

TAKING TRANSFORMATION FORWARD

IN THE
SOUTH AFRICAN
WINE & BRANDY INDUSTRY

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EXECUTIVE SUMMARY

The South African wine and brandy industry has in the past two decades come a long way towards increasing its focus on transformation initiatives as a way to take the industry forward and improve the lives of its people.

This includes setting up strategies, structures and funding to enable enterprise development, learning and development, as well as social investment initiatives.

Valuable lessons are to be learnt from a number of success stories and case studies on the respective fronts, as outlined in this document.

VinPro realised the importance of incorporating transformation into business models nearly ten years ago when the organisation established a Transformation Desk with a dedicated manager to provide advice to existing producers and cellars, as well as new entrants.

This and other research formed part of new strategic frameworks under the Wine Industry Strategic Exercise (Wise), as well as discussions by the Wine Industry Value Chain Round Table (WIVCRT).

Collaboration between industry, government and labour will be key in driving transformation going forward.

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VINPRO is the representative organisation for close to 3 500 South African wine producers and cellars. It is their mouthpiece in dealings with Government and relevant industry forums, and renders specialised services to its members.

The VINPRO FOUNDATION is a non-profit organisation which aims to develop, support and improve the sustainability of the wine industry and related stakeholders. It was established by VinPro, focusing on three critical development areas, namely ethical trade, training and socio-economic development.



SNAPSHOT

Vital statistics outlining the scope of the South African wine industry:

98 597 ha	area under vines (excluding sultana & table grapes)
1.38 m	tons harvested
1 071 m	litres produced
4.1%	of the world's wine production
8th	largest producer of wine globally
83.4%	used for the production of natural/drinking wine
424.7 m	litres wine consumed in the domestic market (57%)
420.1 m	litres wine exported (43%)
4.0%	of the world wine exports
289 151	employment opportunities supported by the wine industry
R36.1 bn	annual contribution to national GDP (1.2%)
R4.79 bn	primary wine producer income
R5.78 bn	state income from VAT and excise on wine industry products

3 232 WINEGRAPE PRODUCERS

Tons	Number of producers
1 – 100	1 230
>100 – 500	1 168
>500 – 1 000	426
>1 000 – 5 000	395
>5 000 – 10 000	12
>10 000	1

566 CELLARS

	48	Producer cellars
	494	Private cellars
	24	Producing wholesalers
Tons	Number of cellars	
1 – 100	244	
>100 – 500	153	
>500 – 1 000	55	
>1 000 – 5 000	59	
>5 000 – 10 000	14	
>10 000	41	

INDUSTRY STRUCTURE

The South African wine industry has a rich history spanning 360 years since founding father, Jan van Riebeeck, made the first wine from grapes on local soil. Ever since, the industry has grown into a strong global competitor, with world-class practices, research and technology, leading marketing strategies, distribution channels and efficient information transfer.

While various forces impacted the industry over the years, currently, the South African wine industry is driven by a structure dedicated to supporting producers, cellars and the broader industry to ensure a sustainable industry going forward. At the helm are two organisations, namely VinPro and Salba (South African Liquor Brandowners' Association), which work closely together to ensure that the industry is well represented both internationally and locally and that it engages government in meaningful discussions.

VINPRO

VinPro represents close to 3 500 primary wine growers, producer cellars, as well as estates and private cellars. Apart from member-specific services, information transfer and a dedicated training and development division, the organisation also liaises and lobbies with Government on various regulatory issues.

SALBA

Larger manufacturers and distributors of liquor products – which include wine, brandy, RTD's and others – are represented by Salba, a non-profit organisation which acts on behalf of its members on areas of common interest.

At the same time, three regulated business units, namely Sawis, Winetech and Wosa – which to a large degree share directors and representatives with VinPro and Salba – are tasked to service field-specific wine industry focus areas. The former two derive their funding from a statutory levy for production related information and research on all domestic production. Wosa, in turn, is funded by a levy proportional to members' volume exports.

