

BLACK ECONOMIC EMPOWERMENT IN THE WINE INDUSTRY

A GENERAL GUIDELINE FOR THE WINE CELLARS

1. PURPOSE OF THE DOCUMENT

The technical support process in respect of BEE Charter in the wine industry is driven by the SAWB and as is set out in the ROADMAP (www.sawb.co.za). Two separate but interrelated activities are involved, namely, the development of a SCORECARD and a WINE-BEE CHARTER.

The purpose of this document is to provide a framework of reference of operational action: Firstly, certain basic requirements of BEE projects. Secondly, an explanation is given as to how the final SCORECARD **might** look like. Thirdly, the various BEE possibilities together with commentary are listed under each of the BEE categories. Finally, possible sources of finance for BEE projects are given for the drafting of an operational business plan for a project. An Addendum hereto gives guidelines.

2. BASIC REQUIREMENTS

2.1 It is common cause that in the planning of BEE projects all the relevant stakeholders should be taken on board at the outset. Ignoring this basic requirement is almost certain to end up with frustration and a non-starter when the legitimacy of the process is questioned. The identification of such stakeholders is an important process and should include all relevant groups to “make the project work”.

2.2 **Design criteria - The following is a list of important design of successful BEE projects and programmes:**

- a) The project must be economically viable and sustainable over the long-term.
- b) Empowerment must be real and tangible. Transfer of assets alone, especially without contra performance, does not necessarily lead to empowerment as well as the acquisition of technical, life and entrepreneurial skills. The latter has to form part of the package.
- c) Any empowerment must give meaningful returns almost immediately or soon. Poor people especially have, for understandable reasons, a short expectancy horizon.

- d) Programmes must make allowance for exit strategies when things go wrong or the desire to continue no longer exists.
- e) It must lead to the acquisition of tradeable assets.
- f) Must be supported by a human development programme for hard and soft skills.
- g) Focus on the development of entrepreneurs and managers.

3. BEE SCORECARD FOR THE WINE INDUSTRY

- 3.1 **Core categories and components:** Certain definitions of concepts that are pertinent to the scorecard and the processes in its development should first be understood. The scorecard consists of four basic or core **categories**, namely, direct and indirect empowerment; human resource development and training; and a residual category as shown in the table below. Also shown in the table are a number of **components** within each of the categories that could be used as BEE projects or programmes.
- 3.2 **Indicators/targets/scores:** Further “columns” as it were in the scorecard, but not shown in the table, refer to the guideline indicators (how the components will be measured); the targets that will have to be achieved with specified time scales; and the calculation of the total score. These are parameters that will be determined according to the process described in the ROADMAP.
- 3.3 **Component selection:** Cellars will decide which of the components within each of the categories they intend using in achieving their BEE objectives. A measure of flexibility exists in the choice of components given the 30:30:30:10 weighting of the categories.
- 3.4 **Achievement through scoring:** The final score on a scorecard will be determined by the summation of weighted figures obtained by multiplying the category weight (say, 30%) by the component weight (still to be determined by the industry). The final score will show the BEE performance; a score under 40% will be considered as having made a limited contribution, between 40% and 65% as satisfactory and finally a score of over 65% as having made a good contribution.

3.5 PARTIAL SCORECARD – CATEGORIES AND COMPONENTS

1.	Components		Notes
D I R E C T E M P O W E R M E N T	1.1	Shareholding in cellar or farm or expansions (additional points can be scored if females are involved)	<p>Co-operatives/Equity options and ownership: In the case of co-operatives the grape-producing farm is the “member” and membership is coupled to the delivery of grapes. If an existing farm (member) changes ownership, the dispensation continues as before, but if it is a new development the co-operative will have to make capacity available or create new capacity by using reserves or by imposing a levy (probably at a discount for newcomers) on members. Note that should an existing member decide to discontinue supplying grapes to the cellar, severance payments may be involved. The co-ops are advised to study the VinPro/Nedcor Foundation report on BEE models in the grape producing sector when considering the establishment of farming projects.</p> <p>Companies, etc: Shares may be purchased purely as an investment and need not be coupled to the delivery of grapes.</p>
	1.2	Profit sharing	This arrangement works best as a performance incentive or where risks are shared.
	1.3	Leasing of assets	Possibilities include facilities such as storage bottling; wine tanks; juice extraction; transport; equipment; etc
	1.4	“Warehousing”	<p>Although the cellars will have to show some progress with empowerment by November next year when applying for permit renewal, the final targets that that will be set will have to be achieved by the end of 2014. This means that the empowerment entity can be “warehoused” until that date.</p> <p>This is only introduced when BEE is intended but where the beneficiaries or programme must still be identified or developed to take equity in future. Equity can be held by an interim third party BEE entity.</p>
[30%]¹			

