# M'hudi Wines:

## A Small Business with a Big Vision

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*"We are a small business with a big vision and a big heart." - Malmsey Rangaka*

When Diale and Malmsey Rangaka were developing the name for their South African wine business in 2005, they thought about how their lives had paralleled that of the eponymous heroine in the novel *Mhudi*. [1] The story's heroine is forced to flee her home due to tribal wars in the early nineteenth century. Her journey takes her to a new part of the country with her husband where they build relationships, grow their family, and embrace a new way of life.

Recognizing their own personal journey in that of *Mhudi*, the Rangakas adopted the name M'hudi, which is also a derivation of the Setswana[2] word for harvester, to represent their family's wine brand. Malmsey reflected on the origin of the M'hudi name, noting, "We liked the story. It was a parallel to our life…and not only us. Many people did the same [move from their homeland[3]]." The Rangakas left their homeland after political upheaval, learned how to farm as the first black-owned vineyard in South Africa, and later established their family wine business.

The M'hudi wine brand has gained a modest international presence through major retailers, airlines, magazines, and entertainment companies. Currently carried in 42 US states and by a major grocer in the United Kingdom, the Rangaka's business is off to a successful start. Revenues in 2008 were R590,351 (approximately $79,000), a 61 percent increase from 2006 (see Exhibits 1-3 for M'hudi's 2008 financial statements). However, despite the growing awareness of the M'hudi story, as of January 2010 the business has yet to return consistent profits, in part due to the effects of the international economic downturn, low volumes, and distribution arrangements. The Rangakas are faced with a significant challenge—determining which markets to target to drive growth for M'hudi in a slowly recovering world economy.

**Background: South Africa**

The Rangaka's vineyard is in Stellenbosch, South Africa, 55km (34 miles) to the east of the country's legislative capital, Cape Town, in the Western Cape Province (see Exhibit 4 for a map of the Western Cape). Stellenbosch is in a hilly region of the Cape Winelands and is sheltered in a valley. Due to the combination of its location at the foot of the Cape Fold mountain range and its Mediterranean-like climate, Stellenbosch is ideal for viticulture.

South Africa has achieved macroeconomic stability since the end of Apartheid through free market economic policies. The economy has become increasingly integrated into global markets and has become a successful exporter of manufactured goods and value-added services, with foreign trade

[1] Written by Sol Plaatje in the late 1910s, Mhudi was the first novel written in English by a black South African (Good Reads).
[2] Setswana is one of the official languages of South Africa.
[3] Homeland refers to one of ten territories, or black states, reserved for black Africans in which to live under Apartheid. They were abolished when Apartheid ended.

comprising 65 percent of the GDP (Economist Intelligence Unit 2008). Although 9 percent of the population is employed in agriculture, it contributes only 3.5 percent to the national GDP. Tourism contributes significantly to the economy—particularly in the Western Cape, driven in part by wine tourism. Principal trade partners include Japan, the United States, Germany, the United Kingdom, and China (CIA World Factbook). South Africa's GDP growth, while averaging 4 percent since 1999, fell as low as -2.7 percent (year-on-year) in the second quarter of 2009 with the global recession, reflecting integration into global markets. The national GDP of $495.1 billion ranks 26th worldwide for 2009, yet the per capita GDP of $10,100 in 2009 ranks only 107th worldwide (CIA World Factbook). The unemployment rate, while historically high, reached 24.3 percent nationally in the fourth quarter of 2009. The Western Cape was slightly better off with a 21.5 percent unemployment rate (Statistics South Africa). In the last year, the Rand (the local currency) has strengthened by 22 percent against the US dollar, hurting South Africa's competitiveness as the cost of its exports increase relatively on the world market. This is slowing the recovery from the recession while keeping inflation down (Economist Intelligence Unit 2009). The Rangakas are relieved that their local costs are not greatly inflating, but their export business is suffering from the Rand's strength.

**The Rainbow Nation**

South Africa's population of more than 49 million is composed of a wide variety of ethnic groups, speaking more than eight languages. Although whites constitute only 9.6 percent of the population, they, on average, have the highest standard of living. There is an emerging black middle class, including the Rangakas, and small black elite. People of mixed black and white descent, traditionally called colored, represent 8.9 percent of the population (CIA World Factbook).

One of the largest social problems facing the country is HIV/AIDS. An estimated 5.7 million South African adults and children are living with HIV/AIDS, the second highest in the world (CIA World Factbook). The country is losing substantial worker productivity from this epidemic, particularly in sectors such as agriculture that require a substantial amount of physical labor.

In South Africa inequality and uneven development continue to have extremely strong racial characteristics from the years of Apartheid. Apartheid systematically and purposefully restricted the majority of South Africans from meaningful participation in the economy. For example, as a black family, it was illegal for the Rangakas to own land. The accumulation of property and real estate under Apartheid confined the creation of wealth to the white minority and imposed underdevelopment on black communities[4]. Although Apartheid legally ended in 1994, its legacy can still be felt in the vast racial and gender inequalities that exist in the distribution of and access to wealth, income, job skills and employment. This results in South Africa having the second highest level of income disparity in the world (CIA World Factbook).

The South African government legislated the Broad-Based Black Economic Empowerment (BEE) program in 2003 to address the systematic exclusion of the majority of South Africans from full participation in all the sectors of the economy. This program provides companies, institutions, and historically disadvantaged groups and individuals with financial benefits and other incentives to provide employment, establish and support black-owned businesses, and support social development

[4] The South African BEE Act of 2003 defines black communities as black, colored, and Indian communities.

programs. In 2004, the Ministry of Agriculture and Land Affairs announced that it would like 30 percent of all agricultural land to be owned by blacks and coloreds by 2014 (Department of Trade and Industry). It was through these BEE initiatives that the Rangakas were able to obtain the loan to purchase their farm and gain some of their customers.

**Global Wine Industry**

The global wine market value grew by 2.6 percent in 2008 to $222.6 billion. By 2013, it's expected to have a value of $254.6 billion. The global market volume grew by 1.4 percent in 2008 to 19.4 billion liters and is expected to grow to 20.9 billion liters by 2013. Europe constitutes the largest wine market in the world generating 76.4 percent of the global revenues (Report Linker 2010).

Old World[5] exporters suffered a decline in domestic demand in 2009 and are exporting to balance the deficit. Oversupply conditions characterized the global industry from 2004 through 2006. In 2008 and 2009, the industry had tighter supply conditions, but faced the challenge of a downturn in demand in a number of key markets due to the global recession. Significant export markets are expected to experience a downturn in discretionary spending as well as low consumer confidence. Despite this, prices are expected to remain above 2004-2006 levels in most markets (IBIS 2009).

