Highlighting results, trends and opportunities for South African wine businesses/*12th edition*

December 2015

Can you see the trend?

The South African wine industry insights survey 2015

pwc

www.pwc.co.za/wine-insights-survey

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1. Preface

About this publication

Welcome to PwC's 2015 South African wine industry insights survey, which explores some of the economic and financial issues facing local wine businesses. In this, our twelfth insights survey, we also explore the global megatrends that are applicable to the wine industry in general, and provide information on the Wine Industry Strategic Exercise (WISE) initiative. Over the last ten years, we have analysed the data of more than 400 000 grape-producing hectares and six million tons of wine grapes harvested, and we continue to build on this strong database of information. All findings in this publication are presented on a national average basis.

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

- Views from chief executives of wine businesses and industry bodies;
- Global megatrends, with a specific focus on the wine industry;
- A financial overview of producer cellars for the 2014 harvest;
- A competitiveness index for producer cellars;
- Human resource management; and
- WISE initiative.

Based on the positive feedback we have received and the insightful conversations we have had with participants, the second competitiveness index for producer cellars has been expanded to include additional data that is important for producers and their members. We encourage the ongoing discussion of individual results around boardroom tables and welcome your feedback and suggestions for the future.

'Best-in-class' (BIC) has become the standard at which outstanding performances among producer cellars are measured in this publication. BIC refers to the average achievement of the top 25% of participants and may serve as a goal to strive towards for individual cellars, depending on their own unique circumstances.

General

South Africa is currently in the grip of one of the worst droughts in 20 years, which will place significant pressure on food price inflation in the coming months. Winter rains in the Western Cape have been far below average and dam levels are at their lowest for this time of year in recent history. It remains to be seen what the impact of the drought and changing weather patterns will be on the 2016 wine grape harvest.

The economic outlook for emerging markets in general is currently not favourable. Positive employment data from the United States of America and declining demand for commodities from China have placed the local currency and our current account balance under pressure. Although a weakening rand is positive for exports in the short term, producers should caution against yielding to pressures on foreign price points as this may have a negative impact on earnings in the long run.

In a time of low economic growth and increased pressure on consumers, Governor Lesetja Kganyago of the South African Reserve Bank faces the difficult task of keeping inflation within the Monitory Policy Committee's target band of 3% to 6%.

Despite these local and global challenges, though, we remain confident in Brand South Africa's resilience and our country's ability to innovate and excel on all levels.

Highlights from this report

Africa and Asia have replaced North America and the European Union as the two geographical areas that CEOs consider to be the most important for growth over the short to medium terms.

Given global demographic changes, the wine industry will have to ensure that it understands the consumer segmentation in sub-Saharan Africa in order to tap into this large market.

Revenue per producing hectare for white varieties continued to increase, edging towards the R43 000 level. Costs per producing hectare have caught up to and exceeded the net revenue for red grape hectares.

The majority of participating cellars (81%) indicated that they would maintain their focus on promoting workplace diversity over the next 12 months.

Our appreciation goes out to the wine businesses that participate in the survey on an annual basis and the representatives of the various industry bodies. If you would like more information on any matters covered in this publication, please contact one of our team members listed on page 66.

We are confident that you will find the publication insightful and that your relationship with PwC will help create the value that your wine business is looking for!

Frans Weilbach
Africa Agribusiness Industry Leader - PwC
Stellenbosch
December 2015

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Views from chief executives

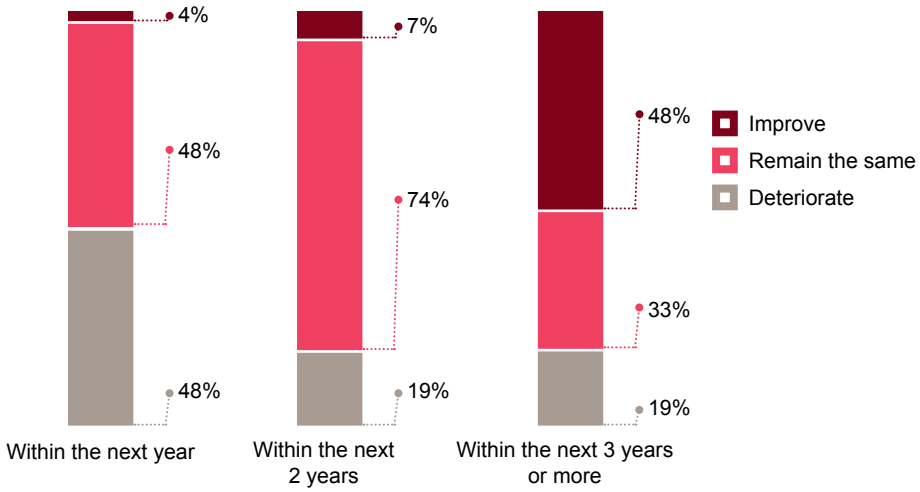
2. Views from chief executives

2.1 Introduction

Once again, we obtained some interesting views from key role players and decision-makers on a number of areas relating to the economy in general and, more specifically, the wine industry. These included producer and private cellars, industry bodies and regulators.

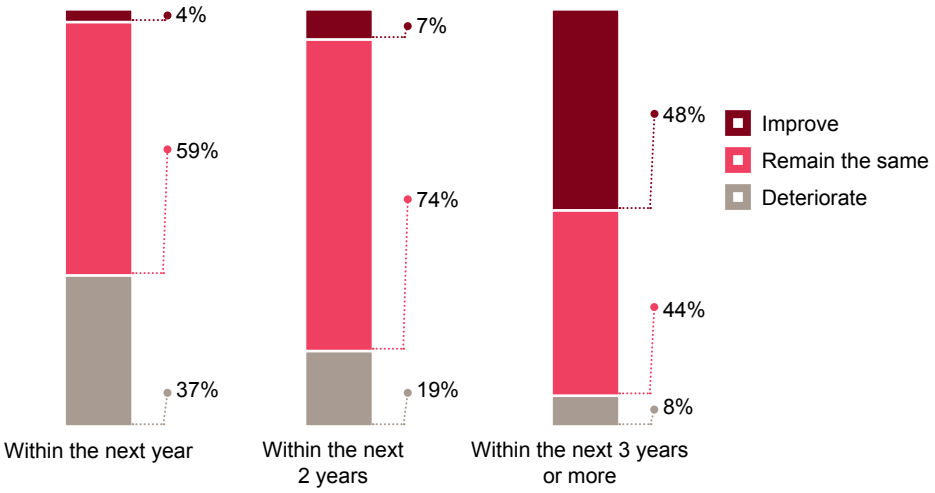
2.2 General economic and industry outlook

With regard to the global economy in general, what do you expect current market conditions to do, and when?



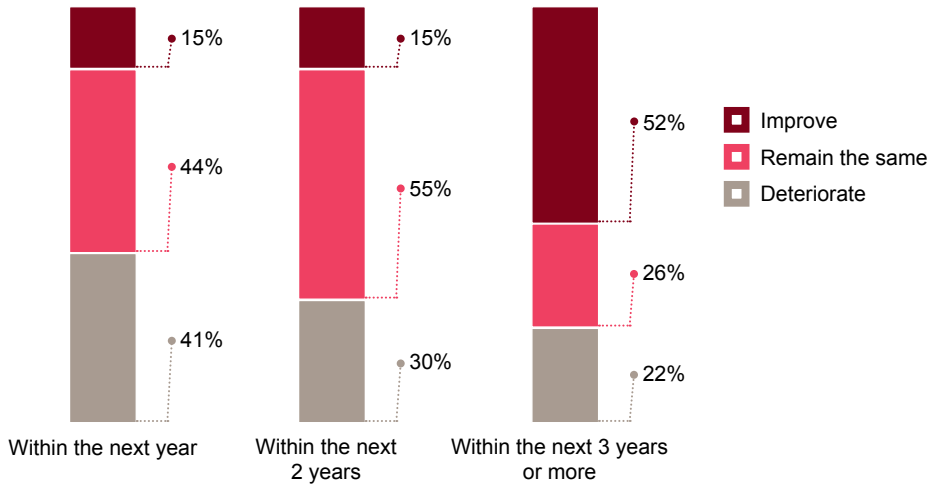
CEOs feel more confident about the global economy in general in the long term, with the majority only expecting to see an improvement after three years. In the medium term, they expect conditions to remain the same.

Specifically with regard to the global wine industry, what do you expect current market conditions to do, and when?



CEOs' sentiments as regards the global wine industry are fairly similar to those they have about the global economy in general, with very few executives expecting an improvement in the short term.

Specifically with regard to the South African wine industry, what do you expect current market conditions to do, and when?

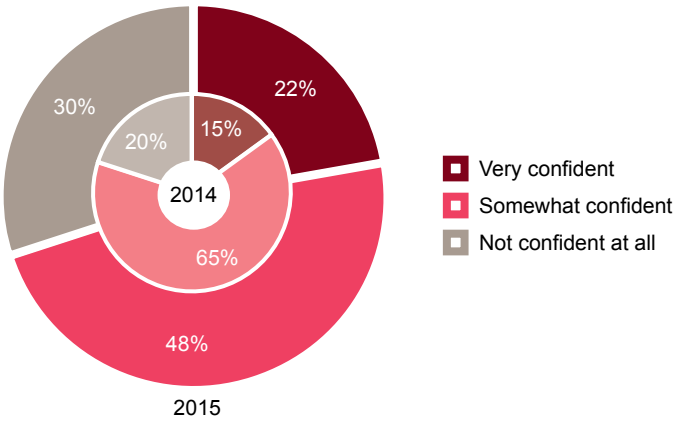


Executives' outlook as regards the South African wine industry in the short term is slightly better than that for the global wine industry, with 15% expecting an improvement within the next year, compared to only 4% expecting an improvement in the global wine industry.

15%

expect an improvement in the South African wine industry within the next two years

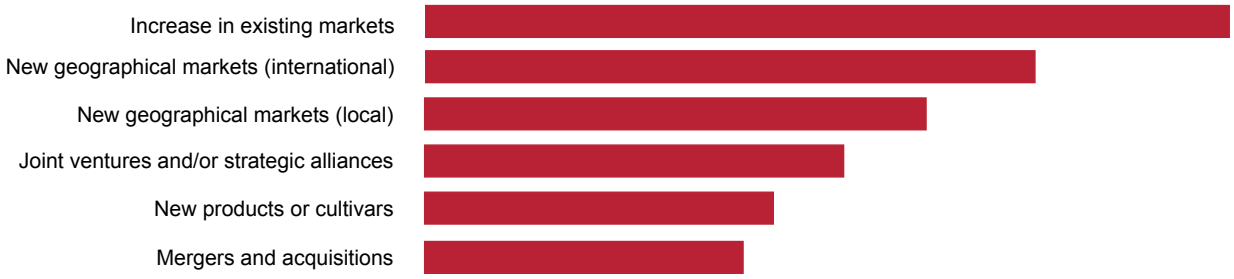
Considering your organisation's prospects over the next 12 to 36 months, how confident are you regarding revenue growth?



In 2014, only 15% of CEOs were very confident about revenue growth in the short to medium terms, while 22% are of this view in 2015. The number of executives that are not confident about revenue growth at all has remained fairly consistent.

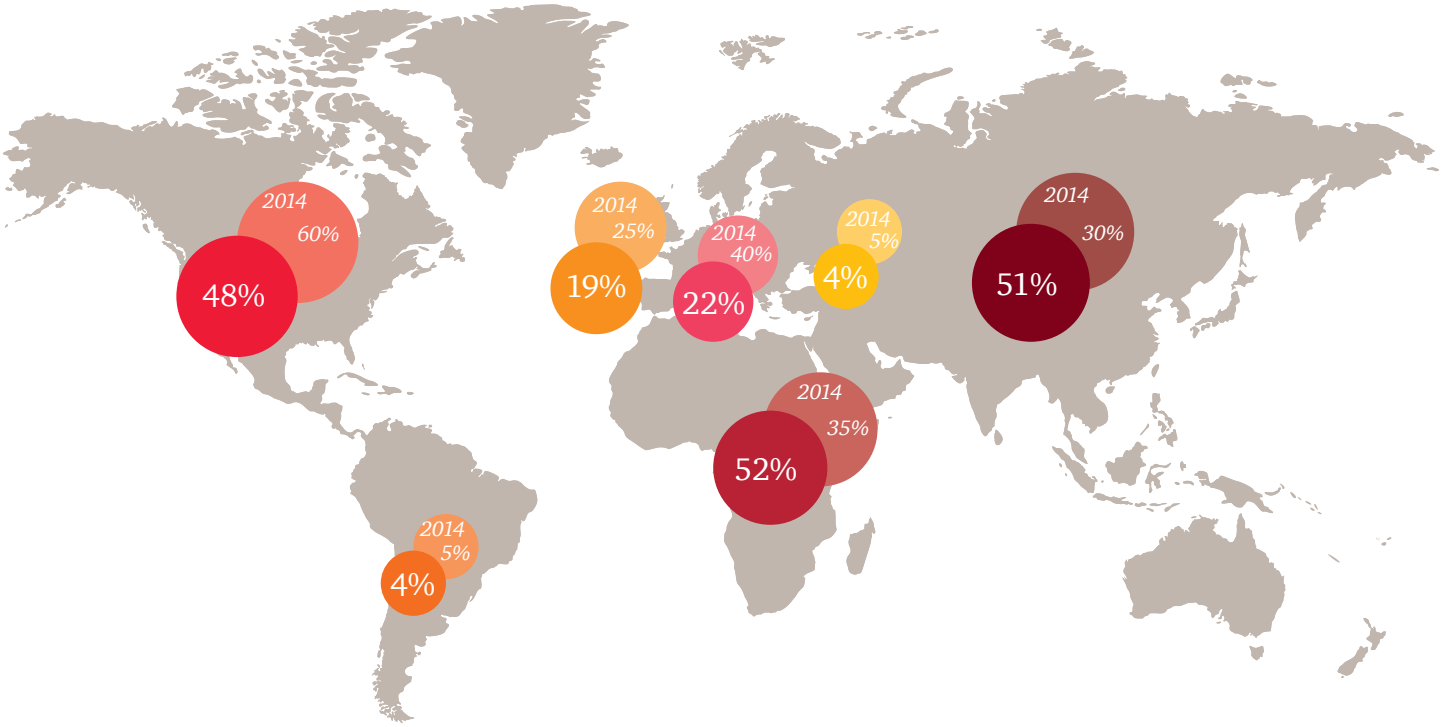
2.3 Opportunities and challenges

Which of the following do you regard as the main opportunities to grow your organisation over the next 12 months?



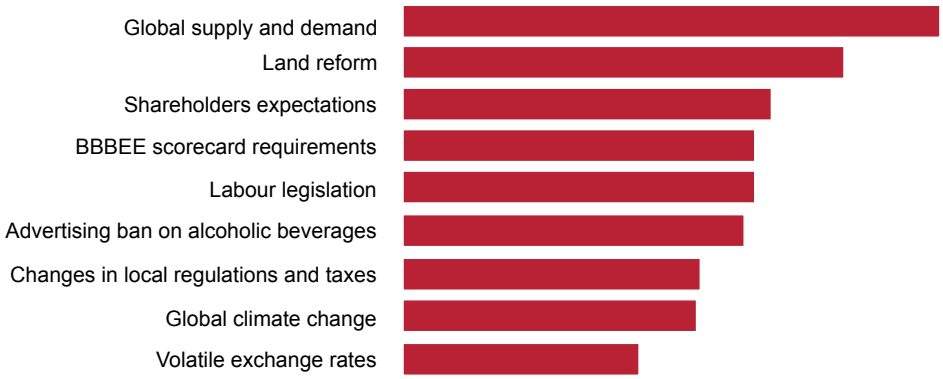
An increase in existing markets and the development of new markets, both locally and internationally, remain at the top of the agenda when CEOs consider growth opportunities.

Which two geographical areas do you consider most important for your overall growth prospects over the next 12 to 36 months?



Africa and Asia have replaced North America and the European Union as the two geographical areas that CEOs consider to be the most important for growth over the short to medium terms. With the local currency being under pressure against the US dollar, exports to North America were expected to remain important for growth.