SAWIS

As its name suggests, Sawis (South African Wine Industry Information and Systems) is mandated to collect, process and disseminate industry information and statistics, and to manage the Wine of Origin scheme which regulates the legal certification of wines.

WINETECH

Research, training and technology transfer is Winetech's (Wine Industry Network of Expertise and Technology) mandate, encouraging the production of quality grape-based products through best technologies and environmentally sound practices. This business unit acts as an intermediary between industry's research needs and research bodies, feeding back results through an integrated technology transfer programme.

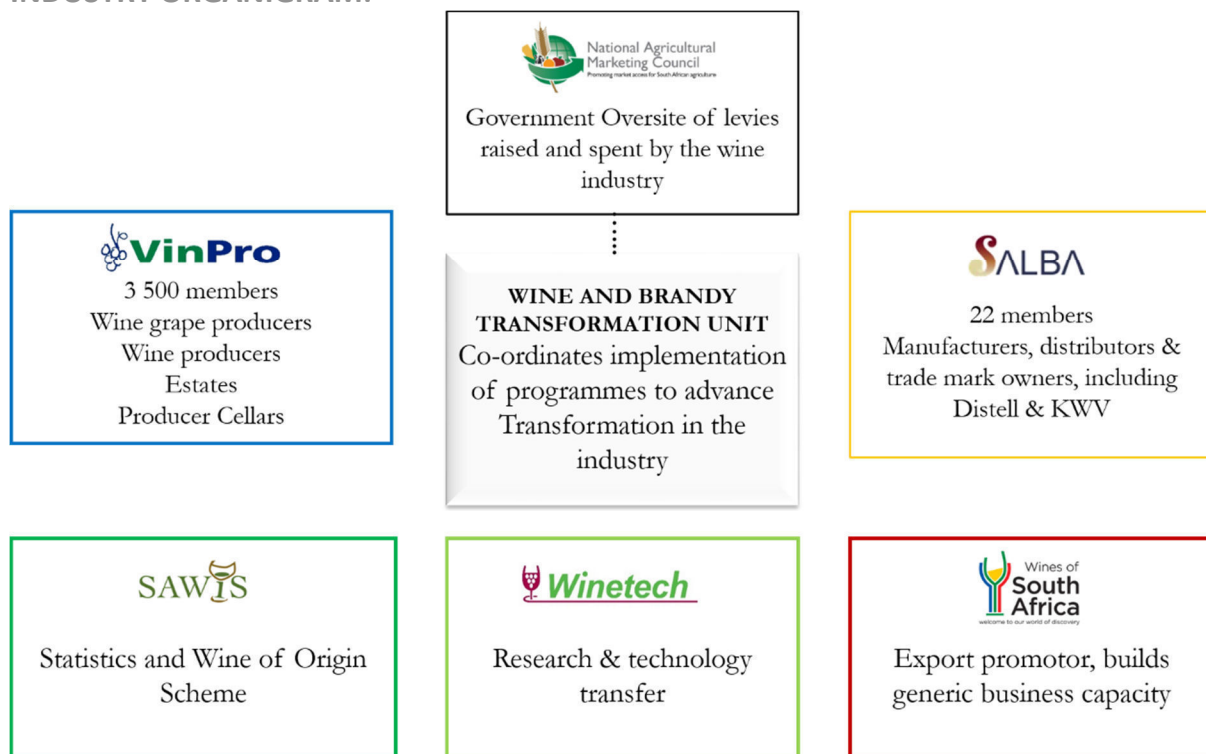
WOSA

Wosa (Wines of South Africa) is the promoter of South African wines' image abroad, with representation across the globe. Its main focus being generic marketing, Wosa's actions include research and frequent communication to exporter-members, liaison with international wine media and other export-related stakeholders, as well as participation in major wine expos world-wide.

TRANSFORMATION UNIT

A percentage of the statutory levies managed by these three business units is allocated to transformation. A dedicated Transformation Unit oversees the management of these funds and initiatives.

