

Highlighting results, trends and opportunities for South African wine businesses/11th edition

Look out for: CEO insights and views ^{p6}/Financial overview of producer cellars ^{p18}/Competitiveness index for producer cellars ^{p32}/Human resource management ^{p44} • June 2014

Are you competing?

The South African wine industry insights survey 2014





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1. Preface

About this publication

Welcome to PwC's 2014 South African wine industry insights survey. The survey explores some of the issues facing local wine businesses. This year a new section will also be focusing on performance measurement and competitiveness against benchmarks. Our insights surveys have covered eleven harvests since 2003, and we continue to build a strong database of relevant historical financial and other information. The findings are presented on a national average basis.

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

- Views from chief executives, both local and international;
- Financial overview of producer cellars – 2013 harvest;
- Competitiveness index for producer cellars; and
- Human resource management.

The views from chief executives and human resource management deal mainly with current issues, while the financial and competitiveness index data are those evident from the 2013 wine grape harvest. The competitiveness index was developed in collaboration with VinPro, and we encourage participants to engage us and their VinPro representatives in conversation for further development of the index as well as their individual results.

Throughout this publication we use the term 'best-in-class' (BIC), which refers to the average achievement of the top 25% of participants. We include BIC results to indicate the outstanding performances amongst producer cellars in South Africa that might, depending on the specific driver, serve as a goal to strive towards.

Current affairs

The fifth local and national government elections since 1994 were completed recently and South Africa has once again shown that it is a mature democracy. The political stability in the country no doubt contributes to make South Africa a preferred investment destination in Africa for much needed foreign direct investment. It is, however, too early in the tenure of the new Minister of Agriculture, Forestry and Fisheries, Mr Senzeni Zokwana, to gauge if there will

be a significant impact on Government policy and regulation, specifically for the wine industry. It also remains to be seen what the role of the newly established Ministry of Small Business Development will be.

Innovation, both in the vineyard and on an administrative level, remains a key element in being competitive. The Wine Industry Technology Symposium, which focuses on the information technology and services needs of the wine industry, takes place in California at the end of June, and one of the focus areas this year will be to give attendees the opportunity to network with vendors and other industry representatives. Similar projects could be considered in South Africa to ensure that our wine businesses are at the forefront of innovation and ways of doing business.

Even though the seasonally adjusted gross domestic product for the first quarter of 2014 decreased by 0.6%, the industry has reason to be encouraged and we have not technically moved into a recession. Losses were mainly driven by the mining sector and lower production volumes for petroleum. The retail, wholesale, and catering and accommodation sectors added 0.3% and these are undoubtedly the sectors that the wine industry will look towards for growth.

Highlights from this report



The sentiment for white wine production and white wine prices over the short and long terms remains positive, and participants believe that bulk wine still offers significant opportunities. North America is a focus for increasing market share, while opportunities in Africa remain relevant.



Revenue per producing hectare has breached the R40 000 mark for the first time and is well above average production cost. This was supported by marginally higher prices per litre and a better absorption of costs in the vineyard, due to a record harvest.



The pay-out ratio of producer cellars remains a topic of debate since it is important that a balance be struck between the interests of grape producers and wine businesses. This year's survey results indicate a position moderately in favour of producers.



76.5% of cellars indicated that they reward their employees for outstanding performance. This must be regarded as a retention mechanism, especially in positions where skills shortages exist.

Our appreciation goes out to the wine businesses that participate in the survey on an annual basis, the representatives of the various industry bodies and our international colleagues for their time and insights that made this publication possible. Your participation makes it possible for us to make a contribution to the industry through this survey and other initiatives, advise on industry opportunities and assist with finding solutions to industry challenges.

If you would like more information on any matters covered in this publication, please contact one of our team members listed on page 58.

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

Frans Weilbach
National Agribusiness Industry Leader - PwC
Stellenbosch
June 2014



CAPE
WINEMAKERS
GUILD

LANDS END

2008

SAUVIGNON
ELC RESERVE

ELIM

WINEMAKING



2

Views from chief executives



2. Views from chief executives

2.1 Introduction

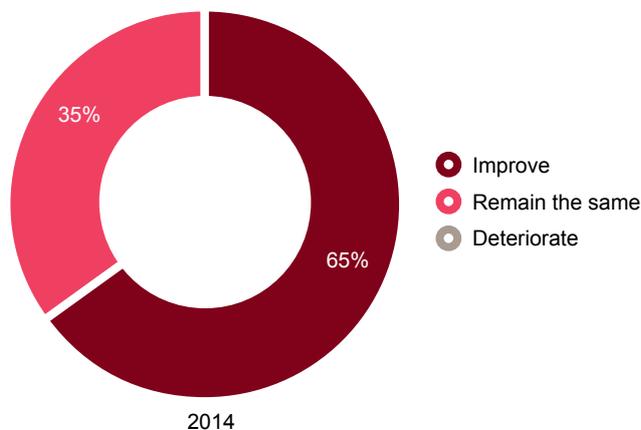
Measuring performance on historical data is important to ensure that a wine business is on the right track and sustainable. Recorded data unfortunately does not always gauge market sentiment and the views of key role players and decision-makers in the industry that will inevitably reflect in future results. Taking a forward-looking view on trends, opportunities and concerns in the industry, and considering the views of peers in this regard, is also a major part of running a successful wine business.

Based on this, we approached the chief executives of local wine businesses (both producer and private cellars), industry bodies and regulators to obtain their views on a number of areas. While our publication focuses mainly on the South African wine industry, a global perspective remains of the utmost importance, as South African wine businesses do not operate in isolation. We therefore also engaged with a number of chief executives from international wine businesses in Europe, South America and Australasia, posing similar questions to them, and these findings are presented alongside the views of local executives.

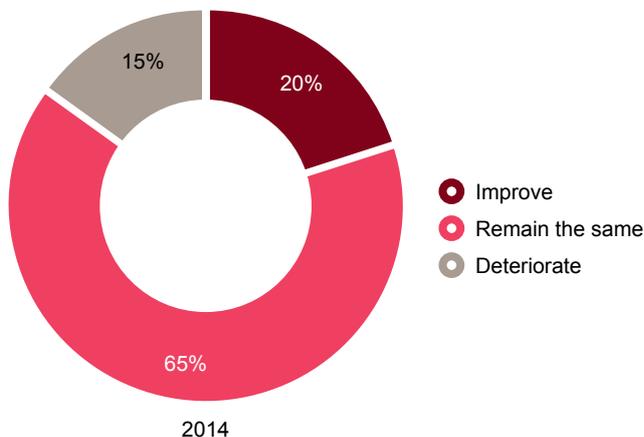
2.2 General economic and industry outlook

Since the global economic downturn in 2008, many markets have stabilised to some extent. With regard to the **global economy in general**, what do you expect current market conditions to do?

Within the next three years or more



Within the next year



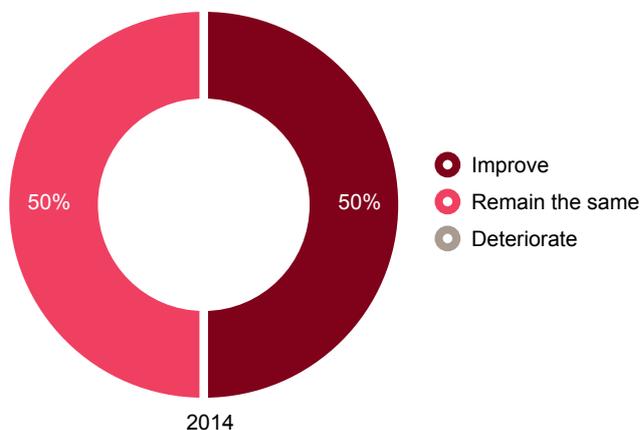
The majority of CEOs expect current market conditions to remain stable in the short to medium term, with improvements in the longer run. Encouragingly, only a small percentage of participants see deterioration within the next year.



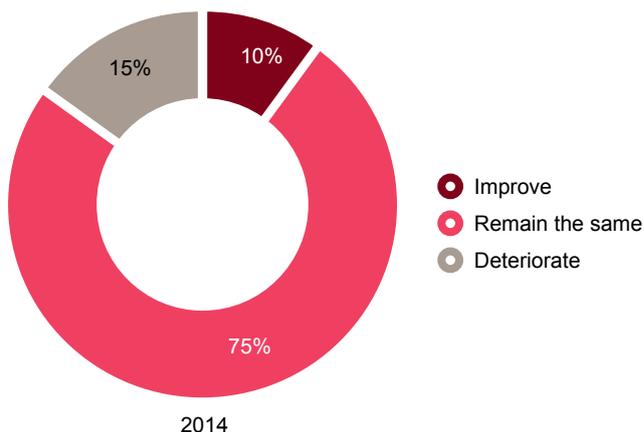
©Thys Lombard

With regard to the global wine industry, what do you expect current market conditions to do?

Within the next three years or more



Within the next year



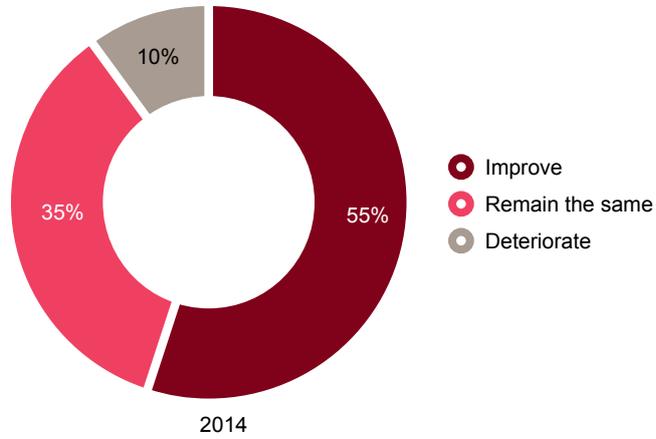
Interestingly, participants do not share the same optimism for the wine industry as they do for the economy in general in the longer term.



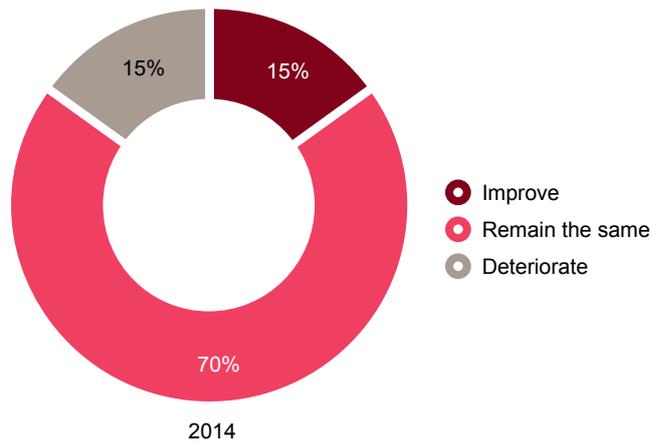
International respondents share this view regarding market conditions in the wine industry in the medium term. In contrast to local respondents, however, they foresee a decline in conditions over the longer term, with 40% of respondents indicating that they expect a deterioration in market conditions.

With regard to the South African wine industry, what do you expect current market conditions to do?

Within the next three years or more

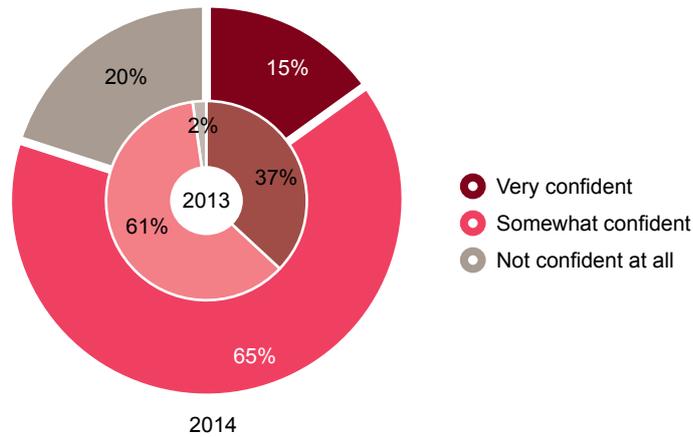


Within the next year



Respondents' outlook on the South African position is largely the same as for the global market, with most participants expecting conditions to either improve or remain the same.

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



In 2013, 98% of respondents were at least somewhat confident about revenue growth in the next 12 to 36 months, and rightfully so, as the average cellar increased its revenue by 22% over the last year. The number of participants that are not confident at all about revenue growth has, however, increased to 20%.

2.3 Opportunities and challenges

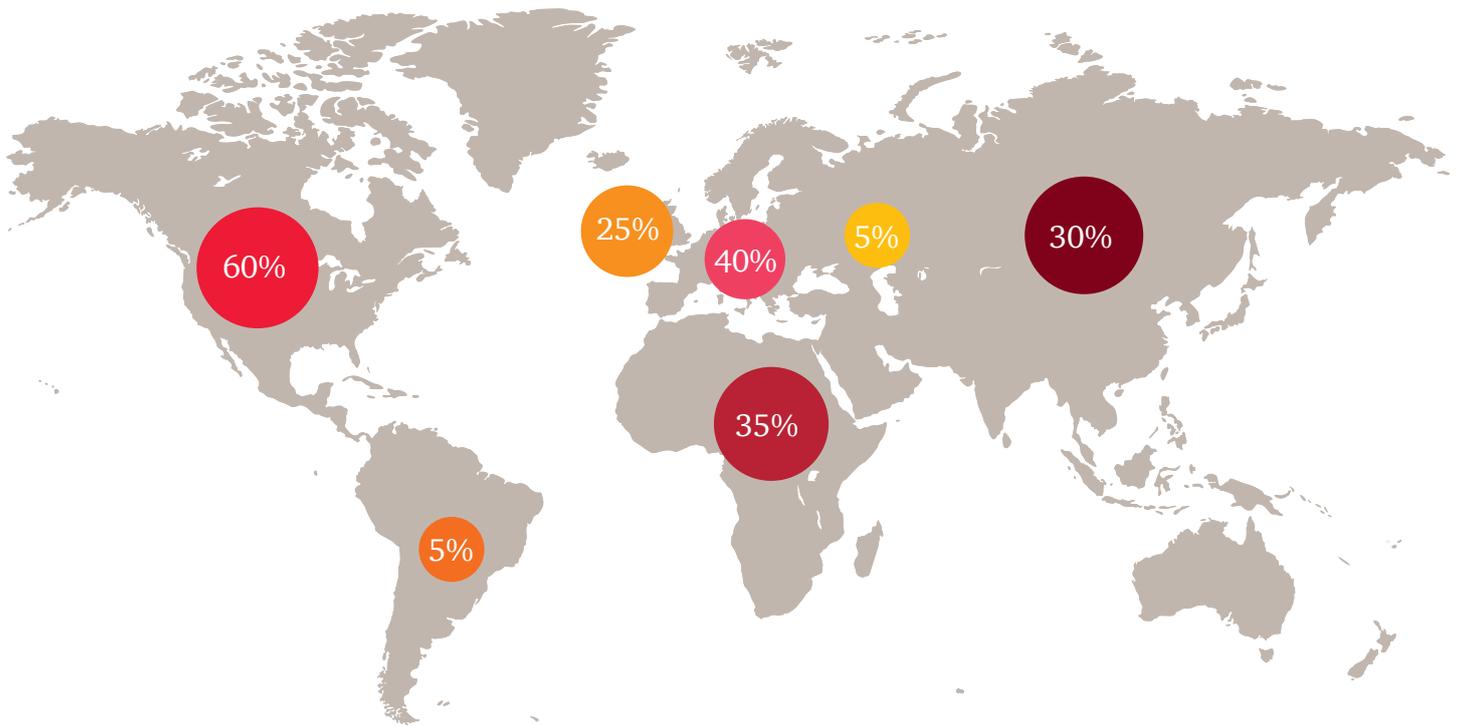
Which of the following do you regard as the main opportunities to grow your organisation over the next 12 months?



An increase in markets, both local and foreign, remains an area that CEOs focus on to grow their businesses. The introduction of new cultivars or products does not enjoy much attention, which could indicate confidence in current product ranges.

Respondents have also indicated that they may consider joint ventures or strategic alliances with other wine businesses, while this was not a focus area for them in the past.

