	19,545.96	19,788.61	20,114.32
Sauvignon Blanc	26,831.31	26,455.18	30,064.77	29,089.87	29,194.10	31,609.32	32,181.06	35,062.89	34,600.18
Port varieties	34,193.52	24,531.74	30,866.87	30,660.58	23,958.44	23,932.81	34,793.06	38,214.32	31,699.31
Dry white	22,797.20	15,664.01	41,687.98	30,222.87	24,525.57	25,399.65	22,801.30	25,959.96	21,306.26
Other white	7,597.29	27,522.60	25,075.57	21,258.25	27,337.61	31,189.18	29,942.08	31,035.85	31,373.28
Total	18,538.77	21,272.47	22,783.16	20,909.48	23,536.19	24,105.51	28,486.40	29,872.29	27,426.47



The impact of the smaller harvest is clearly reflected in the financial results of the participating cellars on the net revenue per hectare level. The tonnage-yield of 12.5 tons per producing hectare dipped below the average 14 tons per hectare for the first time in a number of years. As expected, this resulted in a decreased revenue per producing hectare. Unfortunately this lower revenue per producing hectare for both red and white do not compare favourable with Vinpro's estimated average production cost per hectare.

## 2.2 Results/Findings

### 2.2.3 Structuring

Balance sheet (Average per cellar)					
	2006	2007	2008	2009	2010
	R	R	R	R	R
<b>Assets</b>					
<b>Non-current assets</b>	26,372,090	26,155,697	28,913,668	30,346,382	31,101,990
Property, plant and equipment	22,975,087	23,321,425	26,139,623	27,745,501	28,310,193
Investments	3,358,489	2,818,989	2,754,155	2,517,185	2,704,879
Deferred tax assets	38,514	15,283	19,890	83,696	86,918
<b>Current assets</b>	35,702,171	37,531,373	39,379,503	41,870,475	40,416,354
<b>Inventories</b>	21,840,596	21,460,768	20,847,481	22,526,245	22,911,030
Wine	20,832,405	20,670,808	19,788,300	21,657,617	22,464,393
Other	1,008,191	789,960	1,059,181	868,628	446,637
Trade and other debtors	11,957,265	13,753,650	16,382,114	16,812,555	15,402,824
Bank and cash	1,904,310	2,316,955	2,149,907	2,531,675	2,102,500
<b>Total assets</b>	<u>62,074,261</u>	<u>63,687,071</u>	<u>68,293,171</u>	<u>72,216,857</u>	<u>71,518,344</u>
<b>Equity and liabilities</b>					
<b>Capital and reserves</b>	18,509,240	18,494,341	19,741,704	20,764,483	19,747,353
Share capital	4,164,657	4,302,876	4,783,717	4,742,382	5,006,216
Reserves	12,657,510	13,189,536	14,176,458	15,274,328	14,029,844
Members' funds	1,687,073	1,001,929	781,528	747,772	711,292
<b>Non-current liabilities</b>	14,900,182	11,863,781	13,269,637	14,223,281	14,104,520
Long-term borrowings	12,047,814	8,707,349	9,794,468	10,608,758	10,366,281
Deferred tax liabilities	2,515,483	2,835,087	3,172,946	3,361,393	3,549,021
Deferred income	336,885	321,344	302,223	253,129	189,218
<b>Current liabilities</b>	28,664,839	33,328,949	35,281,830	37,229,094	37,666,471
Trade and other creditors	13,868,949	13,986,227	16,015,280	14,323,157	13,728,355
Producers	13,943,376	18,115,239	18,808,073	21,844,931	22,314,933
Bank overdrafts	852,515	1,227,484	458,478	1,061,006	1,623,183
<b>Total equity and liabilities</b>	<u>62,074,261</u>	<u>63,687,071</u>	<u>68,293,171</u>	<u>72,216,857</u>	<u>71,518,344</u>

