Evaluating the development of emerging South African black owned wine companies

Ivan Oertle
Declaration

I, Ivan Oertle, declare that this dissertation is my own, unaided work. It is submitted in partial fulfilment of the requirements for the diploma of Cape Wine Master to the Cape Wine Academy. It has not been submitted before for the qualification of examination in this or any other organization.

Signature ..................................  Date ..................................
Acknowledgements

I wish to express my grateful appreciation to the wine industry stakeholders who generously gave of their time and agreed to provide valuable insights and information for the purpose of this research study. These stakeholders include, Rydal Jeftha from Koopmanskloof, Vernon Henn from Thandi, Vivian Kleynhans from African Roots, Jeff Grier from Villiera, Mike Ratcliffe from Warwick, Geoff Harvey from Vinimark, Bruwer Raars from Raats Family Wines, Philip Bowes from VinPro, Matombe Mbatha from WOSA and Stephanus Eksteen from Checkers. Thanks must also go to my fellow Cape Wine Master students who encouraged and kept me motivated, particularly Francois Cillie. A special thank you to my wife, Vanessa Oertle for patiently reading the draft copies and for her unwavering support. Thanks to my two daughters, Lauren and Kayla, for their loyal support.
Table of Contents

Declaration ........................................................................................................................................... 2
Acknowledgements ................................................................................................................................... 3
List of Abbreviations ............................................................................................................................. 8
Abstract .................................................................................................................................................. 10
Chapter One: Introduction .................................................................................................................... 11
  1.1 Scope and contribution .................................................................................................................. 12
  1.2 Overview of document ................................................................................................................ 13
Chapter Two: Transformation Background ......................................................................................... 14
  2.1 Black Economic Empowerment ................................................................................................. 14
  2.2 The Wine Industry Transformation Charter ............................................................................. 15
  2.3 Major empowerment initiatives ................................................................................................. 16
    2.3.1 Bouwland ............................................................................................................................... 16
    2.3.2 Ko-operatieve Wijnbouwers Vereniging (KWV) ................................................................. 16
    2.3.3 New Beginnings ..................................................................................................................... 17
    2.3.4 Distell ..................................................................................................................................... 17
    2.3.5 Thandi Wines ........................................................................................................................ 17
    2.3.6 Boland Cellars ....................................................................................................................... 18
    2.3.7 Fairchild .................................................................................................................................. 18
    2.3.8 Lutouw Estate ......................................................................................................................... 18
    2.3.9 Riebeek Valley Partners ....................................................................................................... 19
    2.3.10 Van Loveren Winery ......................................................................................................... 19
    2.3.11 Koopmanskloof Winery .................................................................................................... 19
    2.3.12 Thokozani Wines ................................................................................................................ 19
  2.4 Education initiatives ....................................................................................................................... 20
  2.5 Land reform initiatives ................................................................................................................ 20
  2.6 Labour initiatives ........................................................................................................................ 21
  2.7 The Wine Industry Strategic Exercise initiative ...................................................................... 21
  2.8 Summary of transformation ....................................................................................................... 22
Chapter Three: Business Models ........................................................................................................ 24
  3.1 Producer and industry interviews .............................................................................................. 24
  3.2 Types of BEE wine companies .................................................................................................. 25
    3.2.1 Wine producers ..................................................................................................................... 25
    3.2.2 Wine brand companies ........................................................................................................ 26
  3.3 Ownership models ...................................................................................................................... 26
    3.3.1 Black owned ......................................................................................................................... 26
3.3.2 Partnerships (Joint Ventures) .................................................. 27
3.4 Operating model of a black owned wine brand company ................. 27
  3.4.1 Sourcing of wine ................................................................. 28
  3.4.2 Winemaking and production ................................................. 28
  3.4.3 Production - Bottling and Labelling ....................................... 29
  3.4.4 Distribution ........................................................................ 29
  3.4.5 Brand message .................................................................... 30
  3.4.6 Local marketing activities .................................................... 31
  3.4.7 International activities .......................................................... 31
3.5 Summary of business models ...................................................... 32
Chapter Four: Funding an emerging wine business .................................. 35
  4.1 Funding considerations ............................................................ 35
    4.1.1 Financial risk .................................................................. 36
    4.1.2 Skills transfer ................................................................. 36
    4.1.3 Exit plan ......................................................................... 36
    4.1.4 Return on investment ...................................................... 36
  4.2 Loan financing ........................................................................ 36
    4.2.1 The Land Bank ............................................................... 37
    4.2.2 Capital Harvest ............................................................... 38
    4.2.3 Commercial Banks ......................................................... 38
    4.2.3 Small Enterprise Development Agency (SEDA) .................... 38
    4.2.4 Industrial Development Corporation (IDC) ......................... 38
    4.2.5 National Empowerment Fund (NEF) .................................. 39
    4.2.6 The Export Credit Insurance Corporation (ECIC) ............... 39
  4.3 Equity financing ...................................................................... 39
    4.3.1 Private wine farms ........................................................... 39
    4.3.2 Public Investment Corporation (PIC) – Isibaya Fund .......... 39
    4.3.3 Industrial Development Corporation (IDC) ......................... 40
  4.4 Grant financing ...................................................................... 40
    4.4.1 Wines of South Africa (WOSA) .......................................... 40
    4.4.2 VinPro ........................................................................... 40
    4.4.3 Department of Trade and Industry (DTI) .............................. 41
    4.4.4 Department of Rural Development and Land Reform (DRDLR) 42
    4.4.5 Land Redistribution for Agricultural Development (LRAD) 42
    4.4.6 Recapitalisation and Development Programme (RECAP) .... 43
  4.5 Financial incentives for exporters ................................................ 43
Chapter Seven: Conclusion and Recommendations .......................................................... 66
7.1 Transformation challenges ..................................................................................... 66
7.2 Recommendations for the wine industry ............................................................... 67
7.3 Recommendations for emerging black enterprises ............................................ 67
7.4 Recommendations for the government and industry bodies ............................ 68
References .................................................................................................................. 72
Appendices: Structured interviews ........................................................................... 80

List of Tables
Table 1: Number of wine cellars in South Africa ......................................................... 26
Table 2: Black owned wine brand companies - nature of business ............................. 26
Table 3: Size of black owned wine companies ( bottles per year) ............................... 28
Table 4: South African population census 2008 ......................................................... 56
Table 5: South African languages 2011 ................................................................. 56
Table 6: Liquor market share of all categories ......................................................... 59
Table 7: Per capita liquor consumption in South Africa (APC) ................................. 60
Table 8: International per capita wine consumption 2015 ...................................... 61
Table 9: Overview of the South African alcoholic beverage market ....................... 63
List of Abbreviations

ABVA – Association of BEE Verification Agencies
AgriBEE – Agricultural Black Economic Empowerment
ANC – African National Congress
APC – Adult Per Capita
AVA – African Vintners Alliance
BBBEE – Broad Based Black Economic Empowerment
BEE – Broad Economic Empowerment
BWI – Biodiversity Wine Initiative
CASP – Comprehensive Agricultural Support Programme
CEO – Chief Executive Officer
CPFP – Capital Projects Feasibility Programme
DAFF – Department of Agriculture Forestry and Fisheries
DRDLR – Department of Rural Development and Land Reform
DTI – Department of Trade and Industry
EMIA – Export Marketing and Investment Assistance
EPA – Economic Partnership Agreement
EU – European Union
FAWU – Food and Allied Workers Union
HP – High Priced Wine
IDC – Industrial Development Corporation
IPW – Integrated Production of Wine
ITI – Investment and Trade Initiatives
KWV – Ko-operatieve Wijnbouwers Vereniging
LRAD – Land Redistribution for Agricultural Development
MOU – Memorandum of Understanding
MP – Medium Price Wine
Nedcor – Nedbank Corporation
NEF – National Empowerment Fund
PIC – Public Investment Corporation
RECAP – Recapitalisation and Development Programme
RTD – Ready to Drink
SADC – Southern African Development Community
SANAS – South African National Accreditation System
SARS – South African Revenue Services
SAWBCo – South African Wine and Brandy Company
SAWIT – South African Wine Industry Trust
SEDA – Small Enterprise Development Agency
SFW – Stellenbosch Farmers Winery
SKOP – Cellar Worker Training Programme
SMME – Small Medium and Micro Enterprise
SSAS – Sector Specific Assistance Scheme
STD – Standard Price Wine
VAT – Value Added Tax
WIETA – Wine and Agricultural Ethical Trade Association
WISE – Wine Industry Strategic Exercise
WOSA – Wines of South Africa
Abstract

The aim of this study is to evaluate South African black owned wineries and wine brand companies and make recommendations for the sustainable success of these entities within the wine industry. Literary research and information gained from interviews conducted with wine industry producers and bodies was analysed. The key finding of this study is that black owned wineries and brand companies' development is hindered by the lack of adequate partnership and mentorship relationships, experience and knowledge as well as integration into the South African white dominated wine industry. Funding is available for black owned wine companies, however mainly for the purpose of promoting exports while access to funds for the domestic market are considerably limited. Additional findings indicate that black owned wine companies are marginally represented in the South African retail market and those succeeding in this market are in partnership relationships. The significance of this study aims to benefit black owned wine companies through skills and knowledge transfer. It aims to encourage increased partnership initiatives, thereby reducing the difficulties and risks associated with emerging black owned wine companies operating in isolation. The increasing social and cultural pressures, including demands from the government, require wine businesses to incorporate integration and form partnerships.
Chapter One: Introduction

The South African wine industry, over the past two decades, has progressed significantly with regards to wine production, innovation and quality as well as creating an international brand. Currently, wine production in South Africa is ranked 8th in the world (VinPro, 2016). The economy of the country has greatly benefited from the wine industry, employing approximately 275 000 people (Augustyn, 2016). Of the 566 wineries, 10 are black owned (VinPro, 2016). There are a further 22 black owned wine businesses (Bowes, 2016). The purpose of this study is to evaluate the development and current position of black owned wineries and brand companies within the wine industry. The research aims to explore the contributing factors and possible opportunities for these companies to further develop within the South African wine industry.

South Africa’s wine industry has historically been a Eurocentric culture whereby all wineries and wine businesses were owned and managed by white people (Fridjhon, 2015). Since 1994, the democratic era has brought about many social changes. The central change being that of transformation, entitling black people to participate equally in all aspects of society including employment and the ownership of land and businesses. Since 1994 the government has implemented various legislation in order to accelerate the active integration of black people into society, thereby aiming to achieve equal contribution from all citizens to the economy. From 1994, a number of private wine farms and corporate wine companies have initiated the establishment of empowerment projects with their workers. Workers’ trusts have been created whereby workers can become shareholders in the business. However, transformation in the wine industry is slow. Wine industry stakeholders and the government, have developed a Charter for the industry with specific guidelines and targets, aiming to exponentially increase transformation (Asmal, 2007).

The South African wine industry is marginally represented by the South African population. The integration of black people into management and ownership positions in the wine industry remains a challenge (National Agricultural Marketing Council, 2008). Furthermore, government’s methods of compulsory compliance to transformation and change in the wine industry, has not yielded the intended results. These changes would be more successfully achieved by committed and willing industry stakeholders (Fridjohn, 2016). Wine industry skills, knowledge and experience is held within the industry. Concerted effort is required by its collective industry participants to transfer and share skills, knowledge and experience with previously excluded population groups wishing to enter the wine industry. Similarly, there exists a need for black owned enterprises to actively engage with the industry. The wine
industry is often perceived as closed and intimidating for outsiders to penetrate (Kleynhans, 2016). Within an inclusive economic framework in which integration is sought, the creation and development of partnerships and mentorships are key to the success and sustainability of a business (Jeftha, 2016).

1.1 Scope and contribution

This study is of significance in that it bridges a number of gaps between the production of wine and the consumer. The position a black owned wine company occupies in the supply chain of wine is of importance. On the one hand integration into the wine industry is required, and on the other a market related consumer interface is required (Jantjies, 2013). A company which has a relevant consumer strategy, meets transformation targets and is integrated in a sustainable manner would be able to demonstrate this business model in order to implement the best practices on a wider scale across the wine industry.

The research in this paper aims to benefit black owned wine companies by means of integration into the wine industry, in addition to skills and knowledge transfer. Additional advantages would be access to markets, distribution and sourcing of quality wine. A wide-reaching benefit would be further cultivating a wine culture amongst black people.

Wine producers, wines sales and distribution businesses will benefit from the research as the increased implementation of mutually beneficial partnerships and empowerment enterprises will result in a natural transformation. The wine industry's integration with the black majority population can lead to an improved understanding of emerging consumers. Through the sharing of knowledge and skills, existing producers can promote a wine culture amongst black people.

Government and wine industry bodies will benefit from this study by being in an improved position to administer appropriate and sustainable support to emerging black owned wine businesses. This study aims to provide guidelines in order to utilise funds with improved effectiveness and to develop processes and structures to assist a greater number of black owned enterprises. Various interventions by the wine industry, which would require facilitation from industry bodies will be outlined in this paper.

The research makes use of the expert knowledge of wine industry stakeholders gained by interviewing wine producers, black owned wine companies and industry bodies. Literary research was conducted from multiple sources. In order to avoid subjectivity, this paper will not focus on wine tastings, quality assessments and the comparison of black owned brands with local established wine brands. Similarly, consumer interviews were not conducted. The limited local retail representation of black owned wine brands would distort this research as
the majority of black owned wine brands are only available on the export market, therefore comparing approximately five black owned brands and several thousand established South African brands would be biased and inaccurate.

1.2 Overview of document

The background to transformation in South Africa and the wine industry is discussed in Chapter Two. This includes a review of the transformation framework of both government and the wine industry, in order to bring context to the current situation in the wine industry. Various examples of empowerment initiatives are discussed followed by land and labour reforms pertinent to wine industry transformation. Included, is the wine industry’s approach to sustainability, transformation and growth. Chapter Three evaluates and presents the business models of black owned wine companies. Contributing factors influencing these business models are explored.

In Chapter Four funding is explained and the available options for emerging enterprises are outlined. Funding partners are discussed and the contextual elements relating to finance and grants are specified. Elaboration on partnership models and the advantages and challenges of these relationships are described in Chapter Five. The cultural back-drop of South Africa and in particular, the wine industry, is explained in Chapter Six. Research leads to the consumption patterns of South African consumers which arise as a result of various cultural and economic elements in society. Lastly, Chapter Seven outlines the key findings and draws conclusions from the research collected. Recommendations made to the relevant stakeholders for appropriate interventions requiring the establishment and implementation of a number of industry initiatives, would be beneficial to the South African wine industry.
Chapter Two: Transformation Background

In 1994 South Africa became a democracy and the new African National Congress (ANC) government set about redressing historical wrongs by implementing new legislation. This aimed to integrate previously disadvantaged South Africans into an equitable work environment and address inequality. An outline of the government’s approach to transformation, including its empowerment framework, will be explained. Included in the outline is the wine industry and its main body’s response in addressing transformation. This chapter aims to explore the wine industry’s progress with regards to transformation and identify various leading examples of progress since 1994.

The South African wine industry directly and indirectly employs approximately 300 000 people. Included in this number are 160 000 people from previously disadvantaged backgrounds (Augustyn, 2016). Without political barriers, a greater number of black people have become involved in all aspects of the wine industry. The progress has been somewhat slower than government expectations, thereby placing greater emphasis on the wine industry to increase the pace of transformation. Various trusts and initiatives have been established to address transformation. A growing number of wineries have embarked on joint ventures with their workers, thereby enabling workers to become shareholders. Part of the role of trusts and joint ventures is to provide the transfer of skills in wine production, education, management, sales, marketing and farming. These skills transfer initiatives often extend to the surrounding communities (Wines of South Africa, 2016).

2.1 Black Economic Empowerment

The Act outlining ‘Broad Based Black Economic Empowerment’ (BBBEE) was implemented in 2003 by the South African government. The aim of this act was to establish a legislative process for the benefit of black economic empowerment. This Act was established to promote the achievement of the constitutional right to equality, to increase broad-based participation of black people in the economy as well as to promote an improved growth rate (DTI, 2016). Provision was made for increased employment and equitable income distribution. The Act further aimed to establish a national policy on BBBEE in order to promote economic transformation, protect the common market as well as promote equal opportunity and access to government services (DTI, 2016). The BBBEE Act defines ‘black people’ as a generic term which means ‘Africans, Coloureds and Indians’ (the Dti Department of Trade and Industry Republic of South Africa, 2016). Furthermore, the Act states that ‘Broad Based Black Economic Empowerment’ means the economic empowerment of all black people, including
women, workers, youth, disabled people, rural and urban dwellers. According to the Act, the empowerment of black people aims to succeed through diverse and integrated socio-economic strategies. These include several aspects such as:

- Increasing black management and ownership of enterprises and productive assets
- Facilitating ownership
- Promoting skills development

The overall objective of the Act is to facilitate empowerment by promoting economic transformation enabling meaningful participation of black people in the economy (DTI, 2016). In 1998, the Skills Development Act was launched with the objective to develop skills and to improve the workers’ quality of life. In the same year, the Employment Equity Act aimed to eradicate unfair discrimination in employment and to address employment equity. Furthermore, it seeks to address past discrimination and aims to achieve a workforce that is representative of the demographics of South Africa. The government has since enacted a number of legislative papers, created funds and attempted other initiatives to promote black economic empowerment. However, the government has come under criticism for failing to assist with the needs of the majority of underprivileged disadvantaged South Africans as promised (EconoBEE, 2016), (DTI, 2016).

2.2 The Wine Industry Transformation Charter

The wine industry, together with the government, developed a Wine Industry Transformation Charter to ensure a change in representative ownership structures. The South African wine industry BEE Charter and Scorecard was led by the South African Wine and Brandy Company (SAWBCo) and the South African Wine Industry Trust (SAWIT). Many workshops were conducted in order to assist interested parties in the wine industry. Various teams focussing on specific aspects of BEE were established (Wines of South Africa, 2016).

In 2007, the Wine Industry Transformation Charter was presented to government for consideration. This comprehensive document was developed in consultation with relevant industry and government stakeholders. The Charter is based on the government’s Codes of Good Practice on BEE as published by the government on 9 February 2007 (Asmal, 2007). The Charter recognises that much change and development is required for a sustainable and deracialised wine industry. The Charter’s focus is to accelerate change and transformation within the wine industry and to provide the strategic outline required to progress BEE. The general agreement that the process required partnerships, led to the finalising of the Charter. The vision of The Transformation Charter is based on the following:
The Charter emphasises that partnerships should be conducted in an enabling and structured environment. The combined efforts of partnerships would be important in order for the wine industry to succeed in a competitive global environment. The benefits of these efforts would both provide opportunities for previously disadvantaged people and improve their quality of life (Asmal, 2007).

2.3 Major empowerment initiatives

The wine industry has actively embarked on many empowerment initiatives in the past twenty years, with the number increasing each year. Various initiatives have brought about changes to empowerment and transformation in the South African wine industry. A few of the initial and leading examples of empowerment projects are mentioned in this section. The structure and scope of these projects is illustrated in order to gain an understanding of the best practices (Wines of South Africa, 2016). These initiatives include:

2.3.1 Bouwland

Bouwland, established in 1996, is one of the first and largest BEE initiatives. Bouwland was formed by Beyers Truter, the owner of Beyerskloof and Jan Hendriks, the founder of the Stellenbosch Farm Workers’ Association. The farm, located in the Bottelary area, has a 74% ownership by the Deelnemings Trust. The Trust represents 60 workers from Bouwland, together with the Kanonkop and Beyerskloof wineries in Stellenbosch. They are assisted by the Beyerskloof team in all aspects of winemaking, viticulture and marketing (Wines of South Africa, 2016).

2.3.2 Ko-operatieve Wijnbouwers Vereniging (KWV)

A business agreement was signed in 2004 between KWV and Phetego Investments, a black empowerment consortium. The KWV Employees Empowerment Trust was formed, of which Phetego Investments owns 25.1%. The Trust consists of previously disadvantaged
employees. KWV also co-founded and sponsored the South African Wine Industry Trust (SAWIT) which provides support for a variety of charities and fundraising events. The Employee Assistance Programme, founded by KWV, benefits KWV’s employees. The KWV’s Khula Programme focusses on socio-economic development initiatives in skills development by training unemployed young people specifically for the hospitality sector, in Paarl and Worcester. KWV also sponsors the Miglat ‘Project First Step’ which is inclusive of this programme. This initiative supports the restoration, development and empowerment of people and has a positive impact on communities (Wines of South Africa, 2016), (KWV, 2016).

2.3.3 New Beginnings

The New Beginnings initiative was the first black-owned wine farm in South Africa. In 1998 Alan Nelson, the owner of Nelson’s Creek wine farm in Wellington, allocated vineyards to farm workers. The workers collectively used their government housing subsidies to fund the planting of vines. The structure of this operation included the use of the existing winery facilities as well as skilled expertise, enabling workers to establish their own wine labels. The workers were involved in the production, marketing and export of their own wines. Profits were used to purchase additional land for planting vines as well as for housing and community facilities. The New Beginnings brand has been in the custodianship of FMS Food & Beverage SA since 2009 (Wines of South Africa, 2016).