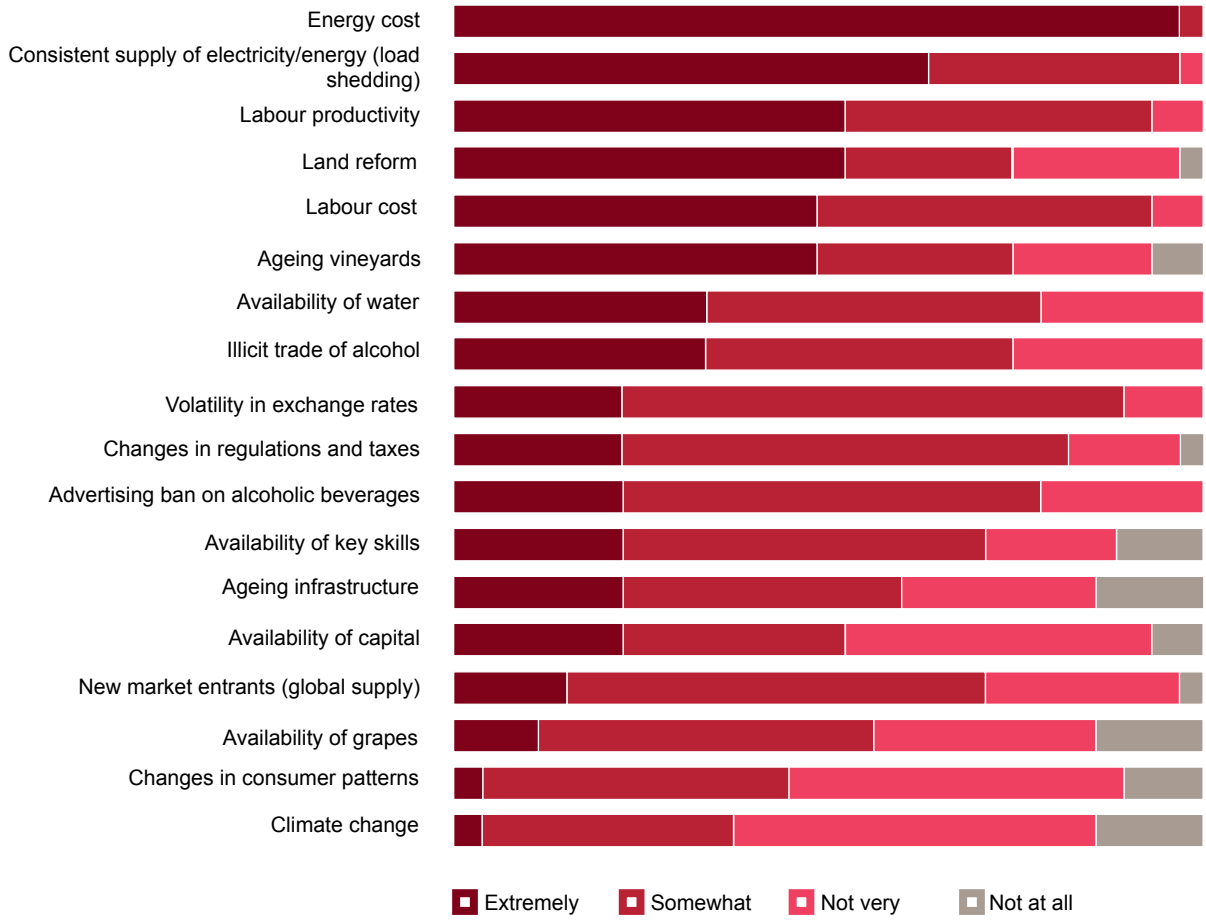
Which of the following factors are most likely to influence your decisions regarding your organisation's strategy?



Global supply and demand still have the biggest influence on organisational strategy. It does not seem as though the new BBBEE scorecard requirements are regarded as having too much of an influence in decision-making.

Land reform is currently higher on the agenda than in prior years, with more emphasis also being placed on shareholders' expectations when strategy is considered.

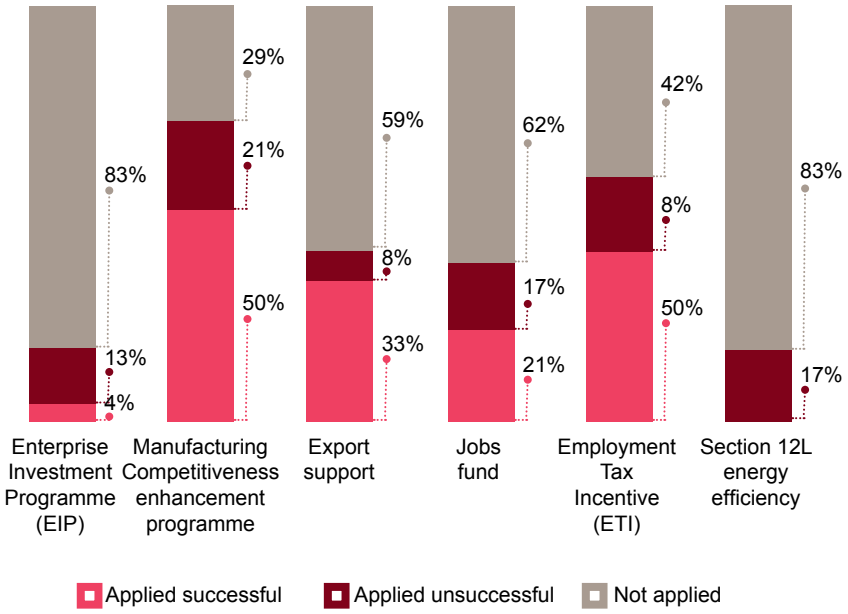
How concerned are you about the following factors?



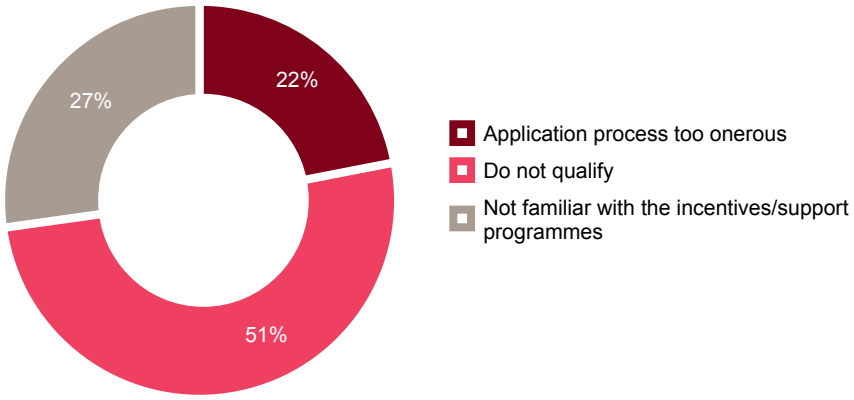
While the cost of energy remains the factor that CEOs are most concerned about, the consistent supply thereof has also become a very worrying factor. Labour-related issues (productivity and cost) are still at least somewhat concerning. Most executives are also quite concerned about land reform.

2.4 Government support

Which incentives/support programmes (including tax incentives) have your organisation applied for? Has your application been successful?



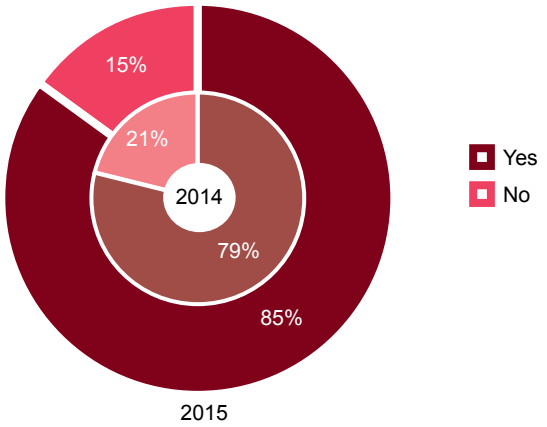
If you have not made use of incentives/support programmes, what is the reason?



Most organisations have been successful when applying for the MCEP and export support programmes, while they have had less success with the jobs fund, EIP and energy efficiency programmes. It is encouraging to see that many organisations have successfully made use of the ETI, for which the qualifying criteria are less onerous.

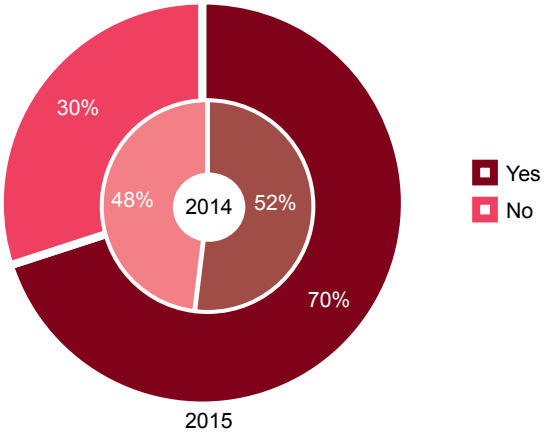
About a quarter of executives were not aware of the government support currently being offered. Engaging service providers to assist with this could provide organisations with an opportunity to make use of the available programmes.

Does your business have any formal ethical trade accreditation?

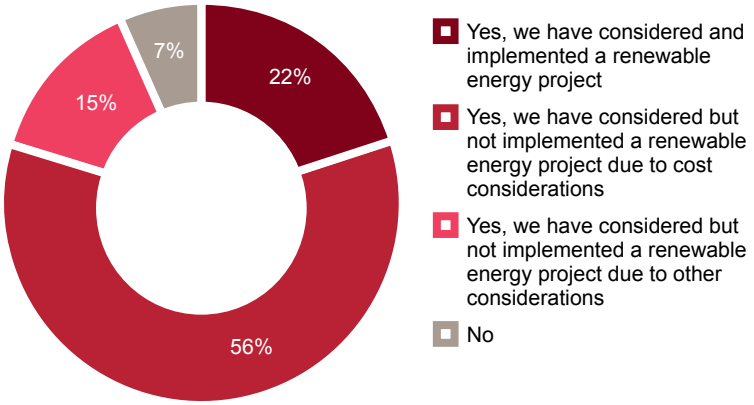


In 2014, 79% of wine businesses had some form of ethical trade accreditation, with WIETA and Fairtrade being amongst the most popular. In 2015, it is encouraging to see that 85% of participating cellars have obtained formal accreditation. While WIETA and Fairtrade remain the most popular, Business Social Compliance Initiative (BSCI) accreditation has also been noted.

Do you have any programmes in place to become more environmentally friendly?



Have you considered making use of renewable energy?

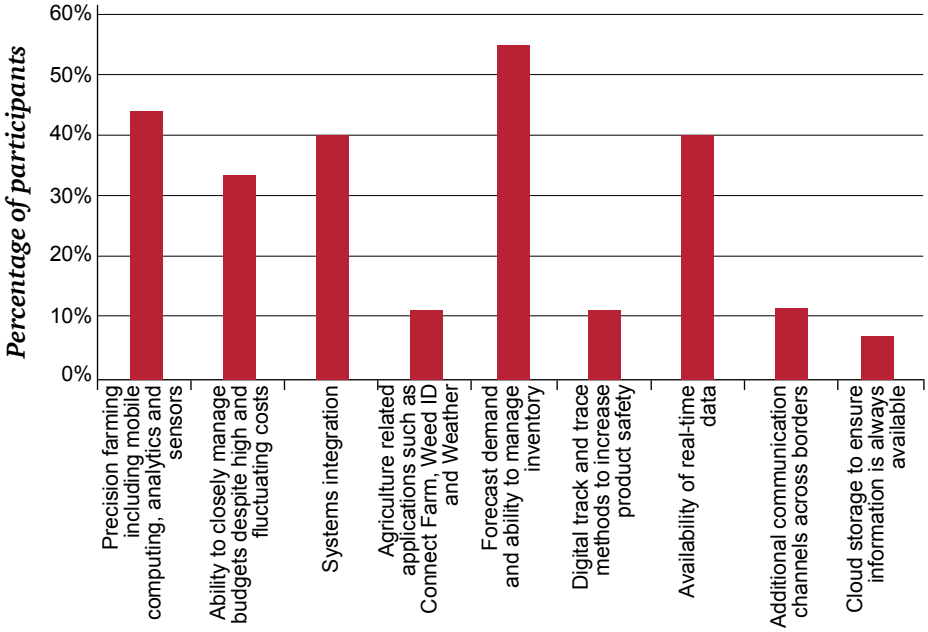


Local producers have gained ground on their international counterparts when it comes to environmental awareness. In 2014, 80% of international participants in our survey had environmental programmes in place while only 52% of local participants engaged in such programmes. By 2015, the local programmes had increased to 70%.

While water and electricity efficiencies are at the forefront, renewable energy sources such as solar projects and water filtration systems have also been implemented. A number of participants indicated that they are actively monitoring their carbon footprint. While 93% of participants have considered introducing renewable energy programmes, 56% have not yet implemented it due to cost considerations.

Solar, wind and hydro power are still the most popular projects. No participants have yet considered biogas or kinetic sources as an alternative to conventional energy.

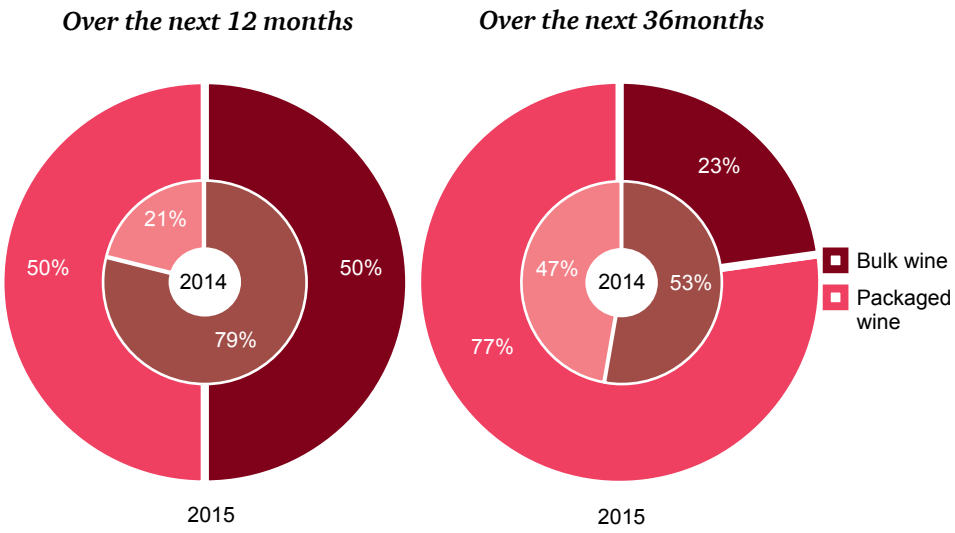
Which of the following do you regard as opportunities for technological innovation?



Forecast demand and the ability to manage inventory are areas in which executives believe that technological innovation can be of value. The development of formal wine supply chain policies could assist in this regard. Precision farming is also high on the agenda, and it will be interesting to see the role of technology in this area in future.

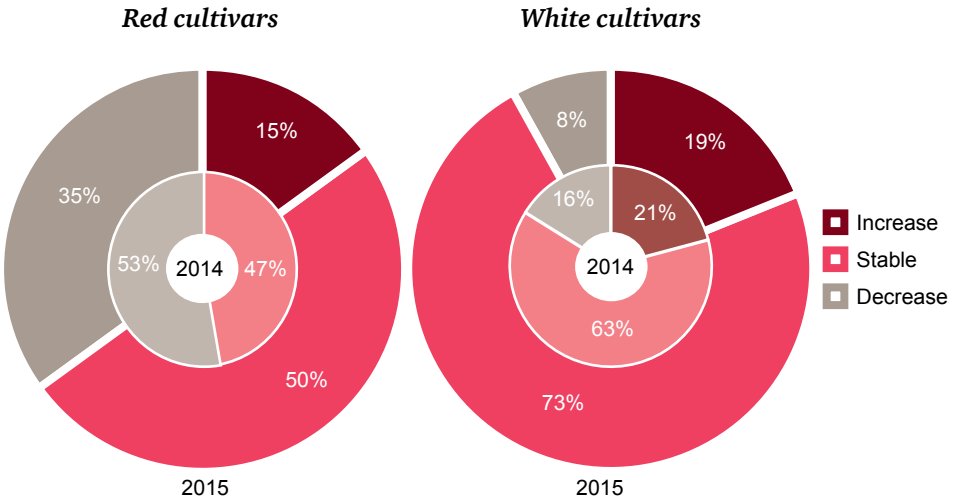
2.5 Short- and medium term forecast

Where do you think the most significant opportunities for growth are with regard to product composition (bulk wine or packaged wine)?



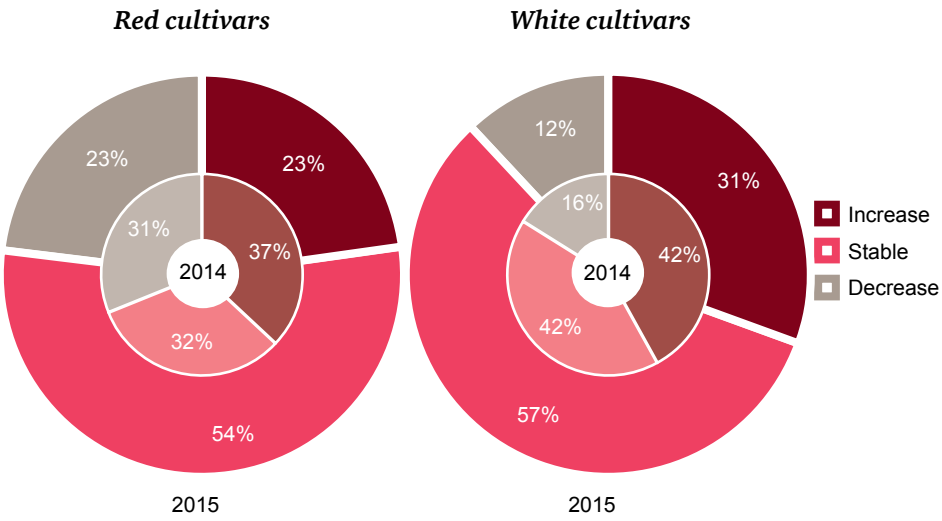
Participating executives are split as to their views regarding opportunities for growth in product composition in the short term while packaged wine may well be the focus in the medium to longer term. This is in sharp contrast to the 2014 view that bulk wine is the way to go in the short and long run.

