MARKETS & ECONOMIC RESEARCH CENTRE (MERC)

National Agricultural Marketing Council
Promoting market access for South African agriculture

The cost of grape production and producer profitability: Top performers in difficult times (2011)

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By:

Supported by:

The cost of grape production and producer profitability

Even though the industry average financial situation of producers is not looking good, there are still a number of top performers, despite difficult circumstances. The common denominator for success appears to be high(er) yields (without compromising quality) or high(er) prices – preferably both.

1. Introduction and survey

During the second half of 2011, VinPro's agricultural economists again focused on financial analyses of primary wine producers in all nine wine districts, building on their work of the past seven years, with the support of Winetech, the National Agricultural Marketing Council (NAMC), Standard Bank, Absa, Land Bank, First National Bank and Nedbank. The main objective of the project is to determine both the cost of wine grape production and producer profitability.

Participation in the 2011 Production Plan has increased by 3 %, which brings the total number of voluntary participants to 258 farming units. Altogether 647 producers and role players in the industry attended the 36 study group events, where participants were provided with economic and other relevant information in support of long-term sustainable wine grape production. The sample currently consists of 22 799 ha (23 % of the total South African surface planted to vines in 2010), which yielded 321 052 tons (25 % of the total South African crop in 2011). These plantings consisted of 65 % white and 35 % red grapes, and 54 % of the tonnage was harvested mechanically.

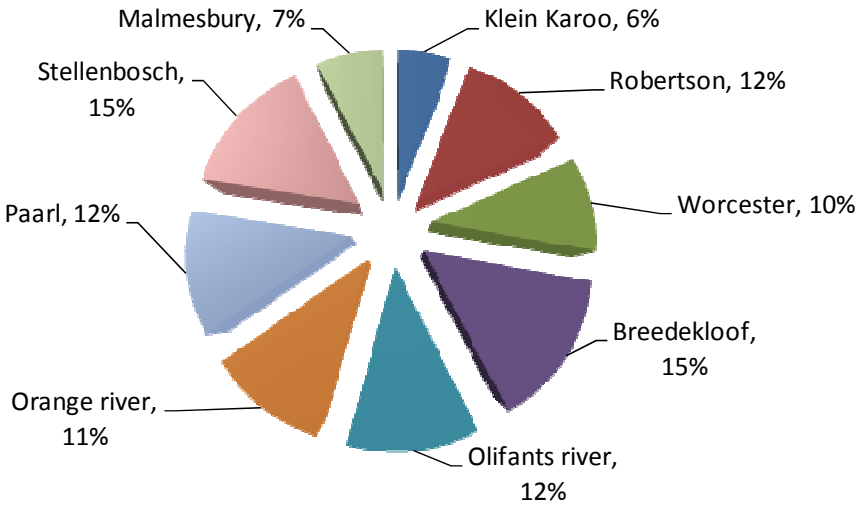

Figure 1: Distribution of 258 participants in the respective wine districts

This report largely represents industry average figures and is further based on a retrospective of the most important findings over the past eight vintages – the emphasis, however, is predominantly on the most recent harvest (2011). Malmesbury district is evaluated separately throughout and does not form part of the industry average figures – a large component of the study group in question represents dry land vineyards, in which case the enterprise requires a different production, cost and capital structure. The evaluations are

not cultivar or block specific – wine grapes are evaluated as a whole. Most of the farming enterprises evaluated differ in respect of farm size, cultivar composition and diversification with regard to other industry branches in the various regions. Numbers are calculated by determining the weighted average of all the participants, the majority of whom have good to above-average management ability.

2. Trends in the South African wine value chain since 2004[1]

Although most role players in the South African wine industry agree that times are tough from a financial point of view, it is clear without any doubt that primary wine producers are struggling more than ever. On the one hand, it is our responsibility as agricultural economists, viticulturists and other role players in the industry to concentrate on the positive and in so doing to learn from each other, or rather from the success stories, but on the other hand, we have to put the facts on the table to help producers take the right financial decisions. In recent years – or more specifically since 2005 – certain producers have been compelled to get out of the industry, or to uproot certain vineyard blocks and replace them with other enterprises. Be that as it may, we all want to earn an acceptable yield on our capital and effort. Our common goal is to be economically sustainable so as to leave our heirs a good investment or running concern.

Many consumers have found themselves in extremely difficult financial circumstances since 2005, when red wine prices crashed as a result of world-wide overproduction and white wine prices showed a horizontal movement or slight increases. Stock levels reached record highs at the end of 2007 and levels exceeded the optimum, and since 2009 there has been a world-wide recession, which has caused consumers to trade increasingly downwards (buy cheaper, not necessarily less). As far as producers are concerned, they still find themselves in a cost-price squeeze because income does not keep up with increases in costs. Uprooting of vineyards in the industry have exceeded plantings since 2005, the replacement of old and non-profitable vineyards is insufficient and so too is capital maintenance of loose assets (tractors, vehicles and implements), as well as infrastructure on farms. The age composition of vineyards in the industry is far from ideal and the age of red vineyards in particular points to possible production problems over the medium term.

The industry is getting smaller and a slightly smaller industry is likely to be a better industry. The question remains: How much smaller and which vineyards will in future not be able to match production with price points? There are currently 3 596 primary wine producers in the SA wine industry (compared to 4 515 in 1999), most of whom deliver and market their grapes to 54 so-called producer cellars (compared to 69 in 1999). These cellars produce or receive between 70 and 80 % of the total wine crop. Most of the wine produced by these cellars is sold in bulk to one or more of the 60 wholesalers, who in turn are represented by a select few large role players and a fair number of smaller role players. The remainder of the total crop is produced by 493 private wine cellars and 26 producing wholesalers.

Primary wine producers are very fragmented. They have very little bargaining power, they are price takers and are too fragmented to integrate lower in the value chain in order to obtain representation or increase their bargaining power. The following table and graph illustrate certain values, as well as indices, using 2004 as the base year, to illustrate how the financial situation of producers has deteriorated over the past few years and what has happened in the rest of the value chain – inter alia as a result of limited bargaining power:

[1] In collaboration with Paite Botha, Manager: Finances, VinPro.

Table 1: Trends in the SA wine value chain since 2004

Per 750 ml @ 10 % alc/vol. of Total Wine	2004	2005	2006	2007	2008	2009	2010	2011	Change (R/750ml) 2004-2011	% Change 2004-2011	% Change avg per year
Average RSP - Total Wine	10.10	11.31	12.05	12.32	12.88	13.82	16.07	17.30	7.19	71 %	9 %
Excise - Wine	0.88	1.06	1.19	1.29	1.37	1.49	1.61	1.74	0.86	98 %	12 %
Avg Bulk Wine price - All varieties	2.66	2.54	2.54	2.51	2.56	2.88	3.10	3.20	0.55	21 %	3 %
Avg Producer Cellars Grape price - All varieties	1.56	1.49	1.46	1.54	1.63	2.03	1.85	1.93	0.37	23 %	3 %
Avg Non Producer Cellars Grape price - All varieties	4.43	3.85	3.35	3.18	3.40	4.20	4.23	4.07	-0.20	-4 %	-1 %
Total Annual Production cost - VinPro	1.55	1.60	1.49	1.52	1.55	1.83	2.08	2.17	0.62	40 %	5 %
Total Annual Producer Cellars cost - Bulk Wine - PWC	0.52	0.69	0.62	0.74	0.78	0.87	1.04	1.11	0.59	112 %	14 %
Net Farming Income	1.00	0.45	0.40	0.37	0.39	0.43	0.27	0.38	-0.62	-62 %	-8 %

Note: Avg Bulk Wine price for 2011 = Jan - Nov. 2009 & 2010 Avg Producer Cellar Grape prices are preliminary - 2011 Avg Producer Cellar Grape price is estimated. Source: SAWIS
2011 Annual Producer Cellar cost for Bulk Wine - Estimated. Source: PricewaterhouseCoopers

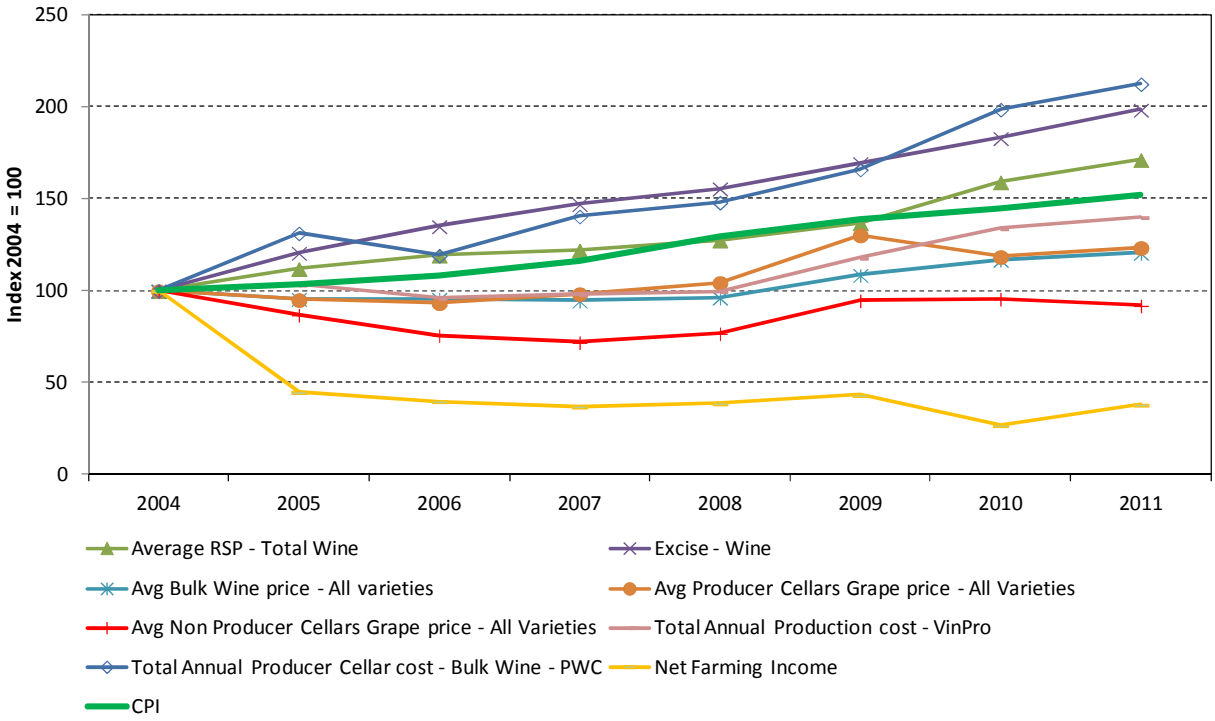

Figure 2: Trends in the SA wine value chain since 2004 – index, taking into account the CPI

From the above the following can be deduced:

- The average retail price of wine, excise and cellar cost increased in line with or even exceeded inflation for the eight-year period under review.
- The average price of bulk wines and producer cellar grape prices did not keep up with inflation and even assumed negative levels in the case of non-producer cellar grape prices.
- Production costs on farm level increased in line with inflation, despite drastic cutbacks in costs by producers. This statistic confirms that the industry avails of top quality producers. On the other hand, some producers cut costs to the bone as a result of cash flow problems, which could also explain why the increase in production costs is less than expected.

The above issues and accompanying statistics confirm the fact that producers are no more than price takers with hardly any bargaining power. These also illustrate and explain why the net farm income for the period under review has decreased by more than 60 % for each bottle of wine produced. Furthermore, we are justified in asserting that the said increases in the value chain are undoubtedly being passed down to the producer, who is worse off than everyone else.

3. The cost of wine grape production

The annual total production cost, excluding tax, interest and entrepreneurial remuneration, consists of two components, namely, cash expenditure and provision for replacement. Since 2010, the industry average total production cost has increased by almost 7 % to R30 582 per hectare in 2011.

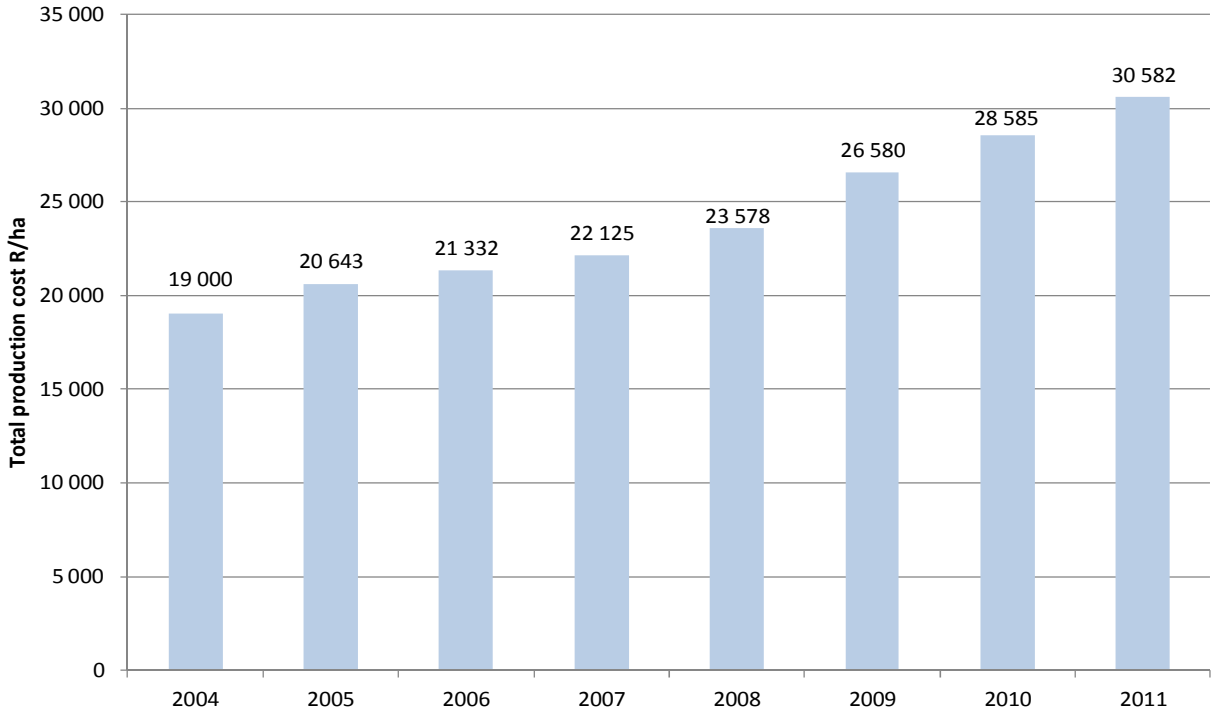

Figure 3: Total annual production cost – industry average

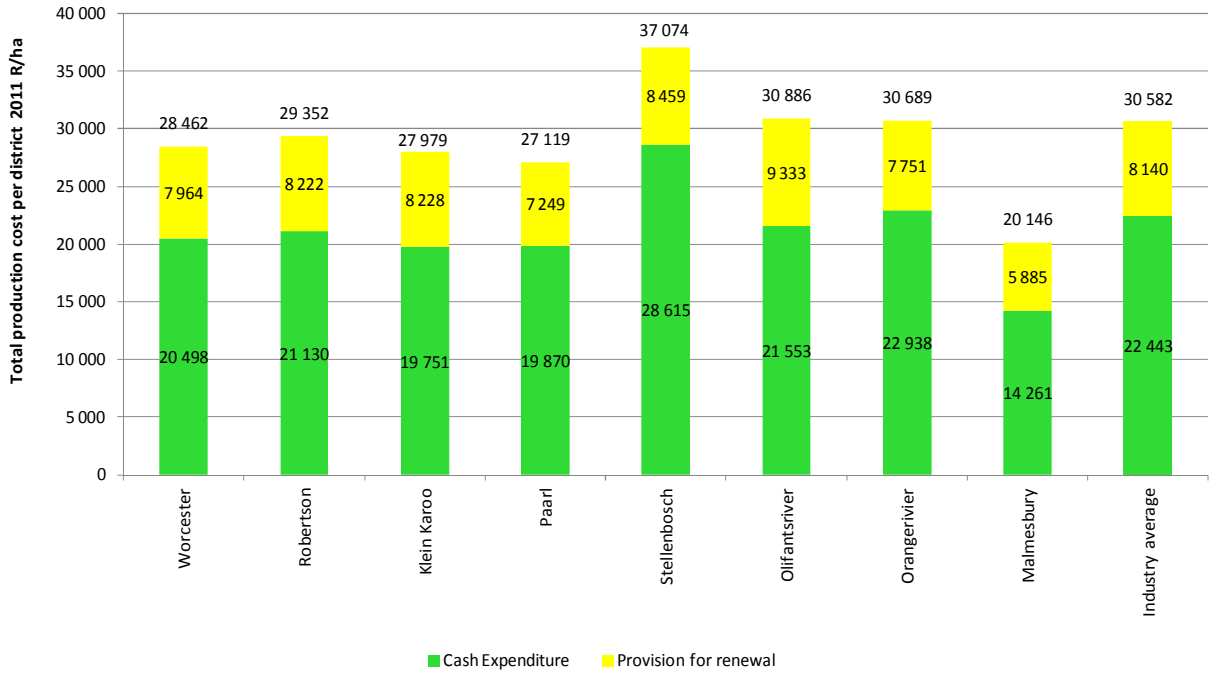

Figure 4: Total annual production cost per district – 2011 vintage R/ha

Cash expenditure

Cash expenditure is categorised as direct cost, labour, mechanisation, fixed improvements and general expenses. Total cash expenditure shows a 9 % increase from 2010, to R22 443/ha for the 2011 production year.

The increase is mostly due to a slightly bigger 2011 crop, as well as exceptionally high increases in the cost of electricity, water tax, reparations and maintenance of tractors, vehicles and implements, as well as fuel prices – all of these have increased by double digits since 2010. Other cost components increased more or less in line with inflation.

