

IMPLEMENTING THE PORTER FRAMEWORK TO DEVELOP STRATEGIES TO IMPROVE THE COMPETITIVENESS OF THE SOUTH AFRICAN WINE INDUSTRY

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1. INTRODUCTION

An open economy, global markets for products and global sources of inputs increases the need for the wine industry in South Africa to be internationally competitive. The industry can only provide increased incomes for its participants and enhance its contribution to national economic growth if it improves its competitiveness. Competitiveness is a complex but real world concept. A partial view of competitiveness, for example, to only consider production costs *per sé*, will not contribute to a full understanding of factors influencing the competitive status of an industry. Only through a comprehensive view that consider all factors impacting on the competitiveness of the industry can strategies be develop to enhance the competitiveness of the South African wine industry.

In this paper, a comprehensive approach to competitiveness analysis developed by Porter (1990, 1998) was used to establish the determinants of competitiveness and analyse the current factors influencing the competitiveness of the wine industry in South Africa. The results of Industry level workshops to consider the competitiveness of the South African wine industry complemented the Porter analysis. A range of strategies at firm, government and industry level to enhance competitiveness were then derived from the findings.

2. METHODOLOGY AND FRAMEWORK OF ANALYSIS

Three steps were used to meet the objectives of this paper:

Step 1: The Porter analysis: The aim of this step is to determine the key success factors that established a competitive advantage and the constraints that impacted negatively on the competitiveness of the South African wine industry. The determinants of competitiveness, as described by Porter (1990, 1998), was used as bases. According to Porter (1990, 1998) economic prosperity is created, not inherited. It does not grow from a country's natural endowments *per sé* - its labour pool, climate, its interest rates, its soils, or its currency's value - as classical economics insists. Competitiveness rather depends upon the capacity of its industry to innovate continuously. Firms gain advantage against the world's best competitors because of pressure and challenge. He argued that countries benefit from having strong domestic rivals, aggressive home-based suppliers and demanding local customers.

Data gathering: The challenge was to determine how the competitive performance of the wine industry in South Africa is achieved. The focus of this analysis was at the firm level i.e. individual firms were requested to participate in the data gathering process through questionnaires. Executive business opinions were gathered through a business survey – the Wine Executive Survey (WES).

In the application of this descriptive methodology, the institutional and organisational forces that have an influence on the competitiveness of the wine industry in South Africa were described. The survey responses reflect perceptions of competitiveness and indications for the future by business executives who are dealing with business situations. The WES offered many unique measures and will capture the informed judgments of business leaders and decision-makers in the wine industry of South Africa on issues that influence their sector's competitiveness.

Step 2: Industry workshops: The aim of the workshops was to discuss the results of the WES with the industry and to identify priority focus areas at industry level.

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Step 3: Developing strategies to enhance the competitiveness of the wine industry in South Africa:

Using the intelligence of the previous two steps, strategies were developed to enhance the competitiveness of the South African wine industry.

3. THE PORTER ANALYSIS

In Table 1 the determinants of the competitiveness status of the wine industry in South Africa are indicated. These items were rated through the WES, to have an enhancing (3), constraining (1) or a moderate (2) impact on competitiveness.

