Wine supply chain survey 2012 - Findings and Challenges

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Abstract

The South African wine industry plays a significant role in the South African economy. Its annual contribution to the economy grew to R26.2 billion or 2.2% of gross domestic product (GDP) in 2008, confirming the substantial growth in the wine industry and its economic impact since 2003. Of the over R26 billion contributed to the national economy, about R14.2 billion was generated by the Western Cape wine industry (SA wine industry “driving jobs, GDP”, 2010).

South Africa represented 3.6% of the world’s wine production and were ranked eighth overall in 2011 (SAWIS, 2012). South Africa also contributed 3.9% of the world’s wine exports in 2011 (Uren, 2012). The total exports of wine as a percentage of wine production in South Africa decreased from 48.5% in 2010 to 43.2% in 2011 (Uren, 2012). Several factors could have impacted this, such as current world economic climate, lower wine production volumes, etc. This is not the primary focus of the study, but some evidence was found that could be linked to the decreased exports.

It is a known fact that cellars in South Africa are under tremendous financial pressure. Reducing costs and increasing efficiency in their supply chains can help cellars to survive and stay competitive in these tough economic times. This explorative study focused on wine cellars in three wine regions of South Africa, namely, the Bredeklouf, Robertson, and Worcester wine regions. These wine regions contributed 41.5% of the South African wine production in 2011 (SAWIS, 2012). Cellars in these regions focus primarily on producing bulk wines for the local market, with limited export of bulk and bottled wines. Future studies are aiming at improving the footprint of the survey into the other wine regions until the total population of wine producers have been included.

This study was done by Stellenbosch University with contributions from the CSIR and PWC with the aim to gather proper quantititative supply chain benchmarking information. The SCOR model was used as the basis for the methodology of the study. The partners believe that this information could assist the South African Wine Industry in their supply chain performance and make a potential contribution to improve the financial bottom line. It became clear that there are great opportunities for improvement in the industry from a supply chain perspective. Most of these cellars focus their effort on making wine, but do not have the skills and experience among their staff to handle logistics activities such as packaging, storage, transport and support services. Many of these aspects are outsourced, especially for wine exports. The aim of this study was, through benchmarking, to differentiate between cellars that excel in certain areas and others that have significant opportunities for improvement.

Supply chain information was gathered by means of a questionnaire, and supply chain performance standards were set for each wine region. The wine regions were compared to each other to determine differences in their inbound- and outbound supply chains as well as the difference in products produced.
In the second part of this study a number of specific cellars were selected and compared to the different cellars in their own wine region, as well as the cellars from the other two wine regions. This was done to identify possible areas of improvement for their supply chains and to make suggestions on how to improve their overall supply chain performance. The analysed data from the questionnaire for the second part of the study showed that for the selected cellars, supply chain improvement opportunities were located in their inbound/upstream supply chains. Recommendations for improvements in inbound/upstream supply chains will be discussed in this part of the paper.

The Supply Chain Council (SCC, 2013) has defined supply chain performance attributes such as reliability, responsiveness, agility (flexibility), assets, and costs. Wine farms are yet to discover that by focusing on the improvement of the right performance attributes, they would apply funding in the right areas to support the value of the products they offer to the wine consumer. Many cellars focus on cost reduction and asset utilisation as their superior performance attributes. They do not realise that if they wish to export premium wines, spending money on the right areas could increase their reliability, responsiveness and flexibility. Premium wine clients are often willing to pay more for these differentiated offerings. Cellars should define the right supply chain strategy for their products and then execute according to that. This could increase their sales, and gross margin for these high-end products. Many of the cellars studied through this survey were trying to implement a mixed bag of these performance attributes across supply chain combinations like bulk basic wine produced for the local market and premium bottled wine for the export market.

The main conclusion reached was that many cellars don’t yet recognize the existence of supply chains in their organization; therefore they don’t have accurate quantitative supply chain information available. Very few of the cellars engaged in the field of supply chain management, and most are thus in the very early stages of supply chain maturity. Through continued measurement and knowledge transfer these cellars that show the biggest opportunity to improve, could be assisted to understand their supply chains better, and improve their focus on the right areas. This could over time improve the competitiveness of South African Wine industry globally.

References:


