



FINANCIAL INDICATORS of TOP performing wine grape producers

Primary wine grape producers align inputs with wine objective driven production practices to curb cost increases and apply precision production. By so doing a record crop was achieved in 2014, despite an ongoing decrease in the surface planted to grapevines. **By Pieter van Niekerk & Andries van Zyl**

Wine farmers' income do not comply with sustainable target guidelines yet, but it is nevertheless heartening to note how certain producers in each of the nine wine districts manage annually to do better than these guidelines and realise excellent returns, in view of the risks taken during the season. Part 1 of the VinPro Production Plan Survey showcased the most important findings of the past 10 years, the emphasis being on the 2014 production year. The practices of top achievers are explained in Part 2.

INTRODUCTION

VinPro Agricultural Economic Services, with the support of

Winetech, the National Agricultural Marketing Council (NAMC), Standard Bank, Absa, Land Bank, FNB, Nedbank and Capital Harvest, conducted financial analyses in all nine wine districts in 2014. The primary objective is to ascertain the production structure, cost structure and profitability per district, in order to determine the financial prosperity of the producers.

Altogether 236 farming units from nine wine districts participated in the 2014 Production Plan Survey. In 2014 the sample consisted of 22 117 ha (22% of the total South African surface planted to wine grapes in 2013), who produced 352 209 tons (24% of the total South African crop in 2014). Of these 63% and 37% were white and red wine grapes respectively, and 59% of the tons were harvested mechanically.



Distribution of Top Performers

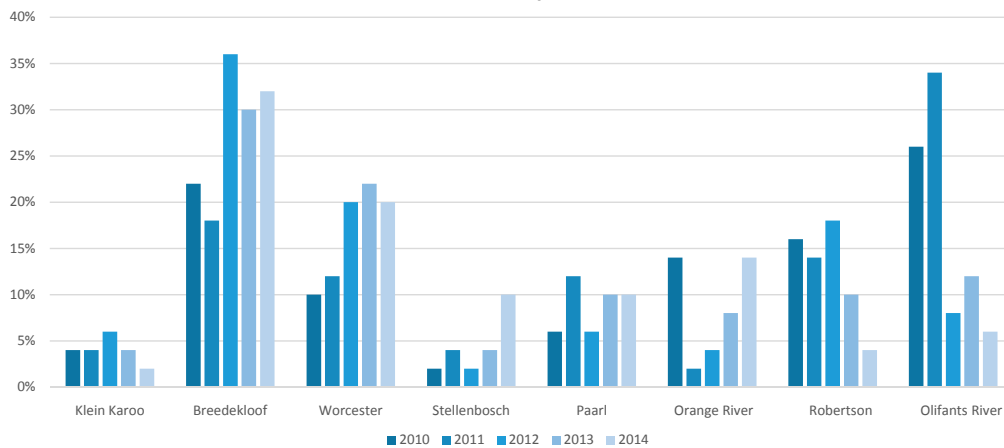


FIGURE 14. Distribution of top achievers in the respective districts.

Composition of Annual Cash Expenditures

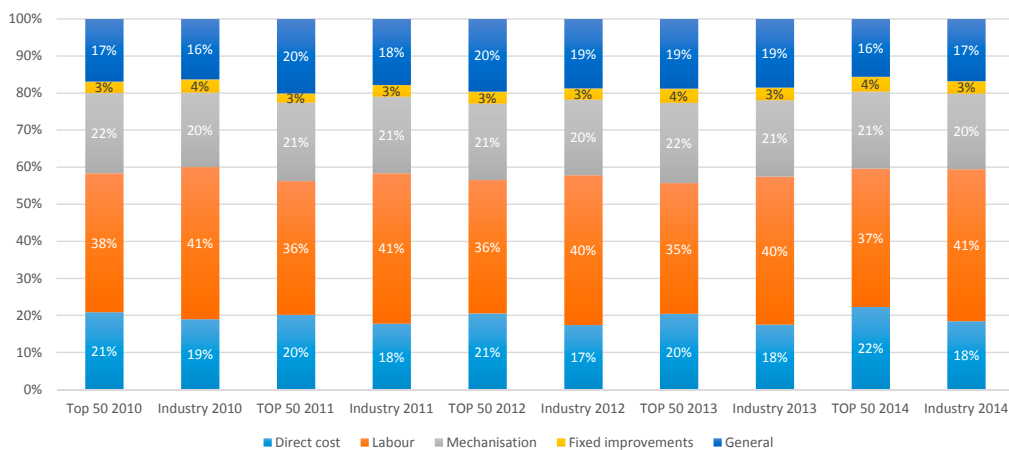


FIGURE 15. Percentage composition of annual cash expenditure – top achievers compared to industry average.