Table 1: Determinants of competitiveness for the South African wine industry

Factor conditions	Rate	Firm strategy, structure and rivalry	Rate
Labour	(2)	Industry structure	(2)
- Cost of low-level skilled labour	2	- Regulatory structure and standards in industry	2 – 3
- Quality of low-level skilled labour	2	- Flow of information from customer to company	(2)
- Availability of low-level skilled labour	3	• Local	2
- Cost of skilled labour	2	• International	2 - 3
- Quality of skilled labour	1 - 2	- Supply chain collaboration in product and process development	2
- Availability of skilled labour	2	- Information flow from primary suppliers	2
Cost of doing business in SA	1 - 2	- Bargaining power of customers	2 – 3
Availability of water	2	Rivalry	(2 – 3)
Capital	(1 – 2)	- Intense competition in the local market	3
- Cost	1 - 2	- Source of competition in the local market	3
- Availability	2	- Entry of new competitors	3
Climatic conditions the past three years	2	- Substitutes of products and services	2 – 3
Location in terms of international trade	2 – 3	- Difficulty to start a new business	1
Technology	(2)	Firm strategy	(2 – 3)
- Cost	2	- Unique products, services and processes	2 – 3
- Quality	2 – 3	- Production of affordable high quality products	3
- Availability	2 – 3	- Production of environmental friendly products	2 – 3
Infrastructure	(2)	- Strategy to employ quality technology	2 – 3
- Cost	2	- Investment in human resources	2 – 3
- Quality and availability	2	- Continuous innovation	2 - 3
		- R&D spending	2
Average score for factor conditions	(2)	Average score for firm strategy, structure and rivalry	(2 – 3)
Demand conditions	Rate	Supporting industries	Rate
Information on local markets consumer orientations:	(2)	Local suppliers of materials, components, equipment and services	(2 - 3)
- Knowledgeable and demanding and buy innovative products	2 – 3	- Availability	2 – 3
- Actively seek out the latest products, technologies and processes	2	- Quality	2
- In pace with rest of the world	2	- Sustainability	2 – 3
- Concern over ethics and production methods	2 – 3	International suppliers of materials, components, equipment and services	(2 - 3)
- Importance of environmental friendly products	2	- Availability	2 – 3
		- Quality	2 - 3
		- Sustainability	2 – 3

Information on export markets consumer orientations:	(2 – 3)	Financial support	1 – 2
- Knowledgeable and demanding and buy innovative products	2 – 3	Scientific research institutions	(2)
- Actively seek out the latest products, technologies and processes	2 – 3	- Availability	2 – 3
- Concern over ethics and production methods	2 – 3	- Collaboration	2
- Importance of environmental friendly Products	3	Electricity supplies	2
Local market size	1 – 2	Telecommunication firms	2
Export market size	3	Internet service providers	2
Local market growth	1 – 2	Specialised information technology services	2
Export market growth	2	Technical information flow	2 – 3
		Glassware suppliers	2
		Packaging material suppliers	2
		Road transport companies	2 – 3
		Air transport companies	2
		Training and skills development facilities	1 – 2
Average score for demand conditions	(2)	Average score for supporting industries	(2)
Government	Rate	Chance	Rate
Administrative regulations	1 – 2	Cost of crime	1
Competence of the bureaucracy in the public sector	1	Aids	2
The tax system's impact on investment and risk-taking	1 – 2	Developments in Africa	2
Impact of legal changes the past five years	1 – 2	Biotechnology	2 – 3
Environmental and biodiversity regulations	2 – 3	Strong Rand	1
Trade policy	2	Fluctuations in the exchange rate	1
Clarity on land reform policy	1 – 2		
Labour policy	1 – 2		
Macro-economic policy	2		
Clarity on BEE policy and codes	1 – 2		
Trust in the political support system	1		
The current political climate in South Africa	2		
Average score for government	(1 – 2)	Average score for chance	(1 – 2)
1 = Constraint	2 = Moderate	3 = Enhancement	() = Average

Source: Own calculations from the 2005 Wine Executive Survey

Production factor conditions: The average score achieved for all factor conditions is 2, which means that on average factor conditions in South Africa has a moderate effect on the wine industry's competitiveness. The factor conditions that are constraining competitiveness most are the quality of skilled labour, the high cost of capital and the high cost of doing business in South Africa. The factors that have an enhancing impact on the competitiveness of wine industry in South Africa are the availability and cost of unskilled labour, the cost, quality and availability of technology in South Africa and the location of the wine industry in South Africa in terms of the international market.

Demand conditions: The executive survey indicated that the local market size and growth in the local market are constraining the competitiveness of the wine industry in South Africa. From a positive viewpoint, buyers of South African wine are knowledgeable, demand and buy innovative products and buyers are concerned over ethics and production methods. No clear indication on the quality of market information however was given although the information on consumer orientations was rated positive.