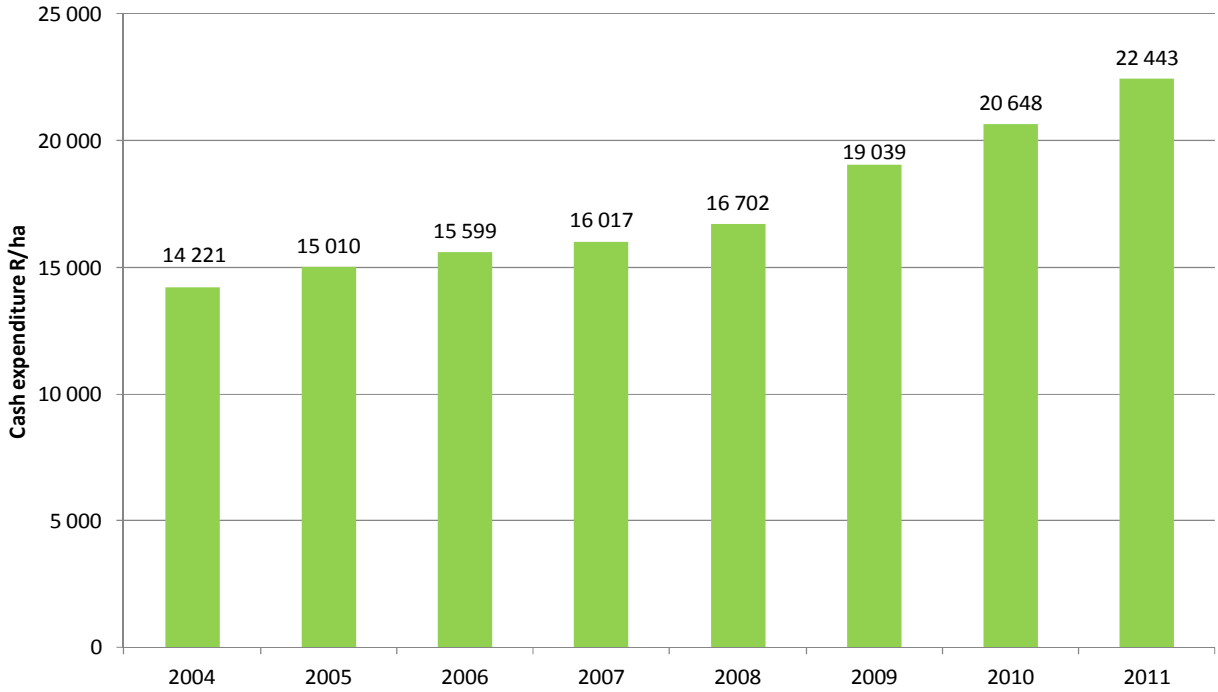

Figure 5: Annual cash expenditure – industry average

The following four graphs illustrate the movement of approximately 80 % of the annual cash expenditure over the past eight years:

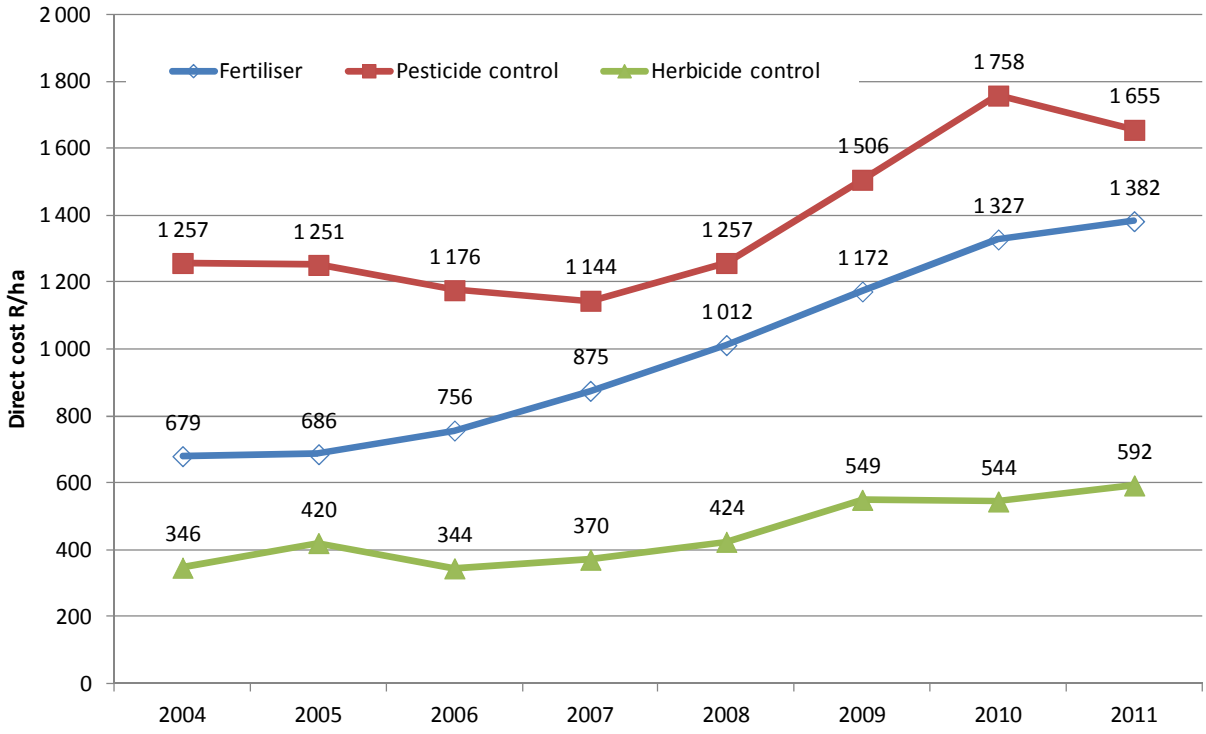

Figure 6: Movement of direct cost – industry average

Figure 7: Movement of labour cost – industry average

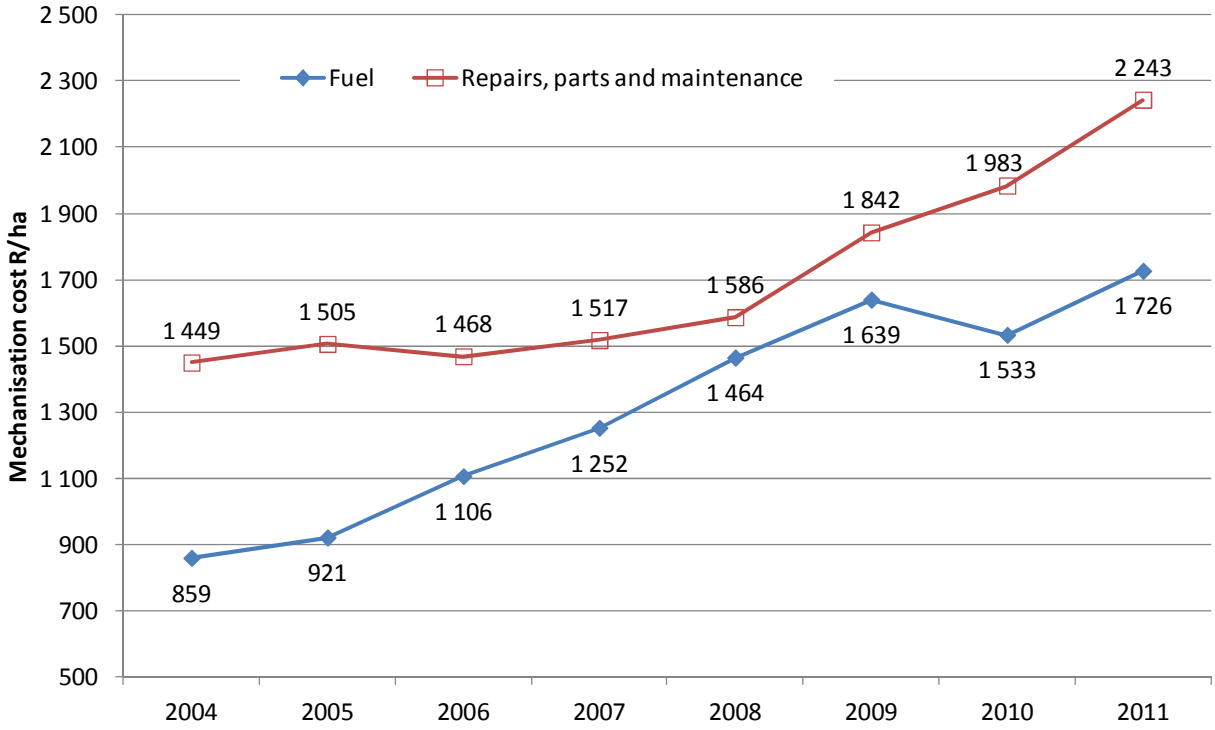

Figure 8: Movement of mechanisation cost – industry average

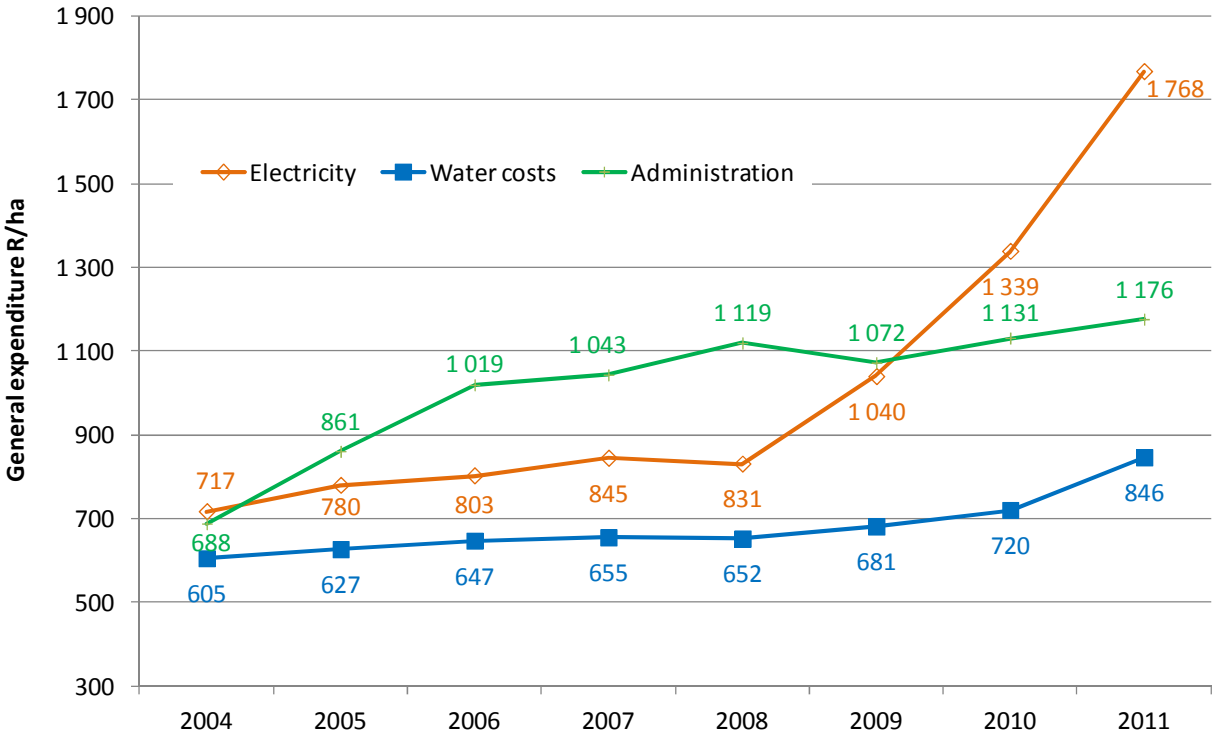

Figure 9: Movement of general cost – industry average

Since 2004, the composition of cash expenditure has remained largely unchanged, with labour still representing the biggest component – 41 % for the 2011 production year. Mechanisation, direct cost, general expenses and fixed improvements represent 21 %, 18 %, 18 % and 2 % respectively of cash expenditure. Although small differences occur from year to year, the trend has nevertheless been for all components relative to each other to become increasingly expensive.

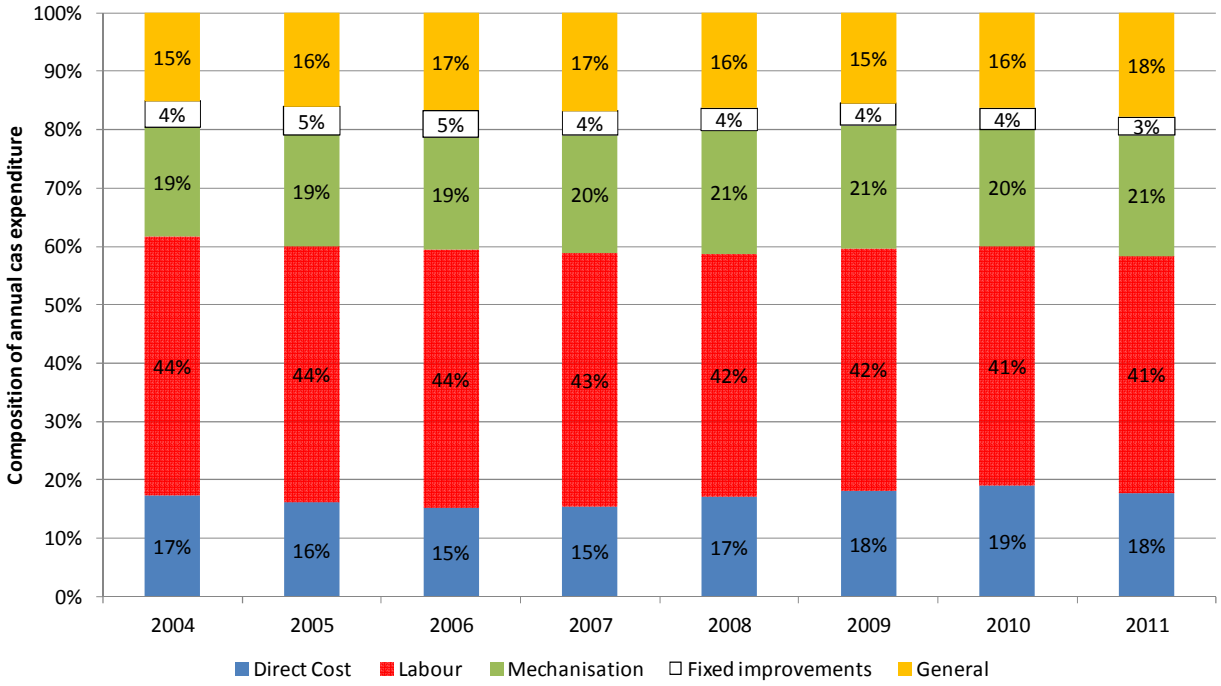

Figure 10: Percentage composition of annual cash expenditure – industry average

Provision for replacement

In the course of the production process not only that which is purchased annually is used for the production process. Tools and implements are also required. This means that tractors, equipment and other means of production also become "run down" in due course. Even vineyards and buildings deteriorate and have to be replaced. The "decline" and "deterioration" of such items are part and parcel of costs incurred by the production process.

Taking into account that the purchase value of an item has to be recovered in the course of its lifetime, as well as the fluctuating nature of inflation, it is essential to make sufficient provision. By applying the principle of 'provision for replacement', a bigger amount is recovered than in the case of 'depreciation'. To a certain extent this addresses the problem of rectilinear depreciation in value and ensures that a running concern is maintained.

When calculating provision for replacement, items are written off against replacement value over various terms:

Buildings	60 years
Vineyards	20 years
Loose assets/means of production	7–15 years

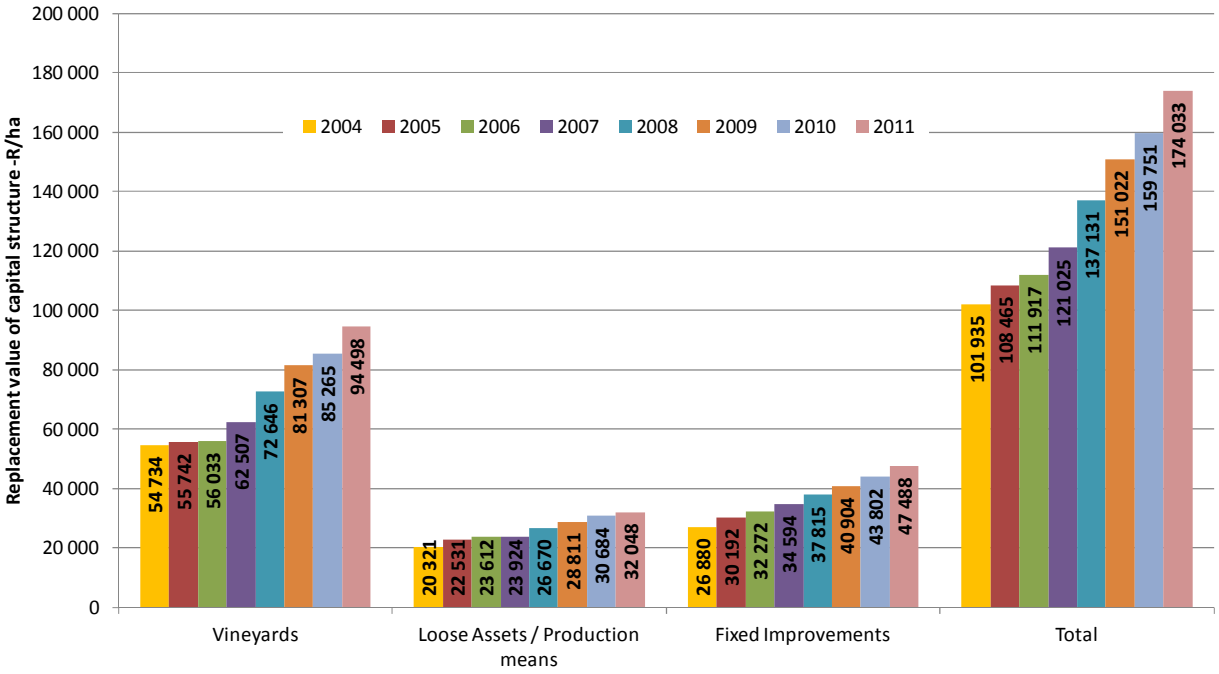

Figure 11: Replacement value of capital structure – industry average

In the 2011 production year, total provision for replacement amounted to R8 140/ha – a 3 % increase since 2010. The main reason why the increase was less than cash expenditure and even below inflation, may be ascribed to adjustment with regard to the economic lifetime of loose assets/means of production; this was extended in certain instances. This adjustment was necessary and is more in line with the actual replacement term.