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



In 2014, no participants expected that the price of red wine would increase in the short term. While still being bearish on the price outlook for red wine, 15% of CEOs are now of the opinion that prices will increase over the next 12 months. The majority of participants expect white wine prices to remain stable.

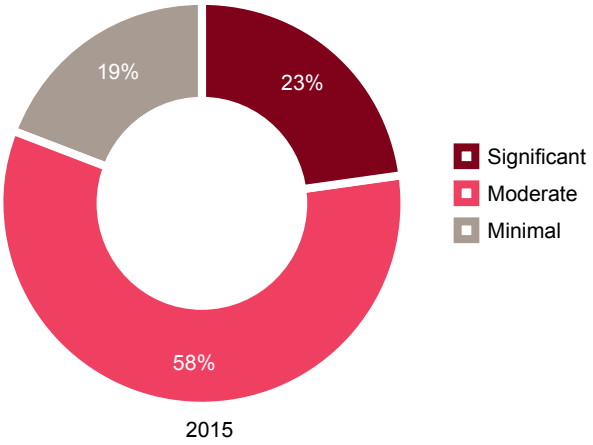
How do you expect the price of wine to change over the next 12 to 36 months?



Sentiment towards red cultivars has improved since 2014, when 31% of executives predicted a decrease in prices. In 2015, 77% of participants are of the view that red wine prices will at least remain stable in the medium to longer terms.

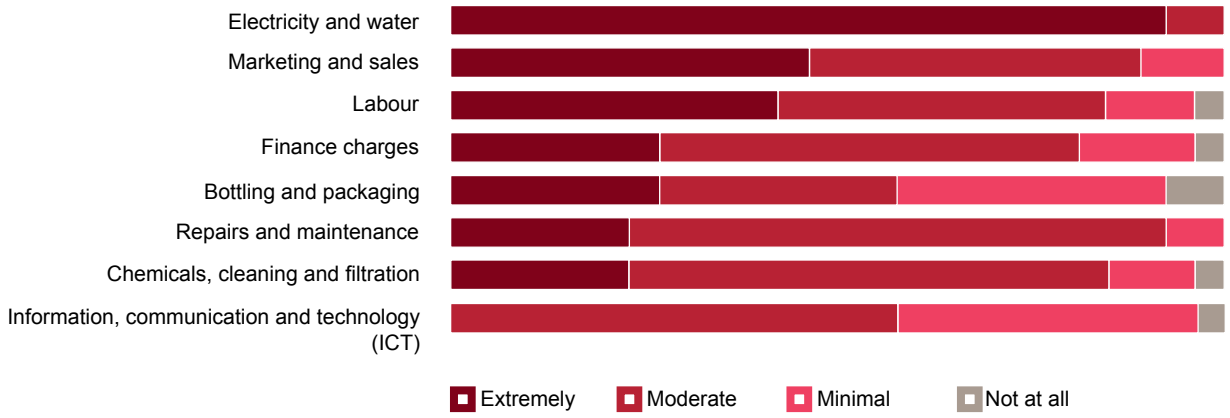
For white wine prices there has been a moderate shift in expectations towards stable prices.

What level of investment in infrastructure do you anticipate over the next 12–36 months in your business?



In 2014, 79% of respondents indicated that they expected minimal to moderate investment in infrastructure over the following 12 to 36 months. The expectation has remained fairly consistent in the current year, with only 23% of executives anticipating significant investment in infrastructure.

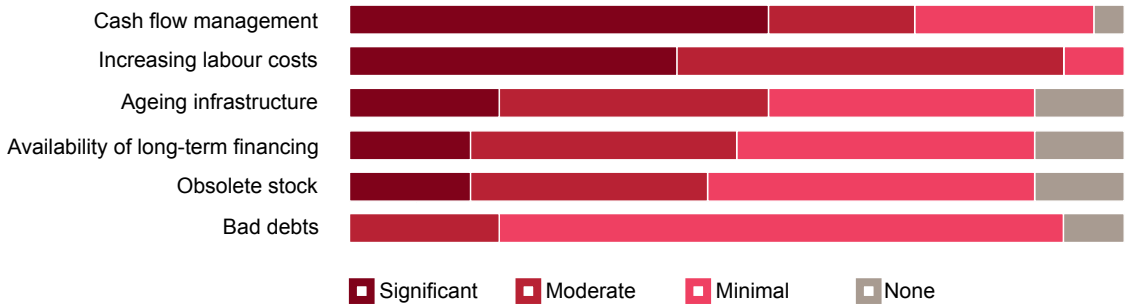
Which expenditures are you most concerned about over the next 12–36 months?



Most participants are extremely concerned about electricity and water costs in the longer term. Many executives are also at least moderately concerned about marketing- and sales-related costs. Regarding ICT, executives are divided in their views on the impact of these costs on their business.

2.6 Management of risk

Where do you feel the most significant risks lie, given your organisation's latest annual financial results?



While increasing labour costs remain a significant concern for most executives, cash-flow management has replaced it as the factor that participants are most concerned about.

In addition to the mechanisation of farming processes to counter increasing labour costs, producers have managed their risks as follows:

Ageing infrastructure	Availability of long-term financing and cash-flow management	Debtors days outstanding	Increasing labour costs	Inventory turnover rate
Implementation of an infrastructure replacement policy	Securing production loans	Application of strict credit policy	Measuring labour productivity	Removal dates implemented in purchase agreements
Proper maintenance of equipment	Utilising Government support programmes	Improved monitoring	Performance-based payment	Split between made-to-order and stock products
Making use of new technologies	Maintaining open communication lines with financiers	Credit insurance	Education and training	Regular consultation with buyers

3

Global megatrends

3. Global megatrends

The playing field

A wine business is not only about making good wine. The industry does not operate in a vacuum; it is impacted by so many different factors on an economic, political, social and environmental level that it would be safe to say that change is the only real constant. The best approach to this complex playing field is to ensure that you take cognisance of all the influencing factors and understand them in order to be proactive rather than reactive.

The 5 Global megatrends

Megatrends are sustained global macroeconomic forces of development that impact businesses, economies, societies, cultures and personal lives, defining our future world with its ever-increasing pace of change. These global forces also impact the wine industry.

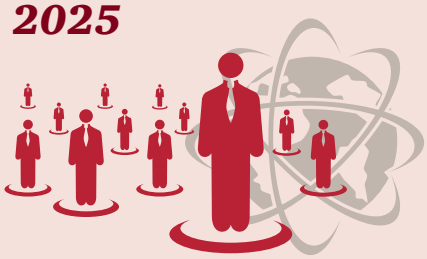
3.1 Megatrend 1 – Demographic change

Regardless of what the demographic shifts in a specific region entail, we will have to accept that world demographics are changing dramatically. It is therefore essential that we understand the implications of the changes in a specific region and act accordingly on a policy level.

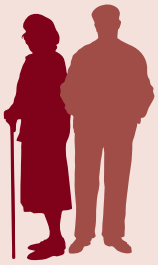
1 billion

more people in the world by

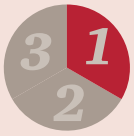
2025



of whom ***300 million*** are predicted to be ***65*** and older



62% of sub-Saharan Africans are ***below 25*** years of age



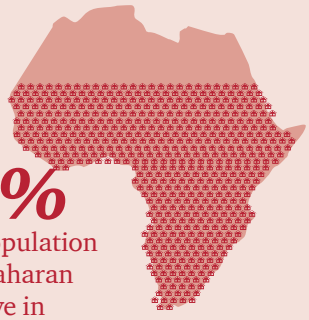
By ***2050***, one in three children born in the world will be born in sub-Saharan Africa

The wine industry will have to ensure that it understands consumer segmentation and demographics in order to tap into the global market opportunity.

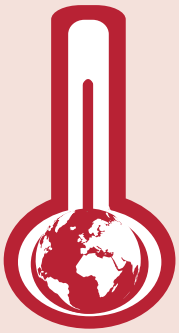
3.2 Megatrend 2 – Climate change and resource scarcity

Scarcity is a fundamental economic problem of having seemingly unlimited human wants in a world of limited resources. Its premise is that society has insufficient productive resources to fulfil all human wants and needs. Scarcity involves making a sacrifice – giving something up, or making a trade-off – in order to obtain more of what is wanted (Heyne, Boettke and Prychitko, 2014). Resource scarcity in our day and age shapes the way we produce, source and consume. We cannot merely accept that we have enough water, productive soil, and so forth. The result of resource scarcity that is not proactively managed is food insecurity.

70% of the world's poor live in rural areas



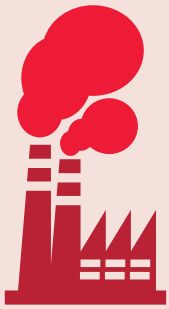
63% of the population in sub-Saharan Africa live in rural areas



Average temperatures to increase by over

2°C

in the 21st century

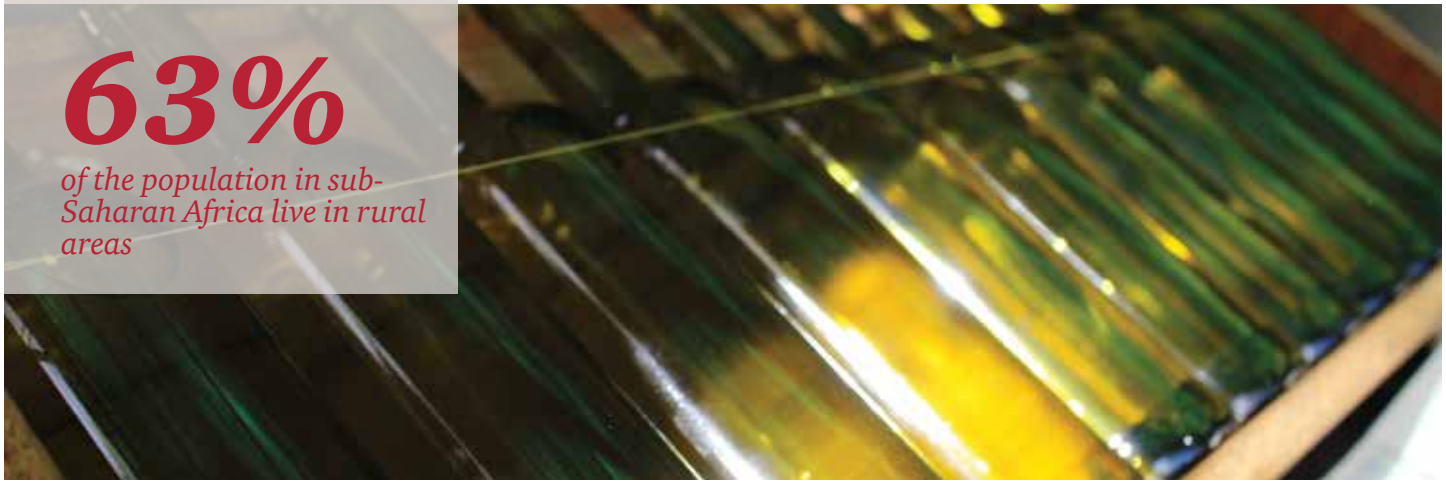


6%

annual reduction in carbon intensity is required to meet the 2°C target

(World Bank, 2015; Rain Harvest, 2015; Global Trends 2030: Alternative Worlds, National Intelligence Council 2012; BP Statistical Review of World Energy, 2013; Intergovernmental Panel on Climate Change, 2007; PwC Low Carbon Economy Index, 2013)

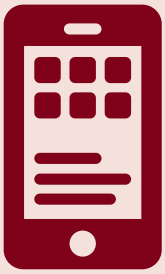
With resource scarcity being a proven reality that affects all of us, sustainability and corporate social responsibility are no longer a luxury – they are a necessity. The wine industry will also have to evaluate the potential effect of drought and make contingency plans if needed to pre-empt the effects of climate change and water scarcity.



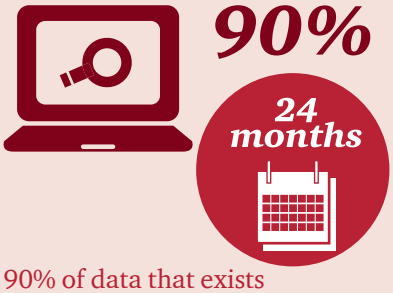
3.3 Megatrend 3: Technological advances

Technology that is not doing its job can be one of the biggest disrupting forces in an organisation. As already alluded to, even advanced technological tools such as ERP systems can bring mass frustration if they are not properly implemented and widely accepted and understood by all users. However, technological advances have the potential to increase efficiency to unimaginable levels and thereby positively transform the way we work.

On average, US consumers spend 34 hours per month on their smartphones



There are **20 million** smartphone users in South Africa (out of a population of 53 million)



90% of data that exists today was created in the last two years

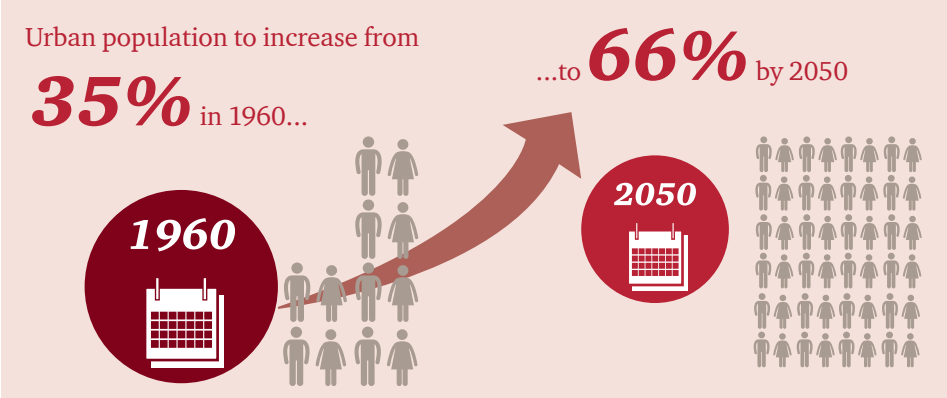
of the world's population regularly use social media

(Business Tech, 2014; Nielsen, 2014; UN Population Division, 2012; Internet World Statistics, 2014)

Going forward, there will be no excuse for the wine industry not to understand and utilise the latest technological innovations.

3.4 Megatrend 4: Accelerating urbanisation

There is a strong global trend towards urbanisation as more and more people move from rural areas to the cities in search of greater opportunities for jobs, education and improved accommodation. This has a significant economic impact, also on the wine industry.



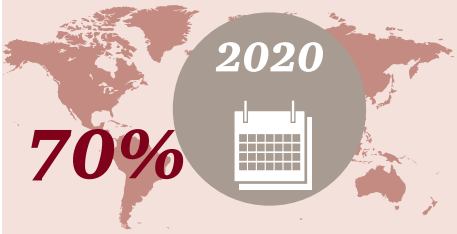
(WHO, 2015; UN, 2015; Regmi, 2014; Brookings Institution, 2012; UN Habitat, State of the World's Cities, 2012/2013)

This trend is expected to have a positive impact on the wine industry, as urban consumers are more likely to be educated to adopt the culture of drinking wine as a beverage of choice.

3.5 Megatrend 5: Shift in economic power

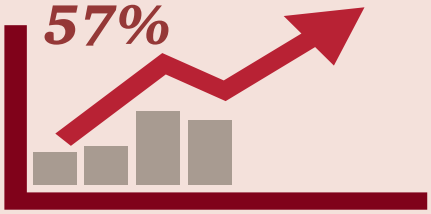
Economic power is constantly shifting on a global scale, and businesses that understand the implications of this megatrend will have a definite edge on their competitors.

China is likely to replace the US as the world's largest economy by 2030 in market exchange rate terms



of companies could have at least one global business unit head based in Asia before 2020

Measured in purchasing power parity, the emerging economies overtook the developed world in 2008 in terms of their contribution to global GDP



By 2030, developing countries will account for 57% of global GDP

(PwC World in 2050 Projections, 2013; 2013 Asia Business Outlook Survey – The Economist, 2013; OECD, 2010; Wolf, 2011)

The latest research (completed as part of the Wine Industry Strategic Exercise (WISE)) shows that China is South Africa's greatest growth opportunity for wine exports, followed by Africa. Wine exporters will have to gear up to understand these new markets and think innovatively in order to tap into them.