2.3.4 Distell

Distell established a venture in 2005 with a BEE consortium, WIP Beverages which acquired 15% ownership in Distell’s holding company. The company is making progress with regards to transformation by means of a multi-faceted programme focussing on Papkuilfontein and the Tukulu brands. A trout farm was established by Plaisir de Merle, a workers’ trust and skills transfer initiative, at Durbanville Hills winery. A BEE initiative with farm workers from Uylenkraal and Lomond farms was formed. Distell has additional empowerment projects with industry and provincial government. An owner driver initiative was established in 1999 to enable drivers to own their own distribution business and carry out deliveries on behalf of Distell (Wines of South Africa, 2016).

2.3.5 Thandi Wines

Thandi, situated in Elgin, was established in 1995 as the first BBBEE project in South African agriculture. This venture was founded by Doctor Paul Cluver of De Rust farm in Elgin and Trevor Steyn from the nearby community. This initiative enabled workers to own farmland and
become beneficiaries of the new company, Thandi. With the collaboration and mentorship of the Paul Cluver Wine Estate team, Thandi established itself as a sustainable model for farming development and transformation in the South African wine industry. Stellenboch Vineyards is currently Thandi’s production partner. In 2009, Thandi became fully independent as a BBBEE wine company. Thandi not only promotes social transformation but also ethical trading and became the first wine brand in South Africa to use the Fairtrade mark on all their wines. Fairtrade is an independent consumer label. This label is applied to products to guarantee that disadvantaged producers and their workers, in developing countries, are not exploited (Thandi Wines, 2016).

2.3.6 Boland Cellars

Boland Vineyards International, trading as Boland Kelder and Boland Basadi Investments, reached a significant BEE agreement in 2005. The initiative introduced high profile businesswomen, which included Dr Namane Magau and Dr Thandi Ndlovu, into the wine industry. Boland Basadi Investments own 26% of the business in the marketing, procurement and services company owned by Boland Kelder. The workers’ trust, comprising of Boland Cellar workers, has been allocated 10% of the shares (Wines of South Africa, 2016).

2.3.7 Fairchild

Fairchild is a joint venture between Origin Wine and Du Toitskloof Winery’s approximately 800 workers. Fairchild is one of the largest Fairtrade-certified projects in the world. A minimum of 25% black ownership is required as part of the Fairtrade accreditation. All twenty two of the Du Toitskloof member-producers were Fairtrade accredited in 2005 (Wines of South Africa, 2016).

2.3.8 Lutouw Estate

Lutouw Estate, a BEE wine farming venture consisting of 420 hectares located near Lutzville, was established in the late 1990’s by two local farmers, Truter Lutz and Jan Louw. Lutz and Louw established Lutouw Estate together with 30 of their workers. SAWIT provided support with warehousing on behalf of the workers. The workers, together with Distell, hold a 40% share of the business. Distell provides support with financial surety in order to finance additional land for vineyard plantings. (Lutouw Estate, 2016)
2.3.9 Riebeek Valley Partners

Riebeek Valley Partners is the largest BEE project in the Swartland wine area. More than 160 farm workers benefited in a 40% share with the purchase of an 83 hectare wine farm near Malmesbury. Origin Wine has subsequently embarked on a marketing and distribution partnership with Riebeek Valley Wine Partners. This new BEE project is expected to positively impact the lives of 167 shareholder workers. Riebeek Cellars produce the wine for the Riebeek Valley Wine Partners and Origin Wine sell and market the brand locally and internationally. This structure ensures the development and sustainability of the investment (wineland.co.za, 2014).

2.3.10 Van Loveren Winery

Van Loveren Winery, located outside of Robertson, acquired a wine farm in 2006 as a BEE collaboration with 116 members and formed the De Goree Trust. At a cost of R4.9m, the 138 hectare farm was purchased together with farming implements including established vineyards and orchards. The Van Loveren workers own 52% share in the farm and the De Goree grapes are used for the Five’s Reserve range. The Trust holds a share of 25% in this joint venture (wine.co.za, 2006).

2.3.11 Koopmanskloof Winery

The Koopmanskloof farm has a long family wine tradition dating back to 1895. Stevie Smit, the farm owner, transferred a 52% share of the farm to his workers and staff. The Koopmanskloof Wingerde Trust was established in 2004. Workers own 100% of the Vredehoek Farm including a 26% share in the new operational company, Koopmanskloof Wingerede. A black Chief Executive officer (CEO) shareholder was appointed to run the entire operation. Koopmanskloof has since achieved various environmental, sustainability and ethical accreditations such as; Wine Industry Ethical Trade Association (WIETA), Biodiversity Wine Initiative (BWI), Integrated Production of Wine (IPW) and Fairtrade. The empowerment operating model of Koopmanskloof has been the turning point for the sustainability of the family-owned grape farm (Koopmanskloof, 2016).

2.3.12 Thokozani Wines

The Diemersfontein Wine and Country Estate owners, David and Sue Sonnenberg, established an empowerment company in 2007. Thirty-five farm and cellar workers hold an 80% share in the company. The initiative included some white management in order to provide
mentorship and skills transfer. Workers were allocated shares based on service and were able to purchase additional shares by means of a long-term 2% salary deduction. The new BBBEE company, Thokozani Wines, produces wines under their own label. All production is at the Diemersfontein winery, using existing infrastructure and resources. Sales are predominantly export focused with a small percentage of sales from the Diemersfontein Tasting Room. In October 2015, a new exclusive brand Ovation, was developed by Thokozani Wines and launched together with Woolworths. National listings in Woolworths stores, developed with a consumer approach, enabled Thokozani to significantly increase their volumes (Network24 Paarl Post, 2015). The Thokozani company has a diversified portfolio – owning property, offering guest accommodation and conference facilities on the Diemersfontein Estate (Thokozani, 2016).

2.4 Education initiatives

Education forms an important aspect of the transformation process in addressing poverty, social issues and inequality. Many non-profit trusts, winery and community initiatives with a focus on education and skills development have been established in the past twenty years. Industry education initiatives provide a much-needed service in an environment where formal educational is unaffordable. A combination of sponsorships, partnerships and donations sustain these initiatives (Wines of South Africa, 2016). Many of the adult skills development centres focus on specific skills such as winemaking, sommelier skills, youth development and vineyard skills. An example of such an education centre is the Graham and Rhona Beck Skills Centre in Robertson (Graham & Rhona Beck Skills Centre, 2012). A winemaking education initiative, the Nedbank Cape Winemakers’ Guild Protégé programme, was established for mainly young black winemakers (Cape Winemakers Guild, 2016).

2.5 Land reform initiatives

According to wine industry body, VinPro, 1.5% of South African vineyards are owned by black South Africans. VinPro aims to increase this percentage to 20% during the following ten years. The government’s National Development Plan (NDP) however, has a target of 20% by the year 2030. A few wine producers have initiated transformation, donating as much as 30% to 50% of their land to their workers. An example of such an initiative is Solms Delta, a wine farm near Franschhoek. In 2007, the owners donated 30% of their land and wine production business to their workers and residents (Solms Delta, 2016).
Rico Basson, the Managing Director of industry body VinPro, suggests in the 2015 February Business Day monthly online article that opportunities for utilising grazing land for vineyards exist, if government provides access to water. Basson suggests that land reform initiatives should be 30% funded by the wine industry. The remainder should be funded by government and the Land Bank which could offer long term loans at low interest rates. Basson further explains that this model has been used successfully in Germany and presents excellent investment opportunities for local and international investors. The government however, is tabling a 50% black ownership of farmland and that foreigners are prevented from buying land by 2030. The government’s view on land reform has been a concern for foreigners and investors. Local white wine farmers are likewise apprehensive, reports Basson. (Business Day BD Live, 2015).

2.6 Labour initiatives

A significant improvement in labour relations in the Western Cape’s wine and fruit sectors was undertaken on 1 June 2015 in Paarl. The Memorandum of Understanding (MOU) between two industry organisations, VinPro and HORTGRO as well as the National Trade Union in agriculture, Food & Allied Workers Union (FAWU) was signed. The MOU outlines long term commitment of all parties to build relationships, trust and co-operation as well as to ensure the sustainability and profitability of the wine and fruit industry. The improvement of farm workers’ lives would be a focus area for this initiative (wine.co.za, 2015).

SAWIT is a government established body for the South African wine industry. Its main purpose is to empower and improve the lives of farm workers and to ensure equality in the wealth of the wine industry. Charles Erasmus, the CEO of SAWIT, interviewed in 2015 by Elona Hesseling from Wineland, states that the various BEE projects undertaken provide access to skills and career advancement, support land reform and encourage enterprise development. The development of the required skills, particularly at management level, Erasmus elaborates, are expected to improve wine industry transformation. Funding was made available by the National Skills Fund of the Department of Higher Education and Training. Projects are available to unemployed black matriculants under the age of 35 years as well as to workers in the wine industry who reside in the winelands district of the Western Cape (South African Wine Industry Trust, 2016).

2.7 The Wine Industry Strategic Exercise initiative

The South African wine and brandy industry have identified and developed the need for a comprehensive wine industry strategy that aims to provide a sustainable future by 2025. This
includes a concise and flexible approach to ensure profit, competitiveness and sustainability. VinPro, together with industry stakeholders launched a strategic initiative – Wine Industry Strategic Exercise (WISE) in 2015 (Basson, 2014).

This initiative covers six themes:

1. Economic empowerment and development
2. Human resource development
3. Knowledge and information development
4. Market development and promotion
5. Social development and upliftment
6. Technology innovation and transfer

The WISE document lists six significant shifts required to positively impact the wine industry:

1. Market analysis and formalising a global trade agenda
2. Wine tourism strategic agenda
3. Brand South Africa marketing strategy
4. Land reform and transformation plan
5. Technology skills transfer and innovation strategy
6. The social impact of wine

The WISE initiative was officially launched in January 2016 at the Cape Town International Convention Centre (Basson, 2014).

2.8 Summary of transformation

The government has, in the past twenty years, made significant progress in establishing an improved and structured environment in which to bring about transformation and empowerment. However, the wine industry lags behind in this regard and faces a number of challenges. Many of these challenges are due to the dominance of white family ownership of wineries and wine farms mainly gained through inheritance. In addition, profits are marginal in wine farming, making it difficult for wineries to invest in new partnership initiatives (Fridjohn, 2016). There are however, examples of sustainable and meaningful transformation initiatives which have been established by farm and winery owners (Davidson, 2015). Wineries which have made little to no effort with regards to transformation, could find themselves in an uncomfortable position should future legislation dictate to their business decisions (Ewert, 2005). It would be advisable for the government to implement incentive measures which encourage wineries to empower workers or develop partnerships with black people, rather than enforce compliance. A suggested incentive could be for the government or industry body to subsidise farming costs for participating wine farms or partly fund new partnerships. The
majority of initiatives which have proven to be viable have been modelled on worker collaboration ventures within existing infrastructures. The benefit of utilising existing facilities and expertise and skills with a streamlined transition have proven to be, in the examples mentioned in section 2.3, sustainable (Jeftha, 2016). The increasing success and awareness of the empowerment and transformation ventures, together with a greater industry focus by the main stakeholders such a VinPro, Wines of South Africa (WOSA), SAWIT and others, has placed this issue firmly on the wine industry agenda, providing momentum for transformation and empowerment (VinPro, 2016).
Chapter Three: Business Models

The majority of South African wineries have a local and international business model (WOSA Wines of South Africa, 2016). Wineries which sell wine to retailers and restaurants, either directly or through agents or distributors, are traditionally the local model. An important domestic activity is that of tourism, whereby wines are sold from tasting rooms or winery restaurants. Wineries which use agents and distributors to ship wine, follow the international model. This model varies across wineries depending on specific strategies and focus areas. For long term sustainability and success of a winery, it would be beneficial for a winery to ensure a balance between local, international and tourism initiatives. This balance will minimise risk and maximise profitability. Each initiative can operate independently and can create a diverse approach to a winery (Burger, 2013).

3.1 Producer and industry interviews

Fifteen interviews were conducted with wine industry producers, black owned wine companies and wine brand owners, marketers, retailers and industry bodies in order to obtain perspective and information about black owned wine companies, empowerment initiatives and partnership ventures. The interview with retailer Checkers was conducted via email and the interviews with Warwick Estate, WOSA and retailer Pick n Pay via telephone. The remainder were conducted face-to-face.

The following wine industry members were interviewed for their comment:

Representing black owned wineries and wine brand owners:
- Rydal Jeftha - Managing Director of Koopmanskloof
- Vernon Henn - CEO of Thandi Wines
- Vivian Kleynhans - CEO of African Roots and African Vintners Alliance
- Denise Stubbs – Managing Director of Thokozani

Representing wine producers:
- Jeff Grier – Managing Director of Villiera Wines and M ‘Hudi Wines’ mentor
- Neil Ellis – Managing Director and owner of Neil Ellis Wines
- Mike Ratcliffe – Managing Director and owner of Warwick Wines and JV partner
- Bruwer Raats – Managing Director and owner of Raats Family Wines and JV partner
- Paul Cluver – Managing Director and owner of Paul Cluver Estate

Representing distributors and marketers:
- Geoff Harvey – Marketing Director of Vinimark
Representing industry bodies

- Matombe Mbatha – Marketing Manager of WOSA
- Philip Bowes – Transformation Manager of VinPro

Representing retailers:

- Stephanus Eksteen – National Liquor Buyer at Checkers / Shoprite
- Mignon du Plessis – Wine Buyer at Pick n Pay

Representing large producers:

- Danie de Kock – Marketing Director of Spier Wines

3.2 Types of BEE wine companies

There is no specific preferred business model, however there are two main types of winery models that currently exist with BEE wine companies in South Africa. These are wine producers and wine brand companies, both of which will be discussed below in sections 3.2.1 and 3.2.2 respectively. The majority of BEE wine companies fall under wine brand companies and joint venture companies with few owning land and winery facilities (Mbatha, 2016).

3.2.1 Wine producers

The production of wine is a business which has economic conditions that determine production practices. In order to succeed in making wine, wine producers should balance creativity, quality and profitability. Typically, wine producers own land with vineyards, a cellar and facilities for wine production. Winemakers should also possess an intrinsic understanding of the consumer market and the needs of this market in order to establish their wine brand in their chosen markets (Bisson et al., 2016). A minor percentage of BEE wine companies own their own land and vineyards; this represents 1.5% of total vineyards in South Africa. Table 1 reflects the 2015 total South African wine producer structure. There are no 100% black owned wineries in South Africa, however there are 10 BEE producers with varying percentages of ownership from 25% to 60%. The contribution of BEE partnership producers to the total number of producers is 1.8% (Bowes, 2016). An example of a black owned wine producing company where equity in land and production exists, is Solms Delta in Franschhoek and Koopmandkloof Winery (Business Day BD Live, 2015).
Table 1: Number of wine cellars in South Africa

<table>
<thead>
<tr>
<th></th>
<th>Private cellars</th>
<th>Producer cellars</th>
<th>100% black owned cellars</th>
<th>BEE partnership cellars</th>
<th>Producer Wholesalers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>484</td>
<td>48</td>
<td>0</td>
<td>10</td>
<td>24</td>
<td>566</td>
</tr>
</tbody>
</table>

(VinPro, 2016) (Bowes, 2016)

3.2.2 Wine brand companies

Wine brand companies purchase wine from wineries and label under their own proprietary labels and brands. Land or winery facilities are not owned. Table 2 indicates that of the 32 black owned wine companies, 22 sell wine and 10 operate as producers in addition to selling wine. The wine production process is outsourced. This includes the crushing of grapes, fermenting, winemaking, blending, filtration, bottling and labelling. BEE wine brand companies operate with minimal staff resources and usually have two or three people working in the business. The main responsibilities in this model are managing and co-ordinating the outsourced process, finances, administration, marketing activities, branding and export logistics. These companies operate as wine traders and marketers and only sell wine. Specific aspects of the wine business are managed at the end of the value chain (National Agricultural Marketing Council, 2008). An example of such a company is African Roots Wines with their brand, Seven Sisters (Kleynhans, 2016).

Table 2: Black owned wine brand companies - nature of business

<table>
<thead>
<tr>
<th></th>
<th>Sales only</th>
<th>Producer - 100% BEE</th>
<th>Producer - partnership</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>22</td>
<td>0</td>
<td>10</td>
<td>32</td>
</tr>
</tbody>
</table>

(Bowes, 2016)

3.3 Ownership models

There are significant advantages for black entrepreneurs to partner with a winery in a new business. The winery partner has many years of experience and knowledge in the wine industry as well as an established wine brand (Raats, 2016). Advantages include access to markets with established customers and retailers as well as access to existing local and international supply chain networks. Risks, investments and profits are shared by both parties. In the case of a 100% black owned enterprise, the knowledge, experience and skill of operating in a complex and competitive wine industry does not usually exist (Jantjies, 2013).

3.3.1 Black owned

Black ownership is the actual ownership of an enterprise by a black person(s). The management is the responsibility of the black owners of the company (DTI, 2016). The majority
of black owned wine companies which fall within this ownership structure have very few resources and do not own land or cellars (Bowes, 2016).

3.3.2 Partnerships (Joint Ventures)

A joint venture is the mutual cooperation between two business entities which jointly share the responsibility of financial resources, information, facilities, market and risks. It also creates the ideal environment in which to build trust and operate with improved efficiency thereby saving costs (Kumar, 1998). Joint ventures can also combine skills and share equity in order to develop into a larger and more effective business. Complimentary abilities and resources make good business sense for a joint venture to succeed (University of Barcelona, 2003). With the combined activities and resources, joint venture partnerships operate as a complete unit, covering all aspects of the wine production business. Each party is responsible for adding value throughout the supply chain. Koopmanskloof Winery is an example of a joint venture. The workers’ trust company manages production, export and the selling of wine with grapes purchased from the farmer (Jeftha, 2016).

An equity share scheme is a form of joint venture created particularly for the wine and fruit industries. This scheme was designed to enable farm workers to become investors. The high cost of farm land for agricultural purposes and the length of time it takes to yield a return on the land makes it difficult for farm workers to become investors. The commercial farmers’ objectives determine the overall structure of the equity scheme: access to land, funding, skills, education and markets. The key benefits of shared equity schemes are access to funds, in addition to expertise and experience (VinPro and Nedcor Foundation, 2004). Examples of equity schemes in the wine industry are Thandi Wines and Lutouw Estate (Vaca, 2003).

3.4 Operating model of a black owned wine brand company

The model is based on a wine sales approach without production or land ownership. Exporting is the major focus. Only three brand companies have a local presence of more than 20% contribution to sales (Bowes, 2016). Table 3 indicates the volume size in bottle sales per annum of all black owned wine companies. It can be noted that 75% of the number of black owned wine companies produce less than 100 000 bottles per year – approximately 8000 cases (12 x 750ml). The wine companies producing over 400 000 bottles per year are in BEE partnerships with wineries and farms (Bowes, 2016).
Table 3: Size of black owned wine companies (bottles per year)

<table>
<thead>
<tr>
<th>Bottles per year</th>
<th>Number of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 5000</td>
<td>6</td>
</tr>
<tr>
<td>&lt;10 000</td>
<td>4</td>
</tr>
<tr>
<td>&lt;30 000</td>
<td>8</td>
</tr>
<tr>
<td>&lt;40 000</td>
<td>4</td>
</tr>
<tr>
<td>&lt;100 000</td>
<td>2</td>
</tr>
<tr>
<td>&lt;150 000</td>
<td>3</td>
</tr>
<tr>
<td>400 000 to 600 000</td>
<td>3</td>
</tr>
<tr>
<td>600 000 to 2 500 000</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
</tr>
</tbody>
</table>

(Bowes, 2016)

3.4.1 Sourcing of wine

Direct control of the sourcing of wines and grapes are challenges in an environment where control is in the hands of the outsourced winery. Wines are presented by the winery for the brand owner to select after an initial brief on style and cultivar direction (Kleynhans, 2016). Wineries which are outsourced for wines, particularly for low to middle priced volume wines, are also sourced for their complete services. Viticulture services are not employed. Grapes or wines are not procured in advance due to the lack of capital which is required several months before the respective wines can be sold (Kleynhans, 2016). Purchasing and owning vineyards, in order to have direct control over grape quality from the beginning of the value chain, is not possible due to the high cost of land and farming. Black wine brand owners are pursuing the wine business from a commercial, entrepreneurial and marketing approach. They are not actively pursuing the idea of becoming farmers as well as brand marketers, explains Jeff Grier, mentor and winemaker of M ‘Hudi Wines for the Rangaka family (Grier, 2016).