TABLE 4. Statement of income and expenditure of top achievers.

TOP 50 - INCOME & EXPENDITURE STATEMENT	2010	2011	2012	2013	2014
Average price per ton (Rand)	2 056	2 348	2 475	2 724	2 934
Average yield per hectare (tons)	21.69	20.11	22.31	21.95	20.41
TOTAL INCOME (R/ha)	44 601	47 225	55 235	59 797	59 870
minus					
Direct costs (R/ha)	4 039	4 140	4 530	5 063	6 080
Labour (R/ha)	7 265	7 412	7 937	8 751	10 216
Mechanisation (R/ha)	4 193	4 341	4 543	5 369	5 680
Other overheads (R/ha)	3 876	4 643	5 044	5 623	5 359
ANNUAL CASH EXPENDITURES	19 373	20 536	22 054	24 806	27 334
GROSS MARGIN (R/ha)	25 228	26 688	33 181	34 991	32 536
minus					
Provision for replacement (R/ha)	8 269	8 324	8 815	9 509	9 503
NET FARMING INCOME (R/ha)	16 959	18 364	24 366	25 483	23 033

TABLE 5. Production cost comparison between top achievers and industry average.

PRODUCTION COST FOR WINE GRAPES - COST AS RAND PER HECTARE (2010 - 2014 HARVEST YEARS)										
	Top 50 2010	Industry 2010	Top 50 2011	Industry 2011	Top 50 2012	Industry 2012	Top 50 2013	Industry 2013	Top 50 2014	Bedryf 2014
DIRECT COST	4 039	3 921	4 140	3 992	4 530	4 150	5 063	4 670	6 080	5 382
Seed	41	77	65	97	84	107	109	110	133	75
Fertiliser	1 166	1 017	1 155	1 061	1 393	1 221	1 327	1 405	1 577	1 591
Organic material	289	233	346	225	417	242	569	316	779	315
Pesticide control	1 737	1 758	1 661	1 655	1 661	1 639	1 963	1 839	2 310	2 230
Herbicide control	550	544	541	592	552	548	594	589	812	788
Repair and binding material	257	292	373	362	422	393	501	411	469	383
LABOUR	7 265	8 477	7 412	9 111	7 937	9 630	8 751	10 639	10 216	12 001
Supervision	1 244	1 425	1 140	1 593	1 568	1 689	1 648	1 808	1 720	2 039
Permanent labour	4 690	4 920	4 728	5 272	5 092	5 616	5 668	6 076	6 590	6 828
Seasonal labour and contract work	1 331	2 132	1 544	2 246	1 278	2 325	1 435	2 755	1 906	3 134
MECHANISATION	4 193	4 142	4 341	4 633	4 543	4 868	5 369	5 501	5 680	5 952
Fuel	1 553	1 533	1 599	1 726	1 820	2 040	2 350	2 358	2 629	2 613
Repair, parts and maintenance	1 936	1 983	1 976	2 243	2 059	2 136	2 208	2 352	2 334	2 594
Licences and insurance	456	419	507	422	464	460	522	497	532	523
Transport hired	248	207	260	242	199	232	289	294	185	222
FIXED IMPROVEMENTS	602	741	517	707	715	720	953	913	1 095	985
Repair and maintenance	392	540	296	486	488	490	721	635	875	763
Insurance	210	201	221	221	227	230	231	278	220	222
GENERAL EXPENDITURES	3 273	3 367	4 125	3 999	4 328	4 466	4 670	4 936	4 263	4 914
Electricity	1 312	1 339	1 777	1 768	2 269	2 063	2 245	2 287	2 036	2 302
Water costs	790	720	1 060	846	861	931	963	971	803	926
Land, property & municipal taxes	175	177	223	209	172	218	222	257	224	259
Administration	997	1 131	1 066	1 176	1 026	1 254	1 241	1 421	1 201	1 427
TOTAL CASH EXPENDITURES	19 373	20 648	20 537	22 443	22 054	23 834	24 806	26 659	27 334	29 235
PROVISION FOR RENEWAL	8 269	7 937	8 324	8 140	8 815	8 606	9 509	9 080	9 503	9 439
Vineyards	4 304	4 263	4 714	4 725	5 143	5 082	5 509	5 408	5 449	5 388
Fixed improvements	752	730	774	791	910	832	936	880	888	912
Loose assets or production means	3 213	2 944	2 835	2 623	2 761	2 691	3 063	2 792	3 166	3 140
TOTAL PRODUCTION COST	27 641	28 585	28 860	30 582	30 869	32 439	34 315	35 739	36 837	38 674