INDUSTRY ORGANIGRAM:



OVERVIEW OF TRANSFORMATION

The South African wine and brandy industry views transformation as a key priority to ensure sustainable growth going forward. The current status of broader industry efforts to support transformation include:

CREATION OF DECENT JOBS

- The SA wine and brandy industry currently employs around 290 000 people.
- The industry's labour to capital ratio – meaning the amount of jobs created per R1 million invested – is at 4.64, which exceeds the agricultural average of 4.54, as well as that of the national economy at 2.94. (latest available figures 2014)
- At least 20% of industry funds obtained through statutory levies – at a value of around R22 million – are reserved for transformation efforts, which are coordinated by a Transformation Unit.

ETHICAL TRADE

- Fairtrade: South Africa boasts impressive ethical certification figures as the world's foremost producer of Fairtrade wine. South Africa produces more than 66% of all wine sold globally under the Fairtrade label.
- Wieta: The home-grown Wine Industry Ethical Trade Association (Wieta) has made significant progress, with 41% of the total South African wine production audited according to international ethical labour standards. Around 45 000 workers benefit from their employers being Wieta accredited.

SOCIAL INVESTMENT

- CSI expenditure: more than R38 million (latest available figure 2014)
- CSI projects: 232 (latest available figure 2014)
- The Industry Association for Responsible Alcohol Use (ARA) runs projects through which, in 2015:
 - 980 farm residents received counselling
 - 886 children were monitored at child development and aftercare facilities
 - 62 crèche and aftercare workers were trained
- Housing, farmworker development, basic health care, sport and cultural activities are some of the other initiatives that the industry invests in.
- Foundation for alcohol-related research (FARR): R1.2 million invested; 369 people involved in an intensive rehabilitation programme

TRAINING

- Some of the really meaningful industry efforts include significant investment in training, with 775 vineyard and 300 cellar workers at NQF 1 level receiving training.
- Apart from formal education, new entrants to the world of viticulture and oenology are also trained and mentored through, inter alia, the Pinotage Youth Development Academy (PYDA) and the Cape Winemakers' Guild (CWG) Protégé Programme, a mentorship programme for new graduates in viticulture and oenology.

ENTERPRISE DEVELOPMENT

- At present there are at least 44 black economic development initiatives wine grape properties, representing an estimated 2 500 ha, at an average market value of R200 000 per hectare. Though the exact percentage of black ownership is unclear, since some vineyards are also owned by companies and businesses. In total, the industry has about 100 000 hectares planted to vines, which means that broadly speaking 2.5% of vines are under black ownership.
- There are at present around 37 black-owned wine brands in the industry.
- Support from industry to these businesses include advice in viticulture and a black economic empowerment (BEE) desk, which has a strong focus on enterprise development.



IT NOT ONLY TASTES GOOD

South African wines are lauded globally for their outstanding quality and distinctive character. Remarkably, they not only taste good, but make a significant contribution to the economy and provide thousands of jobs. As a world leader in ethical and environmental sustainability, the social development supported by the wine industry is as impressive as the wines it produces.

CORPORATE SOCIAL INVESTMENT

\$ Spend R38 308 972* **gears** Projects 232*



(2015)

980

FARM RESIDENTS
COUNSELLED

886

CHILDREN MONITORED
AT CHILD DEVELOPMENT
& AFTERCARE FACILITIES



62

CRÉCHE &
AFTERCARE
WORKERS
TRAINED



620 129 tonnes
CERTIFIED WINE GRAPES



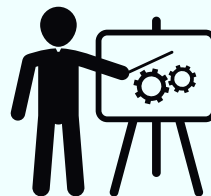
BENEFITING
WORKERS 45 000 (2015)