3.4.2 Winemaking and production

Due to the absence of wineries and production facilities in the business model of black wine brand companies, production and winemaking aspects are outsourced (Kleynhans, 2016). According to Kleynhans access to production partners, who are flexible with smaller production volumes, is a constant challenge. The black owned wine brands require smaller production runs with greater flexibility. Flexible production facilities are important as planning smaller production runs with shorter lead times, aids black owned businesses with improved cash flow for outsourced services. Changing production facilities due to inflexibility of these facilities is detrimental in maintaining consistently good quality wines and can present challenges with regards to shipping and availability deadlines, reports both Kleynhans
(Kleynhans, 2016) and Vernon Henn (Henn, 2016). Wine brand owners become actively involved mainly towards the end of the production cycle. Wines are therefore selected or approved primarily after production. Geoff Harvey, the Marketing Director of Vinimark, explains that there are not enough black winemakers in the industry. Winemakers are at the centre of the wine industry. They not only have a passion for wine but also possess the necessary technical knowledge and industry background. Harvey further elaborates that winemakers have a role in developing a wine culture among South African wine consumers and potential new wine consumers (Harvey, 2016). The Nedbank Cape Winemakers’ Guild Protégé Programme is a worthy initiative. It has had excellent results in sponsoring and producing black winemakers, as stated by Harvey. However, the number produced, is actually small for the industry. Initiatives such as this, should have far greater industry and government support to produce a greater number of black winemakers (Harvey, 2016).

3.4.3 Production - Bottling and Labelling

The production activities, such as bottling, filtration and labelling are outsourced, as indicated in 3.4.2 under Winemaking. For economical and practical reasons, production partners are required for the entire duration of the winemaking process. While it is convenient to have access to multiple services, these facilities are large scale operations and may not cater for the needs of both parties (Henn, 2016).

3.4.4 Distribution

Brand owners manage the distribution activities. There are a few exceptions such as Mandela House which is distributed by Vinimark and Thokozani’s Ovation range which is distributed by Woolworths. Access to distribution networks are challenging and expensive. Local distributors mainly focus on high volume leading brands with limited interest in smaller unknown BEE brands. This, according to Kleynhans, is one of the key reasons why the domestic market is not a major focus for BEE brands. Individual distribution activities, on a small scale, are manageable but limited. In order for brands to benefit from a wider and increased distribution on a national level, it is essential for BEE brands to engage with distributors in the industry (Grier, 2016). Geoff Harvey from Vinimark indicates that a distributor has to ensure brands are viable to be listed. Every effort is made to list a few small unknown wine brands in order to offer support, capacity is however limited (Harvey, 2016). Retail representation is limited with approximately five black owned wine brands listed in the main supermarkets (Du Plessis, 2016).
3.4.5 Brand message

Wine producers who own a winery use the winery or farm name to anchor their wine brand. Wine brand companies, in the absence of winery ownership, have to create a relevant theme or concept brand that conveys a particular brand message. Vernon Henn from Thandi wines believes a wine brand needs a permanent “home” from which to operate (Henn, 2016). Ownership of land offers the ability to market a farm or site on a wine label. This is an important element to communicate to consumers (Jantjies, 2013). Jeff Grier makes the point that a black owned winery business is different to a black owned wine brand. In a wine brand company, the brand is the business. It is not a wine business model that has a wine brand (Grier, 2016). Branding is vitally important, states Geoff Harvey. Harvey maintains that black consumers are very brand focused and tend to avoid unknown brands of both wine and other commodities. Harvey further explains that the common use of tribal or African themes in black owned wine brands are not popular with American consumers nor with South African black consumers. Brands which look like international brands are desired (Harvey, 2016). The ‘Africanisation’ themed approach, as termed by Jeff Grier from Villiera, has limited appeal to customers. Customers seek wine brands with a classic wine producer identity (Grier, 2016). Matame Mbatha, Marketing Manager of WOSA, explains that wine brand owners do not have a home or winery as their core base and are, as a result, virtual businesses. This could have an impact on brand companies as consumers question the brand’s primary production, and a negative perception about the quality of the wines could be created. Mbatha further elaborates that building brands which can succeed locally as well as internationally, requires a shift in the competitive advantage without the use of race messages (Mbatha, 2016). Stephanus Eksteen, the National Liquor Buyer for Checkers and Shoprite, outlines his view from a retail perspective, stating that there is consumer resistance to ethnic labels from black owned wine brands. Furthermore, these brands are more difficult to sell, particularly those over the R50 price point (Eksteen, 2016). Du Plessis from Pick n Pay concurs that most of these brands have greater success retailing below R50 per bottle (Du Plessis, 2016). Almost all wines refer to the regions or origins of the grape source, indicates Harvey. It is important for the wine industry to depict regions on wine labels however, states Harvey, wine brand companies are generally not regional in nature and most do not think it important to mention regions (Harvey, 2016). When following a domestic strategy for brand owners, it is recommended to actively conduct market research on wine consumers in order to determine which marketing message or themes have appeal. If the local market is to be an important focus, the research can be used to develop a marketing and distribution strategy. This offers a diverse range of activities and various sources of income (Ratcliffe, 2016).
3.4.6 Local marketing activities

Wine shows countrywide offer the opportunity for wineries and brand owners to expose their wines to a wide profile of wine consumers. For small independent brand owners however, the wines needed for sampling, exhibiting and travel are costly, reports Vivian Kleynhans of Seven Sisters. Kleynhans adds that it is useful to a degree to expose brands at domestic wine shows. However, without existing listings in major chains, it makes this marketing exercise somewhat futile. Kleynhans mentions that there is no financial assistance for black owned wine brands to exhibit and travel to domestic wine shows. Servicing of the local market is difficult, requiring greater effort and expense. The domestic market, which has approximately half a dozen major supermarket retailers, is highly competitive. Buyers and distributors are mainly interested in larger, better-known brands with high volume turnovers (Kleynhans, 2016). Exposure of wines by means of consumer tasting platforms such as wine shows or winery tasting rooms is essential to build brand awareness. Without tasting room facilities and non-attendance at the main wine shows, this becomes difficult (Grier, 2016). According to Mike Ratcliffe, Managing Director of Warwick Wine Estate, the wine industry is no different from any other industry with regard to creating a successful brand. When an entrepreneur does not have a history or inherited culture in the chosen industry, added value should be created and innovation pursued in order to offer added value in a saturated market (Ratcliffe, 2016).

The South African wine market is growing at almost 7% while exports are in decline (VinPro, 2016). According to Michael Fridjhon, Gauteng is the largest market in the world for South African wines. Consumers are becoming more adventurous and experimenting beyond regular known brands. Therefore, the opportunity exists for black owned wine brand owners to market and sell wine locally where demand exists. The domestic approach allows brand owners to constantly engage with consumers, distributors and retailers, thereby positively impacting wine sales (Augustyn, 2016).

3.4.7 International activities

According to Kleynhans, black owned wine brands are small independent operators focused mainly on the export market. They have limited cash flow and resources to conduct domestic marketing activities (Kleynhans, 2016). The export market is easier and financial support is offered by WOSA and the Department of Trade and Industry (DTI) (Kleynhans, 2016). The international market offers many new markets to explore with the added benefit of funding support from WOSA and the DTI (Henn, 2016). In an article published on the 20th of November 2006 on wine.co.za, Kleynhans reports to journalist Kim Maxwell, that 80% of Seven Sisters’
wines are exported (Maxwell, 2006). Kleynhans reports that the South African market is highly competitive and price driven with many price promotions at retail level. There is an over-supply of local wines competing for retail shelf space (Maxwell, 2006). Mbatha, from WOSA, mentions that black owned wine brands seek international markets for several reasons; the lack of consumer support locally, the receiving of export levies for every case of wine sold internationally, and the funding of travel and of exhibiting costs for selected wine shows and events abroad by WOSA and the DTI. Mbatha adds that, there is no local incentive scheme from industry or government for black owned wine brands to exhibit at local wine shows (Mbatha, 2016). Rydal Jeftha, from Koopmanskloof, confirms Mbatha’s comments that funding is annually available from WOSA for black owned wine brands and wineries to attend and exhibit at WOSA funded international events. The opportunity and ability to operate on an international level, Jeftha adds, enables exposure to major wine markets and to take advantage of South Africa’s successful wine exports. Jeftha mentions that the international markets offer many new opportunities and a diversity of selling platforms. Jeftha points out that the domestic wine market has minimal growth and is difficult to penetrate, whereas markets in Africa, China and Russia are growing rapidly. Jeftha believes the attention should be given to these markets. In addition, Jeftha points out that payment terms for exporting are more attractive than the domestic market. This has a positive impact on cash flow as payment is made within 30 days of the wine leaving South Africa.

A few countries such as Russia make payment before the wine leaves the country. The domestic payment terms are from 60 to 90 days. Rydal emphasises that this is a major advantage for adopting an export focus for any small black owned brand (Jeftha, 2016). In the 29 June 2016 edition of the Helderberg District newspaper, Bolander, Jeftha reports that Koopmanskloof has signed a business agreement with a Russian distribution agency. This is a long term contract for selling Koopmanskloof wines, commencing with 60 000 bottles in July 2016. Jeftha states that this will provide increased domestic employment. Business agreements of this nature provide hope to BEE enterprises which are finding penetration of the local market difficult (Bolander, 2016).

3.5 Summary of business models

Owning land, vineyards and a well-equipped winery is the traditional wine business model. However, due to the high cost of land and construction, this poses a major challenge when entering the wine industry. Wine business entrepreneurs who create 100% black owned wine brand companies are able to succeed. However, the business model must be correctly implemented, and wine industry partners and mentors found as well as retail partners
established (Jantjies, 2013). Emerging enterprises should establish methods to be in control of the sourcing of grapes or wines to ensure improved quality. Black wine brand owners require flexible production partners in order to suit their specific needs. The current business model of black owned wine brands is better suited to an export focus where funding support and access to international markets exists (Jeftha, 2016).

A finding identified in this chapter is that black owned wine brand companies are faced with challenges. Although the government offers some funding and support, the extent of the funding required for working capital and outsourcing significantly exceeds the support provided. Access to funding and finance is difficult to obtain due to a lack of land or assets owned by black brand companies. There exists a shortage of black winemakers who could be brand owners or act on behalf of black owned brand companies. Marketing elements and distribution functions are lacking domestically for black owned brand companies. The sourcing of wine is a challenge due to lack of industry contacts and knowledge. In addition, financial pressures and limited cash flow restrict the ability to finance wines several months before they are sold. The export market is the preferred route due to the support and the provision on incentive schemes by the government and WOSA. In addition, foreign payment terms are more favourable. Domestic marketing elements and distribution functions for black owned wine companies are lacking. Furthermore, the domestic market obtains minimal support and is therefore perceived as difficult and costly, and thus given minimal attention.

The joint venture business option presents advantages of shared risk and access to finance, knowledge and skills. These are important considerations for a new business. Additional benefits are the experience of wine industry partners who can provide valuable mentorship, and marketing support as well as access to established markets and distribution networks. In 3.4 of the title Operating model of a black owned wine brand company, it can be noted that BEE wine companies achieving the greatest volume turnover are all partnerships. The partnership option allows for joint decision-making with accountability. Both parties have investments in the business and pursue common goals of building a growing and profitable business (Jeftha, 2016). It can be concluded that these advantages and benefits make the partnership model a recommended approach for an emerging wine enterprise.

A recommendation for black owned wine companies would be to re-establish the African Vintners’ Alliance (AVA). In order to be manageable, this initiative should consist of five or six like-minded black owned wine companies. The services of wine industry experts in areas of marketing, winemaking, sourcing wine, distribution, sales and retail, should be enlisted. AVA can learn from the Swartland Revolution initiative whereby each brand owner and winery, united to create a regional statement for marketing impact (The Swartland Revolution, 2015).
A common wine theme, without a racial message, is needed for this initiative. The main industry body should facilitate the initiative using wine industry experts for mentorship. Funding could be provided by government and industry bodies.
Chapter Four: Funding an emerging wine business

The context of this research relates to funding required for emerging wineries, wine companies and empowerment enterprises. This chapter will focus on the essential aspects of funding for an emerging winery or wine business.

The research collected will clarify the particular finance options available to an emerging black wine enterprise. Various industry bodies and their functions have been explored in order to present the most suitable finance options for such an enterprise. Wine industry body, VinPro and the Nedcor Foundation (Nedbank’s social investment arm), collaborated together to develop funding guidelines for emerging producers and enterprises in the wine industry. The report outlines funding options and various finance considerations for a new enterprise (FA News, 2011), (VinPro and Nedcor Foundation, 2004). The three sources of funding are:

1. Loan financing
2. Equity financing
3. Grant financing

The above sources of funding can be structured in multiple combinations. Each of the sources possess unique advantages and disadvantages for the funding party as well as for the benefiting party. In addition, there are numerous funding instruments particular to a situation which have been used to fund wine farms and wine brand companies (VinPro and Nedcor Foundation, 2004).

4.1 Funding considerations

Affordable access to finance is of major importance for any new wine business. In order to achieve success, the business model should aim to achieve the following goals:

- Profitability
- Long term sustainability
- Empowerment within an agreeable time frame
- Transformation within the wine industry

One goal must not be achieved at the expense of another. To ensure that these goals are met, four key conditions are required within the structure of empowerment initiatives. These four conditions are: financial risk, skills transfer, exit plan, return on investment (VinPro and Nedcor Foundation, 2004).
4.1.1 Financial risk

Structures within a business should prevent over-extension of loaned capital to ensure that repayments are met. Alternative financial options should be sought and risks managed. The implementation of various equity mechanisms can satisfy banks when offering loans (VinPro and Nedcor Foundation, 2004) (Grier, 2016).

4.1.2 Skills transfer

The intensive nature of skills required within the wine industry should be taken into account by new entrants into the industry. Incentives should be developed for partners and mentors who offer the relevant skills. Similarly, new emerging investors should either be rewarded for applying new skills or penalised for not making use of skills provided. Both parties should take responsibility if the skills transfer is not implemented accordingly (VinPro and Nedcor Foundation, 2004).

4.1.3 Exit plan

Emerging enterprises find entering the wine industry difficult due to the high cost of land, equipment and the nature of the intensive skills needed. Capital intensive costs are barriers if enterprises need to exit the wine industry, as liquidating assets is difficult. The VinPro and Nedcor report cautions that measures should be in place which enable an exit plan which benefits both partners (VinPro and Nedcor Foundation, 2004).

4.1.4 Return on investment

A new enterprise should be structured in such a manner that there are both short term and long term benefits. The new emerging business should realise tangible returns and improvements to livelihood in order to further incentivise the investors. It is important for basic needs to be met, however, understanding the importance of long term wealth is an important consideration (Jeftha, 2016).

4.2 Loan financing

Various banks and financial institutions provide loans to new entrepreneurs entering the agricultural market. The government owned Land Bank is the major bank offering services to
this sector (Funding Connection, 2015). Owning land provides greater ease of access to loans for additional land or equipment but it is not a prerequisite to obtaining a loan. Black owned brands, which are by nature wine traders and marketers, can find it difficult to obtain loans for working capital and expenses due to not owning land or assets (Bowes, 2016). This factor often forces emerging brand owners to approach commercial banks for loans in a private capacity. Preferential rates are not easily provided and personal assets need to be used as surety (Kleynhans, 2016).

There are many financial institutions and government agencies providing financial services. For the purpose of this paper only the main funding institutions and bodies, important to the wine industry, are mentioned below (Bowes, 2016).

4.2.1 The Land Bank

The Land Bank of South Africa is the most important specialist bank for the agricultural sector. It is a major financial contributor in agriculture. The Land Bank’s mandate is to provide financial assistance to commercial farmers and to agribusiness. The mandate also provides access to finance for new entrants to agriculture from previously disadvantaged backgrounds. An extensive choice of loans are offered for purchasing land, equipment and working capital for agribusiness initiatives.

The Land Bank provides establishment loans to farmers for seasonal crops. This loan can be accessed by individual farmers, groups or a legal entity. Loans are granted to large farms as well as to small-scale enterprises.

Instalment Sale Finance loans are also offered which are medium-term loans. Goods purchased act as security for the loan. This enables all farmers, particularly those with limited assets, to develop their businesses.

A special mortgage loan is structured for South African previously disadvantaged individuals who have the potential to develop viable businesses. Additional features are special interest rates which are set at 10% and fixed for 24 months – the intention is to maintain this percentage for as long as market conditions allow. The maximum loan at the special interest rate is R500 000. Should loans exceed R500 000, standard interest rates are charged for the amount in excess of R500 000. The loan term is a maximum of 25 years. The creation of affordable, viable and fundable business plans is provided by the Land Bank (Funding Connection, 2015).
4.2.2 Capital Harvest

Capital Harvest is an independent financial services company based in Stellenbosch. It provides services solely for the agricultural sector with a focus on the emerging farmer. Financial solutions are provided covering a wide range of products including: Terms loans, Instalment Sale Agreements, Revolving Credit facilities, Production Finance and Seasonal crop facilities. The Land Bank, a major shareholder of Capital Harvest, provides funding for loans on behalf of the government (Capital Harvest, 2016).

4.2.3 Commercial Banks

Commercial Banks focus on providing financial solutions for any individual and business at market related rates and terms. They are not aimed at the agricultural sector. However certain commercial banks undertake social development initiatives for the wine industry. An example of such an initiative is the Nedbank Winemakers’ Guild Protégé Programme. The Protégé Programme supports winemaking education at Stellenbosch University and Elsenberg College for previously disadvantaged students (Cape Winemakers Guild, 2016).

4.2.3 Small Enterprise Development Agency (SEDA)

SEDA is an agency within the government’s Department of Small Business Development. The mandate of SEDA is to implement the government’s small business plan, establish a national standardised structure for small enterprise development and integrate government funded initiatives. The purpose of SEDA is to develop, support and promote small businesses as well as to ensure their sustainability by co-ordinating best practices with partners and stakeholders (SEDA Small Enterprise Development Agency, 2016).

4.2.4 Industrial Development Corporation (IDC)

The IDC is a government division falling under the Department of Economic Development. The primary objective of the IDC is to finance industrial development projects for the manufacturing of goods, to promote partnerships across industries and to support regional growth. It also plays an active role in supporting job creation through the funding of industrialisation. The IDC reports that between 1994 and 1999 over R400 million was used in the form of low interest loans for cellars, machinery and equipment by the Western Cape wine industry (IDC Industrial Development Corporation, 2016). Secondary roles of the IDC are to improve development in rural areas and to promote entrepreneurial development in small to medium sized enterprises. Supporting transformation in communities also forms part of their role (IDC, 2016).
4.2.5 National Empowerment Fund (NEF)

The NEF’s role is to support the government’s mandate for BBBEE. It is a government division which provides funding and investment requirements to support black individuals, businesses and communities to achieve the elements of the Codes of Good Practice. These elements include preferential procurement, black equity, transformation in ownership and increasing the shareholding for black people in business. The efforts of the NEF also facilitates non-financial support to black businesses and promote a financial culture of investing and saving (National Empowerment Fund, 2016).

4.2.6 The Export Credit Insurance Corporation (ECIC)

The ECIC is an independent government owned credit agency with the Department of Trade and Industry (DTI) and is a registered financial services provider. This agency provides export credit and foreign investment insurance cover on behalf of the government to qualifying exporters. The objective of the ECIC is to encourage and support exports by underwriting credit loans and investments made internationally in order to enable South African companies to obtain capital goods contracts in other countries (South Africa.info, 2012)

4.3 Equity financing

Equity financing is the process of raising capital by means of selling company stocks or shares to investors. In return for the investment, the new shareholders receive ownership interests in the business (Investopedia, 2016). Examples of this type of funding are Thandi and Thokozani, discussed in Chapter 2.3, Major empowerment initiatives.

4.3.1 Private wine farms

In Chapter 2.3, various equity sharing projects are explained. In many of these examples, winery owners created worker trusts. Profits generated in the trust from wine sales are used by workers to purchase shares and land. The result of these empowerment projects enabled workers to obtain ownership in the winery or farm. The creation of financing from within an existing business infrastructure, has proven to be a sustainable model. The transformation of ownership to workers is integrated with mentorship and skills transfer (Jantjies, 2013).

4.3.2 Public Investment Corporation (PIC) – Isibaya Fund

The PIC is a government owned financial services provider and a public entity. The provider invests funds on behalf of public sector entities such as pension funds. The Isibaya Fund is a
product of the PIC funding for viable enterprises while also supporting social development in businesses and communities. The Isibaya Fund invests in companies with a focus on development and transformation (Bowes, 2016). The funds are invested and used for either loans or equity. Funding is typically used for enterprise development, job creation or project financing (Public Investment Corporation, 2012).