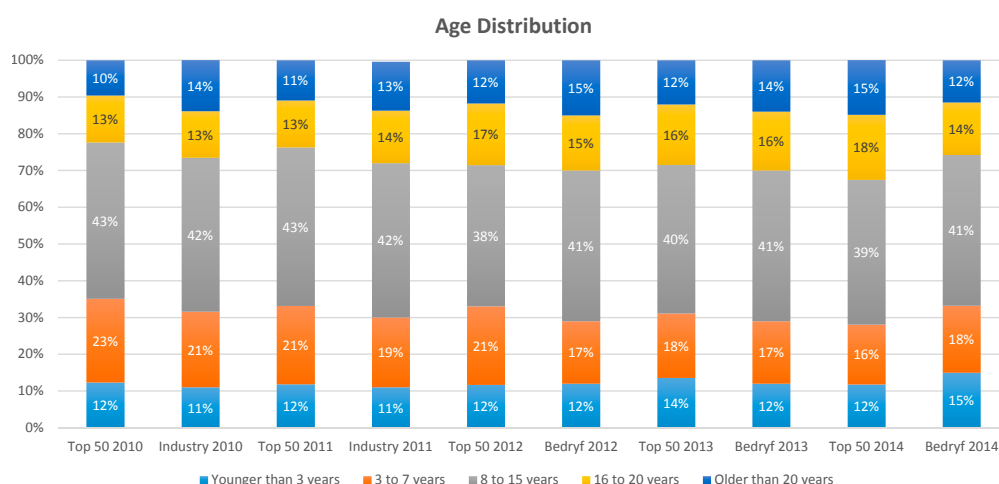


FIGURE 16. Age composition – top achievers compared to the industry average.

TABLE 6. Statement of income and expenditure of the top third, industry average and bottom third.

INDUSTRY 2014 HARVEST	Top Third	Average	Bottom Third
Production (ton/ha)	21.95	17.69	13.14
Income (R/ton)	R 2 655	R 2 682	R 3 061
Income (R/ha)	R 58 265	R 47 457	R 40 224
Production cost (R/ha)	R 37 201	R 38 674	R 49 848
Net farming income (R/ha)	R 21 063	R 8 781	-R 9 624
Return on capital (ROC)	7.13%	1.88%	-6.21%
Cash expenditures (R/ha)	R 27 740	R 29 235	R 40 086
Provision for renewal (R/ha)	R 9 461	R 9 439	R 9 762
Total production cost (R/ha)	R 37 201	R 38 674	R 49 848

Note: This was calculated from the total sample and should not be confused with the top 50 producers according to NFI.

The analysis applies to the vineyard enterprise as a whole (bearing and non-bearing hectares) and in terms of the cost analysis, it does not distinguish between cultivars and specific blocks. The greater majority of the participants are diversified and differ in terms of farm size. The report represents industry average figures, calculated by determining the weighted average of all the participants. The Malmesbury district is evaluated separately throughout and does not form part of the industry average figures, in view of the fact that this study group cultivates a large component of dryland vineyards, which require an alternative production, cost and capital structure.

FINANCIAL RESULTS OF TOP ACHIEVERS

During the 2014 production year the top 50 wine producers in the industry realised a gross income (GI) and net farming income (NFI) of R59 870/ha (industry average R47 456/ha) and R23 033/ha (industry average R8 781/ha) respectively. For the fifth consecutive year this is in line with the VinPro guideline for economic sustainability of R59 874/ha GI and R21 200/ha NFI on average. From 2010 - 2014 the average farm size of the top 50 producers amounted to 61, 72, 84, 74 and 89 ha respectively planted to wine grapes – compared to the industry average of 79, 84, 86, 87 and 92 ha.