farr R1.2 million
INVESTED
foundation for
alcohol related research

INTENSIVE REHABILITATION 369
PROGRAMME: **persons involved**



SOUTH AFRICA'S SHARE OF
FAIRTRADE GLOBAL WINE
PRODUCTION



ACCREDITED FARM 775
WORKER TRAINING: WORKERS
JUL 2015 - JUN 2016

**JOBS CREATED PER
R1 MILLION
INVESTED** National economy 2.94*
Agriculture 4.54
Wine Industry 4.64



44 **BLACK ECONOMIC
Empowerment projects**
BLACK OWNED WINE BRANDS 37

WIETA IS THE WINE AND AGRICULTURAL SECTOR ETHICAL TRADE ASSOCIATION.
*LATEST AVAILABLE FIGURES (2014)

VINPRO REPRESENTS 3 500 WINE PRODUCERS & CELLARS.

GROWING TOGETHER: WISE AND THE WIVCRT

Fast-tracking transformation initiatives in collaboration with Government forms an integral part of the SA wine and brandy industry's growth path going forward.

WINE INDUSTRY STRATEGIC EXERCISE (WISE)

In 2014 the Wine Industry Strategic Exercise (Wise) kicked off a collaborative effort between various roleplayers throughout the wine and brandy industry value chain through which a framework was developed towards an adaptable, robust, globally competitive and profitable South African wine and brandy industry.

The main targets are:

WISE TARGETS		
2015	TARGET	2025
2%	Producer return on interest	CPI + 5%
Production driven	Business model	Market and value chain driven
1.5%	Black-owned land & water	20%
330 million litres	Local wine sales	430 million litres
60:40	Exports: bulk vs packaged	40:60
20%	Ethically accredited volume	100%
2 Free trade agreements	Market focus	Agreements for key markets
1%:2%:5%	Export volume to key markets USA:China:Africa	7%:7%:10%
R6 billion	Wine tourism	R15 billion
R80 million:R11 million	Industry:Government levies	Matched funding
275 000	Employment levels	375 000

This roadmap driven by VinPro, Salba, Sawis, Winetech and Wosa identified six work streams which cover key aspects for development, namely:

1. Socio-economic development and upliftment
2. Economic empowerment and development
3. Market development and promotion
4. Knowledge and information transfer
5. Technology innovation and transfer
6. HR development and training

These work streams resulted in 10 new projects, of which the following are of specific interest here:

Creating a Transformation Plan for the Industry

For real transformation to take place, proper research had to be conducted on compliance levels of wine value chain players. A comprehensive transformation plan has been compiled for the wine and brandy value chain, indicating intent, quantifying timelines and setting targets.

Learning & Development Implementation Plan

Development of human capital plays a significant role in improving the sustainability, competitiveness and robustness of the wine industry going forward, particularly given the need to create career paths in the industry. PricewaterhouseCoopers (PwC) has prepared a Learning & Development Strategy for the industry, which makes a number of recommendations. The aim of this specific Wise project is to implement the most pressing of those recommendations and create an enabling environment for the other recommendations to be addressed within the structures created. The Plan includes an integrated Learning Management System for the industry and is linked with the targets for skills development included in the Transformation Plan.

Forming a Social Compact between Industry, Government and Labour

Considered as the envelope that ties together Wise, a social compact is an agreement among the members of an organised society or between the people and the government which covers a specific topic. This will be achieved through multi-stakeholder roundtable discussions about the key Wise work streams. In the case of the Wine Social Compact, the parties involved are Industry, Government, Labour and Civil Society and takes the form of the Wine Industry Value Chain Round Table (WIVCRT).

The strategic framework is being finalised and the respective projects implemented through the course of 2016.

WINE INDUSTRY VALUE CHAIN ROUND TABLE (WIVCRT)

The WIVCRT is a partnership between government, the wine industry as well as labour and civil society groups. It was established in 2015, led by the National Department of Agriculture, Forestry and Fisheries (DAFF), as part of the National Development Plan (NDP) and Agricultural Policy Action Plan (APAP).