	1.5	Employee housing	Empowerment can also take the form of enabling the employees to obtain ownership of an asset such as a house with either individual or corporative title.
	1.6	Brand ownership	Ownership in brands, trademarks, intellectual property can be allocated to PDI's
	1.7	Crop sharing	Crop sharing arrangements can enable farm workers or emerging farmers could gain economic benefit that can also be turned into equity. Performance incentives and risk sharing is necessary to make this work.
	1.8	Management	Participation of all beneficiary groups (women, AIC, disabled, etc) should be facilitated.
	1.9	Seat on board of directors	It is important to ensure that BEE does not merely amount to passive shareholding. Instead, mechanisms to link ownership with control through active participation at operational, tactical and strategic levels must be considered.

2.	Business development and support		Notes
	2.1	Outsourcing	Various <i>smme</i> opportunities can be developed including: transport contracting, tourism opportunities, auxiliary services, cleaning services, maintenance and repairs, building, etc. etc.
	2.2	Preferential procurement	It is necessary to be aware of the definition of businesses in the context of BEE. A business with under 25% black ownership is defined as black ownership business; with 25.1 - 50% ownership as black influenced business and with 50.1%+ ownership as a black business. The SAWB is in the process of drafting a document listing the extent of black businesses with which the wine industry normally conducts its business.

	2.3	Enterprise development such as small business on farm, new development, market gardening for own account, tourism and especially the involvement of women	Refers to new enterprises, joint ventures, restructured firms, export firms, value chain activities, and non-land based enterprises. The extend to which such opportunities/firms are supported and developed, including: <ul style="list-style-type: none"> ▪ Preparation assistance ▪ Marketing assistance ▪ Access to networks ▪ Resource sharing arrangements ▪ Bridging finance
	2.4	Access to resources	Progress to facilitate access to finance, services, information, and business opportunities.
	2.5	Ethical trade	Ethical trade arrangements / schemes enable beneficiaries and farmers to gain additional premiums from markets that can be used for empowerment or welfare purposes.

3.	Human development		Notes
H U M A N R E S O U R C E D E V E L O P M E N T	3.1	Mentorship	Mentorships provided to: Young professionals, black / emerging farmers, start-ups, black entrepreneurs, black SMME's.
	3.2	Employment equity	Consider: AIC status at all management levels Pay attention to gender, youth & disabled.
	3.3	Skills development / training	<ul style="list-style-type: none"> ▪ Vocational training ▪ Business training ▪ SETAS
	3.4	Community development	<ul style="list-style-type: none"> ▪ Pre-school care ▪ Health programmes (including HIV/VIGS) ▪ Sport & recreation ▪ Bursaries ▪ Alcohol rehabilitation ▪ Feeding programmes Many of these can also fall in the next category.
	3.5	Adult basic education & training	ABET programmes
	3.6	Eradicating illiteracy	Literacy programmes
	3.7	Rural/farm schools	Support to farm schools, e.g. property, transport, maintenance, cost sharing, etc.
[30%]¹			

4.	Industry particular		Notes
R E S I D U A L [10%]¹	4.1	Primary health care	This category could include any of the aspects mentioned in the left column as well as other initiatives that are peculiar to the firm or industry.
	4.2	Pre-school programmes	
	4.3	Gender programmes	
	4.5	Education programmes	
	4.6	Sports & recreation	
	4.7	Bursary schemes	