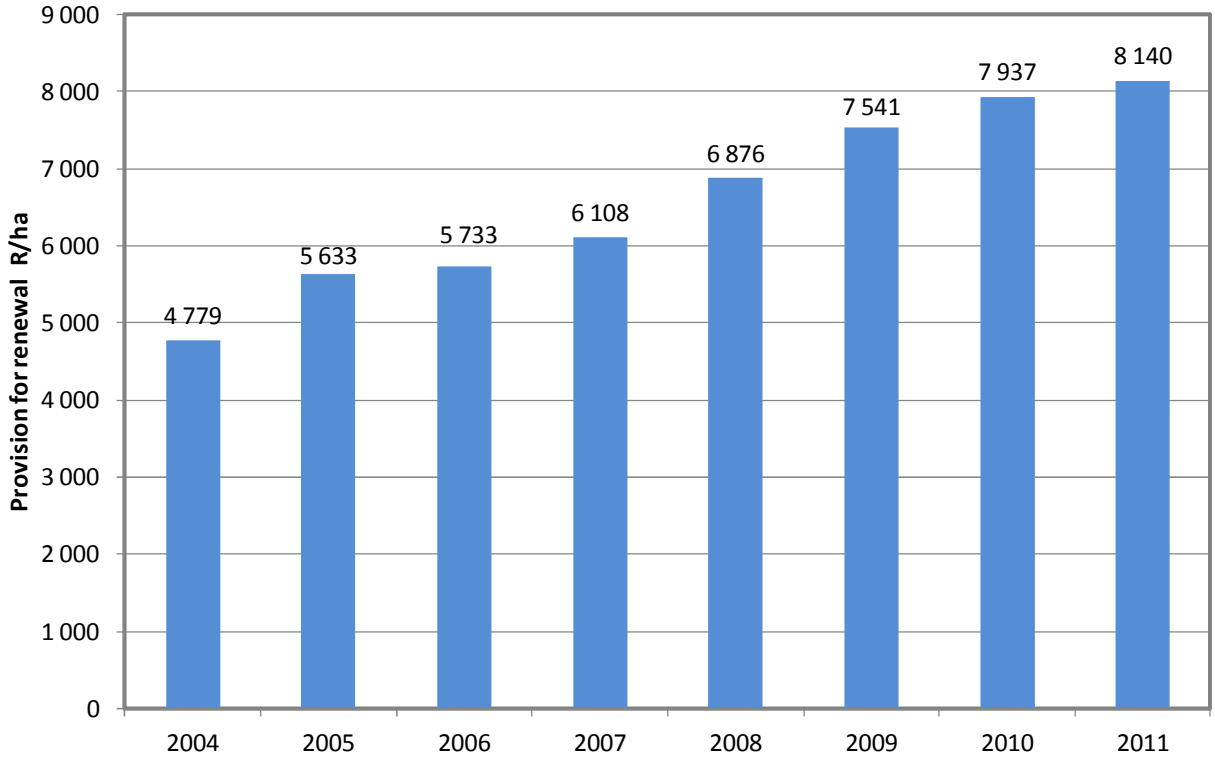

Figure 12: Annual provision for replacement – industry average

4. Production structure

The average farm size for the study groups currently amounts to 85 ha planted to wine grapes (other branches of farming activities are not taken into account here). The average production – producing and non-producing hectares – amounted to 15.08 ton/ha for the 2011 production year.

The influence of yield on the breakeven price of total production cost in rand per ton is enormous. Although total production cost per hectare has increased by 7 % since 2010, the breakeven in terms of rand per ton increased by 4.50 % only from R1 941/ton to R2 028/ton. In other words, the first R2 028 received by the producer for a ton of grapes in the 2011 production year should be applied for total production cost – no entrepreneurial remuneration, interest or tax has been taken into account. This smaller increase is mainly due to the bigger 2011 crop for the total industry. Note that certain districts harvested a smaller crop, which impacted negatively on their breakeven price.

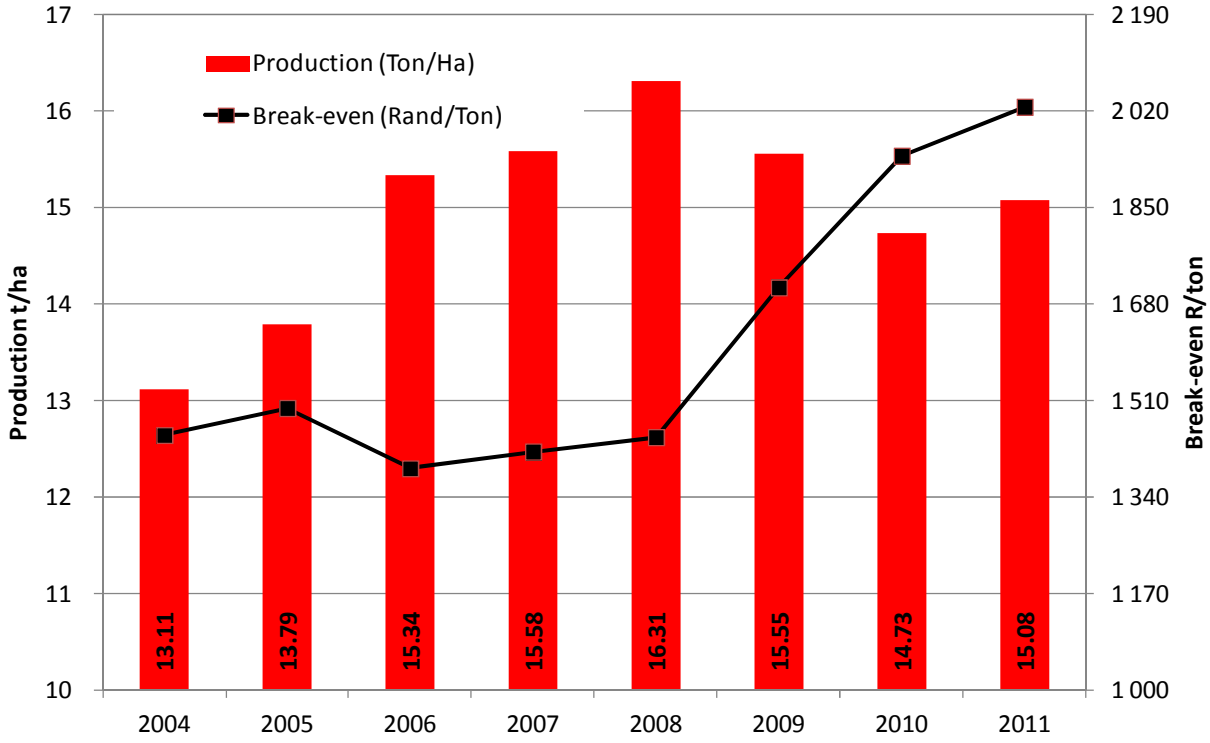

Figure 13: Influence of yield on breakeven of total production cost – industry average

Average yield varies greatly for the respective districts, whereas the total production cost in rand per hectare does not differ significantly. The consequence of such differences in yield is that the breakeven price in respect of total production cost per ton differs enormously from one district to the next.

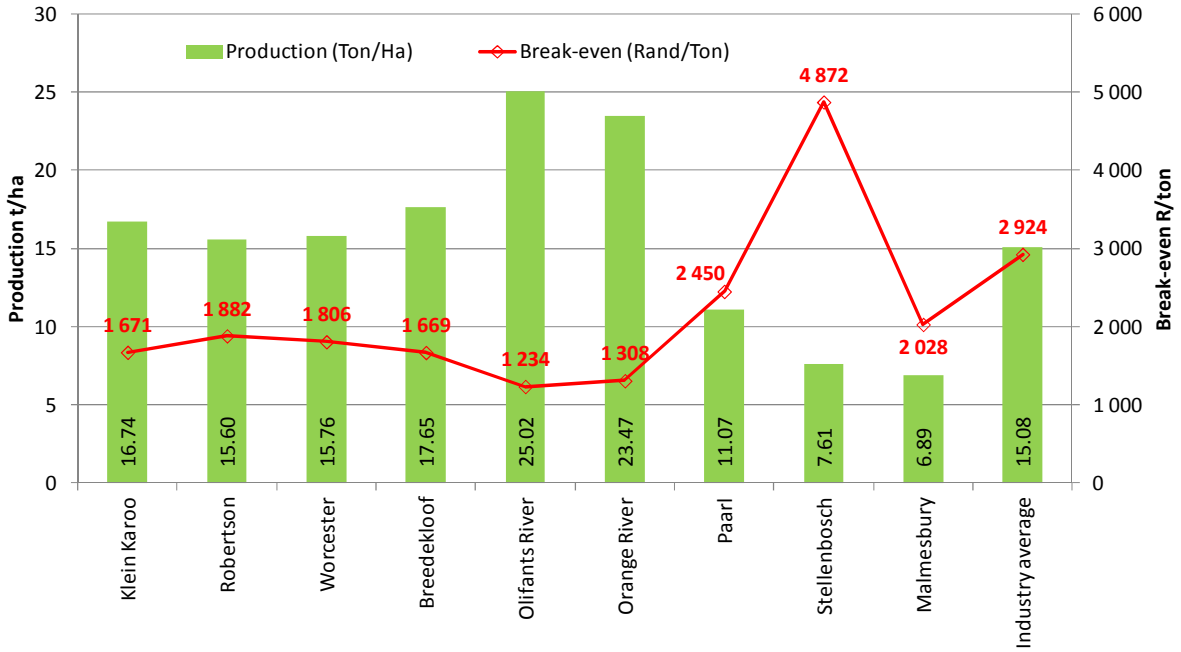

Figure 14: Production and breakeven per district (2011 production year)

The age composition of participants' vineyards has definitely deteriorated since 2004. More than 13 % of the surface planted to vines is older than 20 years and only 11 % of the vines in the sample are 3 years and younger. The deterioration in the age composition has been clearly noticeable since 2004 – a clear indication that producers are defaulting on capital maintenance in an attempt to survive financially. There is no doubt that this will impact on future production.