The aim of the WIVCRT is to foster collaborative industry-government actions that help to secure an enduring competitive advantage for the wine industry. The WIVCRT is envisaged to involve all critical role players within the entire wine value chain.

The WIVCRT will, amongst other things, influence policy and strategy development, contribute to the development of joint solutions to respond to industry challenges, provide a platform to jointly address food safety, employment and labour issues, jointly advocate for market access and improved trade conditions and guide and direct scientific research.

The key priorities and working groups are:

1. Transformation
2. Global Trade
3. Local Market and Wine Tourism
4. Research, Development and Innovation
5. Resources

These working groups are closely aligned with the Wise projects and objectives.

READ MORE ON WISE AND THE WIVCRT AT WWW.WINESOUTHAFRICA.INFO.



KEY INITIATIVES

A number of initiatives flowing from the WISE and WIVCRT work streams are being implemented. Two key initiatives are the Greater Brandvlei Growth Initiative and VinPro Capital.

GREATER BRANDVLEI GROWTH INITIATIVE

The Greater Brandvlei Growth Initiative entails the establishment of additional water pumping infrastructure downstream of the Brandvlei Dam, which could expand irrigated agriculture in the Greater Brandvlei Region by 4500 - 5000 ha.

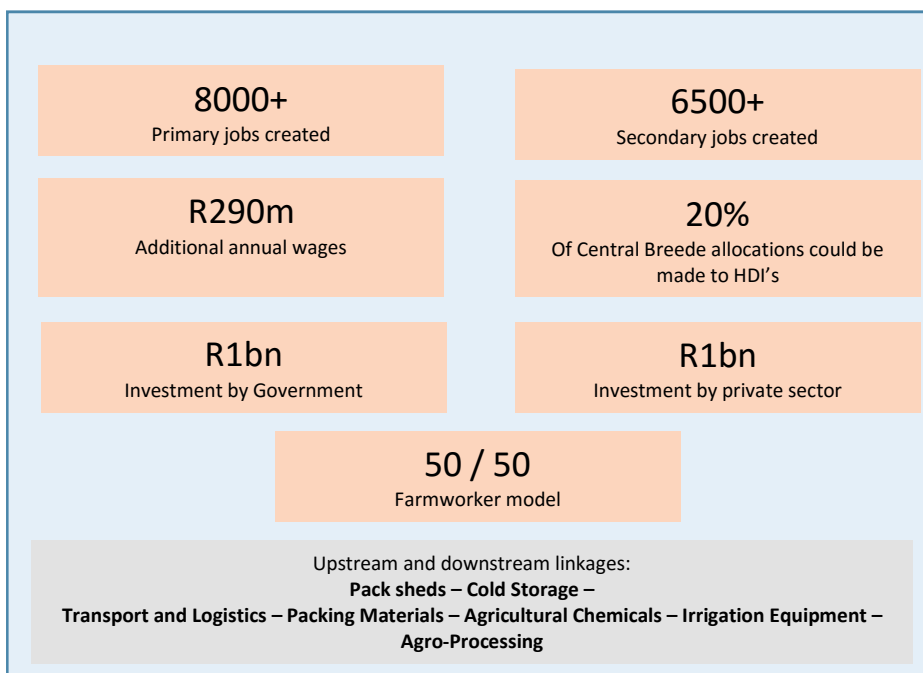
These expansions have the potential to facilitate high-impact agricultural development in the area, specifically in the wine and horticulture value chains, mobilising the resources of commercial agriculture and previously disadvantaged individuals to assist in fast-tracking development in line with the NDP, SIP11, SIP18 and APAP.

WISE provides the ideal basis to determine the market access and structural needs, while the WIVCRT is well positioned to ensure continuous communication with all relevant stakeholders about the thrust and the direction of this initiative.

Enterprises can apply for funding to participate in the Greater Brandvlei Growth Initiative, and serves as an example of a market focused project in partnership with government.