4.3.3 Industrial Development Corporation (IDC)

The IDC actively supports the wine industry as mentioned in 4.2.4. The funding of existing and emerging companies is supported in various ways. This includes equity with a focus on developing black economic empowerment (IDC Industrial Development Corporation, 2016).

4.4 Grant financing

Cash grants, usually emanating from various governmental agencies as well as non-profit industry bodies, are not loans as they are not repaid. They are granted to qualifying beneficiaries and used as cash to purchase land, buildings or agricultural farming equipment (Department of Treasury, 2015).

4.4.1 Wines of South Africa (WOSA)

WOSA is a wine industry body representing all South African wine producers who export wines. It is an independent non-profit organisation which is recognised by the government as an export council. The WOSA mandate is to promote the exporting of South African wines to international markets. WOSA is funded from an export levy imposed on every litre of exported wine. The main objective of WOSA is to promote the growth of South African wines and to market internationally Brand South Africa. WOSA exhibits annually at major wine shows such as Prowein in Germany, The London Wine Trade Fair and Vinodric in Stockholm (Wines of South Africa, 2016). Qualifying wineries and brand owners, including black owned wine brands, are financially assisted by WOSA. Assistance is provided for certain travel expenses and for exhibition costs at international wine shows. Funds generated from export levies are provided to black owned wine brands for developing enterprises, marketing activities and production costs (Bowes, 2016).

4.4.2 VinPro

VinPro is a non-profit, independent wine industry representative body which is funded both by the government and by the wine industry. It is a service organisation representing over 3 600
producers and winery members. Its mandate is to ensure a sustainable and profitable wine industry. VinPro contributes funding and obtains external and government funding for empowerment projects as well as for promoting transformation in the wine industry. It supports emerging enterprises with funding for development, equipment and marketing events. The Thokozani media launch event in October 2015 for the Ovation empowerment brand, was funded by VinPro (Bowes, 2016). Selected technical services and management support is provided on a regular basis at no cost for qualifying wineries (VinPro, 2014). In 2015 VinPro partnered with Nedbank and the Cape Winemakers’ Guild Development Trust to sponsor tertiary education for viticulture students. The Trust trains 1500 cellar and vineyard workers each year with its “SKOP” Level two and three programme in partnership with Training SA (McFarlane, 2016).

### 4.4.3 Department of Trade and Industry (DTI)

The DTI provides funding support for qualifying enterprises in many sectors of the economy. Funding is offered for a wide variety of activities including manufacturing, export development and market access, as well as foreign investment. The Export Marketing and Investment Assistance (EMIA) scheme within the DTI has a dual role. It is responsible for developing export markets for South African products such as wine and for sourcing foreign investment into South Africa. The assistance is in the form of financial compensation for exporters with marketing activities at international wine shows. Costs covered for wineries include travel, accommodation, exhibition fees and daily allowances. Funds are channelled through qualifying export councils such as WOSA. The recent visit in June 2016 to Russia by Koopmanskloof CEO, Rydal Jeftha, was organised by the DTI as part of the DTI’s Investment and Trade Initiatives (ITI), as reported in the Bolander district newspaper. This trade initiative supports local enterprises through job creation and the improvement of facilities as a result of increased export contracts (Bolander, 2016).

The Sector Specific Assistance Scheme (SSAS) is another DTI incentivised scheme. It is a reimbursable cost sharing initiative for organisations which support industry development through contribution towards the growth of exports (the DTI Department of Trade and Industry, 2016). An example of this type of funding is the emerging South African wine companies attending international trade shows jointly funded by the DTI and WOSA (Mbatha, 2016).
4.4.4 Department of Rural Development and Land Reform (DRDLR)

Access to land is an important part of agricultural expansion, according to the Department of Treasury’s 2010/2011 to 2016/2017 review report on Agriculture and Land. In this report, it states that the DRDLR is accountable for land redistribution in South Africa and aims at addressing the disparity of land ownership brought about by the apartheid legacy. The DRDLR aims to make it possible for all South Africans to have equal and equitable access to land. This initiative is in partnership with the Department of Agriculture, Forestry and Fisheries (DAFF). The land redistribution programme has been reopened for all qualifying persons and communities who failed to lodge a land claim by 31 December 1998 (Department of Treasury, 2015). Various projects in the Western Cape wine lands have benefited from this program. Land grants have been secured for previously disadvantaged beneficiaries for the use of vineyards and settlement purposes (Bowes, 2016). A recent example of a DRDLR initiative was announced in August 2016. A new agreement was made between Solms-Delta, the workers’ trust and the government’s National Empowerment Fund (NEF). This, a first of its kind, has provided the workers’ trust with 45% share of the land and the brand and the NEF with 5% share. In a previous deal in 1994, the Solms-Delta owners, Mark Solms and Richard Astor, gave one third of the farm to workers. The new agreement is orchestrated by the DRDLR, which falls within the NEF and represents an investment of R65 million. It forms part of the government’s 50/50 programme (Strengthening the Relative Rights of Workers programme) (James, 2016).

4.4.5 Land Redistribution for Agricultural Development (LRAD)

LRAD is a sub department of DRDLR, falling under the Department of Agriculture and Land Affairs. The main difference between LRAD and DRDLR is that land grants offered with LRAD are only for agricultural purposes. The LRAD programme is designed to financially aid previously disadvantaged South Africans in purchasing land for farming. The grants are awarded to qualifying individuals, families or communities who have to contribute 25% of the grant value in the form of cash, farming equipment, livestock or labour. The beneficiaries receive post settlement support in the form of technical services and skills training from LRAD (Department of Agriculture, 2001). Land grants in the winelands district are mainly given to farm workers as part of empowerment initiatives. The grapes are sold to the winery or the cooperative (Mosely, 2009). The Gelukskshoop farm near Bonnievale, a farm owned by 40 members, is an example of a farm purchased with a LRAD grant. The workers sell the grapes grown to the Bonnievale Cooperative Winery. All farming expenses are met and members receive a small dividend each year. However, as written by Mosely in the book entitled, ‘The Global Governance of Food’, the Gelukskshoop farm profits are very low. There is little added
value in selling grapes in bulk to the Cooperative. The workers have been both unsuccessful in selling their grapes at higher prices or in producing their own wine. Mosely points out that while land reform examples such as Gelukshoop achieve transformation goals, they may present a number of challenges for workers if the farm owner does not contribute in decision-making and skills transfer (Mosely, 2009).

4.4.6 Recapitalisation and Development Programme (RECAP)

The government Department DRDLR has identified the need to establish a programme, RECAP, which is expected to turn unviable previous land reform projects into successful projects. The focus of RECAP is to develop previous and new land reform projects by providing support services. These include funding, infrastructure development, technical assistance, equipment and building facilities (Vuk’ uzenzele, 2012). An example of RECAP’s assistance for an emerging winery, is the financial support with the building of facilities and the purchasing of wine barrels for Seven Sisters Wines (Kleynhans, 2016).

A similar programme to RECAP, also falling under the directorship of DRDLR, is the Comprehensive Agricultural Support Programme (CASP). This programme provides post-settlement support for previous land reform projects with additional beneficiary categories. One of the new categories is for entrepreneurs from previously disadvantaged groups, who are involved with agricultural farming and who may own land obtained either from grants or land privately purchased (Department of Agriculture, 2004). Black owned wine brand companies and wineries owning land also fall into this category (Bowes, 2016).

4.5 Financial incentives for exporters

The South African government provides a variety of export incentives for local wine companies to grow wine exports. These incentives are discussed below. (South Africa.info, 2012).

4.5.1 Capital Projects Feasibility Programme (CPFP)

The CPFP, a DTI initiative, is an expense sharing scheme. It contributes towards the cost of feasibility research projects aimed at increasing the export of local products. These projects should stimulate the local market with employment and development. All local companies qualify for this incentive programme, providing that research studies are conducted by local companies which comply with the relevant criteria stipulated by the DTI. The programme contribution is in the form of a 50% advance for research study costs for projects outside of South Africa and 55% within South Africa (the DTI, 2008). Emerging wine companies can make use of this programme as a valuable tool, to plan and determine whether an expansion
or development project will be viable, without bearing the full cost of the study. A professional, well researched study on a potential new venture in a foreign country would greatly reduce the risk of failure and prepare an emerging brand owner or winery for the future (the DTI, 2008).

4.5.2 Credit Guarantee Insurance Corporation

The Credit Guarantee Insurance Corporation is an independent financial services provider with government owned IDC as a major shareholder. This corporation provides exporters with insurance cover for domestic and international debtors, thereby protecting South African companies against non-payment. This benefits local wine businesses in obtaining favourable terms from banks and to have greater confidence in exploring higher risk opportunities. This protection insurance is offered with nominal fees (South Africa.info, 2012).

4.5.3 Customs and excise duty refunds

The Custom and Excise Act falling under the South African Revenue Services (SARS) makes provision for general refunds. This includes a large number of specific refunds of customs and excise duties to wine exporters (South Africa.info, 2012). Reductions in the cost price are favourable for the exporter and may enable wines to sell at competitive price points in the destination country (Jeftha, 2016).

4.5.4 Duty free quotas and tariff reductions

In the WineLand article written by Jana Loots in September 2014, Loots reports that the South African wine industry is expected to benefit from the Economic Partnership Agreement (EPA) that the Southern African Development Community (SADC) had successfully negotiated with the European Union (EU) in July 2014 (Loots, 2014). The benefit to wine exporters, as reported by Rico Basson of VinPro in Winelands’ September 2014 article, would be an increase in exports, job creation and domestic economic growth. As a result of the EPA negotiation, the South African wine industry has obtained improved market access with duty free quotas or tariff reductions for exporting wines to the EU. The duty-free quotas for wine exports to the EU has increased from 48 million litres to 110 million litres per year. As a result, South African wines can be competitively priced and exporters can realise increased profits to compensate for the low yields experienced with the 2016 harvest (Loots, 2014).
4.5.5 Value Added Tax (Vat) export incentive scheme

In this scheme, established by SARS, exporters are able to zero-rate VAT on exports viewed as direct exports. This applies to wine exporters who are registered in South Africa as VAT vendors. Exporters are required to be registered with SARS to export local goods for commercial purposes. There are benefits for wine exporters using this scheme. Lower cost prices attract less duties in foreign countries and lead to increased margins for wineries or more attractive price points for supermarkets, as reported by Jeftha (Jeftha, 2016) and in an article published by South Africa.info (South Africa.info, 2012).

4.6 Summary of funding

This Chapter has identified a significant number of funding options and grants available for obtaining land by qualifying emerging wine enterprises. The ownership of land by workers or new enterprises is the beginning of long term funding and support. This was identified by the government’s DRDLR, mentioned in 4.4.6 under RECAP. The majority of empowerment enterprises purchasing land with loans do not realise investment returns in the first five to seven years, as pointed out in the VinPro and Nedcor report. Land investments are therefore long term projects which require funding and support to sustain enterprises (VinPro and Nedcor Foundation, 2004). There are a number of government support agencies in place for land beneficiaries’ post-settlement. The need is great and government resources are unable to satisfy the demand for support services, skills and funding. Obtaining funding for purchasing additional agricultural land is easier than obtaining funding if the enterprise has no existing land or assets (Mosely, 2009). It can be argued that greater consideration and support is required for an emerging enterprise to have an appropriate viable business plan in place, before land or funding is granted. Similarly, an emerging enterprise should make use of the financial security and support of a mentor or partner, with the aim of becoming independent.

It has been identified in this Chapter that access to land and support for exporting wines is readily available to emerging wine enterprises. However, support and funding for domestic business activities are lacking. The government and wine industry should establish effective incentives for emerging black owned brands and enterprises to develop the domestic market. This would enable black owned enterprises to diversify income sources and be close to their market. This in turn would result in an improved understanding of the market and the ability to service it (Grier, 2016).

As a result of the relatively recent apartheid regime, it is unusual for black people to inherit wine farms. However, land redistribution is not the solution to creating equality. Due to the
high costs of farming, profit is only gained in the long term, therefore not solving the cash flow problems of struggling farmers in the short term (Jeftha, 2016). It can be concluded that providing grants for land and equipment, without the beneficiaries having the necessary skills and knowledge, can create a culture of entitlement preventing self-sufficiency (Grier, 2016). It is recommended that before grants are approved, potential beneficiaries agree to attend short wine and business courses conducted by the industry body or outsourced to wine specialists. The government’s focus on land transformation is evident throughout Chapters Two, Three and Four. Disparity in ownership is a reality, however, owning the source of primary wine production is not only extremely challenging, but it is the most marginal source of financial return in the wine supply chain (Fridjohn, 2016). The focus on transformation, by the government and by industry, should be on the areas where the vast majority of the financial gains in the wine industry are being realised in the distribution, wholesale, retail and hospitality sectors. These sectors, due to urbanisation, are where the concentration of skills and the interests of the emerging markets’ population exists. The DTI and other government agencies should concentrate their efforts on aspects of transformation that will be immediate rather than creating greater challenges and restrictions in a difficult capital and skills intensive industry (Fridjohn, 2016).
Chapter Five: Partnerships with wineries

The absence of partnership and mentorship criteria within the BBBEE Act outlined in Chapter Two are noticeable. The Wine Industry Transformation Charter makes specific reference to partnerships and mentorships in its construction phase criteria as well as in its vision. The major empowerment initiatives outlined in Chapter Two have partnerships as a common factor embedded within the culture and operation. The empowerment projects have become sustainable and are viable business enterprises (VinPro, 2014). It is observed that these empowerment projects mentioned, on average, own between 25% and 50% share in the land and production of the partner wineries. The empowerment projects were established from within a winery or wine farm with an existing infrastructure and operating business.

The findings of partnership models studied together with interviews conducted will be discussed further.

5.1 Reasons for entering the wine industry

It is important for an entrepreneur to become involved in the wine industry for the right reasons, Grier explains. The aim should not be to achieve short term success. There is no short term financial gain in the wine industry. An entrepreneur should have a passion for the wine industry and enter with a long-term view of commitment. The wine retail sector of the industry is a highly competitive business environment. A new entrant to the wine industry should understand the many challenges of the industry. Hard work is required with commitment and a willingness to contribute towards the sustainability and success of the industry (Grier, 2016). Henn, from Thandi, firmly believes that an emerging enterprise should enter the wine industry to create a wine business with the emphasis not only on selling a wine brand but with adding value and diversity (Henn, 2016).

5.2 Reasons for partnering with wineries

Raats explains that an emerging wine enterprise embarks in a partnership agreement to jointly create and establish a mutually profitable wine company. New entrants are shareholders in the business, forming part of the management and decision-making process of the company. This provides financial security and an improved standard of living for the emerging partner or members (Raats, 2016). Empowerment from within an existing wine farm creates a new business with diversified interests. An example of such a farm is Diemersfontein. The increased and diversified portfolio of products and services developed the Diemersfontein business. Creating partnerships from within a winery can lead to new opportunities in business
with increased revenue for the employees in the empowerment company (Thokozani, 2016). Neil Ellis cautions that partnership agreements should only be entered into after careful consideration. The agreement should address transformation and create value for both partners (Ellis, 2016).

5.3 Understanding partnerships

Paul Cluver points out that a clear understanding of a new business partnership and the expected risks are important considerations before investing in a partnership (Cluver, 2016). Potential emerging partners should conduct transparent conversations with the intended partnering wineries. Advice from a third party should be obtained before a partnership is formed (Grier, 2016). Good relationships between farm owners and staff are ideal environments in which to establish partnership arrangements. An emerging entrepreneur wishing to enter the wine industry without relationships in place may experience difficulties (Jeftha, 2016). It is the opinion of Harvey from Vinimark that black entrepreneurs entering the wine industry should spend time working in the industry, establishing contacts and building relationships, before owning a wine business or creating joint ventures (Harvey, 2016).

5.3.1 Partnership agreements

A partnership agreement is required to protect both parties but particularly the emerging partner who brings no or minimal assets into the business. The agreement should be a legal document including responsibilities for both parties, shareholding and financial commitments. In addition, ethical labour practices and an outline of the common goals of the company are to be stated (Grier, 2016). Both partners should be aligned with the company’s goals and culture to achieve results. This view is imperative according to both Jeff Grier (Grier, 2016) and Rydal Jeftha (Jeftha, 2016). The view of Neil Ellis is that business agreements must have a structured business approach and should not be an informal arrangement based on good will (Ellis, 2016).

5.3.2 Clear expectations

New investors are advised to ensure that expectations are clear and realistic with no vague promises from partners. Clear guidelines and expectations must be known at the commencement of the agreement to ensure fewer problems in the business relationship (Grier, 2016).
5.3.3 Planning

An effective business requires good planning by the stakeholders in all areas of the business. When staff and management participate in the planning, there is a greater level of support, advises Rydal Jeftha. Accurate short and long term planning is an important business skill. This should be developed by the emerging partner to ensure that the other party plans and makes decisions through consultation (Jeftha, 2016).

5.3.4 Open communication and regular reviews

By fostering good relationships between partners and maintaining good communication, it is ensured that parties are kept informed of developments, problems and activities. Denise Stubbs, Thokozani Director, states that regular meetings with Diemersfontein are very important to ensure that stakeholders are informed, ideas shared and advice given (Stubbs, 2016). Conducting regular business reviews and maintaining a transparent relationship with the partner will ensure smooth business operations and keep both parties informed (Henn, 2016).

5.3.5 Flexible

Vernon Henn, of Thandi Wines, encourages relationships which are dynamic and adaptable. Henn indicates that the market is constantly changing and parties should be open to change and adapt the business approach accordingly. Each party offers a unique contribution to the business and should be given the opportunity to perform, while maintaining flexibility and openness to change (Henn, 2016).

5.3.6 Respect and consideration

Upholding values and ethics in the partnership relationship as well as consideration are important values in the Raats and Mvemve partnership. Each party has a right to their opinion – differences and cultures should be respected (Raats, 2016).

5.4 Benefits and rewards

Collaborating with the correct partner is vital to the success of a new venture and will lead to long term success for both parties. Rewards may not be realised immediately but there should be a realistic understanding of the time frame and nature of the benefits (Jeftha, 2016). It would be in the best interest of a business to create an environment in which committed staff
remain in the business, gaining experience and skills. A high staff turnover negatively impacts the operations of a business (Deeb, 2015).

5.4.1 Strategic partnerships

According to Jeftha, the emerging entrepreneurs should find a like-minded partner with common interests, to ensure good working relationships. Sharing physical and intellectual resources should be a common factor for the business and for both parties. This will assist in the development of good relationships, ensuring that problems are addressed and resolved as they arise (Jeftha, 2016). The investments and commitments may be greater from the winery partner at the beginning of the relationship. The aim however, should be for both parties to become strategically important to each other in the long term, ultimately becoming equal partners (Raats, 2016).

5.4.2 Exposure

The wine industry partner exposes the emerging enterprise to important business aspects. The Thokozani business required access to wine production, distribution, financing, administration, local and international retail markets, sales and marketing. Existing infrastructure and experienced personnel provided by Diemersfontein Wines, exposed Thokozani to these sectors of business. Thokozani was provided with significant support to become an established enterprise (McFarlane, 2015). The Raats MR partnership offered international exposure to Mvemve, a black winemaker and partner with Raats. As a result of this partnership the red wine – MR de Compostella, blended together with Raats, has enjoyed significant success and outstanding ratings in the United States of America and South Africa (Raats, 2016). Vernon Henn comments that access to business skills and finance was required for success with the Thandi business. Henn states that these skills and funds would not have been available had Thandi been operating without a business partner (Henn, 2016).

5.4.3 New business opportunities

An enterprise has access to a partner’s retail markets and customers. Opportunity exists for innovation and new development, thereby attracting new markets. Thokozani is an example. Diemersfontein introduced Thokozani to supermarket retailer, Woolworths, with which Diemersfontein had an existing relationship. Thokozani won the Woolworths BEE tender in October 2015. This contract, the first of its kind in South Africa, required the launch of a new range under an exclusive Thokozani brand, Ovation (McFarlane, 2015). The new business Thokozani obtained as a result of the Diemersfontein partnership enabled Thokozani to grow
from an average of 7000 cases to 27 000 cases annually. This growth was achieved for the first time since Thokozani’s establishment in 2007 (Stubbs, 2016).

5.4.4 Knowledge and skills transfer

Emerging partners who enter the wine industry do not necessarily have the skills required for winemaking, wine farming, selling and marketing wine. It is important to establish processes which support the transfer of skills and knowledge to enable integration of the new entrants into the wine industry (Cluver, 2016). Grier recommends that investments are required from wineries for training and skills transfer to worker trusts or partners. The skills required should extend beyond the vineyard and cellar. Development and knowledge is required for business and commercial skills as well as for leadership and life skills. The skills and knowledge gained should also promote interest and passion for the wine industry (Grier, 2016). There are significant benefits to partnerships when the necessary skills are present and the willing partners are available to impart these skills (Stubbs, 2016).