Related and supporting industries: Most of the supporting industries are rated by the wine industry in South Africa to have contributed positively and have a positive impact on the industry's competitiveness. It is especially the availability, quality and sustainability of local and international suppliers of the wine industry's component, materials and equipment, the availability of scientific research institutions, technical information flow and road transport companies that contribute positively to the competitiveness success of the wine industry in South Africa.

Access to training and skills development facilities and financial support are constraining the competitive success of the wine industry in South Africa. This latter observation on financial support systems must largely be related to the long nature of capital requirements of the industry and constraints and costs in mobilising funds and high real interest rates i.e. cost of finances

Firm strategy, structure and rivalry: The fourth broad determinant of competitive advantage in an industry is the context in which firms are created, organized and managed as well as the nature of domestic rivalry. With an average score of 2 to 3, firm strategy, structure and rivalry as a whole, have a positive impact on competitiveness of agribusinesses in South Africa. Some of the major enhancing factors include the regulatory structures and standards in the industry, including integrity systems, intense internal competition, entry of new competitors on a regular basis, the production of affordable high quality products, firm level investment in human resources, employment of quality technology, the production of unique products, services and processes, the production of environmental friendly products and continuous innovation.

Government support and policies: The wine industry in South Africa is to a large degree dependent on sound partnership arrangements with Government. Government policy and support on matters related to export and trading, science and innovation, empowerment and transformation, tax, natural resources such as land and water, labour relations, financial arrangements to name some, impacts directly on this sensitive and highly market orientated industry. Regulatory measures and statutory levies are equally important.

With an average score of between 1–2, government services, policies and support systems are viewed to act constraining the competitive success of the wine industry in South Africa. The major constraining factors are: burdensome administrative regulations, the impact of legal and political change the past five years, the competence of personnel in the public sector, South Africa's tax system's impact on investment and risk-taking, South Africa's resources policy (labour and land), BEE transformation policy and the trust in the political support systems.

It is interesting to note that the South Africa's environmental regulations are rated by the wine industry in South Africa to have a positive impact on their competitiveness, while macro-economic policy, the current political climate and trade policy are providing moderate enhancements.

Chance factors: Chance events are occurrences that have little to do with circumstances in an industry and are often largely outside the power of the firms or a country to influence. Chance events however are important because they create opportunities and discontinuities that could allow shifts in competitive performance. Chance events can nullify the advantage of previously established competitors and create the potential that a new firm can supplant them to achieve competitive advantage in response to new and different conditions (Porter, 1998).

The cost of crime, the strong Rand and fluctuations in the exchange rate are important chance factors which have a constraining impact on competitiveness of the wine industry in South Africa. Aids do not yet feature as a major factor for the wine industry, while global technology developments are anticipated to provide competitive opportunities.

On average, the wine industry is not well positioned yet to exploit change occurrences in a positive manner. This may require more structured interaction in a global context to fully exploit aspects related to technological innovation, Africa's opportunities and fluctuation in exchange rates.

4. INDUSTRY WORKSHOPS

The wine industry workshop indicated that, while all actions are relevant to enhance a viable long-term environment, the following had to be considered as priority focus areas at industry level: demand conditions,

factor conditions and firm strategies (see also Figure 1).