Ratios					
	2006	2007	2008	2009	2010
<b>Own capital vs Loan capital</b>					
Own capital	30%	29%	29%	29%	28%
Loan capital	70%	71%	71%	71%	72%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
<b>Current ratio</b>	<u>1.25:1</u>	<u>1.13 :1</u>	<u>1.12 :1</u>	<u>1.12 :1</u>	<u>1.07:1</u>
<b>Acid test</b>	<u>0.48:1</u>	<u>0.48 :1</u>	<u>0.53 :1</u>	<u>0.52 :1</u>	<u>0.46:1</u>
<b>Non-current assets vs Non-current liabilities</b>	<u>1.80:1</u>	<u>2.20 :1</u>	<u>2.18 :1</u>	<u>2.13 :1</u>	<u>2.21:1</u>
<b>Inventory turnover rate (times per year) (Note 1)</b>	<u>2.3</u>	<u>2.4</u>	<u>2.7</u>	<u>2.8</u>	<u>2.5</u>
<b>Debtors days outstanding (days)</b>	<u>84</u>	<u>100</u>	<u>100</u>	<u>104</u>	<u>102</u>
<b>Return on investment (%) (Note 2)</b>	<u>9%</u>	<u>13%</u>	<u>17%</u>	<u>17%</u>	<u>11%</u>

(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.)

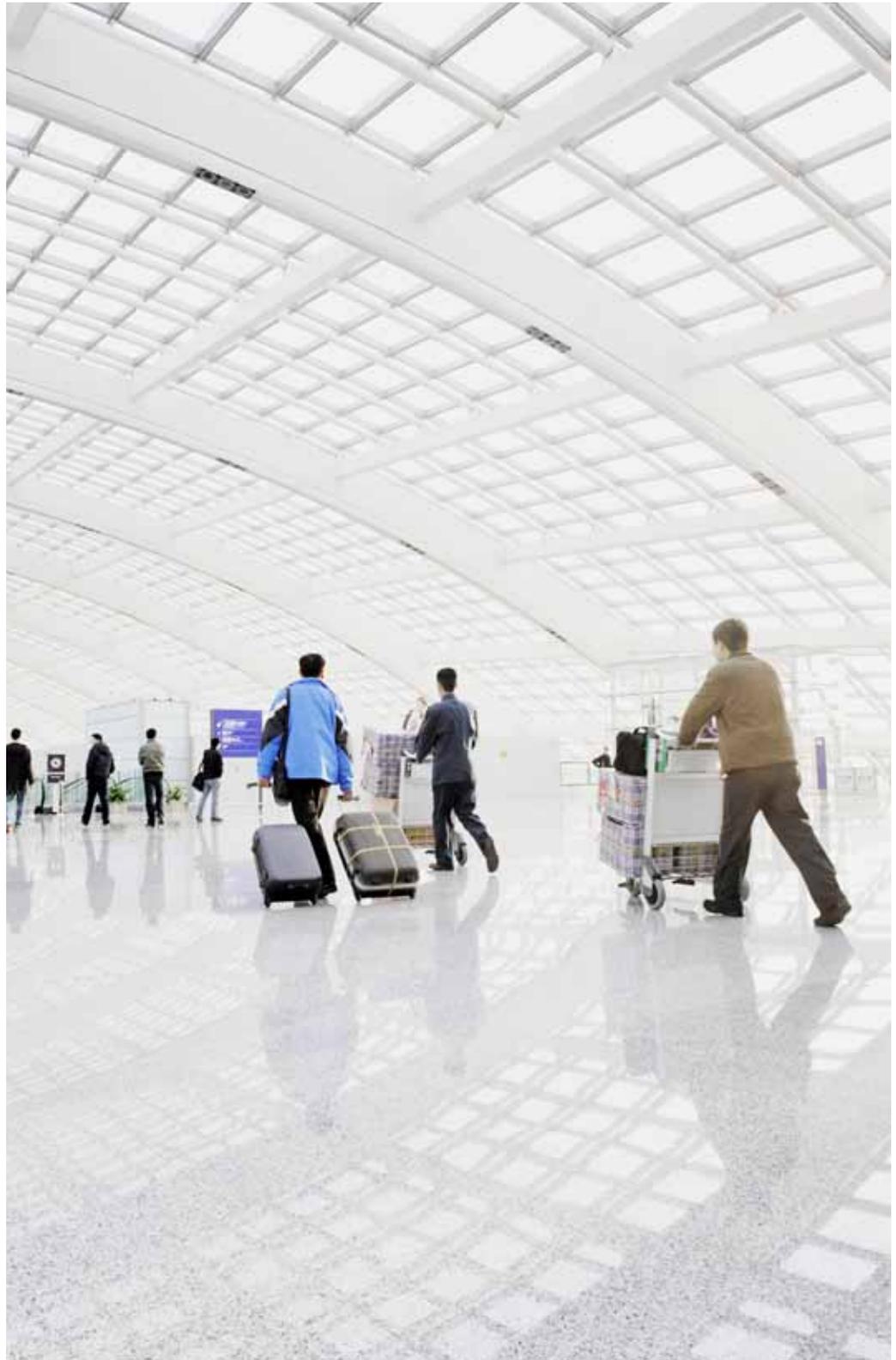
(Note 2: Return on investment is calculated as earnings before interest and tax (EBIT) as a percentage of Capital and reserves.)