5.4.5 Employee benefits

In enterprises, such as Thokozani and Koopmanskloof, the benefit is for workers and staff to own shares in the enterprise. Due to their ownership status, there is virtually no staff turnover. Job security, with prospects of future dividend payments or profit sharing, creates a culture of performance, which leads to improved financial results (Jeftha, 2016). Staff who are shareholders show greater commitment and motivation in their work. More interest is shown in the business and a willingness often exists to further develop skills and education (Stubbs, 2016).

5.4.6 Public relations

Winery partners possess the added value of many years of wine culture and experience with established brands and markets. This is an advantage for an unknown emerging black enterprise. An immediate brand link can be established with the known winery partner. It is easier to achieve success when a new brand, associated with a known and established brand, is introduced into the market (Stubbs, 2016). Thokozani benefited with the launch of Ovation with Diemersfontein and Woolworths’ endorsements on the wine labels, into Woolworths stores. The Ovation media and trade launch event at Diemersfontein, together with the Woolworths listing, created significant public relations value for Thokozani (McFarlane, 2015).
5.4.7 Collaboration

The Koopmanskloof farm owners became aware that as farming costs increased, selling grapes to the cooperative at marginal prices was not sustainable. Creating added value to increase revenue was required. However, the investment in production and the resources needed to market and sell a new brand were unaffordable. Therefore, a new company was formed with workers and staff. The new trust purchased grapes from the farm owners and managed the production, marketing and sales. The collaboration of two separate parties, each with their own set of skills, worked together with common interests to create a viable business enterprise (Jeftha, 2016). Rico Basson of VinPro stated in the VinPro News Press release on 15 May 2015, that the industry is in need of collaboration throughout the wine value chain to ensure a better future for all (Loots, 2015).

5.4.8 Sustainability and growth

A new enterprise that partners with an existing winery, joins an established family wine business. The existing winery owns investments in land and buildings, has an established infrastructure with distribution networks and resources in place. This offers the new enterprise a long term solution for sustainability with scope to grow and expand (Thandi Wines, 2016). Partnerships are long term ventures which require investment in resources and time. Jeftha comments that the transfer of skills, together with committed hard work from both partners, creates a sustainable environment which results in continued growth over time (Jeftha, 2016). Joyene Isaacs, the Provincial Head of Agriculture, summed up her views at Thokozani’s Ovation launch, stating that when a number of skilled and focused entities from the government and the private sector, work together with common goals, a BEE enterprise will be sustainable and successful (McFarlane, 2015).

5.5 Partnership challenges

Grier reports that it is a challenge to find a suitable partner from outside of a winery. This challenge applies to both the winery and to the black entrepreneur. Grier explains that a new partner, other than from one’s own staff, requires greater effort and investment from the winery. The black owned business partner could have a different business agenda with different needs and requirements. Furthermore, unequal responsibilities can lead to dependency on the winery, preventing the new partner from becoming self-sufficient. Both Grier and Raats agree that new black partners should contribute equally to the investing of funds. There would be greater motivation and commitment from a new partner using their own funds, concur Grier (Grier, 2016) and Raats (Raats, 2016). Paul Cluver has a similar view and
believes that emerging partners should contribute 50% of the investment in a new enterprise in order to avoid dependency on the winery. Cluver states unequivocally that partnerships are vital for the wine industry. Wineries are striving to be profitable and need to approach partnerships in a business manner in order to generate increased income, without the partnership becoming a financial drain on the winery. Establishing a clear understanding of the branding position is important, continues Cluver, to avoid conflict of interest for the winery (Cluver, 2016). A further challenge for developing emerging partnerships is that wineries may not see the benefit or want to change successful models. A winery could have established social development programmes which include transformation and may not be interested in additional initiatives (de Kock, 2016). However, it is the responsibility of every winery and individual to contribute towards socio-economic development programmes (Cluver, 2016).

The viewpoint from that of a black entrepreneur, according to Kleynhans, is that the wine industry is difficult to penetrate. It is a challenge to find partners. The industry is intimidating and operates like a tight fraternity. Kleynhans states that wineries are more inclined to create partnerships from within their structures than to seek unknown outsiders. This can lead to black owned wine brands operating on their own. Embarking on one’s own, in an already difficult economy without industry support and mentorship, can lead to a continuous struggle and the result being that of possible withdrawal from the wine industry, adds Kleynhans (Kleynhans, 2016). Jeftha reasons that without passion and a keen interest in wine and the industry as a whole, no black entrepreneur would enter the wine industry. It is a difficult industry in every aspect and the financial gain is long term (Jeftha, 2016). Danie de Kock from Spier concludes that the partnership percentage is important. If the winery has a majority share, it will dictate all the terms and leave the black partner with little autonomy in the enterprise. De Kock believes that the new partner should have resources in order to manage sales of their new brand, as the promoting and selling of a brand other than that of the winery, will present a conflict of interest. De Kock further adds that the new partner’s brand should be a separate brand (de Kock, 2016). When creating a partnership, according to Ratcliffe, who shares Cluver’s view, the new black entrepreneur should bring an equal investment in the form of a brand, capital, a unique talent or offer access to markets or new opportunities. Without these elements, Ratcliffe emphasises, it will not be a partnership (Ratcliffe, 2016).

5.6 Summary of partnerships with wineries

In this Chapter, the environment which is required for winery partnerships and the benefits of entering into such partnerships are explained. It can be noted from Chapter Four, 4.1. Funding considerations, that the South African wine industry is capital and skills intensive. An
entrepreneur should thoroughly consider the reasons for entering the wine industry. New entrants should be fully aware of all the complexities and difficulties with regards to establishing a wine enterprise. Investments and financial gains are long term rewards which require commitment and knowledge of the industry. Contacts for advice and support need to be established. To improve the success and integration of an emerging enterprise or workers’ trust into the wine industry, it is recommended that partnerships are sought with wineries which share common goals. It is advised that structured partnership agreements are established, protecting both parties and confirming commitments, responsibilities and financial arrangements.

It can be established that a workers’ trust, an individual investor or an emerging enterprise will benefit from entering a partnership with a winery. The main benefits are financial security, ownership, skills and knowledge transfer, mentorship, access to finance, land, markets and distribution. These aspects form an integral part of a partnership with a winery which has established infrastructure, resources, skills and experience. There is also evidence that wineries may be reluctant or possess limited resources to create new partnerships and should be encouraged to develop partnership projects from within their staff or worker structures. An enterprise should be sustainable with the ability to develop new opportunities. It can be concluded from the Ovation example in 5.4.3, that BEE partnerships, working together in collaboration with wineries and retail partners will, most likely lead to new growth opportunities. Furthermore, the potential for a business to grow and develop is increased when a greater number of staff own shares in a business, are committed and possess the relevant skills and experience.
Chapter Six: Cultural Diversity

6.1 Cultural backgrounds in South Africa

South Africa is often referred to as the Rainbow Nation due to its diverse population and cultures. It has a population of approximately 52 million in its nine provinces and has eleven official languages (South Africa info, 2015). This Chapter aims to explore the cultural heritage of South Africans with the purpose of obtaining an improved understanding of the wine culture or lack thereof in the country. Defining the main factors that impact alcoholic beverage consumption may lead to overcoming obstacles and identifying opportunities within the wine industry.

The original people in South Africa were the KhoiKhoi and San. They were later joined by the many Bantu migrant peoples of North African and Europeans. The migrants from the north comprised many different cultures and backgrounds, mainly of Zulu, Xhosa, Sotho, Ndebele, Shangaan and Venda. The different cultures spread around the country. Different types of farming and architecture were brought to the country by the European settlers. These settlers arrived in the Cape during the Seventeenth and Eighteenth Centuries, mainly from Holland, England, Portugal, Eastern Europe, Germany and France. Indians and Asians arrived and formed an integral part of the multi-cultural society, establishing large communities in Durban and the Cape respectively. The many different people from the various countries, contributed to the diversity of religious beliefs and the culinary lifestyles of the country (Show me South Africa, 2008).

In 1994, the transition to democracy led to significant transformation in all sectors of the economy. Today’s society is one of urbanisation, 66% of the population live in cities compared to 52%, 10 years ago (Turok, 2012). However, urbanisation has not alleviated poverty, it has created large townships and squatter camps on city verges due to the scarcity of employment opportunities in cities. The Oxfam report on poverty in South Africa, reports that over half the population live in poverty and just over 10% live in extreme poverty (News BusinessTech, 2015). South Africa suffers from poverty, inequality and unemployment with an average unemployment rate in the past fifteen years of 25.31% and currently of 26.6% (Trading Economics, 2016). The population demographics are comprised of 79.2% Black people with the remainder of the population being White, Coloured and Asian. Table 4 represents the different population groups in South Africa. The population has increased from 40.6 million in 1996 to almost 52 million in 2011 (South Africa info, 2015).
Table 4: South African population census 2008

<table>
<thead>
<tr>
<th>Population group</th>
<th>Number</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>African</td>
<td>41 000 938</td>
<td>79.2</td>
</tr>
<tr>
<td>White</td>
<td>4 586 838</td>
<td>8.9</td>
</tr>
<tr>
<td>Coloured</td>
<td>4 615 401</td>
<td>8.9</td>
</tr>
<tr>
<td>Indian / Asian</td>
<td>1 286 930</td>
<td>2.5</td>
</tr>
<tr>
<td>Other</td>
<td>280 454</td>
<td>0.5</td>
</tr>
<tr>
<td>Total</td>
<td>51 777 560</td>
<td>100</td>
</tr>
</tbody>
</table>

(South Africa info, 2015)

6.2 Language diversity

The main seven official languages spoken in South Africa as a first language, are indicated in Table 5, English is spoken by only 9.6% of the population as a first language (South Africa info, 2015). In the 2001 South African Census, English represented 8.2% of the population’s first language – an increase of 1.4% in 15 years. In spite of the population growth, the growth of the English language was minimal due to the new democratic government’s declaration that the 11 official languages be used and that children may be educated in either their mother tongue or a language of their choice. This was done to advance the use of African languages and to protect the cultural heritage of the majority of South Africans (Barnard, 2015). However, English is the language for economic activity, tertiary education, science and technology, business and international commerce. For many South Africans, English is an aspirational language which opens doors to education and employment. If more widely spoken, particularly from childhood, the increased use of English may stimulate economic development (Barnard, 2015).

Table 5: South African languages 2011

<table>
<thead>
<tr>
<th>Language</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>isiZulu</td>
<td>22.7</td>
</tr>
<tr>
<td>isiXhosa</td>
<td>16.0</td>
</tr>
<tr>
<td>Afrikaans</td>
<td>13.5</td>
</tr>
<tr>
<td>English</td>
<td>9.6</td>
</tr>
<tr>
<td>Sepedi</td>
<td>9.1</td>
</tr>
<tr>
<td>Setswana</td>
<td>8.0</td>
</tr>
<tr>
<td>Sesotho</td>
<td>7.6</td>
</tr>
</tbody>
</table>

(South Africa info, 2015)
6.3 The background of alcoholic beverage consumption in South Africa

The historical background explained below aims to place into perspective the wine consumption culture in South Africa. Wine was first made in 1659, in Constantia in the Cape under the governorship of Jan van Riebeeck from the Dutch East India Company. In the early eighteenth century, the control of the Cape passed to the British and due to increased settlement and sea traffic around the Cape, vineyard size doubled over several decades. The wine industry boomed and by 1825 half the wines produced were exported. In the early nineteenth century, due to over production, there was an oversupply of wine. This led to low prices and lower quality wines (Goode, 2013). For over two hundred years, wine consumption was largely confined to the Cape region before it was marketed and distributed throughout the country. However, beer was available from the late 1800’s, to all population groups. This was due to SAB’s extensive distribution and the government's support of the beer industry (Charman et al., 2013).

In 1959 Stellenbosch Farmers' Winery launched Lieberstein, a semi-sweet table wine. This style of wine was revolutionary for the wine industry and for consumers – it changed the drinking style of wines at the time. Until 1962, beer dominated the alcoholic beverage market outside the Western Cape. After 1960, wine become mainstream to the white population north of the Orange River when Lieberstein was marketed nationally by Stellenbosch Farmers' Winery (SFW), (Holtzkamp, 2015). By 1964, Lieberstein became the world's largest selling wine brand, reaching volumes of 31 million litres. Sales of Lieberstein soon however declined as other brands, in the same style, were launched and marketed by major wine producers at the time, such as SFW, Distillers Corporation, Gillbeys and Nederburg (Vineyard Varieties, 2016).

Wine was produced only in the Western Cape, however it was an established alcoholic beverage in Europe and favoured by European settlers in the Cape as well as by the coloured community living and working in the winelands areas. Growing the already significant export market was a major focus for the wine industry. A controversial system, known as the ‘dop system’, was introduced in the eighteenth century. This was the provision of a daily wine allocation to wine farm workers in lieu of higher wages. This created a reliance on the addictive effects of alcohol. Alcoholism in rural communities was endemic over this period and remains so today. The ‘dop system’ continued until the 1960’s when it was resisted by unions as well as other opposing elements of society. It was subsequently abolished (News24, 2014).
The South African wine industry has existed for 350 years however, until recently this industry was restricted both locally and internationally. The previous apartheid government determined who could purchase and consume alcohol as well as where it could be consumed. As a result, unlike Europe, which has centuries old wine culture and tradition, South Africa’s wine culture is young particularly among the black population (Goode, 2013).

Brandy production increased significantly in the Cape in 1795 as it was favoured by European settlers. Brandy became established in South Africa in the early 1900’s when French distillers came to South Africa, bringing with them their copper distilling pots. KWV was instrumental in improving the quality of brandy in 1924 and in the formation of the government owned Brandy Board. Brandy was imported at high prices prior to improved quality of locally made brandy. It became widely consumed after a number of major brands were launched and actively marketed by Distillers Corporation, KWV and Stellenbosch Farmers’ Winery (Hands, 1997). Whisky, imported from Europe and America, is a major spirit consumed in South Africa. There is only one whisky distillery in South Africa, situated in Wellington. South African whisky was produced in the traditional method for the first time in 1981 with the launch of Three Ships Whisky. Whisky is a premium alcoholic beverage with a high level of status appeal (Discovery, 2015).

Liquor consumption was very different in regions outside of the Cape prior to 1960. Provinces such as Gauteng, where many mines and manufacturing factories were situated, attracted vast numbers of workers from rural areas. In the early 1900’s, mine owners and South African Breweries (SAB) together with the government’s support, established beer halls for migrant workers. Beer halls had no part in cultural activities and were only for male migrant workers. Beer halls were seen by the black population as the white man’s strategy of using migrant workers to continue working on the mines as a means of extracting money (Fridjhon, 2016). Alcohol abuse and the risk of crime prompted the government to create prohibition laws in 1927. Only white people were allowed to legally purchase or sell alcohol. Licenced establishments were in areas where white people lived and worked (Fridjhon, 2016).

As a result of these laws, uncontrolled and unregulated taverns and shebeens (informal liquor outlets) developed in townships throughout the country. Mainly traditional home brewed beer and cheap wine was consumed and purchased. These numerous informal liquor outlets largely shaped the liquor consumption patterns of the black population (Charman et al., 2013). Black women played a key role by brewing traditional beer for shebeens and for mobilising women in preventing men from drinking in beer halls. Many black women provided income for their families by brewing traditional beer and operating shebeens. In the mid 1900’s, the shebeens became part of the cultural life in the townships with over 40 000 being established.
around the country. Township music such as jazz and kwela became popular at shebeens. Municipal beer halls, regulated by the government and the beer industry, grew in number and popularity. This impacted negatively on the shebeen industry which had become dangerous to operate due to police raids and alcohol confiscated. In 1962, the apartheid government, under industry pressure, relinquished and allowed wine, beer and spirits to be purchased by black people at retail outlets known as off-sales. These outlets were not established in areas perceived as ‘white’, such as towns and cities. The government hoped that off-sales outlets would eliminate the shebeen industry however, the impact was insignificant due to more expensive beer and wine brands being sold at these outlets. Traditional beer and spirits, produced illegally in townships, was more affordable than the SAB brands but was often of inferior quality. The government and the beer industry, monopolised by the SAB, benefitted from increased sales and profits. SAB established extensive national distribution networks, further strengthening their market position. In the late 1800's, SAB became aware that beer was ideally positioned to penetrate the black population (Media Club South Africa, 2014).

6.4 Alcohol consumption patterns in South Africa

Black South African consumers have a beer drinking culture. This trend is indicated in Table 6 with beer consumption contributing 77.6% of all alcohol consumed by volume and 54.6% by value. Wine is maintaining its value position with a 6.49% volume increase since 2013, representing a contribution of 8.2% by volume and 10.6% by value (Holtzkampf, 2015).

Table 6: Liquor market share of all categories

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Spirits</td>
<td>3.3</td>
<td>2.8</td>
<td>2.8</td>
<td>23.1</td>
<td>20.7</td>
<td>20.3</td>
</tr>
<tr>
<td>Wines</td>
<td>8.2</td>
<td>7.7</td>
<td>8.2</td>
<td>10.7</td>
<td>10.1</td>
<td>10.6</td>
</tr>
<tr>
<td>Fortified wine</td>
<td>0.8</td>
<td>0.7</td>
<td>0.7</td>
<td>1.9</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>RTD's</td>
<td>8.6</td>
<td>11.0</td>
<td>10.6</td>
<td>11.0</td>
<td>13.6</td>
<td>13.1</td>
</tr>
<tr>
<td>Beer</td>
<td>79.1</td>
<td>77.8</td>
<td>77.6</td>
<td>53.3</td>
<td>54.2</td>
<td>54.6</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

(Holtzkampf, 2015)

In 2014, students from the Pinotage Youth Development Academy conducted a research study on the attraction of wine to black consumers. The establishments studied were shebeens, clubs, pubs and bars. Of these establishments, 82% sold wine and ranked wine as the least preferred alcoholic beverage. Beer was the preferred beverage. The survey concluded that although wine awareness is gradually growing, significant work is required in order to position wine as a lifestyle alcoholic beverage amongst black consumers (Hesseling,
Traditional home brews were an entrenched part of the African culture prior to wine being first produced in South Africa (News24, 2014).

The liquor consumption per person, per annum is known as Adult Per Capita (APC). This is the number of litres of alcohol a person over the age of 16 consumes in a given year. Table 7 indicates consumption in South Africa with the APC in 2015 as 5.07 litres across all liquor categories. This pattern represents a decline since 2010. In comparison to other African countries, there are three that demonstrate a higher APC than South Africa, namely Nigeria exhibiting 12.3, Uganda 11.9 and Namibia 9.6. Table 7 shows the APC of beer exceeding all other categories, followed by RTD’s and wine (VinPro, 2016). The decline in the APC of all liquor categories by 1% since 2010 can be attributed to several factors, according to the DTI report on alcoholic demands and consumption patterns in South Africa (the DTI, 2012). The main reasons contributing to this decline are: a saturated and mature alcoholic beverage market, an increasing abstention rate (which is one of the highest in the world, 65% of the population abstaining from drinking alcohol), an increasingly young population, followed by the sale of illicit alcohol which is either homemade or informally produced. Illicit alcohol is not taxed or recorded, is often smuggled across borders and sold at unlicensed premises. It is estimated that there are currently approximately 120 000 unlicensed shebeens or establishments in South Africa. The estimated percentage of illicit alcohol consumed is as high as 26% of the APC. The DTI reports that alcohol abuse is more prevalent in the unregulated locations selling illicit alcohol (the DTI, 2012).