Wine consumption is a key factor in market attractiveness. In 2008, the United Kingdom, United States, and Germany ranked respectively as the largest importers of wine (in value) in the world (Maramarco 2010) (see Exhibit 5 for summaries of the top 15 wine importing and exporting countries for retail and bulk containers). In particular, European countries generally have high levels of consumption, even though some do not produce much wine. This is attributable to high levels of production in the European Union, the common market for wine, and the close geographic proximity of European countries (IBIS 2009). Other traditional producer and consumer countries like France, Italy, and Portugal have high per capita consumption rates. South Africa and the US, although major producers, have low per capita consumption rates (see Exhibit 6 for per capita consumption rates of selected countries). However, the US has exhibited strong consumption growth rates for more than a decade which, if they continue, may make it the largest wine market by the end of 2010 (IBIS 2009).

The demographic composition of wine drinkers varies from nation to nation (IBIS 2009). Traditional European consumer countries tend to incorporate wine consumption into everyday life in a way that has yet to occur in non-traditional wine consumer countries. In newer wine consumption markets, notably the UK, US, Australia, and some Northern European countries, wine (and wine marketing) is aimed at those aged 35-60 years, affluent, and with above average education. Wine has also generally been aimed at women, with beer being a male-dominated market, and for consumption especially away from the home. As the market in these countries has matured, producers have sought to expand their audience with lower prices and better wine consumer education, making the drink appear less elitist. The noted health benefits of wine consumption have also been used to win converts (IBIS 2009).

[5] New World wines are those from countries outside of traditional wine producing European areas, which are referred to as Old World. Old World countries include Austria, France, Germany, Italy, Portugal, and Spain.

Wineries are becoming more interested in focusing their marketing tactics on influencing wine purchase decisions thorough innovative direct marketing. Philip James, Chief Executive Officer of Snooth.com, a wine website which reaches ten million users around the world each month, stated Internet mediums are an attractive method to market a lifestyle directly to the consumer, rather than through traditional retailer marketing that focuses on value. This medium allows consumers to "self select", establish "permission", and create "authenticity". Brand managers can also better control their messaging and tailor it to educate consumers about their products, rather than the traditional model where retailers or other distribution chain partners handle the marketing. Examples of noted tactics were: Facebook group pages, Yelp restaurant and winery reviews, Snooth wine reviews and winery profiles, Twitter "water cooler" talk, and MySpace brand profiles (James 2010). Iron Chef America, The Food Network, Hell's Kitchen, and Snooth.com, were noted as other mediums that were popular with American consumers.

**The South African Wine Industry**

The South African wine industry is considered a New World wine producer. It contributed estimated R16.3 billion (approximately $1.6 billion) to South Africa's total GDP in 2003. The industry sustains about 257,000 jobs, with wine tourism comprising roughly 59,000 of those (South African Wine 2010). In 2008, 3,839 producers and 562 cellars in South Africa produced 763 million liters of wine. South Africa was the world's seventh largest wine producer in 2006 (SAWIS 2009). Production is primarily white wine (59.4 percent versus 40.6 percent for reds), although the country tends to be known for its red wine (IBIS 2009). Of the 570 wineries in South Africa, less than 2 percent are partially black-owned (English 2008). Until the breakdown of Apartheid, South Africa's wine industry was controlled by a cooperative called the KWV (Koöperatieve Wijnbouwers Vereniging van Zuid-Afrika Bpkt), which had a market monopoly under which there was little growth or development.

South Africa produces 3.7 percent of the world's wines and exports 54 percent of its wine production (411.8 million liters in 2008) with a value of R6.27 billion (approximately $385 million) per annum. South Africa's exports grew by 18 percent on a year-on-year basis in the year ending May 31, 2009 (SAWIS 2009). Sales to the UK, South Africa's main wine export market, increased by 25 percent year-on-year as brands performed well across most price segments (BMI 2009). The UK (27 percent), Germany (17 percent), and the Netherlands (7 percent) are the major export destinations for South African wines (Maramarco 2010).

As with many agricultural enterprises, the South African wine industry has thin margins for the producer, requiring economies of scale and large volume sales to gain profit (see Exhibit 7 for a breakdown of wine revenues across the value chain). In the domestic market the producer must cover grape costs and derive profit from an average of R3.66 per bottle of red wine and R.85 per bottle of white (van Rooyen 2008). Due to the high fixed costs and economies of scale needed to make wine processing profitable, many grape growers do not own processing facilities.

Exacerbating the domestic squeeze, the export market has recently demonstrated heavy discounting due to demand for more bulk than bottled wines in foreign markets, particularly by retailers who do private label bottling (Mabiletsa 2008). The Rangakas resisted discounting their wines until recently due to the recession conditions and strong Rand. They do not supply bulk retail, exporting only 750ml bottles.

The industry is highly structured, saturated, and very competitive. To gain substantive access to the domestic market, a winery must cooperate with either the main distributors or the large retail chains. The distributors prefer to carry products with establish significant demand. The large retail chains either want bulk product to put under a private label, or they ask for substantial slotting fees from the winery to buy shelf space. In both cases, these largest channels want wines that have pre-existing demand. Smaller wineries can try to establish niche status through smaller independent retailers or through onsite sales to tourists at the vineyards. Restaurants tend to carry the well known brands. Consumers are purchasing more of their wine at supermarkets and other large retailers (Mabiletsa 2008).

Two key national regulations structure the industry—the Wine of Origin scheme and the wine certification requirement. The Wine of Origin scheme was instituted in 1973 to help legally protect the uniqueness of specific wine-growing areas in the country. Beyond ensuring that the grapes are from a specific geography, the scheme also includes other principles of business operations and compliance with European Union regulations since it is a significant export market (Wines of South Africa). Consumers can have confidence that a bottle stating "Wine of Origin Stellenbosch", such as M'hudi wine, contains wine made only from grapes grown in Stellenbosch. Beyond the Wine of Origin requirements, all wine intended for export or claiming origin (e.g. Stellenbosch), cultivar (e.g. Pinotage), or vintage (e.g. 2008) must be certified by the Wine and Spirits Board. If approved, the bottle will carry a certification seal, denoting to the consumer that the wine's claims have been verified and that the product is good quality. The certification establishes traceability to the original grape producer, and there are control points throughout the process. Wines are analyzed both scientifically and by an official tasting board before the certification is finalized (Wines of South Africa). These certification processes require a high level of coordination between the grape producers and the wine processors.

Several associations exist broadly support South African wines both domestically and internationally. The most significant is Wines of South Africa (WOSA), a non-profit industry organization that promotes South African wine worldwide to build the industry's brand. It also represents the exporters in high level dialogue and seeks to build domestic capacity within the industry. WOSA is funded by the statutory levies that wine exporters must pay. Diale is currently a WOSA board member, representing black-owned brands.