This Project meets the following criteria:

- Adequate strategic analysis through "WISE"
- Alignment with government programmes to create employment
- Buy-in solicited from all relevant stakeholders
- Representative oversight through Industry Round Table and Transformation Unit
- Structure of the industry transformed.



Source: Adapted from Brandvlei Development Plan- Skills Fusion, 2015

VINPRO CAPITAL

There is a growing need to ensure growth-oriented changes in the ownership demography of the wine industry. One of the commonly cited constraints in achieving this need is the misalignment between the requirements of enterprises seeking finance, and the requisite availability of viable credit lending instruments.

VinPro's mandate is to provide technical and advocacy services to its members in order to help ensure their path to sustainability. Various financing houses, such as Capital Harvest, a duly registered service provider operating in the agricultural industry, are seeking ways to work with VinPro to bolster Black economic empowerment in the wine industry's case. VinPro and Capital Harvest have decided to partner in order to offer dynamic solutions to this challenge.

How will it work?

VinPro is entering a working agreement with Capital Harvest, a retail lending institution which implements progressive credit models for Agricultural value chains.

Part of this role is to effect sustainable demographic transformation. In partnering with Capital Harvest, VinPro will provide technical imputes and introduce prospective clients to Capital Harvest. Said prospective clients will primarily include (but not be limited to) existing businesses in the industry seeking to expand their enterprises and to include an element of black shareholding in that expansion. VinPro will add value to Capital Harvest's offering under this agreement, by providing technical inputs into deal preparation as well as in introducing prospective clients to Capital Harvest. Other financial institutions are encouraged to consider similar arrangements.



LESSONS LEARNT

Valuable lessons can be learnt from a number of success stories and case studies on the respective fronts of enterprise development, learning and development and social investment.

LESSONS INCLUDE:

- The farming enterprise should be profitable. All participants should therefore have an expectation of realising a return on capital and on their specific input.
- The enterprise should be feasible in the medium/long term.
- The enterprise should lead to true and tangible empowerment. There should therefore be meaningful ownership, management participation and/or control over the business by the participants.
- The initiative should contribute to the transformation of the agricultural sector and eventually black economic empowerment.

Case studies included here are:

- Bosman Adama – excerpt from presentation to Agri SA Commodity Group, Jan 2016
- Siyakhula – article in WineLand magazine, Aug 2016

EXTENDED LIST OF TRANSFORMATION INITIATIVES:

<http://www.wosa.co.za/Sustainability/Socially-Sustainable/BEE/Introduction/>



Success story demonstrating the advantages of implementing Transformation Initiatives in partnerships with Government

Bosman Adama

- 26% BEE transaction
- 410 ha land (winery, tourism and nursery)
- 60:40 wine business shareholding
- R 28 m LRAD grant
- Nearly R 4m in CASP funding



Net effect of the Transforming Business

- Expanded land owned from 430 ha to 710 ha
- Business has grown 5 fold (from 260 workers to 500)
- Line management comprises 3 black women and 5 black men
- Runner-up Ethical Company of the Year – 2015 “Drinks Business Magazine Green Awards”

Net effect for worker wellness and sustainability

- Bovlei & De Rust pre-schools are operated catering for 92 children
- A renewable energy strategy – Solar and Hydro systems installed
- Strong focus on sport has delivered a number of farm children achieving provincial and even national colours.

Net Effect for Tenure Security

- 120 houses already in place
- 30 planned new houses
- Care programmes and housing is provided for elderly retired workers



SI YA KHU LA!

WE ARE
GROWING!

Passion for wine,
proper mentorship
and skills
development have
been key in building
black-owned
brands. **By Sandile
Mkhwazi**

Several wine producers have joined hands with their farm workers and communities to establish their own wine labels. With third-generation farm workers now on some farms, their needs over time have changed, creating an opportunity for joint ventures and partnerships to ensure the sustainability of the farms. We shine the light on three initiatives that have proved successful despite the many challenges. These initiatives cover the entire spectrum of market share, from local and export markets to the bulk wine market. We focus on their growth and what it takes to achieve their goal – to become the most sought-after wine brands globally.