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

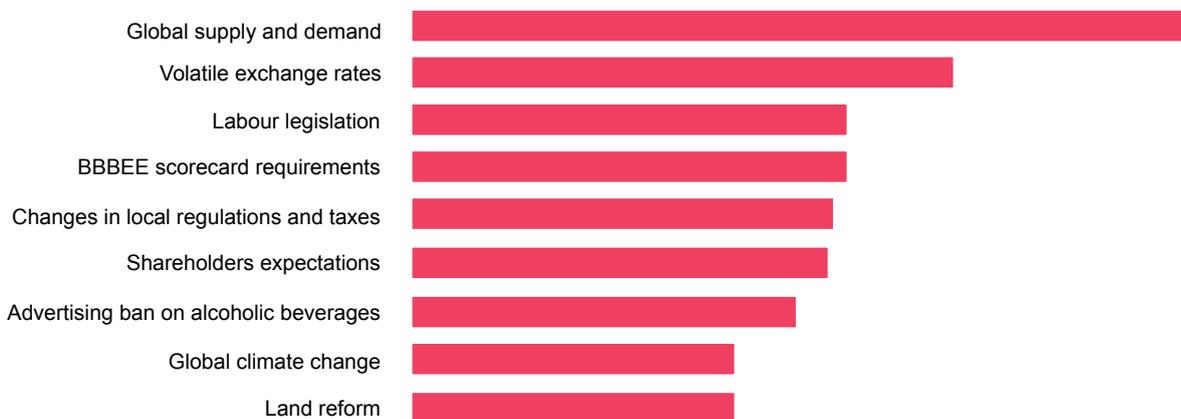


North America remains the primary market on which participants focus for growth prospects, with the European Union being prominent. The wine industry also continues to focus on Africa for growth. While this market might pose its own unique logistical and regulatory challenges, the continent has a large untapped market that wine businesses can look to expand to.



International respondents have indicated that Asia and South America are their focus markets, while none of them looks towards Africa for growth.

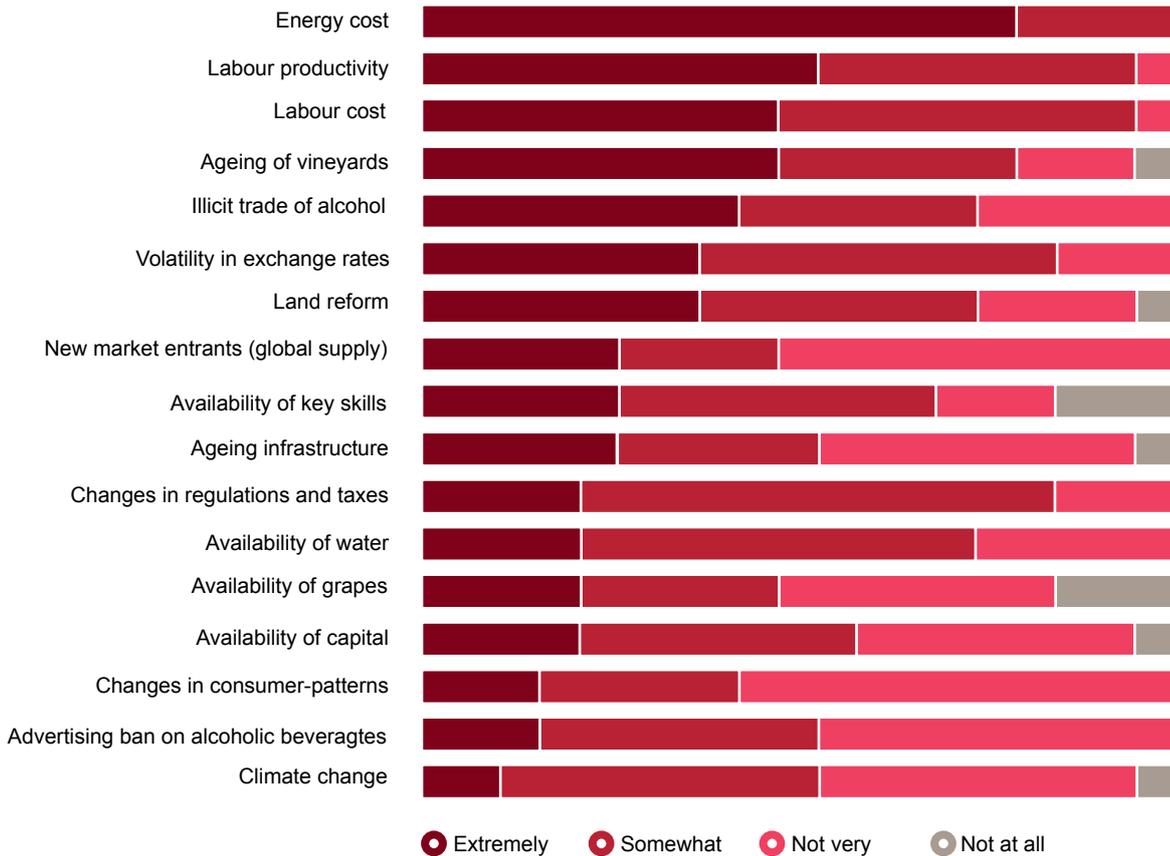
Which of the following factors are most likely to influence your decisions regarding your organisation's strategy?



As has been the case in prior years, global supply and demand and the volatility in exchange rates remain the factors which influence strategic decisions. While labour legislation and BBBEE scorecard requirements also receive attention, global climate change and land reform are areas that CEOs do not consider that significant at this stage when determining strategy.

Respondents from industry bodies have indicated that land reform and global climate change should be at the top of the list of factors that wine businesses should consider.

How concerned are you about the following factors?



79%

of participants have some form of ethical accreditation, with WIETA and Fairtrade being amongst the most popular. This is in strong contrast to only 20% of international respondents indicating that they have formal ethical trade accreditation.



While most CEOs from wine businesses are at least somewhat concerned about labour cost and productivity, respondents from industry bodies have indicated that this is their most concerning factor, with the illicit trade of alcohol and ageing vineyards also being areas of significant concern. Like in previous surveys, role players' biggest concern is rising energy costs.



The availability of water, and changes in regulations and taxes are factors that are extremely concerning to international respondents, while they are not very concerned about the volatility in exchange rates and the availability of key skills.



Only 52% of local wine businesses have programmes in place to become more environmentally friendly, while 80% of international respondents have indicated that they aim to reduce their carbon footprint.

2.4 Government support

In previous publications, we indicated that local wine businesses were still looking towards Government to play a more supportive role in the wine industry. This seems to be a global need, as all international respondents have also indicated that they are not satisfied with their respective governments' support for their industry, compared to global peers.

The South African Department of Trade and Industry has directly and indirectly made available several support programmes to the industry through its EIP, MCEP and export support programmes. Encouragingly, all respondents have made use of at least one of the programmes offered, with 68% having received MCEP grants.

There are still opportunities for wine businesses to approach Government for support, as only 37% of participants have made use of the export support that is offered. Wine businesses are also encouraged to approach professional advisors about possible programmes in which they can participate, as nearly a quarter have indicated that they are not aware of the available support.

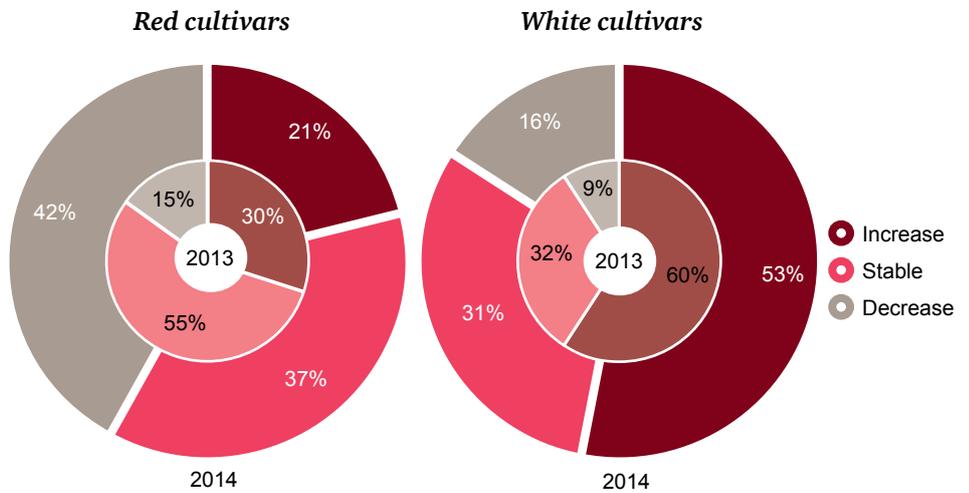
In the past, the majority of wine businesses also indicated that they were not at all satisfied with the level of tax breaks that were on offer by Government. 63% of participants have made use of the youth wage subsidy offered since January 2014.

There is also a new tax incentive in place for energy efficiency savings on a yearly basis which could be worth considering. Participants in this programme will not only receive the tax break; they will also receive the cost benefit from lower energy spend, seeing that energy cost remains one of the expenditures about which they are very concerned.

Respondents have also indicated that bilateral trade agreements, the promotion of brand South Africa, and subsidies to producers to plant vineyards are other areas where they would like to see more active involvement from Government. Co-ordination of such support will have to be done at a high level through industry role players, considering that the support required from respondents has to come from several Government departments.

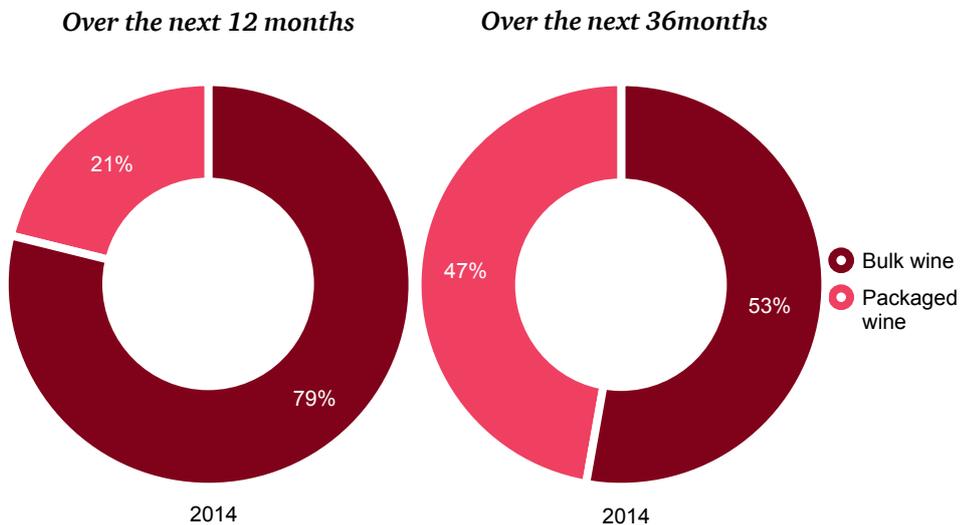
2.5 Short- and medium term forecast

What is your expectation for red and white grape production over the next three to five years?



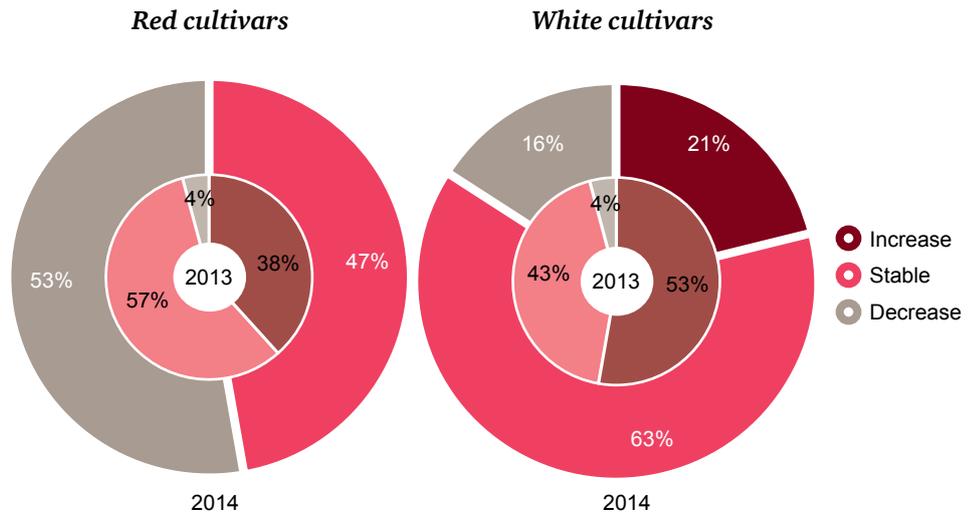
While in 2013 most respondents indicated that red grape production should remain stable, 42% have indicated in the current year that they expect red grape production to decrease over the next three to five years, while the positive outlook on the levels of white grape production continues.

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



In line with current market trends, participants have indicated that they expect bulk wine to remain the main opportunity for growth, while over a longer period a balance should be found between bulk wine and packaged wine.

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

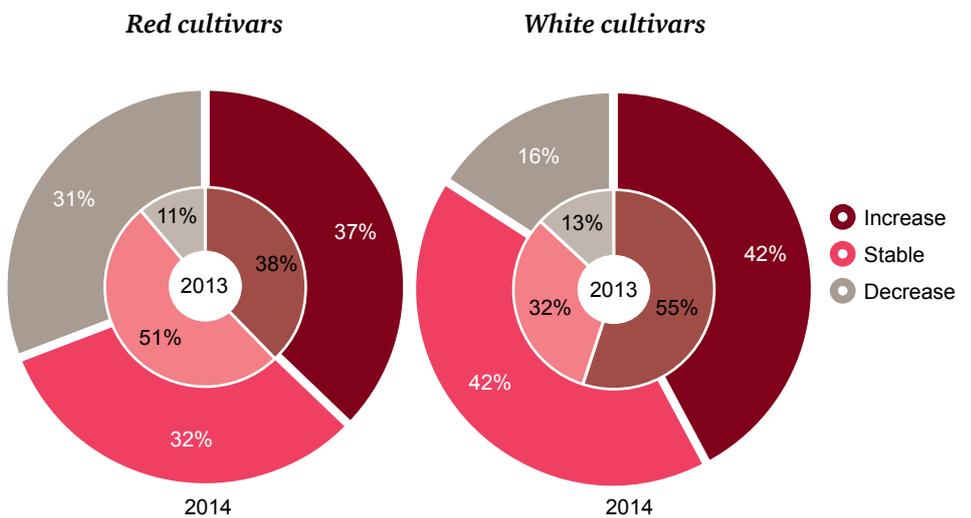


53% of respondents have indicated that they expect a decrease in red wine prices over the short term. Only 21% of respondents expect an increase in white wine prices, compared to 53% in 2013.



80% of international respondents have indicated that they expect the price of red wine to remain stable over the next 12 months, and 60% expect an increase in white wine prices.

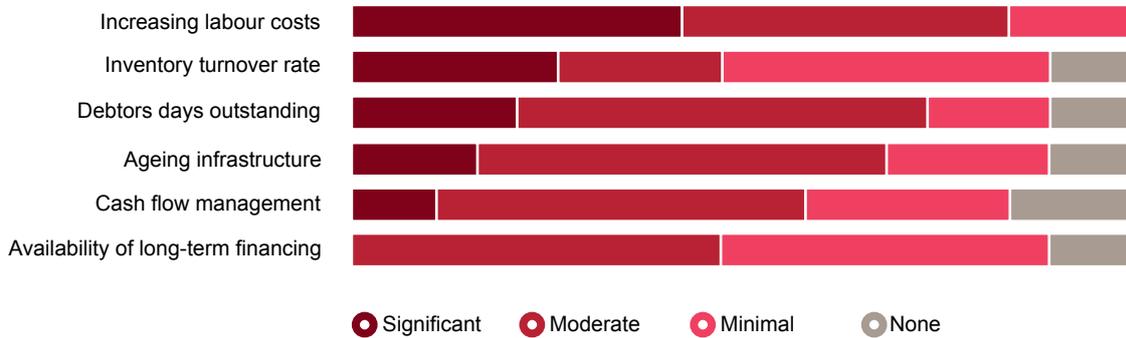
How do you expect the price of wine to change over the next 12 to 36 months?



Participants expect red wine prices to recover over the medium to long term, while the good sentiment towards white wine prices continues with 42% of participants seeing an increase. These expectations are, however, still somewhat below those of the prior year.

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 and ageing infrastructure remained areas that CEOs considered a significant risk to their business, addressing these risks have been high on the agenda of wine businesses. The following represents some of the measures that participants have implemented to address the risks identified above.