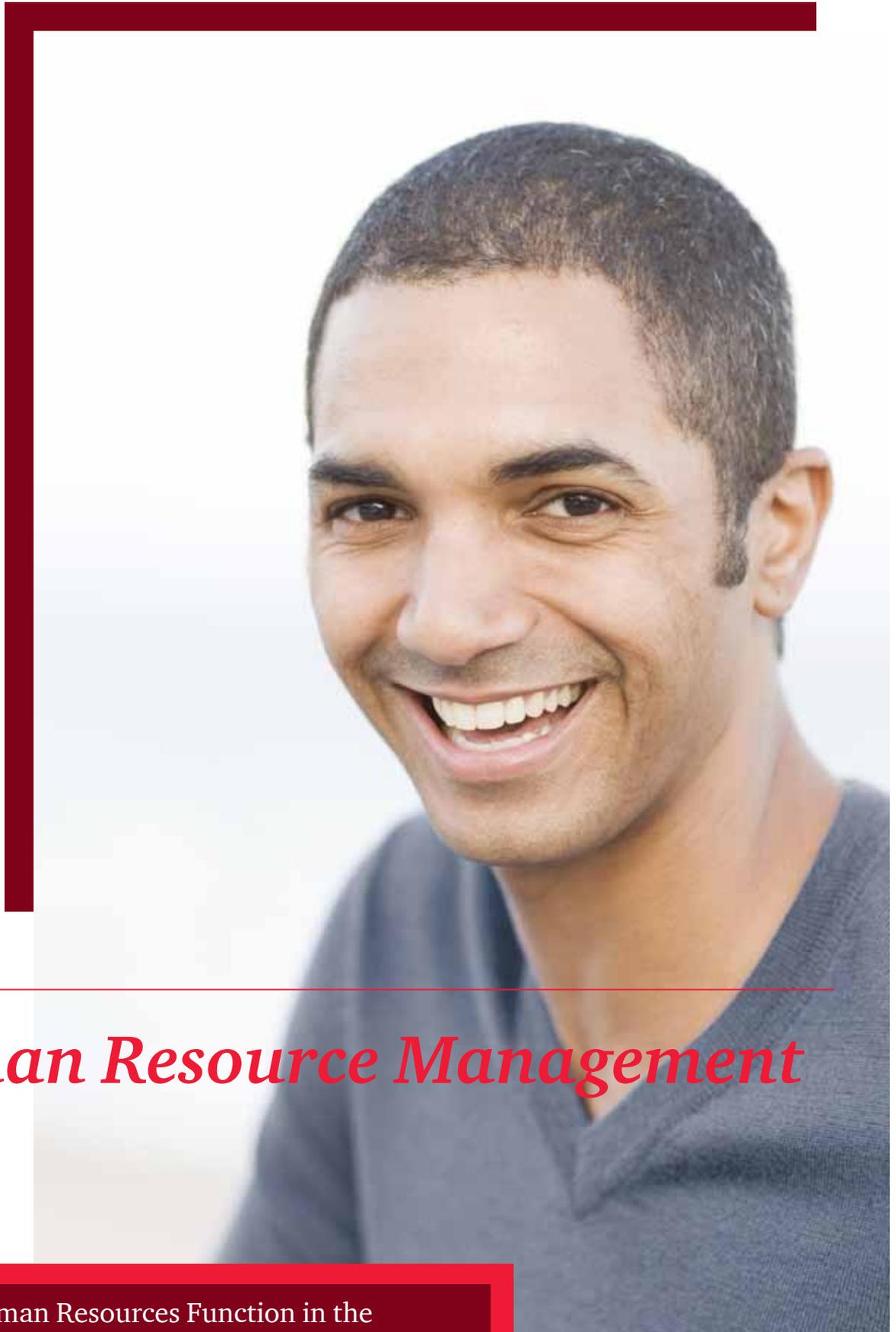
## 2.3 Conclusion

A relatively stable local market and the fact that producer cellars only export about 11% of their wines compared to the national average of 50%, might be an indication of where future growth should come from for these cellars.