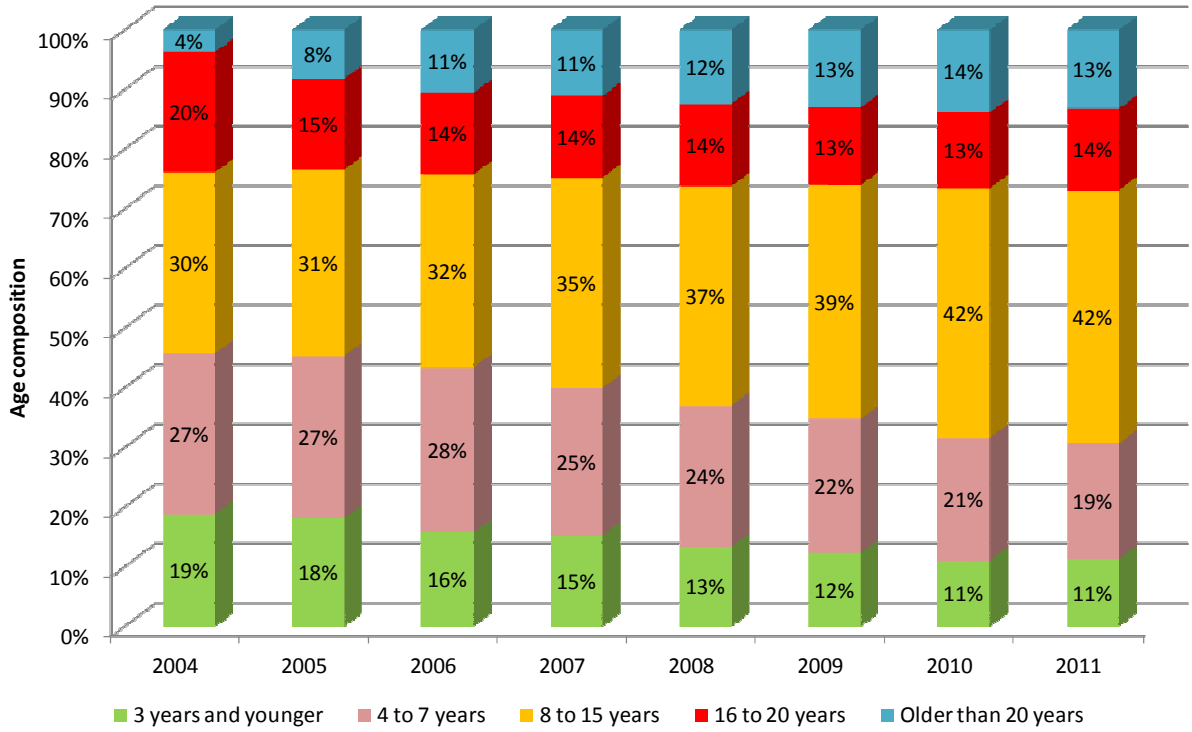

Figure 15: Age composition – industry average

Table 2: Production cost of wine grapes per district

PRODUCTION COST FOR WINE GRAPES - COST AS RAND PER HECTARE (2011 HARVEST)										
Weight	19.65%	19.03%	16.08%	14.43%	11.48%	9.93%	6.16%	3.24%	100%	
DISTRICT	Stellenbosch	Paarl	Olifants River	Worcester	Breedekloof	Klein Karoo	Robertson	Orange River	Average	Malmesbury
COST STRUCTURE	**R / ha**	**R / ha**	**R / ha**	**R / ha**	**R / ha**	**R / ha**	**R / ha**	**R / ha**	**R / ha**	**R / ha**
DIRECT COST										
SEED	218	95	9	102	45	44	37	245	97	77
FERTILIZER	551	788	1 279	1 211	1 543	1 260	1 247	1 335	1 061	567
ORGANIC MATERIAL	41	191	117	571	229	271	248	327	225	76
PESTICIDE CONTROL	1 898	1 647	1 604	1 984	1 378	1 551	1 012	1 550	1 655	1 366
HERBICIDE CONTROL	713	492	741	646	358	721	413	248	592	426
REPAIR & BINDING MATERIAL	534	332	284	361	189	366	253	703	362	155
Subtotal	**3 954**	**3 545**	**4 034**	**4 875**	**3 742**	**4 212**	**3 210**	**4 407**	**3 992**	**2 667**
LABOUR #										
SUPERVISION	3 185	1 098	1 515	1 472	769	1 372	994	512	1 593	512
PERMANENT LABOUR	6 865	5 134	4 462	5 257	4 550	5 140	4 952	4 088	5 272	2 914
SEASONAL LABOUR & CONTRACT WORK	4 333	2 305	1 426	1 146	1 189	831	4 659	1 684	2 246	2 653
Subtotal	**14 384**	**8 537**	**7 403**	**7 875**	**6 508**	**7 343**	**10 604**	**6 284**	**9 111**	**6 078**
MECHANISATION										
FUEL	1 720	1 688	1 531	1 682	1 766	1 722	2 406	1 723	1 726	1 282
REPAIR, PARTS & MAINTENANCE	2 543	1 646	2 670	2 084	2 930	1 867	2 186	1 352	2 243	1 351
LISENCES AND INSURANCE	416	279	407	472	562	445	514	413	422	257
TRANSPORT HIRED	103	463	132	145	367	180	367	268	242	662
Subtotal	**4 783**	**4 076**	**4 740**	**4 383**	**5 624**	**4 215**	**5 473**	**3 755**	**4 633**	**3 553**
FIXED IMPROVEMENTS										
REPAIR AND MAINTENANCE	639	522	439	653	215	503	237	227	486	358
INSURANCE	268	144	189	253	237	250	274	166	221	255
Subtotal	**907**	**667**	**628**	**905**	**452**	**752**	**511**	**394**	**707**	**613**
GENERAL EXPENDITURES										
ELECTRICITY	1 372	1 489	2 413	2 050	2 040	1 915	854	1 676	1 768	596
WATER COSTS	705	526	902	205	1 691	1 035	1 137	2 037	846	233
LAND-, PROPERTY- & MUN TAXES	362	184	160	148	266	127	103	176	209	103
ADMINISTRATION *	2 147	846	849	906	1 210	899	1 045	1 021	1 176	417
Subtotal	**4 586**	**3 046**	**4 324**	**3 309**	**5 207**	**3 976**	**3 140**	**4 910**	**3 999**	**1 349**
TOTAL CASH EXPENDITURES	**28 615**	**19 870**	**21 130**	**21 348**	**21 533**	**20 498**	**22 938**	**19 751**	**22 443**	**14 261**
PROVISION FOR REPLACEMENT	**8 459**	**7 249**	**8 222**	**8 106**	**9 333**	**7 964**	**7 751**	**8 228**	**8 140**	**5 885**
VINEYARDS	4 733	4 737	4 721	4 782	4 488	4 884	4 649	4 866	4 725	3 876
FIXED IMPROVEMENTS	1 117	584	786	792	860	734	461	617	791	425
LOOSE ASSETS or PRODUCTION MEANS	2 609	1 927	2 715	2 532	3 985	2 346	2 642	2 745	2 623	1 584
TOTAL EXPENDITURES	**37 073**	**27 119**	**29 352**	**29 455**	**30 865**	**28 462**	**30 689**	**27 979**	**30 582**	**20 146**
AVERAGE AREA PLANTED (HA)	**100**	**105**	**80**	**95**	**51**	**102**	**21**	**30**	**84**	**138**
AREA IRRIGATED (%)	**88%**	**92%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**96%**	**42%**
AVERAGE AGE COMPOSITION (%)										
3 YEARS & YOUNGER	**9.80**	9.70	12.37	10.72	10.86	15.04	13.84	10.76	**11.25**	6.77
BETWEEN 4 & 7 YEARS	18.18	18.92	23.78	18.57	15.92	21.58	17.84	20.19	**19.40**	23.54
BETWEEN 8 & 15 YEARS	46.49	48.76	35.19	40.97	41.97	33.86	44.87	47.57	**42.47**	53.86
BETWEEN 16 & 20 YEARS	10.19	10.67	17.36	15.27	17.40	13.21	14.96	11.66	**13.64**	8.38
OLDER THAN 20 YEARS	15.34	11.95	11.30	14.47	13.85	16.31	8.49	9.81	**13.24**	7.46
AVERAGE YIELD (TON PER HA)	7.61	11.07	15.60	17.65	25.02	15.76	23.47	16.74	**15.08**	**6.89**
CASH EXPENDITURES (RAND PER TON)	**3 760**	**1 795**	**1 354**	**1 210**	**861**	**1 301**	**977**	**1 180**	**1 488**	**2 070**
TOTAL EXPENDITURES (RAND PER TON)	**4 872**	**2 450**	**1 882**	**1 669**	**1 234**	**1 806**	**1 308**	**1 671**	**2 028**	**2 924**

Included: Provident fund, UIF, medical, protected clothes, clothing, bonus, ransom, workman's compensation comission, etc.