¹ These weights will probably have to be accepted as given

4. SOURCES OF FINANCE

1. Department of Land Affairs (LRAD)
2. Department of Agriculture:
 - (New Agric Credit Scheme)
 - Comprehensive Agricultural Support Programme (CASP)
3. Commercial banks
4. Development Bank
5. Land and Agricultural Bank
6. Department of Public Works
(The Expended Public Works Programme – EPWP)
7. Municipalities (Local Economic Development)
8. District Municipalities
9. Agribusiness Venture Capital Fund (proposed)
10. Department of Social Services and Poverty Alleviation
11. Provincial Department of Economic Development
(e.g. ikapa Fund)
12. New farmers Development Company
13. CASIDRA
14. Department of Trade and Industry:
 - Sector Partnership Fund
 - SMEDP
 - National Empowerment Fund
15. Ntsika Enterprise Agency
16. Land Reform Credit Facility (Khula)
17. National Development Agency
18. BEE investors
19. National Productivity Institute
20. Kagiso Enterprise Fund
21. Venture Capital Funds

1. DRAFTING BUSINESS PLANS

From time to time businesses need to adapt and change, and require for this purpose a clearly defined business plan to be able attract essential funding and at the same time develop a framework for implementation. The adjustments implied by the government policy guidelines on Black Economic Empowerment (BEE), which each reasonably sized business will have to engage, will need to be preceded by a business plan. It is imperative therefore that a business plan be well contrived in order for it to optimally fulfil its purpose. The following is a brief description of what constitutes a standard comprehensive business plan and how such a plan can be constructed.

1.1 Purpose of a business plan

A normal business plan usually has a twofold purpose, one less obvious than the other. The most obvious purpose of a business plan is to convey appropriately to a specific recipient (bank, shareholders, say) the merits and substance of a business idea for the recipient's perusal and subsequent acceptance or action. It must, as will later be seen, contain all the information that such a recipient will need to make a decision, and have it presented in an understandable and logical way. At the outset *it must be recognised as an instrument of communication*, focusing on the specific purpose for which it has been compiled.

The less obvious, though deeply implicit, purpose of a business plan is that it simulates a vision or idea thereby testing its viability. With careful consultative planning, problems can be anticipated and their solution (plan B perhaps) determined in advance; the process creates stakeholder alignment (particularly important in BEE projects); and it encourages the weaknesses and strengths of an idea to be exposed and dealt with or exploited. In other words the business plan, if it is done thoroughly, is an exercise in learning and gaining confidence for the promoters of a project.

1.2 Business plan content

For the purpose of this exercise, the planning process will be deemed to start with an idea or vision already established. Such an idea or vision could have been generated individually or within the synergies of a group 'think tank', or by way of 'shuttle' process between individuals who are stakeholders or specialist experts with value to add. In the BEE situation there is significant value to

be derived by involving the intended empowerees during the origination process since 'buy in' is an essential element for success of any empowerment scheme.

Most business plans will start with a **vision** of what the intended plan is expected to achieve. They will also define the **objectives** to be derived by implementing the vision, which would include a description of the ways in which the beneficiaries are expected to benefit through the project. A comprehensive business plan should also outline the analytical process which identifies appropriate **strategies** for implementing and maintaining the project. The next phase, which forms the bulk of the plan, should contain relevant **analyses**, piecemeal, of the various resources and disciplines which will have to be assigned to the project if it is to be successful. Finally, the business plan has to describe the **management and controls** which are required to set up the project and ensure that it will operate according to the vision. The above (in bold) are all essential components of the plan and will be dealt with individually.

1.3 **Vision and mission**

A business 'vision' is a description of the new project (or intended change) once the project is fully operational. A business vision is more specific and tangible than the more abstract concept of a business mission which is usually communicated as a mission statement. The latter defines where the business is positioned in terms of its 'reason for being' as a business entity. A vision, on the other hand, is a sketch of where a project or business is expected to be and how it will actually look. In the farming context, say a new farm for empowerment, it could, for instance, briefly describe the area and physical characteristics of the farm, what the farm is capable of, and most importantly, *how its planned development will be consistent with the empowerment philosophy being underwritten by its promoters*. Such a vision 'sketched' will, depending on its complexity, probably take up no more than a page of the plan, allowing the reader to conceptually grasp at the outset the core intentions of the project. The mentioned consistency with the originator's mission and philosophy is extremely crucial as the vision needs to have a strong sense of authenticity – in other words *it must truthfully embrace the concept it describes*.

