

*Key trends, challenges & future prospects/9th edition
Look out for: CEO insights and views ^{p4}/Financial
overview of producer cellars – 2011 harvest ^{p12}/Human
resource management ^{p24}*

The South African wine industry

Insights survey 2012



Foreword

Welcome to *The South African wine industry Insights survey 2012*. The survey explores some of the issues facing local wine businesses, specifically those evident from the financial results of the 2011 harvest and human resource management practices in the industry. It also includes the views of a number of chief executives on the opportunities in and challenges facing the industry.

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

- Views from chief executives;
- Financial overview of producer cellars – 2011 harvest; and
- Human resource management.

Views from chief executives

We posed a variety of questions to chief executives of wine cellars and their views are summarised under the following sections:

- General industry outlook;
- Opportunities and challenges; and
- Short and medium term forecast.

The questions were designed to gauge executives' assessment of the short- to medium term prospects for both the local and global wine industry.

Financial overview of producer cellars – 2011 harvest

Our financial benchmarking survey has covered nine harvests since 2003. The results of the 2011 wine-grape harvest are presented with those of the four preceding harvesting years as comparative figures.

The findings are presented on a national average basis. The focus remains on the 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 survey again includes a high-level overview of human resource practices in the industry. The high participation level provided us with detailed information, assisting us to identify general and specific trends and to provide 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 Human resource department;
- Staff turnover; and
- Human resource practices.

General

The regulatory environment in which wine businesses operate in South Africa continued to change during the past year. The Department of Justice and Constitutional Development has extended the exemption for certain private bodies to submit information manuals in terms of section 51 of the Promotion of Access to Information Act to the South African Human Rights Commission until 31 December 2015. In the Agricultural sector, private bodies enjoying this exemption, are those with less than 50 employees together with an annual turnover of less than R2 million.

With the new Companies Act (No 71 of 2008) in effect since 1 May 2011, companies are required to align their memorandums of incorporation (MOI) with the new requirements. The transitional provisions, which afford companies two years to align their MOI's, will expire on 30 April 2013.

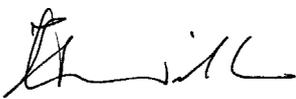
South Africa is also leading the way in terms of promoting ethical trade in the wine industry. The establishment of the Wine and Agricultural Industry Ethical Trade Association (WIETA) 10 years ago enables local wine producers to assess their compliance, through technical assessments and audits, with WIETA's code of good conduct, based on the International Labour Conventions Ethical Trading Initiative. Fully compliant producers will be entitled to carry the certified WIETA ethical seal on their wines.

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 34 of this report.

We trust you will find this issue of the PwC publication: The South African wine industry Insights survey 2012 insightful and of value to your business.



Frans Weilbach

Director and Specialist Partner: Wine Industry
PricewaterhouseCoopers Inc.
Stellenbosch
August 2012

Table of Contents

| | | |
|-------|---|----|
| 1. | Executive summary | 1 |
| 2. | Views from chief executives | 4 |
| 2.1 | Introduction | 4 |
| 2.2 | General industry outlook | 4 |
| 2.3 | Opportunities and challenges | 6 |
| 2.4 | Short and medium term forecast | 9 |
| 2.5 | Summary | 11 |
| 3. | Financial overview of producer cellars – 2011 harvest | 12 |
| 3.1 | Introduction | 12 |
| 3.2 | Results/Findings | 13 |
| 3.2.1 | Production | 13 |
| 3.2.2 | Profitability | 17 |
| 3.2.3 | Structuring | 22 |
| 3.3 | Summary | 23 |
| 4. | Human resource management | 24 |
| 4.1 | Introduction | 24 |
| 4.2 | The human resource department | 25 |
| 4.3 | Staff turnover | 26 |
| 4.4 | Human resource practices | 29 |
| 4.5 | Summary | 33 |
| 5. | Contacts | 34 |
| 6. | References | 35 |

1. Executive summary

Background

This survey focuses on key performance indicators and issues affecting cellars in the South African wine industry. 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.

The following summary is based on data received from the various cellars and is presented separately for each of the three sections. The data was processed and analysed by PwC.



Main findings

Views from chief executives

Most chief executives are not expecting a major change in the local wine industry in the short term. Medium term expectations are however more optimistic, with more than half of respondents expecting a significant improvement in the global economic environment to happen between 2014 and 2016, while also being very confident about growing their own business during the same period.

Stagnant global demand and changes in local regulations and taxes are seen as the main factors which could influence wine businesses' strategies. It may come as little surprise that increasing energy costs remain one of the main concerns of almost all respondents.

With the majority of respondents anticipating even further increases in the price of red wine, 45% are expecting red wine production to increase in the next 3-5 years.

Respondents are not overly concerned about ageing infrastructure and moderate capital investment is anticipated in the next 12-36 months.

Financial overview of producer cellars – 2011 harvest

Participating producer cellars recorded encouraging growth in price per litre for red wine, specifically in the R4.50 to R6.00 price bracket. White wine could not replicate the growth in prices obtained over the last 3 years. Taking into account the effect of inflation, the average real selling price for wine by producer cellars have decreased for the first time in three years.

Major expenses per ton pressed have continued to place profitability under pressure. It comes as no surprise that electricity cost has again increased significantly, a trend which is expected to carry on. The lowest interest rates in almost 40 years are however easing the burden of finance cost on producer cellars.

In terms of average revenue per producing hectare, red cultivars have, for the first time since our initial survey in 2003, realised more than white cultivars. Further respite is expected on producer level, with average net revenue per producing hectare for both red and white cultivars exceeding Vinpro's estimated average production cost per hectare.

From a balance sheet structuring perspective, the average equity ratio decreased for the first time in 5 years. One of the influencing factors for this is a higher asset base due to, amongst others, a significant increase in inventory balances at year end. Return on investment (as a percentage of Capital and reserves) is also the lowest in the last 5 years. This could also be indicative of producer cellars being sensitive to the financial position of primary producers, retaining minimal reserves.

Human resource management

In this year's benchmarking survey, human resource challenges have again been highlighted, as well as some trends since 2010.

The key messages from this year's survey include the challenge for cellars to focus more on strategic human resource activities. Cellars must ensure that they retain staff by ensuring a promising career path, and market related remuneration. This will require attention to succession planning on operational/technical level and performance management systems, including incentives for high performers.

Conclusion

The slow recovery in the global economy and significant increases in production costs remain critical factors delaying a potential turnaround in the South African wine industry. Local wine businesses are still looking at government for increased assistance to this sector of the economy by easing the burden of current regulations and taxes.

This year's survey results might suggest the start of a financial recovery of wine businesses since the global recession, but the local wine industry is still facing a number of challenges in the short to medium term which will first have to be addressed before it can be confirmed.

2. Views from chief executives

2.1 Introduction

We asked executives of various wine cellars to share their opinions on the present state of the global and South African wine industry, the key opportunities and the biggest risks to the speedy revival of the global wine industry.

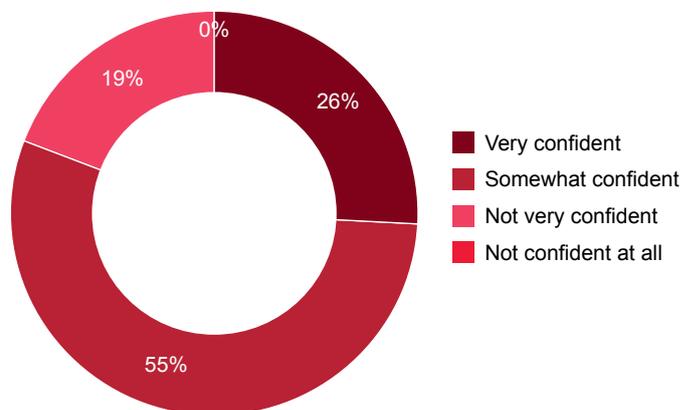
The participants' responses and views to a variety of questions are provided here.



2.2 General industry outlook

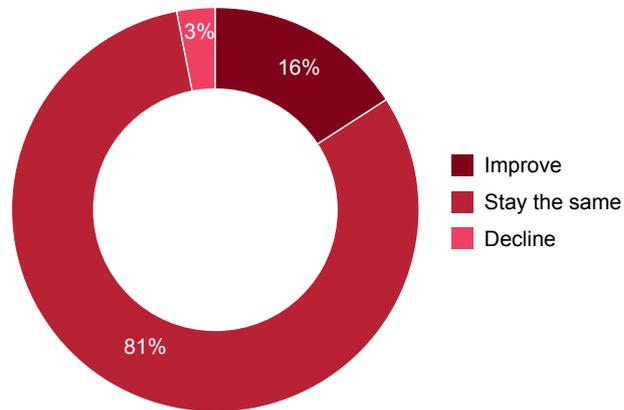
How confident are you about your business' prospects for revenue growth over the next 12-36 months?

More than 80% of executives are confident about the prospects for growth in revenue over the next three years. No respondents indicated that they are not confident at all.



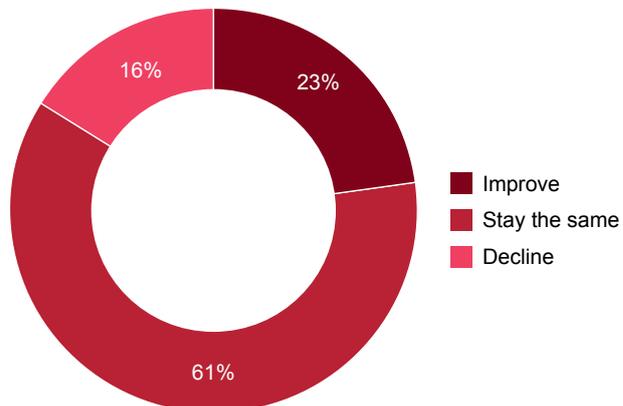
Do you believe the global wine market will improve, stay the same, or decline over the next 12 months?

The vast majority of respondents expect the global wine market to remain unchanged over the next 12 months, while 16% indicated that there may be some improvements.



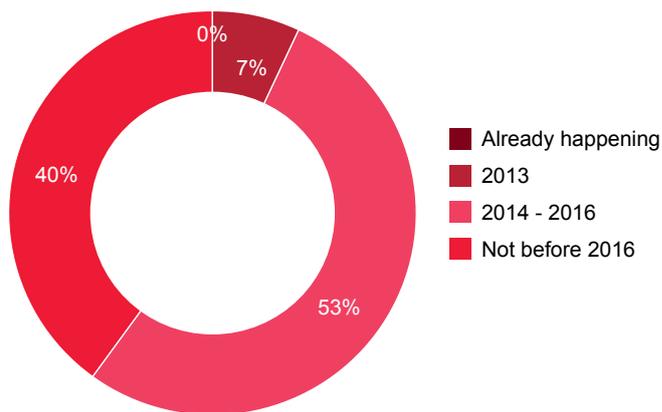
Do you believe the South African wine market will improve, stay the same, or decline over the next 12 months?

Given the existing pressures on the local market, it is worrying that 16% of executives expect a further decline in the local wine market over the next 12 months. However, 23% foresee an improvement.



When do you expect to see significant improvement in the global economic environment?

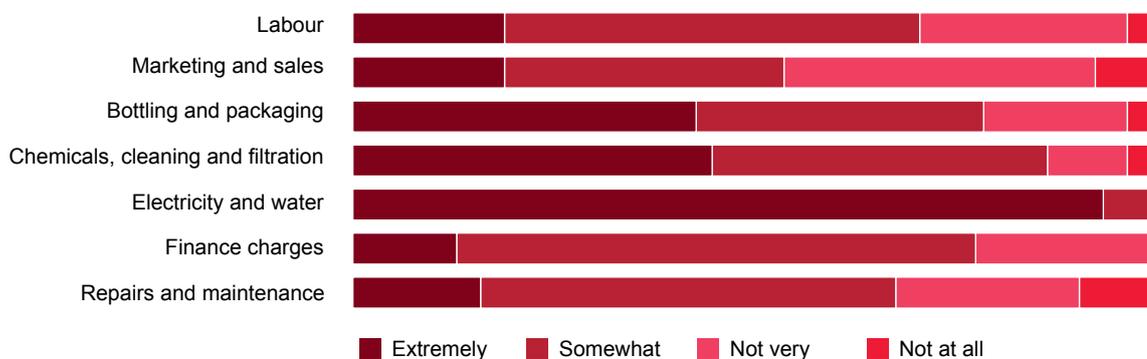
Only 7% of respondents have indicated that they are already seeing improvement in the global economic environment. The majority expect to see significant improvement between the next 12-36 months, with 40% not foreseeing any significant improvement before 2016.



2.3 Opportunities and challenges

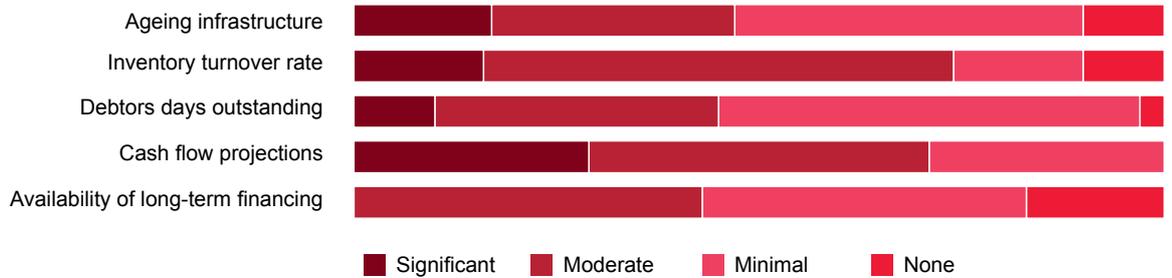
Which expenditure are you most concerned about over the next 12-36 months?

