PRODUCER AND WINERY REALITIES

SETTING THE SCENE – 21 JANUARY 2016, NEDBANK VINPRO INFORMATION DAY
CHRISTO CONRADIE - VINPRO
- Look at the scoreboard
- Acknowledges the reality... AND the elephant(s) in the room
- Challenge what’s wrong
- Champion what’s right
- The next round is due.....”Let’s talk business!!!!!”

# EXCUSES MUST FALL

We must write the next chapter.....
Merchandising Strategies

- **Calling out Super Premium or Award Winners**
- **Merchandising by Wine Style**
  - Light & Fruity
  - Smooth & Fruity
  - Crisp & Refreshing
  - Soft & Fruity
  - Dry & Refreshing
  - Rich & Full Bodied
  - Medium Fruity
  - Sweet

- **Helpful food matching advice**

- **Merchandising by Promo Mechanic**
  - Half Price
  - £5
  - Buy 2 for £10
  - Save £5

- **Promoting by Wine Style**
  - Champagne & Sparkling
  - Fruity Reds
  - Spicy Reds
  - Rose
  - Crisp Dry Whites
  - Fruity Whites

- **Merchandising Own Label together**
WHY ARE WE HERE TODAY?

**Producer Reality**
- Costs
- Renewal
- Remuneration

**Winery Reality (Management & Board)**
- Net Revenue
- Sales
- Expenditure
- Net Revenue

**Net Revenue per ton of grapes**

**STAKEHOLDERS**
SA WINE CHAIN REALITY

3300 producers
100,000 ha
92 cultivars
1,5 million ton

580 wineries
(50 = 74%)
1,0 billion litres
±80 million surplus

± 40 buyers = 75%

610 exporters
Local Market:
± 8000 SKU’s
(50 brands = 79% of value)
CAN YOU SEE THE TREND?
THE SOUTH AFRICAN WINE INDUSTRY INSIGHTS SURVEY 2015
PRODUCER CELLARS: COMPETITIVE INDEX DRIVERS

- Average age of vineyards
- Infrastructure replacement ratio
- Debt-equity ratio
- Interest cost per ton
- Marketing spend
- Pay-out ratio
- Pay-out tempo
PWC 2014 CELLAR INDEX ANALYSIS
(producer cellars > 10,000 ton)
PWC 2014 CELLAR INDEX ANALYSIS
PRODUCER CELLARS > 10,000 TON

Interest per ton

Payout ratio

Avg age of vineyard
BULK WHITE WINE - BREAKEVEN POINT (AVG. R/LITRE @ PRODUCER CELLAR)

(18.6 tons/ha and 780 litre recovery per tonnage)

- R31,944 per ha or R1,717 per ton (Production Cost)
- R9,691 per ha or R521 per ton (Provision for Renewal)
- R1,225 per ton or R 1,57 per litre (Producer Cellar Cost)

Local 2015 Sales Price
R4,46/litre
BULK PRICE PER LITRE - WHITE (REALITY vs INFLATION)

Break-even point R4,44 per litre
BULK RED WINE - BREAKEVEN POINT (AVG. R/LITRE @ PRODUCER CELLAR)

(12.5 tons/ha and 748 litres recovery per tonnage)

R31,944 per ha or R2556 per ton (Production Cost)

R9,691 per ha or R775 per ton (Provision for Renewal)

R4,556/ton or R6,09/litre

R1,225 per ton or R1.64 per litre (Producer Cellar Cost)

Local 2015 Sales Price
R5,81/litre
BULK PRICE PER LITRE - RED (REALITY vs INFLATION)

Break-even point R6.09 per litre
ASSUMPTIONS: Source: VinPro Production Plan 2015 (23% of Industry) / / NFI(Net Farm Income) = Revenue – Cash expenses – Provision for renewal / / R 21 000 provides for: Entrepreneurial remuneration + Interest on Investment
TOUGH TIMES FOR AUSSIES

Australia: Winegrape Growing Industry Profitability, 2014

Source: WFA (2014)
PRODUCER PROFITABILITY

ASSUMPTIONS:
* Source: VinPro Production Plan 2015
* NFI(Net Farm Income) = Revenue – Cash expenses – Provision for renewal
* R 21 000 provides for: Entrepreneurial remuneration + Interest on Investment
* # Swartland profitable : > R15 500
How concerned are you about the following factors?