How wine businesses managed their risks over the past year:

| 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

Financial overview of producer cellars– 2013 harvest



3. Financial overview of producer cellars – 2013 harvest

3.1 Introduction

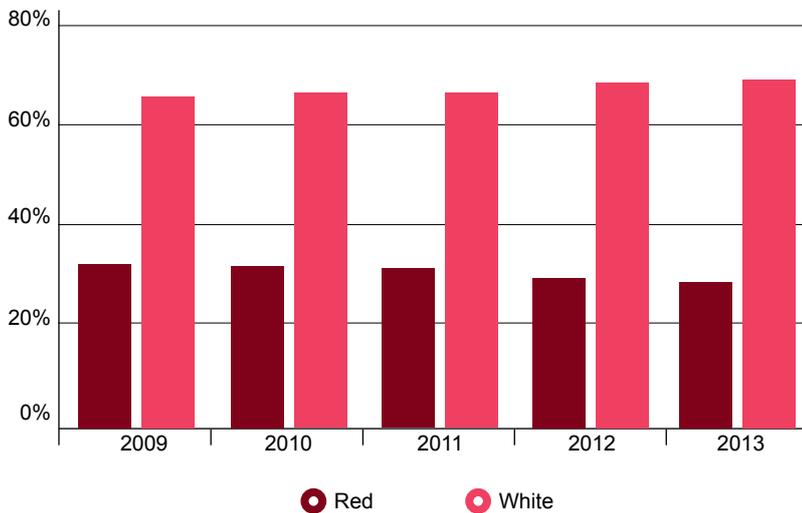
This section deals with the financial results of participating producer cellars from the 2013 wine grape harvest. The findings, which are presented on a national average basis, include a significant portion of South African producer cellars and highlight some of the trends over the last five harvests.

3.2 Results/Findings

3.2.1 Production

| Average tons pressed per cultivar | | | | | | | | | | |
|-----------------------------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| Cultivar | 2013 harvest | | 2012 harvest | | 2011 harvest | | 2010 harvest | | 2009 harvest | |
| | Tons | % |
| Total red | <u>5 504.79</u> | <u>29.6</u> | <u>5 463.73</u> | <u>30.5</u> | <u>5 034.17</u> | <u>32.5</u> | <u>4 272.25</u> | <u>32.8</u> | <u>4 931.15</u> | <u>33.1</u> |
| Cabernet Sauvignon | 1 078.77 | 5.8 | 1 157.59 | 6.5 | 1 073.10 | 6.9 | 931.54 | 7.2 | 1 056.49 | 7.1 |
| Cinsaut | 476.31 | 2.6 | 542.37 | 3.0 | 532.16 | 3.4 | 467.14 | 3.6 | 504.45 | 3.4 |
| Merlot | 670.03 | 3.6 | 727.89 | 4.1 | 687.28 | 4.4 | 563.74 | 4.3 | 678.86 | 4.6 |
| Pinotage | 1 088.63 | 5.9 | 915.59 | 5.1 | 821.26 | 5.3 | 656.60 | 5.0 | 788.38 | 5.3 |
| Ruby Cabernet | 591.00 | 3.2 | 586.61 | 3.3 | 569.29 | 3.7 | 467.42 | 3.6 | 484.71 | 3.3 |
| Shiraz | 1 181.74 | 6.4 | 1 145.27 | 6.4 | 1 030.75 | 6.7 | 951.22 | 7.3 | 1 059.85 | 7.1 |
| Port varieties | 24.01 | 0.1 | 15.10 | 0.1 | 21.85 | 0.1 | 21.29 | 0.2 | 20.38 | 0.1 |
| Dry red | 67.56 | 0.4 | 67.54 | 0.4 | 85.76 | 0.6 | 47.06 | 0.4 | 101.42 | 0.7 |
| Other red | 326.74 | 1.8 | 305.76 | 1.7 | 212.73 | 1.4 | 166.25 | 1.3 | 236.61 | 1.6 |
| Total white | <u>13 091.94</u> | <u>70.4</u> | <u>12 463.15</u> | <u>69.5</u> | <u>10 451.54</u> | <u>67.5</u> | <u>8 734.06</u> | <u>67.2</u> | <u>9 948.57</u> | <u>66.9</u> |
| Chardonnay | 1 326.78 | 7.1 | 1 252.84 | 7.0 | 1 131.77 | 7.3 | 1 015.27 | 7.8 | 1 112.40 | 7.5 |
| Chenin Blanc | 4 609.40 | 24.8 | 4 461.62 | 24.9 | 3 808.58 | 24.6 | 3 371.50 | 25.9 | 3 599.46 | 24.2 |
| Colombar | 3 925.79 | 21.1 | 3 605.18 | 20.1 | 2 899.55 | 18.7 | 2 237.84 | 17.2 | 2 574.96 | 17.3 |
| Hanepoot | 498.60 | 2.7 | 497.76 | 2.8 | 408.25 | 2.6 | 289.75 | 2.2 | 379.03 | 2.5 |
| Riesling (Cape) | 84.97 | 0.5 | 124.57 | 0.7 | 112.60 | 0.7 | 125.83 | 1.0 | 143.50 | 1.0 |
| Sauvignon Blanc | 1 301.71 | 7.0 | 1 224.60 | 6.8 | 1 062.64 | 6.9 | 891.54 | 6.9 | 814.72 | 5.5 |
| Port varieties | 12.58 | 0.1 | 8.89 | 0.0 | 9.97 | 0.1 | 29.35 | 0.2 | 7.46 | 0.1 |
| Dry white | 307.09 | 1.7 | 353.42 | 2.0 | 278.81 | 1.8 | 152.96 | 1.2 | 247.21 | 1.7 |
| Other white | 1 025.03 | 5.5 | 934.27 | 5.2 | 739.37 | 4.8 | 620.02 | 4.8 | 1 069.84 | 7.2 |
| Total | <u>18 596.74</u> | <u>100.0</u> | <u>17 926.88</u> | <u>100.0</u> | <u>15 485.71</u> | <u>100.0</u> | <u>13 006.31</u> | <u>100.0</u> | <u>14 879.72</u> | <u>100.0</u> |

Red/White composition



The composition of participants' crops has remained more or less unchanged over the past number of years at a split of 30% red to 70% white.

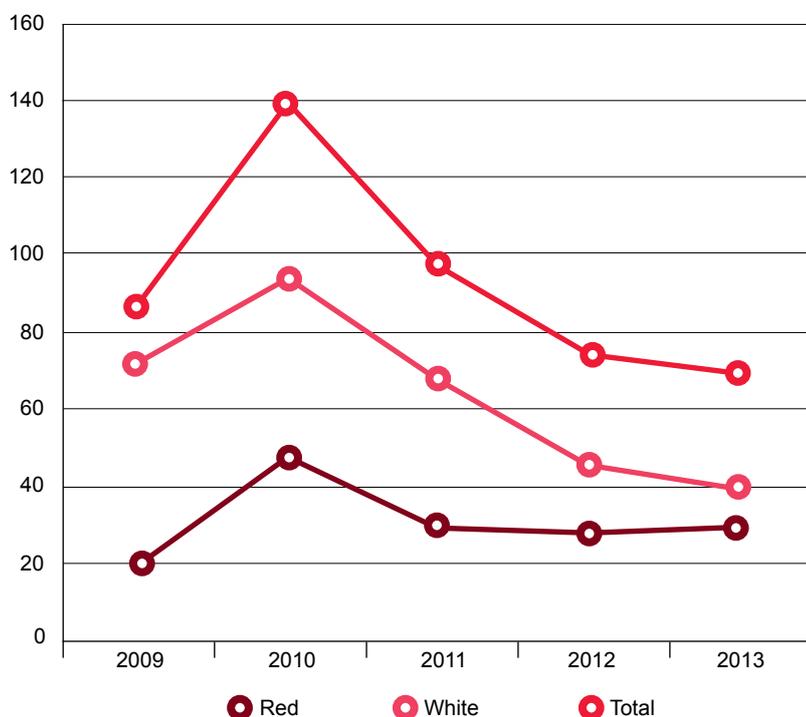
Cabernet Sauvignon, Pinotage and Shiraz remain the main contributors to red cultivars, while Chenin Blanc and Colombar make up more than 65% of the white grape harvest.

3.2 Results/Findings

3.2.1 Production (continued)

| Average producing hectares per cultivar | | | | | | | | | | |
|---|-----------------|--------------|-----------------|--------------|-----------------|--------------|-----------------|--------------|-----------------|--------------|
| Cultivar | 2013 harvest | | 2012 harvest | | 2011 harvest | | 2010 harvest | | 2009 harvest | |
| | Ha | % |
| Total red | 439.61 | 38.8 | 473.21 | 40.9 | 442.93 | 39.7 | 421.34 | 40.5 | 443.68 | 41.5 |
| Cabernet Sauvignon | 112.17 | 9.9 | 122.84 | 10.6 | 118.93 | 10.6 | 115.45 | 11.1 | 124.85 | 11.7 |
| Cinsaut | 31.64 | 2.8 | 34.17 | 3.0 | 36.92 | 3.3 | 34.90 | 3.4 | 37.14 | 3.5 |
| Merlot | 53.99 | 4.8 | 58.74 | 5.1 | 58.72 | 5.3 | 56.88 | 5.5 | 55.10 | 5.2 |
| Pinotage | 75.40 | 6.7 | 78.45 | 6.8 | 71.31 | 6.4 | 63.73 | 6.1 | 68.45 | 6.4 |
| Ruby Cabernet | 35.97 | 3.2 | 34.13 | 3.0 | 35.39 | 3.2 | 35.28 | 3.4 | 33.17 | 3.1 |
| Shiraz | 98.31 | 8.7 | 102.07 | 8.8 | 92.43 | 8.3 | 89.56 | 8.6 | 93.30 | 8.7 |
| Port varieties | 2.13 | 0.2 | 1.76 | 0.2 | 3.01 | 0.3 | 3.15 | 0.3 | 2.23 | 0.2 |
| Dry red | 2.48 | 0.2 | 4.53 | 0.4 | 5.75 | 0.5 | 4.05 | 0.4 | 8.04 | 0.8 |
| Other red | 27.53 | 2.4 | 36.52 | 3.2 | 20.46 | 1.8 | 18.35 | 1.8 | 21.39 | 2.0 |
| Total white | 693.53 | 61.2 | 683.58 | 59.1 | 674.16 | 60.3 | 617.90 | 59.5 | 625.87 | 58.5 |
| Chardonnay | 97.18 | 8.6 | 98.85 | 8.5 | 100.79 | 9.0 | 98.61 | 9.5 | 94.54 | 8.8 |
| Chenin Blanc | 261.07 | 23.0 | 257.91 | 22.3 | 263.19 | 23.6 | 240.78 | 23.2 | 240.42 | 22.5 |
| Colombar | 158.79 | 14.0 | 140.51 | 12.1 | 136.17 | 12.2 | 122.04 | 11.7 | 112.61 | 10.5 |
| Hanepoot | 24.66 | 2.2 | 23.57 | 2.0 | 23.54 | 2.1 | 20.28 | 2.0 | 19.67 | 1.8 |
| Riesling (Cape) | 8.60 | 0.8 | 8.38 | 0.7 | 9.71 | 0.9 | 11.27 | 1.1 | 11.92 | 1.1 |
| Sauvignon Blanc | 84.47 | 7.5 | 82.34 | 7.1 | 80.43 | 7.2 | 73.37 | 7.1 | 71.87 | 6.7 |
| Port varieties | 0.75 | 0.1 | 0.62 | 0.1 | 0.85 | 0.1 | 2.44 | 0.2 | 0.56 | 0.1 |
| Dry white | 16.08 | 1.4 | 28.05 | 2.4 | 16.82 | 1.5 | 12.06 | 1.2 | 15.08 | 1.4 |
| Other white | 41.95 | 3.7 | 43.36 | 3.7 | 42.66 | 3.8 | 37.04 | 3.6 | 59.21 | 5.5 |
| Total | 1 133.14 | 100.0 | 1 156.79 | 100.0 | 1 117.09 | 100.0 | 1 039.25 | 100.0 | 1 069.55 | 100.0 |

Average non-producing hectares per cellar



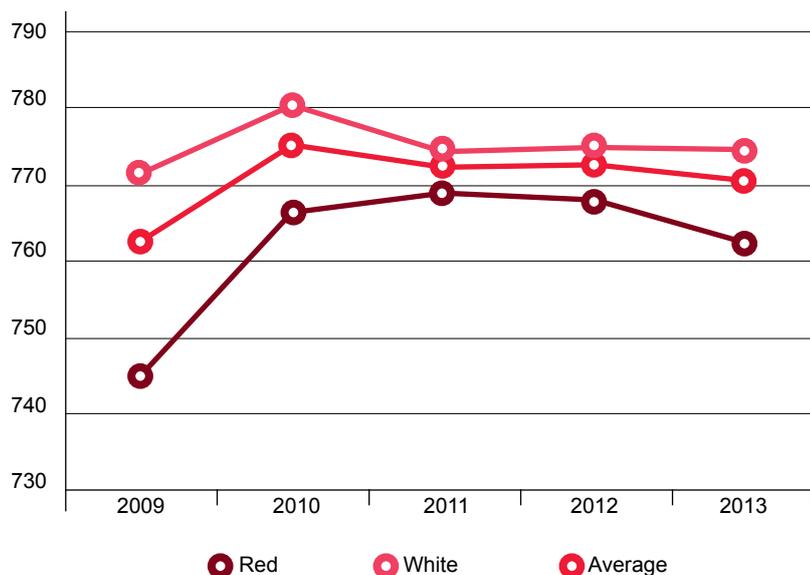
The composition of producing hectares has also remained relatively unchanged. The average non-producing hectares per cellar have shown a further decrease during 2013, which might be an indication that producers are not replacing at the same rate as in the past.

3.2 Results/Findings

3.2.1 Production (continued)

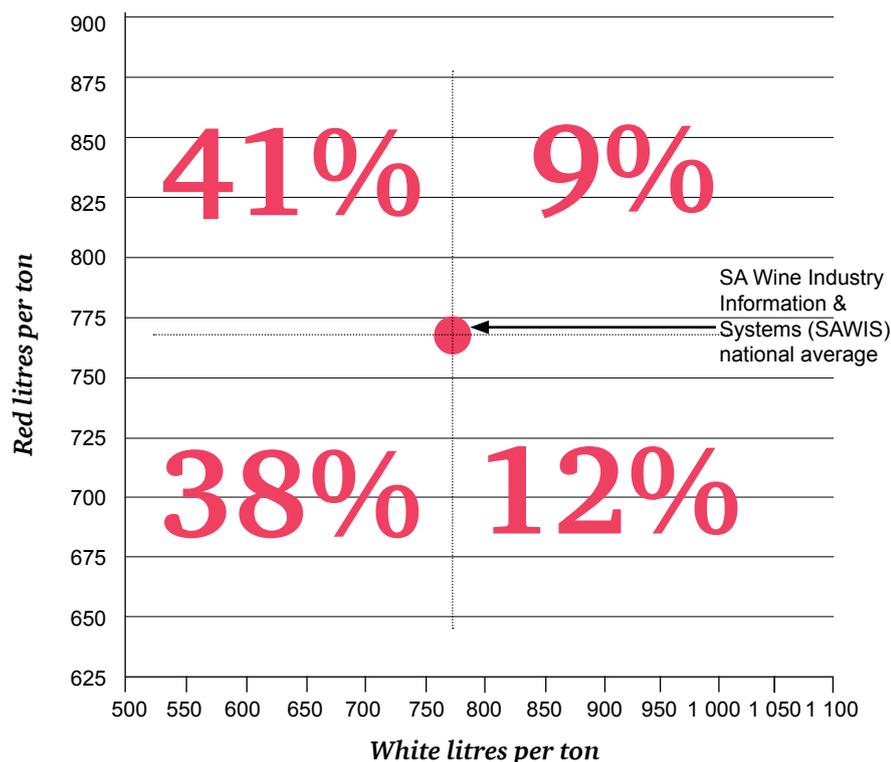
| Average litres produced per product composition | | | | | | | | | | |
|---|-------------------|--------------|-------------------|--------------|-------------------|--------------|-------------------|--------------|-------------------|--------------|
| Product | 2013 harvest | | 2012 harvest | | 2011 harvest | | 2010 harvest | | 2009 harvest | |
| | L | % | L | % | L | % | L | % | L | % |
| Drinking wine | 11 679 697 | 81.5 | 11 347 645 | 81.9 | 10 163 997 | 85.0 | 8 654 879 | 85.8 | 8 973 395 | 79.1 |
| Rebate wine | 1 010 001 | 7.0 | 919 804 | 6.6 | 492 894 | 4.1 | 350 525 | 3.5 | 882 026 | 7.8 |
| Distilling wine | 747 846 | 5.2 | 686 400 | 5.0 | 569 056 | 4.8 | 610 553 | 6.1 | 815 496 | 7.2 |
| Juice | 746 373 | 5.2 | 731 383 | 5.3 | 585 494 | 4.9 | 405 177 | 4.0 | 553 240 | 4.9 |
| Other | 148 724 | 1.2 | 170 635 | 1.2 | 147 683 | 1.2 | 66 932 | 0.6 | 123 293 | 1.0 |
| Total | 14 332 641 | 100.0 | 13 855 866 | 100.0 | 11 959 124 | 100.0 | 10 088 065 | 100.0 | 11 347 450 | 100.0 |

Average recovery in litres per ton



The recovery of litres from red varieties has decreased slightly, but remains well above the 750-litre level. The recovery of white litres could have contributed to the increase of 15.8% in total litres available for sale.