As expected, energy costs are of major concern, followed by the price of chemicals and packaging costs.



Where do you feel the most significant risk lie given your business' latest annual financial results?

Managing cash-flow remains a vital factor for wine businesses to remain competitive in a constantly changing global environment. Executives have further identified the slow inventory turnover rate as a potential significant risk.



What do you see as the main opportunities to grow your business over the next 12 months?

Although cost reduction served its purpose in targeting better profitability during the economic downturn, and should continue to be monitored, cellars have not identified it as a way of growing their businesses.

Focusing on the development of both new and existing markets is seen to be key for growing local wine business in the foreseeable future.



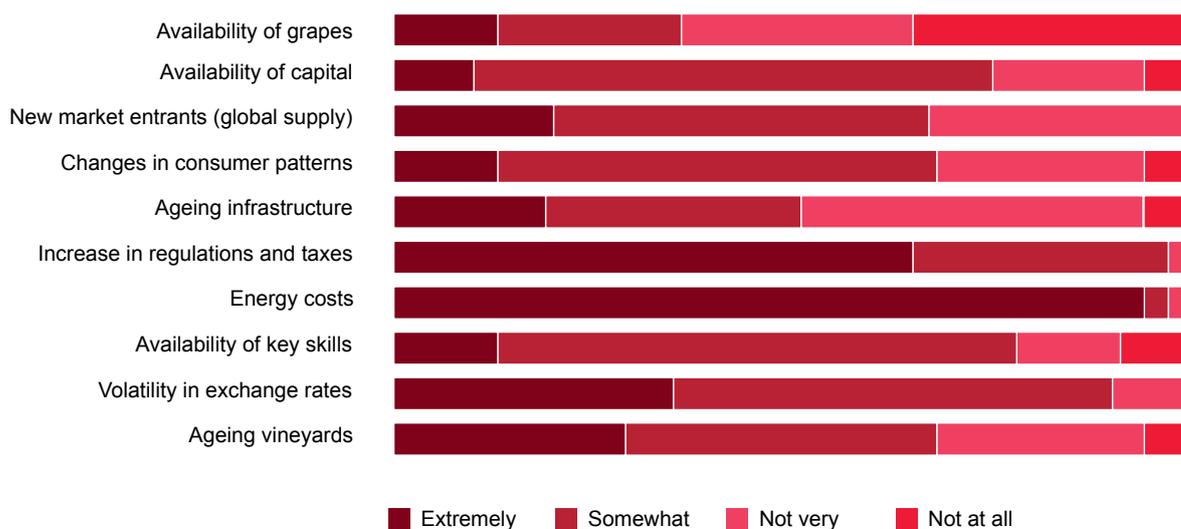
Which factors is most likely to influence your decisions regarding strategy?

Government-policies continue to play a very important consideration for executives. For the most part respondents have also indicated that the current fragile economic environment and its impact on global supply and demand are having a significant and influence on strategy.



What are your main concerns?

Almost all respondents have indicated that they are extremely concerned about mounting energy costs, which are set to continue. Increased regulations and taxes remain important factors over which wine businesses have very limited control. Ageing vineyards and infrastructure are further areas that executives are to some extent concerned about, while volatile exchange rates continue to have a major impact on the successful development of foreign markets by wine businesses.

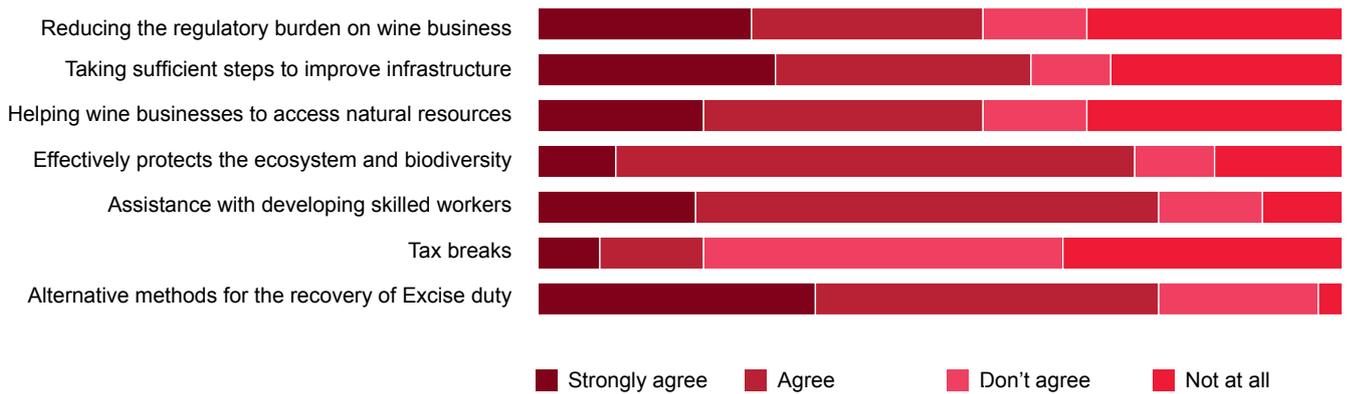


To what extent are you satisfied with the Government's current role in the following areas?

It is clear that wine businesses are looking to the Government to play a more significant role in the wine industry in the future.

On the regulatory front wine businesses would like government to consider alternative methods to charge and collect excise duty.

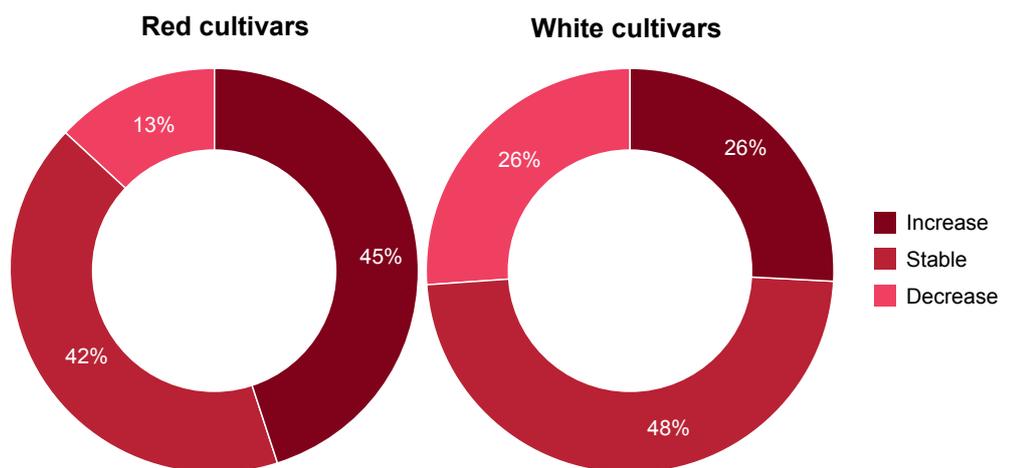
Improvement to infrastructure and assistance with developing a skilled workforce are other areas where the industry would like to see government involvement.



2.4 Short and medium term forecast

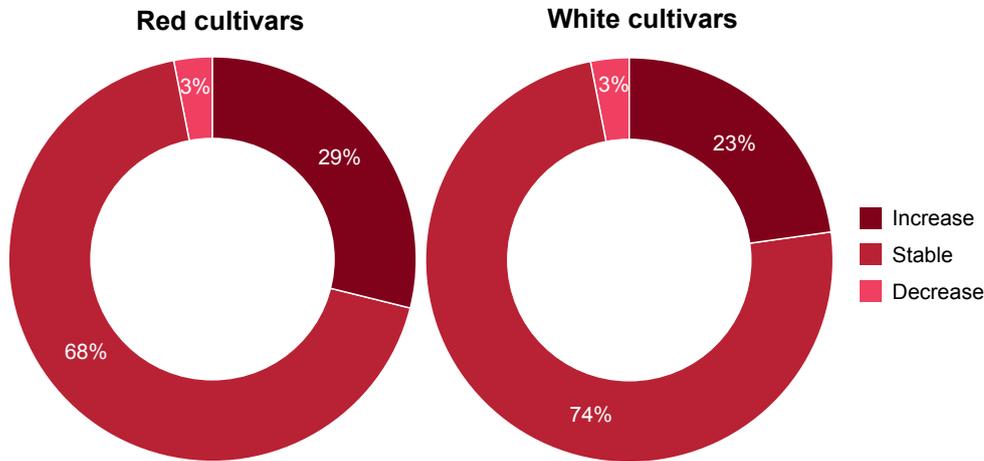
What is your expectation for red and white grape production over the next 3-5 years?

Respondents expect red wine production to increase, while white wine is likely to remain relatively constant in the foreseeable future.



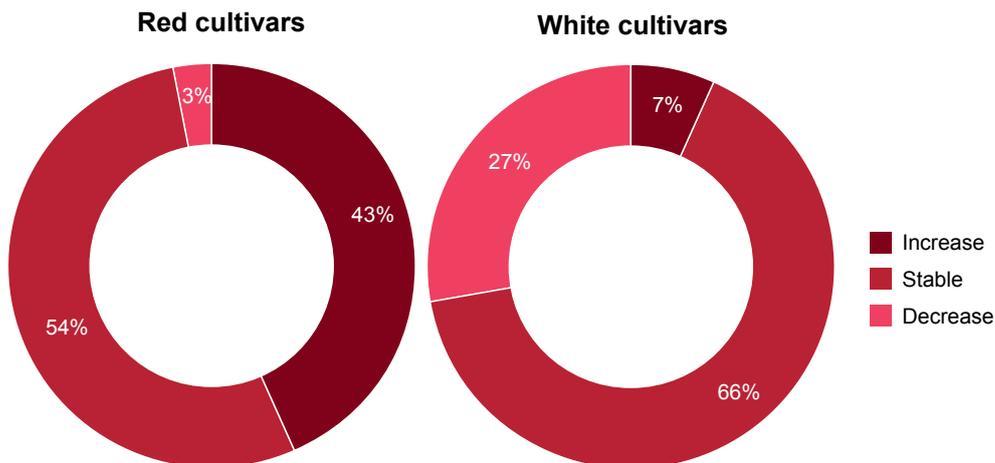
What do you expect from yield in litres per ton over the next 12-36 months?

Yield in litre per ton is expected to remain stable, with only approximately one quarter of executives expecting yields to increase further for both red and white cultivars.



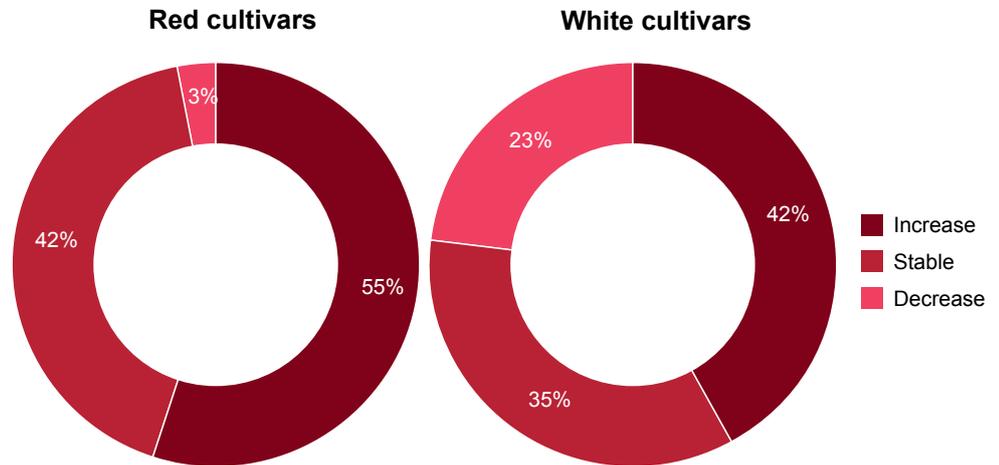
How do you expect the price of wine to change over the next 12 months?

A positive finding is that 43% of respondents anticipate red wine prices to show improvement over the next 12 months, with most expecting it to at least remain at current levels. The same can unfortunately not be said for white wine, where two thirds of executives are expecting prices to remain flat in the immediate future and a quarter expect a decrease.



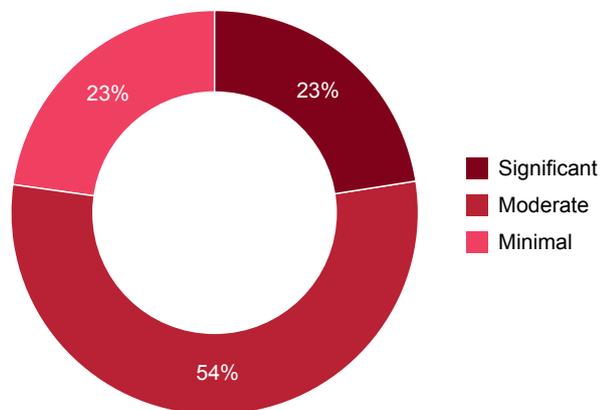
How do you expect the price of wine to change over the next 12-36 months?

The expectation for wine prices for both red and white wine in the next two to three years is encouraging, with a large portion of respondents foreseeing increases in average prices.



