

VINPRO PRODUCTION PLAN SURVEY 2015 (PART 2)

Financial indicators of top performing wine grape producers

Primary wine grape producers use precision production practices to curb cost increases and realise a profitable crop despite an ongoing decrease in the area planted to wine grapes. By Andries van Zyl & Funzani Sundani







he VinPro Production Plan Survey was conducted in the wine industry for the 12th consecutive year in 2015. Part 1 of the report, provides an overview of the most important findings over the past 10 years, with strong emphasis on the 2015 production year. The practices of top achievers are showcased in Part 2.

Wine farmers' income does not comply with sustainable target guidelines yet, but it is encouraging to see that some producers in each of the nine wine districts manage annually to do better than these guidelines and realise excellent returns, despite the risks taken during the season.

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 2015. 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 226 farming units from nine wine districts participated in the 2015 Production Plan Survey. In 2015 the sample consisted of 22 545 ha (22% of the total South African surface planted to wine grapes in 2014), who produced 380 988 tons (26% of the total South African crop in 2015). Of these 62% and 38% were white and red wine grapes respectively, and 59% of the tons were harvested mechanically.

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 2015 production year the top 50 wine producers in the study group realised a gross income (GI)

TABLE 5: Statement of income and expenditure of top achievers.

TOP 50 - INCOME & EXPENDITURE STATEMENT	2010	2011	2012	2013	2014	2015
Average price per ton (Rand)	2 056	2 348	2 475	2 724	2 934	3 188
Average yield per hectare (tons)	21.69	20.11	22.31	21.95	20.41	20.88
TOTAL INCOME (R / ha)	44 601	47 225	55 235	59 797	59 870	66 583
minus						
Direct costs (R / ha)	4 039	4 140	4 530	5 063	6 080	6 115
Labour (R / ha)	7 265	7 412	7 937	8 751	10 216	11 982
Mechanisation (R / ha)	4 193	4 341	4 543	5 369	5 680	6 088
Other overheads (R / ha)	3 876	4 643	5 044	5 623	5 359	6 685
ANNUAL CASH EXPENDITURES	19 373	20 536	22 054	24 806	27 334	30 870
GROSS MARGIN (R / ha)	25 228	26 688	33 181	34 991	32 536	35 713
minus						
Provision for replacement (R / ha)	8 269	8 324	8 815	9 509	9 503	9 893
NETT FARM INCOME (R / ha)	16 959	18 364	24 366	25 483	23 033	25 820