Of particular significance in the case of BEE is that the vision must, before it can proceed, be shared with the empowerees. If this does not happen then the probable resultant lack of alignment may translate into suspicion and eventually failure. As mentioned

earlier, the best way to ensure that there is alignment from the start is to involve the empowerees during the initiation phases.

Finally it is important to state what is actually quite obvious. The vision for a new project or idea must make business sense for it continue further in the planning process. Indeed, making business sense could be regarded as the first hurdle to be faced on the way to implementation.

A mission is “what should be the direct aims and focus of a business over the short/medium term”.

1.4 **Objectives.**

The objectives are not only often the drivers of the envisioning process, but also can flow from it. They are simple statements fashioned out of the purpose of the intended project and can be classified as primary (core) or secondary (sub-) objectives. A single primary objective may consist of several secondary objectives. For example a primary objective could be “create property rights for employees”, secondary objectives would be “purchase plots in a rural township”, “assist employees to raise bonds”, “provide labour and machinery to help build”

The way in which the objectives are framed tells a great deal about the attitude and the degree of research that has gone into a business plan. A primary objective for an empowerment project could be “to comply with National empowerment policy”, or it could be “to develop a specific time and resource framework to establish an empowerment base for the disadvantaged employees of my (our) company.” The last represents the more carefully considered objective and suggests some clear sub-objectives to follow. The guidelines to well framed objectives are relevance (remain focussed around the vision), authenticity (consistent with the intended business philosophy), sharedness (do the stakeholders agree with it) and clarity (does it unambiguously convey the concept(s)).

1.5 **Strategy**

If the vision and objectives describe the end result and purpose of the project, then the strategy describes the way of getting there. The most generally recognised way of developing a strategic plan for a project or business is the SWOT analysis method. For those who may not be familiar with the process here is a brief description.

SWOT stands for strengths, weaknesses, opportunities and threats. The SWOT process may be conducted on an individual basis, but is normally done under workshop conditions because this environment elicits constructive debate and a cross fertilization of ideas, effectively adding to the general richness of the proposal. The participant(s) – in a large workshop the participants can be broken up into small groups – apprised of the vision and broad objectives, start by listing the strengths and weaknesses of the project or idea. A fair degree of searching must be applied at this stage; nothing must be left out of the list. The strengths and weaknesses can then be categorised into the opportunities and threats which they suggest. The opportunities and threats can then, after a process of debate and selection, be prioritised and finally translated into strategies. Strategies used to exploit opportunities are offensive strategies; and those used to offset threats are defensive strategies. It is a mistake to have too many strategies – an efficient strategic plan should be condensed into no more than four strategies.

In a business plan the strategies will be written as short punchy statements, pointing out direction rather than describing the road to be traversed. However, each should be followed by a tactical plan which outlines how the strategy is to be implemented. Thus, a strategy (in a set of strategies over worker development) might be “make all illiterate workers in the labour force literate and numerate in two years” and the tactical plan “employ retired teacher on Friday afternoons; provide bus service for illiterates to attend literacy classes; allow time off from work for the purpose”.

Breaking each strategy into a tactical process implies a time frame and quantitative targets – extremely important components of a comprehensive business plan. Whilst these are part of this phase of the planning process their emergence will go hand-in-hand with the analytical process, a description of which now follows.

1.6 **Analyses**

To all intents and purposes providing a vision, objectives and strategic plan brings to an end the conceptual and descriptive phase of the business planning process. The next step is the analytical phase which colours in the preliminary sketch to make it marketable to the recipient or alternatively undesirable. It should always be remembered that a written business plan is, in the final analysis, a communication tool. The most thorough way of carrying out the analytical process, which is also intended to fill in the planning gaps, is to view the project from different

perspectives – physical, economic, marketing, BEE and social, and institutional.

(i) *Physical analysis*

The starting point of any business plan, wherever there is an investment or redistribution of assets, is a description of the physical parameters – what physically is involved in the project. Such a description should not only itemise the key assets involved, but also outline the suitability of the assets for the specific (BEE) task in hand. Apart from briefly describing these assets, the outline should inform the reader on their productive capacity, their relative level of technology, their useful life and their market value - not only under normal resale circumstances but also under circumstances of forced sale. By the end of this stage a picture of the physical attributes will have been depicted and a general idea of worth generated.