What capital investment do you anticipate over the next 12-36 months?

Moderate capital investment is anticipated in the next 12 to 36 months.



2.5 Summary

Chief executives in general do not anticipate a change in both the global and local wine markets in the short term, with improvement only expected towards 2015/2016. They have also acknowledged that an increased focus on existing markets as well as expansion into new markets are important to achieve growth. They are therefore faced with the challenge to create a larger footprint in a market that is currently feeling the strain of a sluggish global economy and dampened consumer spending. The volatility of the exchange rate is also proving to be an obstacle in developing profitable foreign markets.

Executives would welcome government's assistance to the industry through the consideration of tax breaks and alternative methods for the recovery of excise duty. This will ease the regulatory burden on cellars and improve competitiveness.

3. *Financial overview of producer cellars - 2011 harvest*

3.1 *Introduction*

This section deals exclusively with the results of participating producer cellars for the 2011 harvest. We are fortunate to again have a large percentage of producer cellars in South Africa participating in this survey, making the results both representative and applicable.



The global economy remains sluggish and the wine industry is certainly no exception. Costs are increasing and wine prices are under pressure, although red wine prices for participating cellars continue to show some recovery. Inventory turnover is also slowing and remain a point of concern for executives.

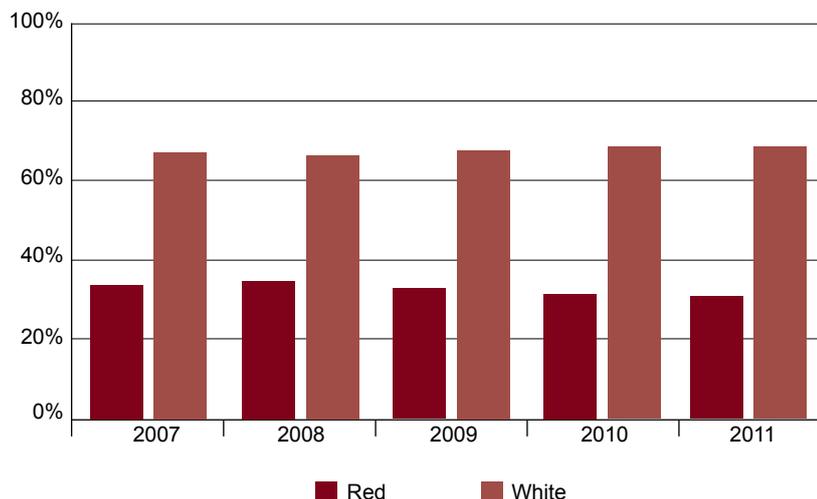
For participating cellars, the 2011 harvest showed an increased yield in tons pressed per producing hectare, which had a positive impact on producer profitability. The following pages provide a more detailed view of the production, profitability and balance sheet structuring of producer cellars, within the context of the local wine industry.

3.2 Results/Findings

3.2.1 Production

| Average tons pressed per cultivar | | | | | | | | | | |
|-----------------------------------|--------------|-------|--------------|-------|--------------|-------|--------------|-------|--------------|-------|
| Cultivar | 2007 harvest | | 2008 harvest | | 2009 harvest | | 2010 harvest | | 2011 harvest | |
| | Tons | % |
| Total red | 5,259.79 | 33.7 | 5,562.41 | 34.0 | 4,931.15 | 33.1 | 4,272.25 | 32.8 | 5,034.17 | 32.5 |
| Cabernet Sauvignon | 1,101.74 | 7.1 | 1,271.23 | 7.8 | 1,056.49 | 7.1 | 931.54 | 7.2 | 1,073.10 | 6.9 |
| Cinsaut | 599.59 | 3.8 | 532.56 | 3.3 | 504.45 | 3.4 | 467.14 | 3.6 | 532.16 | 3.4 |
| Merlot | 673.04 | 4.3 | 711.35 | 4.3 | 678.86 | 4.6 | 563.74 | 4.3 | 687.28 | 4.4 |
| Pinotage | 885.73 | 5.7 | 941.98 | 5.8 | 788.38 | 5.3 | 656.60 | 5.0 | 821.26 | 5.3 |
| Ruby Cabernet | 564.26 | 3.6 | 616.51 | 3.8 | 484.71 | 3.3 | 467.42 | 3.6 | 569.29 | 3.7 |
| Shiraz | 1,038.90 | 6.7 | 1,114.56 | 6.8 | 1,059.85 | 7.1 | 951.22 | 7.3 | 1,030.75 | 6.7 |
| Port varieties | 15.82 | 0.1 | 16.16 | 0.1 | 20.38 | 0.1 | 21.29 | 0.2 | 21.85 | 0.1 |
| Dry red | 158.88 | 1.0 | 134.48 | 0.8 | 101.42 | 0.7 | 47.06 | 0.4 | 85.76 | 0.6 |
| Other red | 221.83 | 1.4 | 223.57 | 1.4 | 236.61 | 1.6 | 166.25 | 1.3 | 212.73 | 1.4 |
| Total white | 10,353.63 | 66.3 | 10,797.29 | 66.0 | 9,948.57 | 66.9 | 8,734.06 | 67.2 | 10,451.54 | 67.5 |
| Chardonnay | 925.01 | 5.9 | 1,108.86 | 6.8 | 1,112.40 | 7.5 | 1,015.27 | 7.8 | 1,131.77 | 7.3 |
| Chenin Blanc | 3,615.06 | 23.2 | 3,725.70 | 22.8 | 3,599.46 | 24.2 | 3,371.50 | 25.9 | 3,808.58 | 24.6 |
| Colombar | 2,932.04 | 18.8 | 2,975.36 | 18.2 | 2,574.96 | 17.3 | 2,237.84 | 17.2 | 2,899.55 | 18.7 |
| Hanepoot | 620.92 | 4.0 | 521.24 | 3.2 | 379.03 | 2.5 | 289.75 | 2.2 | 408.25 | 2.6 |
| Riesling (Cape) | 214.47 | 1.4 | 146.16 | 0.9 | 143.50 | 1.0 | 125.83 | 1.0 | 112.60 | 0.7 |
| Sauvignon Blanc | 693.89 | 4.4 | 816.95 | 5.0 | 814.72 | 5.5 | 891.54 | 6.9 | 1,062.64 | 6.9 |
| Port varieties | 4.97 | - | 4.50 | - | 7.46 | 0.1 | 29.35 | 0.2 | 9.97 | 0.1 |
| Dry white | 440.70 | 2.8 | 400.71 | 2.4 | 247.21 | 1.7 | 152.96 | 1.2 | 278.81 | 1.8 |
| Other white | 906.58 | 5.8 | 1,097.81 | 6.7 | 1,069.84 | 7.2 | 620.02 | 4.8 | 739.37 | 4.8 |
| Total | 15,613.42 | 100.0 | 16,359.70 | 100.0 | 14,879.72 | 100.0 | 13,006.31 | 100.0 | 15,485.71 | 100.0 |

Red/White composition



Grape producers again endured a demanding growing season, with low winter-rainfall and excessive heat during January. Participating cellars did well to record noteworthy increases in average tons pressed. The national crop size was very much at the level of the 2010 season.

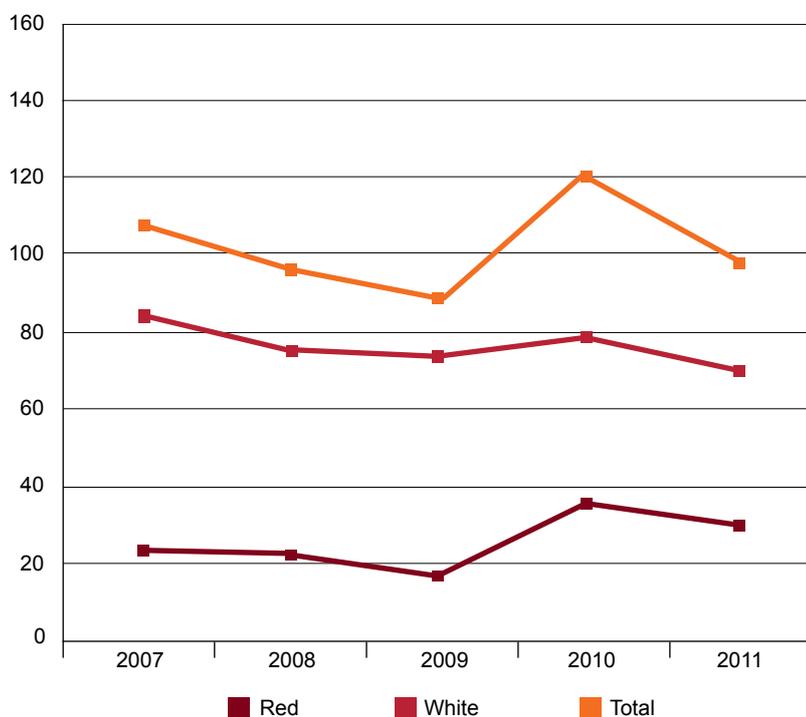
As expected, white cultivars continue to lead in terms of tons pressed, as we have become accustomed to in the producer cellar environment.

3.2 Results/Findings

3.2.1 Production (continued)

| Cultivar | Average producing hectares per cultivar | | | | | | | | | |
|--------------------|---|-------|--------------|-------|--------------|-------|--------------|-------|--------------|-------|
| | 2007 harvest | | 2008 harvest | | 2009 harvest | | 2010 harvest | | 2011 harvest | |
| | Ha | % | Ha | % | Ha | % | Ha | % | Ha | % |
| Total red | 454.64 | 40.9 | 473.55 | 40.0 | 443.68 | 41.5 | 421.34 | 40.5 | 442.93 | 39.7 |
| Cabernet Sauvignon | 126.64 | 11.4 | 137.90 | 11.7 | 124.85 | 11.7 | 115.45 | 11.1 | 118.93 | 10.6 |
| Cinsaut | 41.66 | 3.7 | 38.36 | 3.2 | 37.14 | 3.5 | 34.90 | 3.4 | 36.92 | 3.3 |
| Merlot | 57.51 | 5.2 | 60.09 | 5.1 | 55.10 | 5.2 | 56.88 | 5.5 | 58.72 | 5.3 |
| Pinotage | 75.62 | 6.8 | 75.83 | 6.4 | 68.45 | 6.4 | 63.73 | 6.1 | 71.31 | 6.4 |
| Ruby Cabernet | 38.21 | 3.4 | 35.73 | 3.0 | 33.17 | 3.1 | 35.28 | 3.4 | 35.39 | 3.2 |
| Shiraz | 85.85 | 7.7 | 93.64 | 7.9 | 93.30 | 8.7 | 89.56 | 8.6 | 92.43 | 8.3 |
| Port varieties | 2.29 | 0.2 | 1.96 | 0.2 | 2.23 | 0.2 | 3.15 | 0.3 | 3.01 | 0.3 |
| Dry red | 8.53 | 0.8 | 9.48 | 0.8 | 8.04 | 0.8 | 4.05 | 0.4 | 5.75 | 0.5 |
| Other red | 18.32 | 1.6 | 20.56 | 1.7 | 21.39 | 2.0 | 18.35 | 1.8 | 20.46 | 1.8 |
| Total white | 657.57 | 59.1 | 709.41 | 60.0 | 625.87 | 58.5 | 617.90 | 59.5 | 674.16 | 60.3 |
| Chardonnay | 90.75 | 8.2 | 104.00 | 8.8 | 94.54 | 8.8 | 98.61 | 9.5 | 100.79 | 9.0 |
| Chenin Blanc | 267.40 | 24.0 | 272.99 | 23.1 | 240.42 | 22.5 | 240.78 | 23.2 | 263.19 | 23.6 |
| Colombar | 129.31 | 11.6 | 143.26 | 12.1 | 112.61 | 10.5 | 122.04 | 11.7 | 136.17 | 12.2 |
| Hanepoot | 31.83 | 2.9 | 26.79 | 2.3 | 19.67 | 1.8 | 20.28 | 2.0 | 23.54 | 2.1 |
| Riesling (Cape) | 16.17 | 1.5 | 14.71 | 1.2 | 11.92 | 1.1 | 11.27 | 1.1 | 9.71 | 0.9 |
| Sauvignon Blanc | 59.18 | 5.3 | 73.33 | 6.2 | 71.87 | 6.7 | 73.37 | 7.1 | 80.43 | 7.2 |
| Port varieties | 0.31 | - | 0.36 | - | 0.56 | 0.1 | 2.44 | 0.2 | 0.85 | 0.1 |
| Dry white | 12.75 | 1.1 | 19.11 | 1.6 | 15.08 | 1.4 | 12.06 | 1.2 | 16.82 | 1.5 |
| Other white | 49.87 | 4.5 | 54.86 | 4.6 | 59.21 | 5.5 | 37.04 | 3.6 | 42.66 | 3.8 |
| Total | 1,112.20 | 100.0 | 1,182.96 | 100.0 | 1,069.55 | 100.0 | 1,039.25 | 100.0 | 1,117.09 | 100.0 |

Average non-producing hectares per cellar



The composition of average producing hectares per cultivar remained stable, with Cabernet Sauvignon, Chenin Blanc and Colombar continuing to be the most commonly found cultivars.