* Included: Banking costs, bookkeeping fees, membership fees, security, computer maintenance, professional fees, training / courses,postage, telephone, stationary, irrigation monitoring and sundries.

Profitability

The profitability, or rather net farm income (NFI), is calculated as total income (R/ton x ton/ha) minus total production cost. The latter consists of cash expenditure and provision for replacement, but excludes entrepreneurial remuneration, obligations in respect of interest and tax. Total income is based on the proven or expected income of a specific harvest and time value of money is not taken into account. While this makes it possible to calculate the impact of a bigger or lighter crop more accurately, producers receive their revenue at various stages which makes it impossible to take time value into account. One should remember that cost is also incurred over time.

Although the total income per hectare – which is determined by price and yield – has shown slight increases since 2005, enormous increases in costs have caused the NFI between 2004 and 2011 to decrease dramatically. As a guideline for economically sustainable production, the average income and NFI for the 2011 production year should have realised R47 782 and R17 200 per hectare respectively. Over the past seven years, the average income was consistently lower than target income guidelines. Producers are still in

a cost-price squeeze and in some instances in recent years income has been less than the cost of grape production. Many producers are compelled to remove replacement of vineyards and capital structure from their cash flow budget – consequently farming takes place based on gross margin (GM) and not on NFI.

Table 3: Industry average of income and expenditure

INCOME & EXPENDITURE STATEMENT	2004	2005	2006	2007	2008	2009	2010	2011
Average price per ton (Rand)	2 383	1 916	1 763	1 766	1 807	2 113	2 192	2 383
Average yield per hectare (tons)	13.11	13.79	15.34	15.58	16.31	15.55	14.73	15.08
TOTAL INCOME (/ha)	**31 236**	**26 424**	**27 043**	**27 513**	**29 479**	**32 857**	**32 281**	**35 943**
Direct costs (/ha)	2 459	2 426	2 391	2 482	2 855	3 463	3 920	3 992
Labour (/ha)	6 317	6 590	6 878	6 949	6 956	7 905	8 477	9 111
Mechanisation (/ha)	2 667	2 852	3 004	3 219	3 533	4 022	4 142	4 633
Overheads (/ha)	2 778	3 142	3 326	3 367	3 357	3 649	4 108	4 706
ANNUAL CASH EXPENDITURE	**14 221**	**15 010**	**15 599**	**16 017**	**16 702**	**19 039**	**20 648**	**22 443**
GROSS MARGIN (/ha)	**17 015**	**11 414**	**11 444**	**11 496**	**12 777**	**13 818**	**11 633**	**13 500**
Provision for replacement (/ha)	4 779	5 633	5 733	6 108	6 876	7 541	7 937	8 140
NET FARMING INCOME (/ha)	**12 236**	**5 781**	**5 711**	**5 388**	**5 901**	**6 277**	**3 696**	**5 360**

5. Top performers

Although the industry average financial statements of producers do not paint a pretty picture, top performers can still be found despite difficult conditions. The results of the top 50 performers – excluding Malmesbury – in the 2011 production year amounted to a gross income and NFI of R47 225/ha (industry average R35 943/ha) and R18 364/ha (industry average R5 360/ha) respectively – for the second consecutive year this is in line with and even better than the VinPro guideline for economic sustainability. The average farm size of the top 50 for 2010 and 2011 amounted to 61 ha and 72 ha planted to wine grapes respectively – the industry averages were 79 ha and 85 ha.

Table 4: Statement of income and expenditure of top performers

TOP 50 - INCOME & EXPENDITURE STATEMENT	2010	2011
Average price per ton (Rand)	2 056	2 348
Average yield per hectare (tons)	21.69	20.11
TOTAL INCOME (R/ha)	**44 601**	**47 225**
minus		
Direct costs (R/ha)	4 039	4 140
Labour (R/ha)	7 265	7 412
Mechanisation (R/ha)	4 193	4 341
Other overheads (R/ha)	3 876	4 643
ANNUAL CASH EXPENDITURES	**19 373**	**20 536**
GROSS MARGIN (R/ha)	**25 228**	**26 688**
minus		
Provision for replacement (R/ha)	8 269	8 324
NETTO BOERDERY INKOMSTE (R/ha)	**16 959**	**18 364**

The top performers are distributed across all eight wine districts, but the majority are in the higher production areas. Orange River district suffered serious flood damage in 2011 which impacted negatively on those producers' profitability.

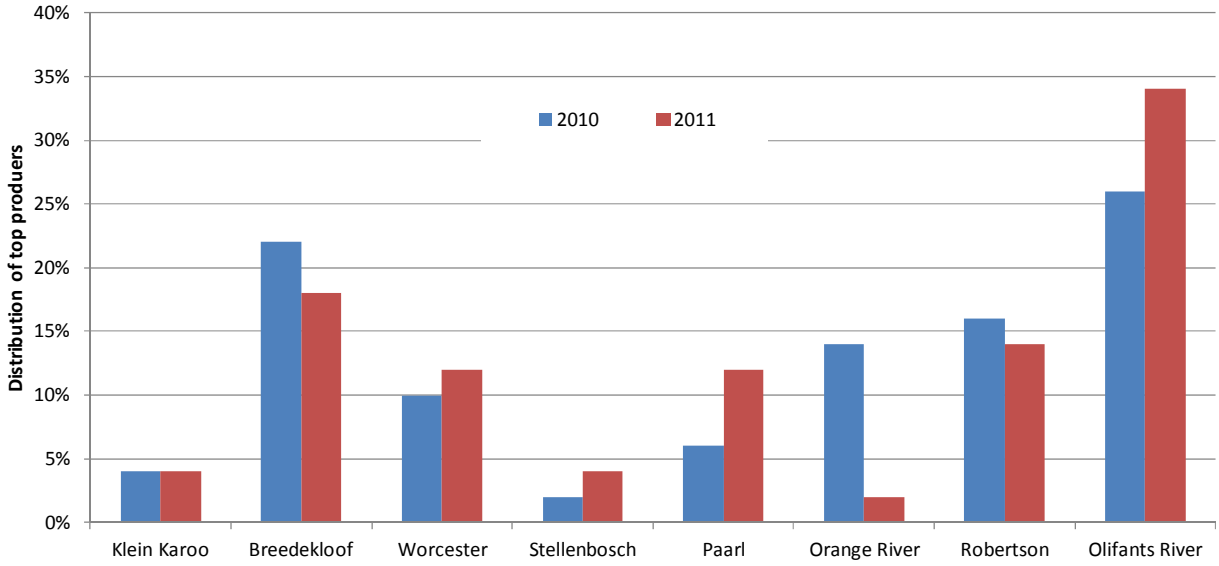

Figure 16: Distribution of top performers in the respective districts

As with the 2010 findings, the notable improvement in NFI can once again be ascribed to considerably higher yields – 20.11 ton/ha compared to the industry average of 15.08 ton/ha. The average price of R2 348/ton realised by top performers is once again lower than the industry average of R2 383/ton.

Top performers' annual cash expenditure (R20 537/ha) is 9 % lower than that of the industry (R22 443/ha), while the provision for replacement of the top performers (R8 324/ha) is 2 % higher than the industry average (R8 140/ha). Total production cost of the top performers amounts to R28 860/ha, compared to the industry average of R30 582/ha, which means it is 6 % lower.