Table 7: Per capita liquor consumption in South Africa (APC)

<table>
<thead>
<tr>
<th>Year</th>
<th>Natural wine</th>
<th>Fortified wine</th>
<th>Sparkling wine</th>
<th>Total wine</th>
<th>RTD’s</th>
<th>Beer</th>
<th>Brandy</th>
<th>Whisky</th>
<th>Other spirits</th>
<th>Total alc. products</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>7.37</td>
<td>0.65</td>
<td>0.15</td>
<td>8.17</td>
<td>4.37</td>
<td>56.72</td>
<td>0.38</td>
<td>0.21</td>
<td>0.30</td>
<td>4.93</td>
</tr>
<tr>
<td>2004</td>
<td>6.43</td>
<td>0.67</td>
<td>0.17</td>
<td>7.26</td>
<td>4.40</td>
<td>56.09</td>
<td>0.41</td>
<td>0.20</td>
<td>0.29</td>
<td>4.80</td>
</tr>
<tr>
<td>2006</td>
<td>6.24</td>
<td>0.71</td>
<td>0.17</td>
<td>7.12</td>
<td>5.98</td>
<td>57.83</td>
<td>0.44</td>
<td>0.23</td>
<td>0.28</td>
<td>5.00</td>
</tr>
<tr>
<td>2008</td>
<td>6.42</td>
<td>0.69</td>
<td>0.20</td>
<td>7.31</td>
<td>7.11</td>
<td>58.43</td>
<td>0.41</td>
<td>0.28</td>
<td>0.29</td>
<td>5.14</td>
</tr>
<tr>
<td>2010</td>
<td>6.09</td>
<td>0.66</td>
<td>0.18</td>
<td>6.93</td>
<td>7.52</td>
<td>58.05</td>
<td>0.38</td>
<td>0.28</td>
<td>0.29</td>
<td>5.04</td>
</tr>
<tr>
<td>2012</td>
<td>6.18</td>
<td>0.64</td>
<td>0.16</td>
<td>6.98</td>
<td>8.34</td>
<td>58.24</td>
<td>0.30</td>
<td>0.32</td>
<td>0.32</td>
<td>5.11</td>
</tr>
<tr>
<td>2014</td>
<td>6.55</td>
<td>0.61</td>
<td>0.15</td>
<td>7.32</td>
<td>8.93</td>
<td>57.26</td>
<td>0.25</td>
<td>0.34</td>
<td>0.32</td>
<td>5.11</td>
</tr>
<tr>
<td>2015</td>
<td>6.97</td>
<td>0.61</td>
<td>0.15</td>
<td>7.73</td>
<td>8.14</td>
<td>56.83</td>
<td>0.25</td>
<td>0.31</td>
<td>0.34</td>
<td>5.07</td>
</tr>
</tbody>
</table>

(VinPro, 2016)

SA has a low wine consumption in comparison to that of other major wine producing countries, as indicated in Table 8. A low wine consumption per capita by South Africa’s majority population results in a low national consumption value.
Table 8: International per capita wine consumption 2015

<table>
<thead>
<tr>
<th>Country</th>
<th>Litres</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portugal</td>
<td>42.6</td>
</tr>
<tr>
<td>France</td>
<td>37.5</td>
</tr>
<tr>
<td>Italy</td>
<td>37.5</td>
</tr>
<tr>
<td>Argentina</td>
<td>24.6</td>
</tr>
<tr>
<td>Australia</td>
<td>23.8</td>
</tr>
<tr>
<td>Croatia</td>
<td>16.0</td>
</tr>
<tr>
<td>Chile</td>
<td>13.4</td>
</tr>
<tr>
<td>USA</td>
<td>9.7</td>
</tr>
<tr>
<td>South Africa</td>
<td>7.5</td>
</tr>
<tr>
<td>Japan</td>
<td>7.1</td>
</tr>
</tbody>
</table>

(VinPro, 2016)

6.5 Alcohol regulations amended

In 2003, the National Small Business Act of 1996 was amended, allowing shebeens to be regulated. By 2003, it was estimated that there were between 190 000 and 265 000 shebeens in South Africa. The informal liquor industry, an important source of employment and the main access to alcohol for the majority of consumers living in townships areas, was well established and could not be eliminated. Regulation was the only means by which the government could establish some control over this industry (Charman et al., 2013). The legalisation of shebeens resulted in more being established. The abolishment of apartheid laws in the early 1990's, enabled all people to purchase alcohol at the various outlets, thereby providing equal access of alcohol to all citizens. The aforementioned recent changes to alcohol regulation, with regards to buying and selling alcohol, has resulted in a new dispensation in wine consumption for the South African black population (Charman et al., 2013).

6.6 Racial perceptions in the liquor industry

The regulation of the alcohol industry is perceived by many black people as a white bastion of power. It is not linked to cultural activities for black people but associated with a forced environment with many social ills and illegal activities (Charman et al., 2013). Negative perceptions exist for many black entrepreneurs with regards to the wine industry. These perceptions include a white farming culture, social ills due to the ‘dop system’ legacy and tough working conditions (Grier, 2016). Many black owned liquor enterprises operate by means of informal cash based trading. This negatively impacts availability of wine, as many large wine producers, distributors and brand owners find it difficult to adapt to cash transactions due to corporate processes and safety concerns pertaining to the transportation of cash (Smith, 2013).
6.7 Overview of the liquor market

The alcoholic beverage market in South Africa is stable with minimum movement between beer and the other alcoholic beverage sectors. The beer market has grown marginally due to the growth of premium beers (Holtzkampf, 2014). The wine market had grown 6.94% during the past 12 months (VinPro, 2016). This increase is largely attributed to the increase in demand for sweet red and rose wines as well as the growing number of middle income female consumers between 20 and 40 years of age, entering the wine market. Sweet wine is currently 15% of the still wine market, largely due to the success of 4th Street and Four Cousins among the emerging black market (Smith, 2013). The potential exists for South Africa to repeat the success achieved by the Lieberstein brand in the 1960’s (as discussed in section 6.3) (Foxcroft, 2009). The South African spirit market has declined in recent years, however, Table 9 illustrates growth in vodka and whisky consumption and a decline in the consumption of local brandy. Within this market, the vodka market has benefited from the significant development in the number of brands launched with growth from the predominately super-premium brands which retail at R150 or more per bottle (Holtzkampf, 2014). From 2010 to 2015, 83 600 litres of whisky has been imported which indicates an increase of 171.6% from the previous six years (VinPro, 2016). Local brandy, as mentioned previously, is losing market share to more aspirational spirits such as whisky, vodka and brandy. One example is Hennessey Cognac, which is an imported brandy sold at a premium price (VinPro, 2016). The largest growth in recent years from a major sector has been from the Ready to Drink (RTD) market. Since 2006, this market has had a volume growth of 40%. Key brands in this sector, such as Hunters Cider and Savanah, are currently sold in cans. This has increased the demand for these products. A number of introductions into the RTD market in recent years, such as Hunters Dark, Savanah Light and Hunters Extreme, has further aided growth. This growth is expected to continue (Holtzkampf, 2014).
Table 9 legend:
Volume = ‘000L; Value = R’000
HP: Higher Priced wine
MP: Medium Priced wine
STD: Standard Priced wine
RTD’s: Ready to Drink

Table 9: Overview of the South African alcoholic beverage market

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Brandy</td>
<td>46 600</td>
<td>4 102 664</td>
<td>30 600</td>
<td>4 692 510</td>
<td>30 150</td>
<td>4 836 060</td>
</tr>
<tr>
<td>Gin</td>
<td>6 300</td>
<td>483 714</td>
<td>5 200</td>
<td>757 744</td>
<td>5 750</td>
<td>892 400</td>
</tr>
<tr>
<td>Cane</td>
<td>2 300</td>
<td>124 752</td>
<td>1 300</td>
<td>134 589</td>
<td>1 200</td>
<td>134 796</td>
</tr>
<tr>
<td>Vodka</td>
<td>13 925</td>
<td>960 547</td>
<td>18 200</td>
<td>2 482 480</td>
<td>22 000</td>
<td>3 153 040</td>
</tr>
<tr>
<td>Total White Spirits</td>
<td>22 525</td>
<td>1 569 013</td>
<td>24 700</td>
<td>3 374 813</td>
<td>28 950</td>
<td>4 180 236</td>
</tr>
<tr>
<td>Liqueurs</td>
<td>10 200</td>
<td>892 500</td>
<td>9 000</td>
<td>1 141 584</td>
<td>9 000</td>
<td>1 210 079</td>
</tr>
<tr>
<td>Whisky</td>
<td>30 600</td>
<td>3 745 746</td>
<td>40 800</td>
<td>8 512 920</td>
<td>36 300</td>
<td>8 179 842</td>
</tr>
<tr>
<td>Rum</td>
<td>4 900</td>
<td>552 475</td>
<td>5 900</td>
<td>1 042 707</td>
<td>6 100</td>
<td>1 164 307</td>
</tr>
<tr>
<td>Total Spirits</td>
<td>114 825</td>
<td>10 862 398</td>
<td>111 000</td>
<td>18 764 534</td>
<td>110 500</td>
<td>19 570 524</td>
</tr>
<tr>
<td>Sparkling Wine</td>
<td>8 000</td>
<td>459 200</td>
<td>7 600</td>
<td>727 320</td>
<td>7 900</td>
<td>818 598</td>
</tr>
<tr>
<td>HP wine</td>
<td>44 000</td>
<td>1 870 440</td>
<td>50 800</td>
<td>3 173 984</td>
<td>53 600</td>
<td>3 509 728</td>
</tr>
<tr>
<td>MP wine</td>
<td>70 000</td>
<td>1 000 300</td>
<td>100 000</td>
<td>2 354 000</td>
<td>115 000</td>
<td>2 818 650</td>
</tr>
<tr>
<td>STD wine</td>
<td>121 000</td>
<td>999 460</td>
<td>88 500</td>
<td>1 355 820</td>
<td>89 800</td>
<td>1 437 698</td>
</tr>
<tr>
<td>Perle’</td>
<td>43 600</td>
<td>715 476</td>
<td>57 500</td>
<td>1 509 950</td>
<td>59 000</td>
<td>1 633 120</td>
</tr>
<tr>
<td>Total Natural Wine</td>
<td>278 600</td>
<td>4 585 676</td>
<td>296 800</td>
<td>8 393 754</td>
<td>317 400</td>
<td>9 399 196</td>
</tr>
<tr>
<td>Fortified Wine</td>
<td>29 660</td>
<td>889 800</td>
<td>27 770</td>
<td>1 318 520</td>
<td>27 630</td>
<td>1 351 107</td>
</tr>
<tr>
<td>RTD’s</td>
<td>302 000</td>
<td>5 152 120</td>
<td>432 00</td>
<td>12 279 810</td>
<td>424 500</td>
<td>12 634 555</td>
</tr>
<tr>
<td>Sub Total</td>
<td>733 085</td>
<td>21 949 194</td>
<td>875 170</td>
<td>41 483 938</td>
<td>887 930</td>
<td>43 773 980</td>
</tr>
<tr>
<td>Beers</td>
<td>2 778 600</td>
<td>25 007 400</td>
<td>3 070 700</td>
<td>49 129 456</td>
<td>3 100 000</td>
<td>52 734 950</td>
</tr>
<tr>
<td>Grand Total</td>
<td>3 511 685</td>
<td>46 956 594</td>
<td>3 945 170</td>
<td>90 613 394</td>
<td>3 987 930</td>
<td>96 508 931</td>
</tr>
</tbody>
</table>

(Holtzkampf, 2015)

6.8 Summary of cultural diversity

The cultural diversity of the many different groups of people over the past 350 years in South Africa have shaped the consumption patterns of alcoholic beverages. Foreign settlers introduced new alcoholic beverage categories to South Africa (South Africa info, 2015). Prior
to democracy, the production and consumption activities of regulated alcohol were determined by the authorities and were different to the cultural habits and lifestyles of black people. (News24, 2014).

From its early days, the beer industry enlisted the government’s support to create an advantage in production, distribution and retail outlets, including bars and beer halls. The beer industry catered to all population groups with a focus on the black population. Prior to 1994, the exclusion of black people from owning land, production and distribution businesses in the wine and beer industries developed a worker culture in an oppressive employment environment (News24, 2014). These conditions have led to negative sentiments which hinder the black population from entering the wine industry. Adapting to a different culture, such as a wine culture, takes time and commitment. It requires living and working in a selected industry (Grier, 2016). Language is embedded in the different cultures in each region as explained in section 6.2 in this chapter. Language has a role in shaping the community’s cultures in rural, agricultural, manufacturing or urban life. Wine farming, in the Cape region, is an industry in which Afrikaans and English are the predominate languages spoken. It can be concluded that language and cultural barriers exist in the wine industry.

According to the alcoholic consumption patterns reflected in Table 6 under section 6.4, beer is the dominant alcoholic beverage preferred by the population. In addition, it indicates that wine is placed second in market share to alcoholic beverages but lags far behind beer. The significant growth in sweet wines may be the gateway to wine consumers for the emerging market (Smith, 2013). The trend in the emerging black market, particularly the middle class sector, is to purchase known brands, including more expensive international brands which are aspirational and attached to status (Smith, 2013).

A wine culture within the black South Africa majority population needs to be fostered. Wine is Eurocentric and therefore does not have a natural culture on the African continent. Increasing the wine culture in South Africa requires education and awareness (Fridjhon, 2015). It is recommended that the government and industry bodies offer a greater number of university and college bursaries to the black youth. These bursaries should be for a wide variety of courses, not only in viticulture and winemaking, but including business fields in the wine industry. Placing a greater emphasis on educating school learners in the English language, which is the main language of teaching and learning, will have economic benefits. Promoting the wine industry to the black youth as a major employer and lifestyle provider may attract black people into the industry. The government, together with the wine industry, should place
greater emphasis on educating and promoting a responsible and moderate alcohol consumption (Fridjhon, 2015).
Chapter Seven: Conclusion and Recommendations

The objective of this paper is to evaluate the development of black owned wine companies and make recommendations. The review of literature in Chapter Two showed that the apartheid era created an unequal working and social environment for the majority of the black population of South Africa. After 1994, the democratic government established laws and regulations to address the wrongs of apartheid with the aim of transformation in all sectors of the economy and in society. It is evident that both the government and the wine industry face challenges in implementing the BBBEE requirements outlined in Chapter Two. The review of the empowerment initiatives mentioned in Chapter Two concludes that the wine industry, not the government, is best positioned to create the appropriate environment for transformation. Furthermore, winery empowerment initiatives established with workers, can be mutually beneficial and sustainable. These partnerships, when undertaken in an integrated manner with greater numbers, could provide the catalyst needed to bring about significant transformation. It is evident that, although commendable efforts and significant progress has been made by the wine industry with regards to implementing transformation, progress is slow and collective participation from the industry is lacking. It is acknowledged that the wine industry faces challenges with regards to establishing partnerships with emerging enterprises.

7.1 Transformation challenges

It can be concluded from the research obtained, that the main transformation challenges are:

1. Lack of industry skills amongst emerging partners with regards to controlling production, sourcing and quality
2. Lack of required funds
3. Potential conflict of interest for winery brands when adding new BEE brands
4. Wineries may not perceive the benefits with new emerging partnerships
5. Wineries may not understand the need to change existing structures and brands
6. Black owned wine brand companies generally operate in isolation from the wine industry
7. Wine farmers are concerned regarding the government’s reform policies

Business models of black owned wine brand companies were reviewed in Chapter Three in order to determine best practices. Upon enlisting the views of key wine industry stakeholders, it was established that black owned brand companies mostly operate as traders and marketers, owning no land or assets and are largely governed by financial constraints. It was
established that black owned wine companies have a major export focus due to the financial support and incentives offered by the government and industry bodies. Therefore, the current strategy of exporting wine is practical and a more profitable option than the domestic market. Financial support for the local market is minimal, and as such, penetrating this market is costly and difficult.

7.2 Recommendations for the wine industry

The following key recommendations for intervention by the wine industry have been identified and are as follows:

1. Support from the wine industry’s expertise to control and manage essential aspects of the emerging business is advised
2. The wine industry should place a greater focus on developing brand loyalty in local wine brands for the majority of South Africans
3. Industry investments with emerging partners is advised in sectors of the industry where greater profit potential exists such as sales, production, marketing, distribution and service industries
4. Wineries and other wine businesses should offer internships to young black people, not only in winemaking and viticulture but in all sectors of the wine industry

7.3 Recommendations for emerging black enterprises

It can be concluded that business structures and models of black owned wine brand companies are informal and unique and lack funds and industry skills. Therefore, the following recommendations are made:

1. Black owned wine companies should pursue a greater level of integration and collaboration within the wine industry
2. Partnership models be pursued by black owned wine companies, enabling access to finance and providing facilities from which to operate a sustainable BEE business
3. Investments by emerging partners with the industry should be made in sectors of the industry where greater profit potential exists, such as sales, production, marketing, distribution and service industries
7.4 Recommendations for the government and industry bodies

The wine industry and the government should promote the South African wine industry as a preferred employment sector. More university and college bursaries, including a greater variety of wine courses in various fields of wine business, should be offered. Greater emphasis should be placed on the learning of the English language at primary school level by the government. This will minimise the barrier for black people entering the wine industry.

The following key interventions are recommended:

1. VinPro, should create an interactive mentorship process for new entrants and black owned wine companies, whereby knowledge transfer, facilitation of partnerships, support and advice is provided
2. A structured and standardised business model should be developed by VinPro to ensure that minimum requirements are met when a new wine company is established. These requirements are likely to ensure a viable and achievable business plan in order to achieve greater success, particularly for the local market
3. Marketing, sales and distribution interventions should be facilitated by the industry body in collaboration with the wine industry
4. A WOSA wine body for the support of the local market is recommended
5. It is advisable that the AVA, funded by industry bodies, be re-established initially with five or six like-minded black owned entities assisted by industry mentors. This marketing approach should have a wine theme and customer appeal
6. BEE owner-driver initiatives should be established and funded by government as well as by industry in order to develop BEE distribution models. This will provide increased transformation and improve the availability of wine in townships
7. The government should incentivise the wine industry to significantly increase the BEE participation and its contribution towards skills transfer, mentorship programmes and wine education

Funding solutions available to emerging enterprises are explained in Chapter Four including that of financial advice and guidance from VinPro. Research indicated that the government is pursuing a land redistribution agenda, providing finance and grants for this purpose. The research indicated that land ownership is not only a significant and costly barrier when entering the wine industry, but that obtaining land via grants, loans or empowerment deals presents another set of challenges for workers or black entrepreneurs. It can therefore be concluded that owning land is not the preferred solution as continuous financial support and skill is required to generate profits from the land.
It was established, in Chapter Five, that the creation of partnerships can be successful when established with the winery workers and staff. This environment is conducive to partnerships as there are existing relationships present which are built on mutual trust. Both parties have common goals and the joint business is developed within existing infrastructures. It can be concluded that the workers’ trust or emerging partner is protected from financial risk and has the assurance of security, skills support and mentorship of the winery to ensure sustainable success. The establishment of an effective Small Medium and Micro Enterprise (SMME) wine body, representing leading established white winery owners, business personalities and black wine business owners would be of benefit. This body would develop a unified approach with active support and participation of black and white stakeholders, creating a common goal for small producers and brand owners in promoting wine sales and awareness both in local and international markets. Included in this forum, would be a mandate to actively engage with people of different cultures and to develop mentorship programmes.

The literature review in Chapter Six explored the cultural diversity of South Africans and the various political, economic and geographical factors which have influenced the alcohol consumption patterns of consumers. There is a significant beer drinking culture in South Africa and a growing trend amongst the emerging market to purchase premium imported brands of whisky, brandy and Champagne. Greater effort by the wine industry is required to create brand loyalty together with a wine experience with every purchase of wine, thereby encouraging more frequent purchases. Wine producers and black owned wine brand owners should explore opportunities to increase wine sales, particularly in Gauteng – South Africa’s largest wine market. Further research evaluated in Chapter Six concludes that the majority of the South African population does not have a wine culture. As a result, there is a scarcity of black winemakers, management and wine business owners. The wine industry and the government should promote the South African wine industry as a preferred employment sector. This will attract a greater number of black people into the industry and may lead to the development of a wine culture.

The South African wine industry is exceptionally unique in its demographically distorted management and ownership structure due to the recent apartheid regime. The solution to combat this imbalance and lack of representation of South Africa’s majority population, lies within the wine industry. These specifically South African problems are particularly challenging in an industry dominated by white ownership, often largely due to inheritance. The various recommendations made in this paper can lead to improved structures of transformation and integration within the South African wine industry. The positive benefits of such recommendations can be achieved within the next ten to fifteen years. The research collected in this paper concludes that the primary recommendation for the development of black owned
wine companies, is to build effective and appropriate partnerships with like-minded wineries or wine businesses in order to achieve common goals and objectives. Collaboration, together with skills and knowledge transfer, is fundamental to the sustainability and success of an emerging enterprise.
“The work of wine is a partnership between nature and man.”

Ivan Oertle
References


Cape Winemakers Guild, 2016. Cape Winemakers Guild kick starts 2016 with 3 new Protege’s. [Online] Available at: http://www.capewinemakersguild.com/blog/cape-winemakers-guild-kick-starts-2016-3-new-prot%C3%A9g%C3%A9s


de Kock, D., 2016. Sales Director of Spier Wines [Interview] (23 June 2016).


Jeftha, R., 2016. *Managing Director Koopmanskloof [Interview] (9 June 2016).*


Mbatha, M., 2016. *Marketing Manager at WOSA [Interview] (17 May 2016).*


Raats, B., 2016. *Managing Director, Owner [Interview] (15 June 2016).*

Ratcliffe, M., 2016. *Managing Director and Owner of Warwick [Interview] (26 May 2016).*


the DTI, 2012. Economic Impact of Advertising Ban on Alcoholic Beverages, Pretoria: the DTI.


Available at: http://www.wosa.co.za/About-Us/WOSA/
[Accessed 28 June 2016].

Available at: http://www.wosa.co.za/Sustainability/Socially-Sustainable/BEE/Black-Economic-Empowerment/
[Accessed 25 April 2016].