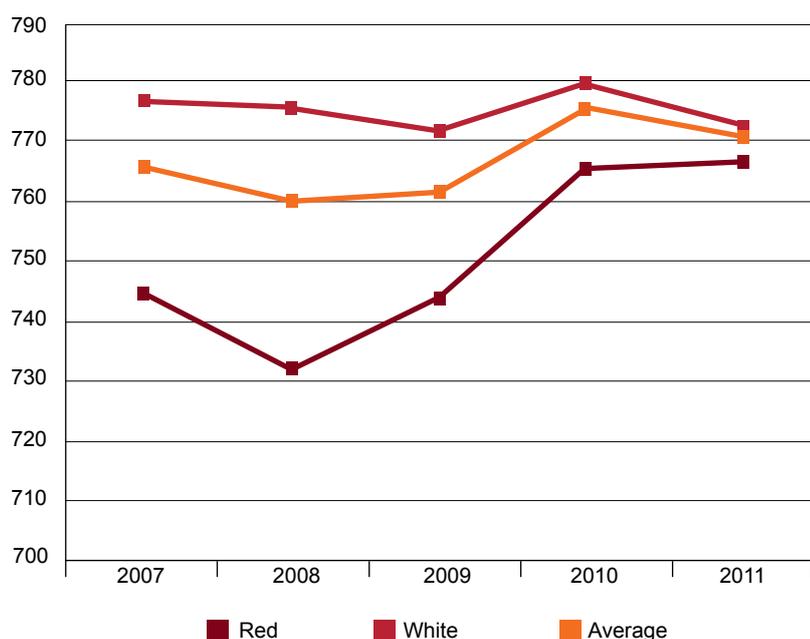
New hectares coming into production will increase future crop sizes and reduce the strain on grape producers to maintain these blocks awaiting optimal production.

3.2 Results/Findings

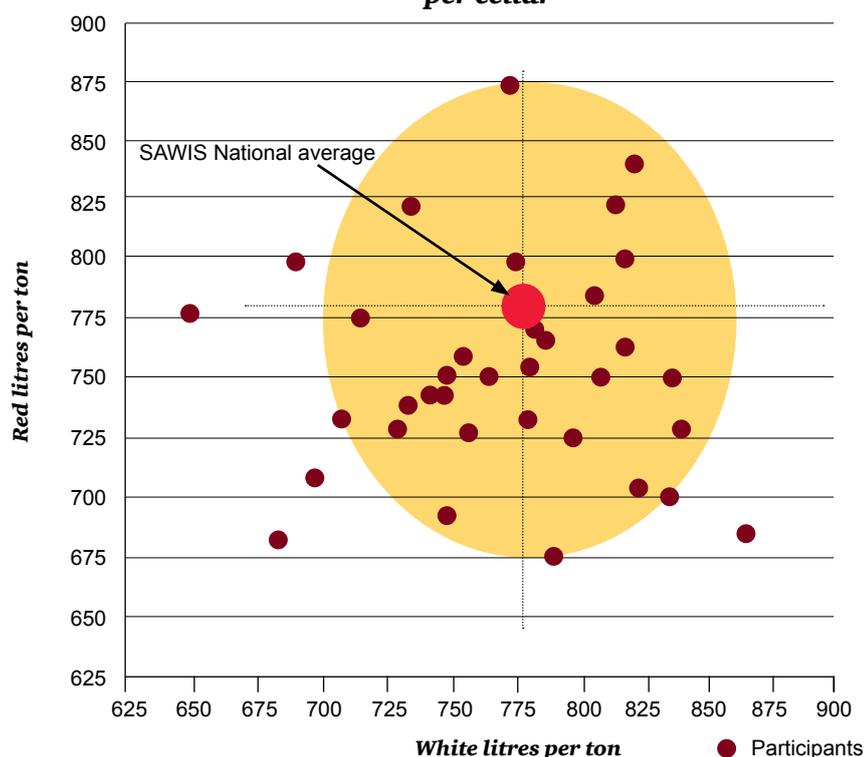
3.2.1 Production (continued)

| Average litres produced per product composition | | | | | | | | | | |
|---|-------------------|--------------|-------------------|--------------|-------------------|--------------|-------------------|--------------|-------------------|--------------|
| Product | 2007 harvest | | 2008 harvest | | 2009 harvest | | 2010 harvest | | 2011 harvest | |
| | L | % | L | % | L | % | L | % | L | % |
| Drinkwine | 8,673,993 | 72.5 | 8,998,674 | 72.3 | 8,973,395 | 79.1 | 8,654,879 | 85.8 | 10,163,997 | 85.0 |
| Rebate wine | 1,510,016 | 12.6 | 1,350,067 | 10.9 | 882,026 | 7.8 | 350,525 | 3.5 | 492,894 | 4.1 |
| Distilling wine | 1,059,439 | 8.9 | 1,133,637 | 9.1 | 815,496 | 7.2 | 610,553 | 6.1 | 569,056 | 4.8 |
| Juice | 604,130 | 5.0 | 772,752 | 6.2 | 553,240 | 4.9 | 405,177 | 4.0 | 585,494 | 4.9 |
| Other | 120,630 | 1.0 | 184,065 | 1.5 | 123,293 | 1.1 | 66,932 | 0.7 | 147,683 | 1.2 |
| Total | 11,968,208 | 100.0 | 12,439,196 | 100.0 | 11,347,450 | 100.0 | 10,088,065 | 100.0 | 11,959,124 | 100.0 |

Average recovery in litres per ton



Average recovery in litres per ton - Red/White per cellar

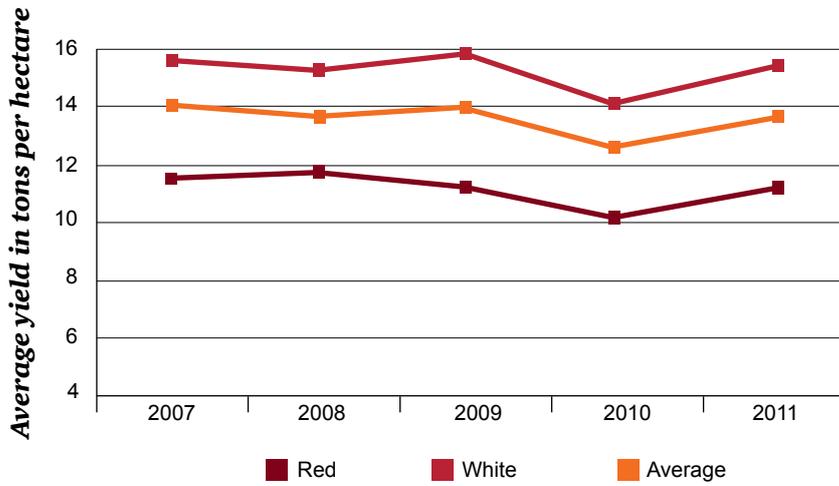


The drinkwine component of the 2011 crop remained at 85%, with rebate wine, distilling wine and juice contributing less than 5% each. Drinkwine showed stable increases during the last 6 years, increasing from about two thirds of the 2006 harvest. The most favourable balance between price and timing of cash flows should continue to prompt cellars to consider the optimal product composition.

The average participants' recovery of just over 770 litres per ton is consistent with the 2010 harvest and is in line with the national average.

3.2 Results/Findings

3.2.1 Production (continued)

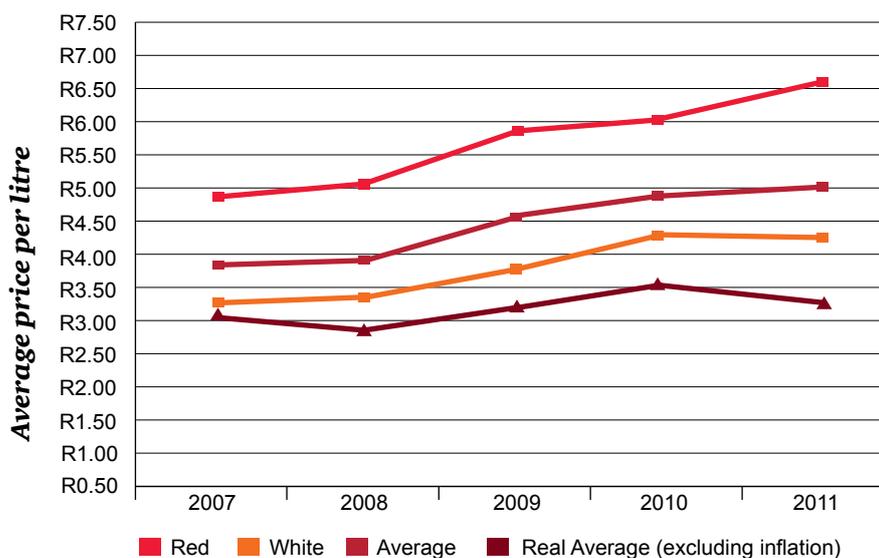


Average yield in tons per hectare has recovered from a challenging 2010 harvest. This had a positive effect on revenue per hectare, giving primary grape producers a welcome breather as input costs continue to increase.

3.2 Results/Findings

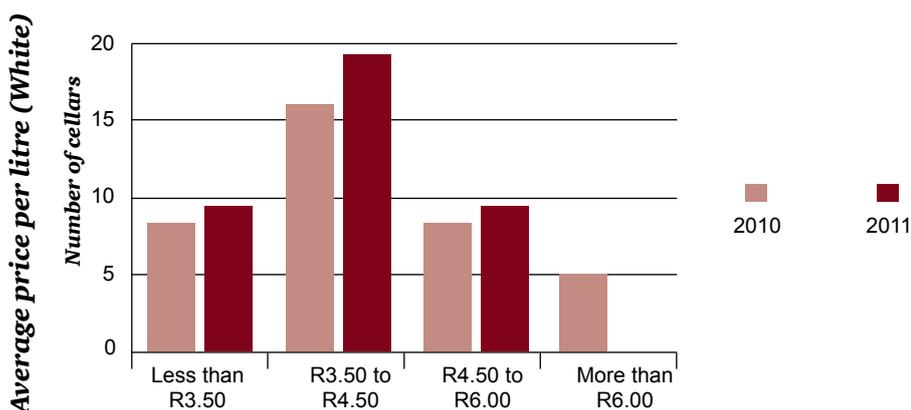
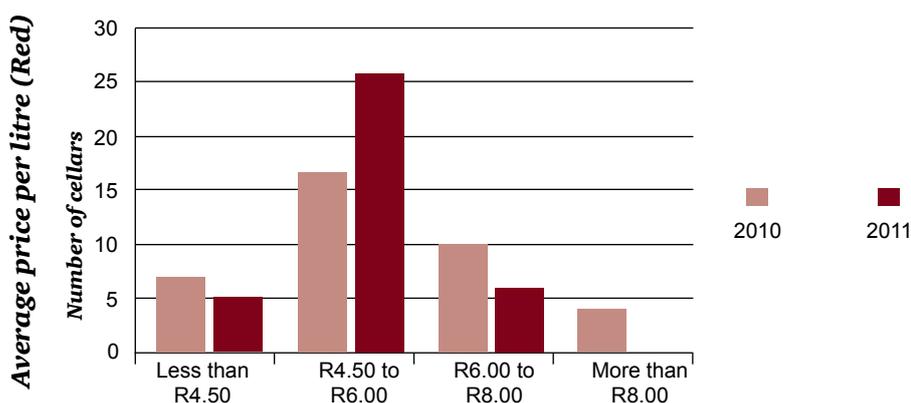
3.2.2 Profitability

| Income statement (Average per cellar) | | | | | | | | | | |
|---------------------------------------|------------|-------|------------|-------|------------|--------|------------|-------|------------|--------|
| Wine and related products | 2007 | | 2008 | | 2009 | | 2010 | | 2011 | |
| | R | R/ton | R | R/ton | R | R/ton | R | R/ton | R | R/ton |
| Sales | 46,544,207 | | 55,537,348 | | 57,981,093 | | 57,558,271 | | 55,588,636 | |
| Opening inventories | 18,931,555 | | 20,743,837 | | 19,841,361 | | 22,080,838 | | 23,602,430 | |
| Closing inventories | 20,670,808 | | 19,788,300 | | 21,657,617 | | 22,431,089 | | 30,103,161 | |
| Net profit before tax | 747,412 | 47.87 | 1,172,439 | 71.67 | 1,872,263 | 125.83 | 672,062 | 51.67 | 271,680 | 17.54 |
| Tax | 269,584 | 17.27 | 273,784 | 16.74 | 664,018 | 44.63 | 432,614 | 33.26 | 272,318 | 17.11 |
| Net profit/(loss) for the year | 477,828 | 30.60 | 898,655 | 54.93 | 1,327,267 | 89.20 | 477,490 | 36.71 | (13,910) | (0.90) |



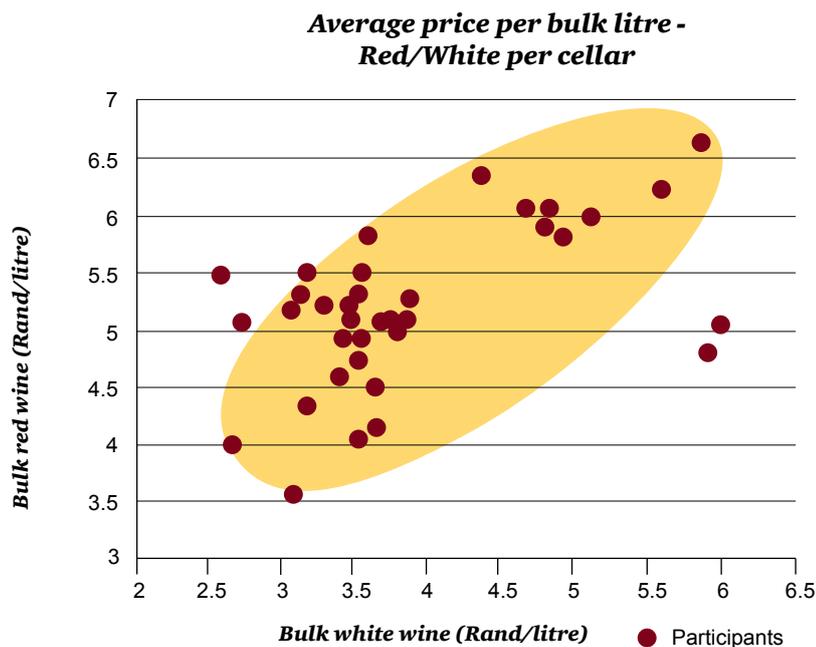
Red cultivars continued their slow but steady recovery in price, breaking through the R6.50 average per litre, last achieved in 2006. White cultivars, however, recorded the first drop in price since 2004.