4

Financial overview of producer cellars – 2014 harvest

4. Financial overview of producer cellars – 2014 harvest

4.1 Introduction

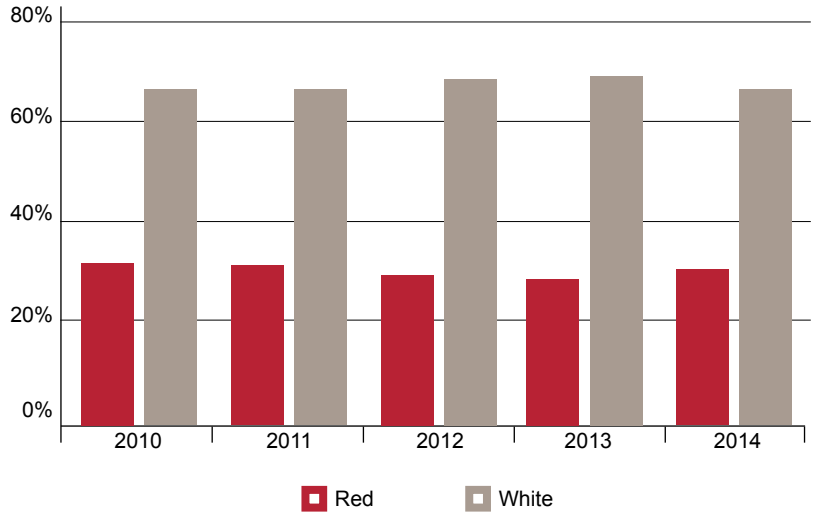
The 2014 financial results of participating wine cellars are presented in this section. The findings are based on the results of a significant number of South African producer cellars and are presented on a national average basis.

4.2 Results/Findings

4.2.1 Production

Average tons pressed per cultivar										
Cultivar	2014 harvest		2013 harvest		2012 harvest		2011 harvest		2010 harvest	
	Tons	%	Tons	%	Tons	%	Tons	%	Tons	%
Total red	6 261.89	32.9	5 504.79	29.6	5 463.73	30.5	5 034.17	32.5	4 272.25	32.8
Cabernet Sauvignon	1 390.74	7.3	1 078.77	5.8	1 157.59	6.5	1 073.10	6.9	931.54	7.2
Cinsaut	568.07	3.0	476.31	2.6	542.37	3.0	532.16	3.4	467.14	3.6
Merlot	761.04	4.0	670.03	3.6	727.89	4.1	687.28	4.4	563.74	4.3
Pinotage	1 156.92	6.1	1 088.63	5.9	915.59	5.1	821.26	5.3	656.60	5.0
Ruby Cabernet	610.55	3.2	591.00	3.2	586.61	3.3	569.29	3.7	467.42	3.6
Shiraz	1 279.95	6.7	1 181.74	6.4	1 145.27	6.4	1 030.75	6.7	951.22	7.3
Port varieties	23.17	0.1	24.01	0.1	15.10	0.1	21.85	0.1	21.29	0.2
Dry red	52.77	0.3	67.56	0.4	67.54	0.4	85.76	0.6	47.06	0.4
Other red	418.67	2.2	326.74	1.8	305.76	1.7	212.73	1.4	166.25	1.3
Total white	12 767.45	67.1	13 091.94	70.4	12 463.15	69.5	10 451.54	67.5	8 734.06	67.2
Chardonnay	1 201.70	6.3	1 326.78	7.1	1 252.84	7.0	1 131.77	7.3	1 015.27	7.8
Chenin Blanc	4 668.03	24.5	4 609.40	24.8	4 461.62	24.9	3 808.58	24.6	3 371.50	25.9
Colombar	3 552.11	18.7	3 925.79	21.1	3 605.18	20.1	2 899.55	18.7	2 237.84	17.2
Hanepoot	477.76	2.5	498.60	2.7	497.76	2.8	408.25	2.6	289.75	2.2
Riesling (Cape)	73.98	0.4	84.97	0.5	124.57	0.7	112.60	0.7	125.83	1.0
Sauvignon Blanc	1 514.73	8.0	1 301.71	7.0	1 224.60	6.8	1 062.64	6.9	891.54	6.9
Port varieties	8.86	0.0	12.58	0.1	8.89	0.0	9.97	0.1	29.35	0.2
Dry white	238.46	1.3	307.09	1.7	353.42	2.0	278.81	1.8	152.96	1.2
Other white	1 031.84	5.4	1 025.03	5.5	934.27	5.2	739.37	4.8	620.02	4.8
Total	19 029.34	100.0	18 596.74	100.0	17 926.88	100.0	15 485.71	100.0	13 006.31	100.0

Red/White composition



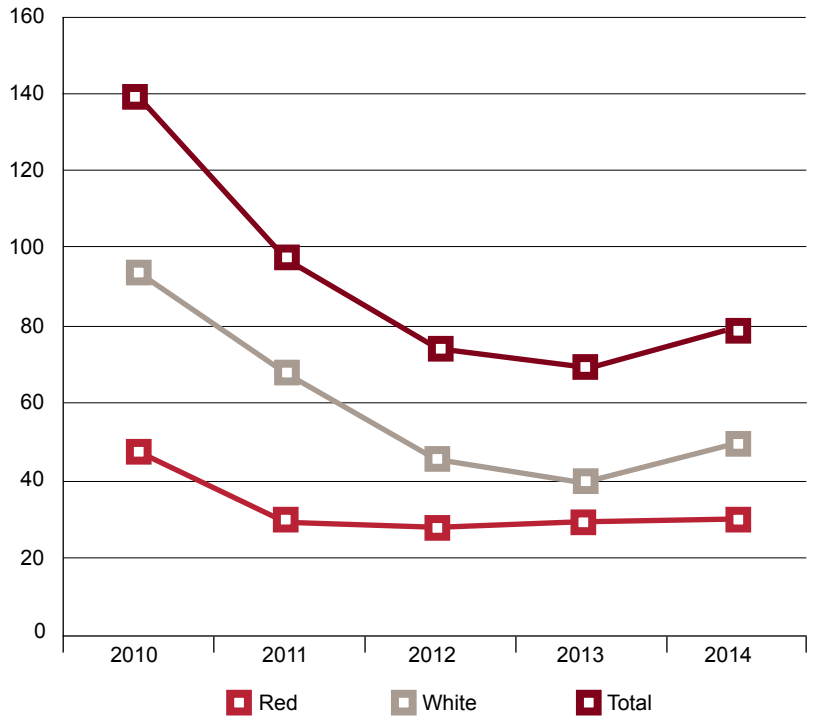
Despite record harvests in 2014 in some areas, the average tons pressed by participating cellars increased by only 2.3%, predominantly driven by increased red grape production. Although the white grape harvest contributed slightly less to the national crop in 2014, it continued to be approximately twice the size of the red grape harvest, as we have become accustomed to in South Africa.

4.2 Results/Findings

4.2.1 Production (continued)

Average producing hectares per cultivar										
Cultivar	2014 harvest		2013 harvest		2012 harvest		2011 harvest		2010 harvest	
	Ha	%	Ha	%	Ha	%	Ha	%	Ha	%
Total red	503.73	42.4	439.61	38.8	473.21	40.9	442.93	39.7	421.34	40.5
Cabernet Sauvignon	129.97	10.9	112.17	9.9	122.84	10.6	118.93	10.6	115.45	11.1
Cinsaut	34.89	2.9	31.64	2.8	34.17	3.0	36.92	3.3	34.90	3.4
Merlot	59.76	5.0	53.99	4.8	58.74	5.1	58.72	5.3	56.88	5.5
Pinotage	91.42	7.7	75.40	6.7	78.45	6.8	71.31	6.4	63.73	6.1
Ruby Cabernet	38.11	3.2	35.97	3.2	34.13	3.0	35.39	3.2	35.28	3.4
Shiraz	110.35	9.3	98.31	8.7	102.07	8.8	92.43	8.3	89.56	8.6
Port varieties	1.54	0.1	2.13	0.2	1.76	0.2	3.01	0.3	3.15	0.3
Dry red	4.14	0.3	2.48	0.2	4.53	0.4	5.75	0.5	4.05	0.4
Other red	33.54	2.8	27.53	2.4	36.52	3.2	20.46	1.8	18.35	1.8
Total white	684.15	57.6	693.53	61.2	683.58	59.1	674.16	60.3	617.90	59.5
Chardonnay	95.23	8.0	97.18	8.6	98.85	8.5	100.79	9.0	98.61	9.5
Chenin Blanc	262.28	22.1	261.07	23.0	257.91	22.3	263.19	23.6	240.78	23.2
Colombar	146.47	12.3	158.79	14.0	140.51	12.1	136.17	12.2	122.04	11.7
Hanepoot	23.32	2.0	24.66	2.2	23.57	2.0	23.54	2.1	20.28	2.0
Riesling (Cape)	7.60	0.6	8.60	0.8	8.38	0.7	9.71	0.9	11.27	1.1
Sauvignon Blanc	90.09	7.6	84.47	7.5	82.34	7.1	80.43	7.2	73.37	7.1
Port varieties	0.45	0.0	0.75	0.1	0.62	0.1	0.85	0.1	2.44	0.2
Dry white	12.13	1.0	16.08	1.4	28.05	2.4	16.82	1.5	12.06	1.2
Other white	46.58	3.9	41.95	3.7	43.36	3.7	42.66	3.8	37.04	3.6
Total	1 187.88	100	1 133.14	100.0	1 156.79	100.0	1 117.09	100.0	1 039.25	100.0

Average non-producing hectares per cellar



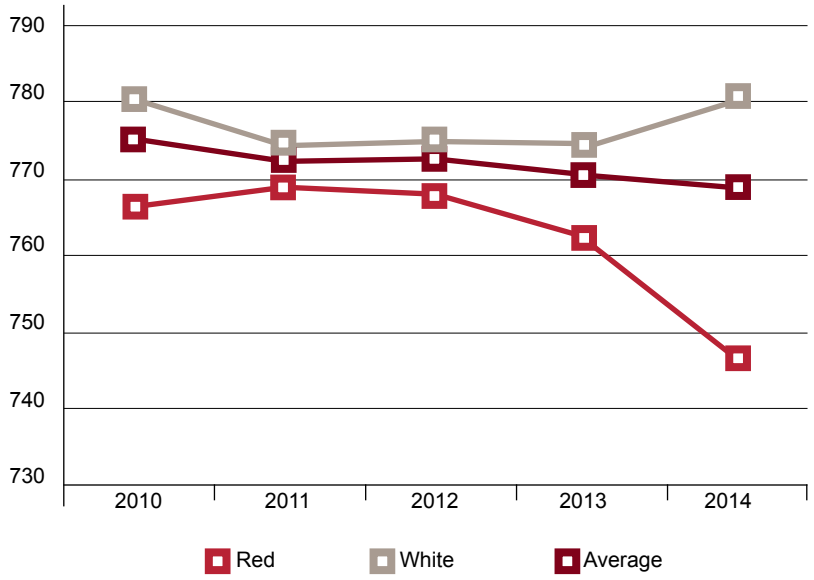
The slight increase in non-producing hectares for white grapes, while non-producing red grape hectares remained fairly stable, may indicate that producers have a lower expectation of white grapes in future. This was also noted in the views of the CEOs of wine businesses.

4.2 Results/Findings

4.2.1 Production (continued)

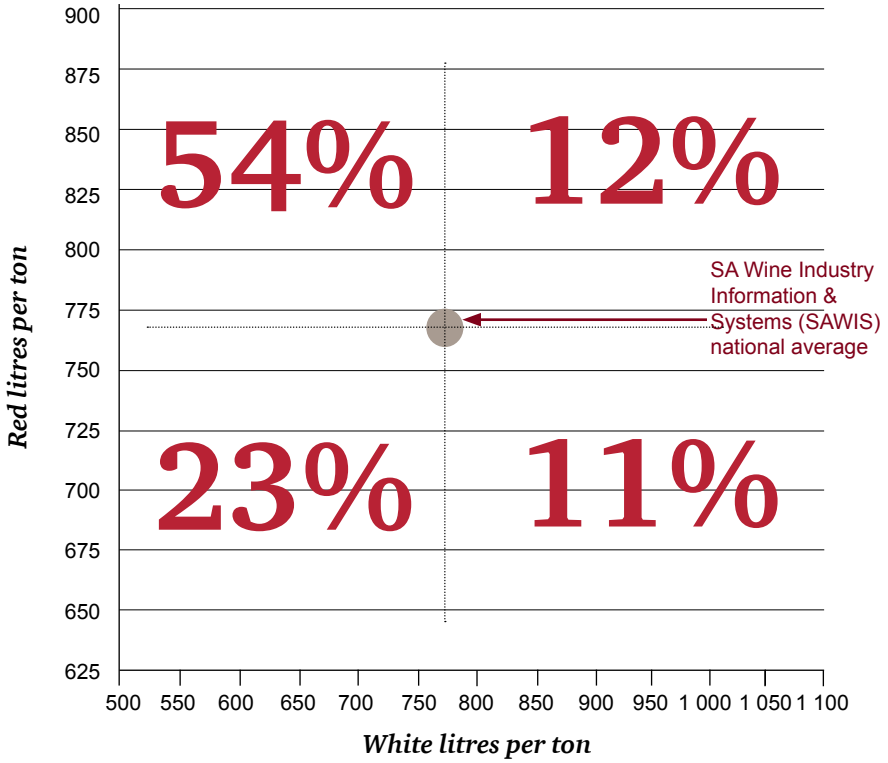
Average litres produced per product composition										
Product	2014 harvest		2013 harvest		2012 harvest		2011 harvest		2010 harvest	
	L	%	L	%	L	%	L	%	L	%
Drinking wine	12 067 092	82.5	11 679 697	81.5	11 347 645	81.9	10 163 997	85.0	8 654 879	85.8
Rebate wine	925 173	6.3	1 010 001	7.0	919 804	6.6	492 894	4.1	350 525	3.5
Distilling wine	661 508	4.5	747 846	5.2	686 400	5.0	569 056	4.8	610 553	6.1
Juice	785 516	5.4	746 373	5.2	731 383	5.3	585 494	4.9	405 177	4.0
Other	191 705	1.3	148 724	1.2	170 635	1.2	147 683	1.2	66 932	0.6
Total	14 630 994	100.0	14 332 641	100.0	13 855 866	100.0	11 959 124	100.0	10 088 065	100.0

Average recovery in litres per ton



The average recovery for red varieties dipped below the 750 litre per ton mark for the first time since 2009, while the litre recovery on white grapes was in line with the highest levels experienced over the past 12 years.

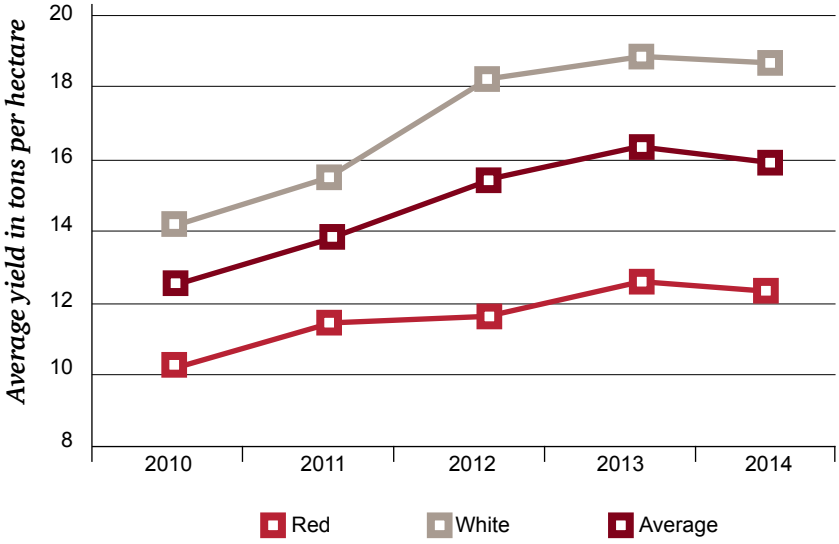
Average recovery in litres per ton - Red/White per cellar (Percentage of participants)



Although the average recovery in litres per ton decreased slightly, it is encouraging that the number of producers below the national average for both red and white varieties decreased from 38% for the 2013 harvest to 23% for the 2014 harvest, and the number of producers exceeding the national average for all grapes increased from 9% to 12%.

4.2 Results/Findings

4.2.1 Production (continued)



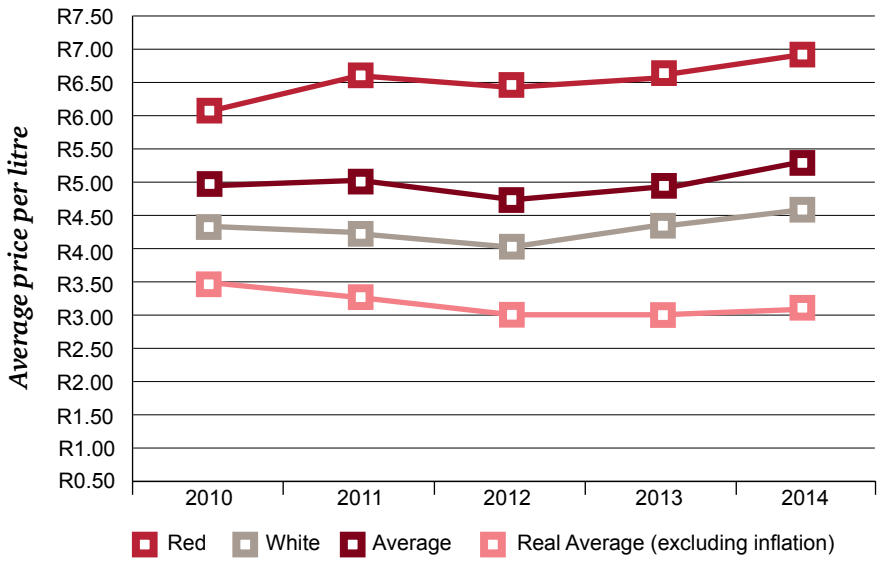
Although a slight decrease was recorded, producers managed to maintain the trend of higher recoveries that has been seen since 2011. The lower-than-average rainfall in 2015 may have an impact on future harvests, and producers would do well to maintain the national average of 16 tons per hectare in these challenging circumstances.