There are also organizations that focus on specific regions, varieties of wine, or environmental or social issues, including supporting black wineries. For example, the African Vintners Alliance Cooperative was created to bring together eight black women CEOs in the South African wine industry. The cooperative is still honing its purpose and direction, but has attracted the attention of the media. One of the legal constraints of the entity is that the CEOs are members as individuals, not as company representatives, making action difficult. Malmsey is the current Chairperson, lending a senior status to the M'hudi brand.

## THE M'HUDI STORY

### Finding the Farm

M'hudi is a family owned and run vineyard located in the Bottelary Hills region of Stellenbosch. The business was founded by Malmsey and her husband Diale (commonly referred to as Oupa, which means grandfather) Rangaka. Malmsey originally worked for the government as a director of employee assistance programs while Diale taught at a university. After Apartheid ended in 1994, the Bophuthatswana region of the Northwest Province, the Rangaka's homeland, was dissolved as part of the country's unification process. When their homeland became politically unstable, they sought to transition to a more secure situation. Diale took a job in Johannesburg, but the long commute was not conducive to the type of family life the Rangakas sought for their three children.

The Rangakas became aware of government incentives to encourage black land ownership. Diale always had a passion for agriculture, but no practical experience. Malmsey explained, "I always wanted to be able to produce something and put it on the table." So they started looking at farms. Considering the family's lack of agricultural expertise, they sought a farm that already had production and workers in place which would allow them to learn the business from an existing functional state. After examining 22 properties, they found their farm on the opposite end of the country in the Western Cape Province. With government assistance they were able to obtain a R3 million (approximately $375,000) loan to make the purchase and became the first black vineyard owners in South Africa.

While the facilities on the farm are rather basic, the main house has uninterrupted views of the Simonsberg Mountains to the east and Table Mountain to the west. Other vineyards surround the farm on all sides, creating tranquility, and putting the farm along the Stellenbosch Wine Route. The farm has 18 hectares of vineyards with the Chenin Blanc, Sauvignon Blanc, and Pinotage grape varieties. It also has a 10 hectare guava orchard and 10 hectares of fallow land. The vineyards are dryland bush vines, which are considered a more natural method of production than the typical irrigated trellised vines. The entrance is a few kilometers from the main road, and the farm lane is a rutted dirt track that leads to the main house. The family took over the farm in 2003, but that first year Diale stayed at his job in Johannesburg while Malmsey and her son, Tsêliso, tested the viability of the family's new farming business.

**The Guava Orchard**

Over the years, the Rangakas have experimented in the different markets for guava fruit. They have sold the fruit as fresh, for canning, and for juice. Orchard maintenance is a substantial burden, even though they have a sprinkling pipe irrigation system. The margins were thin, the production subject to uncontrollable factors, and the markets volatile. Coupled with labor difficulties, the Rangakas decided to lease the orchard to a pulping firm*. They are one year into a five-year lease, under which the pulper is responsible for all orchard maintenance and management. The lease did not provide for any restrictions on how the orchard should be managed, and the pulper is using conventional agricultural techniques including synthetic fertilizers and pesticides. The leasing arrangement has freed the Rangakas from the orchard labor and management burden and stabilized a portion of the farm's cash flows.

*A pulping firm processes fruit by separating the soft portion from the skin and seeds. Typically the resulting pulp is further processed into other food product such as jams or juice.

**Labor Difficulties**

Per South African law, workers must stay employed by a farm when it changes ownership. The Rangakas preferred this situation because they needed to learn from the workers how to run the day-to-day farm operations. However, the workers were not informed of the change in ownership and were subsequently surprised to discover that their new managers not only were black, but that their boss was a woman. The Rangakas were eager to reach out to their workers, but the workers spoke Afrikaans, while their language was Setswana. The Rangakas learned Afrikaans, but found that even though they had good relationships with their workers, over time they all departed the farm. The colored workers faced too much social pressure in the community by continuing to work for a black woman. M'hudi ideally needs two fulltime skilled workers[6] for the vineyard and at least two for the guava orchard, but the farm continues to lack the permanent fulltime, skilled labor necessary to ensure peak production capacity.

Racial stigma and gender bias are not the only social challenges faced by M'hudi. South African agricultural labor also has a history of alcoholism stemming from the Dop System, in which farm workers were compensated with alcohol. Although the Dop System is no longer legal in South Africa, alcohol abuse remains one of the major challenges facing the health services in the Western Cape and is particularly dangerous for the workers operating machinery (London 1999). Through a number of instances on their farm, the Rangakas learned firsthand that alcohol dependence continues to play a major role among agricultural workers enmeshed in a cycle of addiction. Fetal Alcohol Syndrome, a byproduct of women drinking throughout their pregnancies, poses a significant threat to the future generation of the local workforce.

South African agriculture also has a tradition of housing permanent workers as well as educating their children. The Rangaka family decided years ago that the worker homes on their property are not fit for human habitation, and they have yet to obtain the funds necessary to upgrade the units. This is an additional hiring obstacle because permanent farm employees need housing.

During harvest and pruning time, when the farm needs additional casual labor, the worker availability situation improves. There is a nearby black settlement with a plentiful unskilled workforce and high unemployment. M'hudi typically employs 30-40 unskilled workers for harvest and 10 for pruning. However, even these workers prefer to work for the white-owned farms. There is a perception among the black and colored communities that white owners are more reliable with payment. Eventually the workers do come to M'hudi, and fortunately the delayed harvest has not yet caused a bad quality crop.

When the Rangakas have been able to secure workers, they generally have had to train the workers themselves or bring in outside trainers. Some of the more skilled tasks, like operating the tractor, they have not been able to find someone to do. At times they subcontract some of the more technical tasks such as spraying[7], but this is often difficult to arrange between the timing of the need

[6] Skilled labor means individuals possessing agricultural production expertise including knowledge of crop production techniques and farm machinery operation. Unskilled or casual labor means individuals with no agricultural knowledge who can be trained quickly for relatively simple tasks such as pruning or picking grapes.
[7] While the Rangakas have recently stopped using pesticides, spraying was a task that they previously outsourced.

and the availability of the service provider considering all surrounding farms need the seasonal services simultaneously.

**Learning Viticulture**

Malmsey and Diale were eager to enter the wine business. However, the family faced many initial challenges in their attempts to manage the farm. For instance, Diale conducted Internet research to learn viticulture, but originally neglected to account for the seasonal reversal from Europe to South Africa, leading to some confusion. Nevertheless, despite the obstacles, they quickly gained experience and also benefitted from the assistance of some of their neighbors. A couple of these neighbors became long-lasting friends and mentors who still work with the Rangaka family today. Malmsey and Diale have also taken various courses on different aspects of the wine business over the years to complement and deepen their practical experience.