Cause for concern is the drop in real prices for the first time in 3 years. The lethargic recovery in the global economy is still one of the main contributors to price pressures, resulting in cellars not being able to pass on increases in production costs to the consumer.



3.2 Results/Findings

3.2.2 Profitability (continued)



As was the case in 2011, there is a general correlation between relatively high or low prices obtained by participating cellars for red and white wine. It can be speculated that this may well be as a result of a specific cellar's approach to quality and marketing programmes applied consistently for both red and white wines.

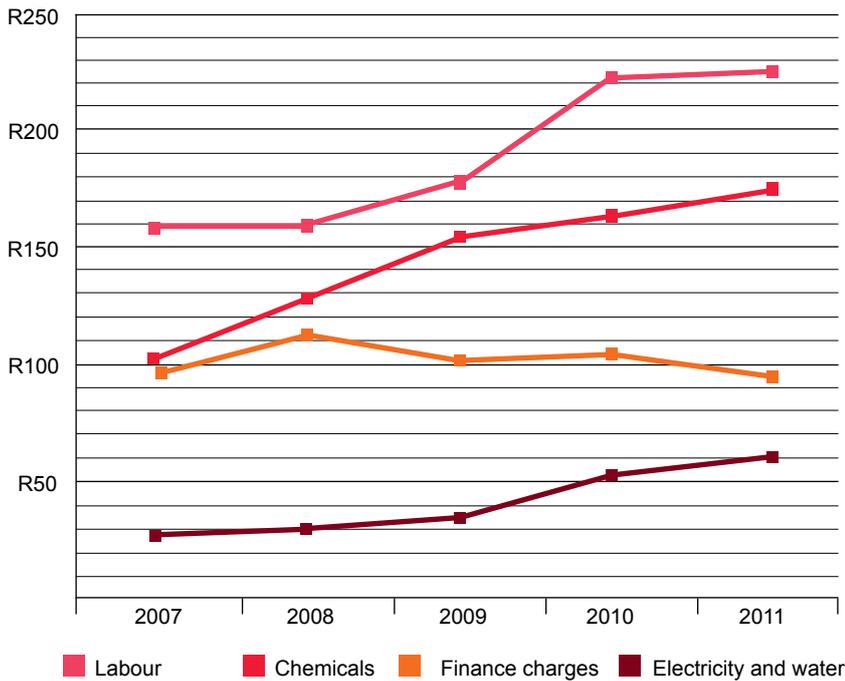
Analysis of expenses attributable to bulk and packaged wine

| Expense | 2007 | | 2008 | | 2009 | | 2010 | | 2011 | |
|--|-----------|----------|-----------|----------|-----------|----------|-----------|----------|-----------|----------|
| | Bulk wine | Packaged |
| | R/ton | R/L |
| Labour | | | | | | | | | | |
| Permanent | 140.86 | 0.41 | 139.56 | 0.59 | 160.42 | 0.70 | 196.89 | 0.57 | 202.41 | 0.79 |
| Temporary | 15.93 | 0.07 | 18.03 | 0.09 | 17.79 | 0.15 | 24.97 | 0.14 | 22.83 | 0.02 |
| Insurance | 10.71 | 0.02 | 10.58 | 0.02 | 13.08 | 0.03 | 16.79 | 0.03 | 16.82 | 0.04 |
| Marketing and sales expenses | 19.16 | 1.30 | 31.86 | 1.18 | 27.49 | 1.48 | 34.14 | 1.15 | 27.56 | 1.90 |
| Bottling and packaging | 11.27 | 2.67 | 2.03 | 2.72 | 4.99 | 4.26 | - | 5.03 | - | 5.26 |
| Chemicals, cleaning and filtration materials | 105.01 | 0.08 | 128.18 | 0.15 | 154.35 | 0.16 | 164.12 | 0.14 | 176.50 | 0.16 |
| Distribution | 19.26 | 0.21 | 24.79 | 0.23 | 18.38 | 0.37 | 30.32 | 0.34 | 33.60 | 0.66 |
| Sundry administrative expenses | 68.13 | 0.16 | 53.46 | 0.15 | 64.89 | 0.63 | 84.38 | 0.71 | 69.90 | 0.54 |
| Sundry cellar expenses | 32.62 | 0.03 | 28.19 | 0.20 | 38.20 | 0.28 | 43.70 | 0.32 | 34.94 | 0.36 |
| Electricity and water | 26.93 | 0.03 | 29.86 | 0.06 | 36.48 | 0.08 | 54.25 | 0.07 | 63.33 | 0.08 |
| Finance charges | 94.80 | 0.17 | 114.35 | 0.26 | 101.53 | 0.22 | 107.22 | 0.20 | 96.62 | 0.25 |
| Rent paid | 5.12 | 0.02 | 6.97 | 0.04 | 9.11 | 0.03 | 6.37 | 0.03 | 6.38 | 0.04 |
| Repairs, maintenance and cellar consumables | 53.26 | 0.09 | 53.41 | 0.12 | 76.51 | 0.21 | 87.68 | 0.15 | 78.59 | 0.15 |
| Telephone and postage | 5.34 | 0.01 | 4.55 | 0.01 | 4.54 | 0.03 | 4.77 | 0.02 | 4.81 | 0.03 |
| Depreciation | 78.43 | 0.08 | 78.38 | 0.12 | 84.07 | 0.22 | 115.09 | 0.15 | 123.87 | 0.16 |

3.2 Results/Findings

3.2.2 Profitability (continued)

Major expenses per ton pressed



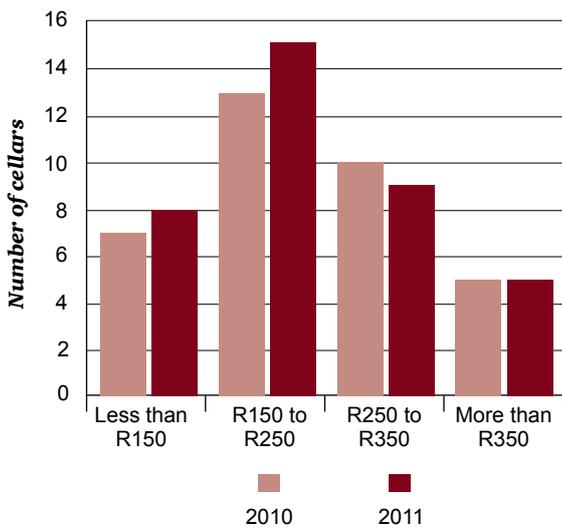
In general the larger harvest had an uplifting effect on expenses. Labour increased slightly to R225 per ton, making up for the noteworthy increase in the previous year. Overall the increases experienced in labour per ton pressed during the last 5 years remain substantial.

Chemicals continued its belligerent increasing trend and were, on average, more than R175 per ton for the 2011 harvest.

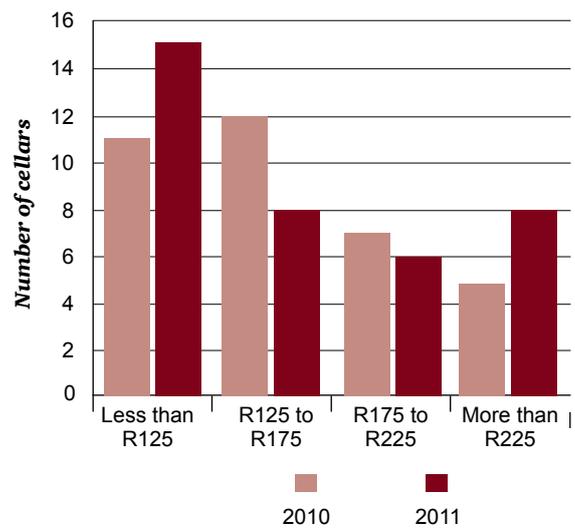
The lowest interest rates in almost 40 years continued to ease the burden of finance cost on producer cellars and ultimately on primary grape producers.

The increase in electricity prices is expected to continue for the foreseeable future.

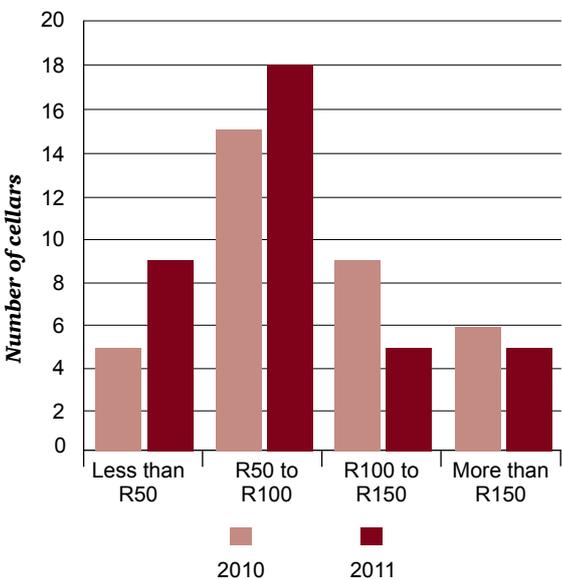
Cost of labour per ton pressed



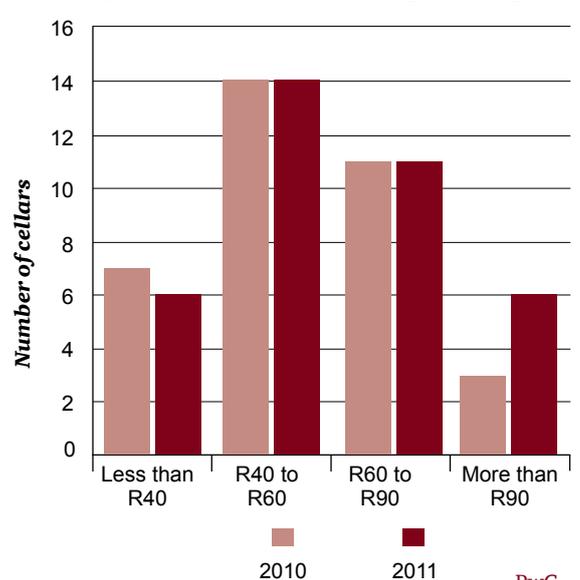
Cost of chemicals per ton pressed



Finance charges per ton pressed



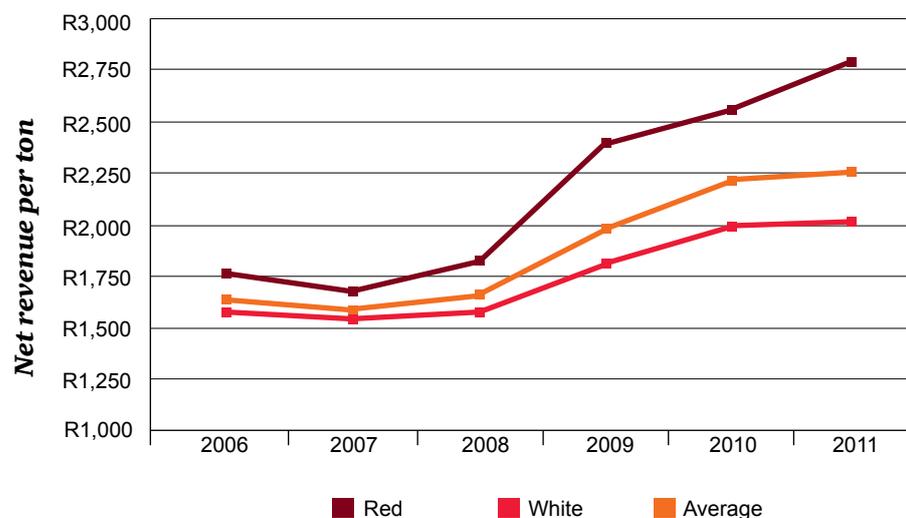
Cost of electricity and water per ton pressed