The lower-than-average rainfall in 2015 may have an impact on future harvests.

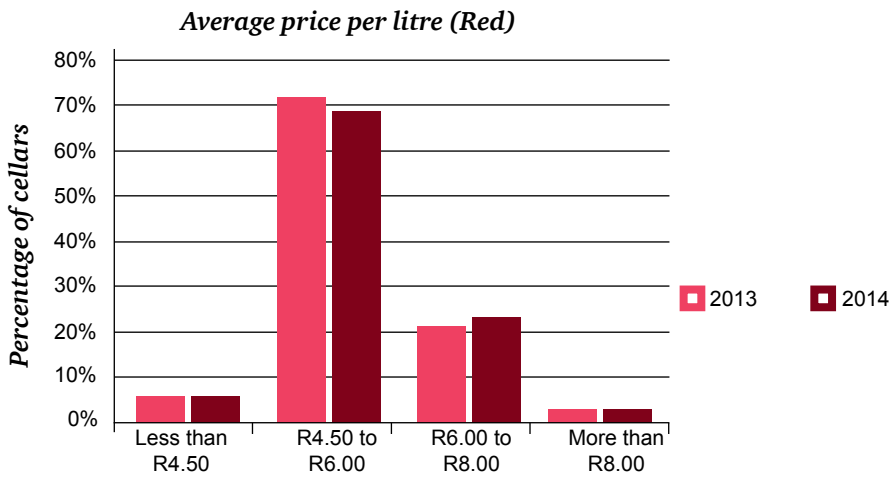
4.2 Results/Findings

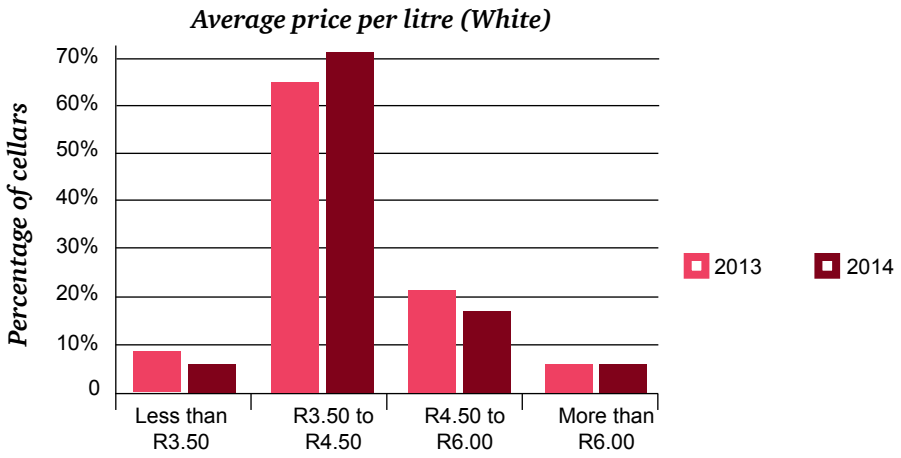
4.2.2 Profitability

Income statement (Average per cellar)										
Wine and related products	2014		2013		2012		2011		2010	
	R	R/ton	R	R/ton	R	R/ton	R	R/ton	R	R/ton
Sales	78 701 827		80 719 529		66 078 036		55 588 636		57 558 271	
Opening inventories	33 412 345		34 791 185		27 669 242		23 602 430		22 080 838	
Closing inventories	41 181 391		30 777 424		33 271 507		30 103 161		22 431 089	
Net profit before tax	2 292 484	117.03	2 349 661	126.45	1 101 754	61.51	271 680	17.54	672 062	51.67
Tax	545 035	27.82	623 170	33.54	300 509	16.78	272 318	17.11	432 614	33.26
Net profit/(loss) for the year	1 739 582	88.80	1 644 229	88.48	812 667	45.37	(13 910)	(0.90)	477 490	36.71



It is encouraging to see that real prices have increased since 2013. However, they are still below the levels achieved in 2010.



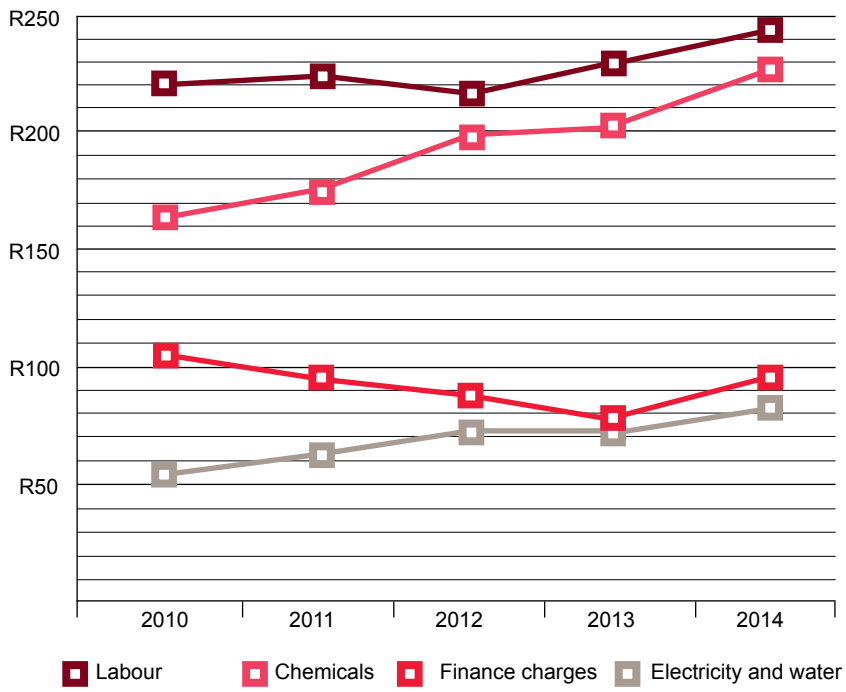


4.2 Results/Findings

4.2.2 Profitability (continued)

Analysis of expenses attributable to bulk and packaged wine										
Expense	2014		2013		2012		2011		2010	
	Bulk wine	Packaged	Bulk wine	Packaged	Bulk wine	Packaged	Bulk wine	Packaged	Bulk wine	Packaged
	R/ton	R/L	R/ton	R/L	R/ton	R/L	R/ton	R/L	R/ton	R/L
Labour										
Permanent	214.99	1.04	204.03	1.04	190.77	1.05	202.41	0.79	196.89	0.57
Temporary	29.19	0.03	26.95	0.02	25.86	0.02	22.83	0.02	24.97	0.14
Insurance	18.66	0.04	16.66	0.05	15.69	0.04	16.82	0.04	16.79	0.03
Marketing and sales expenses	41.14	3.04	47.05	2.64	36.71	3.05	27.56	1.90	34.14	1.15
Bottling and packaging	21.73	7.66	2.45	7.40	16.63	7.39	-	5.26	-	5.03
Chemicals, cleaning and filtration materials	229.03	0.16	202.23	0.10	199.21	0.09	176.50	0.16	164.12	0.14
Distribution	61.10	0.94	77.78	0.78	42.22	0.82	33.60	0.66	30.32	0.34
Sundry administrative expenses	84.41	0.74	82.26	0.79	71.30	0.89	69.90	0.54	84.38	0.71
Sundry cellar expenses	90.04	0.48	46.73	0.38	84.51	0.55	34.94	0.36	43.70	0.32
Electricity and water	82.68	0.11	72.99	0.06	71.90	0.07	63.33	0.08	54.25	0.07
Finance charges	95.06	0.12	76.42	0.11	88.58	0.21	96.62	0.25	107.22	0.20
Rent paid	22.79	0.05	17.59	0.05	14.29	0.05	6.38	0.04	6.37	0.03
Repairs, maintenance and cellar consumables	106.48	0.15	91.42	0.14	80.47	0.14	78.59	0.15	87.68	0.15
Telephone and postage	3.50	0.02	3.65	0.03	3.99	0.04	4.81	0.03	4.77	0.02
Depreciation	123.50	0.17	107.64	0.15	116.07	0.16	123.87	0.16	115.09	0.15

Major expenses per ton pressed

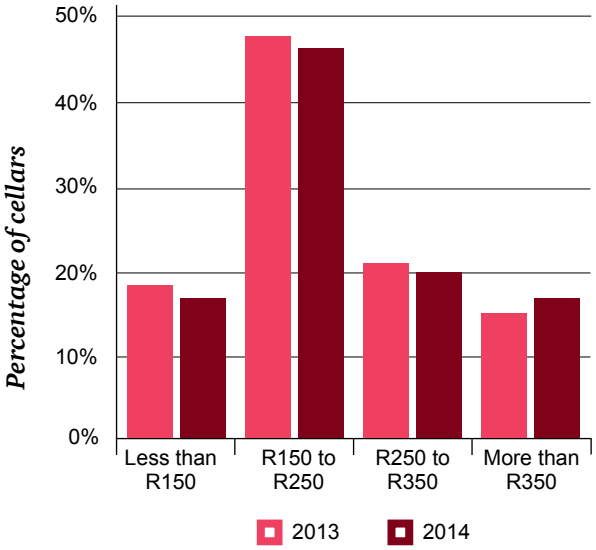


Unsurprisingly, finance charges per ton pressed are starting to increase, given the rising interest rate cycle. Labour and chemicals remain the most significant costs per ton pressed.

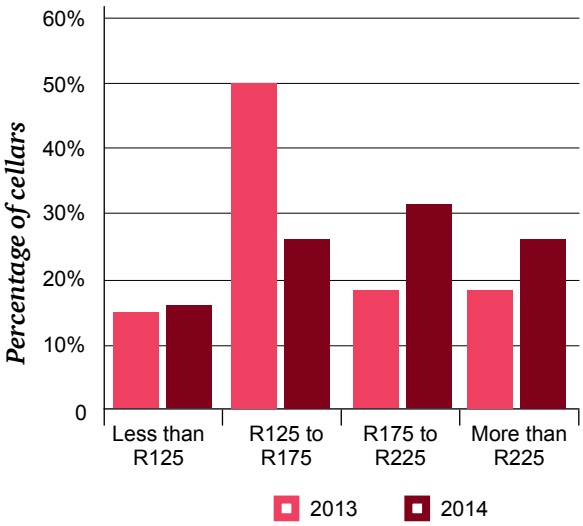
4.2 Results/Findings

4.2.2 Profitability (continued)

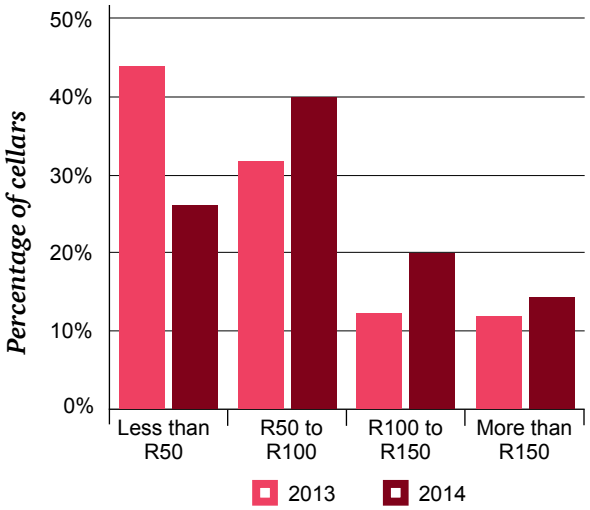
Cost of labour per ton pressed



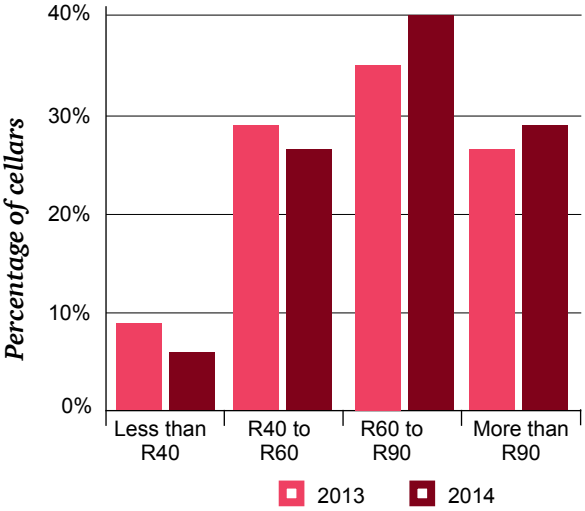
Cost of chemicals per ton pressed



Finance charges per ton pressed



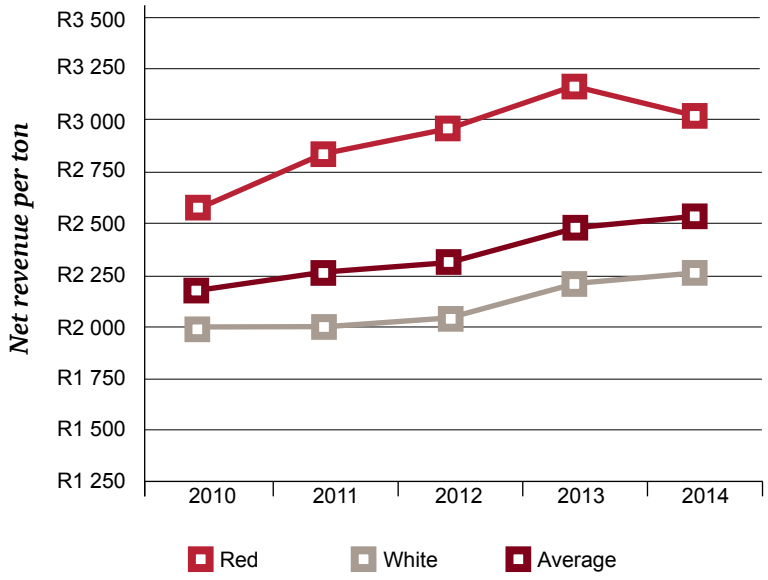
Cost of electricity and water per ton pressed



4.2 Results/Findings

4.2.2 Profitability (continued)

Net revenue per ton									
Cultivar	2014	2013		2012		2011		2010	
	Provisional	Provisional	Final	Provisional	Final	Provisional	Final	Provisional	Final
	R/ton	R/ton	R/ton	R/ton	R/ton	R/ton	R/ton	R/ton	R/ton
Total red	3,032.90	3 156.40	2,962.10	2 964.20	3 108.33	2 839.36	2 866.98	2 568.58	2 617.56
Cabernet Sauvignon	3,301.97	3 458.12	3,467.96	3 191.42	3 382.79	3 050.79	3 261.96	2 785.75	2 838.79
Cinsaut	2,495.88	2 536.25	2,568.05	2 351.68	2 375.67	2 350.05	2 441.40	2 045.32	2 040.94
Merlot	3,120.52	3 378.39	3,351.92	3 105.69	3 250.50	2 921.60	3 067.56	2 662.25	2 694.77
Pinotage	3,029.37	3 156.07	3,171.05	3 036.74	3 138.07	2 871.51	3 003.18	2 532.83	2 564.60
Ruby Cabernet	2,797.47	2 753.43	2,834.61	2 772.51	2 832.41	2 582.26	2 648.63	2 312.86	2 233.28
Shiraz	3,145.55	3 296.20	3,334.96	3 100.29	3 312.39	3 002.42	3 147.51	2 758.38	2 884.48
Port varieties	2,490.01	2 720.92	2,734.02	2 891.27	2 843.13	2 852.32	3 396.28	2 395.87	2 541.48
Dry red	2,662.29	2 721.46	2,789.70	2 592.44	2 773.86	2 727.39	2 664.02	2 385.23	2 625.13
Other red	2,793.98	2 951.69	2,837.24	2 577.95	2 923.78	2 548.85	2 711.94	2 352.71	2 499.77
Total white	2,275.42	2 217.57	2,215.14	2 041.30	2 057.12	2 004.75	2 014.76	2 002.46	1 944.66
Chardonnay	2,828.45	2 763.24	2,900.58	2 637.98	2 730.40	2 637.56	2 717.13	2 703.19	2 679.79
Chenin Blanc	2,157.68	2 109.19	2,100.25	1 919.36	1 947.40	1 904.93	1 882.60	1 848.40	1 775.37
Colombar	1,988.80	1 944.32	1,982.54	1 765.53	1 753.82	1 732.50	1 731.83	1 669.22	1 629.77
Hanepoot	2,331.26	2 377.92	2,399.18	2 143.00	2 206.90	1 842.58	1 867.34	1 812.22	1 696.37
Riesling (Cape)	2,087.24	2 069.72	2,088.58	1 808.53	1 877.65	1 861.19	1 824.44	1 802.04	1 792.87
Sauvignon Blanc	2,931.44	2 926.23	2,891.15	2 806.75	2 859.99	2 753.57	2 847.71	2 847.45	2 846.68
Port varieties	2,246.69	2 415.66	2,387.54	2 963.27	2 000.13	2 185.56	2 242.26	2 567.29	2 685.44
Dry white	1,766.83	1 950.90	1,917.88	1 712.55	1 867.33	1 598.77	1 690.50	1 634.60	1 649.47
Other white	2,293.04	2 154.32	2,249.25	1 972.85	1 948.69	1 803.84	1 796.30	1 874.09	1 894.08
Total	2,524.68	2 495.55	2,454.95	2 322.71	2 248.40	2 276.08	2 283.02	2 188.42	2 153.24