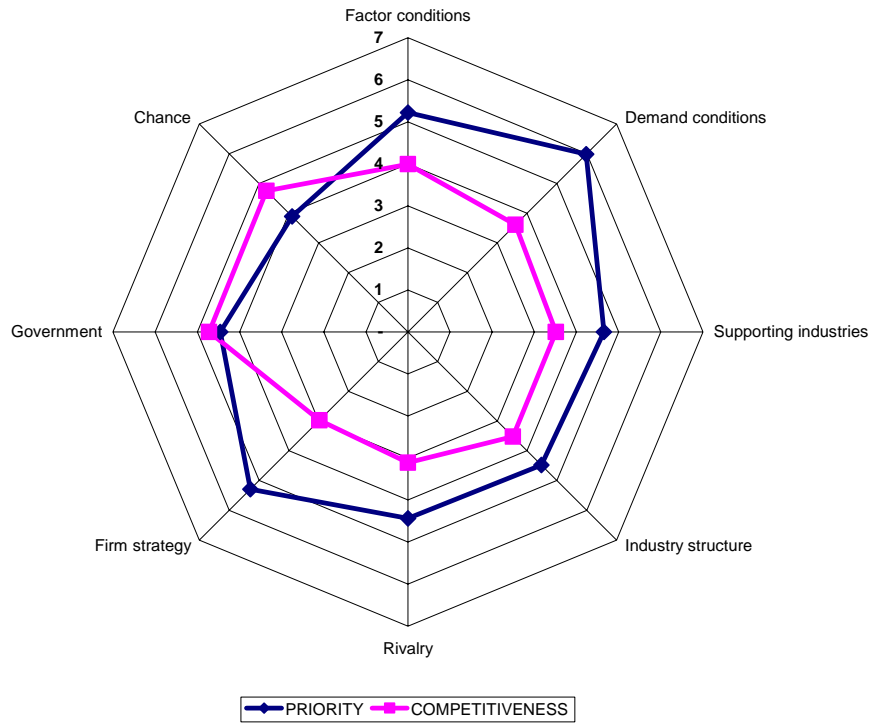


Figure 1: The determinants of competitiveness and the priorities given to them by the South African wine industry

Notes: 1 = Negative impact on competitiveness 7 = Positive impact on competitiveness
 1 = Low priority 7 = High priority

5. STRATEGIES TO ENHANCE THE COMPETITIVENESS OF THE WINE INDUSTRY IN SOUTH AFRICA

5.1 The role of the wine firms

The macro environment provides the framework within which firms operate and compete. The behaviour of wine firms will establish the competitiveness of the wine industry. This will require the ability (and strategies) to build on enhancements and to reduce the impact of constraints in all aspects of the Porter Diamond. It is also clear that certain constraints cannot be dealt with directly at firm level i.e. the fluctuation of the Rand or the value of the Rand. These are exogenous factors. Firm level strategies can however reduce the negative impacts of such factors. From the analysis, a number of key firm level focus areas emerged for success.

Create a culture of innovation: Innovation at firm level is the introduction of new goods, systems and services. The wine industry in South Africa rated innovation as a major enhancement to their ability to compete. Firms must adapt to changes in consumer demands; market trends; technology and to new sources of competition. This will require a culture of innovation. Products do not sell forever; in fact, in future they may sell for much shorter periods than before because so many competitors are introducing so many new products all the time.

Wine firms in South Africa should actively seek out competitive pressures and challenges, not avoid them. Part of this strategy could be to take advantage of the market changes to create the impetus for innovation.

To do that, companies can sell to the most sophisticated and demanding buyers and channels; seek out those buyers with the most difficult needs; establish norms that exceed the toughest regulatory hurdles or product standards; source from the most advanced suppliers; treat employees as permanent in order to stimulate upgrading of skills and productivity.

Market development - Conduct consumer analysis and market research: Knowledge of consumer preferences and the dynamics thereof and innovative means to capture such preferences in product choices are vital for success. Markets are evolving rapidly which new segments to focus on. Which strategies to follow in growing and declining markets? How to activate the supply chain to transmit producer friendly market intelligence to producers? Investment in the required market intelligence is a necessary requirement for competitiveness.

Market development - Differentiate your product: Differentiate wine products into recognisable brands and establish their South African identity and develop a link with “Brand South Africa”.

Increase productivity: To sustain competitive advantages, the wine industry in South Africa must achieve more sophisticated competitive positions over time, through firms providing higher-quality products and services or producing more efficiently. This translates directly into productivity growth (Porter, 1998).

Productivity, rightly understood, encompasses both the value that products command in the marketplace and the efficiency with which they are produced. Improving cost efficiency alone, or producing more units per unit of labour or capital, does not necessarily elevate wages and profits unless the prices of the products or services are stable or rising.