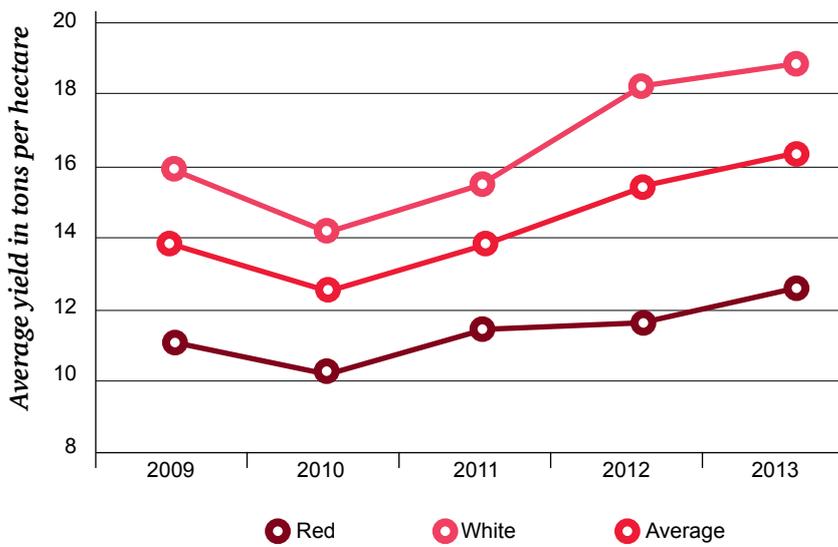
Average recovery in litres per ton - Red/White per cellar (Percentage of participants)



BIC participants recorded 865 litres per ton for red varieties, while the BIC for white varieties recorded an average of 816 litres per ton.

3.2 Results/Findings

3.2.1 Production (continued)



In some areas, record harvests were recorded in 2013, and on a national average basis there was an increase in the tons recovered per hectare for both red and white varieties.

It is clear that there is a definite shift towards higher-tonnage recovery to ensure economic sustainability.

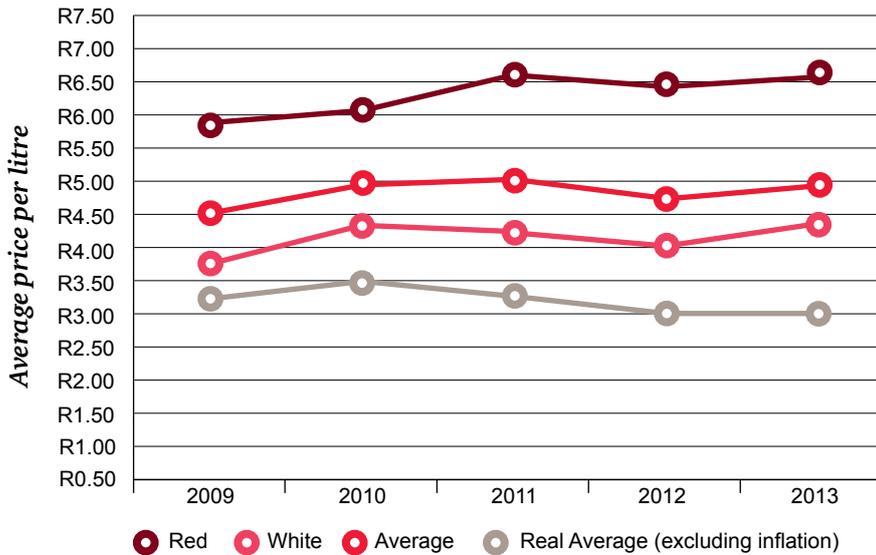


The BIC average recovery for red grapes was 19 tons per hectare and that of white varieties, 26 tons per hectare.

3.2 Results/Findings

3.2.2 Profitability

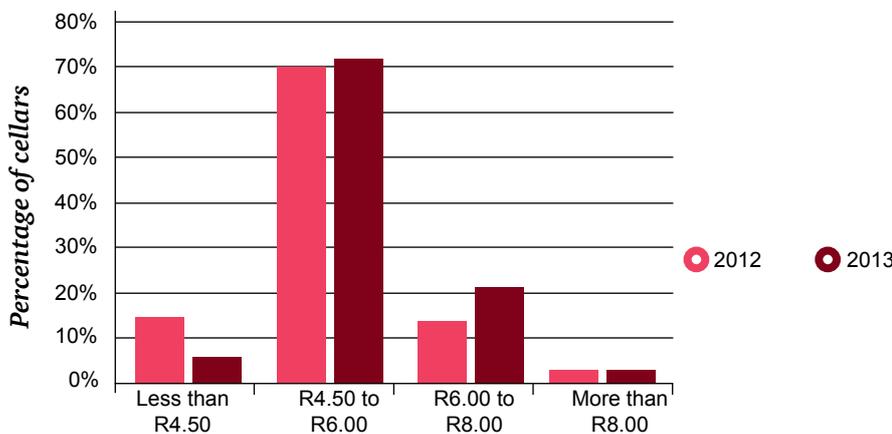
| Income statement (Average per cellar) | | | | | | | | | | |
|---------------------------------------|------------|--------|------------|-------|------------|--------|------------|-------|------------|--------|
| Wine and related products | 2013 | | 2012 | | 2011 | | 2010 | | 2009 | |
| | R | R/ton | R | R/ton | R | R/ton | R | R/ton | R | R/ton |
| Sales | 80 719,529 | | 66 078 036 | | 55 588 636 | | 57 558 271 | | 57 981 093 | |
| Opening inventories | 34 791 185 | | 27 669 242 | | 23 602 430 | | 22 080 838 | | 19 841 361 | |
| Closing inventories | 30 777 424 | | 33 271 507 | | 30 103 161 | | 22 431 089 | | 21 657 617 | |
| Net profit before tax | 2 349 661 | 126.45 | 1 101 754 | 61.51 | 271 680 | 17.54 | 672 062 | 51.67 | 1 872 263 | 125.83 |
| Tax | 623 170 | 33.54 | 300 509 | 16.78 | 272 318 | 17.11 | 432 614 | 33.26 | 664 018 | 44.63 |
| Net profit/(loss) for the year | 1 644 229 | 88.48 | 812 667 | 45.37 | (13 910) | (0.90) | 477 490 | 36.71 | 1 327 267 | 89.20 |



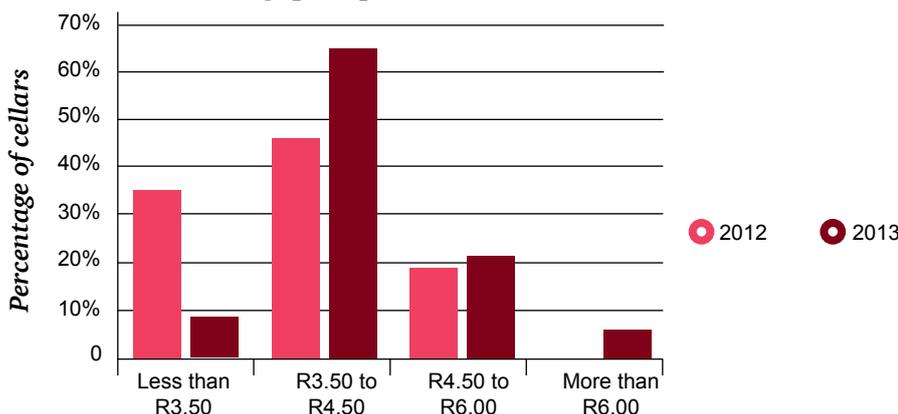
Total revenue per average participant increased by 22% from 2013, and for the first time in a number of years, the average participant closed their financial year with lower stock levels than those they started with.

Although we saw an increase in average prices for participants, it is disappointing that real prices remained flat from the prior year.

Average price per litre (Red)



Average price per litre (White)

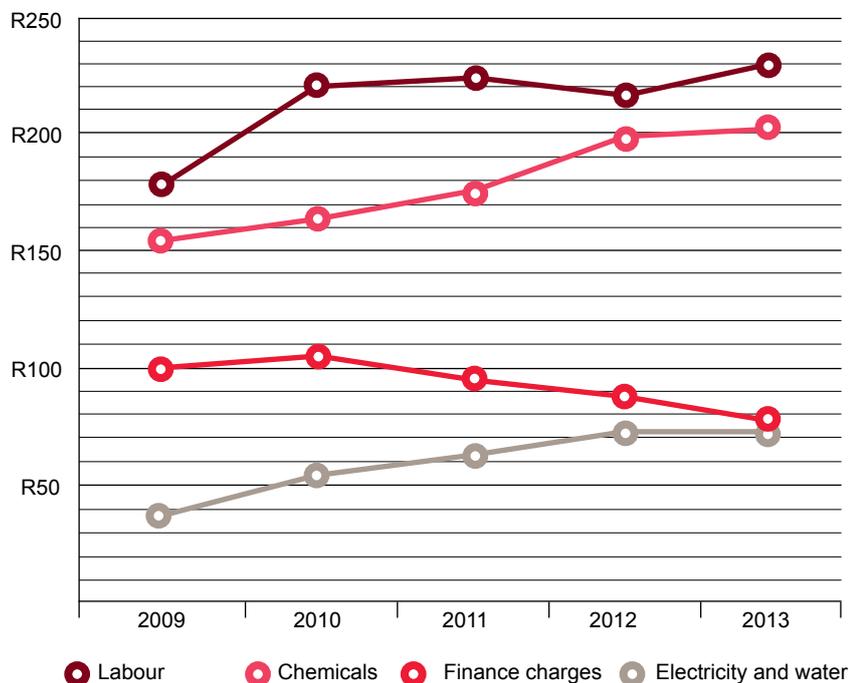


3.2 Results/Findings

3.2.2 Profitability (continued)

| Analysis of expenses attributable to bulk and packaged wine | | | | | | | | | | |
|---|-----------|----------|-----------|----------|-----------|----------|-----------|----------|-----------|----------|
| Expense | 2013 | | 2012 | | 2011 | | 2010 | | 2009 | |
| | Bulk wine | Packaged |
| | R/ton | R/L |
| Labour | | | | | | | | | | |
| Permanent | 204.03 | 1.04 | 190.77 | 1.05 | 202.41 | 0.79 | 196.89 | 0.57 | 160.42 | 0.70 |
| Temporary | 26.95 | 0.02 | 25.86 | 0.02 | 22.83 | 0.02 | 24.97 | 0.14 | 17.79 | 0.15 |
| Insurance | 16.66 | 0.05 | 15.69 | 0.04 | 16.82 | 0.04 | 16.79 | 0.03 | 13.08 | 0.03 |
| Marketing and sales expenses | 47.05 | 2.64 | 36.71 | 3.05 | 27.56 | 1.90 | 34.14 | 1.15 | 27.49 | 1.48 |
| Bottling and packaging | 2.45 | 7.40 | 16.63 | 7.39 | - | 5.26 | - | 5.03 | 4.99 | 4.26 |
| Chemicals, cleaning and filtration materials | 202.23 | 0.10 | 199.21 | 0.09 | 176.50 | 0.16 | 164.12 | 0.14 | 154.35 | 0.16 |
| Distribution | 77.78 | 0.78 | 42.22 | 0.82 | 33.60 | 0.66 | 30.32 | 0.34 | 18.38 | 0.37 |
| Sundry administrative expenses | 82.26 | 0.79 | 71.30 | 0.89 | 69.90 | 0.54 | 84.38 | 0.71 | 64.89 | 0.63 |
| Sundry cellar expenses | 46.73 | 0.38 | 84.51 | 0.55 | 34.94 | 0.36 | 43.70 | 0.32 | 38.20 | 0.28 |
| Electricity and water | 72.99 | 0.06 | 71.90 | 0.07 | 63.33 | 0.08 | 54.25 | 0.07 | 36.48 | 0.08 |
| Finance charges | 76.42 | 0.11 | 88.58 | 0.21 | 96.62 | 0.25 | 107.22 | 0.20 | 101.53 | 0.22 |
| Rent paid | 17.59 | 0.05 | 14.29 | 0.05 | 6.38 | 0.04 | 6.37 | 0.03 | 9.11 | 0.03 |
| Repairs, maintenance and cellar consumables | 91.42 | 0.14 | 80.47 | 0.14 | 78.59 | 0.15 | 87.68 | 0.15 | 76.51 | 0.21 |
| Telephone and postage | 3.65 | 0.03 | 3.99 | 0.04 | 4.81 | 0.03 | 4.77 | 0.02 | 4.54 | 0.03 |
| Depreciation | 107.64 | 0.15 | 116.07 | 0.16 | 123.87 | 0.16 | 115.09 | 0.15 | 84.07 | 0.22 |

Major expenses per ton pressed

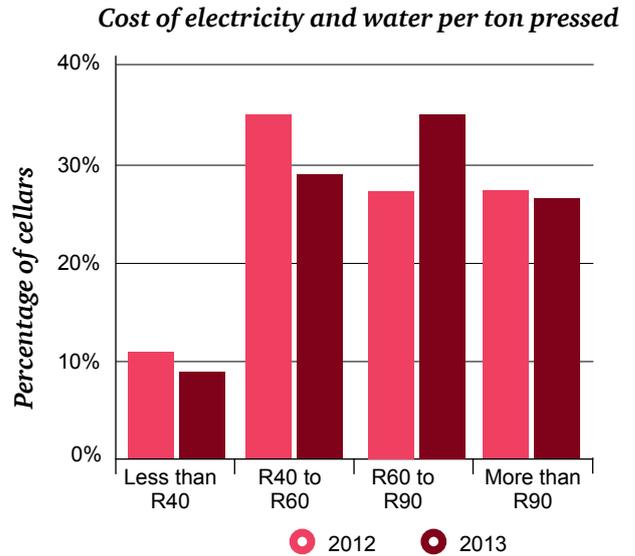
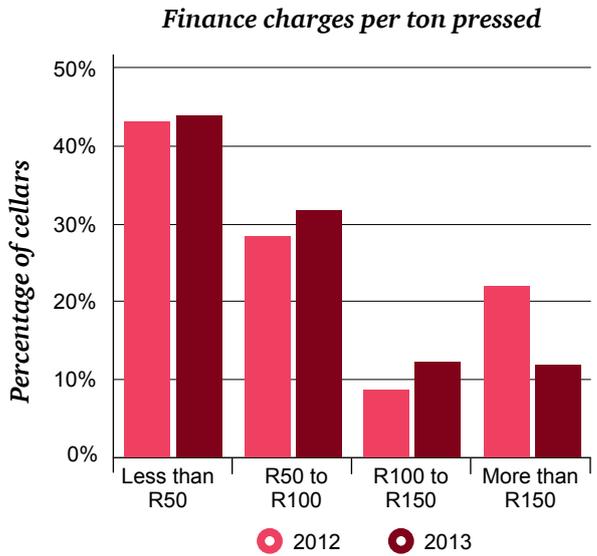
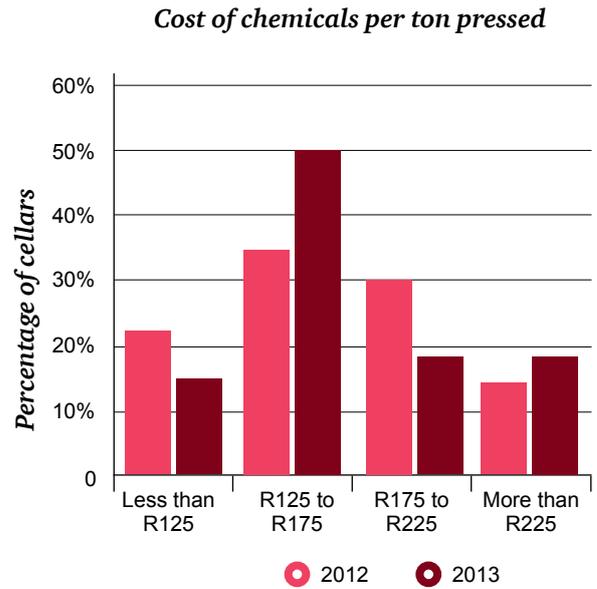
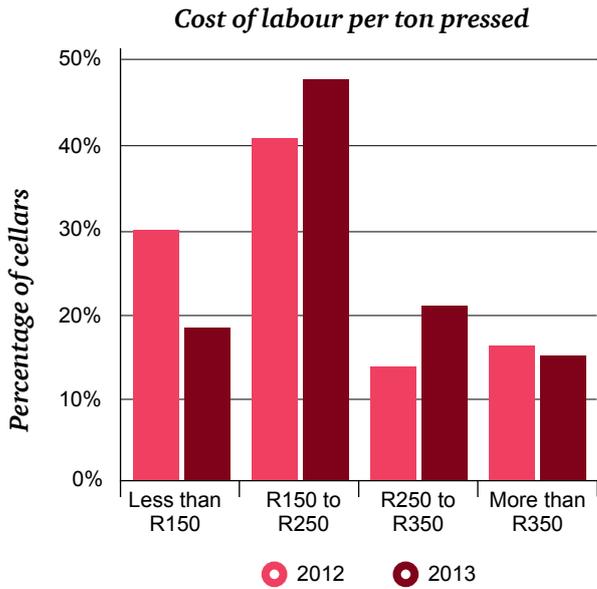


BIC participants spent R42 per ton on electricity and water, and on an average basis, this expenditure has caught up to finance charges in the total cost composition per ton. This might change, however, if we see another interest rate hike.