3.2 Results/Findings

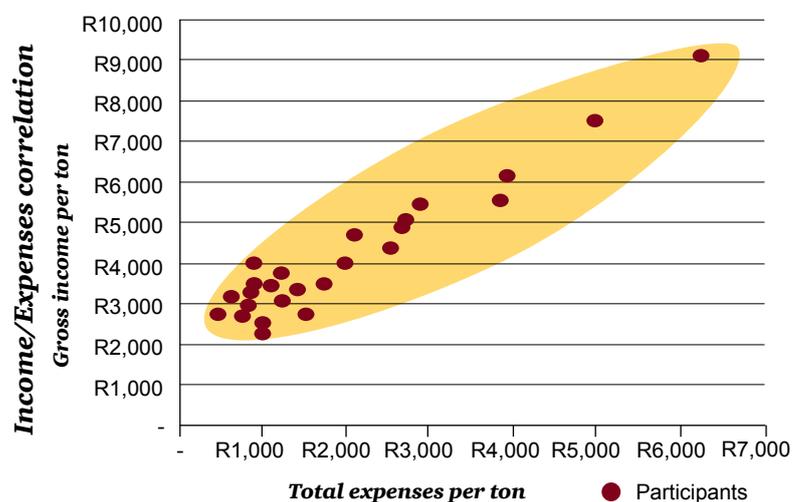
3.2.2 Profitability (continued)

| Net revenue per ton | | | | | | | | | |
|---------------------|-------------|----------|-------------|----------|-------------|----------|-------------|----------|-------------|
| Cultivar | 2007 | | 2008 | | 2009 | | 2010 | | 2011 |
| | 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 | 1,717.85 | 1,787.16 | 1,879.76 | 1,986.62 | 2,414.28 | 2,459.40 | 2,568.58 | 2,617.56 | 2,839.36 |
| Cabernet Sauvignon | 1,929.78 | 2,108.99 | 2,126.23 | 2,291.52 | 2,643.95 | 2,758.53 | 2,785.75 | 2,838.79 | 3,050.79 |
| Cinsaut | 1,422.65 | 1,451.66 | 1,461.60 | 1,430.85 | 1,845.82 | 1,835.15 | 2,045.32 | 2,040.94 | 2,350.05 |
| Merlot | 1,838.96 | 1,870.90 | 1,915.41 | 2,075.52 | 2,521.17 | 2,568.01 | 2,662.25 | 2,694.77 | 2,921.60 |
| Pinotage | 1,700.60 | 1,741.69 | 1,797.70 | 1,893.83 | 2,314.76 | 2,359.05 | 2,532.83 | 2,564.60 | 2,871.51 |
| Ruby Cabernet | 1,329.08 | 1,356.42 | 1,509.72 | 1,603.71 | 1,977.18 | 2,094.55 | 2,312.86 | 2,233.28 | 2,582.26 |
| Shiraz | 1,923.83 | 1,955.70 | 2,093.83 | 2,265.65 | 2,730.40 | 2,680.07 | 2,758.38 | 2,884.48 | 3,002.42 |
| Port varieties | 1,889.56 | 1,973.40 | 2,157.71 | 2,174.26 | 2,242.31 | 2,395.66 | 2,395.87 | 2,541.48 | 2,852.32 |
| Dry red | 1,393.44 | 1,424.15 | 1,941.44 | 1,574.50 | 2,037.91 | 2,224.28 | 2,385.23 | 2,625.13 | 2,727.39 |
| Other red | 1,408.84 | 1,427.36 | 1,602.69 | 1,725.78 | 2,281.30 | 2,327.95 | 2,352.71 | 2,499.77 | 2,548.85 |
| Total white | 1,574.71 | 1,592.08 | 1,610.26 | 1,702.16 | 1,865.84 | 1,915.84 | 2,002.46 | 1,944.66 | 2,004.75 |
| Chardonnay | 2,325.02 | 2,486.07 | 2,457.58 | 2,580.84 | 2,644.49 | 2,745.22 | 2,703.19 | 2,679.79 | 2,637.56 |
| Chenin Blanc | 1,518.32 | 1,489.01 | 1,507.42 | 1,558.79 | 1,724.60 | 1,746.38 | 1,848.40 | 1,775.37 | 1,904.93 |
| Colombar | 1,323.66 | 1,333.68 | 1,344.81 | 1,419.45 | 1,592.69 | 1,600.60 | 1,669.22 | 1,629.77 | 1,732.50 |
| Hanepoot | 1,430.54 | 1,435.19 | 1,390.90 | 1,513.04 | 1,662.39 | 1,762.03 | 1,812.22 | 1,696.37 | 1,842.58 |
| Riesling (Cape) | 1,513.05 | 1,513.29 | 1,375.28 | 1,395.85 | 1,623.71 | 1,645.38 | 1,802.04 | 1,792.87 | 1,861.19 |
| Sauvignon Blanc | 2,564.28 | 2,641.06 | 2,620.56 | 2,903.61 | 2,838.81 | 2,907.94 | 2,847.45 | 2,846.68 | 2,753.57 |
| Port varieties | 1,901.92 | 1,889.21 | 1,904.36 | 1,902.33 | 2,595.05 | 2,451.55 | 2,567.29 | 2,685.44 | 2,185.56 |
| Dry white | 1,205.96 | 1,208.25 | 1,169.68 | 1,258.38 | 1,390.87 | 1,518.23 | 1,634.60 | 1,649.47 | 1,598.77 |
| Other white | 1,379.36 | 1,410.89 | 1,366.09 | 1,420.85 | 1,657.10 | 1,737.31 | 1,874.09 | 1,894.08 | 1,803.84 |
| Total | 1,622.93 | 1,658.80 | 1,701.89 | 1,805.81 | 2,047.59 | 2,092.88 | 2,188.42 | 2,153.24 | 2,276.08 |



Higher wine prices impacted positively on red wine net revenue per ton, continuing the upwards trend since it bottomed out in 2007.

In line with white wine prices, revenue per ton for white grapes remained relatively unchanged since 2010.

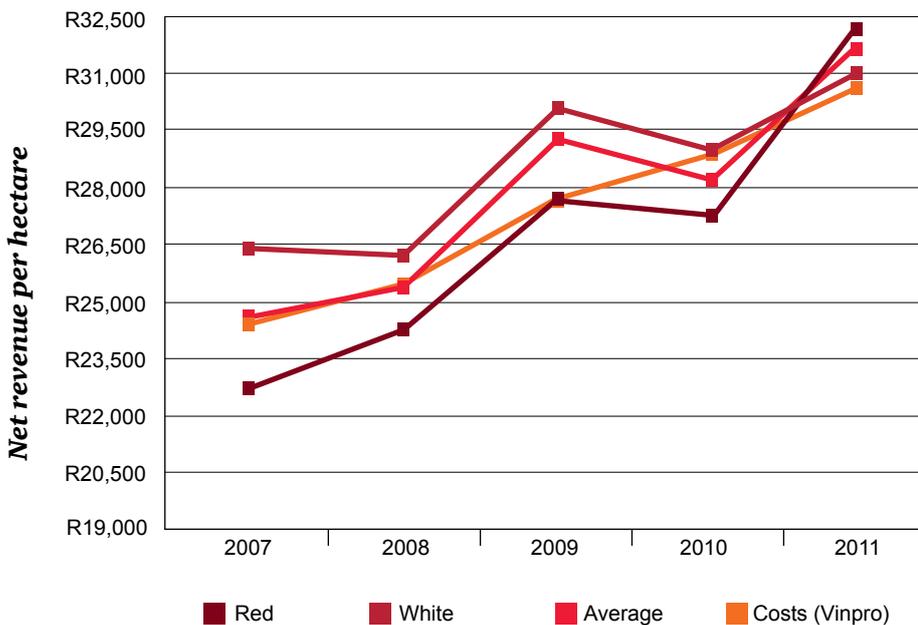


The strong correlation between gross income and expenses per ton was again evident for most of the participating producer cellars.

3.2 Results/Findings

3.2.2 Profitability (continued)

| Net revenue per producing hectare | | | | | | | | | |
|-----------------------------------|-------------|-----------|-------------|-----------|-------------|-----------|-------------|-----------|-------------|
| Cultivar | 2007 | | 2008 | | 2009 | | 2010 | | 2011 |
| | 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 | 19,874.07 | 18,661.48 | 22,080.05 | 22,829.99 | 26,833.03 | 28,095.65 | 26,109.60 | 29,535.53 | 32,271.31 |
| Cabernet Sauvignon | 16,788.43 | 17,497.59 | 19,601.31 | 20,471.91 | 22,372.73 | 23,986.31 | 22,476.60 | 24,376.50 | 27,526.28 |
| Cinsaut | 20,473.64 | 18,979.80 | 20,292.29 | 19,308.87 | 25,073.56 | 25,647.64 | 28,138.57 | 29,717.67 | 33,874.54 |
| Merlot | 21,520.66 | 20,780.17 | 22,674.87 | 23,915.96 | 31,061.75 | 32,383.70 | 26,385.19 | 30,935.64 | 34,194.03 |
| Pinotage | 19,918.26 | 18,655.10 | 22,332.40 | 22,920.54 | 26,660.52 | 28,327.18 | 26,095.73 | 28,425.41 | 33,071.25 |
| Ruby Cabernet | 19,629.32 | 15,393.51 | 26,046.24 | 28,408.92 | 28,896.09 | 30,892.99 | 30,645.32 | 34,969.11 | 41,543.19 |
| Shiraz | 23,279.67 | 22,002.61 | 24,922.20 | 25,807.30 | 31,014.87 | 31,392.52 | 29,296.10 | 33,224.17 | 33,481.75 |
| Port varieties | 13,065.88 | 13,517.51 | 17,763.19 | 18,932.86 | 20,462.56 | 22,011.14 | 16,191.06 | 16,407.68 | 20,679.10 |
| Dry red | 25,944.03 | 25,990.09 | 27,549.62 | 22,342.93 | 25,694.75 | 31,730.56 | 28,515.30 | 27,925.45 | 40,664.87 |
| Other red | 17,062.02 | 11,867.79 | 17,424.89 | 19,974.41 | 25,234.17 | 25,872.10 | 21,320.78 | 34,149.68 | 26,498.75 |
| Total white | 24,794.50 | 22,469.64 | 24,508.19 | 25,037.42 | 29,658.47 | 31,116.57 | 28,322.75 | 29,934.24 | 31,099.76 |
| Chardonnay | 23,699.33 | 23,191.80 | 26,202.13 | 27,297.50 | 31,117.51 | 33,076.57 | 27,832.26 | 30,468.50 | 29,616.83 |
| Chenin Blanc | 20,526.38 | 18,086.51 | 20,572.66 | 20,092.25 | 25,819.77 | 27,253.06 | 25,881.68 | 26,185.50 | 27,565.47 |
| Colombar | 30,013.98 | 25,658.25 | 27,930.06 | 28,174.25 | 36,419.46 | 36,809.62 | 30,607.49 | 33,087.71 | 36,890.63 |
| Hanepoot | 27,905.40 | 27,280.21 | 27,065.08 | 30,069.48 | 32,029.37 | 32,877.69 | 25,886.56 | 29,074.91 | 31,956.15 |
| Riesling (Cape) | 20,069.42 | 18,849.74 | 13,665.42 | 14,384.73 | 19,545.96 | 19,788.61 | 20,114.32 | 30,355.78 | 21,591.73 |
| Sauvignon Blanc | 30,064.77 | 29,089.87 | 29,194.10 | 31,609.32 | 32,181.06 | 35,062.89 | 34,600.18 | 37,571.11 | 36,380.15 |
| Port varieties | 30,866.87 | 30,660.58 | 23,958.44 | 23,932.81 | 34,793.06 | 38,214.32 | 31,699.31 | 32,857.85 | 24,940.71 |
| Dry white | 41,687.98 | 30,222.87 | 24,525.57 | 25,399.65 | 22,801.30 | 25,959.96 | 21,306.26 | 28,669.78 | 27,243.82 |
| Other white | 25,075.57 | 21,258.25 | 27,337.61 | 31,189.18 | 29,942.08 | 31,035.85 | 31,373.28 | 29,616.96 | 31,260.66 |
| Total | 22,783.16 | 20,909.48 | 23,536.19 | 24,105.51 | 28,486.40 | 29,872.29 | 27,426.47 | 29,661.22 | 31,564.47 |



A very encouraging finding in this year's study is that the average net revenue per producing hectare for both red and white was more than Vinpro's estimated average production cost per hectare for the 2011 harvest.

Improved yield in tons per hectare and recovering wine prices have brought a much needed increase in net revenue per hectare and will allow the primary grape producer some relief.

