Report to CSAAWU on Robertson Winery,

Dr Dick Forslund

About the author: Dick Forslund carries a PhD in Business Administration and a BSc in Economics from Stockholm University School of Business. He is senior economist at Alternative Information and Development Centre since 2010. He has been asked by CSAAWU to assist in the wage negotiations at Robertson Winery.

1. As CSAAWU today organises more than 200 of the 251 workers at Robertson Winery ("RW"). RW has disclosed some of its financials during the negotiations. This is a step to better labour relations, reductions of income inequality and economic democracy.

2. CSAAWU got to see the audited income, balance and cash flow statements for 2012-2015. We also have a summary of the wage bill for the concerned workers over four years.[1] Some additional information was provided orally at a meeting 9 July. However, the company chose not to disclose the Notes to the Annual Financial Statements (AFR). This makes an analysis of the financial position of RW more difficult.

3. RW's two representatives strongly stressed that the company is working completely independent from the seller of finished product and from the farms that deliver the grapes and/or bulk wine. A closer look shows that this is not true.

4. In addition to **ROBERTSON WINERY (RW)** there are at least two other important inter-related companies to RW. One is **ROBERTSON WIDE RIVER WINE (RWRW)**, mentioned during the meeting as the firm that buys all RW's finished wine products (so that RW only has an income in Rands although 18% of the produce is exported).[2] The other one is obviously **ROBERTSON KOÖPERATIEWE WYNMAKERY BEPERK** ("RKWB"). Because of its directors (see '5.' below) I assume that it is **RKWB** that delivers grapes and/or unrefined bulk wine to RW (from about 30 farms, according to CSAAWU representatives). CSAAWU has demanded access to these farms, hoping to organise the workers there.

5. This is the directors of the above three companies, according to CIPC documentation 2016-07-15 (which is public and can be obtained from a service like Windeed.com).

[1] This information sheet was corrected during the meeting 9 July. The contribution to the provident fund had been set to 6%. It was corrected to 10%. A corrected table is shown on the last page of this report (Annexure).
[2] That 18% of the finished product is exported was disclosed during the meeting.

	Robertson Winery; Present DIRECTORS.		Robertson Wide River Wine; Present DIRECTORS		ROBERTSON KOÖPERATIEWE WYNMAKERY BEPERK
3	**BAARD, CHARL WILHELM**	3	**BAARD, CHARL WILHELM**	3	**BAARD, CHARL WILLEM**
1	BOTHA, BOWEN HAMILTON	2	*BRUWER, ALWYN BURGER*	2	BRUWER, ALWYN BURGER
1	CILLIERS, ANTON	2	*ERASMUS, JOHANNES*	1	BRUWER, JAKOBUS STEFANUS
2	CONRADIE, ERNST JACOBUS	2	**HARVEY, GEOFFREY AUSTIN**	2	CONRADIE, ERNST JACOBUS
1	GRETSCHEL, RUDIGER	3	**NAUDE, GYSBERTUS DU TOIT**	2	ERASMUS, JOHANNES
2	**HARVEY, GEOFFREY AUSTIN**	1	PAUSE, GUY CHRISTOPHER	1	HAM, CORNELIS
3	**NAUDE, GYSBERTUS DU TOIT**	3	**RANDS, TIMOTHY PAUL**	3	**NAUDÉ, GYSBERTUS DUTOIT**
3	**RANDS, TIMOTHY PAUL**	3	**VAN ZYL, JOHANNES JACOBUS MARTHINUS**	3	**RANDS, TIMOTHY PAUL**
3	**VAN ZYL, JOHANNES JACOBUS MARTHINUS**			3	**VAN ZYL, JOHANNES JACOBUS MARTHINUS**
2	VILJOEN, MECHAU ANDRIES			2	VILJOEN, MECHAU ANDRIES

Table 1. Directors in Robertson Winery and two of its inter-related parties (Source: Commercial and Intellectual Property Commission, CIPC (2016-07-10)).