On average, chemical cost increased by less than inflation. At R202, the average participant spent almost double that of the BIC at R103 per ton.

3.2 Results/Findings

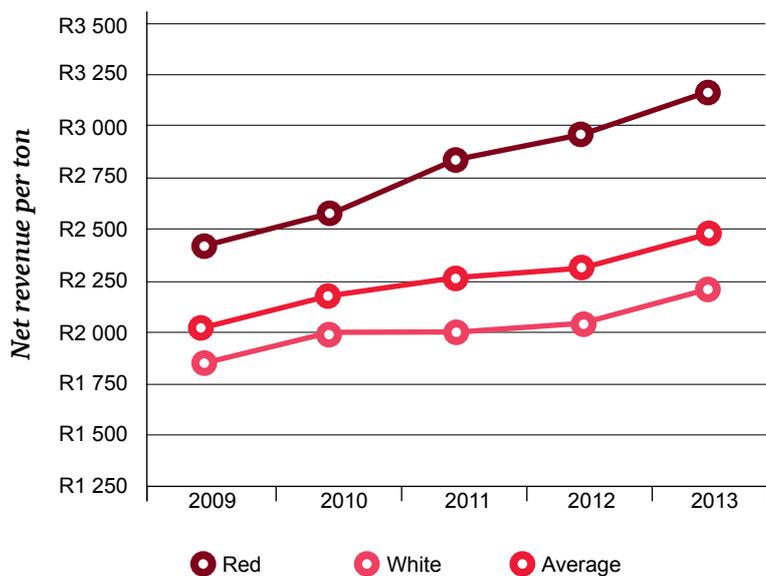
3.2.2 Profitability (continued)



3.2 Results/Findings

3.2.2 Profitability (continued)

| Net revenue per ton | | | | | | | | | |
|---------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Cultivar | 2013 | 2012 | | 2011 | | 2010 | | 2009 | |
| | Provisional | Provisional | Final | Provisional | Final | Provisional | Final | Provisional | Final |
| | R/ton |
| Total red | <u>3 156.40</u> | <u>2 964.20</u> | <u>3 108.33</u> | <u>2 839.36</u> | <u>2 866.98</u> | <u>2 568.58</u> | <u>2 617.56</u> | <u>2 414.28</u> | <u>2 459.40</u> |
| Cabernet Sauvignon | 3 458.12 | 3 191.42 | 3 382.79 | 3 050.79 | 3 261.96 | 2 785.75 | 2 838.79 | 2 643.95 | 2 758.53 |
| Cinsaut | 2 536.25 | 2 351.68 | 2 375.67 | 2 350.05 | 2 441.40 | 2 045.32 | 2 040.94 | 1 845.82 | 1 835.15 |
| Merlot | 3 378.39 | 3 105.69 | 3 250.50 | 2 921.60 | 3 067.56 | 2 662.25 | 2 694.77 | 2 521.17 | 2 568.01 |
| Pinotage | 3 156.07 | 3 036.74 | 3 138.07 | 2 871.51 | 3 003.18 | 2 532.83 | 2 564.60 | 2 314.76 | 2 359.05 |
| Ruby Cabernet | 2 753.43 | 2 772.51 | 2 832.41 | 2 582.26 | 2 648.63 | 2 312.86 | 2 233.28 | 1 977.18 | 2 094.55 |
| Shiraz | 3 296.20 | 3 100.29 | 3 312.39 | 3 002.42 | 3 147.51 | 2 758.38 | 2 884.48 | 2 730.40 | 2 680.07 |
| Port varieties | 2 720.92 | 2 891.27 | 2 843.13 | 2 852.32 | 3 396.28 | 2 395.87 | 2 541.48 | 2 242.31 | 2 395.66 |
| Dry red | 2 721.46 | 2 592.44 | 2 773.86 | 2 727.39 | 2 664.02 | 2 385.23 | 2 625.13 | 2 037.91 | 2 224.28 |
| Other red | 2 951.69 | 2 577.95 | 2 923.78 | 2 548.85 | 2 711.94 | 2 352.71 | 2 499.77 | 2 281.30 | 2 327.95 |
| Total white | <u>2 217.57</u> | <u>2 041.30</u> | <u>2 057.12</u> | <u>2 004.75</u> | <u>2 014.76</u> | <u>2 002.46</u> | <u>1 944.66</u> | <u>1 865.84</u> | <u>1 915.84</u> |
| Chardonnay | 2 763.24 | 2 637.98 | 2 730.40 | 2 637.56 | 2 717.13 | 2 703.19 | 2 679.79 | 2 644.49 | 2 745.22 |
| Chenin Blanc | 2 109.19 | 1 919.36 | 1 947.40 | 1 904.93 | 1 882.60 | 1 848.40 | 1 775.37 | 1 724.60 | 1 746.38 |
| Colombar | 1 944.32 | 1 765.53 | 1 753.82 | 1 732.50 | 1 731.83 | 1 669.22 | 1 629.77 | 1 592.69 | 1 600.60 |
| Hanepoot | 2 377.92 | 2 143.00 | 2 206.90 | 1 842.58 | 1 867.34 | 1 812.22 | 1 696.37 | 1 662.39 | 1 762.03 |
| Riesling (Cape) | 2 069.72 | 1 808.53 | 1 877.65 | 1 861.19 | 1 824.44 | 1 802.04 | 1 792.87 | 1 623.71 | 1 645.38 |
| Sauvignon Blanc | 2 926.23 | 2 806.75 | 2 859.99 | 2 753.57 | 2 847.71 | 2 847.45 | 2 846.68 | 2 838.81 | 2 907.94 |
| Port varieties | 2 415.66 | 2 963.27 | 2 000.13 | 2 185.56 | 2 242.26 | 2 567.29 | 2 685.44 | 2 595.05 | 2 451.55 |
| Dry white | 1 950.90 | 1 712.55 | 1 867.33 | 1 598.77 | 1 690.50 | 1 634.60 | 1 649.47 | 1 390.87 | 1 518.23 |
| Other white | 2 154.32 | 1 972.85 | 1 948.69 | 1 803.84 | 1 796.30 | 1 874.09 | 1 894.08 | 1 657.10 | 1 737.31 |
| Total | <u>2 495.55</u> | <u>2 322.71</u> | <u>2 248.40</u> | <u>2 276.08</u> | <u>2 283.02</u> | <u>2 188.42</u> | <u>2 153.24</u> | <u>2 047.59</u> | <u>2 092.88</u> |

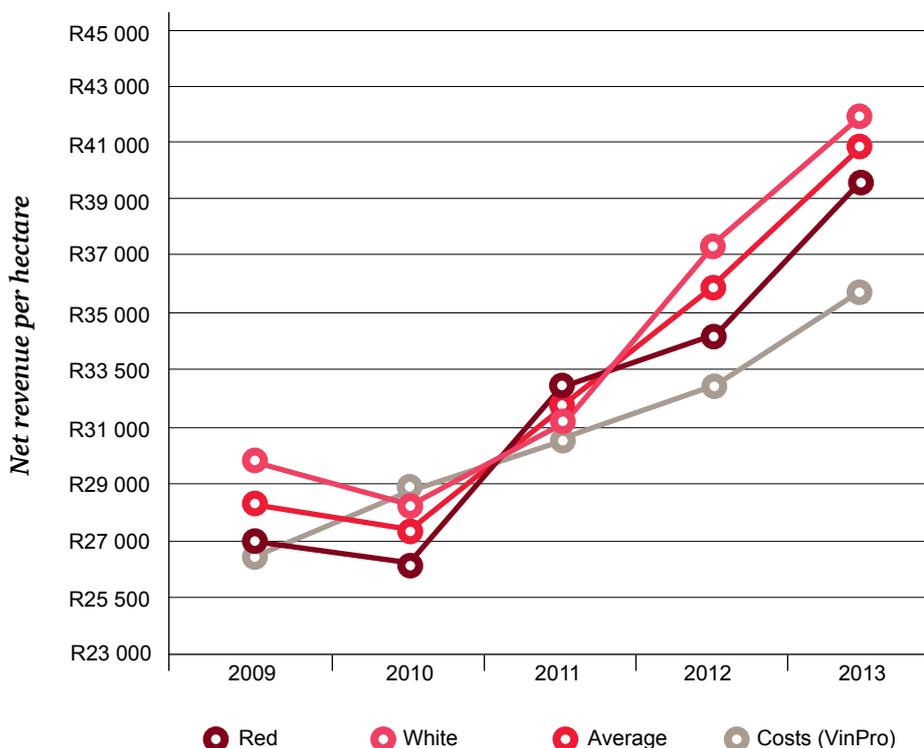


Net revenue per ton has increased for the sixth consecutive year. BIC participants were able to achieve R3 073 per ton.

3.2 Results/Findings

3.2.2 Profitability (continued)

| Net revenue per producing hectare | | | | | | | | | |
|-----------------------------------|-------------|-------------|-----------|-------------|-----------|-------------|-----------|-------------|-----------|
| Cultivar | 2013 | 2012 | | 2011 | | 2010 | | 2009 | |
| | 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 | 39 607.81 | 34 223.23 | 36 578.21 | 32 271.31 | 32 499.71 | 26 109.60 | 29 535.53 | 26 833.03 | 28 095.65 |
| Cabernet Sauvignon | 33 257.27 | 30 074.05 | 31 948.16 | 27 526.28 | 30 611.00 | 22 476.60 | 24 376.50 | 22 372.73 | 23 986.31 |
| Cinsaut | 39 341.31 | 37 326.75 | 38 972.21 | 33 874.54 | 35 441.38 | 28 138.57 | 29 717.67 | 25 073.56 | 25 647.64 |
| Merlot | 41 928.30 | 38 485.61 | 39 887.57 | 34 194.03 | 36 112.88 | 26 385.19 | 30 935.64 | 31 061.75 | 32 383.70 |
| Pinotage | 45 569.12 | 35 441.09 | 37 012.41 | 33 071.25 | 36 082.82 | 26 095.73 | 28 425.41 | 26 660.52 | 28 327.18 |
| Ruby Cabernet | 45 235.98 | 47 652.19 | 48 846.16 | 41 543.19 | 43 854.25 | 30 645.32 | 34 969.11 | 28 896.09 | 30 892.99 |
| Shiraz | 39 623.60 | 34 787.03 | 36 217.25 | 33 481.75 | 36 785.79 | 29 296.10 | 33 224.17 | 31 014.87 | 31 392.52 |
| Port varieties | 30 723.61 | 24 749.91 | 25 734.40 | 20 679.10 | 30 446.02 | 16 191.06 | 16 407.68 | 20 462.56 | 22 011.14 |
| Dry red | 76 377.06 | 38 683.37 | 52 677.47 | 40 664.87 | 38 553.96 | 28 515.30 | 27 925.45 | 25 694.75 | 31 730.56 |
| Other red | 35 037.44 | 21 584.82 | 28 450.27 | 26 498.75 | 29 710.35 | 21 320.78 | 34 149.68 | 25 234.17 | 25 872.10 |
| Total white | 41 913.84 | 37 232.57 | 39 001.08 | 31 099.76 | 31 724.32 | 28 322.75 | 29 934.24 | 29 658.47 | 31 116.57 |
| Chardonnay | 37 727.80 | 33 434.81 | 35 860.66 | 29 616.83 | 31 125.63 | 27 832.26 | 30 468.50 | 31 117.51 | 33 076.57 |
| Chenin Blanc | 37 239.42 | 33 203.19 | 33 603.91 | 27 565.47 | 28 019.05 | 25 881.68 | 26 185.50 | 25 819.77 | 27 253.06 |
| Colombar | 48 068.64 | 45 298.09 | 44 608.04 | 36 890.63 | 37 091.95 | 30 607.49 | 33 087.71 | 36 419.46 | 36 809.62 |
| Hanepoot | 48 077.62 | 45 256.13 | 46 356.57 | 31 956.15 | 33 657.83 | 25 886.56 | 29 074.91 | 32 029.37 | 32 877.69 |
| Riesling (Cape) | 21 101.38 | 26 899.28 | 28 693.50 | 21 591.73 | 20 948.43 | 20 114.32 | 30 355.78 | 19 545.96 | 19 788.61 |
| Sauvignon Blanc | 45 095.99 | 41 745.11 | 43 953.90 | 36 380.15 | 38 735.08 | 34 600.18 | 37 571.11 | 32 181.06 | 35 062.89 |
| Port varieties | 42 001.08 | 42 679.41 | 28 291.42 | 24 940.71 | 25 590.03 | 31 699.31 | 32 857.85 | 34 793.06 | 38 214.32 |
| Dry white | 38 427.25 | 21 580.51 | 36 274.79 | 27 243.82 | 28 806.99 | 21 306.26 | 28 669.78 | 22 801.30 | 25 959.96 |
| Other white | 52 643.07 | 42 506.55 | 50 949.08 | 31 260.66 | 31 492.87 | 31 373.28 | 29 616.96 | 29 942.08 | 31 035.85 |
| Total | 41 019.44 | 36 000.73 | 35 972.35 | 31 564.47 | 31 911.76 | 27 426.47 | 29 661.22 | 28 486.40 | 29 872.29 |



Revenue per producing hectare exceeded R40 000 for the first time, and the gap between average production cost and revenue per hectare continued to increase for both red and white varieties.

68%

of participants managed to achieve revenues per hectare of more than the average production cost.

3.2 Results/Findings

3.2.3 Structuring

Balance sheet (Average per cellar)

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | R | R | R | R | R |
| Assets | | | | | |
| Non-current assets | 38 769 129 | 36 301 087 | 35 602 571 | 31 101 990 | 30 346 382 |
| Property, plant and equipment | 35 887 609 | 33 494 786 | 32 467 191 | 28 310 193 | 27 745 501 |
| Investments | 2 790 017 | 2 728 139 | 3 062 876 | 2 704 879 | 2 517 185 |
| Deferred tax assets | 19 503 | 78 162 | 72 505 | 86 918 | 83 696 |
| Current assets | 53 525 438 | 54 137 181 | 48 498 264 | 40 416 354 | 41 870 475 |
| Inventories | 32 298 458 | 34 264 687 | 30 349 729 | 22 911 030 | 22 526 245 |
| Wine | 30 637 126 | 33 380 411 | 29 671 137 | 22 464 393 | 21 657 617 |
| Other | 1 661 332 | 884 276 | 678 592 | 446 637 | 868 628 |
| Trade and other debtors | 18 775 024 | 18 086 400 | 16 112 956 | 15 402 824 | 16 812 555 |
| Bank and cash | 2 451 114 | 1 786 094 | 2 035 579 | 2 102 500 | 2 531 675 |
| Total assets | 92 294 567 | 90 438 267 | 84 100 835 | 71 518 344 | 72 216 857 |
| Equity and liabilities | | | | | |
| Capital and reserves | 24 556 340 | 24 290 860 | 22 731 844 | 19 747 353 | 20 764 483 |
| Share capital | 3 647 063 | 6 146 528 | 6 596 301 | 5 006 216 | 4 742 382 |
| Reserves | 20 310 738 | 17 486 514 | 15 314 916 | 14 029 844 | 15 274 328 |
| Members' funds | 608 539 | 657 818 | 820 627 | 711 292 | 747 772 |
| Non-current liabilities | 15 217 748 | 13 323 521 | 13 218 810 | 14 104 520 | 14 223 281 |
| Long-term borrowings | 10 077 982 | 8 407 768 | 8 750 152 | 10 366 281 | 10 608 758 |
| Deferred tax liabilities | 5 046 962 | 4 859 531 | 4 308 664 | 3 549 021 | 3 361 393 |
| Deferred income | 92 804 | 56 222 | 159 994 | 189 218 | 253 129 |
| Current liabilities | 52 046 962 | 52 823 886 | 48 150 180 | 37 666 471 | 37 229 094 |
| Trade and other creditors | 14 454 507 | 17 098 486 | 18 435 285 | 13 728 355 | 14 323 157 |
| Producers | 34 934 979 | 32 403 920 | 27 657 522 | 22 314 933 | 21 844 931 |
| Bank overdrafts | 3 120 992 | 3 321 481 | 2 057 373 | 1 623 183 | 1 061 006 |
| Total equity and liabilities | 92 294 567 | 90 438 267 | 84 100 835 | 71 518 344 | 72 216 857 |

Ratios

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|----------------|---------------|---------------|----------------|----------------|
| Own capital vs debt | | | | | |
| Own capital | 27% | 27% | 27% | 28% | 29% |
| Debt | 73% | 73% | 73% | 72% | 71% |
| | 100% | 100% | 100% | 100% | 100% |
| Current ratio | 1.02 :1 | 1.02:1 | 1.01:1 | 1.07 :1 | 1.12 :1 |
| Acid test | 0.40 :1 | 0.38:1 | 0.38:1 | 0.46 :1 | 0.52 :1 |
| Non-current assets vs non-current liabilities | 2.5 :1 | 2.7:1 | 2.7:1 | 2.21 :1 | 2.13 :1 |
| Inventory turnover rate (times per year) (Note 1) | 2.5 | 2.2 | 2.1 | 2.5 | 2.8 |
| Debtors days outstanding (days) | 82 | 93 | 105 | 102 | 104 |
| Return on investment (%) (Note 2) | 16% | 11% | 8% | 11% | 17% |

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

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

3.3 Summary

For participating cellars, the 2013 harvest showed an increased yield in tons pressed per producing hectare, with the national average yield being more than 16 tons for the first time. Primary producers would also have been positive about revenue per producing hectare exceeding average production costs. The recovery in litres per ton has remained stable and the national average remains above 770 litres.