It is heartening to note that the top achievers are distributed across the industry and represent all nine wine districts. The noteworthy improvement in NFI of top producers can be ascribed, as in 2013, to considerably higher productions of 20.41 ton/ha compared to the industry average of 17.69 ton/ha – a 15% increase. The average price of R2 934/ton realised by top achievers is 8% higher than the industry average of R2 682/ton.

Top producers' annual cash expenditure (R27 334/ha) is at least 7% lower than that of the industry (R29 235/ha), while the provision for replacement of this group at R9 503/ha is about 1% higher than the industry average of R9 439/ha. Total production cost of the top 50 producers amounts to R36 837/ha, 5% lower than the industry average of R38 674/ha.

The composition of top achievers' cash expenditure does not differ intrinsically from the industry average. The top 50 producers spend more on direct costs, namely fertiliser and pest and disease control and realise that the risk is too large to try and save on direct inputs, which are linked to the size and quality of the crop. Another trend that persists is the extent of mechanisation in order to use labour more productively. This is not only limited to mechanical harvesting of wine grapes, because mechanical pruning is increasingly popular. Even so, some producers still focus their resources on conventional

TABLE 7. Trends in the South African wine value chain since 2004.

	2004	2005	2006	2007	2008	2009
Per 750 ml @ 10% alc/vol for total wine						
Average RSP - Total wine	R 10.10	R 11.31	R 12.05	R 12.32	R 12.88	R 13.82
Average RSP - Brandy	R 50.78	R 55.95	R 59.43	R 66.03	R 71.31	R 79.35
Excise - Wine	R 0.88	R 1.06	R 1.19	R 1.29	R 1.37	R 1.49
Excise - Brandy	R 14.48	R 16.17	R 17.81	R 19.67	R 21.84	R 25.05
Ave bulk wine price - All varieties	R 2.66	R 2.54	R 2.54	R 2.51	R 2.56	R 2.88
Ave producer cellars grape price - All varieties	R 1.56	R 1.49	R 1.46	R 1.54	R 1.63	R 2.06
Ave non producer cellars grape price - All varieties	R 4.43	R 3.85	R 3.35	R 3.18	R 3.40	R 4.20
Total annual production cost - VinPro	R 1.55	R 1.60	R 1.49	R 1.52	R 1.55	R 1.83
Total annual producer cellar cost - Bulk wine - PWC	R 0.52	R 0.69	R 0.62	R 0.74	R 0.78	R 0.87
Net farming income	R 1.00	R 0.45	R 0.40	R 0.37	R 0.39	R 0.43

Note: Average producer cellar grape prices are provisional – 2014; average producer cellar grape prices is an estimate (source: SAWIS). 2014 Annual cellar cost for bulk wine is an estimate (source: PwC).

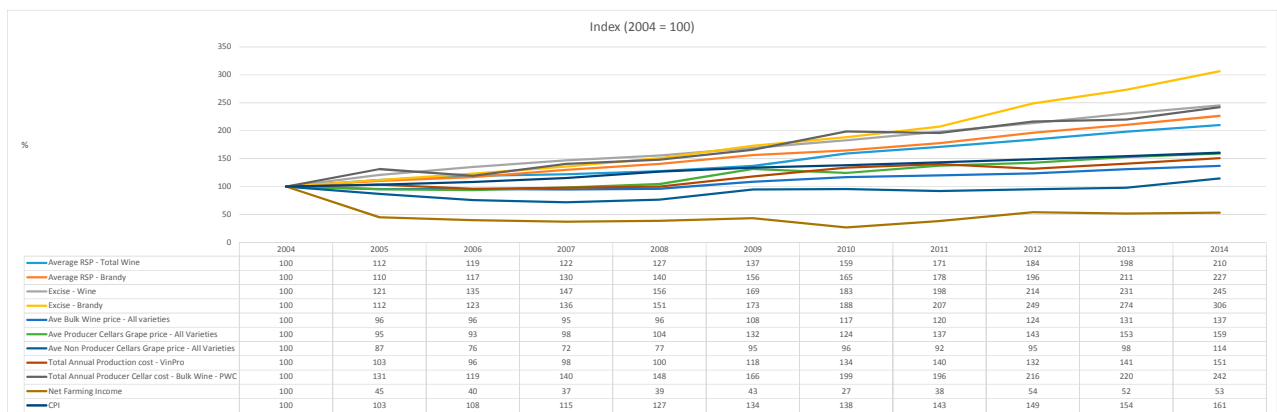


FIGURE 17. Trends in the South African wine value chain since 2004 – taking into account the CPI (Consumer Price Index).

viticultural practices and achieve excellent levels of success.