3.2 Results/Findings

3.2.3 Structuring

Balance sheet (Average per cellar)

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | R | R | R | R | R |
| Assets | | | | | |
| Non-current assets | 26,155,697 | 28,913,668 | 30,346,382 | 31,101,990 | 35,602,571 |
| Property, plant and equipment | 23,321,425 | 26,139,623 | 27,745,501 | 28,310,193 | 32,467,191 |
| Investments | 2,818,989 | 2,754,155 | 2,517,185 | 2,704,879 | 3,062,876 |
| Deferred tax assets | 15,283 | 19,890 | 83,696 | 86,918 | 72,505 |
| Current assets | 37,531,373 | 39,379,503 | 41,870,475 | 40,416,354 | 48,498,264 |
| Inventories | 21,460,768 | 20,847,481 | 22,526,245 | 22,911,030 | 30,935,820 |
| Wine | 20,670,808 | 19,788,300 | 21,657,617 | 22,464,393 | 29,671,137 |
| Other | 789,960 | 1,059,181 | 1,059,181 | 1,059,181 | 678,592 |
| Trade and other debtors | 13,753,650 | 16,382,114 | 16,812,555 | 15,402,824 | 16,112,956 |
| Bank and cash | 2,316,955 | 2,149,907 | 2,531,675 | 2,102,500 | 2,035,579 |
| Total assets | 63,687,071 | 68,293,171 | 72,216,857 | 71,518,344 | 84,100,835 |
| Equity and liabilities | | | | | |
| Capital and reserves | 18,494,341 | 19,741,704 | 20,764,483 | 19,747,353 | 22,731,844 |
| Share capital | 4,302,876 | 4,783,717 | 4,742,382 | 5,006,216 | 6,596,301 |
| Reserves | 13,189,536 | 14,176,458 | 15,274,328 | 14,029,844 | 15,314,916 |
| Members' funds | 1,001,929 | 781,528 | 747,772 | 711,292 | 820,627 |
| Non-current liabilities | 11,863,781 | 13,269,637 | 14,223,281 | 14,104,520 | 13,218,810 |
| Long-term borrowings | 8,707,349 | 9,794,468 | 10,608,758 | 10,366,281 | 8,750,152 |
| Deferred tax liabilities | 2,835,087 | 3,172,946 | 3,361,393 | 3,549,021 | 4,308,664 |
| Deferred income | 321,344 | 302,223 | 253,129 | 189,218 | 159,994 |
| Current liabilities | 33,328,949 | 35,281,830 | 37,229,094 | 37,666,471 | 48,150,180 |
| Trade and other creditors | 13,986,227 | 16,015,280 | 14,323,157 | 13,728,355 | 18,435,285 |
| Producers | 18,115,239 | 18,808,073 | 21,844,931 | 22,314,933 | 27,657,522 |
| Bank overdrafts | 1,227,484 | 458,478 | 1,061,006 | 1,623,183 | 2,057,373 |
| Total equity and liabilities | 63,687,071 | 68,293,171 | 72,216,857 | 71,518,344 | 84,100,835 |

Ratios

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|-------------|-------------|-------------|-------------|-------------|
| Own capital vs debt | | | | | |
| Own capital | 29% | 29% | 29% | 28% | 27% |
| Debt | 71% | 71% | 71% | 72% | 73% |
| | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |
| Current ratio | 1.13:1 | 1.12 :1 | 1.12 :1 | 1.07 :1 | 1.01:1 |
| Acid test | 0.48:1 | 0.53 :1 | 0.52 :1 | 0.46 :1 | 0.38:1 |
| Non-current assets vs non-current liabilities | 2.20:1 | 2.18 :1 | 2.13 :1 | 2.21 :1 | 2.7:1 |
| Inventory turnover rate (times per year) (Note 1) | 2.4 | 2.7 | 2.8 | 2.5 | 2.1 |
| Debtors days outstanding (days) | 100 | 100 | 104 | 102 | 105 |
| Return on investment (%) (Note 2) | 13% | 17% | 17% | 11% | 8% |

(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.)

3.3 Summary

Despite a declining global market and other challenges facing grape producers during the year, the average producer made a profit, with net revenue per producing hectare rising above R30 000.

The substantial increase in inventories, along with higher debtors and creditors, will require that cellars carefully consider and manage their working capital needs.



Photo: © Great Stock

4. Human resource management



4.1 Introduction

This is the third year that human resource practices have been included in the *Wine Industry Insights Survey*. The response to this year's questionnaire was once again very good. Forty seven cellars were invited to participate and we received 33 questionnaires back, a marked increase in participation from the previous two years.

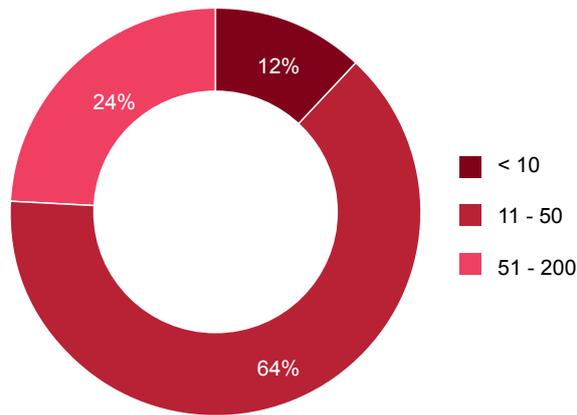
In order to continually improve the survey, additional questions were added in the 2012 survey as we try to improve the questionnaire every year, in order to provide more comprehensive feedback on the key human resource challenges facing the Wine Industry.

The results of the 2012 Human Resource section of the survey are reflected below and important trends since 2010 are highlighted. Where comparable data is available, graphs from 2011 have been included. The results, movements and trends that we indicate in this section, will enable you to compare your organisation to the general trends in the Wine Industry and provide a base to improve the human resource practices in your organisation.

4.2 The Human resource department

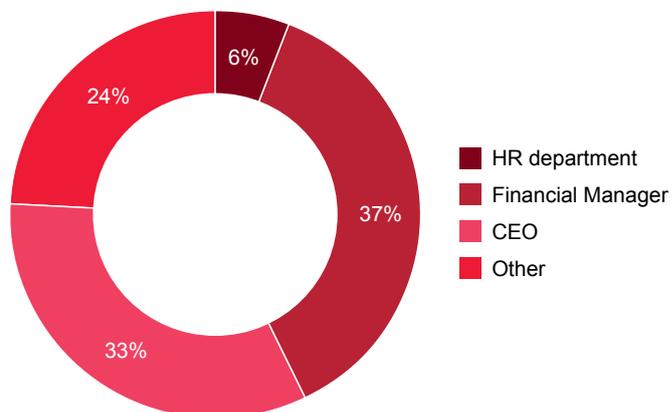
In both 2010 and 2011, the vast majority of participating cellars had between 11 and 50 employees. Of the cellars participating in the 2012 survey, 12% employ fewer than 10 employees, 64% employ 11-50 employees and only 24% employ between 51-200 employees.

2012 Number of employees



In 2010 and 2011 respectively, only 19% and 35% of the participating cellars had a small internal human resource function. In the 2012 survey, 55% of participating cellars indicated that they have an internal human resource function. This increase suggests that more cellars are establishing an internal human resource function and allocating dedicated human resource functions to employee's responsibilities. It is interesting to note in the 2012 survey that internal human resource activities are mainly performed by either the financial manager (37%) or the CEO (33%). Only 6% of participating cellars' internal human resource activities are performed by a dedicated human resource department. These figures correlate with the graph above, which indicates that only a few participating cellars employ a large number of people and therefore only a handful justify having an internal human resource department.

2012 Who performs internal HR activities



There is an increased need for cellars to develop their internal human resource activities to fulfil more strategic functions.

In comparison with 25% of participating cellars who outsourced their human resource functions to external service providers in 2010 and 42% in 2011, this number increased further to 50% in 2012. It is therefore clear that external human resource service providers are still widely used and make a significant contribution to the wine industry. Consideration should therefore be given to determine if this practice is adequate to meet the needs of these cellars.

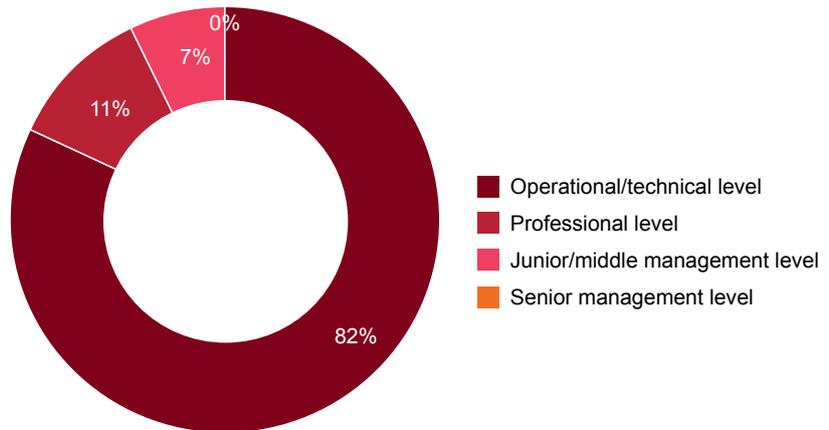
In the 2012 survey, we added a question regarding how many of the cellars' human resource functions (internal or external) are transactional, i.e. administration, disciplinary procedures and recruitment, in contrast with a strategic focus, i.e. succession planning, performance management and organisational development. As expected, the majority (68%) of participating cellars indicated that their internal human resource functions are transactional, with only 32% of cellars having a human resource function performing strategic activities. Although human resource functions still holds the key to the development and progress of an organisation, there is an increased need for cellars to adjust their internal human resource activities to fulfil more strategic functions. As we mentioned in the 2011 report, human resource 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 resource function. Strategic human resource management can therefore help cellars in aligning the skills of their employees with the goals of the organisation.

4.3 Staff turnover

In 2010, 90% of participating cellars indicated that they do not have a high staff turnover rate. In 2011, participating cellars indicated a staff turnover rate of 2-14% with an average of 5%, compared to 2012's results, which indicating a staff turnover rate of 0-38%, with an average of 8%. Although the figures show an increase in staff turnover, 97% of the participating cellars in 2012 say they do not experience high staff turnover. A possible explanation for this is that if the two participating cellars with the highest staff turnover are excluded from the calculation, the average staff turnover for 2012 would be 5.5%. On this basis it can be concluded that the average staff turnover remained unchanged for the past two years, with the exception of two participating cellars in 2012.

Referring to the graphs that follow, the highest staff turnover in both the 2011 and 2012 surveys are on the operational/technical level (82% and 87% of the staff turnover, respectively). It also appears that senior managers were retained in the participating cellars in the past two years. The high turnover on the operational/technical level is, however, still a concern. As the accompanying figures show, the majority of training budgets are spent on operational/technical levels and as mentioned in the 2011 survey, the loss of key skills has a negative impact on a cellar's return on investment. The question remains: "Is the training that is provided, as well as the current measures taken to retain skilled employees, effective?"

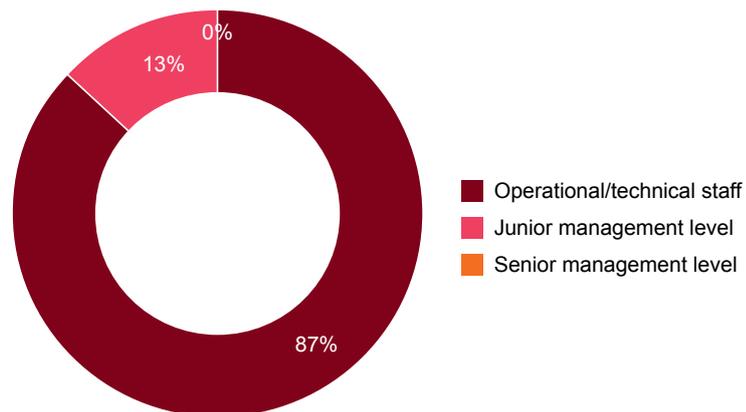
2011 Employee bands with high staff turnover



2012 Employee bands with high staff turnover

87%

Of the 5.5% staff turnover in 2012, 87% was at the operational/technical level.



In 2011 we were concerned that 44% of all staff turnover was due to dismissals and 13% due to retrenchment. In 2012 the picture looks different. Although the percentage is much lower, dismissal is still a concern at 26% and again raises the question of shortcomings in certain human resource practices e.g. recruitment and selection, training and/or performance management. It is comforting to note that no retrenchments were made by the participating cellars in 2012.

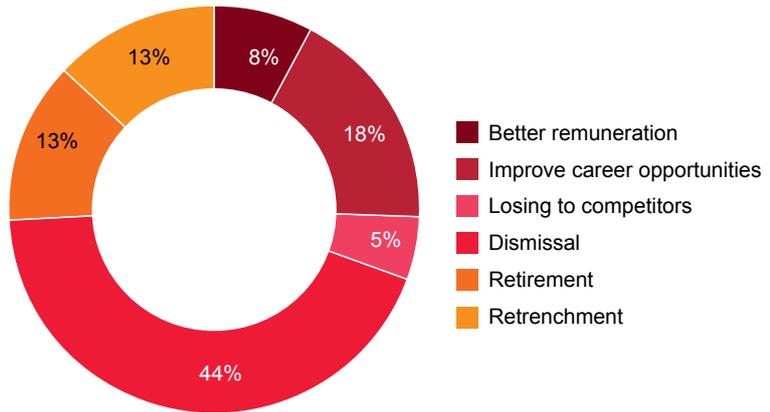
Improved career opportunities seems to be the main reason (35%) for employees leaving organisations and it's interesting to note that there is a marked increase in better remuneration (from 8% to 23%) as a reason for staff turnover. With a total of 58% of employees who leave the participating cellars due to either better career opportunities or increased remuneration, the challenge participating cellars face in managing talent and retaining staff is apparent. Two questions which arise from this are: "What strategies do participating cellars have to ensure that staff members have a promising career path within the organisation?" and "Are we ensuring that staff receive market-related remuneration?"

14%

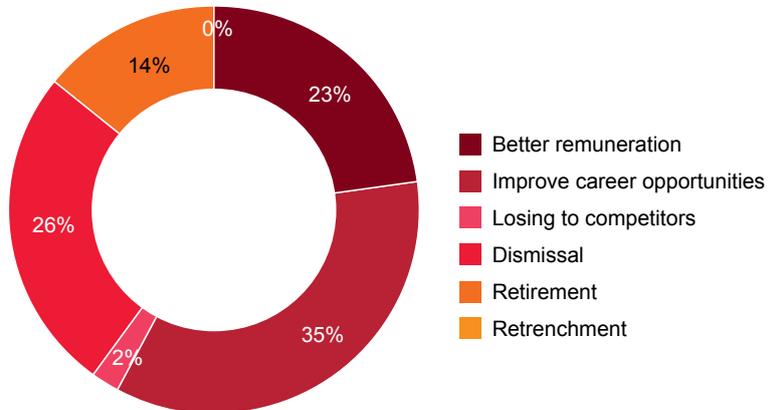
Of the 5.5% staff turnover in 2012, 14% was because of retirement. This number may be indicative of an ageing workforce.