6. There might be additional inter-related party transactions that are important to RW's financials, but we do not have access to 30 pages of explanatory Notes where this information should be given. Three of the directors in Table 1 above are also directors in a firm called "Vinimark Trading" (namely Mr Rands, Mr Naude and Mr Harvey).

The cost side of RW's finances

7. The 4 income statements 2012-2015 show that the "Cost of Sales" always is 90% of the Revenue from Sales. There can be an agreement in place that the supplier of the grapes and/or bulk wine always should be paid R90 out of every R100 rand of RW's revenue from sales. RW's gross profit margin stays at 10% despite the remarkable increase in RW's sales income by 73.7% from 2012 to 2015 (by 28% from 2014 to 2015 alone!). Alternatively, the 10% profit margin also depends on the price RW gets from selling its products to RWRW, which is the firm that make the final sales to the world outside the three interconnected companies. Whatever is the case, the Gross profit margin in RW's business remains at 10% because "Cost of Sales" increased by 74% over the same period.

	2012	2013	2014	2
Revenue	R 353 249 886	R 418 437 789	R 478 729 367	R 613 542
Cost of sales	R 318 575 142	R 374 926 029	R 429 120 346	R 554 170
Cost of sales/REVENUE	90,2%	89,6%	89,6%	9(
Adjusted GROSS PROFIT	R 34 674 744	R 43 511 760	R 49 609 021	R 59 371

Table 2. For simplification, we have adjusted the 2014 and 2015 Gross Profit for an unexplained small line item 'Net direct costs' in RW's Income statement 2014 and 2015. This line item does not appear in the 2012 and 2013 Income statements. It decreases Gross Profit by R1.2mn in 2014, but it increases Gross profit by R3.5mn in 2015, when it is a 'negative cost', i.e. has turned into an income.

8. The 10% gross profit margin arrangement can be for tax planning purposes or for political reasons. Whatever the reason is, the effect of the arrangement is that Robertson Winery's final profit will be recorded as lower than otherwise.

9. A more reasonable and lower increase in Cost of Sales – that not follows the income increase in almost exact parallel – suggest that over R30 million would be added to RW's final profit

2015 if not being transferred to the suppling farms by administrating the costs for grapes and raw wine; and/or to the seller RWRW by administrating the income. We discuss this in the annexure. As we showed above, the cooperative shares four directors with RW as well as with the selling firm Robertson Wide River Wine, which is RW's single buyer of its produce.

10. We got no explanation for the strong expansion 2012-2015 at the 9 July meeting. We assume it is based in the acquisitions of farms or farmland. So called 'economies of scale' should normally lead to lower costs 'per bottle and box of wine' during this expansion. But there is no such cost reducing factor at work during RW's expansion of its business. It is as if there are no fixed costs present in the production at RW, only variable costs exactly following in parallel the increased production. Not only does the profit margin stay put at 10%. If we disregard incomes that appear as extraordinary, (we deem that they are R9.1mn in 2015), profits before tax is between R6.6m-R7.7m in all four years. If Robertson Winery was an independent firm and not a part of a 'planned economy' – placed in the value chain middle of the trio of inter-related parties – the owners would have to ask: 'What was the purpose of this strong expansion anyway? Has it not failed?'