The difference in the cost structure of the top producers is just one of the drivers that impact on profitability; the improvement in profitability is ascribed to increased productions with an even higher average payout.

Both the top producers and the industry average have an acceptable age composition. It is mostly the top producers who can afford to replace non-profitable grapevines, as well as to diversify, if required, into other more profitable enterprises of the agricultural industry.

TRENDS IN THE SOUTH AFRICAN WINE VALUE CHAIN

Despite a shrinking surface planted to wine grapes, which

has seen a decrease of 413 ha to 99 680 ha over the past year, a record crop of 1 520 096 tons was produced in 2014. The crop has increased by 30% from the 2005 crop of 1 171 632 tons. Primary wine grape producers are still leaving the industry and currently number 3 323, compared to 4 360 in 2005. The 50 producer cellars handle approximately 80% of the annual crop, the balance being handled by the remaining 493 private wine cellars and 21 producing wholesalers.

With 2004 as basis year, Table 7 and Figure 17 illustrate how the financial situation of role players in the wine value chain has changed in recent years.

The following deductions can be made:

- The average increase in the retail price of wine, excise duty and cellar cost still beats inflation over the 11-year period.

					Change (R/750 ml) 2004 - 2014	% Change 2004 - 2014	% Change ave per year
2010	2011	2012	2013	2014			
R 16.07	R 17.30	R 18.61	R 20.03	R 21.21	R 11.11	110%	10%
R 83.60	R 90.17	R 99.68	R 106.95	R 115.01	R 64.24	127%	12%
R 1.61	R 1.74	R 1.88	R 2.03	R 2.15	R 1.28	145%	13%
R 27.28	R 30.00	R 36.00	R 39.60	R 44.35	R 29.88	206%	19%
R 3.10	R 3.19	R 3.28	R 3.48	R 3.64	R 0.98	37%	3%
R 1.94	R 2.15	R 2.23	R 2.39	R 2.48	R 0.92	59%	5%
R 4.23	R 4.07	R 4.21	R 4.33	R 5.06	R 0.63	14%	1%
R 2.08	R 2.17	R 2.05	R 2.19	R 2.34	R 0.79	51%	5%
R 1.04	R 1.03	R 1.13	R 1.15	R 1.27	R 0.74	142%	13%
R 0.27	R 0.38	R 0.54	R 0.52	R 0.53	-R 0.47	-47%	-4%

- Average bulk wine prices and producer cellar grape prices are moving closer to and more in line with inflation.
- Non-producer cellar grape prices are still below inflation and have even decreased at times.
- Production cost at farm level has increased more in line with inflation, the increase in wages being a big driver in the increase.

Primary wine grape producers have limited vertical integration in terms of the wine value chain, therefore they have limited bargaining power, especially in periods of surplus wine stocks, and they remain price takers. Increased production was a forceful driver to increase profitability. Top producers also perform above average with regard to grape prices and they manage costs carefully. It is heartening to see that all nine districts are represented in the Top 50, namely by private grape producers who supply the trade, primary producers at producer cellars and estates. World-wide supply levels have changed dramatically since the shortages in 2012 and primary producers should be thoroughly aware of how this impacts on their business and value chain, and adapt their strategy accordingly to produce wine grapes sustainably.

SUMMARY

It is heartening to see that there are primary wine grape producers in all nine wine districts who manage year after year to fare even better than the VinPro prescribed sustainability guidelines. This shows that production and resources are being aligned with the wine objective and that costs are thoroughly weighed up against the specific output. Economies of scale, diversification, mechanisation and increased production are obvious trends. The biggest factor is management and in many instances it is the owner himself who determines the winning recipe.

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