The larger crop size in 2013 would have kept expenditure per ton under control, and labour and chemicals remain the most significant cost per ton pressed.







4

*Competitiveness index for
producer cellars*

4.2 Average age of vineyards

Vines in South Africa generally do not come into full production before three years after planting, while on average vines do not produce commercially viable quantities after 20 to 25 years of age.

Regular replanting of the right cultivars is therefore essential in ensuring the continued supply of quality wine grapes. A benchmark of ten years for the average age of vineyards is deemed to be appropriate for cellars that strike the right balance between having vineyards that are too young and established vineyards that produce high quality at sufficient quantities.

243 years

It is believed that the oldest fruit bearing vine in the Southern Hemisphere is a Crouchen Blanc variety planted around 1771 at the Cape Heritage Hotel in Cape Town.

(source: capeheritage.co.za/vine)

Average age of vineyards (years)



None of the participants has managed to record results equal to the benchmark, which indicates that the concern that chief executives have about ageing vineyards is justified. White cultivars averaged 14.8 years, while red have an average age of 12.7 years. Cellars will do well to keep a close eye on their planting and uprooting plans, taking into consideration consumer patterns and global demand.

14.1 years

Cinsaut was on average the oldest red variety

22.1 years

Cape Riesling was on average the oldest white variety

12.1 years

Shiraz was on average the youngest red variety

11.6 years

Sauvignon Blanc was on average the youngest white variety

79%

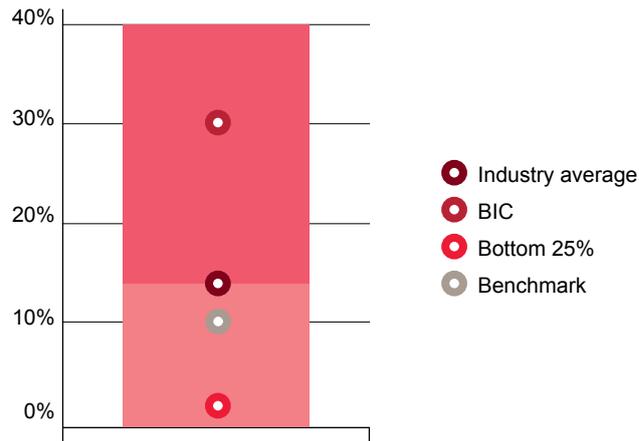
of respondents have indicated that they expect minimal to moderate investment in infrastructure over the next 12 to 36 months.

4.3 Infrastructure replacement ratio

Mechanisation is high on the agenda of many businesses in the agricultural sector, especially with technological advancements on a yearly basis. The wine industry is no exception, and more effective ways of producing should always be investigated.

While the ratio of replacement may vary on where participants are in their replacement cycle, an average of 10% per year could provide cellars with an indication of the level of replacement that they should consider.

Infrastructure replacement ratio



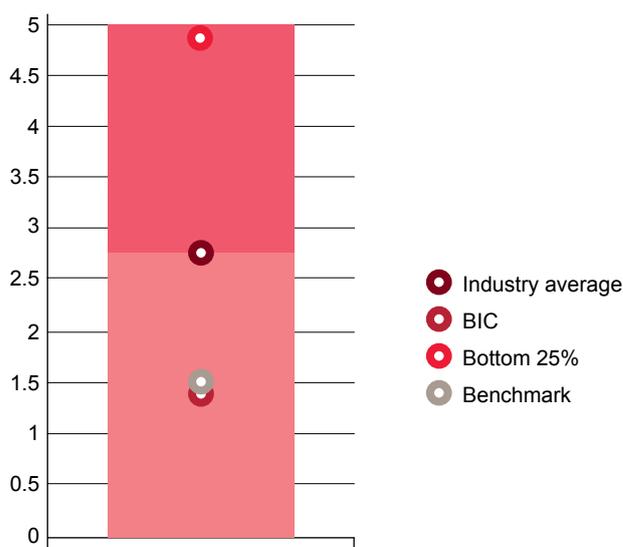
52% of responding CEOs indicated that they were at least somewhat concerned about ageing infrastructure. Overall, a replacement ratio of 12% was achieved in the current year. A balance will have to be struck between an annual replacement programme and being aligned with new technology, since investing in outdated infrastructure could lead to costly inefficiencies.

4.4 Debt-equity ratio

While interest rates remain relatively low, the Monetary Policy Committee of the South African Reserve Bank has indicated that adjustments to interest rates will largely be determined by the ability or not of the local economy to contain its inflation rate within the target range of three to six per cent .

It is therefore uncertain if the economy has moved into a prolonged upward adjustment cycle after the recent interest rate hike. Participants should accordingly monitor the way in which they finance their operations, as their circumstances could warrant a deviation from the 1.5 benchmark.

Debt/equity ratio



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.

BIC participants are aligned with the benchmark. The bottom 25% of participants might run the risk of their businesses coming under severe stress during prolonged interest rate hike cycles. This risk should be carefully managed at an executive level.



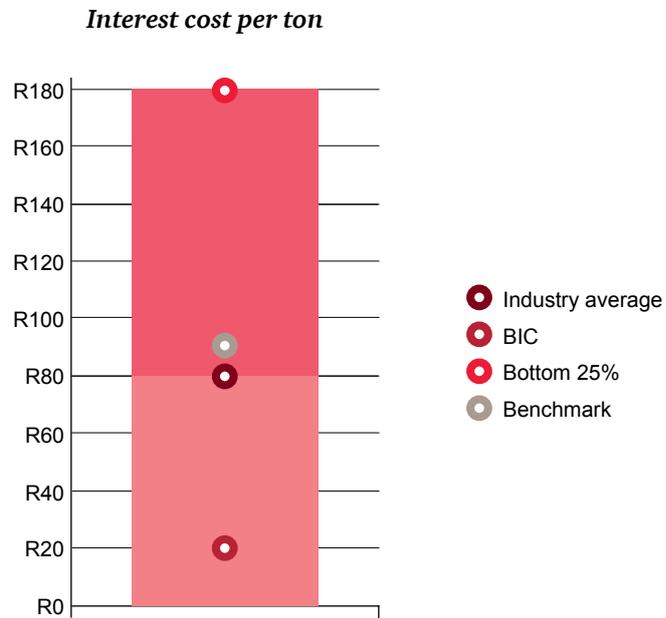
Prime interest rate:

1998: 25.5%

2014: 9%

4.5 Interest cost per ton

Whether or not to finance both capital and operational needs remains a critical decision in any business. While finance charges are acceptable in the overall costs analysis, the cost thereof per ton should generally not exceed R90 in the current cycle of low interest rates, depending on the level of investment in infrastructure.

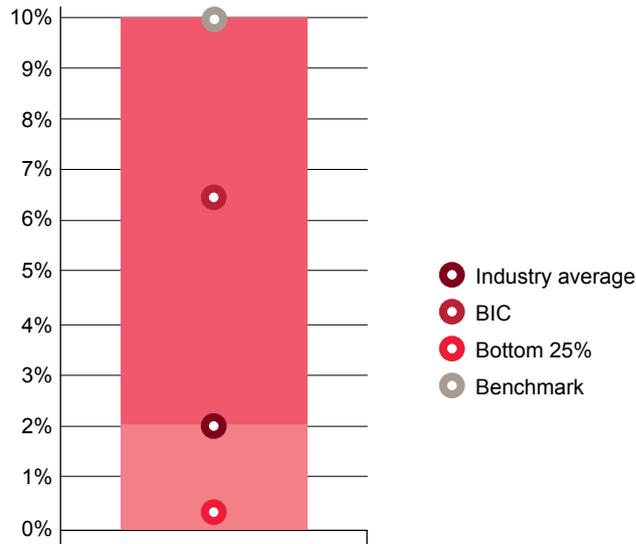


The industry as a whole has managed to keep the interest cost per ton to R78. The bottom 25% of participants should monitor their finance needs carefully, especially if the interest cost is not supported by an investment in long-term assets, otherwise liquidity problems might arise in the short to medium terms that will influence not only suppliers, but also producer members.

4.6 Marketing spend

Being in control of your own marketing function and brand remains critical in times when there are ever more competitors and new market entrants. Expanding and promoting your brand to new target markets is important, but maintaining your current market share through innovative marketing initiatives is also vital. Building a recognised brand can be an invaluable asset to your wine business, and 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 on average spent

R47.05

per ton of grapes on marketing- and sales-related costs, representing 3.6% of total costs.

BIC participants spent 6.5% of their revenue on promoting their brand. While participants have indicated that they would like to see Government promoting *Brand SA*, the average cellar should be spending more than the current 2.1%. Spending less than 1% could indicate that cellars are not in control of their own brand development and marketing function.

The results of the survey beg for further analysis, however, and much interpretation, since the marketing data provided did not necessarily indicate the specific revenue lines it applied to (packaged or bulk).

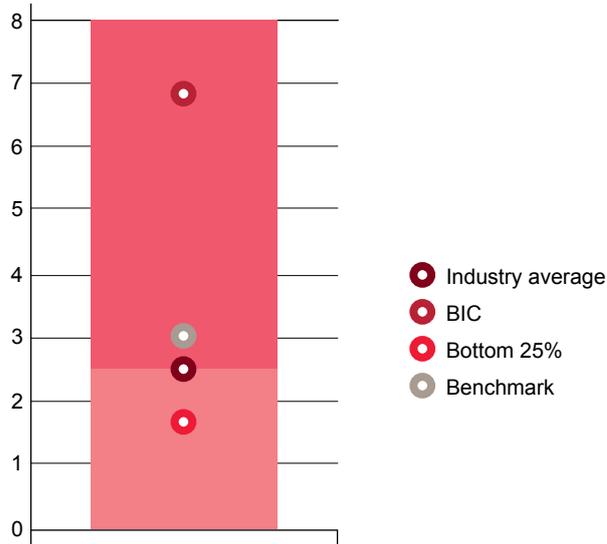


Innovative ways in which participants have managed inventory levels during the year were by managing 'made to order' products and 'stock products', and including removal dates in purchase agreements.

4.7 Inventory turnover rate

Moving volumes off the cellar floor is essential for generating cash and guarding against losses from obsolete stock. The longer inventory is kept on the premises, the higher the sunk costs of carrying the product. A benchmark rate of three times per year is deemed appropriate for the producer cellar market.

Inventory turnover (times per year)

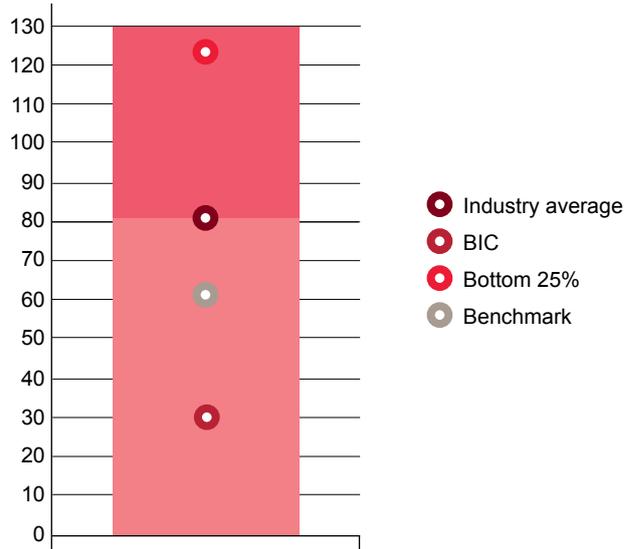


Overall, participants performed well in turning around inventory. The national average of 2.5 is just below the benchmark.

4.8 Debtors days

With bulk exports having increased significantly over the last 18 months, a change in debtors days might have been expected for the industry. No business can function without proper cash flow, and recovering outstanding amounts within 60 days could assist cellars in maximising their bargaining power when purchasing and ease the pressure on the interest cost per ton.

Debtors days



Participants have indicated that they manage the risk of bad debts with strict credit policies and credit insurance.

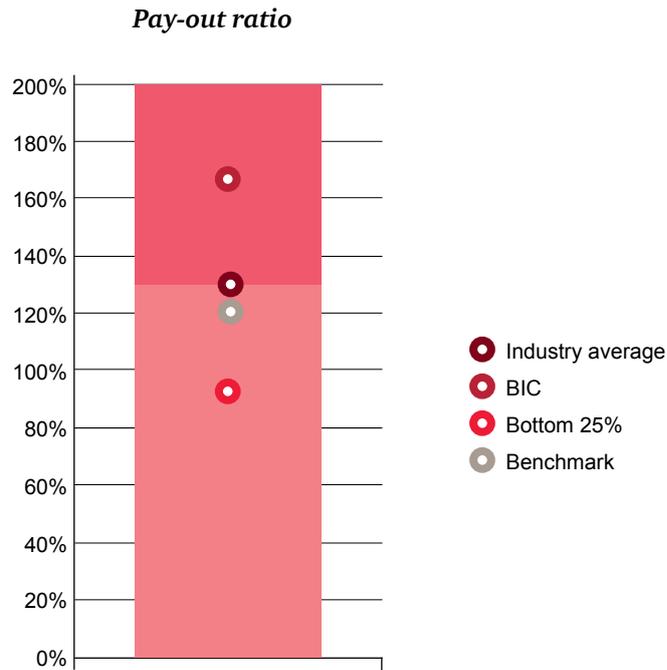
While the BIC have managed to collect amounts within 30 days, the bottom 25% might have struggled to service short-term commitments with short-term assets. The industry would do well to keep the national average at 82 days in the coming year, and should strive to do so.

71%

of respondents maintained a payout ratio of more than the benchmark.

4.9 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 environment.



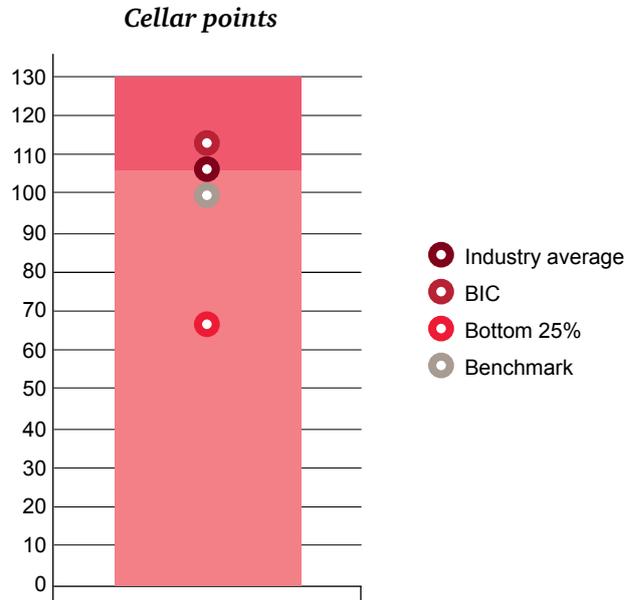
While it is encouraging to see that the industry average of 130% is close to the benchmark, executives should monitor payments carefully to ensure that the cellar remains solvent and liquid. Producer members of the BIC participants would no doubt have been pleased with their returns, although this high level of remuneration might not be sustainable. The bottom 25% have not managed to provide their members with a break-even payout and should reconsider their strategy to ensure that members are also sustainable in the long term.

4.10 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.