As global competition places greater pressure on the prices of standard goods, efficiency alone is insufficient anymore (Porter, 2002). Advanced industries improve their competitiveness more by differentiating their products and by driving up the value of their products and services (because of better technology, marketing and associated services, for example) and by moving into new fields through innovation than by producing standardised products at lower cost. South African wine firms should actively trade-up, rather than only driving at economies of scale in order to reduce production costs.

Accept domestic rivalry: Intense competition in the local market is rated by the wine industry in South Africa as a most enhancing factor to their competitiveness. To compete globally, a company needs capable domestic rivals and vigorous domestic rivalry. Vigorous domestic rivalry creates sustainable competitive advantage. It is however also important to grow internationally and seeking international partners or acquisitions. Wine firms should therefore clarify their strategic approaches in local and global markets.

Focus on integrity: Integrity can be defined in two ways, first, its literal meaning, “the state of being whole or entire”. This definition is appropriate when set in context with the words “food chain”. No longer can this chain just be seen as a linear flow of food products (including beverages) from primary agriculture to the consumer. Today, each and every part of this flow must be considered a link, and the integrity of production of each link affects to the integrity for the entire chain or network.

Second, integrity is defined as “uncompromising adherence to moral and ethical principles”. No longer is it sufficient to ensure the food chain is safe and efficient. Today, the consumer is increasingly aware and concerned about the total integrity of their food (and beverage) system and they generally respond negative if this trust is broken. The consumer is better educated and informed with more complex concerns.

Many of these concerns are sensitised by social interest groups raising awareness on issues such as environment, human welfare, sustainability and ethical practises in the workplace. The introduction of biodiversity codes into the “Integrated production of wine” programme to protect the unique Cape fynbos is a positive step in this context. Wine firms should insist that industry structures relentless pressure for integrity systems, while the industry at large should also establish effective control systems. Auditing of

labour and social practises by organisations such as the Wine Industry Ethical Trade Association (WIETA) should also be embraced at firm and industry levels.

Drive for quality: The wine industry in South Africa identified quality as one of the most important enhancement to their competitive success. This strategy must continue. Customers now demand high quality and value and will accept nothing less. Providing world-class quality requires a thorough understanding of what quality really is. Quality must be measured in terms of performance, additional features, reliability, integrity and conformance to standards, durability, serviceability and aesthetics.

Only by moving beyond broad, generic concepts like “quality” to identifying the more specific elements of quality as perceived by the target market, can firms identify problems target needs and set performance standards more precisely, and deliver world-class value. Efforts to discourage/prevent “wine flavouring” and the continuous strive to achieve virus free vineyards are for example necessary requirements in this context; consistency of product is another.

Design for social responsibility and successful BEE: Social development and economic upliftment must be accepted as one of the most important firm level strategies that will influence sustainability in the wine industry in South Africa.

Changing the South African historical dualism with its legacy of social and economic exclusion and discrimination along racial and gender lines and to redress a wine industry characterised by highly skewed levels of ownership, managerial and technical skills combined with a lack of access to economic opportunities are major challenges.

The core focus must be economic growth and development to support black economic empowerment and to enable historically disadvantage groups in the wine industry to create economic ownership, to gain access to assets and to participate in business opportunities along the full wine value chain. Successful firm level social and economic empowerment requires new policies and operational initiatives in the spheres of cultural change, economic and social responsibility programmes and skills development to empower those on whom they depend to perform competitively. This should also includes efforts to improve the living conditions of workers; to enhance life skills in the broader worker community; to ensure a balanced relationship between worker representatives and employers in the workplace; and to establish an expanded and demographically more balanced ownership status.

Initiatives must make sure that historically disadvantage groups are integrated in the sector in such a way that they can make a constructive contribution to the competitive success of the wine industry and to the country at large.

The components of the Wine-BEE Charter and Industry Scorecard provide a framework for firms to integrate empowerment into their performance management systems. The proposed banning of “papsakke” (low quality wine containers), and the introduction of the Wine Industry Ethical Trade Association (WIETA) to monitor labour practices are related positive occurrences in the context of social responsibility and development.

5.2 A central role for government

Government does have a central role in promoting competitiveness performance in the South African wine industry through a particular set of rules, regulations, policies and interactions – all establishing the macro-environment for the industry. From the study it is clear that government is viewed an important actor in competition.

From the analysis: Government must take responsibility to encourage transformation and change in an orderly manner and through appropriate incentives; secondly government must also reduce the “cost of

doing business” and promote domestic rivalry and market access and thirdly government must stimulate innovation in the industry; Fourthly government should contribute to support the wine industry to compete in an unfair global economy. Specific approaches for the South African government to sustain and enhance the competitiveness of the wine industry include the following:

Establish a clear transformation agenda and scorecard and support systems: Uncertainty on towards the required performance by industry support transformation and in order to ensure access to government incentives and support mechanisms such as licensing etc will impact negatively on the growth path of the industry. This will also constrain its ability to introduce and sustain transformation initiatives and Black Economic Empowerment schemes. The finalization of the Wine-BEE Charter must thus be viewed as an important activity.

This Charter should provide a well-considered basis for required government support systems, interventions and incentive structures. The role of wine cellars (cooperatives) must be viewed as central to a Wine-BEE strategy as this activity links wine grape production to the value chain. The link between land reform and BEE should be clarified and the requirements of small and medium businesses and family enterprises should be clarified.

Create a stable macro-environment but avoid intervening bluntly in the economy, particularly in factor and currency markets: The current strong Rand is constraining the competitiveness success of the wine industry in South Africa. However, government must avoid the temptation to intervening in this and other factor and currency markets. By intervening in factor and currency markets, government may hope to create lower factor costs or a favourable exchange rate that will help companies compete more effectively in international markets. Evidence from around the world however indicates that these policies generally are counterproductive and lead only to short-run success.

The transformation agenda may also require certain direct actions by government re land acquisition, BEE legislation, labour legislation, etc. Policies developed to intervene in such factor markets could however work against growth and the upgrading of the industry and the search for a more sustainable competitive advantage. A fine balance between this requirement and the transformation agenda must be established. The government however does have a direct role in creating a stable macro-economic environment and “clear-rules-of-the game”.

Enforce strict product, safety, and environmental standards: Strict regulatory standards and the production of environmental friendly products are currently enhancing the competitive success of the wine industry in South Africa. Government through agencies such as the South African Wine and Spirits Board and the wine industry through its appropriate bodies must continue with this policy. Stringent standards for product performance, product safety and environmental impact, pressure companies to improve quality, upgrade technology and provide features that respond to consumer and social demands. The provision of sufficient and capable laboratories to support testing and certification was identified as an important constraint in the South African wine industry.

Promote sustained investment: Investments are currently constrained in the wine industry. Government has a vital role in shaping the environment which directly influences the goals of investors. The manner in which capital markets are regulated, for example, shapes the incentives of investors and, in turn, the behaviour of firms.

Government should aim to encourage sustained investment in human skills, in technical innovation, in infrastructure and in physical assets needed by the wine industry. A powerful tool for raising the rate of sustained investment in industry could be a (tax) incentive for long-term (five years or more) capital gains restricted to new investment in corporate equity. This could focus on transportation and port upgrading. Government should also stand supportive to the marketing of “Brand SA” in focussed countries such as USA, etc.

Fight crime: Crime is identified by the wine industry in South Africa as one of the most constraining factors to their competitiveness success. Government and businesses alike have a huge responsibility to fight crime in South Africa. Crime has a negative influence on investment and the confidence of people and businesses in the future of South Africa. Crime can nullify the competitive advantage established by the wine industry in South Africa.

Support wine trade in the unequal global environment: The international trade environment is by no means fair and equal. South Africa is a small but important player in this global environment. The big industrial country's trade blocs are highly competitive, aggressive and subsidized. Industry together with government needs to develop focussed strategies in this context. Both export strategies and anti-dumping measures are important.

A stronger "new market" development thrust between industry and government is required. A "South African Identity" depicting South African firms as reliable worthwhile and high quality business partners and the "proudly South African" and "Brand SA" initiatives will support such a "globalisation impact" strategy. The USA must be identified as an important new region for support and focus.