(ii) *Economic assessment*

Any project which requires funds and/or impacts on the “bottom line” must be subjected to an economic analysis before any plan can be regarded as complete. In many cases, where there are no professional accountancy skills in house, this may require outside assistance. There are a few important facets of the economic analysis which need attention in a full business plan, these are :- Forecasted accounts, capital expenditure forecast, monthly and perennial cash flows, risk analysis, project valuation. The following describes each briefly.

(iii) *Forecasted accounts*

These are really budgets and should ideally not only include forecasted income statements but also balance sheets. They must take the projected income and costs (including depreciation) from a project start-up position to at least the point of equilibrium, i.e. to the point when the project is up and running.

(iv) *Capital expenditure forecast*

This is a capital budget outlining the capital costs of the project to the point of equilibrium. The capital forecast should also include an amount (annually or cyclically) which allows for the replenishment and upgrade of the project asset base. This latter figure need not be the same as depreciation which is an historical write-off amount as compared to a future expenditure. [It must be remembered in this context, however, that the ‘depreciation’ in the

forecasted income statement and balance sheet discussed above, must reflect the future write-off of the future expenditure pattern as predicted for capital purchases and replenishment.]

(v) *Monthly and perennial cash flows*

Here the forecasted income statement and capital expenditure, without depreciation and non-cash costs, are combined into a cash flow statement which can be presented cumulatively either a) on a monthly basis over a year; and/or b) for perennial developments, like a gradually growing market for a brand of wine, on an annual basis over several years up to the point of equilibrium. This exercise is essential to be able to determine the funding requirements for the project. For this purpose the analysis must impute an interest amount (charged at an appropriate market related rate) for all cash deficits. The exercise will allow the short term; seasonal financing needs to be dealt with separately from the longer-term development needs.

(vi) *Risk analysis*

There are two ways of looking at risk economically - through sensitivity analysis and by determining the Internal Rate of Return (IRR) of the perennial cash flow pattern. Sensitivity requires that the cash flows and profit outcomes constructed above be tested under different parameter assumptions (inputs and outputs) by assessing the impact of parameter changes on the profit margins or IRR of the project. Examples would be: looking at different yield outcomes for an intended planting of wine grapes; or different pricing strategies of a newly launched brand of wine; or the impact of a stock build up of wines in a cellar. The IRR determines the returns of the project and can be compared to returns in other ventures of similar risk. Underlying this comparison would be market related interest rates such as that offered on prime.

(vii) *Project value*

The adding on of value has to be a key factor in initiating a project and therefore needs to appear in the business plan. Indeed, from the lenders point of view, where the requirement of collateral is almost a given, an assessment of value is indispensable. There are two forms of value which are relevant here – market value and economic value. Market value speaks for itself; it is the estimated value that a willing buyer and willing seller would be prepared to transact at for the asset created (or the additional amount if the project is an add-on). Break up value; the absolute downside of

market value (under a situation of project collapse) may be relevant in certain circumstances to help create a wider perspective. Economic value is calculated on the basis of the 'present value' of a cash stream - by inputting into a present value formula what such a cash stream would be expected to return. Using risk-related returns, benchmarked to interest rates on the capital market (noting that the more risky the project the higher the required rate of return), the present value becomes the economic value - providing a useful indicator of worth for the project in relation for example to its funding requirements.

(viii) *Market analysis*

The market analysis covers the all-important aspect of price of product and volume of sales. In order for a project to establish its financial resilience a proper market analysis has to be done for inclusion in the business plan. In the wine industry, which is heavily dependent on the export market, such an analysis requires an overview of the international market in the face of the demand and supply trends - tracking and extrapolating these over several years to determine the potential impact on price. The object of the exercise is to supply the back-up information needed to support the price and volume assumptions made in the economic analyses.

For bottlers, the analysis must take into account the brand development and distribution policies of the bottler in relation to quality, volume and price parameters, and show how these policies can be accommodated in a new BEE styled project or influenced by them. The important criterion in the market assessment part of the business plan is to establish the level of stability within the market.