The number of cellars scoring more than the benchmark marginally exceeded the number of cellars that did not.



The national average of 102 points is in line with the benchmark. BIC participants have done well to achieve an average of 111 points and should be reasonably positioned to build on this.

The bottom 25% of participants may have some reason for concern, as they are well below the benchmark at 67 points. Identifying the areas which require attention should be the first step in determining possible adjustments to their strategies to ensure that these cellars remain sustainable and competitive.

4.11 Summary

The results of the competitiveness index make for interesting reading. A number of participants performed well in certain areas, while lagging in others. Participating wine businesses do, however, need to analyse and evaluate their individual results to determine the reasons for deviation from the benchmark and to identify areas for improvement.



A young man with dark hair and a goatee, wearing a grey and black patterned sweater, stands in the center of a tunnel. The tunnel is formed by rows of white chairs on both sides, creating a strong sense of perspective. The lighting is warm and focused on the man. A large red number '5' is overlaid on the right side of the image.

5

*Human resource
management*



5. Human resource management

5.1 Introduction

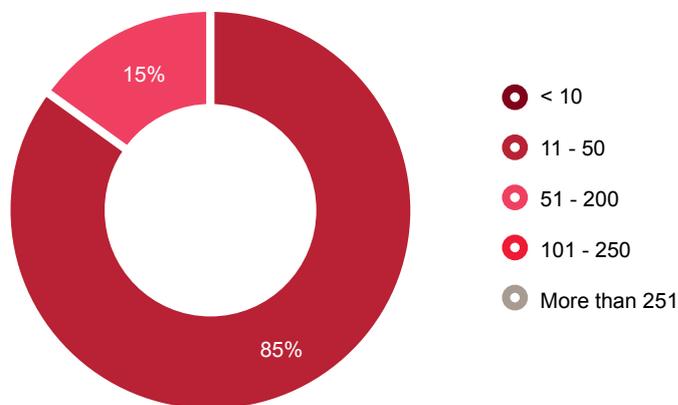
The human resources of an organisation drive the organisation to reach its objectives and create value for all stakeholders involved. That is why human resource (HR) management is vital to the success of any organisation or business, including those operating in the wine industry. This is the fifth year that human resource practices are included in the Wine Industry Insights Survey, and the results have once again proved informative.

The results and significant trends for the 2014 survey are provided below and where applicable, comparisons have been made to the results of previous years. The trends illustrated here will provide wine cellars with a significant benchmark against which to measure their own performance and will promote an increased understanding of practical human resource management in this industry.

5.2 The Human Resource Department

The majority of participating cellars (85%) have between 11 and 50 employees, and the remaining 15% have between 51 and 100 employees.

How many employees do your organisation have?



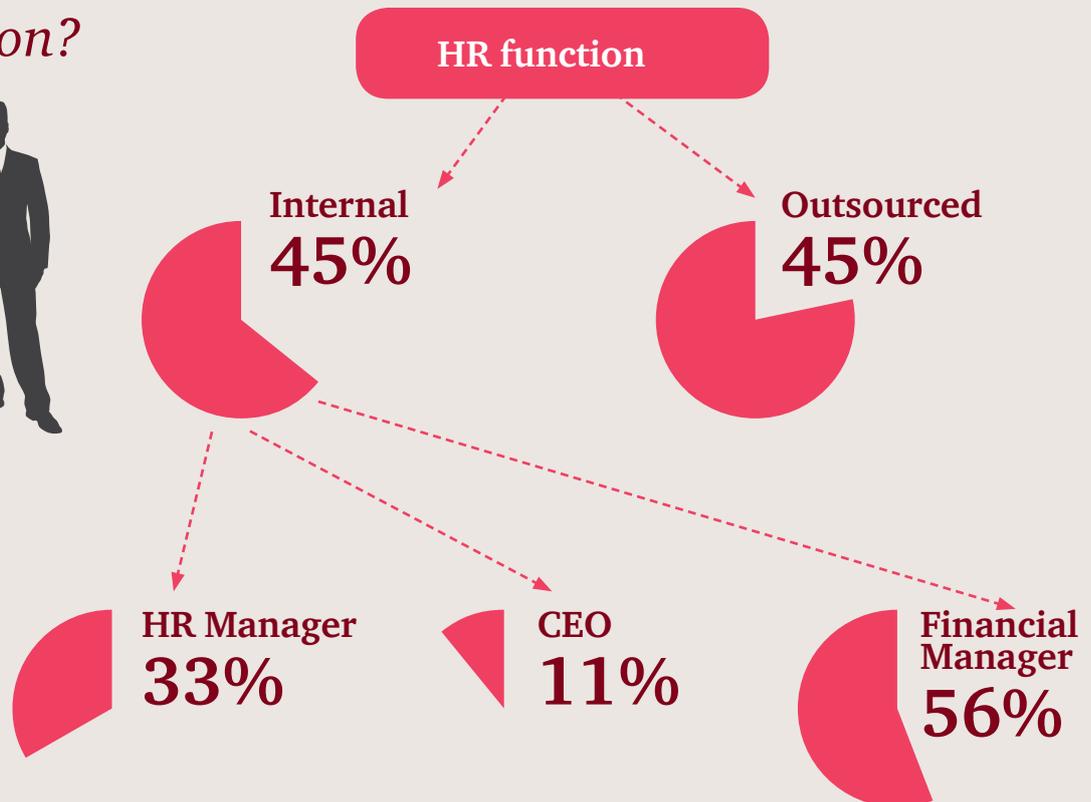


8%

45% of participating cellars indicated that they had an internal HR function – a rise of 8% from last year’s survey. It is thus evident that more and more cellars are exploring the opportunity of implementing a dedicated team for this function internally. This is a positive indicator, as it positions HR management as an important business driver.

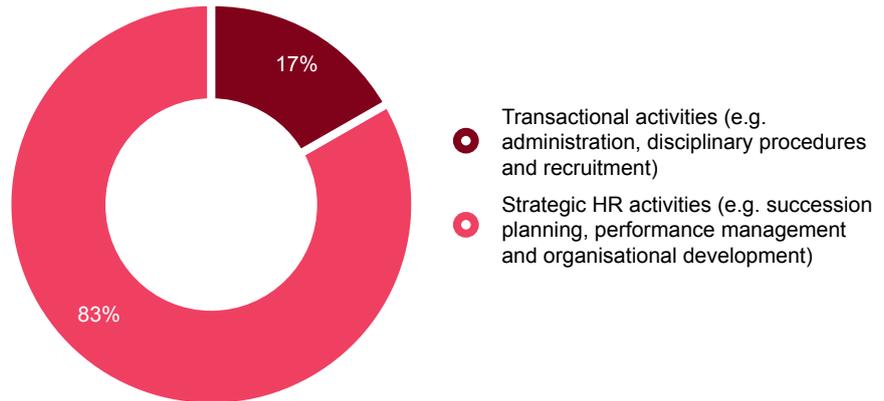
Of the group of cellars that do have an internal HR function, 56% indicated that their HR function was fulfilled by their financial manager while 11% indicated that it was fulfilled by the CEO. 33% have an HR manager and team dedicated to the function, which is a significant increase from only 8% in 2013.

Who performs the HR function?



The majority of participating cellars' (83%) HR function focuses on strategic activities pertaining to the management of employees rather than merely transactional activities. This is a marked improvement from the previous year, when 76% of cellars still focused on transactional activities. There is an increased trend for cellars to incorporate more and more strategic functions into their HR activities, in answer to a need for this. In fact, strategic HR practices can help cellars to address challenges and align the capabilities and skills of their employees to the goals of the organisation.

What type of HR activities does your internal HR function perform?

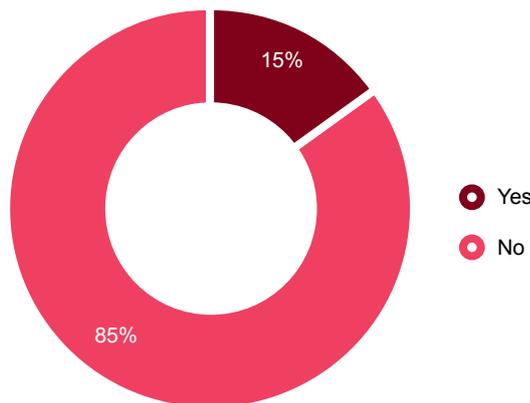


5.3 Staff turnover

Average turnover rate for participating cellars:

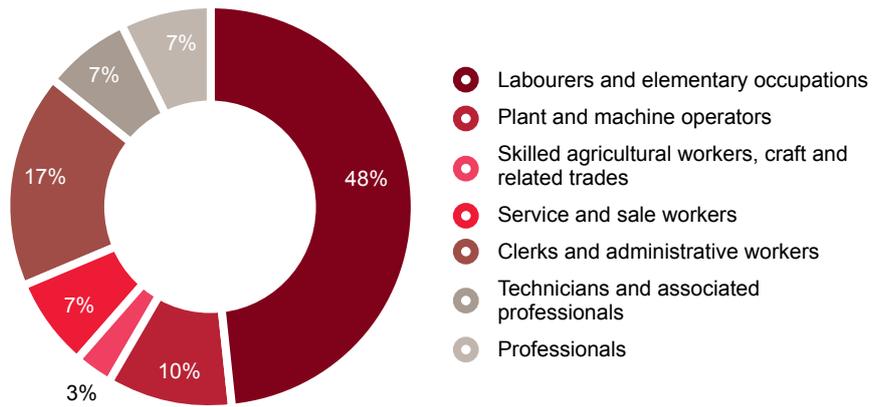
14.5%

Did you experience high staff turnover during the past 12 months?



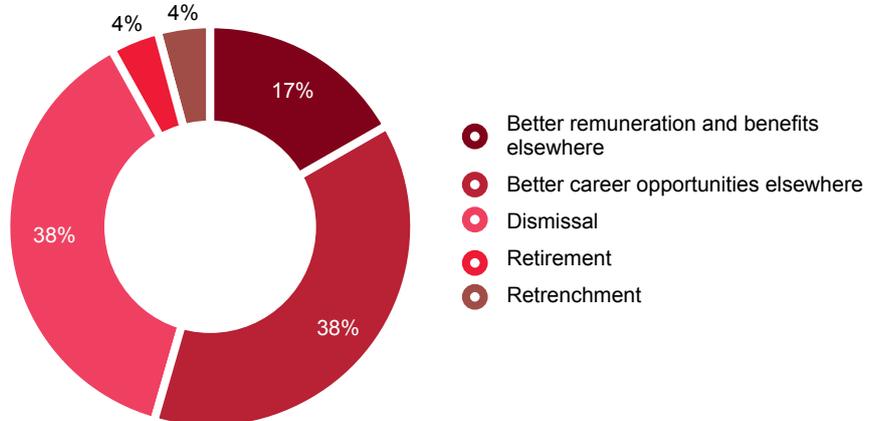
85% of cellars indicated that they did not have a high staff turnover rate. This figure is well in line with the trend for previous years.

In which employee categories are you experiencing the highest turnover levels?



48% of participating cellars indicated that their highest staff turnover was in the staff category for labourers and elementary occupations. 2014 shows a more even distribution of turnover in the other categories compared to previous years' surveys.

What are the main reasons for employees leaving your organisation?



It is alarming to note that dismissals and better career opportunities elsewhere are the two dominant reasons for staff leaving wine cellars (38% for each). This is very similar to the results for 2013. Looking at this feedback, there is a definite need for benchmarking the remuneration of employees, as well as ensuring career development and growth to improve this trend in the future. This trend also reiterates the occurrence of possible shortcomings in certain human resource practices such as recruitment and selection, training, and/or performance management.

The average age of each staff category is illustrated in the graph below and ranges roughly between 32 and 42 years of age. It is promising to note that the wine industry seems to be able to attract a young workforce. However, the downside of this is that one can deduct from the relatively young average workforce that staff retention is not what it should be.

What is the average age for each of the following employee categories?

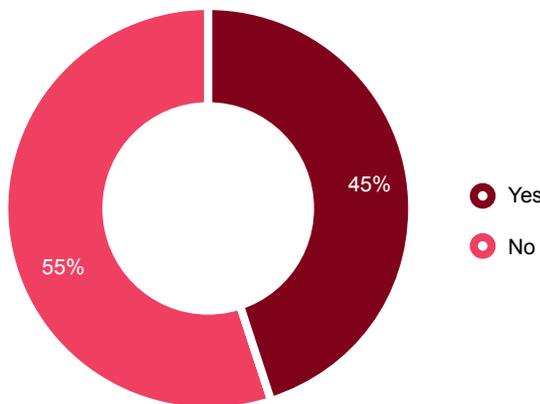


5.4 Human resource practices

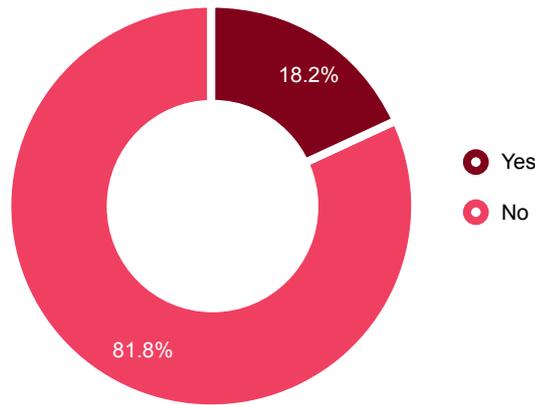
5.4.1 Succession planning

It is promising to note that 45% of participating cellars indicated that they had a succession plan in place, after a general downward trend for this question for the previous four years. Only 18.2% of the 55% of cellars that currently do not have succession plans in place are planning to implement these plans in the future. Succession plans are going to be pivotal to ensure that shortages of skills and experience do not have a bearing on cellars' overall performance. One of the reasons for a lack of succession planning may be the young age of the workforce, as indicated before. Succession planning may be seen as an unnecessary and time-consuming exercise.

Does your organisation have a succession plan in place?

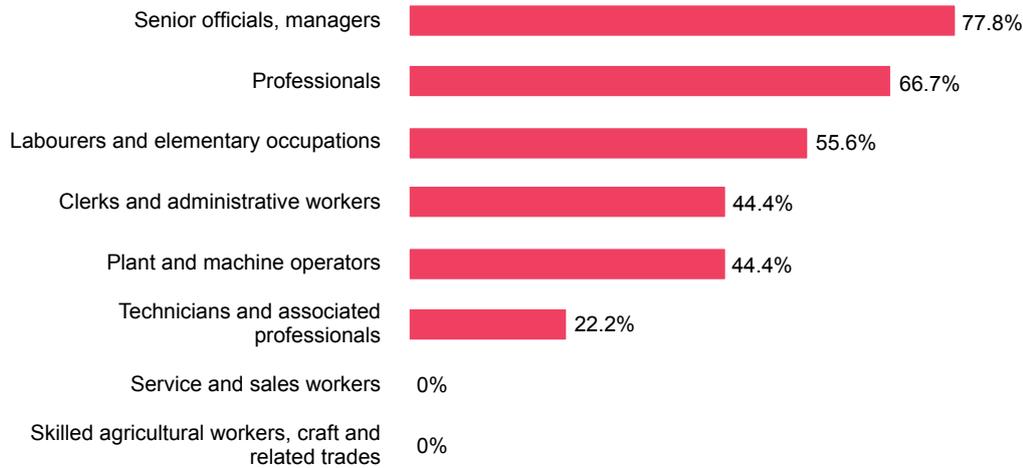


Do you intend to implement a succession plan over the next 12 months?



Looking at the staff levels at which succession planning is aimed, it is increasingly noticeable and promising that succession planning is not limited to the senior management level, but is starting to include other levels in these organisations as well.

At which level is succession planning aimed?

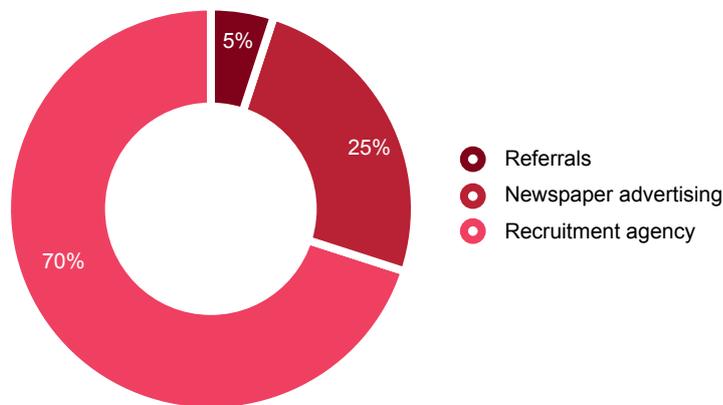


5.4.2 Recruitment

80% of participating cellars indicated that they predominantly made use of newspaper advertising for recruitment whilst 75% use recruitment agencies. These two methods seem to be the preferred form of recruitment, and recruitment agencies are found to be the most effective form of advertising for recruitment (chosen by 70% of respondents, as seen in the graph below). It seems that despite the digital age, the type of candidates searching for jobs at wine cellars still prefer printed media or make use of agencies to find jobs.