DISTRIBUTION OF TOP PRODUCERS



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

		PRODUCTIO	ON COST FOR	WINE GRAPES -	COST AS RAN	D PER HECTAR	E (2010-2015 H	IARVEST YEARS				
	Top 50 2010	Industry 2010	Top 50 2011	Industry 2011	Top 50 2012	Industry 2012	Top 50 2013	Industry 2013	Top 50 2014	Industry 2014	Top 50 2015	Industry 2015
DIRECT COST	4 039	3 921	4 140	3 992	4 530	4 150	5 063	4 670	6 080	5 382	6 1 1 5	5 744
SEED	41	17	65	26	84	107	109	110	133	75	207	125
FERTILIZER	1 166	1 017	1 155	1 061	1 393	1 221	1 327	1 405	1 577	1 591	1 772	1 687
ORGANIC MATERIAL	289	233	346	225	417	242	569	316	779	315	297	250
PESTICIDE CONTROL	1 737	1 758	1 661	1 655	1 661	1 639	1 963	1 839	2 310	2 230	2 613	2 428
HERBICIDE CONTROL	550	544	541	592	552	548	594	589	812	788	830	929
REPAIR & BINDING MATERIAL	257	292	373	362	422	393	501	411	469	383	395	326
LABOUR #	7 265	8 477	7 412	9 111	7 937	9 630	8 751	10 639	10 216	12 001	11 982	13 282
SUPERVISION	1 244	1 425	1 140	1 593	1 568	1 689	1 648	1 808	1 720	2 039	2 0 1 8	2 08 1
PERMANENT LABOUR	4 690	4 920	4 728	5 272	5 092	5 616	5 668	6 076	6 590	6 828	7 587	7 860
SEASONAL LABOUR & CONTRACT WORK	1 331	2 132	1 544	2 246	1 278	2 325	1 435	2 755	1 906	3 134	2377	3 342
MECHANISATION	4 193	4 142	4341	4 633	4 543	4 868	5 369	5 501	5 680	5 952	6 088	6 4 3 9
FUEL	1 553	1 533	1 599	1 726	1 820	2 040	2 350	2 358	2 629	2 613	2 5 2 5	2 646
REPAIR, PARTS & MAINTENANCE	1 936	1 983	1 976	2 243	2 059	2 136	2 208	2 35 2	2 334	2 594	2 751	2 949
LISENCES AND INSURANCE	456	419	507	422	464	460	522	497	532	523	599	598
TRANSPORT HIRED	248	207	260	242	199	232	289	294	185	222	212	246
FIXED IMPROVEMENTS	602	741	517	707	715	720	953	913	1 095	985	1 415	1 136
REPAIR AND MAINTENANCE	392	540	296	486	488	490	721	635	875	763	1 173	878
INSURANCE	210	201	221	221	227	230	231	278	220	222	242	257
GENERAL EXPENDITURES	3 273	3 367	4 125	3 999	4 328	4 466	4 670	4 936	4 263	4 914	5 270	5 343
ELECTRICITY	1 312	1 339	1 777	1 768	2 269	2 063	2 245	2 287	2 036	2 302	2 453	2 498
WATER COSTS	260	720	1 060	846	861	931	963	971	803	926	1 242	1 034
LAND-, PROPERTY- & MUN TAXES	175	177	223	209	172	218	222	257	224	259	296	270
ADMINISTRATION *	266	1 131	1 066	1 176	1 026	1 254	1 241	1 421	1 201	1 427	1 279	1 541
TOTALE CASH EXPENDITURES	19 373	20 648	20 537	22 443	22 054	23 834	24 806	26 659	27 334	29 235	30 870	31 944
PROVISION FOR RENEWAL	8 269	7 937	8 324	8 140	8 8 1 5	8 606	9 509	9 080	9 503	9 439	9 893	9 691
VINEYARDS	4 304	4 263	4714	4725	5 143	5 082	5 509	5 408	5 449	5 388	5 477	5 357
FIXED IMPROVEMENTS	752	730	774	791	910	832	936	880	888	912	982	935
LOOSE ASSETS or PRODUCTION MEANS	3 213	2 944	2 835	2 623	2 761	2 691	3 063	2 7 92	3 166	3 140	3 435	3 398
TOTAL PRODUCTION COST	27 641	28 585	28 860	30 582	30 869	32 439	34 315	35 739	36 837	38 674	40 764	41 635

TABLE 6: Production cost comparison between top achievers and industry average.



COMPOSITION OF ANNUAL CASH EXPENDITURES

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



AGE DISTRIBUTION

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

TABLE 7: Statement of income and expenditure of the top third, industry average and bottom third.

INDUSTRY 2014 HARVEST	Top Third	Average	Bottom Third
Production per ha	21.95	17.48	13.89
Income per ton	R 2 817	R 2 810	R 2 915
Income per ha	R 61 827	R 49 108	R 40 485
Production cost per ha	R 40 764	R 41 635	R 50 109
NFI per ha	R 21 063	R 7 473	-R 9 624
ROC	6.79%	1.17%	-6.11%
Cash expenditures	R 30 870	R 31 944	R 40 086
Provision for renewal	R 9 893	R 9 691	R 10 023
Total Production cost	R 40 764	R 41 635	R 50 109