WOSA Wines of South Africa, 2016. WOSA Members. [Online]
Available at: http://www.wosa.co.za/About-Us/WOSA-Members/
[Accessed 1 August 2016].
Appendices: Structured interviews

Appendix A: Interview with Stephanus Eksteen – National Liquor Buyer Checkers and Shoprite

Date: 13 June 2016

From a retailer’s point of view, why are there only about 3 black owned wine brands on the shelves of Checkers and Shoprite?

Currently there are 4 suppliers and working on extra listings from other suppliers.

Have you as a Wine Buyer been approached often by black wine brand owners to list their wines at Checkers?

Yes, I have been approached from time to time – not regularly. It seems that black owned wine brands are chasing the export market.

Have price points been acceptable? Explain the general price positioning please.

It is never easy to establish a new brand, irrespective of the pricing, but more difficult in price brackets above R50. Price is very important under R50 and pricing drives sales, more so than labels.

How have the black owned wine brand labels been received by your customers?

Some labels have been acceptable to customers. The brands need to be developed far more but the funding from the owners and government is very limited, therefore very little investment is made on the brands by the suppliers. They can then very easily be passed over by consumers who respond to marketing promotions and special offers. The ethnic labels will be more difficult to sell as customer acceptance of these labels is very low for South African consumers.

Are there any volume related issues with black owned wine brands?

Volumes seem ok, but it is small and so not that much of an issue but distribution to stores can be an issue, they are not that set up for distribution to stores. These suppliers are very limited in cash flow and additional orders or listings will put them under a lot of pressure or strain their business, the volumes need to be build up gradually.

Have the BEE brands you have listed been successful? If so, please explain.

The success rate is low and some have been eliminated. There has been reasonable success with one brand but the volumes are generally low.
Is there corporate pressure to support and list BEE brands? Please explain.

There is support for emerging brands – it is a business strategy to list a few BEE brands. The brands listed so far are: Libbie’s Pride, Thandi, La Ricmal, Solms Delta and Bayede. For more information with regards to our corporate projects on emerging suppliers, please contact Sarita van Wyk, Head of Corporate Communications.
Appendix B: Interview with Mignon du Plessis – Pick n Pay Wine Buyer

Date: 4 July 2016

Why are there so few black owned wine brands at Pick n Pay?

There are about three brands, they are not fast sellers and are mostly unknown brands to consumers. There is not a lot of focus on the slower brands.

Are you approached regularly by black owned wine brands to list their wines?

Yes, but not often. Often we want to list them but they do not meet the listing requirements for a supplier. This is a struggle as Pick n Pay does want to support and list some BEE brands but the logistics are often a problem or the basic supply chain information is not in order which makes delivering wine a problem.

How have the price points been positioned for BEE brands?

Prices are mostly every day price points and entry level prices. These price points compete with the toughest sector of the market and consumers are brand loyal while these brands are not known.

How have the BEE brands been received by consumers?

One or two brands have done reasonably well. These have a life style appearance and consumers prefer this as it is something with which they can associate. Attractive price points are what wins at the end of the day or a well-known brand.

Are there availability issues with BEE wines?

Volumes are fine – but availability is negatively impacted due to supply chain issues. Some do not have distribution and can cause delays in delivering stocks on time.

Have the black owned wine brands listed been successful?

One or two have done reasonably well – no major success stories. The problem is that as only one or two are performing reasonably, they cannot be given ends or made a feature of as we require at least 6 to 8 wines to be featured for a range statement and most should perform at a certain volume target.

Is there a corporate mandate to support BEE brands and emerging suppliers?

There is support from the business to support emerging and small producers, not specifically BEE producers as they fall within the small enterprise initiative. It is important to give small new enterprises a chance as long as they can meet the vendor listing requirements.
Appendix C: Interview with Vernon Henn – CEO of Thandi Wines

Date: 18 May 2016

What is the Thandi brand and marketing message?

It is about social responsibility and Fairtrade and ethical practices.

It is about quality wine and not about sympathy – it is about wine with a social cause.

The story is also about one of starting from scratch with workers, the first BEE empowerment project, the history from 1999 to today as well as Thandi being independent and succeeding.

Do you think black owned wine brands should have a distinct or different marketing message to that of other wines?

Possibly a cultivar as a theme? Not just any wine, is something to consider. They are fighting for the lower end of the market and do not have a “home” as they are traders and not from a wine farm, therefore the marketing message is loose and not linked to a wine home.

The marketing message relates to each individual brand owner – some are extensions of their personality or just creating a type of lifestyle design.

It is difficult to have a strong message without a wine home.

Is there a common brand message or marketing approach which BEE wines are conveying?

The approach is cheap and lower end of market- under R50 per bottle.

The BEE agenda dominates – it is not a quality message but a sympathy message, not promoting brand values – about low prices – this can damage the whole BEE wine perception for consumers.

What do consumers think or know about black owned wine brands?

Consumers do not care and are not interested – this is the same locally and internationally.

Consumers and buyers want to know – what is the deal? What is the offer? Is it value for money?

International wine buyers, from my experience, do not want black owned or empowerment shoved in their face – this is low on the list. Black brand owners should not talk to themselves, they should talk to customers and find out what they want.
To what degree does Thandi collaborate with the wine industry?

Stellenbosch Vineyards is the production partner and Thandi outsources services to third party contractors. There is collaboration with the farm in terms of sourcing quality grapes.

For the local market we Partner with distributor Panniers and Carrie Adams who are experienced wine distributors and marketers. Exporting is handled directly.

What level of collaboration and integration exists with black owned wine brands and the wine industry? On a scale of low to high – please explain.

Very low to nothing at all – all do their own thing, their own way. Collaboration is fraught with politics and not business. African Vintners compete and collaborate at the same time – this does not work. There is no benefit in fragmentation – this is a wine industry problem as well as a black people problem.

Thandi sources their own grapes and ensures quality with the help of wine industry experts – this is vitally important – to start with ensuring good quality. Thandi must control quality totally.

Is there an industry body that drives or furthers the agenda or needs of black owned wine companies and is there progress being made with this?

There is not one, but several. WOSA generates funding for marketing exports.

VinPro – driving transformation and still developing an agenda to support on a broad level.

Transformation Committee in place – looking at a systematic approach to implementation and a number of third party decisions to make in their best interests.

Interventions and real support is limited – still to take place and as yet not happened.

What has been the consumer response to Thandi Wines, both locally and internationally?

Since the new label was launched at the end of last year, it has been successful, the brand is now growing at 10% on the previous year, this very good growth. The best results ever are being achieved with this new look. WOSA supported with funding for the label upgrade as designs are very expensive. Thandi lost listings in the past due to poor label designs and it has been difficult to lose business and we have to try our best to regain the business or find new markets.
Are Thandi Wines more successful locally or internationally and what are the reasons for this?

Thandi has an export focus and strategy. Export levies generate funds to invest back into the business. The rand exchange is favourable and therefore more profitable than domestically.

There are very good growth opportunities in Africa and Asia – far more than in South Africa.

Local conditions are difficult and expensive to constantly service the market and provide many promotions and pay for advertising for retailers.

Where are black owned wine brands more successful, locally or internationally and in which markets?

International supermarkets are where the efforts are and where they can sell more wine. WOSA and DTI support wineries to export which make exports more possible and profitable. No support locally or incentives which makes local market far less attractive. There are only about 4 black owned wine brands which are succeeding and this is internationally. These are: Thandi/ Thokozani/ Seven Sisters/ Koopmanskloof – the rest are very small and selling to multiple clients in small volumes.

What are the main challenges facing BEE brands?

Lack of funding or working capital, business and management skills – entrepreneur’s skills and business acumen, collaboration and industry leadership – not government, we need wine people as leaders.

Do you think there is a need for a wine industry body with a collective approach for BEE wine companies which would represent them and address their needs?

There is not enough capacity for doing it individually. There must be a body to unlock funds and skills and set new emerging companies on the right course.

If there was a unified approach for black owned wine companies, what would the most important aspects be in order to achieve best results?

Address the quality – important to control sourcing and value chain

A unified market approach is required to promote African brands – a collective approach.

Share resources – including facilities, look to stream-line infrastructure

Share knowledge and experiences more – learn from each other’s lessons – share skills.
Labels and marketing message needs a lot of work in order to be relevant and appropriate to consumers.

More partnerships are required with white owned wineries and famers – whites and blacks should work together.

Need to look for innovation and be more flexible in approach to change

Create diversity and not just selling wine – add value, sell services or complimentary products as well. Create a wine business, not just wine sales.

Open and honest relationships with partners are required with regular feedback and updates with the business.
Appendix D: Interview with Matome Mbatha – WOSA Marketing Manager

Date: 17 May 2016

Do you think black owned wine brands should be marketed in a unique and differentiated way to other wine brands?

The stories they have to tell position them differently by highlighting historical background.

What are the key elements that make black owned brands successful?

Partnerships with wineries. There are success stories to tell with great partnerships. Collaboration with wineries and suppliers also is key to being successful.

What are the key elements which hinder black owned brands being successful?

They do not have a wine home – they are a virtual business. Consumers can question the value chain. No direct access to primary production.

The perception that they do not have a wine history therefore cannot produce high quality. There is a perception of lower quality in South Africa. Not supported locally by consumers. For export markets it is a new or different story.

Is there collaboration with black owned wine companies and the wine industry?

There are pockets of collaboration with wine industry and government. Far too little collaboration is taking place.

Are the aims of black owned wine companies export focused? Should they be?

They are export focused due to local markets lack of interest. There is also support from WOSA and DTI for exports such as international wine shows and travel.

What wine body or organisation is there that effectively addresses the needs and challenges of black owned wine brand owners?

There are several such as: WOSA, VinPro SALBA – different bodies doing different initiatives

What is the most effective way to grow black owned wine brands and to increase awareness?

It is very important that the labels are attractive – the labels need work. They need current stories as the apartheid legacy stories have no interest for consumers – not popular. The “pity” message is of no interest to consumers – consumers want positive, interesting and exciting stories – new stories. Consumers want to hear how BEE companies have progressed, how they have modernised and innovated.
Stories which would be of interest are about interesting partnerships, wine knowledge and technical mentorships.

Is there an industry strategy for black owned wine brand companies with WOSA or VinPro?

The WISE initiative is the key area of activity in this regard and it is creating a platform to highlight the needs of emerging wine enterprises. A collective approach is being worked on as there is a need to progressively move forward. One of the aims is to enable black owned brand companies to stand alone and become self-sufficient. An example of a successful partnership collaboration is the Raats MR de Compostella red blend and the Warwick T-Bo Touch brand – these are successful as they are building brands – there is a need to shift the advantage from selling entry level wine labels to selling premium wine brands.
Appendix E: Interview with Geoff Harvey – Vinimark Marketing Director

Date: 19 May 2016

How do you go about selecting a black owned wine brand for the Vinimark portfolio?

Vinimark listed only one – the Mandela House – the Mandela name and distinguishable shirt designs on the labels – tell a story – locally and internationally. It is also an easy name and a proudly South African theme. The Mandela House management seemed to know brand and business. Vinimark would like to help black owned brands succeed in the market.

Why is there only one BEE brand listed with Vinimark? (Mandela House Wines)

It is a challenging environment with many wines and people want brands that are known and recognisable – also it is not a big volume seller – if it becomes bigger, will look at more listings.

What is the consumer response to the Mandela House brand?

Not a ‘hot’ seller but supporting it with listings in major retailers and liquor chains.

Do you think that black owned wine brands should have a common branding message?

No – they should not – they should do something unique and different that adds value- just like any other wine brand in the market.

What brand or marketing message are black owned wine brands conveying?

Many are tribal or African. The average American consumer does not associate Africa or even South Africa with having a wine culture.

The grouping of black owned brands together at international or local wine shows actually ‘helps’ the negative perception of previously disadvantaged people trying to make it in the wine business. This type of marketing can potentially bypass all of them – they should be integrated with other wineries and then they could attract more potential buyers.

Is there a price perception for black owned wine brands in retail outlets? If there is, what is it?

I have not looked into it enough to be specific but from what I know it is mainly entry level pricing. There is a real need for guidance. Brand owners buy wine and put their labels on and sell it, they need to learn the industry as wine is different to other commodities.
How important or relevant is the winery or source to these brand owners?

It is very important for the wine industry but does not seem important for black owned brands. They need to be driving some important aspects or consider what is important to be driving or marketing.

Is the identity, ethnic culture or background of the brand owner an important marketing element to indicate on labels or to market?

This is not important at all. What is important is good quality wine, good packaging and to offer added value.

Is there generally collaboration and integration with the wine industry with regards to black owned wine companies? How would you rate this low to high?

Low – could be far more and far wider spread. WOSA supports on industry’s behalf with export levies and access to international wine shows.

What selling platforms are BEE brands successful in?

Same as all other wines – but mainly supermarkets for price and value.

Who are the target customers for black owned wine brands?

Africanized style of packaging will not be successful unless it is supported by major marketing funding and support, including advertising, promotions. Question is – who will do this? The brand owners do not support with marketing; it is left to the retailers to do it alone or not at all.

Are there any obstacles impeding the success of black owned wine brand companies?

They are treated like commodities and not unique wines from specific sites. They are not regional in nature – too generic, not a good thing for a quality image.

There is a need for more winemakers – more black people behind the wines.

Africanized look is not relevant.

There is no wine tradition or culture – this need time and effort.

Not much market research conducted before starting off in wine industry – research on what consumers want or what is needed.

Black brand owners have not worked long in the wine industry – don’t have knowledge of industry.
What are the major opportunities for black owned wine brands and companies locally and internationally?

‘Talk wine and live wine’. Attend and participate in local wine industry events and forums far more regularly.

Make regional wines – this highlights quality and sourcing skills

Need more black winemakers – far too few – industry needs to make more effort in educating black people to become winemakers. Cape Wine Makers Guild is very good but small scale results.

Black brand owners are at the wrong part of the value chain – they are not winemakers, they are wine traders and marketers.

They need to spend more time in the wine industry – work in industry, become established from the bottom up and gain experience and knowledge before competing as brand owners.
Appendix F: Interview with Rydal Jeftha – Koopmanskloof Managing Director

Date: 9 June 2016

The Koopmanskloof story is a remarkable and unique one, can you outline how the workers and staff took over the running and managing of the farm?

The farm owners, the Smit family, sold the Vredehoek farm to the workers and created a workers’ trust in 2004. The new company only owned the brands – no land or buildings.

Previously the farm was a bulk wine producer selling wine to Company of Wine People.

With the new company bottled wine and brands began – changing from production driven to market driven business – it was essential to add value and bottle quality wine and not sell bulk every day wine.

Were there significant changes or developments to the business when this happened? What took place?

The major shift was from bulk wine to bottled wine – from very low margins to significantly higher margins. Had to develop international markets from nothing – long hard process.

What are the key Koopmanskloof brand messages to consumers?

Popular premium wines – not entry level – value for money with added value. Fairtrade becoming less popular and costlier therefore not adding value – so had to create added value.

The business brings added value to communities. Fair For Life initiative was less expensive without paying for trade mark.

How did the BEE empowerment development impact on the growth and success of the new enterprise?

Created a greater focus and developed a major strategy to export. Europe was flat and purchased bulk in Rands therefore had to look for new more profitable markets such as China, Africa and Russia. Commitment, work hard and training is what is required.

What are the key success elements of the BEE structure?

Koopmanskloof became the role model for BEE empowerment initiatives – it can work well with the right structure and partnership arrangement. Koopmanskloof ticks all the boxes for a level 1 BEE supplier.

Export focus was the right approach.

Not to own land or buildings and partners did not give land – this was the right approach.
Own the brands and not the land – own where the wealth lies and potential for wealth to grow.

Use only grapes from farm/ partner – do not buy in grapes, therefore control quality.

Manage all primary production with partners – grapes are all bush vine – no irrigation, saves a lot of money but yields are lower, quality higher.

**Are there any challenges with this type of BEE empowerment structure at Koopmanskloof?**

The main challenge are low yields due to dry land farming. Local challenge is there is no distribution model in our structure – domestic market is difficult and costly as well as competitive. Sourcing new markets which are profitable internationally requires a lot of work and expense.

**Where do you see the main focus for future growth to be? International or local markets? What are the reasons for this?**

Following an international strategy and to grow China as a market. Also to increase the business with Russia – less clients but build on and grow the existing ones.

Export payment terms are very favourable – Russia pays before wine leaves the harbour.

There are incentives for exporters, like duty benefits and VAT.

**What advice can you give to wineries in SA with regards to a BEE business environment?**

Lead by example – Koopmanskloof aims to be the model empowerment model.

Start by giving or selling shares to staff who can remain and grow the business.

Show how it can work and be successful – show the rewards and benefits.

Keep the winery identity and keep the branding authentic to wine and not an ‘ethnic ‘brand.

Important for branding/ labels to look like a winery brand as customers are not fooled.

A historic name with wine heritage is important – keep this element, if possible.

**What advice can you give Black owned wine brand companies?**

Find a winery partner and work together in an existing infrastructure and plan everything together not in isolation.

Do not start by trying to create a wine brand on its own – start by creating a wine business.
The answer is not to own land – costs are too high long term profits, no use if need cash flow and farming is very different to wine selling and marketing – partner with a farmer who has capital and farming skills and experience. The government approach in trying to force the white farmer to give up their land this is not the answer – will not work, no struggling person wants all the costs that come with land ownership.

Work on trust – very important.

Change labels every 3-4 years – keep them fresh and relevant – labels should be more premium and not “critter” brands.

Get support from government for trips and wine shows – new enterprises need all the help they can get.

Work with staff and plan future together to get their buy in – they must be part of the plans and decisions – experienced workers have got good input into the business.

Become rooted into the wine industry – your children and workers and family – wine community encourages young people to work in the industry – for example my daughter, Tammy is a winemaker and is passionate about wine from my passion for wine.

**How should the wine industry encourage more black people to get into the wine industry?**

Be passionate about wine – let this rub off, be wine role models. Passionate about wine is the answer. Have a heart for the wine business – share and tell people, present wine tastings and get consumers interested who know nothing about wine.

Not about the money – it is about the lifestyle and personal rewards, travel, new people, markets, new products, wine industry is very diverse – so much to do and see and experience

Bring across the fact that the wine business is working with nature, environment, cellar work, competitions, a rewarding lifestyle
Appendix G: Interview with Vivian Kleynhans – CEO African Roots Wines and African Vintners Alliance

Date: 26 Mat 2016

What role does AVA play for black owned wine brands?

It is currently non-existent.

It was set up to share resources and to seek sponsorships – to be a voice for a few producers and brand owners.

A selected group which were 100% owners, black owned. It was a spokes vehicle for the DTI – to draw up proposals to build the businesses and request funding from DTI.

Can you give some examples of successful initiatives that have been undertaken?

A DTI funded trip to America to source markets and customers.

American Airlines Wine Buyer sponsored trip and listings with American Airlines resulted.

What are some of the key challenges facing emerging black owned wine brands?

Fragmented industry bodies where Black owned wine companies not high on the agenda.

Access to infrastructure and production difficult – small producers get shoved aside.

Most are operating at the end of the value chain.

Sales are low therefore revenue is low and no funds to invest in the business.

The wine industry is difficult to penetrate – challenging to enter, intimidating, difficult to establish contacts and networks and we tend to operate on our own – try to do things our way with help of government, not other help within industry, or very little industry support.

What do you want the government and the industry to do for AVA or black owned wine companies?

To be covered in full in the value chain – from primary sourcing to distribution – support for whole chain. For logistics to be established - whole supply chain.

For funding to purchase 51% of a new winery or to build a new winery.

What do you think Black owned wine brands should do more of?

Accessing local markets – SA is costly and difficult – takes a lot of effort.

More local marketing activities are required.
More local initiatives to be undertaken, marketing drives – but no cash flow makes this an issue. Sourcing their own wine and managing the quality. A far more focused approach needed for wine shows, specific shows to target, smaller and more personalised, direct to consumer, no middle men.

Exports to continue focus as they are easier and cheaper and also supported by government and WOSA.

**What do you think black owned wine companies should be doing less of? Or not doing?**

Should not chop and change production facilities.

Not sourcing wine, stop having no control over important aspects of production.

**Is there a common message which black owned wine brands are conveying? If there is, what is it?**

Each one does their own thing – no common message. Some use ethnic designs on labels.

**Is there an export or local focus for black owned wine companies? For what reasons would this be?**

Export focus – virtually nothing locally.

Exports are easier – initiatives are supported and funded by WOSA and DTI. Orders get placed and loaded on the ship and that is it – get paid within 30 days. In the local market it can take up to 90 days to get paid for stock. I am not confident in the local market, retail wine buyers, particularly Checkers, operate from a power-based position and dictate what to do. Margins locally are very low for a lot of effort. One needs to be tough and negotiate far more locally, it is a more cut-throat environment and requires a lot more effort than with exports. Therefore, black owned wine companies tend to side step the local market.