Table 5: Production cost comparison between top performers and industry average

PRODUCTION COST FOR WINE GRAPES - COST AS RAND PER HEKTAR (2010 & 2011 HARVEST YEARS)				
	Top 50 2010	Industry 2010	Top 50 2011	Industry 2011
DIRECT COST	**4 039**	**3 921**	**4 140**	**3 992**
SEED	41	77	65	97
FERTILISER	1 166	1 017	1 155	1 061
ORGANIC MATERIAL	289	233	346	225
PESTICIDE CONTROL	1 737	1 758	1 661	1 655
HERBICIDE CONTROL	550	544	541	592
REPAIR & BINDING MATERIAL	257	292	373	362
LABOUR #	**7 265**	**8 477**	**7 412**	**9 111**
SUPERVISION	1 244	1 425	1 140	1 593
PERMANENT LABOUR	4 690	4 920	4 728	5 272
SEASONAL LABOUR & CONTRACT WORK	1 331	2 132	1 544	2 246
MECHANISATION	**4 193**	**4 142**	**4 341**	**4 633**
FUEL	1 553	1 533	1 599	1 726
REPAIR, PARTS & MAINTENANCE	1 936	1 983	1 976	2 243
LISENCES AND INSURANCE	456	419	507	422
TRANSPORT HIRED	248	207	260	242
FIXED IMPROVEMENTS	**602**	**741**	**517**	**707**
REPAIR AND MAINTENANCE	392	540	296	486
INSURANCE	210	201	221	221
GENERAL EXPENDITURES	**3 273**	**3 367**	**4 125**	**3 999**
ELECTRICITY	1 312	1 339	1 777	1 768
WATER COSTS	790	720	1 060	846
LAND-, PROPERTY- & MUN TAXES	175	177	223	209
ADMINISTRATION *	997	1 131	1 066	1 176
TOTALE CASH EXPENDITURES	**19 373**	**20 648**	**20 537**	**22 443**
PROVISION FOR RENEWAL	**8 269**	**7 937**	**8 324**	**8 140**
VINEYARDS	4304	4263	4 714	4 725
FIXED IMPROVEMENTS	752	730	774	791
LOOSE ASSETS or PRODUCTION MEANS	3213	2944	2 835	2 623
TOTAL PRODUCTION COST	**27 641**	**28 585**	**28 860**	**30 582**

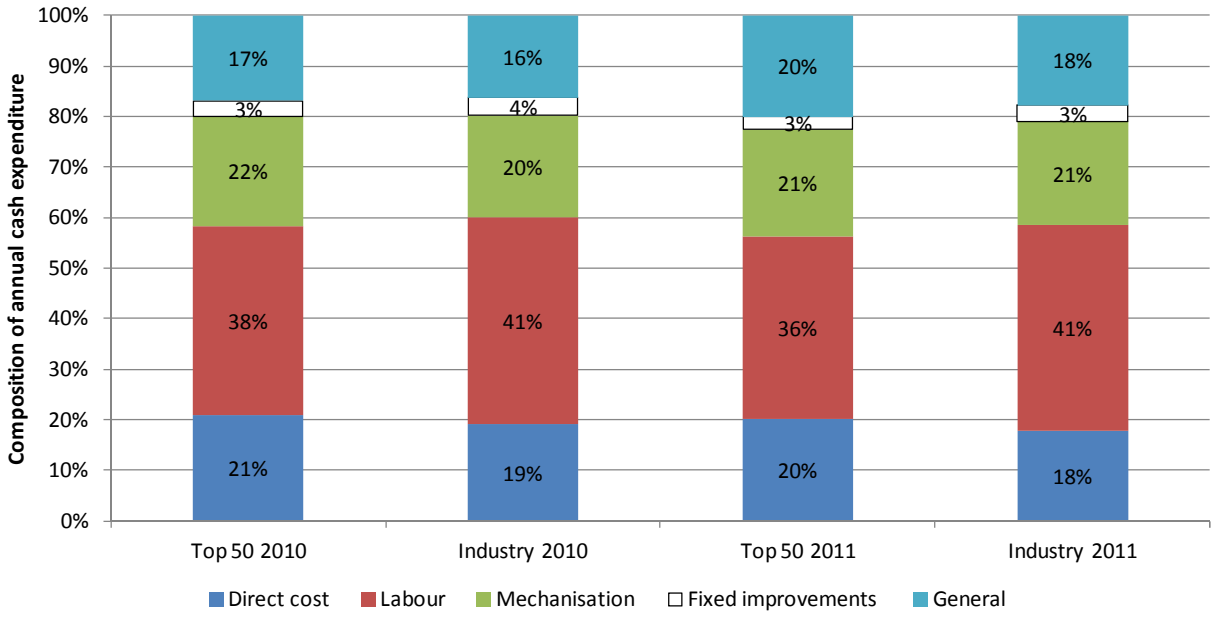

Figure 17: Percentage composition of annual cash expenditure – top performers compared to industry average

The percentage composition of top performers' cash expenditure also differs from the industry average. Direct costs of top performers are slightly higher than those of the industry for both years under review – mainly due to the fact that they spend more on fertilisation. The mechanisation component is bigger for the top performers and the labour corps is smaller than the industry average. Total labour cost of top performers is lower than the industry average for both years. In view of this composition, top performers appear to be more mechanised with less reliance on labour or they utilise their labour more productively. The other cost components do not differ significantly.

Although the cost structure of top performers differs from the industry average in respect of composition and actual rand value, for the second consecutive year the considerable improvement in NFI was achieved through income per hectare, driven mainly by yield.

For the two years under review, the age composition of vines does not differ significantly. Both groups have an acceptable age composition – especially compared to the total age composition of the SA wine industry.

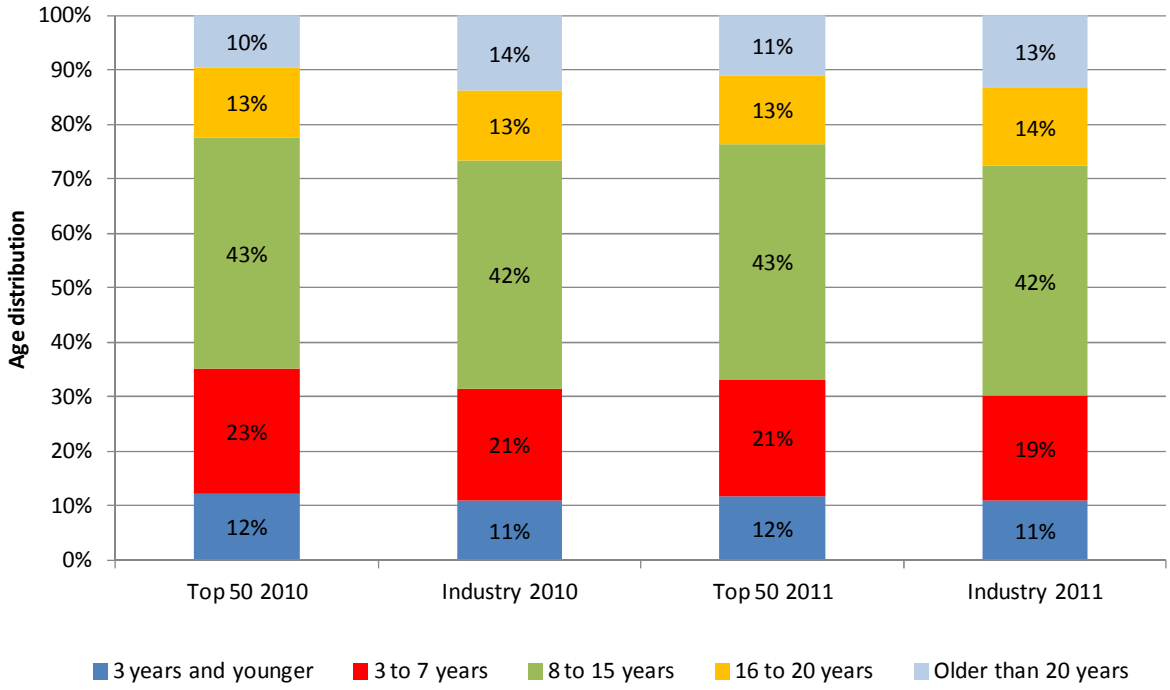

Figure 18: Age composition – top performers compared to the industry.

The question remains: what are these producers doing differently to the rest? A few possibilities, identified in the course of the study groups, include:

- Diversification into other industry branches to optimise labour and reduce 'down time' of the capital structure, comes into play to a certain extent. Diversification also reduces risk and improves cash flow in the farming enterprise.
- Non-profitable blocks are phased out through gross and net block profit calculations.
- The common denominator for success appears to be high(er) yields (without compromising quality) or high(er) prices – preferably both.
- Top producers are innovative by investigating alternative trellis systems, irrigation and new technology.
- The owner plays a very big part in the day-to-day management of the farming enterprise.

- Good labour management is critical – a trained and motivated labour corps is crucial.
- Top producers implement a replacement programme for both vineyards and capital items.
- Long-term practices are meticulously executed (soil preparation, etc).
- Short-term practices vary depending on various price points – different programmes are applied for irrigation, as well as fertilisation, pest, disease and weed control.
- Record keeping is critical in these farming units.
- Producers realise that it is a business which has to be managed and not simply a piece of land that has to be farmed. Decisions are therefore based on economic principles.

6. Summary

Although most role players in the South African wine industry agree that times are tough from a financial point of view, it is clear without a doubt that primary producers suffer more than ever. The industry is becoming smaller and a slightly smaller industry is likely to be a better industry. Currently there are 3 596 primary wine producers in the SA wine industry (compared to 4 515 in 1999), most of whom deliver and market their grapes to 54 so-called producer cellars (compared to 69 in 1999). These cellars produce or receive between 70 and 80 % of the total wine crop. Most of the wine produced by these cellars is sold in bulk to one or several of 60 wholesalers, who in turn are represented by a few large role players and a considerable number of smaller role players. The balance of the total crop is produced by 493 private wine cellars and 26 producing wholesalers. Primary wine producers are very fragmented, their bargaining power is very low. They are price takers and are too fragmented to integrate lower in the value chain in order to obtain representation or improve their bargaining power.