FAIRVALLEY WINES

On retirement, most farm workers leave the farm that they have dedicated most of their life working at. This was a concern for Fairview owner Charles Back, he therefore made it his mission to acquire land that his farm workers could own and build their own houses.

But acquiring the land came with a financial burden, increasing the need for an alternative income to sustain and manage the newly acquired piece of land, now known as Fairvalley. A farm workers trust was set up to produce Fairvalley wines which are all made for the export market and were first bottled in 1998. "Although it is very challenging to rely on export markets only, the international market is much more open in accepting our wines and listening to our story," Fairvalley marketing manager Enoch Zeleni says.

As part of Fairvalley's growth, the business model was restructured to incorporate Piekenierskloof Wines, which has a 40% stake in the business and manages the production side of the project. The farm workers own the remaining 60% of the Fairvalley Wine Company. Eight houses have been built from the profits and the plan is to focus on education and other projects to uplift and empower workers.



KOOPMANSKLOOF

This was a ground-breaking initiative by the late Stevie Smit, who owned all the wine farms affiliated to Koopmanskloof. With the help of the department of land affairs and managing director of Koopmanskloof, Rydal Jeftha, he transferred ownership to the workers as a form of empowerment. Rydal, born on a farm himself has been at the helm of the business since 2004 and is now in charge of 520 ha of vineyards and a cellar that produces 2.5 million litres of wine a year. Black ownership is currently at 51% and most of the dividends are used to maintain farm workers' houses and invest in their children's education.

The workers now own 100% of the Vredehoek farm and 26% share of the company's operations. The company has Fairtrade accreditation, which has increased its access to the market. In a recent interview, Rydal said he was concerned about the loss of value-added revenue, especially through the sale of bulk wine. Though bulk wine is environmentally praiseworthy, the consequences on the production side have not been positive. He however remains hopeful that with the increase in sales in the local market and other markets such as the rest of Africa and Asia, industry bodies will help the company to expand its footprint.



BAYEDE!

Bayede! is the only royal endorsed wine by a monarch in South Africa. This initiative launched by King Goodwill Zwelithini, the King of the Zulu nation, focuses on entrepreneurial development and job creation. With a stable of products ranging from wine to clothing and jewellery, the brand holistically looks at linking all the products to create the most sought-after African brand globally. Bayede!'s strong point is sourcing quality products from informal business as a way of empowerment, such as traditional beads.

They have a three tier wine portfolio, which has royalty as its unique selling point, The Prince as an entry level wine, King Shaka, Queen Mantfombi and King Goodwill Zwelithini as the mid-level and Bayede! 7 Icon as the premium range. The brand has joint venture agreements with some of the top wineries in the industry for the Bayede! wines which are listed in 200 retail stores locally and 400 abroad. Their wines were also selected for two years in a row for the South African Airways business class and Comair.

Black ownership stands at 52% and current challenges include developing a marketing model for new markets such as China, Russia and Brazil and ensuring sustained marketing support for the off- and on-trade market. w

PARTNERSHIPS

As the organisation representing the broader wine industry, VinPro realises that partnerships are crucial to realise its transformation and development goals. This process particularly necessitates the alignment of requirements in terms of sustainable transformation lending models and VinPro is optimally positioned to provide information and expertise to assist in this process.

VinPro has unique resources in terms of funding, information and an extensive network, including representation on influential national and regional forums. This could particularly be beneficial in terms of the risk of funding transformation and development initiatives.

The VinPro Foundation is actively seeking assistance from the private and public sector in terms of improving the social and economic environment. The Foundation holds a long term view that promotes and encourages partnerships and mutually beneficial relationships.

We therefore invite active engagement with potential partners – firstly, in terms of the alignment of lending requirements needed for sustainable transformation and development initiatives, as well as partnerships and sponsorships for the multifaceted work being done by the VinPro Foundation.





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