Over the past year France, Italy, Spain, the USA, Chile and Argentina all recorded substantial increases in export volumes. Exceptions appear to be South Africa and Australia to a lesser extent. The “escape valve” for major exporters’ excess seems to be the emerging markets and maybe these markets should also be considered by the South African industry.

However, the global environment remains competitive and the strength of the Rand will have to be carefully considered in all export-decisions.





### *3. Human Resource Management*

The Human Resources Function in the modern organisation is moving from this transactional role to that of being a strategic partner and advisor to Leadership.

### 3.1 Introduction

This is the second year that Human Resource Practices have been included in the Wine Industry Insights Survey. The response to this year's questionnaire was very good with an increased number of cellars participating. Additional questions were included in the 2011 survey and we are able to provide more comprehensive feedback on the key human resources challenges facing the Wine Industry.

Historically, the role of the Human Resources Function in an organisation has been transactional of nature and focussed on ensuring compliance to legislative and policy requirements. The Human Resources Function in the modern organisation is moving from this transactional role to that of being a strategic partner and advisor to Leadership. To achieve this transformation, several value-adding deliverables must be addressed e.g.

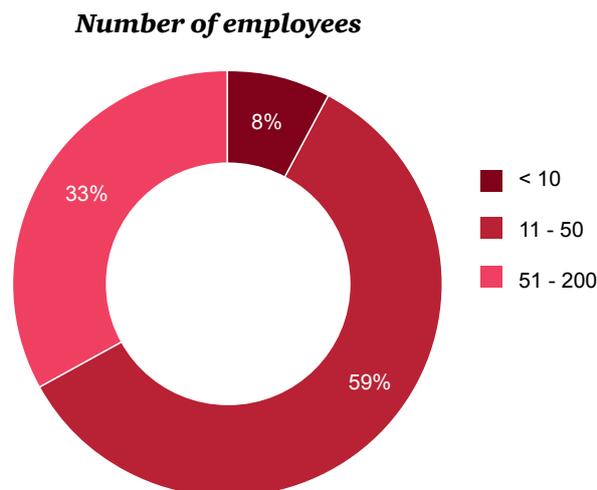
- Serving internal and external stakeholders;
- Creating and embedding value adding human resources practices;
- Ensuring the professionalism of the Human Resources Function;
- Empowering leadership and line management to perform their human resources role;
- Measuring the return on the investment in human capital; and
- Knowing, understanding and interpreting external realities.

The results of the Human Resources survey are reflected below and important trends are highlighted.

This will enable you to compare your organisation to the general trends in the Wine Industry and provide a base for you to improve on your human resources practices.

### 3.2 The HR Department & Staff Turnover

It was interesting to note that 8% of the participating cellars employ less than 10 employees, 59% of the participating cellars have between 11-50 employees and only 33% have between 51 - 200 employees.



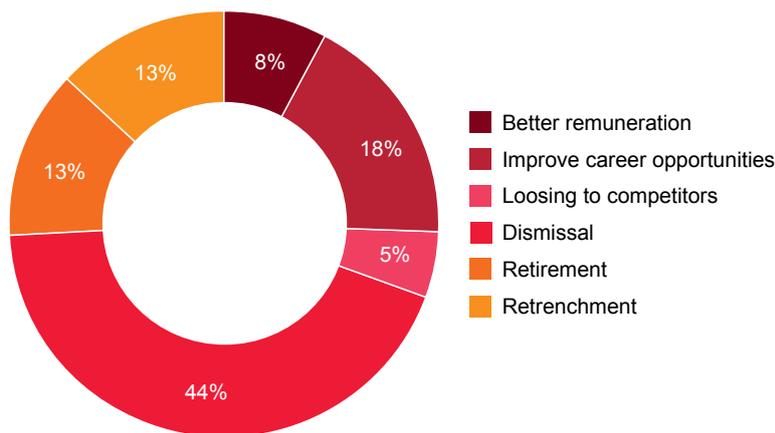
Only 35% of the participating cellars have a small internal Human Resources Function.