- Energy cost
- Consistent supply of electricity/energy (load shedding)
- Labour productivity
- Land reform
- Labour cost
- Ageing vineyards
- Availability of water
- Illicit trade of alcohol
- Volatility in exchange rates
- Changes in regulations and taxes
- Advertising ban on alcoholic beverages
- Availability of key skills
- Ageing infrastructure
- Availability of capital
- New market entrants (global supply)
- Availability of grapes
- Changes in consumer patterns
- Climate change

[Scale: Extremely, Somewhat, Not very, Not at all]
An increase in existing markets and the development of new markets, both locally and internationally, remain at the top of the agenda when CEOs consider growth opportunities.
EXTRA GROUPS - Who are the players?

Cellars

Trade

Negociants

Million litre

2004 2009 2014

0 50 100 150 200 250
“FOR EVERY COMPLEX PROBLEM, THERE IS AN ANSWER THAT IS CLEAR, SIMPLE…
AND MOST PROBABLY WRONG!!!”
CAPE WINE VISITORS

Neal Martin, The Wine Advocate US: “South Africa is heading in a positive direction producing world class wines at the top end. Exciting times for South African wine.”

Simone Madden-Grey, Drinks Business: “Congratulations to Wines of South Africa and all those involved in producing an expertly executed, highly informative and enjoyable event, establishing Cape Wine as an indispensable event on the international wine calendar.”

Hans Bootsma, Ahold Netherlands: “South African industry is in good shape. What impresses me the most is the improved quality and innovation. There is a bright future for South African wines.”

Richard Siddle, UK Journalist: “South Africa is going through a transformation of quality in its wines that is unmatched anywhere else in the world.”

Marius Berlemann, ProWein Messe: “I was so impressed of the show in Cape Town. Very well organized! Again congratulations to everyone who was involved in the organization.”

Tom Cannavan, The Wine Pages UK: “An absolutely outstanding Cape Wine - not only the Fair, but the entire operation around it. I thought Cape Wine 2015 was genuinely one of the most exciting and stimulating wine expos I have ever attended. There was a palpable energy and positivity, and so much information and so many stories to take away.”
BUILD AND LEVERAGE – FAST FORWARD
(COLLECTIVE EFFORT)

- World-class Wines
- Passionate Winemakers
- Beautiful Winelands
- Biodiversity
- Adaptability
- Product Integrity
- Movers & Shakers – Stories to tell

- Positive International Coverage
- Wine Tourism
- Sustainability Seal
- Local Market Potential
- Diversity in Soils/Climate/Geography
- Production Integrity - Ethical
ADDRESSING THE REALITIES :-

- WISE
  * China / USA / Africa
  * Tourism
  * Brand SA
  * Training

- Stakeholder Manager
  - Liquor Act
  - BBBEE

- Transformation Committee

- Energy Guides

- Wine Supply Chain
  - Treasury / Brandy
  - Land Reform
  - DLC's
  - Khulisa - Brandvlei

- Manager
ADDRESSING THE REALITIES :-

National Development Plan (NDP)

via

Wine Industry Value Chain Round Table
(WIVCRT - Governmental Interaction)

underpin by

Wine Industry Strategic Exercise
(WISE)
THE SAME BOILING WATER THAT SOFTENS THE POTATO HARDENS THE EGG.

IT’S ABOUT WHAT YOU’RE MADE OF, NOT THE CIRCUMSTANCES.
MY 2016 RADAR SCREEN ITEMS

- Expect a bumpy ride and some painful moments – “Wine Dakar Race” is not for sissies…mental fitness required
- MUST leverage from “green+++” – local sales, EPA – +50 million litres, 600k ethical tonnage, Brand SA, new markets….
- Status Quo ??? – Business Model/Modus Operandi to be challenged….positive attitude to get better
- Firm partnerships/shareholding upstream in value-chain – ‘up’ our ownership
- Stakeholders to be active players – not merely spectators, but solution-driven
- Cultivar Associations – overarching purpose….‘return-on-effort’ to be volume- and value-driven
- Manage performance with key measurable outcomes – apply and instill ‘wine supply chain principles’
- Tap into technology wisdom
- Benchmark and monitor progress – measure, measure, adjust, fine-tune…..patience with lead-lag-initiatives
- Focus and invest in market and consumer
- Involve external expertise at Board Level
- Liquidity and cash flow – financial partner to be an active business partner
- Involve the young guns and invite the rock stars & zoo biscuits to perform a ‘GIG’ in your den!!!!!
CHANGING THE WINE GAME

- LEARN FROM THE PAST
- LIVE FOR TODAY
- WORK FOR THE FUTURE……
THANK YOU

(PS: Let’s Talk Business)