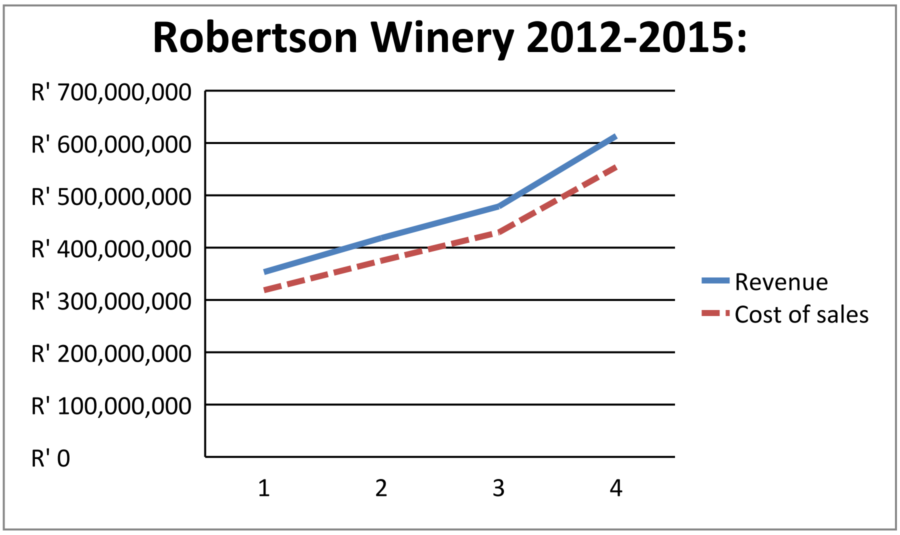

Diagram 1: The parallel development of revenue and Cost of sales at Robertson Winery, both increasing by 74-75% from 2012 to 2015.

The income side and the expansion

11. At the meeting 9 July, RW's representatives did not explain why the sales had increased so much over the three years 2013, 2014 and 2015. Alone in 2015 the incomes from sales were 28% higher compared to 2014. The main increase in the number of workers took place 2012-2013 (from 187 to 243). It has then been stable (245 in 2014 and 251 in 2015).

12. We were told 9 July that the much increased sales had nothing to do with, for example, exchange rate gains. All the wine is sold to RWRW and paid for in Rands to RW. A plausible explanation is that RW has acquired additional farms. It is implausible that there have been a sharp increase in the demand for wine as such.

13. 2012-2015, the value of property, plant and equipment increased from R71.5mn to R95.7mn, or by 34%. The shift takes place 2014. The cash flow statement also shows that the main investments took place 2014, with payments of R68.7m for 'Acquisition of property, plant and equipment' (at the same time being paid R37.4m for selling off assets). The rest of the investments were basically financed with loans.

14. The fixed relation between costs and incomes at RW can of course be accomplished by administrating the transactions in both directions, as it were. The joint leadership of RW and RWRW makes it possible to also 'administrate' the income side of RW's finances. At any rate, the parallel lines in Diagram 1 indicate that RW is located in the middle of a small 'planned economy'.

15. **When Cost of Sales and/or revenue from sales for whatever reason are administrated, so that the profit margin becomes 'pegged' at 10%, this moves resources away from the stakeholder table at Robertson Winery. This is crucial for a discussion about the affordability and reasonableness of CSAAWU's wage demands.**

16. Table 3 below shows some key indicators relevant for the wage bargaining process. Despite the apparent administration of the business transactions between the farms and RW, which must substantially lower the profits declared at RWRW, a profit margin of 10% still makes RW into a very profitable firm. We now disregard the discussion on transfer arrangement above and take the RW's financials for granted as they are.

    - The workers share of value added per year has fallen by 3 percentage points: from 37.3% to 34.3%. Compared to 2012, this is a loss per worker of R560 per month in 2015.

    - The main labour productivity measure, Value Added per worker, increased by 27% in 2014 and 30% in 2015! In classical union terms this means that the exploitation of the workers has increased.

    - The fall in value added per worker in 2013 can partly be explained by the drastic drop in capital intensity, due to an increase in the number of employees with no corresponding increase in investment that year: the value of plant and equipment actually fell.

    As a matter of caution, Table 3 below does not take into account "Other incomes" and "Net Direct Costs". These two posts appear as extra ordinary and they increased operating profit in 2015 by about R9.1m. We mentioned above that "Net Direct Costs" became 'negative' in 2015 so that it increased Gross profits by about R3.5m.