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

													Change	% Change	% Change
Per 750 ml @ 10% alc/vol for Total Wine	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	(Imuc//J) 2004-2014	2014-	ave per year
Average RSP – Total Wine	R 10.10	R 11.31	R 12.05	R 12.32	R 12.88	R 13.82	R 16.07	R 17.30	R 18.61	R 20.03	R 21.21	R 22.21	R 12.11	120%	10%
Average RSP – Brandy	R 50.78	R 55.95	R 59.43	R 66.03	R 71.31	R 79.35	R 83.60	R 90.17	R 99.68	3 106.95	R 115.01	R 120.30	R 69.53	137%	11%
Excise – Wine	R 0.88	R 1.06	R 1.19	R 1.29	R 1.37	R 1.49	R 1.61	R 1.74	R 1.88	R 2.03	R 2.15	R 2.30	R 1.43	162%	14%
Excise – Brandy	R 14.48	R 16.17	R 17.81	R 19.67	R 21.84	R 25.05	R 27.28	R 30.00	R 36.00	R 39.60	R 44.35	R 48.13	R 33.65	232%	19%
Ave Bulk Wine price – All varieties	R 2.66	R 2.54	R 2.54	R 2.51	R 2.56	R 2.88	R 3.10	R 3.19	R 3.28	R 3.48	R 3.64	R 3.69	R 1.03	39%	3%
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	R 1.94	R 2.15	R 2.23	R 2.36	R 2.35	R 2.44	R 0.88	56%	5%
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	R 4.23	R 4.07	R 4.21	R 4.33	R 4.20	R 4.36	-R 0.06	-1%	%0-
Total Annual Production cost – VinPro	R 1.55	R 1.60	R 1.49	R 1.52	R 1.55	R 1.83	R 2.08	R 2.17	R 2.05	R 2.19	R 2.34	R 2.55	R 1.00	64%	5%
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	R 1.04	R 1.03	R 1.13	R 1.15	R 1.31	R 1.44	R 0.92	175%	15%
Net Farming Income	R 1.00	R 0.45	R 0.40	R 0.37	R 0.39	R 0.43	R 0.27	R 0.38	R 0.54	R 0.52	R 0.53	R 0.46	-R 0.54	-54%	-5%
Note: Ave Producer Cellar Grape prices are preliminary –	2015 Ave P	roducer Ce	illar Grape	price is est	imated. So	urce: SAW	IS								

TABLE 8. Trends in the South African wine value chain since 2004.

Note: 2015 Annual Producer Cellar cost for Bulk Wine – Estimated. Source: PWC

and net farming income (NFI) of R66 583/ha (industry average R49 108/ha) and R25 819/ha (industry average R87 473/ha) respectively. For the fifth consecutive year this is in line with the VinPro guideline for economic sustainability of R64 115/ha GI and R22 480/ha NFI on average. From 2011 - 2015 the average farm size of the top 50 producers amounted to 72, 84, 74, 89 and 91 ha respectively planted to wine grapes - compared to the industry average of 84, 86, 87, 92 and 98 ha.

It is encouraging to see 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 2014, to considerably higher productions of 20.88 ton/ha compared to the industry average of 17.48 ton/ha - a 19% increase. The average price of R3 188/ton realised by top achievers is 13% higher than the industry average of R2 810/ton.

Top producers' annual cash expenditure (R30 870/ha) is at least 3% lower than that of the industry (R31 944/ ha), while the provision for replacement of this group at R9 893/ha is about 2% higher than the industry average of R9 691/ha. Total production cost of the top 50 producers amounts to R40 763/ha, 2% lower than the industry average of R41 635/ha.

The composition of top achievers' cash expenditure does not differ substantially 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 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 area planted to wine grapes, which has seen a decrease of 413 ha to 99 463 ha over the past year, a large crop of 1 477 156 tons was produced in 2015. The crop has increased by 26% from the 2005 crop of 1 171 632 tons. Primary wine grape producers are still leaving the industry and are currently at 3 314, compared to 4 360 in 2005. The 50 producer cellars handle approximately 80% of the annual crop, the balance being handled by the remaining 485 private wine cellars and 25 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.



Average |

%

FIGURE 17. Trends in the South African wine value chain since 2004

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 12-year period.
- 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.
- While production cost at farm level has increased more in line with inflation, the increase still exceeds that of wine prices.

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 over the past 12 years. Top producers also perform above average with regard to grape prices and they manage costs carefully. It is encouraging to see that all nine districts are represented in the Top 50, despite the different business models involved, 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

In the 2015 production year top achievers managed to fare better than the industry (production, cost and price). 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

It is encouraging to see that there are primary wine grape producers in all nine wine districts who manage year after year to fare even sustainability guidelines. This is not just a year increase in NFI over the past five years.

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