The family became friends with the Griers, the well-known owners of the Villiera winery and vineyards located next door. Simon and Jeff Grier originally came to the farm during the first harvest season to negotiate the purchase of the Rangaka's Sauvignon Blanc grapes. They quickly realized that Malmsey and her son had little experience in the wine industry, and Simon became a mentor for the Rangakas. Diale recounted, "Our workers taught us what is to be done, but Simon taught us why." Production in the vineyards became a game of "Simon says", until the Rangakas became adept at managing the production cycle. Soon thereafter, the Rangakas and the Griers decided to build upon their partnership. In 2005, the Griers agreed to allocate a portion of Villiera's production capabilities for the processing and bottling of grapes from the Rangaka farm, to be sold under the M'hudi brand name.

Another important mentor is the Schonenberg family. They also helped teach the Rangakas in the early days. They still allow one of their skilled workers to go work with the Rangakas when tractor work is needed. The relationship more recently has extended beyond basic grape production. M'hudi has a small wine processing plant on their property. They allow Schonenberg to use this facility, and instead of payment, the Rangakas use this as an opportunity for hands-on processing and blending experience. M'hudi hopes to one day do some of their own small-scale processing.

This year the Schonenbergs are also teaching the Rangakas about organic production techniques as M'hudi transitions its vineyards to organic. The Rangakas are interested in organic production both to be environmentally friendly and to save on input expenses. They have not yet determined if they will seek organic certification for their grape production, in part due to concerns about costs and the impact of the guava orchard inputs.

**Introducing M'hudi Wines**

Once the Rangakas had the business arrangement for Villieria to produce their wine, they needed to create a distinctive product. Considering they had three grape varieties on the farm, they decided to launch those wines first. Working with their children, particularly their son Tsêliso, who studied advertising, they carefully devised their name and elegant logo (see Exhibit 8 for images of the logo and product).

The reception of M'hudi wine was favorable during their 2005 launch. They produced 1,000 cases (12 bottles per case) of each of the three varieties that year with the intent to focus on the local market. Sales were slow and they found the local market to be difficult due to intense competition and market saturation. However, there was strong government support for exports, particularly for black-owned enterprises, so M'hudi reversed its strategy towards exports with more success.

In 2010, by purchasing grapes from other vineyards, the Rangakas have a product line of eight varietals (see Exhibit 9 for M'hudi's complete tasting list with descriptions of each wine). The biggest sellers are their Pinotage, Merlot, and Sauvignon Blanc. The wines have good ratings and have won awards (see Exhibit 10 for details on the recognition that M'hudi wines have received). Current production is 7,200 cases a year and M'hudi still has room for growth since they can buy Villiera's excess processing capacity up to 10,000 cases per year.

**Business Fundamentals**

M'hudi's vision is to be the home of quality wines and family hospitality. Their core business values are development and growth, product quality, employees as family, and customers as the greatest asset. There is a strong focus on sustainability and the idea of being in harmony with the Earth. Being family-run, the Rangakas' shared commitment and common values drive the business forward. Each family member plays a role suited to their respective strengths (see Exhibit 11 for details on the role of each family member). Diale and Malmsey's eldest son, Tsêliso, has been heavily involved in the business, receiving training in Europe on importing procedures, and promoting the M'hudi brand domestically. It is the family's intent that upon Malmsey's retirement he will become CEO.

M'hudi's marketing strategy is built around the family and their story. Diale is a natural storyteller, full of humor, and Malmsey, while softer-spoken, is equally compelling. Their ability to connect with people and build relationships is the cornerstone of their marketing. They have been lucky to receive a relatively large amount of press coverage because of how their story fits within the larger legacy of South Africa. Malmsey and Diale have interviewed with the LA Times, the Daily Telegraph, and Voice of America, among others. They were even filmed for "Wine", a production by Oxford Film and Television, which was shown on BBC4. M'hudi has a website and is active on email. They are exploring the use of social media via Facebook. The family also uses more traditional sales tactics such as international exhibitions and trade shows. They make an annual marketing trip to the US and visit other countries as needed. Two of their children live in Johannesburg to work on local distribution and marketing, since it is the largest South African market for wine.

Identifying a consistent target consumer segment has been difficult for the Rangakas, especially across several geographic markets. Wine depends so much upon the personal palette. Pricing is another challenge. Some customers think M'hudi wine is too cheap for its quality. Other customers have expectations of inexpensive, good quality, New World wine, and think M'hudi is overpriced. The Rangakas are not sure how to move forward with pricing (see Exhibit 9 for pricing at the vineyard).

Due to the global recession and the strength of the Rand, 2009 sales declined for M'hudi. Typically they sell 50-60 percent of their inventory, but this year was even lower. M'hudi pays Villiera

by the bottle, and the cost is approximately 60 percent of the per bottle revenue. Remaining cash flows are needed to service the outstanding R2 million (approximately $270,000) in debt from the purchase of the farm, leaving little excess for capital expenditure.

## CREATING A DISTRIBUTION NETWORK

### A Challenging Local Market

M'hudi's initial strategy for 2006 production was to sell 70 percent locally and export the remaining 30 percent. However, to date, the Rangaka family has not been able to gain a strong foothold in the domestic market. The South African wine industry continues to be highly saturated, particularly within the wine-producing Stellenbosch region, home to over 300 vineyards. With so many suppliers on the market, access to distributors remains limited and M'hudi is having a difficult time establishing a retail presence. Local distributors are looking for larger sales volumes than M'hudi can currently supply. Alternatively, the family began negotiations with local retailers such as Checkers and Woolworths, but has yet to determine an attractive arrangement. In many cases, expensive slotting fees have been the main obstacles. Generally in the local market, the main buyers are supermarkets and chain stores; however some of these, such as Woolworth's, desire to buy in bulk for private label bottling. While there are a variety of retail outlets, consumers now tend to make their wine purchases at supermarkets, making it more important for M'hudi to gain a presence in those channels (Mabiletsa 2008).

In addition, the local market does not seem receptive to the fact that M'hudi is a black-owned wine company. In fact, it was in many ways a hindrance to the brand's growth. Consumer perception in South Africa continues to be heavily influenced by the past. Under Apartheid, sale of wine was restricted to the white population, which is still reflected in their dominance of local consumption (Mabiletsa 2008). Black ownership, the nexus of the M'hudi brand, was impossible prior to 1994. As such, this clearly communicated fact continues to convey the brand's relative youth and lack of experience. Moreover, the rising black middle class, though ready to support the brand, has not yet acquired a taste for the traditional varietals that comprise M'hudi's product offering. Their cultural inclination remains focused on sweet wines and liqueurs.

Currently, local distribution is very limited. M'hudi wine is sold in a few local independent retailers and restaurants. Frequently this has come at the request of tourists who drink M'hudi wine at home and question establishments as to why they cannot buy it while on holiday in South Africa.

### Establishing International Presence

The UK and US international markets boast socially conscious consumer bases and a strong black middle class. Thus the M'hudi brand was able to create a niche value proposition that resonated with customers in those countries. Diale and Malmsey were aware of this and made international efforts a priority. They traveled to Europe and the United States regularly to promote their product, attending international wine exhibitions and conferences, while their son fought to establish a local presence in South Africa's major cities.

In 2006, M'hudi acquired its first major international client. British retailer Marks & Spencer, seeking to showcase a selection of BEE South African wines, decided to carry M'hudi wines. Marks & Spencer opted to sell just two of M'hudi's top wines, Merlot and Sauvignon Blanc, and insisted on exclusive UK distribution rights. In exchange, they assisted M'hudi with administrative concerns, worker health and safety regulation, and most importantly, Wine Industry Ethical Trade Association (WIETA) accreditation[8]. This WIETA certification cleared M'hudi for export into the European Union. Marks & Spencer's business soon accounted for nearly 50 percent of M'hudi's exports. Marks & Spencer retained the M'hudi labels, providing the company with strong brand visibility in 36 stores throughout the UK.

That same year, M'hudi developed a partnership with Heritage Link Brands, a US-based importer and distributor of African wines. The two companies met at the Soweto Wine Festival. Heritage Link Brands negotiated a right of first refusal, five-year, "to be renewed" contract with M'hudi and is currently M'hudi's only distributor in the US. It selected M'hudi as one of its four initial brands to bring to market.

Heritage Link Brands selects products that cater to three types of American customers: the conscientious consumer, seeking to make responsible purchases that support environmental and social causes; the African American consumer, who draws a parallel between the struggle for African economic development and the Civil Rights movement; and the Millennial, the fastest contributor to a growing wine category, who tends to drink wine in familiar settings with friends and family.

Heritage Link Brands sells M'hudi wine via a network of independent wine distributors with retail presence in 42 states. The success of its sales model can in large part be attributed to various corporate volume agreements with licensed retailers. M'hudi wine has also been carried, in small quantities, by several significant clients such as British Airlines, South African Airlines, KLM, Swiss Air, and Disney's Epcot Center (see Exhibit 12 for a list of places where M'hudi wine has been featured).

## INTERNATIONAL GROWTH OPPORTUNITIES

In January 2010, nearly 95 percent of the company's revenues are from export markets, mainly in the United Kingdom and the United States. However, South Africa's hosting of the upcoming FIFA World Cup has engendered a common feeling of hope and anticipation for new growth opportunities, and the Rangakas are ready to bring their business to new heights by expanding their distribution to grow revenues and generate stable profits.

### Seeking Breadth in Europe

Since the United Kingdom's demand for their product is relatively low, the Rangakas are turning their sights towards other European countries. They have already made small forays into the Dutch, Italian and Swiss markets, with sales of a few cases, but no repeat orders. They now seek to pursue fresh opportunities in Germany and the Netherlands, both markets that currently are significant import countries for South African wine. The Netherlands has historical links to South

[8] WIETA strives to improve working conditions for agricultural employees through their code of good practice. Companies with accreditation are subject to regular audits of their employment practices (WIETA).

Africa, and German consumers are particularly interested in wines with strong social and environmental consciousness.

**Organic Wines and Winegrapes**

A growing trend among wineries is to label wines "organic" or "made with organically grown grapes." Both are made with grapes grown without synthetic fertilizers, pesticides, herbicides or fungicides for a period of at least three years with third-party inspection approved by the US Tax and Trade Bureau and FDA's National Organic Program. The key difference is that wines labeled "organic" do not have added sulfites to prolong shelf life and must have laboratory certification that the wine contains 10 parts per million or less sulfites (Wine Institute). While these definitions are distinct in the US, the regulations in Europe are vague and lead to consumer confusion around what organic wine means.

The purchasing power of the US personal health segment (which includes natural organic products) represents $118 billion (LOHAS Study 2005). Consumers consider taste, value, pedigree, and familiarity, respectively, in purchasing wine. Environmental responsibility plays a role in purchase decisions, but less so in this case (Charles 2010). Top trends in beverages as it relates to sustainability are: alternative packaging as the new norm, consumption of local wines and seasonal ingredients in cocktails, and biodynamic and fair trade production. While there are criticisms that the US wine industry and consumers are well behind their European counterparts in developing the organic wine industry, current trends indicate that the US organic wine market is growing.

According to a 2007 survey, 77 percent of the respondents "think it's important to buy environmentally friendly products," and 75 percent are "nearly four times as likely to pay a 10 percent premium for sustainable products" and think these purchases have an impact on society (Charles 2010). Other research from the Natural Marketing Institute says that just over "70 percent of consumers indicate that knowing a company is mindful of their impact on the environment and society makes them more likely to buy those products or services" (Charles 2010).

## Expanding Their US Market

Although Heritage Link Brands provides them with a diverse distribution network, the Rangakas still feel that the US represents a larger opportunity for the M'hudi brand. Though wine sales grew significantly in 2008, the 2009 economic recession had a major effect on the brand's performance in the US (see Exhibit 13 for the M'hudi's US sales volumes). According to Selena Cuffe, CEO of Heritage Link Brands, a major hindrance to M'hudi's growth has been non-competitive pricing. With retail price ranging from $16-$18 per bottle, M'hudi's Sauvignon Blanc and Pinotage varietals are having trouble contending with the $10 or less options that are clearing from retailers' shelves. The Rangakas have debated pricing choices in the past and are concerned that reducing their retail price point may dilute the long-term value of M'hudi's brand equity. If they reduce their price point to that of a lower segment now to gain popularity, the prospect of moving up-market later is greatly diminished.

In addition, Heritage Link Brands only imports M'hudi Pinotage and Sauvignon Blanc. Cuffe explains that M'hudi's other products do not perform well enough in the company's consumer focus group testing scenarios. These focus groups are held annually in seven major US cities, and include a packaging test and blind taste test. The Rangakas, therefore, focus on driving new demand for their products by increasing the number of their US wine exhibition appointments.

Reaching more of the US market, however, is not easy. The US wine industry is comprised of approximately 1,000 companies, including a few major players such as Constellation Brands, E&J Gallo, and The Wine Group (Hoovers). The industry is highly concentrated, with the largest 50 companies generating more than 80 percent of the revenue. Demand for wine in the US is driven by restaurant and hotel industries, the level of business entertainment spending, and consumer income—all of which were hurt in the global recession (Hoovers).

Wineries sell to about 1,000 independent distributors, who in turn sell to retailers such as restaurants, hotels, supermarkets, and liquor stores. In most states, all wine sales must pass through licensed distributors. Import sales typically go through brokers (Hoovers).

Wine companies develop brand recognition via advertising and promotion. Small wineries depend heavily on their distributors for promotional support (Hoovers). Smaller wineries that make premium wines promote themselves though trade shows, local tasting and competitions, wine magazines, and wine experts (Hoovers).

According to Hoover's American Wineries Industry article, the US wine market products are categorized by price. The three general categories are premium table wines (more than $3 a bottle); super-value and "jug" wines (under $3); and a variety of wine products, including flavored, sparkling, and fortified wines, and wine coolers (Hoovers). Within the premium wine category, the four sub-categories are Luxury (over $25); ultra-premium ($14 to $25); super premium ($7 to $14); and popular premium ($3 to $7).

**Nigeria: Gateway to West Africa**

Nigeria's large population of 150 million and growing wine consumption habits, while still small per capita at .05 liters per year as of 2006, make it an attractive target on the African continent. Even though half of the population is Muslim, and therefore abstains from alcohol consumption, the remaining 75 million Nigerians could develop into a significant market as their consumption levels increase (CIA World Factbook). The Rangakas also believe that establishing a strong presence in Nigeria would create a gateway into neighboring markets such as Ghana and Cameroon. The family has been approached by Nigerian importers seeking to carry M'hudi wine; nonetheless, they have had difficulty finding a reliable distribution partner. Already, the family has turned down three candidates, because the Nigerian companies did not pass M'hudi's "partner vetting process". The Rangakas recently began negotiations with a fourth distributor but do not know if an agreement can be reached.

**The Enticement of Asia**

Diale and Malmsey are also considering the growing Asian wine market. China, in particular, with its enormous population, growing middle class, and affinity for wine, presents an attractive opportunity. It is already one of the world's largest wine importers. Since 2003, the imported wine market has had a 37 percent average annual growth rate (Sun 2009). However, there are concerns about the viability of a black-owned winery and brand story. M'hudi's current premium price point could also be problematic. In 2008, 86 percent of the wine sold in China was priced less than $7 a bottle (Sun 2009). Moreover, the Rangakas have reservations due to China's notorious problems with

intellectual property rights and counterfeiting —they want to be able to protect the value of their brand. Several of their acquaintances in the wine industry have seen their brands pirated.

**Potential Local Initiatives**

Opportunities in the local market are very limited, requiring M'hudi to be more creative. Frustrated by the lack of accessible distribution channels, the Rangakas are considering innovative ways to promote their product and generate demand for the M'hudi brand. Among other plans, the family is considering the development of a direct sales model. Drawing inspiration from the Tupperware direct sales model, the model would require developing a sales force to host wine-centric events in customers' homes. This grassroots program would be heavily reliant on referrals, but could provide a low-cost and effective sales option. It also would provide a relaxed setting for black consumers to learn about wines, develop a palette, and build brand affinity.

Under the Broad-Based Black Economic Empowerment Act, a BEE Scorecard system was put in place to measure the BEE compliance of companies. There are seven elements to the Scorecard, each given a weight. Preferential procurement (purchasing products from black-owned or BEE compliant enterprises) has a hefty 20 percent weighting (BEE Scorecard 2010). The Rangakas could seek to leverage their black-owned status with government agencies and companies that need to meet BEE Scorecard benchmarks to gain access to new clients with significant purchase intentions.

Another opportunity is partnering with neighboring universities to develop an internship program. M'hudi already has experience working with the Cape University of Technology. It could also seek to access the student populations from the Stellenbosch University and the University of Cape Town. In doing so, the Rangakas would be able to benefit from inexpensive yet valuable assistance across a variety of business functions (sales, finance, operations, etc.) while providing students with real-world experience. The program could also help create visibility among a young demographic of potential consumers and promote viticulture among black students.

**Finding a Way Forward**

After more than 30 years together, building their family and their business, the Rangakas continue to strive for more success. They want M'hudi to grow so that sustained profitability can support the family. Their charismatic personalities and ability to make connections with people has helped spread the M'hudi story and get their business off the ground. But the worldwide recession has created a more pressing need for expansion so that this family business can survive. Reflecting on their journey thus far, Malmsey and Diale wonder which path they should pursue now: focus on specific countries in Europe, try to gain greater distribution in the US, start a distribution relationship in Nigeria, attempt to grow in the Asian market, or continue to push into the local market. Is there something else that they have not yet considered?

## Exhibits

**Exhibit 1: M'hudi Balance Sheet**
Source: M'hudi

| *Figures in Rand* | **2008*** | **2007** |
|---|---|---|
| **Assets** | | |
| Non-Current Assets | | |
| Property, plant and equipment | 18,063 | 19,417 |
| Current Assets | | |
| Cash and cash equivalents | 123,350 | 136,783 |
| **Total Assets** | **141,413** | **156,200** |
| | | |
| **Equity and Liabilities** | | |
| **Equity** | | |
| Share capital | 100 | 100 |
| Accumulated loss | (480,704) | (215,556) |
| **Total Equity** | **(480,604)** | **(215,456)** |
| | | |
| **Liabilities** | | |
| Non-Current Liabilities | | |
| Loans from shareholders | 526,879 | 325,009 |
| Current Liabilities | | |
| Trade and other payables | 95,138 | 46,647 |
| **Total Liabilities** | **622,017** | **371,656** |
| | | |
| **Total Equity and Liabilities** | **141,413** | **156,200** |

*Year ended 29 February 2008

**Exhibit 2: M'hudi Income Statement**
Source: M'hudi

| *Figures in Rand* | **2008*** | **2007** | **2006** |
|---|---|---|---|
| Revenue | 590,351 | 428,694 | 365,665 |
| Cost of sales | (13,277) | (16,568) | (103,044) |
| **Gross profit** | **577,074** | **412,126** | **262,621** |
| Other income | 3,078 | 405,801 | - |
| Operating expenses | (845,300) | (744,326) | (551,769) |
| **Operating (loss) profit** | **(265,148)** | **73,601** | **(289,148)** |
| Finance costs | - | - | (8) |
| **(Loss) profit for the year** | **(265,148)** | **73,601** | **(289,156)** |

*Year ended 29 February 2008

**Exhibit 3: M'hudi Cash Flow Statement**
Source: M'hudi

| *Figures in Rand* | **2008*** | **2007** | **2006** |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash (used in) generated from operations | (211,895) | 127,740 | (292,350) |
| Finance costs | - | - | (8) |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | (3,408) | (23,705) | - |
| **Cash flows from financing activities** | | | |
| Proceeds on share issue | - | - | 100 |
| Repayment of shareholders loan | 201,870 | 29,416 | 295,593 |
| | | | |
| Total cash movement for the year | (13,433) | 133,451 | 3,335 |
| Cash at the beginning of the year | 136,783 | 3,335 | - |
| **Total cash at end of the year** | **123,350** | **136,786** | **3,335** |

*Year ended 29 February 2008

**Exhibit 4: Map of the Western Cape, South Africa**
Source: Wikimedia Commons

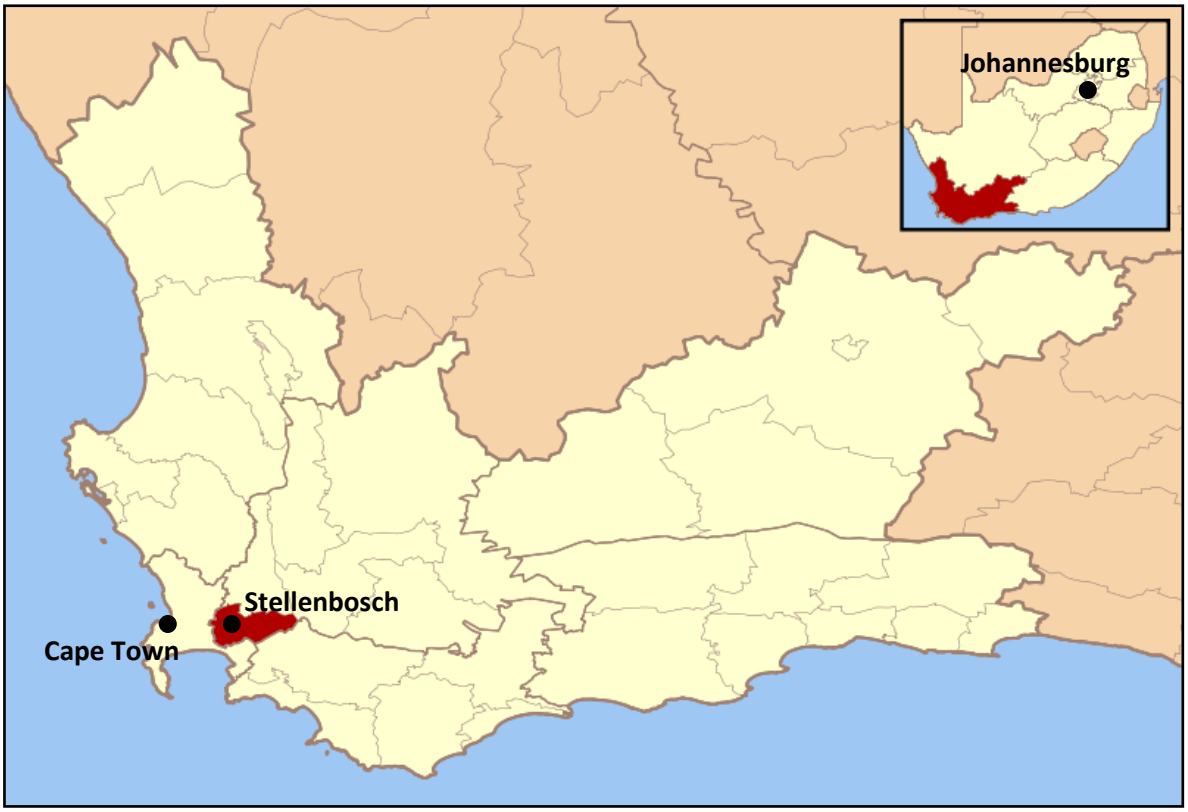


**Exhibit 5: Top 15 World Exporters/Importers, 2007**
Source: Aykan 2008

**Wine, containers holding less than 2 liters**

| Exporting Countries | 2007 | % Share | Importing Countries | 2007 | % Share |
|---|---|---|---|---|---|
| All Countries | $17,612,605,510 | 100.00% | All Countries | $17,612,605,510 | 100.00% |
| France | $4,979,522,206 | 28.30% | United Kingdom | $3,809,301,810 | 21.63% |
| Italy | $3,535,378,479 | 20.10% | USA | $3,804,461,011 | 21.60% |
| Australia | $2,333,869,373 | 13.30% | Germany | $1,730,689,280 | 9.83% |
| Spain | $1,285,614,840 | 7.30% | Canada | $1,332,874,038 | 7.57% |
| Chile | $1,008,513,520 | 5.70% | Japan | $844,578,186 | 4.80% |
| Germany | $674,232,220 | 3.80% | Netherlands | $831,293,540 | 4.72% |
| Portugal | $635,970,116 | 3.60% | Belgium | $824,835,400 | 4.68% |
| USA | $591,213,084 | 3.40% | Switzerland | $723,242,698 | 4.11% |
| New Zealand | $552,657,059 | 3.10% | Denmark | $508,650,520 | 2.89% |
| South Africa | $529,207,969 | 3.00% | France | $481,388,260 | 2.73% |
| Argentina | $364,981,357 | 2.10% | Sweden | $368,450,900 | 2.09% |
| United Kingdom | $277,921,220 | 1.60% | Ireland | $338,730,930 | 1.92% |
| Belgium | $115,877,839 | 0.70% | Australia | $203,854,627 | 1.16% |
| Netherlands | $107,635,186 | 0.60% | Hong Kong | $184,659,127 | 1.05% |
| Austria | $93,418,212 | 0.50% | China | $184,132,019 | 1.05% |

**Wine, containers holding more than 2 liters (bulk)**

| Exporting Countries | 2007 | % Share | Importing Countries | 2007 | % Share |
|---|---|---|---|---|---|
| All Countries | $2,177,190,285 | 100.00% | All Countries | $2,177,190,285 | 100.00% |
| Italy | $383,749,000 | 17.60% | Germany | $462,464,250 | 21.20% |
| France | $381,745,964 | 17.50% | United Kingdom | $318,538,610 | 14.60% |
| Spain | $287,235,855 | 13.20% | France | $198,040,970 | 9.10% |
| Australia | $201,826,498 | 9.30% | Sweden | $170,374,320 | 7.80% |
| USA | $198,778,100 | 9.10% | Denmark | $123,214,210 | 5.70% |
| Chile | $181,829,485 | 8.40% | Italy | $117,167,880 | 5.40% |
| South Africa | $145,007,739 | 6.70% | Belgium | $107,113,340 | 4.90% |
| Germany | $59,931,240 | 2.80% | Switzerland | $104,843,859 | 4.80% |
| United Kingdom | $54,923,181 | 2.50% | USA | $92,135,746 | 4.20% |
| Macedonia | $48,325,201 | 2.20% | Canada | $63,445,157 | 2.90% |
| Argentina | $43,905,158 | 2.00% | China | $60,498,960 | 2.80% |
| Portugal | $39,163,927 | 1.80% | Czech Rep. | $51,327,750 | 2.40% |
| Denmark | $28,067,593 | 1.30% | Finland | $43,244,780 | 2.00% |
| Hungary | $22,567,211 | 1.00% | Netherlands | $39,459,230 | 1.80% |
| Austria | $17,085,490 | 0.80% | Portugal | $36,310,940 | 1.70% |

**Exhibit 6: Wine Consumption Per Capita, Selected Countries, 2006**
Source: The Wine Institute

| Country | Liters | Country | Liters |
|---|---|---|---|
| France | 53.88 | UK | 19.30 |
| Italy | 46.96 | Chile | 17.35 |
| Portugal | 45.26 | Canada | 12.69 |
| Denmark | 31.19 | USA | 9.00 |
| Australia | 27.70 | South Africa | 8.37 |
| Argentina | 27.50 | Japan | 1.96 |
| Germany | 24.08 | China | 1.21 |
| Netherlands | 21.22 | Nigeria | 0.05 |
| New Zealand | 19.63 | | |

**Exhibit 7: South African Wine Revenue Breakdown**
Source: van Rooyen 2008



**Exhibit 8: M'hudi Logo and Product Design**
Source: Jeff Aziakou and M'hudi




**Exhibit 9: M'hudi Wine Tasting List**
Source: M'hudi

| Varietal Wines | Description | Price per Bottle (Rand) (750ml) | Price per Case (Rand) (x12) |
|---|---|---|---|
| Sauvignon Blanc 2009 | Classic cool climate Sauvignon Blanc | 46.50 | 558 |
| Merlot 2006 | Barrel matured dry red wine | 50.50 | 606 |
| Pinotage 2007 | Barrel matured red wine | 46.50 | 558 |
| Rea 2009 | Dry white wine (Semillon) | 30.50 | 366 |
| Kwena 2009 | Well-balanced blend of Pinotage, Shiraz, and Merlot | 42.50 | 510 |
| Thanya 2009 | A refreshing, off-dry Pinotage Rose | 32.50 | 390 |
| Rati 2009 | Delicious, semi-sweet Gewürztraminer | 32.50 | 390 |
| Palesa Vin-Sec 2009 | An aromatic Sauvignon Blanc Sparkling wine | 39.50 | 474 |

**Exhibit 10: M'hudi Awards and Recognition**
Source: M'hudi

| Wine | Award |
|---|---|
| Pinotage | International Wine Challenge 2008, Bronze medal |
| | U.S. Professional Wine Buyers Competition 2006, Bronze medal |
| Sauvignon Blanc | Wine Spectator rating of 89 out of 100 |
| | International Wine Challenge 2007, Silver medal |
| | Decanter Magazine World Wine Award 2007, Bronze medal |
| | Swiss International Airlines Wine Awards 2007, Bronze medal |

**Exhibit 11: Rangaka Family**
Source: M'hudi

**Malmsey Rangaka – CEO**
Malmsey is the matriarch and managing director of M'hudi. Her special skills are in strategic planning, organizing, finance, and administration. Malmsey has also developed an acute eye for detail that pairs well with her business sense. She has a varied educational background including general and strategic management courses. Her professional experience has been in health, education, clinical psychology and public service management. Since arriving in Stellenbosch in 2003, she has also completed a Hydroponics Production and Management System Program, the Front of House Certificate of the Cape Wine Academy, an Export Development Course, and Bookkeeping and Advanced Pastel Courses. Malmsey has been a mentee in the Cape Town Tourism Mentorship program. She was a member of the research and development subcommittee of the South African Black Vintners Alliance and is currently Chairperson of the African Vintners Alliance Cooperative.

**Diale Rangaka - Viticulturist/Export Marketer**
Before joining Malmsey on the farm, Diale, the head of the family was a professor of language, higher education administrator, and public relations practitioner at various universities. He had a role in the governance of various national bodies, including the National English Literary Museum, the Kopanong Hospital, and the Environment Health Officers profession. Until recently Diale was the Secretary of the South African Black Vintners Alliance and now sits on the board of Wines of South Africa (WOSA). Diale has completed courses such as labor and public relations and general management. His many years of experience as general manger of a university campus contribute to M'hudi's management.

**Tsêliso Rangaka - Brand Manager**
Tsêliso studied journalism and advertising and has put those skills to use promoting M'hudi. He joined Malmsey to start the farm venture and has been heavily involved since 2003. He has written for several wine magazines (wine.co.za; Winescapes) and has contributed to John Platter's *South African Wines* and to *Wine*. He represents the M'hudi brand in Gauteng and is slated to take over the business when Diale and Malmsey eventually retire.

**Lebogang Rangaka - Local Marketer**
Lebogang, the only daughter, worked in the field of human resources in various senior positions at several companies before joining the family business. She joined M'hudi to establish the wines in the

local market and has been trained in wine retail by professionals from the UK retail giant Marks & Spencer.

**Senyane Rangaka – Marketing Manager**
Senyane is a filmmaker by profession and was part of the team that produced the short film "Ongeriewe", which achieved top honors at the prestigious Cannes Film Festival. Senyane also plays a key role in the family business as he is responsible for all marketing materials, product development, and creation of a strong online presence for the company. He also builds brand equity through partnerships, promotions, and events.

**Exhibit 12: M'hudi Client List**
Source: M'hudi

| Where M'hudi Wines Have Been Featured |
|---|
| Heritage Link Brands – distribution in USA in 42 states |
| Marks & Spencer – distribution in the UK |
| Whole Foods |
| Sam's Club |
| Shaw's supermarkets |
| Local restaurants: Moyo's, Nyoni's Kraal, Afro Café |
| Mandela Rhodes Hotel |
| British Airways |
| KLM Royal Dutch Airlines |
| United Airlines |
| Swiss International Airlines |
| South African Airways |
| Disney's Epcot Center |

**Exhibit 13: Heritage Link Brands - M'hudi Sales**
Source: Heritage Link Brands

| M'hudi Wines | 2007 | | 2008 | | 2009 | |
|---|---|---|---|---|---|---|
| | Quantity | Revenue | Quantity | Revenue | Quantity | Revenue |
| Sauvigon Blanc 2006 | 10 | $1,154.07 | 493 | $ 52,005.54 | 5 | $ 465.30 |
| Sauvignon Blanc 2008 | - | - | 622 | $ 62,836.30 | 235 | $22,453.90 |
| Pinotage 2005 | 67 | $7,776.74 | 122 | $ 12,414.13 | - | - |
| Pinotage 2006 | - | - | 106 | $ 10,674.27 | 123 | $11,585.31 |
| Total | 77 | $8,930.81 | 1343 | $137,930.24 | 363 | $34,504.51 |

*Quantities expressed in number of cases

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