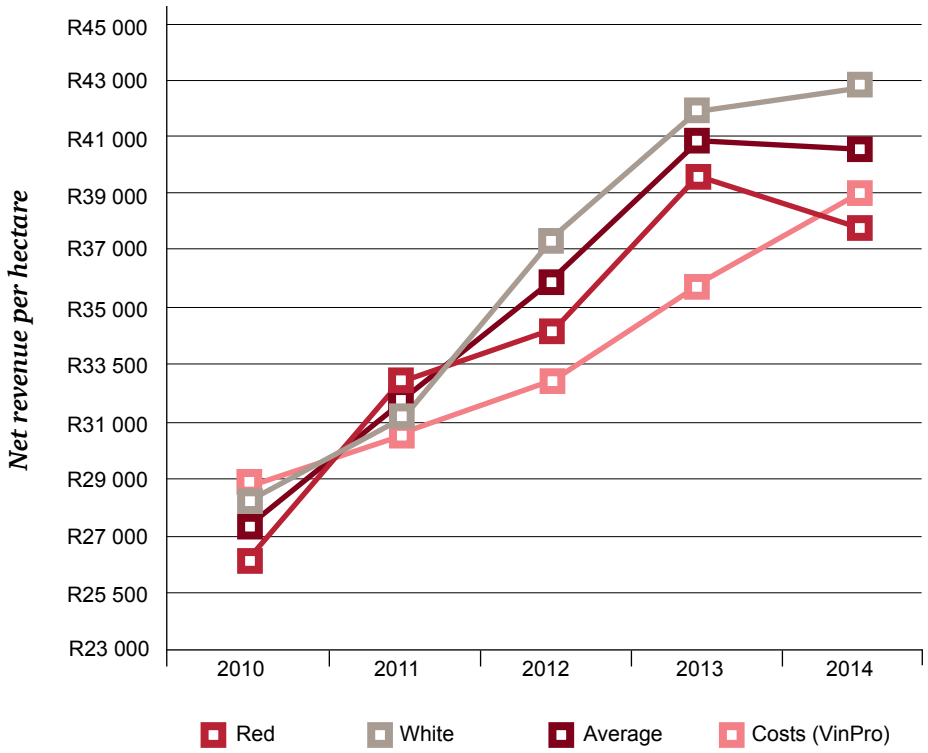


Although provisional net revenue per ton for red grapes declined by 4%, it remains above the R3 000 per ton level, while the increase in net revenue per ton for white grapes was insignificant.

4.2 Results/Findings

4.2.2 Profitability (continued)

Net revenue per producing hectare									
Cultivar	2014	2013		2012		2011		2010	
	Provisional	Provisional	Final	Provisional	Final	Provisional	Final	Provisional	Final
	R/ha	R/ha	R/ha	R/ha	R/ha	R/ha	R/ha	R/ha	R/ha
Total red	37,705.28	39 607.81	39,569.89	34 223.23	36 578.21	32 271.31	32 499.71	26 109.60	29 535.53
Cabernet Sauvignon	35,333.64	33 257.27	39,107.03	30 074.05	31 948.16	27 526.28	30 611.00	22 476.60	24 376.50
Cinsaut	40,639.22	39 341.31	48,851.46	37 326.75	38 972.21	33 874.54	35 441.38	28 138.57	29 717.67
Merlot	39,738.15	41 928.30	47,438.18	38 485.61	39 887.57	34 194.03	36 112.88	26 385.19	30 935.64
Pinotage	38,337.13	45 569.12	54,973.17	35 441.09	37 012.41	33 071.25	36 082.82	26 095.73	28 425.41
Ruby Cabernet	44,817.16	45 235.98	46,277.86	47 652.19	48 846.16	41 543.19	43 854.25	30 645.32	34 969.11
Shiraz	36,483.75	39 623.60	50,320.99	34 787.03	36 217.25	33 481.75	36 785.79	29 296.10	33 224.17
Port varieties	40,850.19	30 723.61	30,734.90	24 749.91	25 734.40	20 679.10	30 446.02	16 191.06	16 407.68
Dry red	33,898.53	76 377.06	77,735.22	38 683.37	52 677.47	40 664.87	38 553.96	28 515.30	27 925.45
Other red	34,872.36	35 037.44	37,189.54	21 584.82	28 450.27	26 498.75	29 710.35	21 320.78	34 149.68
Total white	42,485.60	41 913.84	42,492.31	37 232.57	39 001.08	31 099.76	31 724.32	28 322.75	29 934.24
Chardonnay	35,691.26	37 727.80	40,896.34	33 434.81	35 860.66	29 616.83	31 125.63	27 832.26	30 468.50
Chenin Blanc	38,402.03	37 239.42	40,767.24	33 203.19	33 603.91	27 565.47	28 019.05	25 881.68	26 185.50
Colombar	48,231.47	48 068.64	49,844.02	45 298.09	44 608.04	36 890.63	37 091.95	30 607.49	33 087.71
Hanepoot	47,760.48	48 077.62	49,730.66	45 256.13	46 356.57	31 956.15	33 657.83	25 886.56	29 074.91
Riesling (Cape)	20,305.30	21 101.38	20,679.24	26 899.28	28 693.50	21 591.73	20 948.43	20 114.32	30 355.78
Sauvignon Blanc	49,288.19	45 095.99	48,433.55	41 745.11	43 953.90	36 380.15	38 735.08	34 600.18	37 571.11
Port varieties	45,234.92	42 001.08	50,647.87	42 679.41	28 291.42	24 940.71	25 590.03	31 699.31	32 857.85
Dry white	35,768.12	38 427.25	38,112.55	21 580.51	36 274.79	27 243.82	28 806.99	21 306.26	28 669.78
Other white	50,799.22	52 643.07	60,452.17	42 506.55	50 949.08	31 260.66	31 492.87	31 373.28	29 616.96
Total	40,457.95	41 019.44	41,310.44	36 000.73	35 972.35	31 564.47	31 911.76	27 426.47	29 661.22



Revenue per producing hectare for white varieties continued to increase, edging towards the R43 000 level. Producers may be concerned that costs per producing hectare have caught up to and are exceeding the net revenue for red grape hectares. Fortunately, on average, primary production costs have been recovered.

4.2 Results/Findings

4.2.3 Structuring

Balance sheet (Average per cellar)	2014	2013	2012	2011	2010
	R	R	R	R	R
Assets					
Non-current assets	43 985 854	38 769 129	36 301 087	35 602 571	31 101 990
Property, plant and equipment	40 694 457	35 887 609	33 494 786	32 467 191	28 310 193
Investments	3 246 349	2 790 017	2 728 139	3 062 876	2 704 879
Deferred tax assets	45 048	19 503	78 162	72 505	86 918
Current assets	61 707 953	53 525 438	54 137 181	48 498 264	40 416 354
Inventories	40 981 079	32 298 458	34 264 687	30 349 729	22 911 030
Wine	36 799 392	30 637 126	33 380 411	29 671 137	22 464 393
Other	4 181 687	1 661 332	884 276	678 592	446 637
Trade and other debtors	18 279 200	18 775 024	18 086 400	16 112 956	15 402 824
Bank and cash	2 447 675	2 451 114	1 786 094	2 035 579	2 102 500
Total assets	105 693 807	92 294 567	90 438 267	84 100 835	71 518 344
Equity and liabilities					
Capital and reserves	28 249 415	24 556 340	24 290 860	22 731 844	19 747 353
Share capital	6 031 287	3 647 063	6 146 528	6 596 301	5 006 216
Reserves	21 739 029	20 310 738	17 486 514	15 314 916	14 029 844
Members' funds	479 100	608 539	657 818	820 627	711 292
Non-current liabilities	16 816 147	15 217 748	13 323 521	13 218 810	14 104 520
Long-term borrowings	10 948 901	10 077 982	8 407 768	8 750 152	10 366 281
Deferred tax liabilities	5 789 832	5 046 962	4 859 531	4 308 664	3 549 021
Deferred income	77 414	92 804	56 222	159 994	189 218
Current liabilities	60 628 245	52 046 962	52 823 886	48 150 180	37 666 471
Trade and other creditors	22 859 845	14 454 507	17 098 486	18 435 285	13 728 355
Producers	34 082 215	34 934 979	32 403 920	27 657 522	22 314 933
Bank overdrafts	3 686 185	3 120 992	3 321 481	2 057 373	1 623 183
Total equity and liabilities	105 693 807	92 294 567	90 438 267	84 100 835	71 518 344

Ratios	2014	2013	2012	2011	2010
Own capital vs debt					
Own capital	27%	27%	27%	27%	28%
Debt	73%	73%	73%	73%	72%
	100%	100%	100%	100%	100%
Current ratio	1.02:1	1.02 :1	1.02:1	1.01:1	1.07 :1
Acid test	0.34:1	0.40 :1	0.38:1	0.38:1	0.46 :1
Non-current assets vs non-current liabilities	2.6:1	2.5 :1	2.7:1	2.7:1	2.21 :1
Debtors days outstanding (days)	87	82	93	105	102
Return on investment (%)	14%	16%	11%	8%	11%

5

Competitiveness index for producer cellars


06-182

5. Competitiveness index for producer cellars

5.1 Introduction

In our second competitiveness index for producer cellars, we have further developed a number of key business and financial drivers and benchmarks for a competitive, sustainable wine business. While the measuring of performance against a benchmark can be an important decision-making tool, a benchmark is not necessarily a measure that should be aspired to at all costs. Knowing the industry norm and why your business deviates from it is also important – if not more so.

Although each cellar is unique in its financial and operational structures, the benchmark indicators in this publication are typically those on which a wine cellar could focus to ensure the longevity and sustainability of its business. Each identified driver was awarded a weighting based on the importance of the particular driver in the overall business process. These weightings are included below.

The benchmark cellar was awarded 100 basis points. The scores of participating cellars were calculated by making adjustments for performance relative to the benchmark. If a cellar outperformed the benchmark in all areas, it could be awarded more than 100 points.

While the relative importance of each identified driver may differ for individual participants, the following weighting table has been used, and could assist with the interpretation of results:

5.2 Average age of vineyards

In other geographical areas, it is common to see very matured vines still in full production. In South Africa, though, it is rare to find vines older than 25 years still producing on commercial levels, especially in the producer cellar environment.

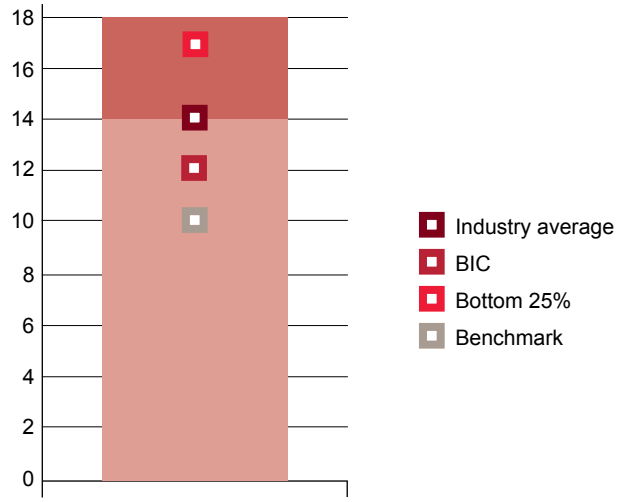
A benchmark of ten years for the average age of vineyards is therefore deemed appropriate for finding the right balance between younger vines that can meet the output demands over time and established vineyards that can deliver reliably from year to year.

It is rare to find vines in South Africa older than

25 years

and still producing on commercial levels.

Average age of vineyards (years)



In line with the findings in 2014, none of the participants managed to record results equal to the benchmark. White varieties remain on average approximately two years year older than red varieties, with Cape Riesling vines nearing 25 years in age on an average basis.

Ruby Cabernet has replaced Cinsaut as the oldest red variety at **14.5 years**

The traditional Bordeaux blends average between

12 and 13 years

Of all the grape varieties, Port cultivars are the closest to the benchmark at an average age of **9.5 years**

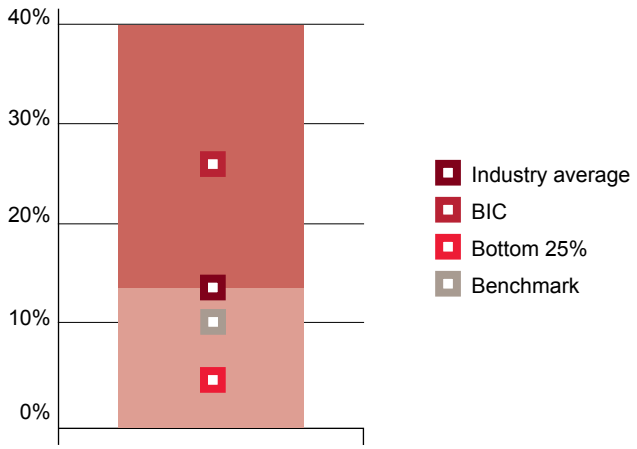
23%

of respondents have indicated that they expect significant investment in infrastructure over the next 12 to 36 months.

5.3 *Infrastructure replacement ratio*

Chief executives have indicated that the implementation of an infrastructure replacement ratio is one of the ways in which they manage the risk of ageing infrastructure. While replacement policies may result in different replacement cycles and yearly expenditure, an average of 10% per year based om historical values could provide cellars with an indication of the level of replacement that they should consider.

Infrastructure replacement ratio

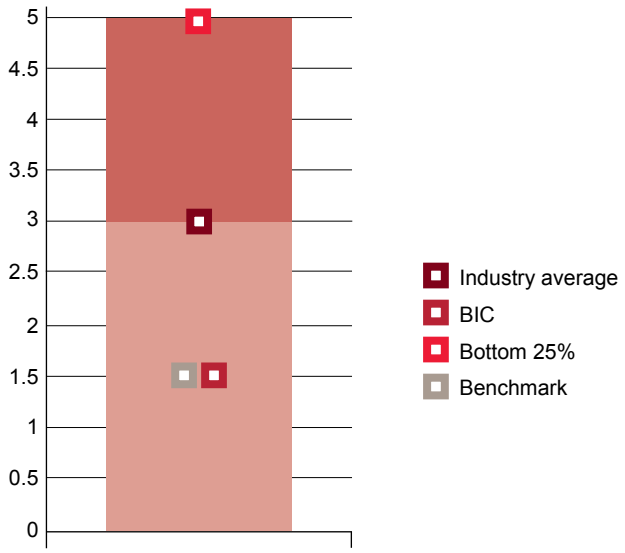


The national average is aligned with what was achieved in 2014 at 13%. The bottom 25% of participants have once again not managed to achieve the benchmark replacement ratio. This could lead to costly inefficacies in the future, as new technologies are constantly introduced.

5.4 Debt-equity ratio

Traditionally, the debt-equity ratio of producer cellars is higher than those found in the general marketplace because of limited reserve retention in favour of producers. Depending on (among others) available resources and business needs, participants should decide on the way in which they finance their operations, as their circumstances could warrant a deviation from the 1.5 benchmark.

Debt/equity ratio



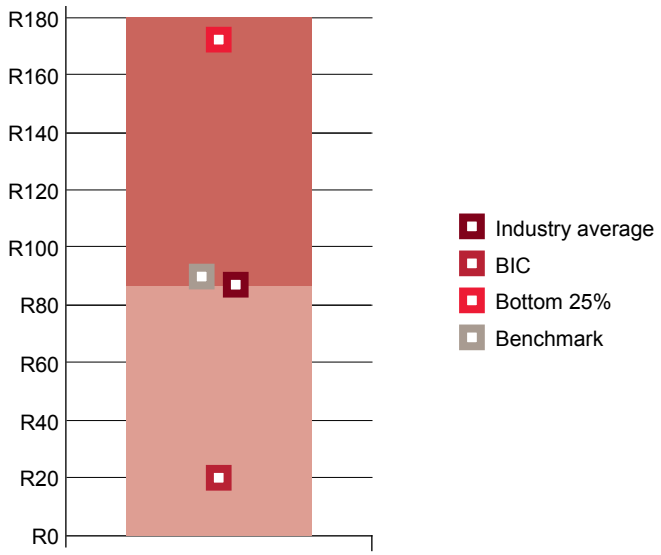
Results are fairly aligned with those for 2014, with BIC participants scoring results that approximate the benchmark. The capital structure of the business should be monitored by executive management.

Traditionally, the debt-equity ratio of producer cellars is higher than those found in the general market-place, because of limited reserve retention in favour of producers.