It is also interesting to note that only 35% of the participating cellars have a small internal Human Resources Function of approximately 1-2 staff members, and that 42% of cellars outsource their Human Resources Function to external service providers. The key question is how many of these Human Resources functions (internal or external) perform a transactional function only? The reality is that human resources practices and processes are increasing in complexity and are constantly posing new challenges to organisations and their leadership. This requires a new approach to the role, structure and functioning of the Human Resources Function.

The impact of the world-wide recession, the low exchange rate and decline in consumer buying power also had an impact on organisations in the Wine Industry. This is also visible in the staff turnover, and the retrenchments (13%) and dismissals (44%) that happened during the past year.

Nineteen percent (19%) of the participating cellars indicated that they did experience high staff turnover with 81% indicating that their staff complement was reasonably stable during the year. If one considers the reasons why employees are leaving, some interesting patterns emerge. It is discomfoting that 44% of all staff turnover is due to dismissals, 13% due to retrenchments and 13% due to retirement. The reasons for employees leaving are shown in the graph below.

**Reasons for leaving**

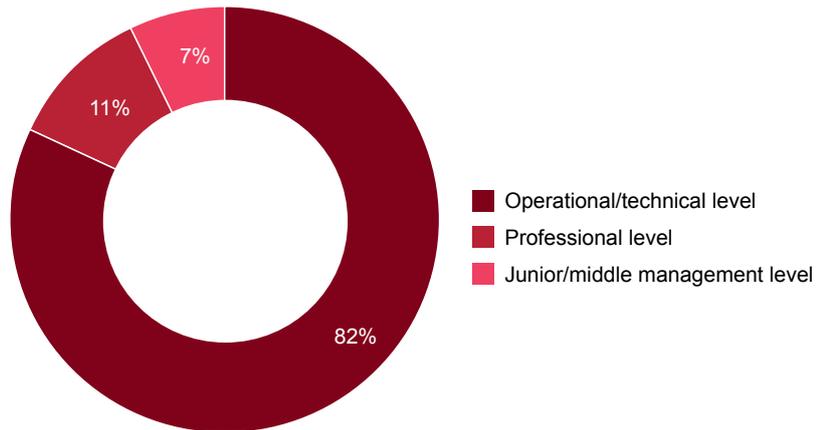


The above picture can have far reaching implications for the participating cellars. The high rate of dismissals may be indicative of several factors, including shortcomings in certain human resources practices e.g. recruitment and selection, training and/or performance management, and should be explored further.

The number of retirements (13%) may be indicative of an aging workforce and would need to be explored further. This may require participating cellars to consider their approach to succession planning and the retention of key skills and talent. The fact that participating cellars are losing staff who want to improve their career opportunities (18%) may be indicative of the challenge participating cellars have in retaining staff.

It was also apparent that most of the turnover of staff occurred in the operational and technical levels of the organisation (82%). This is also the level where most of the training budget is being spent (see point 3.3 below) and the loss of key skills after investing in developing these skills, will impact negatively on an organisation. The question should be asked if the training that is provided, as well as the current measures to retain skilled employees, is effective. See the graph below indicating the employee bands where staff turnover took place.

**Employee Bands with high staff turnover**



**17%**

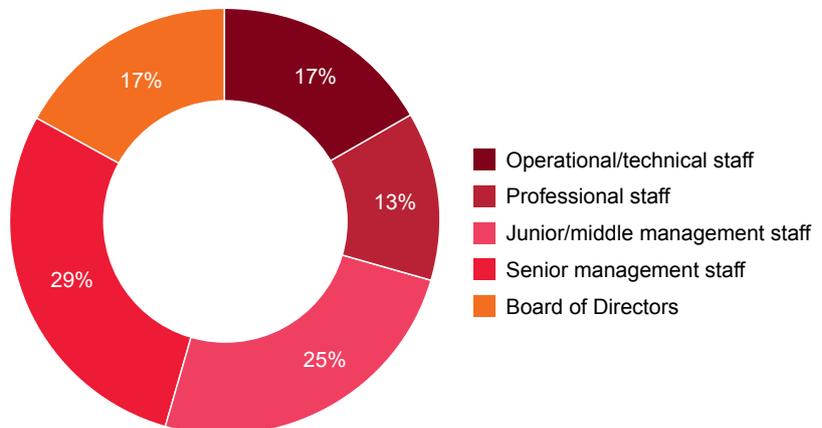
Although Operational/Technical staff has the highest turnover rate, only 17% of the organisations have succession plans for these levels.