    - In 2015, "Other income" increases from between R700 000 and 1.5m the previous three years to R5.7m. The explanation given for this at the 9 July meeting was that this mainly is interest on a loan given to one of the directors. An interest rate a little below the prime rate of 8.25%, indicates a private loan of more than R50 million.[3] We have no other information than what was told 9 July. One must make an informed guess: estimating the size of the interest payment after looking at the size of "Other incomes" 2012-2014.

Table 3: Key indicators based on RW's financials and without taking the above discussion on transfer arrangements into account.

Worker compensation	R 11 367 324	R 13 466 140	R 16 376 691	R 19 236 161
To providers of capital	R 5 483 384	R 5 397 894	R 8 180 482	R 14 312 531
To Government	R 2 999 569	R 1 648 709	R 1 907 693	R 1 615 824
Operating Profit (adjusted)	R 10 627 050	R 12 382 860	R 15 679 630	R 20 986 000
Value added (VA)	**R 30 477 327**	**R 32 895 603**	**R 42 144 496**	**R 56 150 516**
Workers' share of VA	**37,3%**	**40,9%**	**38,9%**	**34,3%**
Value added per worker	**R 161 256**	**R 135 373**	**R 172 018**	**R 223 707**
Increase in VA/worker	n.a	-16,1%	27,1%	30,0%
Property, Plant, Equipment	R 71 500 000	R 70 900 000	R 96 600 000	R 95 700 000
Number of workers	189	243	245	251
Capital intensity per worker	R 378 307	R 291 770	R 394 286	R 381 275

CSAAWU's demands and RW's counter offers of 6.1% (9 July) and 7% (in August).

17. The initial 6.1% wage offer had no relation to RW's finances. It referred to the official rate of inflation. For the majority of the work force, who spend most of their wage on food, inflation (average price increase) has been higher than "6.1%".

18. The offer has now allegedly increased to 7%. For a worker that earns R3200 per month, this would mean a wage increase in rand by R224. The offer was allegedly given with a promise of 8% if there was a fast settlement.

19. It is not clear why the company doesn't accept CSAAWU's position to give an across the board increase by a rand amount. This is better for the lower paid workers and it doesn't increase wage disparities (in compliance with Section 27 of the Employment Equity Act).

20. In Table 4 below we have used the data over the wage bill for the 251 workers at RW concerned by this wage negotiation. The table on its last row give the total cost to company for alternative wage increases in Rands for all 251 workers, equal for all.

21. Table 4 incorporates CSAAWU's demand for a '13th cheque'. If this is guaranteed instead of subject to deductions for some workers, the cost will be a little higher, but the cost effect of a 13th cheque should be more or less negligible to the company. The difference to 'one twelfth

[3] If we assume that other types of "Other income" were R1.1m in 2015 (in the middle of "Other income" the previous 3 years), there remains about R4.6m in interest income. If the agreed interest is as low as 5% (so that it is a kind of benefit), the loan amount is R94mn. If it is 8% the loan amount is about R57.5mn (4.6mn/0.08). If the interest rate is 10% the loan amount is 46m. We don't have the Notes to the Annual Financial Statement. The prime rate presently is 8.25% at Standard Bank.

of previous 12 months,' with the right to make deductions, is a matter of company policy and, to the workers, a matter of dignity.

22. The total cost to company of CSAAWU's demand for a minimum wage of R8500 per month is broadly reflected in Table 2 by the R5000 increase. This would reach what the workers at RW today regard as a living wage. We don't have complete wage statistics, but were informed on 9 July that 40-50% of the 251 workers are categorised as General workers. The lowest wage paid to a General worker at RW is R3200 per month.