35% of cellars indicated that there were critical skills that they found difficult to recruit. Critical skills refer to particular capabilities needed within an organisation, such as communication, teamwork and general management skills. Cellars find it most difficult to attract and retain critical skills in the category of technicians and associated professionals.

What method of recruitment do you find most effective?



5.4.3 Training

Here are some quick facts about training:



95% of the participating cellars have a properly implemented skills development programme in place that is aligned to their business strategy.



The average annual training budget of cellars for 2014 is R38 000, compared to R50 830 in 2013. This is a shocking decrease and one wonders what the reason would be – is it a lack of appropriate courses, or only that training is perceived as a “nice to have” rather than a necessary expenditure?



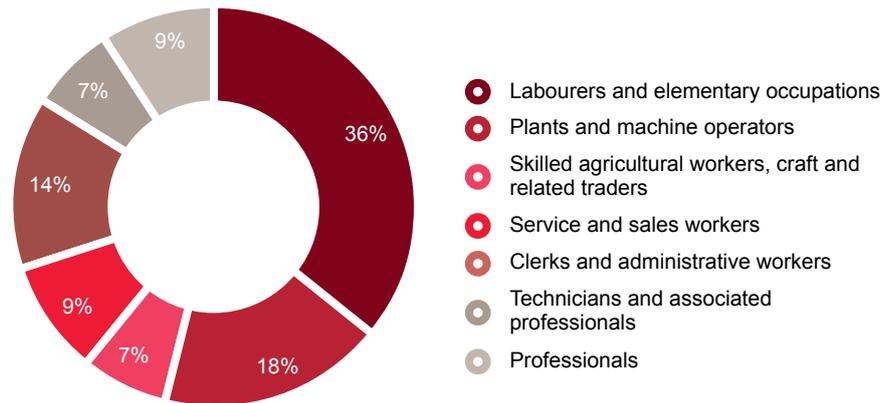
The majority of respondents indicated that they were registered with the **AgriSETA**. Two of the responding cellars are registered with the **FoodBevSETA**.



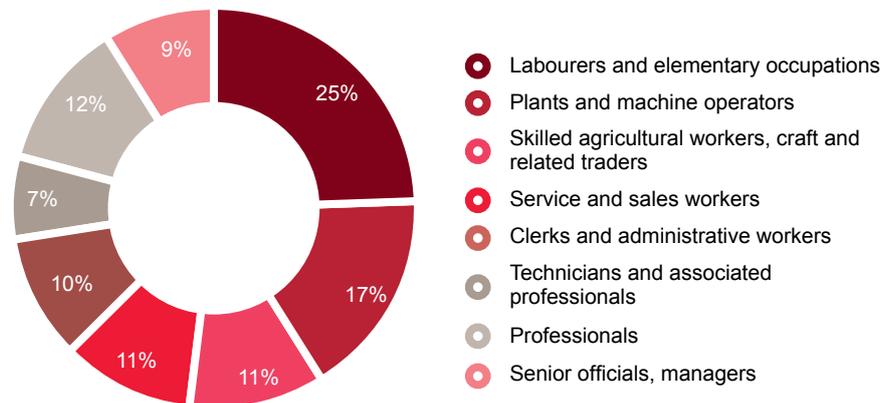
The average annual skills levy for wine cellars participating in the survey is R38 400.

The majority of training programmes are aimed at the category for labourers and elementary occupations (see the graph below). This is often due to the necessity to comply with regulations such as health and safety, ethical trade, etc. There is also the necessity to comply with the BEE (Black Economic Empowerment) scorecard and spend on training black employees. The largest percentage of staff in this category is in most cases black people – therefore cellars’ spending on training of this staff category often earns them the added benefit of BEE points.

Who have been the main beneficiaries of the skills development programme during the past 12 months?



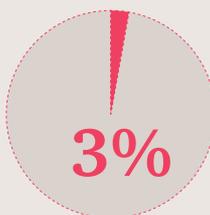
What percentage of the training budget was spent at each of the employee categories during the past 12 months?



The biggest percentage of the training budget was also spent on training employees in the category for labourers and elementary occupations, followed by the category for plant and machine operators. Interestingly enough, this is also the category that has the highest turnover of staff. It is a pity that such an investment in the training of employees is lost through staff leaving the company.

A possible motivator for the trend towards more training at lower occupational levels is that training programmes aimed here are more easily accessible and often less expensive than training programmes for managerial levels. It is, however, promising to note that 58.8% of participating cellars indicated that they had training programmes for senior and top management levels.

A quick glance at BEE



For the purposes of the BEE scorecard, cellars should spend 3% of their leviable amount (total salaries and wages) on training of black people.

R34 800

Average skills levies for participating cellars

R3 480 000

Therefore, average leviable amount

R115 200

Average target for cellars for skills spend on black employees on the BEE scorecard

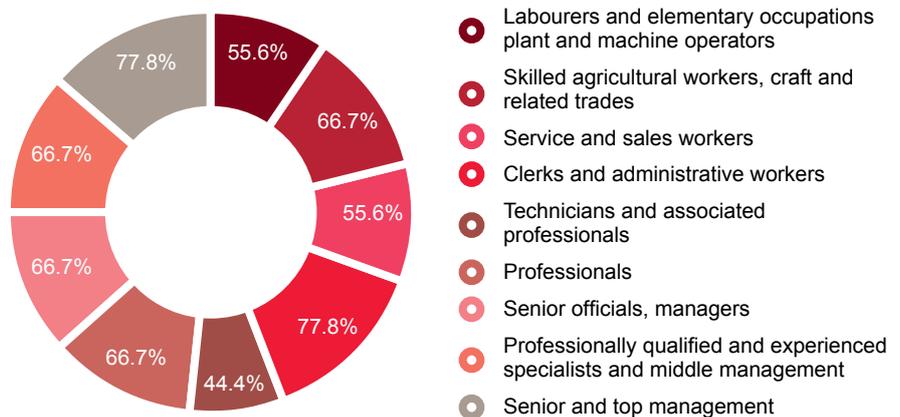
It is interesting to note the typical priority training needs at each level of employment:

| | |
|---|--|
| Senior officials and managers | Leadership, discipline, strategic training, financial, professional sector training |
| Professionals | Management, leadership, professional sector training, soft skills training, management practice and time management, impact of actions on rest of business |
| Technicians and associated professionals | Health and safety, job-specific |
| Clerks and administrative workers | MS Office, job-specific, conflict management, computer and logistical, sector-related, soft skills training, marketing, management practice and time management, wine academy |
| Service and sales workers | Job-specific, front-of-house, marketing |
| Skilled agricultural workers, craft and related trades | SKOP, fire training, monetary skills |
| Plant and machine operators | Job-specific, arc welding, work instructions, GMP, policies, health and safety, life skills, SKOP, first aid, driver's licenses, monetary skills |
| Labourers and elementary occupations | Soft skills, job-specific, supervisor skills, SKOP, work instructions, GMP, policies, first aid, forklift, cellar machinery, health and safety, driver's licenses, monetary skills |

5.4.4 Performance management

In 2014, 52.9% of participating cellars indicated that they had a performance management system in place, in line with the 2013 response. Participating cellars indicated that their performance management systems were directed at all levels of the company, as indicated below:

To what categories of employees does your performance management system apply?



Of the cellars indicating that they do not have a performance management system in place, only 12.5% plan to implement such a system in the next year. The biggest challenges to employee performance are listed below:

Biggest challenges to employee performance (not in order of importance)

- Shortage of staff
- Economy of scale – small company
- No incentive or motivation structure
- Skills levels of employees not sufficient
- Keeping employees motivated (especially temporary staff)
- Not always able to provide monetary reward
- Lack of measurable KPIs
- Fair and consistent evaluation
- Time management
- Literacy
- Employees have to be all-rounders and do different jobs – not easily measureable
- Language barriers
- Lack of experience in senior management
- Statutory admin takes up too much time
- Moving out of comfort zones

The 2013 survey highlights the following interesting trends in performance management:

94.1% *of respondents indicated that employees had clearly defined job descriptions*

94.1% *of cellars indicated that their employees understood their own contribution in terms of the organisation's overall performance*

76.5% *of cellars indicated that they incentivised their employees for outstanding performance. (This figure increased significantly from 2013.)*

94.1% *of cellars felt that they awarded fair and competitive compensation according to industry standards*

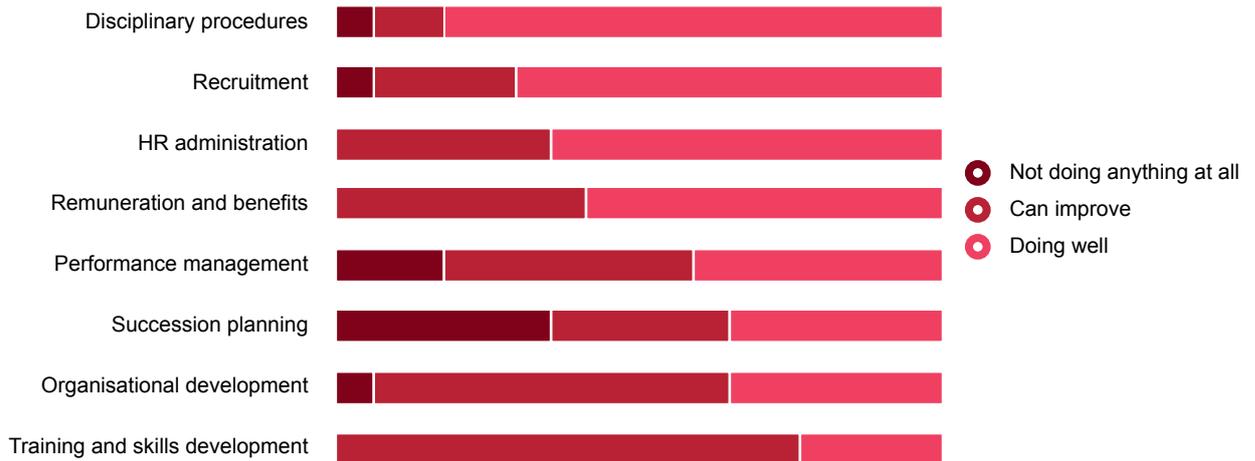
41.2% *of cellars indicated that they boosted staff morale with non-monetary measures*

It is evident from the results of the survey that employees do understand how their own performance (as per their job descriptions) ties in with organisational goals, but that there are not sufficient incentive schemes for exceptional performance. Most cellars indicated that performance management was difficult to implement due to the size of their staff complement being relatively small at this point. Individuals have to be all-rounders and it is thus difficult to quantify and measure performance. It is important to note, however, that the motivation of staff can happen through more methods than merely increased remuneration, and these should be further explored.

5.4.5 Your HR practices rated

It is interesting to see in the graphs below which HR practices cellars currently feel they are doing well at and which practices they would like to improve. The more transactional / administrative functions such as remuneration, disciplinary procedures and HR administration are highest on the list of current best practice. The more strategic functions, such as succession planning, organisational development and performance management, which are not currently perceived as the most successful HR practices, are also high on the wish list for improvement.

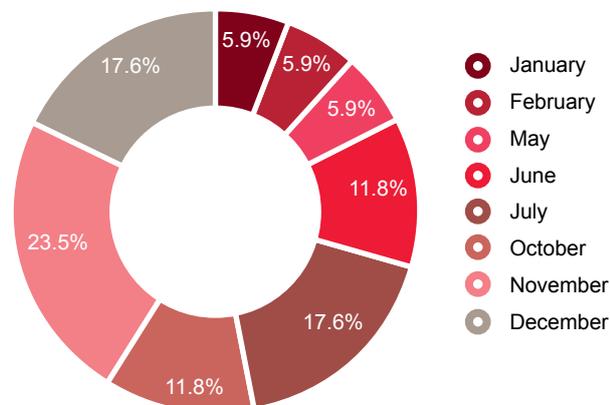
Please rate your HR practices:



5.5 Remuneration

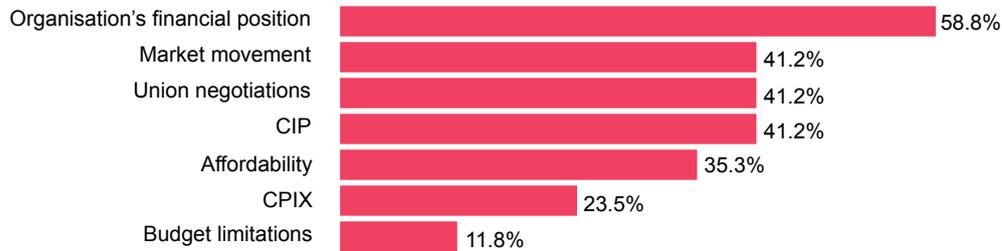
The graph below illustrates the months in which salary increases are awarded by the participating cellars. 23.5% of cellars award increases in November, 17.6% in December and 17.6% in July.

During which month does your business grant annual salary increases?



The basis on which salary increases are determined differs substantially from one cellar to the next, and cellars could provide more than one option to this question. The result is that 58.8% of cellars indicated that they were driven by their financial position, 41.2% by market movement and union negotiations, and 20% by CPI.

What basis is used for granting salary increases?



| Increase for last 12 months | % |
|-----------------------------|-------------------------------------|
| Basic salary | 6.64% |
| Total package structure | 12.59% (double the figure for 2013) |

| Increase for next 12 months | % |
|-----------------------------|-------------------------------------|
| Basic salary | 6.64% |
| Total package structure | 12.59% (double the figure for 2013) |

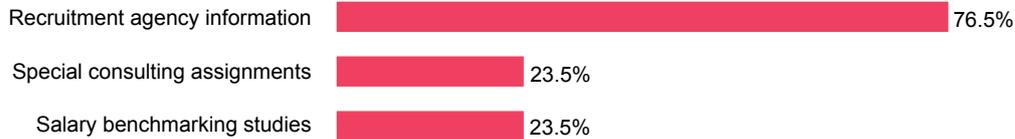
64.7% of participating cellars indicated that they provided bonus/incentive schemes to employees. Of this group, 90.9% of cellars indicated that senior and top management were eligible for incentives and only 36.4% that the bottom two categories were eligible. 58.8% of the group of cellars that provided incentives from time to time had done so in the last 12 months (an increase of 12% on the previous year).

Which categories of employees are eligible for incentives/performance bonus payments? Provide us with the percentage of their total package that they receive as bonus:



Most cellars (76.5%) indicated that they used recruitment agencies as a point of reference for remuneration.

What is used as reference to determine remuneration for example salary increases, recruitment and promotions?



76.5%

of cellars follow alternative practices to the Department of Labour's minimum rates of pay

64.7%

of cellars focus not only on market benchmark but also on experience and qualification when determining remuneration

5.6 Summary

The 2014 HR component of the Wine Industry Insights Survey has once again proved to provide a very good overview of practices in the industry. The key elements are highlighted below:

- More and more cellars are setting up a dedicated HR function instead of outsourcing this component of the business.
- The majority of wine cellars indicate that they focus on strategic rather than merely transactional activities. However, they still feel that they are doing better at the transactional activities and want to improve performance in the strategic areas.
- The average turnover rate for participating cellars is 14.5%, and by far the greatest turnover of staff is experienced in the category of labourers and elementary occupations.
- The two main reasons for staff leaving are better opportunities elsewhere and dismissals.
- The ages of employees range roughly between 32 and 42 years.
- 45% of cellars have a succession plan in place, and it is promising to note that succession plans are not limited to the senior levels.
- The most effective methods of advertising for recruitment purposes are still recruitment agencies and newspapers.
- 95% of the participating cellars have a properly implemented skills development programme in place that is aligned to their business strategy.
- The average annual training budget of cellars for 2014 is R38 000, compared to R50 830 in 2013.
- The majority of respondents indicated that they were registered with the AgriSETA. Two responding cellars are registered with the FoodBevSETA.
- The average annual skills levy for wine cellars participating in the survey is R38 400.
- The biggest percentage of their training budget was spent on training employees in the category of labourers and elementary occupations.
- 94.1% of respondents indicated that employees had clearly defined job descriptions.
- 76.5% of cellars indicated that they incentivised their employees for outstanding performance.
- 41.2% of cellars indicated that they boosted staff morale with non-monetary measures.
- The HR practices that are currently rated the highest in terms of cellars' performance are disciplinary procedures, recruitment and HR administration.
- Improvement is needed (as perceived by cellars) in the areas of skills development and organisational development.
- The average % bonus paid to employees of wine cellars as per the total package structure doubled from 2013 to 2014, reaching 12.59%.

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