**Is there a government or industry body which has a plan or strategy for black owned wine companies? If there is, what is the strategy?**

No specific body addressing our needs – fragmented situation. Focus is transformation or legal, government or other aspects – no body supporting with only wine specific needs.

VinPro is starting to address needs but focusing on transformation – too many overlapping functions and bodies.
Do consumers know about black owned wine brands and if so what is the consumer response?

NO – very little – consumers do not know about them at all.

Foreign countries do not care about ‘black owned’ just want a decent label and a good deal, interest is minimal, more interested in a themed approach like my Seven Sisters brand – 7 black ladies – this gets more attention. Locally – not interested.

Some local wine shows attended but no real commitment, stands are shared at shows with other black owned brands but it is lost and therefore less awareness, cannot afford one stand per producer therefore need to share resources, impact less.

Is funding support the answer for black owned wine companies? If so what would be the most effective way to use the funds?

Yes – funding is the answer – to purchase wines and pay for production costs which are outsourced. Source wines ourselves and pay for grapes or wines.

Marketing – develop a major drive with a big push – wine shows, enter wine shows and competitions.

Ideal and best scenario is to own a greater part or even the whole value chain and not to be virtual wineries.

Is it important to be 100% black owned – why not partner and share ownership in order to have access to resources?

It is not important to have 100% black owned share but must have majority of at least 51%. If not, then you are not in control and could be dictated to. We acknowledge we do need industry support and skills, wine industry is tightly knit and sophisticated, difficult for outsiders and harder for black females. Making and getting contacts is difficult – need to be more integrated into the wine industry in order to get anywhere, but do not want to lose control of business to get this.

Is the wine region or origin important for your wine brand?

It is all about sourcing control – cannot control this aspect, then region aspect falls away. It would be better to depict the region, would add value but not possible.
Appendix H: Interview with Bruwer Raats – Owner and Managing Director of Raats Family Vineyards

Date: 15 June 2016

Please can you explain how the MR de Compostella collaboration came about?

The concept came about to create a world class ultra-premium wine brand – not a black partnership. To create a profitable company selling ultra-premium wines to build improved financial security and status.

How is the partnership shared?

Created a Pty Ltd with a 50/50 share holding. We use Raats Family Wines – rented and pay for services and outsourced services and production to sub contract to Raats business.

What is the purpose or strategy of this partnership company?

To focus fully on the best quality and the right target markets and private clients – single minded and focused. To keep it one wine until we satisfy all elements of the MR project. Currently we cannot supply enough for the demand so no point in developing another wine.

What are the benefits of this project to black wine people or black owned wine brands?

Huge benefits! Firstly – a 50/50 partnership with a black winemaker – both parties are winemakers (with myself). Secondly – show black people you can partner with white wine people without pulling the race card. Thirdly – develop a successful business model – it can work well. Fourthly - black people want to follow and buy successful premium brands – they do not want to buy wines specially made for black people. Lastly – black people can partner with a well-known and established brand – it can kick start their career.

How is the partner of this project, Mzokhona Mvemve, involved and what is Mvemve’s contribution to the brand?

Mvemve is involved in the joint blending and all strategic decisions and jointly participates in marketing initiatives and also carries out marketing activities on his own in his markets.

What is your view on how best to approach black owned wine brands and companies in South Africa?

It is very important to have the same common goal with partner- partnership with like-minded people with mutual respect. Both parties to both bring their skills to the business, they should not both have the same skills – off course know wine, but have unique talents as well. Partner should equally invest financially – this results in real commitment and does not create a one-
sided partnership. My partner took out a bond on his house and I sold my bakkie to start the company. New black owned wine companies should aim to win wine design awards, win wine awards, with this approach – one strives for the very best. One cannot go cheap with cheap looking ethnic labels and ordinary wine – must be done to the very best of your ability.

**What role should the wine industry take with regards to black owned wine brands and producers?**

The SA wine industry works together and is helpful and willing to partner and provide mentorship. Treat black people the same as anyone else, no different, but with support. It is important not to be forced to do things – it must be a natural integration. I do not believe in financial handouts, partner must have some capital and bring his talent and energy, also to commit his time and work hard.

Exposure to wine from a young age is important to develop a wine culture – this is the only way to create a culture where wine is the natural first choice of alcoholic beverage to drink.

Start with creating awareness, black people want top, iconic wine brands, not ‘black’ wines. Exposure to premium wine brands – get introduction to wine with decent brands.

Credible and authentic wine people must drive the wine message across – good and appropriate marketing formats to be applied to get best results – aspirational marketing – not cheap wine and low prices.

**What are the main challenges for black owned wine producers and brand owners?**

Funding is the biggest problem and then route to market.

The international market does not care about black or BEE stories – it means nothing to buyers and consumers.

It is not only about making a profit – it is about selling wine and selling it at a decent rate.

Wine is not an ordinary commodity – it is a lifestyle product which is unique, with personality.

**Was it a relatively simple exercise to set up a new partnership company? Expensive?**

It is simple, quick and easy – not expensive.

**Does WOSA assist you with international travel and wine shows as you have a black partner?**

Only for generic key events which WOSA or DTI fund – any other markets or shows – on my own.
Appendix I: Interview with Paul Cluver – Managing Director Paul Cluver Wines

Is Paul Cluver Wines open to establishing new partnerships with emerging enterprises?

Date: 15 June 2016

We have done a lot of work with empowerment projects with our staff and with the community – we have been doing this for years and were one of the first wineries in the Cape to do so with the Thandi initiative, which we still support. Our staff still have shares in Thandi. We have successful projects in place and have our own strategies on what we should do and can do – it is also time many other wineries get on-board – there are many wineries doing nothing or very little. Partnerships are very important to establish but the new partner should contribute with a 50% share in the investment. They must bring something to the partnership – it should not be a goodwill gesture or done for the sake of transformation. Staff or the new enterprise as well as the winery should benefit financially – it must be a business arrangement, not charity. We are not keen to establish another partnership as we already have Thandi and would rather develop Thandi further before we start another new partnership. We would always be available to mentor black owned enterprises.

What are the main difficulties for emerging enterprises and black owned wine companies?

Mentorship is critical – much more is needed. Skills shortage is an important aspect lacking as well as business and marketing skills.

Access to markets is a challenge – this is holding them back from succeeding.

There is a perception that BEE wines are mainly entry level price points – this does not create any quality perceptions.

There needs to be a more concerted effort to build quality wines – focus is on Fairtrade or BEE.

There is a lack of wine culture with black people – this is a disadvantage as white wine families grow up with wine and inherit wine farms.

What would be the challenges for a winery in establishing new partnerships with an emerging enterprise?

Winery may not see any benefit or need for this – they may have a successful formula and are doing social and transformation work – why do more?

Can create conflict of interest with the winery brand – the winery would question why they need to market and invest in developing another new brand when they need to focus on growing
their own brand. Wineries need to be more profitable and would not be interested in a money losing project or the risk losing money.

**What is a great opportunity for black owned wine companies?**

It is quite simple: there must be much more mentorship and engaging with the wine industry. The main thing is the need to develop a wine culture in black people – this will bring about more black people drinking wine and working in the industry. This has to be a focus for the wine industry.
Appendix J: Interview with Jeff Grier – Managing Director and owner of Villiera Wines

Date: 20 May 2016

What started the relationship with Villiera and M’Hudi Wines?

It was a mentorship approach with Villiera to help M’Hudi Wines become self-sufficient. Villiera wanted to support the development and success of black owned wineries and enterprises. Initially the price points did not create value and prices were too high. Villiera invested time, resources and support and provided access to markets, gave advice and had our staff help in their vineyards, we made the wines by purchasing their grapes and labelling under the M’Hudi brand. The work and investment in the project was skewed towards Villiera and while a lot of motivation and discussions took place – there was not enough real hard work in developing the M’Hudi brand from their side.

What have been the key lessons learnt by Villiera from this mentorship collaboration?

An enterprise should enter the wine industry for the right reasons – not for short term wealth or romantic ideas of owning a wine farm – the reality is very different – small profits and very hard work for many years. Villiera realised that it would better to embark on empowerment projects with staff and not outsiders. Look which staff members deserve a break, develop them and partner with trusted known people who are already performing well in their jobs. Formal agreements with emerging partners should be established with clear and realistic expectations from both parties. Staff will benefit the winery performance and be appreciative. The negative aspects of staff partnerships are the continuous investment in training and education – the winery has to fund this. Lack of capital with the new partner for start-up costs or not real understanding of the significant costs which could be incurred when buying a wine farm. The need for the partner to do proper planning and to ask for advice far more regularly. The access to capital for a black owned wine business is also a challenge. If the winery invests more than the partner – the emerging partner can become dependent on the winery and this does not lead to becoming independent for the emerging partner.

Is there a common theme or message black owned wine brands use?

Many use a Africanization theme on the labels which is a major restricting factor limiting their customer base. Africa is not known internationally for having a wine culture and consumers not familiar with South African wines could be put off with this approach. Label designs lack the ‘cool’ element required to entice new and existing wine consumers.
Why are there only about 30 black owned wine companies in South Africa and not many more?

The main reason is that wine farming is not part of an African culture and is not highly lucrative to attract investors. Wine and Food is not a lifestyle for black people and not seen as a natural combination, it is seen as an event, occasion drink, weddings, banquets and so on. Black people with a wine culture buy premium wine brands and international wines — not cheap every day wines. The wine industry is seen as a ‘white Afrikaaner’ industry associated with tough, hard work and the alcohol abuse issues are a legacy— these are not positive elements to attract more black people into wine. There are not enough black people educated in wine, not enough black wine makers. The industry needs more black leaders, not more, education in leadership and business.

What do you think about funding for emerging black wine companies?

Funding should be more available as loans — not as a grant — this can create entitlement and does not promote self-sufficiency. If given too easily, workers or owners will not be as committed or work as hard than if it is their money which they have to pay back. Interest free loans are recommended. More funding for education is required - wine and business education.

If funding should be provided to emerging enterprises, what would be the most effective way to use these funds?

Funding should be used for developing markets, for purchasing grapes and equipment and importantly for market research to enable more effective development of brands. Assistance for the development of business plans — to embarked on a realistic scale. Subsidisation from the government and wine industry is required with start-up costs. Education for marketing and finance skills. Funds and energy should be in creating a wine business instead of a wine brand business. The business model should not be the brand — must be the business of wine.

Has the mentorship relationship been a success with M ‘Hudi Wines?

While the winery provided the mentorship and skills as well as access to markets — it worked. Once this comes to an end — then it does not work.
Appendix K: Interview with Mike Ratcliffe – Managing Director of Warwick Wines

Date: 26 May 2016

The joint venture Warwick has launched with Tbo–Touch Cabernet Sauvignon is in limited volumes – how will this promote wine sales or the Warwick brand?

This initiative was established to create the platform to generate more interest in wine for black consumers. To create more awareness, greater education and information about wine.

What is the marketing plan with this project?

It will be radio, press releases, marketing of consumer friendly wine education. A mobile app for information and awareness will be created – bring about more interest and excitement for wine. It is doing something different – a new approach – one cannot keep doing the same old thing and expect better results. The approach does not have all the answers but it is a start in the right direction, will learn and adapt as we go along.

How can this joint venture be of to benefit black owned wine brands and companies?

It is a model whereby we make the wines ourselves by hand – not outsourced or bought in wine. This is ultra-premium and most black owned wine brands are entry level – this will challenge the status quo to improve the quality and price game substantially. This project does not fit into the niche of black owned wine brands – it is about creating a brand.

What advice would you suggest for marketing a wine brand for black owned wine brand owners?

Get in touch with wine consumers – find out what they want, what is cool and trendy. More innovation is required – not the same labels and wines for many years – a new fresh approach. Conduct more marketing locally and appeal to the black middle class – this is the answer. It is important to create added value, otherwise consumers will move to another brand.

How can you measure that black people are buying more wine and becoming more interested in wine from this joint venture?

Not aiming to measure this – aim is to start the process and expect other wineries to get on board and join in – when many wineries participate, then there will be measurable success.
Would it be beneficial for Warwick and Tbo–Touch if this wine was available in selected supermarkets in order to reach more consumers?

It could be but it is not the strategy. It is a wine message and not a commercial message, it is bigger than selling wine and making money – thinking differently to create an interest in wine for the black middle class.

What do you think the next thing is for black owned wine companies in South Africa?

Mentorship is the most important thing needed. To be successful there must be a strong offer that is relevant to the market. It is important for black people to understand the wine culture and likewise it is important for white people to understand the black people’s culture and backgrounds better. There is a need for black owned wine companies to connect more with the wine industry rather than doing their own thing in their own way. An example of this is the way black entrepreneurs market wine and an example of this for white people is the way they market and sell wines (mainly to the white wine drinkers). Emerging enterprises should bring their own capital to a partnership agreement – their own skills or new unique opportunities. The Tbo–Touch project is a 50/50 partnership in capital investment, this is the preferred model.
Appendix L: Interview with Danie de Kock – Marketing Director of Spier Wines

Date: 23 June 2016

Is Spier Wines interested in establishing a partnership with an emerging enterprise?

There is an appetite to collaborate and partner with a black owned enterprise. Spier is already doing a lot of work in this regard and cannot keep funding and embarking on too many projects of this nature. Spier sponsors education, community upliftment, skills training, empowerment and market research in developing the black market. Spier actively collaborates with other wineries and distributors with empowerment and market research projects. Mentorship initiatives are important and Spier is committed to doing more of this. The percentage ownership is important as the enterprise could become dependent on the winery or the winery dictates everything, a mutually agreeable arrangement should be established. The type of partnership is important as there should be common interests and a sound business approach without conflict of interests.

What are the main challenges for an emerging wine enterprise?

Emerging enterprises require facilities and resources which the winery can provide but not if it is not profitable to do so. Black owned wine brands require marketing and distribution support in order to succeed. The emerging brand should be able to stand on its own after a while and so as not to rely on the winery indefinitely. A key challenge is lack of funding and knowledge of the wine industry, this requires effort and integration.

What challenges are there for a winery when developing a partnership with a black owned company?

Additional brands developed could create a conflict of interest therefore emerging enterprises should use their own resources to market and promote their brands, if they are separate brands. Commercial viability are concerns for the winery, it is understood to begin small and grow but if these new brands remain small and unprofitable, this is a concern and wineries will lose interest in the project.

What are the main opportunities for emerging wine brands?

Establishing mentorships with wineries is key. Wine education and a stronger, more focused marketing approach from the onset is vital.
Appendix M: Interview with Neil Ellis – Managing Director and owner of Neil Ellis Wines

Date: 18 May 2016

What would the main criteria be for Neil Ellis Wines to embark on an empowerment or black wine company partnership?

Partnerships must have common goals and agreements in place – no goodwill gestures or informal arrangements should be undertaken, there must be a structured business approach. The new partnership should generate profits for both parties within a reasonable time frame. These types of partnerships do not work if one pays lip-service to transformation, they must be genuine and come with commitment.

What do you think is required to integrate black owned companies into the wine industry?

Emerging businesses must partner and collaborate and not left alone to their own devises without support or knowledge and skills. The international market think South Africa is a free wine market and do not understand or care about black ownership or think it is necessary to give black people special advantages or to listen to race stories. International buyers are only interested in a good wine deal. Understanding these aspects is important for any new emerging enterprise. The marketing messages are often not centred on quality as the main focus. Politics, race and previous disadvantages take up too much of the air-time. Black business people should enter the wine industry with commitment and willingness to learn and understand there are no short-cuts to wealth in the wine industry and that it is not easy, it takes huge work and effort as well as time to succeed. Emerging companies should provide some skills and investment into partnerships which is the norm in any industry, there are no free entrees, it takes investment by all parties.

Is there willingness from Neil Ellis Wines to partner with a black owned company?

There certainly is willingness from my business as well as from many wineries. The reluctance for these initiatives comes in when the government forces the issue. This creates an unnatural environment of unwillingness for wineries. Wine industry families have built up their businesses over generations and are concerned that government intervention could threaten the profitability of their livelihood. Wineries also do not want to let go or give away land or part of their business easily – it is a personal family business which is a legacy for future generations.
What should the wine industry be doing to support black owned wine companies?

Far more wine education is required and barriers need to be broken down. Barriers such as language and negative perceptions about wine farming and entitlement. Everyone should be given an opportunity as long as they are willing to invest, commit and work hard. Training and developing the black youth with wine education in order to create a wine culture is very important. Mentorship programmes should be accelerated across the wine industry.
Appendix M: Interview with Philip Bowes – VinPro Transformation Manager

Date: 8 July 2016

Can you please outline the various funding options available to an emerging enterprise or black owned wine company?

This is a complex and detailed subject with many government agencies and wine industry bodies involved. The wine industry bodies which have government support are WOSA, VinPro. They are being the main bodies where financial support is available. WOSA is export focused and funds international wine shows for qualifying wineries and brand owners. WOSA manages export levies raised from the sales of exported wine, provides funds for emerging wine companies and wineries. This is used to develop their businesses by means of equipment, marketing, infrastructure or building facilities. VinPro makes funds available for emerging enterprises for projects such as winery equipment, barrels, marketing and trade events and assists with facilitating grants together with government agencies. Other government bodies involved in transformation or training workers are active such as SAWIT and SALBA.

There are government departments which deal with land grants and loans, others in buildings, education and skills development. The main bodies and agencies are: DRDLR / LRAD/ CASP/ RECAP / SEDA / IDL/PIC/ DTI/ PIC and Isibaya Fund. The NEF are involved in land grants including investing as partners with wineries and workers’ trusts or enterprises.

The main bank which is government owned is the Land Bank – major agenda to support transformation and land reform initiatives together with the government departments responsible. Capital Harvest is also very active; it is a bank offering loans with special rates particularly for the emerging farmer and enterprise. Commercial banks are involved to a much lesser degree as they do not cater for the agriculture sector and do not offer preferential rates for emerging companies – they are used by black owned brand owners for normal loans or property mortgage agreements.

Please explain the overview of black owned wineries and companies in South Africa in terms of numbers and sizes?

There are 32 active black owned wine companies with 10 being partner wineries, the others sell wine and have no land or wineries. Most of these companies, 75%, sell less than about 8000 cases per year with only three with more than 20% of sales domestically. Black owned wineries or brand companies selling more than 400 000 bottles per year are partner wineries.

Land projects are increasing with 60 currently in place but land is costly and difficult to purchase and therefore the most economical model is to trade wine and not own land or
wineries but to outsource all services. This is a struggle as many do not have skills or experience in the wine industry and require partnership and mentorship arrangements to have an improved success rate.

The size and number of these enterprises in bottles per year are: less than 5000 bottles – 6 / less than 10 000 bottles – 4 / less than 30 000 bottles – 8/ less than 40 000 bottles – 4 / less than 100 000 bottles – 2/ less than 150 000 bottles – 3/ from 400 000 to 600 000 bottles -3 / above 600 000 up to 2.5 million bottles – 2. The largest ones are all in partnership arrangements with wineries and operate as a complete wine production and selling unit.

There are success stories and all these are partnership ventures. Thokozani with the Ovation launch and listing at Woolworths is a particular stand out on what can be achieved. VinPro was involved in funding the Ovation launch which was a success. Others such as Koopmanskloof which has a successful model, Solms Delta, Thandi, Land of Hope and some others. There are pockets of these around the wine industry but far more are required to have a major impact on transformation.
Appendix N: Interview with Denise Stubbs – Director of Thokozani

Date: 23 May 2016

Has Thokozani benefited with growth due to the Ovation brand launch?

It has grown up to 27 000 cases per year from an average of 8000 cases per year. The successful development together with Woolworths has been very well received by customers. This kind of growth has not been seen before with Thokozani.

What are the key success factors of the Ovation brand?

It is a premium looking wine brand without any BEE messages or African themes – it represents an uplifting premium brand message which is relevant and appeals to wine customers across most profiles. The wines are popular, most wanted cultivars at attractive but not entry level prices – retail prices are R59.95 for the whites and R69.95 for the reds. A lot of market research was conducted, mainly by the Woolworths team in making sure the wines and labels had appeal and were relevant. Having Diemersfontein as a winery partner offering skills and mentorship was vital to the success, otherwise it would not have been possible. Diemersfontein opened many doors for Thokozani, including the Woolworths relationship they already have – Diemersfontein wines selling in Woolworths. The Diemersfontein relationship is not only one of partnership and mentorship, they have a real heart for social upliftment and empowerment and are role models in this regard. The relationship is built on trust and openness with constant communication, advice and coaching to the Thokozani team. The Thokozani team are very motivated and committed due to their shareholding status as well as being part of a growing and exciting business.

What are the reasons for the positive consumer response to Ovation?

The main reasons are that all parties benefit from the business – it works for all. In addition, it is solidly based on quality and with the Woolworths quality culture based on trust, this further gives Ovation credibility. All the three partnerships established are sustainable and established businesses. Ovation is also a wine brand for wine people and the name and message speaks to this.