Wage Increase (MONTH)	R 500	R 1 000	R 1 500	R 2 000	R 2 500	R 3 000	R 5 000
Wage bill	R 125 500	R 251 000	R 376 500	R 502 000	R 627 500	R 753 000	R 1 255 000,00
Pension 10%	R 12 550	R 25 100	R 37 650	R 50 200	R 62 750	R 75 300	**R 125 500**
UIF 1%	R 1 255	R 2 510	R 3 765	R 5 020	R 6 275	R 7 530	**R 12 550**
SDL 1%	R 1 255	R 2 510	R 3 765	R 5 020	R 6 275	R 7 530	**R 12 550**
Cost increase (1 month)	R 140 560	R 281 120	R 421 680	R 562 240	R 702 800	R 843 360	**R 1 405 600**
Cost increase (13 months)	**R 1 827 280**	**R 3 654 560**	**R 5 481 840**	**R 7 309 120**	**R 9 136 400**	**R 10 963 680**	**R 18 272 800**
6.1% increase means	**R 1 173 406**						

Table 3. Cost consequences of different across the board wage increases for 251 workers at Robertson Winery.

Bench marks

23. As for Robertson Winery's profit and profit margin, we have already discussed that it most probably is kept artificially low. This is probably because of an agreement with the main supplier what the cost level should be. CSAAWU's demand should be seen from that perspective. There are reasons to believe that RW's profit in 2015 would be over R40 million, instead of R12.8 million, if the relation to the farms (and/or with the single buyer RWRW) would be an ordinary business relation and not an administrated arrangement.

24. How the owners of Robertson Winery are remunerated is not clear. There have been no dividends paid to the shareholders 2012-2015. We assume that a part of the R14.3 million in finance costs 2015, are paid on shareholder loans of about R30mn. We were told that no fees are paid to the ten directors of RW. We assume that they are paid salaries. The representatives of RW did not want to answer the question if these salaries are part of R11.5 million in "Administrative expenses" 2015.

25. We have no information how high the directors' salaries are. 9 out of the 15 persons in Table 1 are directors in at least 2 of the 3 companies in the list.

26. In the negotiations at the nearby cheese factory in Ladysmith with about 380 workers, CSAAWU demanded a R1800 wage increase for all. But this is when the minimum wage of a General worker at that plant is R5200 per month, not R3200 as it is at Robertson Winery. A 13th cheque is already a practice at the factory, as is free transports to and from the factory. A settlement of 15% was now reached. For the worker with the minimum wage R5200 per month this means a wage increase by R780 per month.

27. For the last three years, the wage increases has been between 7 and 8% at RW. This doesn't materially change the life situation for the workers. If the

ANNEXURE

Cost of Sales that perfectly follows the increase in income in RW's accounts

28. It is not plausible that the Cost of Sales – mainly what the farms together charge RW for the supply of grapes and/or bulk wine – grows at the same rate as the sales revenue, by 74%, if there is not an agreement in place to let the Cost of Sales follow the increase in revenue..

29. The total cost to company for the wages to a growing number of workers at RW is included in the 'Cost of Sales' item that increased by 74% 2012-2015. This labour costs increased by 69% from 2012 to 2015, not by 74% (from about R11.4mn to R19.2mn in "total cost to company" as shown in Table 6) even when the number of employed workers increased from 189 to 251.

***Table 6:** Wage costs for workers at Robertson Winery (provident fund contribution adjusted from 6 to 10% compared to the information paper provided 9 July).*

	2012	2013	2014	2015
Wage Cost	**R 10 149 396**	**R 12 023 339**	**R 14 622 046**	**R 17 175 144**
Provident Fund 10%	**R 1 014 940**	**R 1 202 334**	**R 1 462 205**	**R 1 717 514**
UIF	R 101 494	R 120 233	R 146 220	R 171 751
SDL	R 101 494	R 120 233	R 146 220	R 171 751
Total Cost to RW	R 11 367 324	R 13 466 140	R 16 376 691	R 19 236 161
Workers in this unit	**189**	**243**	**245**	**251**
Average annual wage	R 53 701	R 49 479	R 59 682	R 68 427
Average monthly wage	**R 4 475**	**R 4 123**	**R 4 973**	**R 5 702**

30. RW's 7% offer across the board will cost the company about R1 346 000 (0.07 *R19.2mn).[4]

[4] The average wage is calculated as the total wage cost divided by the number of workers. The alternative is the so called 'median wage', which is the wage paid to the worker in the middle. In our case this is worker number 125 (counting from lowest to highest paid) out of 251. As 'almost half' (meeting 9 July) of the workers are General workers and paid R3200 or a little more, we can expect the median wage is lower than the average R5700 per month. The average can be increased by a few higher wages at the top of the wage scale.