5.5 *Interest cost per ton*

Given that South Africa is in a rising interest rate cycle, the decision of whether or not to finance both capital and operational needs remains critical. Despite rising interest rates, finance charges per ton should generally not exceed R90, depending on the current level of investment in infrastructure.

Interest cost per ton

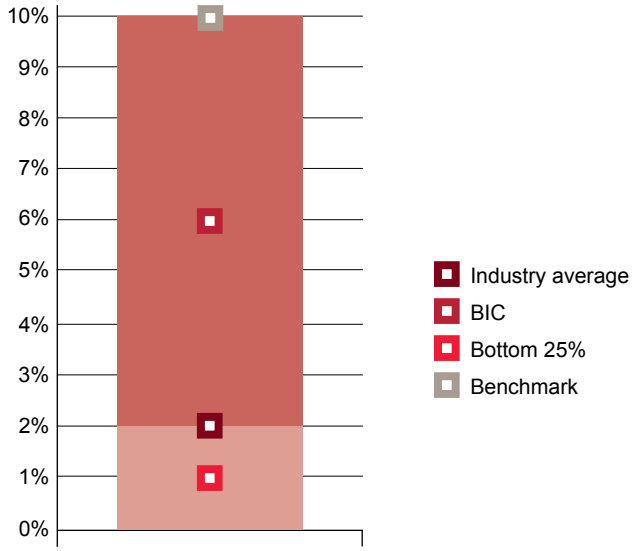


Although the industry average is higher than in 2014, the current interest cost per ton remains below the benchmark. The bottom 25% of participants have also managed to curb interest costs compared to the prior year.

5.6 Marketing spend

Brand building remains invaluable to any business. Establishing and maintaining a recognised brand through allocating at least 10% of your revenue to marketing and promotion could assist in developing the story of your product.

Marketing spend as % of revenue



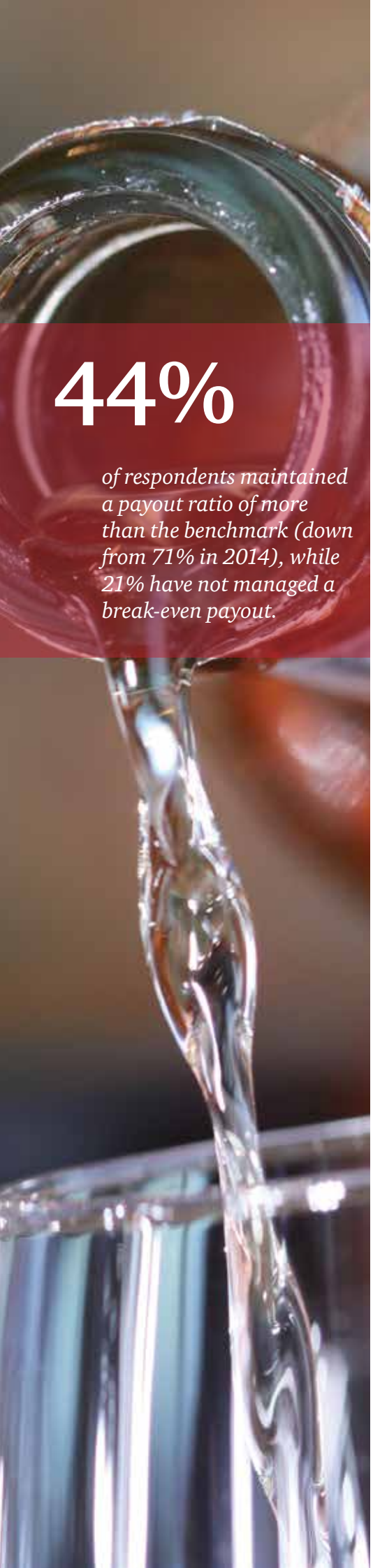
Cellars should evaluate the results above in line with their business model. Depending on distribution channels (for example directly to market or through a subsidiary company) and the form of packaging (bulk or bottle), individual results may necessitate a different benchmark.

Although the bottom 25% and the national average are far less than the benchmark, BIC participants show that achieving the benchmark of 10% is not unattainable.

Cellars on average spent

R3.04

per litre of wine on marketing- and sales-related costs.



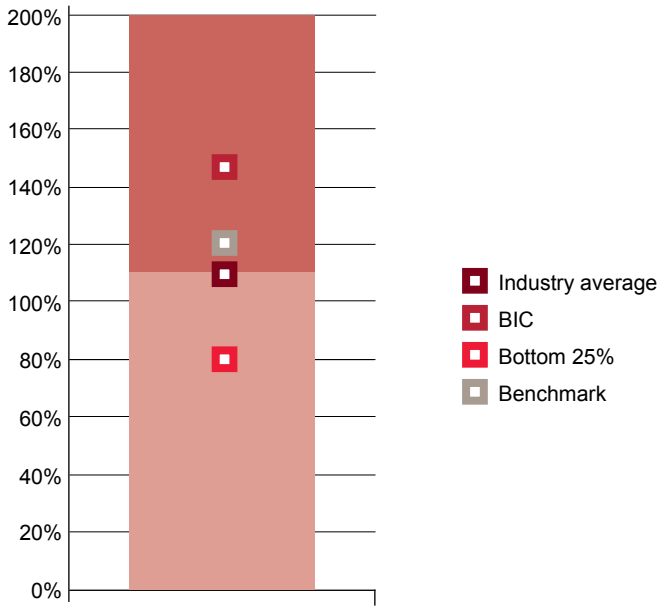
44%

of respondents maintained a payout ratio of more than the benchmark (down from 71% in 2014), while 21% have not managed a break-even payout.

5.7 Pay-out ratio

While members of producer cellars cannot farm sustainably without at least achieving a break-even payout per ton, wine businesses also have to ensure that sufficient reserves are maintained for future development. The net revenue per ton paid to producers was measured against the break-even cost of farming in each participant's region to ensure a relevant comparison. The ratio has an inverse level of importance for cellars and primary producers – a sustainable ratio for both cellar and producer of 120% is therefore regarded as appropriate in the current economic climate.

Pay-out ratio



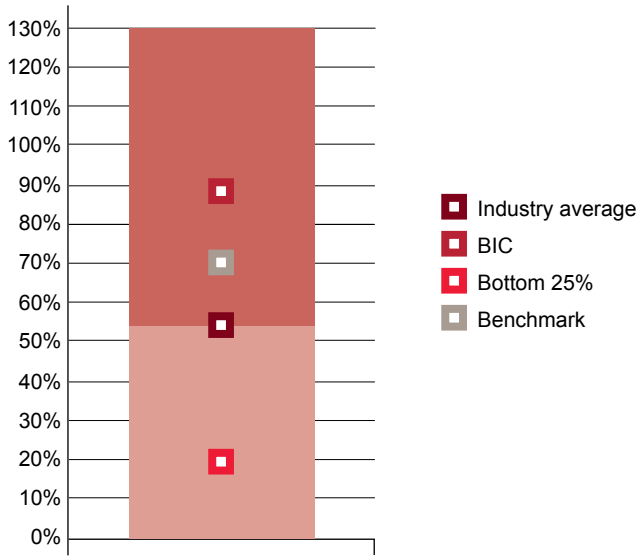
In general, payout ratios have shifted from a position moderately in favour of producers in 2014 towards a position in favour of cellars. BIC participants have managed to keep their payout ratio above the 140% level, while the bottom 25% of participants have not even managed a break-even payout for their members.

5.8 Payout tempo

The payout received for the grape harvest is important for both the cellar and the producer. What goes hand in hand with this is the tempo at which such a payout is received. This time-value-of-money issue is critical in planning for operational and financial commitments. To substantiate payouts with cash, it may be considered good practice to pay out at least 70% of the net revenue per ton by the end of December following the harvest. This percentage should, however, not be seen in isolation, as the number and frequency of payments may also influence the tempo at which payments are made.

More than a quarter of participants recorded averages above the benchmark, while 47% did not manage to beat the national average.

Payout tempo



BIC participants managed a payout tempo well above the benchmark, paying out 88% of the net revenue per ton by the end of December 2014. The bottom 25% of producers had made payouts for only 19% of the harvest by that time, which may have caused members to struggle to balance their cash-flow requirements.

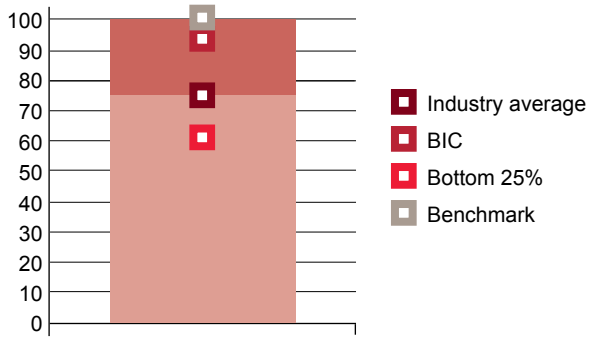
5.9 Overall performance relative to the benchmark cellar

Based on the weighting allocated to each driver, the overall score of participating cellars was calculated and measured against the 100 base points of the benchmark cellar.

44%

of participants performed better than the national average, while 38% scored below 70 points.

Overall performance



BIC participants, at 95 points, managed to achieve an overall result in line with the benchmark. Although there may be room for improvement in certain areas, the national average of 77 points is encouraging and should provide for a solid comparison to individual results.

6

Human resource management

6. Human resource management

6.1 Introduction

One of the biggest challenges facing South African organisations is the war for talent against both direct competitors and other industries, with the latter often being seen to offer more attractive career prospects. An organisation's people have a direct impact on how well it can respond to changing economic times, and CEOs recognise the potential of their people to be a competitive advantage.

Management need to ensure their people have the tools and motivation to perform as required, and it remains key to develop the leaders of tomorrow to ensure sustainable success. Effective change management continues to be important as organisations revisit business models and strategies in response to the current economic realities. It's an ongoing process, and winning organisations will continually review and develop the quality and skills of their workforce, enabling them to adapt as the marketplace changes.

WISE Task Team target to create 100 000 new employment opportunities by 2025

In this year's South African wine industry insights survey, CEOs have identified the current labour relations legislative landscape, labour costs and labour productivity as factors that significantly impact on organisational strategy. This sentiment will undoubtedly be amplified by the target of the National Development Plan to create one million new jobs in the agricultural sector by 2030, and in particular by the Wine Industry Strategic Exercise (WISE) task team's target of creating 100 000 new employment opportunities by 2025.

The following are the key HR challenges facing organisations, including those in the wine industry:

The 2015 wine industry insights survey provides an overview of the current people matters and human resources trends, practices and challenges faced by participating cellars, and highlights some key focus areas requiring attention going forward.

6.2 Current staff complement and the HR function

94%

of cellars employ fewer than 100 staff members

The staff complement of participating wine cellars has stayed relatively constant over the last three years, with the majority of cellars (94%) employing fewer than 100 staff members. This could explain why the majority of participating cellars (80%) do not have a dedicated HR function and the CEO or CFO is primarily responsible for managing HR matters, while some HR functions are outsourced. Only 20% of participating cellars have a dedicated HR department with an HR manager or officer responsible for managing the HR function.

The survey also confirms that most of the HR activities provided internally are transactional in nature with the focus on maintaining administrative HR processes.

We believe that the participating cellars' indication that they do not intend establishing a dedicated HR function or outsourcing the HR function to external service providers could pose a risk to the industry. In recent years, HR has changed from handling purely transactional HR activities to playing a more strategic role through its business strategy, talent management and leadership development activities. In addition, there is increased pressure on employers to manage complex HR practices and to comply with constantly changing labour legislation. This requires a dedicated strategic HR focus, and the industry would need to consider creative approaches to positioning and resourcing the HR management function as a strategic driver of, and contributor to, the achievement of the overall organisational strategy.

80%

of cellars do not have a dedicated HR function

6.3 Staff turnover

As indicated earlier, the staff complement of the participating cellars has remained relatively constant over the last few years. Staff turnover rates over the last three years have also been consistent, with an average staff turnover of 10%.

87%

of cellars experiencing highest turnover with labourers and elementary staff

The majority of participating cellars (87%) indicated that the category of staff where they are experiencing the highest turnover is that of labourers and elementary staff. This is in line with previous years and could be indicative of the need to consider specific retention strategies for this category of staff.

An interesting observation is that only two participating cellars indicated that the highest turnover rate was at the levels of professional staff, senior officials and managers. This could be indicative of a relatively stable cadre of senior officials and managers. When judging from the perspective of skills and talent retention, on the one hand this is encouraging; on the other hand, though, it could be indicative of an ageing workforce, with attending succession planning challenges. This is certainly a matter that the industry should explore further within the context of the WISE.

Participating cellars also indicated that better career opportunities as well as better remuneration and benefits are the primary reasons for staff leaving their organisations. This is in line with findings from previous surveys, but does highlight the need for accurate remuneration benchmarking as part of a holistic retention strategy in the industry in order to attract and retain key talent. In addressing reward- and remuneration-related matters it is of critical importance that organisations should ensure that they make use of a compensation system and practices that have been benchmarked against similar organisations in the wine industry.

6.4 Human resources practices

The participating cellars are generally satisfied with the quality of their HR practices, although areas for improvement have been identified across all areas. The areas that require the most attention are performance management, succession planning, and remuneration and benefits. This confirms the observations made in the previous section regarding staff turnover.

HR strategy

Only half of the participating cellars indicated that they have a HR strategy in place. Of these, the majority of cellars (87%) are satisfied that their HR strategy is suitably aligned to their business strategy. This is an important point to note, as an HR strategy is a key component of an entity's broader organisational strategy and integral to their realising their strategic goals.

87%

of cellars are satisfied that their HR strategy is suitable

Strategic HR planning is an important component of strategic HR management that links HR management directly to the strategic plan of an organisation. Based on its overall business strategy, an organisation can develop a strategic HR plan that will allow HR management decisions to support the future direction of the organisation. Strategic HR planning is also important from a budgetary point of view in that the costs of recruitment, training, performance management and so forth should be factored into the organisation's operating budget.

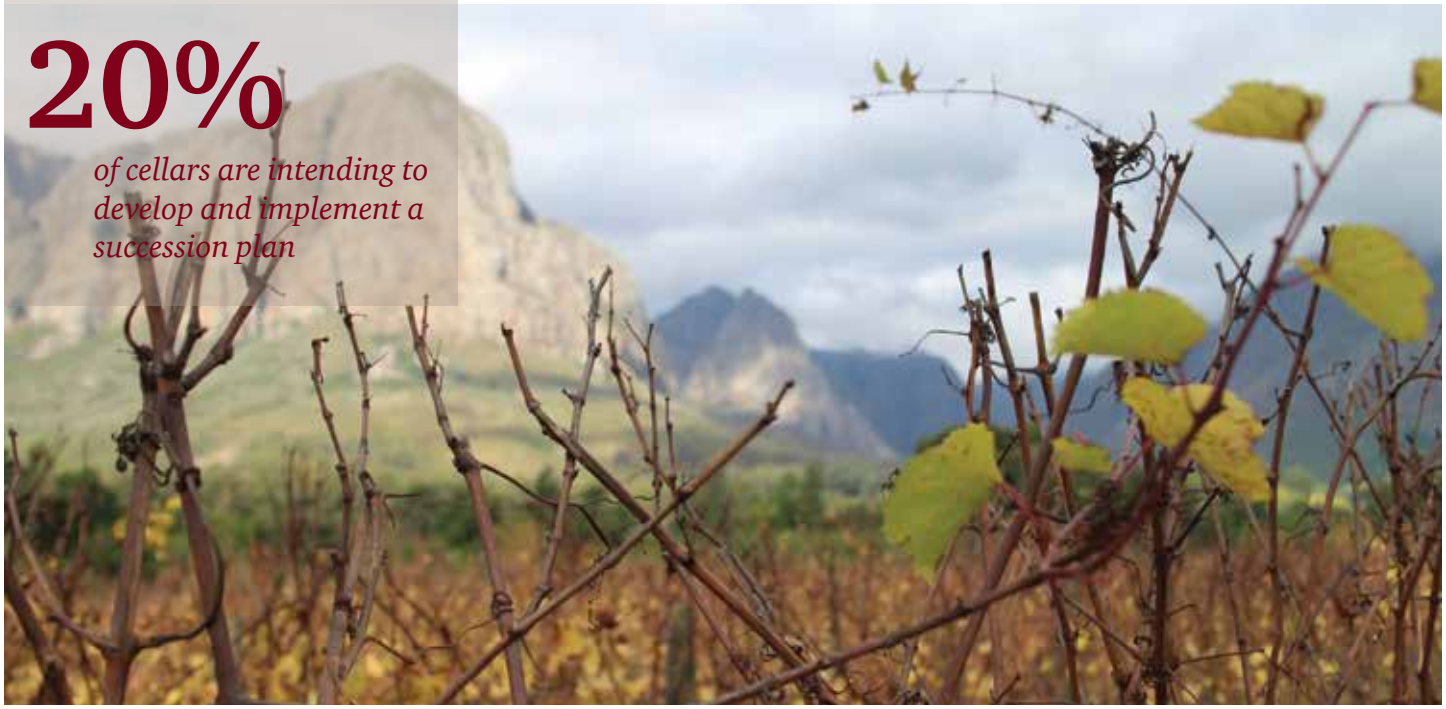
Cellars are thus encouraged to consider developing and implementing an HR strategy that is aligned to, and part of, their overall organisational strategy.