### 3.3 HR Practices

#### 3.3.1 Succession Planning

Only 41% of the participating cellars indicated that they have succession plans in place. Only two participants indicated that they have succession plans ready for each level of the organisation. It is apparent from the graph below that most of the succession plans are implemented on the Senior and Junior/Middle Management levels. Although Operational/Technical staff has the highest turnover rate, only 17% of the organisations have succession plans for these levels.

**Levels of Succession Planning**



96%

*Ninety six percent (96%) of the participating cellars are satisfied that their recruitment processes are efficient.*

### 3.3.2 Recruitment

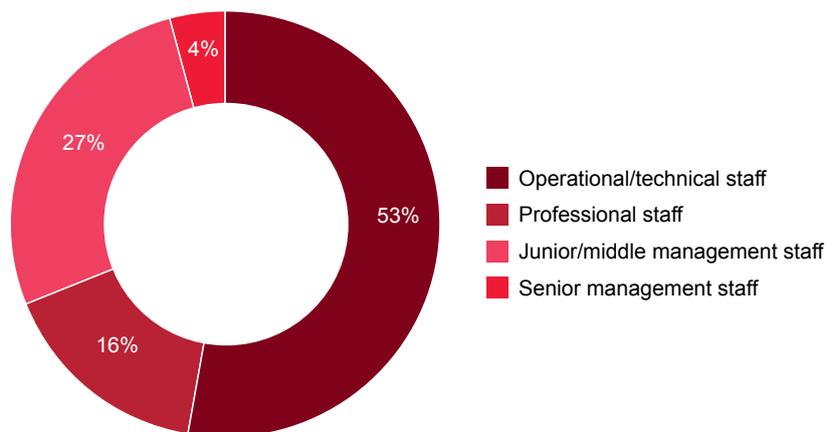
Ninety six percent (96%) of the participating cellars are satisfied that their recruitment processes are efficient and that they are attracting the right quality of candidates to their organisation. It was apparent that the majority of the participating cellars are unsure if they are compensating employees fairly and are considering ways in which they can provide staff motivation and morale without monetary incentives. It is therefore clear that the recruitment phase in the employee life cycle is sufficiently implemented, but a few gaps can be identified in the broader human resources value chain to help motivate and retain staff i.e. Training, Performance Management, and Employee Motivation etc.

### 3.3.3 Training

Eighty one percent (81%) of participating cellars believe they have a properly implemented skills development programme. Most of the participants try to aim the training and development programmes at all levels, but it is clear that operational/technical levels are receiving the greater allocation (53%) of training as depicted in the graph below. The indication is that on average 60% of the training budget is being spent on the Operational/Technical levels, with the lowest spend at these levels at 30% and the highest at 95%. This trend can be explained due to the need to comply with the applicable legislation and the need for certain compulsory training courses i.e. Health & Safety Training; First Aid; Fork Lift Drivers etc. and due to the need to comply with BEE and EE requirements. The question to ask is if enough training is done to address the high disciplinary rate. When participants were asked what the training needs at the Operational/Technical levels are, it was also apparent that most of the participants mentioned the above legally compliance courses.

The participating cellars did however indicate that the training of senior management and members of the Board of Directors is a priority and should receive attention. This will require a reallocation of the training budget and a specific focus on developing leadership skills at senior management and Board level. This is an important observation given the need for strong leadership and strategic focus to effectively respond to the challenges in the Wine Industry in the medium to long term.

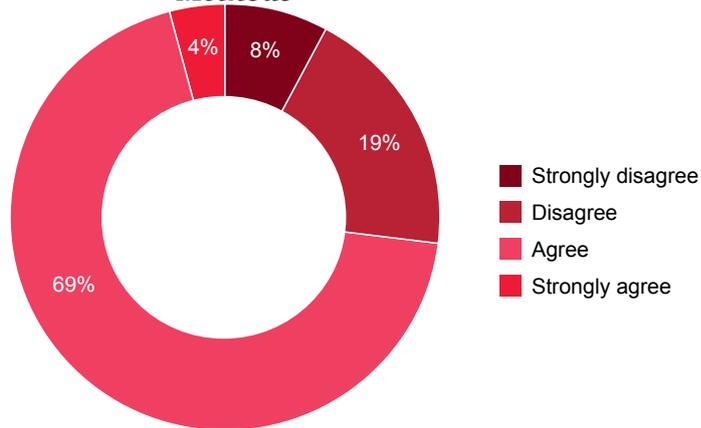
**Main Beneficiaries of Training**



### 3.3.4 Performance Management

Although all participants have confirmed that their employees have clearly defined job descriptions, only 57% of the participants confirmed that they have a performance management system. Eighty nine percent (89%) of the participants felt that their employees understand their contribution and responsibility at the workplace. Only 67% of employers feel that their employees are incentivised and rewarded for their outstanding performance, as can be seen in the graph below. Sixty nine percent (69%) of the participants agree that their employee evaluating methods are effective.

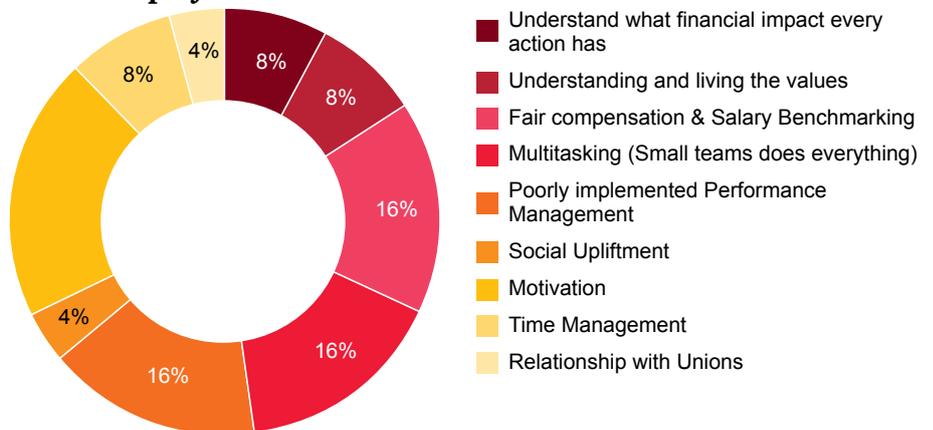
**Effectiveness of Employee Evaluating Methods**



The biggest people performance challenges appears to be to ensure that current performance management practices are implemented correctly and objectively and that it impacts positively on staff motivation and morale.

To manage people performance seems to be a universal challenge, and performance management is only one tool to assist with this. Below is a few of the other challenges the participants in the Wine Industry is experiencing to manage people performance. The biggest people performance challenges appears to be to ensure that current performance management practices are implemented correctly and objectively and that it impacts positively on staff motivation and morale. A further challenge the participating cellars have is ensuring that employees understand the financial realities of the organisation as well as understand and live the values of the organisation. The lack of this understanding may be a contributing factor to low staff motivation and the high disciplinary rate referred to earlier.

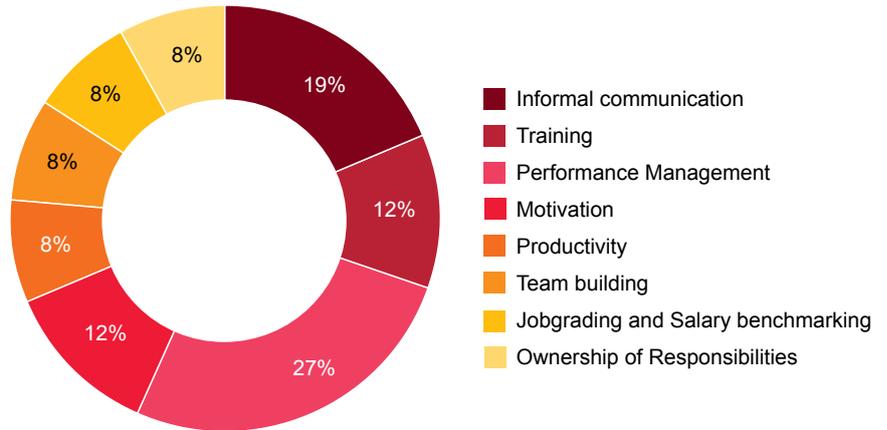
**Biggest challenges in people performance**



### 3.4 General human resources practices

The final section of the survey related to the human resources practices participant thought they need to improve on. Performance Management came at the top with 27% of the participants adding it to their list. The second biggest challenge participating cellars are experiencing is informal communication and the third biggest challenge is the training and motivation of staff. The motivation of staff was mostly mentioned under the current economic conditions and the difficulty organisations have to motivate staff when it is difficult to do it in a monetary form. Other forms of motivation i.e. team building, flexi hours; other non-monetary benefits; education etc. will become very important, and employers will have to think outside the box to keep their staff motivated and committed.