31. The wage bill for the workers at RW is below 3.5-3.8% as a share of all Cost of Sales. Still, this means that all the other components of Cost of Sales (in order to keep the 10% profit margin at RW) increased by more than 74%, i.e. more than the increase in sales!

32. If all Cost of Sales had increased only by 69% 2012-2015 just as the total wage bill (TCTC) did, Robertson Winery would have had R14 million more in profits 2015, instead of the declared final profit of R12.8mn. That is, RW's profit would have more than doubled to R26.8 m.

33. It is however reasonable to assume that the final profit of RW would have increased by even more, if the "Cost of Sales" hadn't been pegged to the sales increase.

34. With reservation for not knowing how the production costs in wine farming is composed, I will just assume in Table 3 (below) that 20% of such costs are more or less fixed. I will also assume that they grew by 8% per year 2012-2015, or by 2 to 3 percentage points more than general inflation (Consumer Price Index) every year. When costs are "fixed" they stay about the same no matter how much a farm produces.

35. Second, I assume that 80% of the costs are "variable": They increase in line with the increase in the production of what is delivered to RW (grapes and/or bulk wine). I accept that they increased just as it is recorded in RW's Income statements 2012 – 2015. Thus, I will assume that 80% of the Cost of Sales, but not all costs, grew by 74% 2012-2015. Each year, this 80 to 20 percent relationship between fixed and variable costs are restored in Table 6.

	2012	2013	2014	2015
Revenue declared by RW	R 353 249 886	R 418 437 789	R 478 729 367	R 613 542 409
Cost of sales in RW's AFSs	*R 318 575 142*	R 374 926 029	R 429 120 346	R 554 170 484
Annual increase in cost of sales		18%	14%	29%
VARIABLE COSTS (+18,14&29%)	Weight=80%	R 300 734 934	R 337 027 014	R 430 188 376
FIXED COSTS (+8% per year)	Weight=20%	R 68 812 231	R 79 822 188	R 90 039 428
Adjusted total "Cost of Sales"	*R 318 575 142*	R 369 547 165	R 416 849 202	R 520 227 804
Costs of Sales in RW's AFSs	*R 318 575 142*	R 374 926 029	R 429 120 346	R 554 170 484
Increase of Gross Profit	**R**	**R 5 378 864**	**R 12 271 144**	**R 33 942 680**

Table 6: An example of increase in Cost of Sales 2012-2015 that assume that 'economies of scale' tempers the cost increases.[5] 2012 to 2015, the percent increase becomes 63.3% instead of 74%.

36. If we instead choose to not restore the 80 to 20 percent relationship between variable and fixed cost each year as in Table 6, fixed costs in 2015 will only comprise 15% of all costs (because the fixed costs have grown slower**).** If we do it that way, the amount not transferred to a partner company in the trio would translate into R30.5 million in additional gross profit in 2015 at Robertson Winery.
37. In contrast, RW's audited Income statement 2015 shows a final profit after all costs and taxation of R12.8 million.

[5] That the three percentage posts (18+14+29) sum up to less than 74% has to do with the mysteries of percentage accounting. Compare with an increase from 10 to 18 (by 80%) that runs from 10 to 12 to 14 and to 18. The first increase (10 to 12) is by 20%, the second (12 to 14) by 16.7% and the last (from 14 to 18) by 28.6%. The sum of the increases becomes lower than 80% for the whole period (namely 65.3%).