The number of retirements (13% of the staff turnover in 2011 and 14% in 2012) may be indicative of an aging workforce and should be explored further. This suggests that participating cellars should consider their approach and strategies for succession planning and the retention of key skills and talent.

2011 Reasons for leaving



2012 Reasons for leaving



If cellars continue to lose staff without having succession plans in place, they will soon have a problem with skills gaps resulting in poor performance.

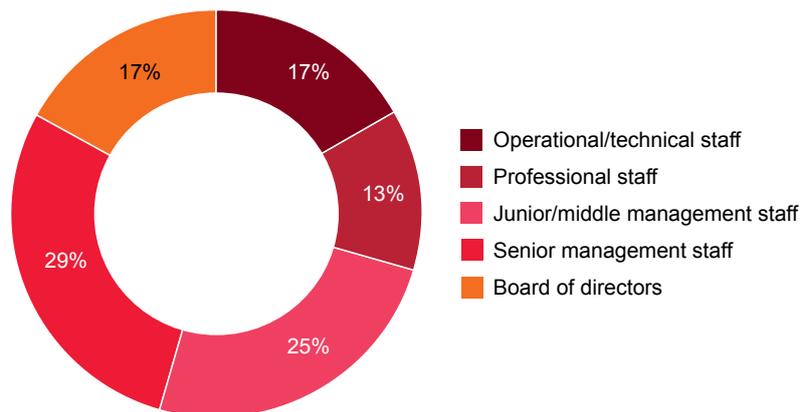
4.4 Human resource practices

4.4.1 Succession planning

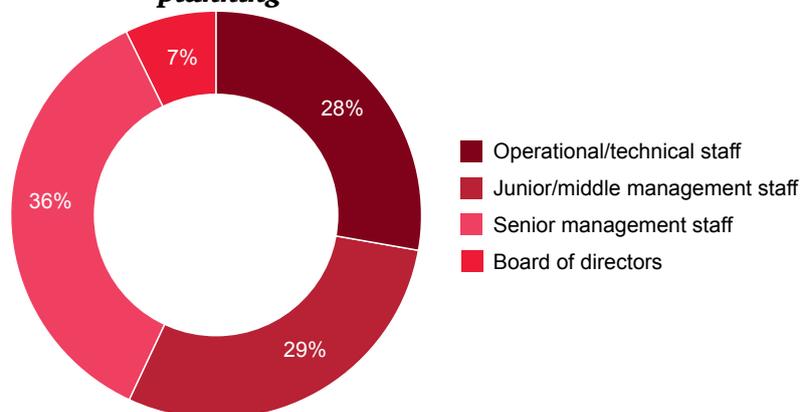
In 2011, only 41% of participating cellars said that they have succession plans in place. In 2012 this number decreased to 28%. Reasons for the decrease need to be explored. The low and decreased focus on succession planning is a concern particularly considering the 5,5% staff turnover discussed above. If cellars continue to lose staff without having succession plans in place, they will soon have a problem with skills gaps resulting in poor performance.

As the two graphs below demonstrate, most of the succession plans that do exist are implemented at the senior management level, and that there has been an increase in succession plans implemented on this level (29% in 2011 to 36% in 2012), despite the fact that little staff turnover was recorded at this level. Although operational/technical staff has the highest turnover rate, only 29% of the existing succession plans are aimed at these levels. It appears that succession planning is currently directed at the wrong level in many instances and this should be reconsidered.

2011 Levels of existing succession planning



2012 Levels of existing succession planning

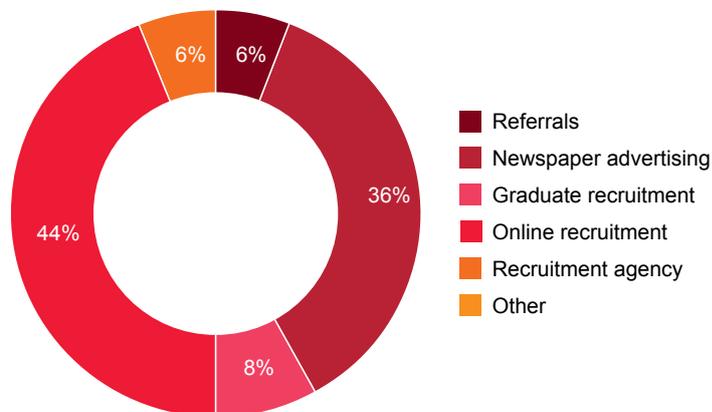


4.4.2 Recruitment

Participating cellars in all three years' surveys were satisfied that their recruitment processes are efficient. In 2010 and 2011 respectively, 87% and 81% of the participating cellars said they did not find it difficult to attract the right quality of candidates to their organisation and in 2012 this proportion was 85%. It seems therefore that recruitment is being adequately implemented. It was noteworthy that participating cellars that did find it difficult to attract critical skills, indicated that marketing skills are the most difficult to attract and replace.

In the 2012 survey we included a question about what recruitment methods are being used. The graph below shows that recruitment agencies and newspaper advertising is high on the list of preferable recruitment methods.

2012 Methods of recruitment



91%

Ninety-one percent of the participating cellars in 2012 indicated that their skills programme is aligned to the business strategy.

4.4.3 Training

The number of participating cellars that believe they have a properly implemented skills development programme increased from 84% in 2010 and 81% in 2011 to 94% in 2012. Ninety-one percent (91%) of participating cellars in 2012 indicated that their skills programme is aligned to their business strategy. Most of the participating cellars try to aim their training and development programmes at all levels, but it is clear that more training is aimed at the operational/technical level (53% in 2011 and 61% in 2012) as depicted in the graphs on page 31. In 2011, an average of 60% of the training budget was spent on the operational/technical levels and in 2012 the amount decreased to 50%. The high percentage spent on training the operational/technical level may be due to the need to comply with applicable legislation and market requirements i.e. health & safety training, first aid, fork lift driver training, ethical trade awareness, etc.

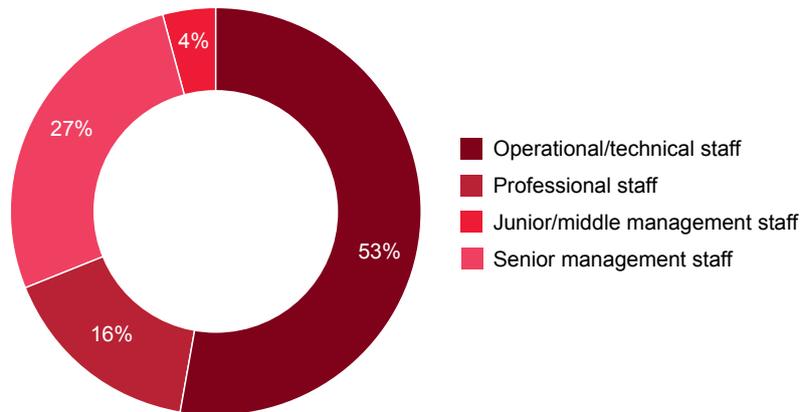
When participants were asked what the training needs at the operational/technical levels are, it was apparent that, as in 2011, almost all participants mentioned legal and ethical compliance courses. Additional needs on the operational/technical level include life skills and basic cellar work training. On junior management level, the priority seems to be people management skills, computer training and job-specific training.

In 2012, 52% of participating cellars indicated that they do provide training to senior management and members of the board of directors. This is an important issue that we raised in 2011 and which requires a more dedicated focus, given the need for strong leadership and strategic focus, in order to meet the challenges

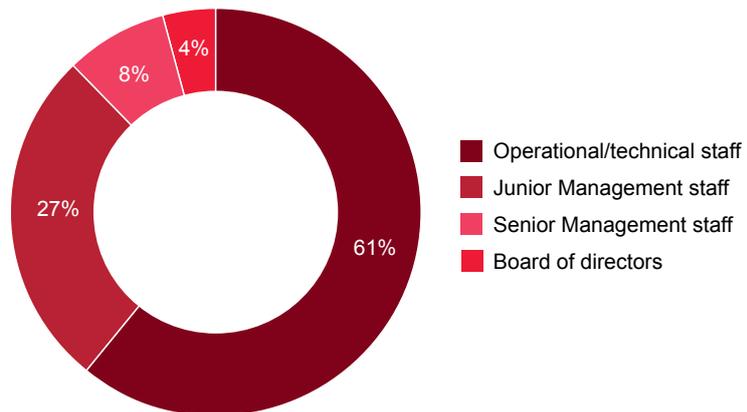
facing the industry. On average, 30% of the training budget was allocated to these two levels in 2012, an increase of 6% from 2011, which may be an indication that increased priority is being given to training at the executive level.

Training needs on the senior management level include training on managerial principles, communication skills, labour legislation, emotional intelligence, change management and the latest human resource principles. Training needs for the board of directors include training related to marketing and sales, legislation, governance, director responsibilities, financial management, strategic planning, emotional intelligence and risk management.

2011 Main beneficiaries of training



2012 Main beneficiaries of training

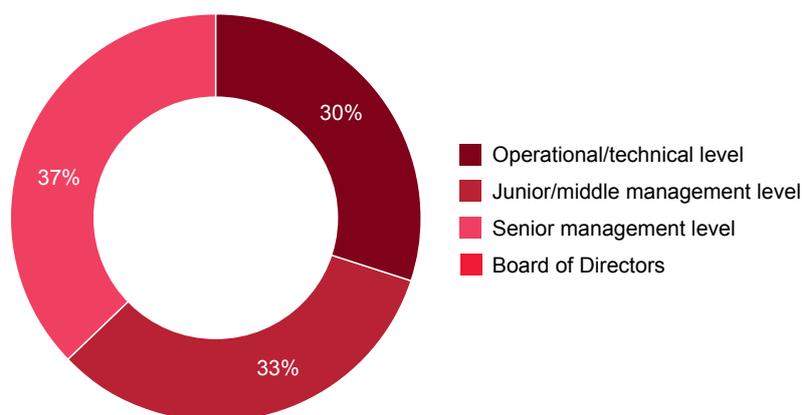


4.4.4 Performance management

Although 88% of the participants in 2012 confirmed that their employees have clearly defined job descriptions, only 41% confirmed that they have a performance management system, with the majority indicating that they have their own customised system.

Participating cellars indicated that their performance management systems are directed at all levels of the company, except the board of directors.

2012 Levels of performance management system



Sixty-eight percent (68%) of the participants in 2010 and 89% in 2011 felt that their employees understood their contribution and responsibility at the workplace and this increased to 94% in 2012. Both in 2010 and in 2011, 67% of employers felt that their employees were incentivised and rewarded for their outstanding performance. This decreased to 42% in 2012. If this figure is contrasted with the tendency of employees to leave the organisation for better remuneration, the question arises of whether cellars are losing their best employees because they are not being rewarded for their outstanding performance. Although 94% of participating cellars in 2012 believe that their compensation is fair and competitive, there seems to be a need for cellars to ensure that employees receive market-related remuneration in order to retain skilled employees.

Managing performance seems to be an ongoing challenge. In 2011, the biggest challenges were performance management practices and ensuring that these were implemented correctly and objectively as they impacted staff motivation and morale.

Further challenges included ensuring that employees understood the financial realities of the organisation as well as living the values of the organisations they are part of.

In 2012, the challenges in terms of performance management included difficulties adapting to the continuous market changes in the wine industry, low skill levels, poor team work and a lack of management skills (board and senior management).

4.5 Summary

The 2012 human resource survey provides a good picture of the current reality of human resource practices of the participating cellars, and comparing it with the 2011 results, show interesting results.

The key themes can be summarised as follows:

- Only a few participating cellars employ a large number of employees and therefore only a handful of participating cellars justify having an internal human resource department. Human resource activities are generally performed by either the financial manager or the CEO.
- Internal human resource functions are still focused on transactional activities, i.e. administration, disciplinary procedures and recruitment, rather than strategic activities, i.e. succession planning, performance management and organisational development.
- External human resource service providers are still widely used.
- The average staff turnover remained unchanged for the past two years, except for two participating cellars.
- The highest staff turnover has been on the operational/technical level. Senior managers have been retained in the past two years.
- Improved career opportunities seem to be the main reason why employees leave the organisation and there is a marked increase in better remuneration as a reason for staff turnover.
- Very few of the participating cellars indicated that they have succession plans in place and those that do exist are focussed at the senior management level.
- Participating cellars are satisfied that their recruitment processes are efficient and that they do not have difficulty in attracting the right quality of candidates to their organisations.
- Recruitment agencies and newspaper advertising are high on the list of preferred recruitment methods.
- The majority of training provided is aimed at the operational/technical level and the larger part of training budgets is spent on this level, with limited training being provided to senior management and members of the board of directors. Training was recognised as the human resource area that needs to be improved most.
- Less than half of the participating cellars confirmed that they have a performance management system and many said that this is a human resource area that needs improvement.
- The number of employers that indicated that their employees are incentivised and rewarded for outstanding performance showed a marked decrease.
- The development of more strategic human resource practices is still a high priority for most participating cellars.

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