#### HR Practices that can be improved

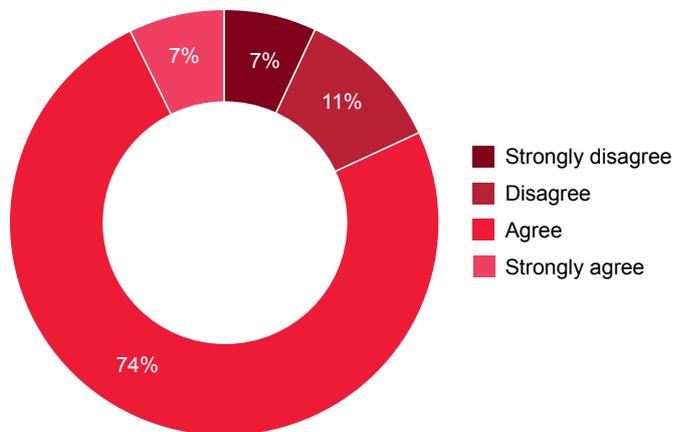


**80%**

More than 80% of the participating cellars feel that their compensation is fair.

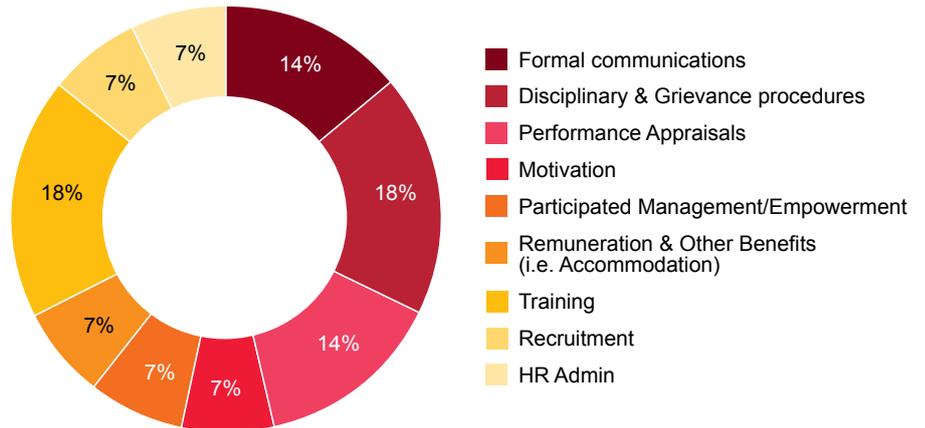
Although fair and comparable compensation was indicated as a challenge for some employers, it is clear from the below graph that more than 80% of the participating cellars feel that their compensation is fair and also competitive according to industry standards.

#### Fair and competitive compensation



In terms of general human resources practices the practices the participating cellars believe they are doing well in relate to the transactional human resources activities like human resources administration, disciplinary procedures and recruitment. However, as the organisation develops, more strategic human resources practices e.g. performance management, talent management, succession planning, organisational development, policies & procedures, measuring the return on human capital, coaching and leadership development would be more important.

**Fair and competitive compensation**



**3.5 Summary**

The 2011 Human Resources survey provides a good picture of the current reality of human resources practices of the participating cellars.

The key themes can be summarised as follows:

- Transactional human resources practices are well implemented and managed.
- There is a need to enhance the quality of the human resources value chain and human resources practices from recruitment to termination.
- The “step up” to more strategic human resources practices have now become a priority specifically with regards to:
  - Effective performance management;
  - Succession planning and the ability to retain key staff;
  - Creative ways of improving staff morale and motivation;
  - Effective leadership development at senior management and Board level;
  - Measuring the impact and return on the investment in human capital;
  - Positioning the wine industry as an employer of choice; and
  - Positioning the Human Resources Function as a strategic partner and trusted business advisor.

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