(ix) *Social and BEE assessment*

In describing the probable outcomes of a BEE project for business planning purposes, a good starting point is to clarify the BEE target for which it is intended. The Wine-BEE policy requirement is that the BEE scorecard be comprised of four empowerment categories – business ownership, HDI employee development, supplier and outsourcing profile, and 'other' empowerment initiatives. The business plan will require an outline of the beneficiaries or HDI participants involved and reveal in specific detail how they are to be empowered by the project in terms of the laid down empowerment categories.

Approaching the issue from a broadened perspective, the general social advantages need to be spelled out clearly. Such advantages could take many forms: improved skills, better living standards, enhanced self esteem, acceptance of responsibility, greater impact on conditions of service and decision making, movement of resources to HDI beneficiaries, reduction in alcohol abuse – all these are typical examples. It will of course also be important to place in perspective the potential positive spin-offs of social development on the business project – like an improvement to the BEE scorecard and the doors this may open, greater access to markets (e.g. 'fair trade') and the advantages of a stable and committed workforce.

(x) *Institutional assessment.*

The institutional framework is critical to the successful performance of any project, in particular an empowerment project. One of the most important criteria by which to measure an effective institutional structure is the already underlined need for consistency with the project vision and objectives. Certain obligations on owners and managers are conferred by the imperatives of the vision and its objectives, and the best way to ensure that these are fulfilled is to place them under the guidance of *institutional arrangements which are aligned to and motivated by the vision*. Experience has shown that if project authenticity is masked by a defensive governing structure installed by the project promoter, the project is usually not successful in the longer term. This is because of inconsistency with stated ideals. Examples of this are projects offering small minority (non-controlling) shareholdings to generate LRAD funds for the promoter and inviting little substantive input into operational decisions.

There are a large number of options and combinations when it comes to institutional structures. Trusts, leases, co-operatives, companies (holding, pyramid and subsidiary) and several combinations of these through cross shareholdings and interlocking agreements, are all part of the armoury for a promoter to absorb the planned project into the current framework of the business. What further complicates matters in relation to BEE policy, is that certain funding institutions have set specific conditions for the way in which empowerment is to be applied before assisting with funds. The general complexity surrounding institutional choice means that for BEE projects of any meaningful size, professional assistance should be employed; the resulting recommendations would need to be attached to the business plan.

(xi) *Controls*

Outlining the intended management of the project and its controls is an important part of the business plan. A sense of confidence has to be conveyed to the reader that as the project develops it will do so smoothly. The process entails a definition of the executive responsibilities and who will be responsible (and perhaps, in the BEE context, how these responsibilities will be transferred over time) as well as the application of accounting controls and performance measurement. Relevant concepts to be considered for inclusion in the plan at this juncture are mentoring, capacity building, monitoring and third party auditing. Importantly, a consideration of controls will need to be preceded by a description of what needs to be controlled – including BEE targets.

1.7 **Business plan format**

To be effective, a business plan must always be succinct in how it delivers the message, laying out its arguments in such a way as to take the reader to a (seemingly) inevitable conclusion. To achieve this, a business plan can have several formats, though the one perhaps most generally accepted consists of an executive summary, a main report and a set of annexures or appendices.

Executive summary

This is essentially a précis of the main report, which is normally written first. It should not be longer in length than one tenth of the main report emphasising the basic background issues, the main conclusions reached from the analyses as well as predicted key outcomes such as profitability, returns and empowerment targets.

Main report

The main report has to cover the full analysis as outlined in this manual, starting with an introductory background and ending with a concluding discussion. The bulk of the report should be taken up with the logical presentation and analysis of pertinent information - all in keeping with the focus and purpose of the business plan. The nature and needs of the readers to be targeted will also help guide the substance and emphasis of the report. Tables appearing in the report should be in summary form and not so busy as to hide the central messages contained in them. The main report should not be bogged down in detail but make sure the detail is available in the appendices.

Appendices

The appendices are essentially intended as references. All detailed information contained in cash flows, maps, asset lists, legal reports and the like, which would be distracting in the main body of a report, should be included in the appendices.