Succession planning

Only 12% of participating cellars have a structured succession plan in place but almost 20% are intending to develop and implement a succession plan in future. It is encouraging to see that participating cellars are recognising the need for succession planning. Actively planning for succession ensures that staff are constantly being developed and coached to fill positions, thereby creating clear career paths for them.

20%

of cellars are intending to develop and implement a succession plan



81%

of cellars will maintain their focus on promoting workplace diversity over the next year

Workforce diversity

Diversity is a dimension that needs to be managed within the South African wine industry to ensure that the future workforce is representative in terms of culture, race, age, gender and so forth.

It is promising to see that the majority of participating cellars (81%) indicated that they would maintain their focus on promoting workplace diversity over the next 12 months.

Achieving a competitive advantage through the management of diversity is key for the wine industry, and it is clear that effective leadership is needed for it to be successfully implemented.

Mechanisation

Mechanisation is gaining momentum viewed in the light of the technological advancement and increases in production and manufacturing it brings, especially after the wine industry's recent experience of labour unrest. Approximately 20% of participating cellars are considering mechanisation. This will have far-reaching impacts on HR planning, retention of staff (retrenchments) and skills development.

Increased mechanisation will result in job roles changing and will require higher investments in skills development among existing and new staff.

20%

of cellars are considering mechanisation

Organisational structure and business changes

The majority of participating cellars (87%) have reviewed their organisational structures in the last three years. It is key that organisational structures are reviewed annually and kept up to date to ensure organisations have the right people with the rights skills in the right positions.

Business changes are generally not supported by the HR function. However, where the HR function does provide support, it is generally in the areas of communication and change management.

More than

38%

of cellars indicated that they are finding it difficult to attract the right talent

Recruitment

The majority of participating cellars use newspaper advertising for recruitment purposes. Recruitment agencies are the second most preferred source of candidates.

Participants have, however, indicated that they are finding it challenging to attract the talent required. More than a third (38%) of participants indicated that they are finding it difficult to attract the right talent, especially in the fields of senior management, professionals and technicians.

The above reality confirms the need for individual cellars, and the industry as a whole, to put appropriate HR strategies in place to ensure that the correct talent is developed and sourced proactively.

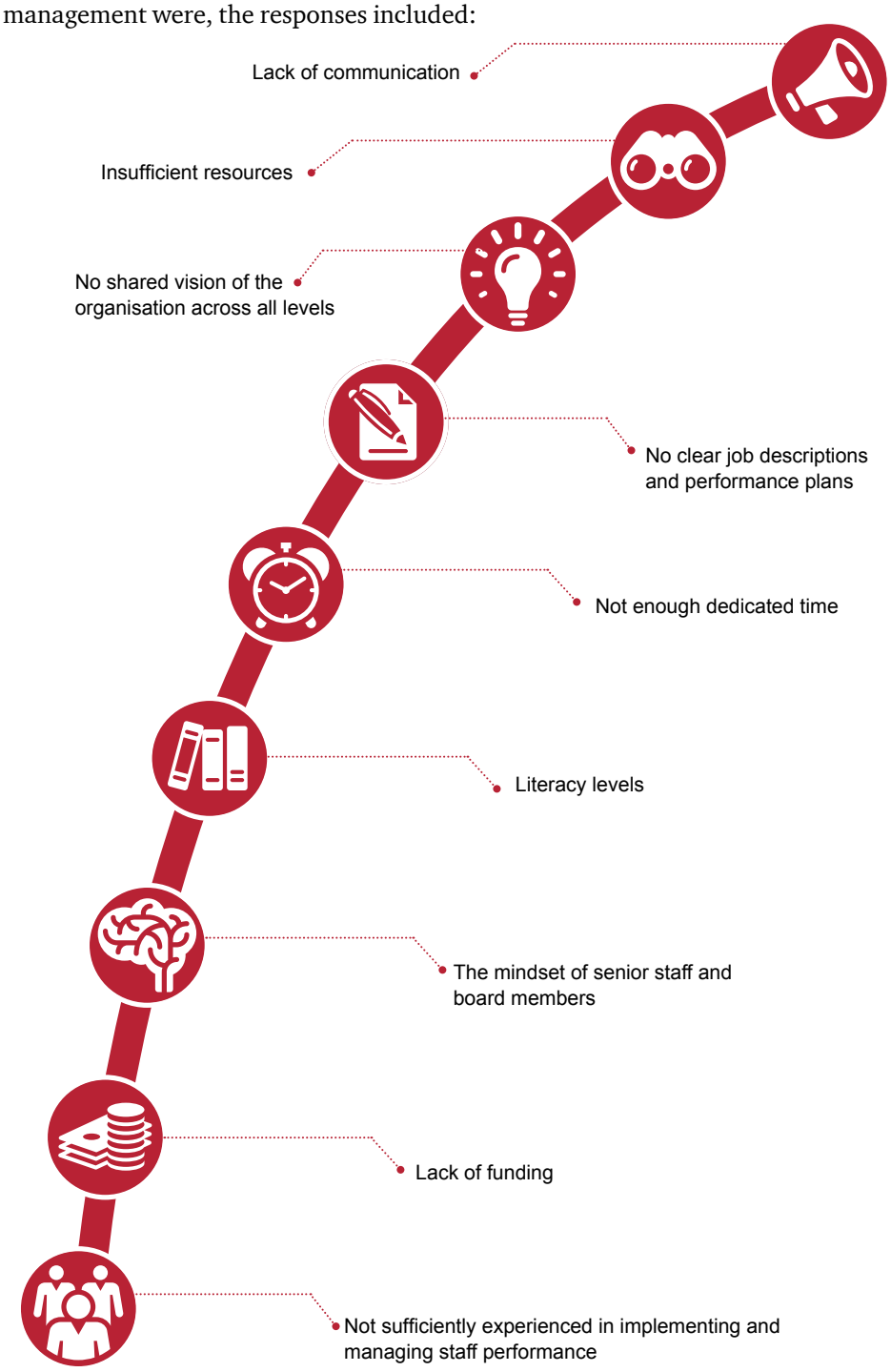
Performance management

As stated earlier, CEOs are of the opinion that labour costs and labour productivity are of particular concern. The survey also explored performance management practices and noticed some interesting trends.

The majority of participating cellars (62%) indicated that they do have a performance management system in place. However, all the participating cellars who do have a performance management system in place are currently using a manual system that is primarily focused on salaried staff and not on wages staff such as labourers and plant operators.

In order to take performance management to the next level, the industry is encouraged to invest in performance management training for staff and line managers as well as to consider implementing electronic tools such as ePerform.

To the question of what the biggest challenges to implementing performance management were, the responses included:



On the positive side, the participating cellars are satisfied that the majority of staff recognise their contribution to the organisation's overall performance and are sufficiently incentivised. There are also a small number of cellars who are experimenting with non-monetary forms of incentivising staff.

It is clear from the results of the survey that a lot still needs to be done to embed effective performance management practices that will apply to all staff at cellar level.

Skills development

The majority of participating cellars (94%) indicated that they have a skills development programme in place for staff. Skills development initiatives are primarily focused on labourers, elementary occupations, plant operators, and administrative and clerical staff. The largest percentage of the training budget is spent on these categories of staff.

Training budgets remained at

3%

of the salary budget over the last three years

The size of training budgets has remained relatively consistent over the last three years at approximately 3% of the salary budget. This would typically include the skills development levy paid to the Agri SETA.

Regarding the priority training needs in the industry, feedback indicated the following:

Occupational category	Skills development priority
Senior officials, managers	• Staying abreast of developments in the industry and broader economy • HR and leadership skills • Marketing skills • Continuous professional development (CPD) • Forecasting, scanning the environment, strategy formulation
Professionals	• Staying abreast of developments in the industry and broader economy • Conflict management • Leadership and management skills • Tax knowledge • CPD • Staff management, e.g. disciplinary skills • Job-specific skills
Technicians and associated professionals	• Technical skills • Refresher courses • CPD • HR skills • Interpersonal skills
Clerks and administrative workers	• Time management skills • Computer skills • Internet and social media skills • Teamwork and interpersonal skills • Administrative and relevant job-specific skills • Labour law
Sales and service workers	• Marketing skills • Computer skills • Client service skills/Service orientation • Interpersonal skills
Skilled agricultural workers, craft and related trades	• Operational skills • Occupational health and safety skills • Teamwork • Interpersonal skills • Job-specific skills

Plant and machine operators	• Machine operator skills • SKOP training • Occupational health and safety skills • Business understanding • Teamwork • Leadership/Supervisory skills • Interpersonal skills
Labourers and elementary occupations	• Technical skills • SKOP training • Stock control • Occupational health and safety skills • Literacy skills • Business understanding • Team work • Leadership/Supervisory skills • Interpersonal skills

HR development and training is one of the work streams of WISE. A learning and development strategy for the wine industry setting out specific short-, medium- and long-term goals for skills development in the industry was recently developed and is currently in the process of being implemented. . Cellars are encouraged to engage with the WISE initiative as significant benefits can be achieved from the implementation of the learning and development strategy.

Remuneration and rewards

HR's role in determining salary and benefits levels for a position or employee is an important factor in the attraction, engagement, motivation and retention of employees.

Participating cellars have indicated that they use a range of factors to determine salary increases. These include performance, CPI, CPIX, union negotiations and the organisation's financial position.

An average salary increase of 6.2% was awarded over the previous 12 months. This is comparable to salary increases over the previous three years.

67%

of cellars offer incentive or performance bonus payments

The majority of participating cellars (67%) indicated that they offer incentive or performance bonus payments. This is also comparable with previous surveys. The primary beneficiaries of incentive or bonus payments are senior officials and managers, although it must be noted that only 67% of participating cellars indicated that they had paid out performance bonuses during the previous 12 months. This may be indicative of financial constraints being experienced by the industry.

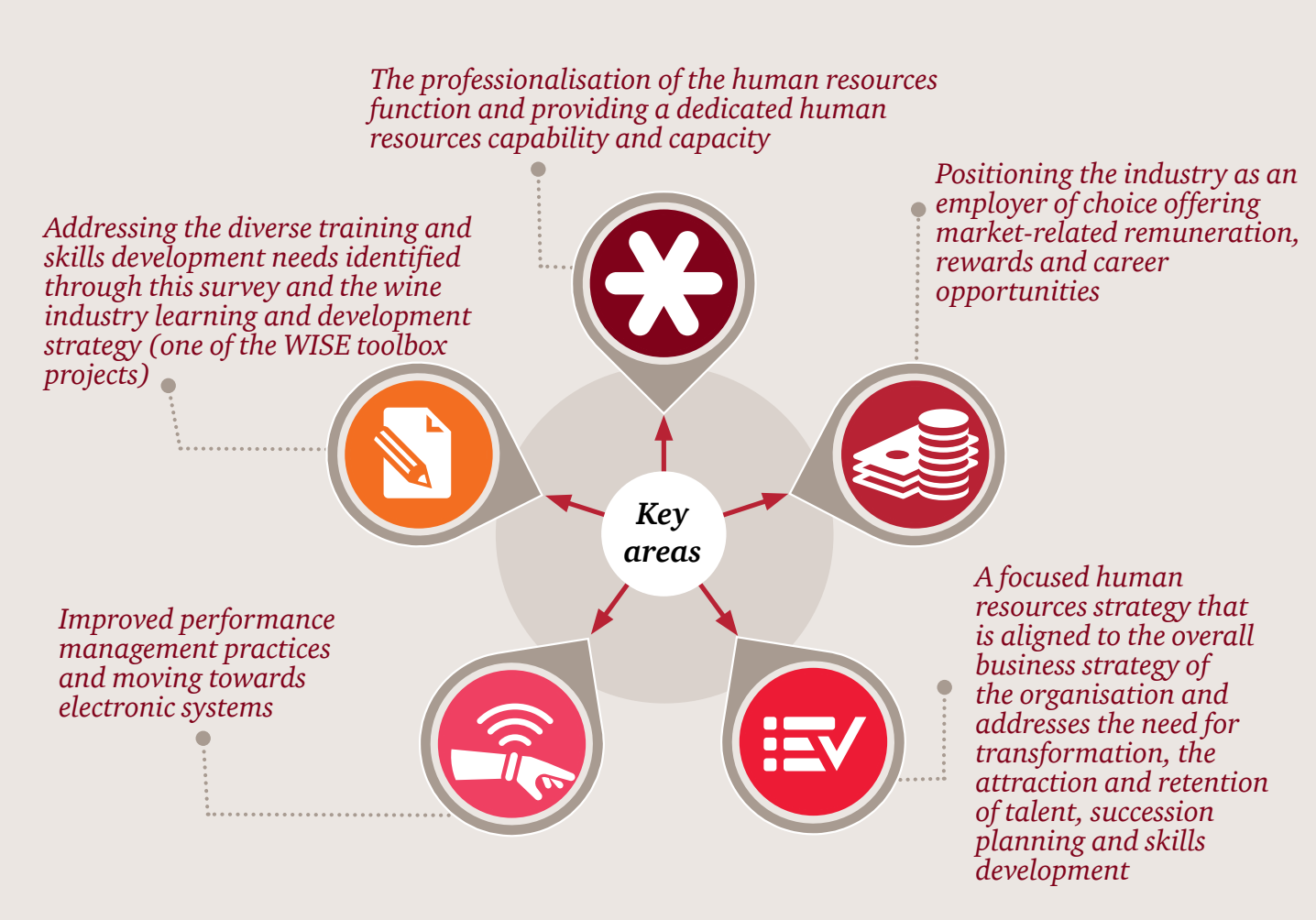
Participating cellars were also asked whether they applied salary benchmarking and which benchmarking approach they followed. Most cellars (67%) indicated that they use recruitment agency information, while 33% of cellars indicated that they use outsourced salary benchmarking studies. Accurate salary benchmarking is an important human resources practice, especially from a talent attraction and retention perspective, and potentially requires an industry perspective.

Improving HR practices

Participating cellars were asked which specific HR practices they would like to improve on. Areas identified included:

6.5 Summary

As indicated earlier, *The South African wine industry insights survey 2015* has identified some important human resources trends and focus areas. Key areas that require ongoing focus are:



7

Wine Industry Strategic Exercise (WISE)

7. Wine Industry Strategic Exercise (WISE)

What?

The South African wine and brandy industry developed the need for a comprehensive industry-wide strategic exercise to help it reach a desirable future state by 2025. It was envisaged that the exercise should include a robust and adaptable approach to drive profitability, global competitiveness and sustainability.

Who?

For the purpose of this project, the 'wine industry' includes the total value chain of the brandy and distillates sector; the grape-based products sector, including wine and juice; and secondary but complementary sources of income such as wine tourism.

The following industry bodies drive WISE:

VinPro	Representative organisation for 3 500 wine producers and cellars
Salba	South African Liquor Brand Owners Association, representing 22 wholesale manufacturers and distributors of liquor
Sawis	SA Wine Industry Information and Systems, the business unit tasked with managing statistics and the Wine of Origin Scheme
Wosa	Wines of South Africa, the business unit responsible for generic export promotion
Winetech	Wine Industry Network of Expertise and Technology, the business unit co-ordinating research and development

A WISE task team was created, consisting of representatives from the above industry bodies as well as a range of role-players throughout the wine and brandy value chain. Wider consultation in the industry formed a crucial part of the process.

Targets

The WISE task team has set a number of key targets to be reached by 2025:

2015	Target	2025
2%	Producer return on interest	CPI + 5%
Production driven	Business model	Market and value chain driven
2.5%	Black-owned land and water	20%
325 million litres	Local wine sales	425 million litres
60:40	Exports bulk : packaged	40:60
20%	Ethical accredited volume	100%
1%:2%:5%	Export markets USA:China:Africa	7%:7%:10%
R6bn	Wine tourism	R15bn
R80m:R11m	Industry: Government levies	Matched funding
275 000	Employment levels	375 000

Six work streams

Based on an analysis of all relevant literature and feedback from the wine and brandy industry, the WISE task team identified six main themes, or work streams, which cover the key aspects that need to be developed. Industry stakeholders were appointed onto work streams and tasked to investigate their specific area in terms of the current state of the industry as well as the future ideal.

The work streams are:

- Socio-economic development and upliftment
- Economic empowerment and development
- Market development and promotion
- Knowledge and information development
- Technology innovation and transfer
- HR development and training

Ten projects

Ten projects were identified to address the six work streams. The ten projects were repackaged into four toolbox items that create an enabling environment for 'business as usual' as well as six game changers, which are new projects that are expected to change the industry's landscape.

Toolbox projects:

- A single SA wine industry portal and search engine
- Realignment of research and development structures
- Learning and Development Implementation Plan
- Price-point analysis of the value chains of packaged and bulk wine

Game changers:

- Analysis of global consumer trends and free trade
- Technological innovation
- Promoting Brand SA
- Improving tourism
- Creating a transformation plan for the industry
- Forming a social compact between industry, government and labour.

For more information

Please contact info@wise.co.za for more information.

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Notes

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