Focus on specialised education and knowledge development systems: Apart from general public sector support with basic national infrastructure and research in areas of broad national concern such as health care, government has critical responsibilities for fundamentals such as primary and secondary education systems. The quality of skilled labour is currently constraining the competitiveness of the wine industry in South Africa. Human capacity is required to manage sustained productivity. Improved labour conditions together with more flexible labour regulations and training across a broad front must be highlighted.

Generalised efforts rarely produce competitive advantage. The factors that translate into competitive advantage are advanced and specialised. Mechanisms such as specialised learnerships, apprenticeship programs together with research efforts in universities connected to an industry innovation system and the private investments of companies ultimately create the factors that will yield competitive advantage.

Government administration - Reduce unnecessary "red-tape" and ineffective bureaucracy: These factors greatly increase the "cost-of-doing-business" and are prioritised by the industry as major constraining factors. Innovative human capacity development (point [vii]) will contribute to more efficient systems in the government administration.

5.3 Industry level focus

The complexity of creating a competitive and equitable South African wine industry is far reaching and challenging. Collective and coordinated actions at industry level will be required to initiate, focus and align, coordinate, monitor and evaluate initiatives. Interaction with and the engagement of government will be highly relevant for the wine industry. Strategic considerations and value adding should guide the choice and focus of industry level initiatives. From the above analysis the following industry level activities should be considered:

Establish a strong "wine industry voice" This is important as strong, coordinated representative industry views (voice) are required to engage government agencies (on items such as levies, trade and resources policies, a range of acts and legal regulations) and international bodies (such as the OIV and the WWTG).

Develop a strategic partnership between government and industry: Wine Vision 2020 and the Wine Industry Strategy Plan (WIP) provides an approved framework for such interaction and need to be focussed on agreed upon outcomes and to enhance the competitive performance of the industry.

Develop “Brand SA”: Create a unique “Brand South Africa” concept to position South African wines as unique and vibrant and produced responsibly and innovatively through environmentally and socially sustainable systems. Government support should be engaged to assist in this effort and to support the international positioning of “Brand SA”.

Coordinate and conduct industry business: The initiation, alignment and coordination of the selected industry activities funded via levies need a particular structure and format for which industry action is considered to deliver the required added value. Activities to be considered for industry level action must have a strong inclination of a “public good” and could include generic (domestic and export) market development and promotion of the wine industry, including tourism; the mobilisation of appropriate training and education strategies and systems; the reduction of the cost of doing business; development and dissemination of industry level knowledge and information provision; support to develop industry level BEE and other transformation strategies and models; investigation of cost factors constraining business development; focussed investigation and analysis of constraints to competitiveness and the development and direction of industry level strategies and investments in research and innovation, etc. A feasible business plan of action to provide the required focus will be necessary together with funding.

An organisational structure and business focus is required at industry level to enable value adding at firm level, to focus the supportive and directive role of government and to identify and coordinate productive value adding tasks to be conducted at industry organisation level.

Establish industry level accountability: Industry level action is guided by a mix of voluntary and obligatory arrangements. Whereas membership to industry bodies could be voluntary, contributions by participants to NAMC statutory levies are obligatory. The appropriate governance systems guiding and focusing industry level activity, should clarify accountabilities and appropriate management and organisational arrangements. This will assist greatly in changing the current perceptions of the industry as “fragmented” and “unfocused”.

6. CONCLUSIONS

The wine industry worldwide is changing profoundly, and the changes appear to be accelerating. Global wine trends are driven by consumer behaviour and technology. No one doubts that the wine consumer is more demanding in terms of attributes of their products (quality, safety, nutrition, convenience, etc.) and services surrounding their drinking experience. Furthermore, the wine industry is being rapidly transformed from a transactional market with limited loyalty to a relationship market with tighter linkages, alliances and trust across the wine chain from input suppliers to consumption. The distribution channel from input manufacturing to producer and processor to retailer is also being consolidated to reduce costs, streamline logistics, accelerate product flow, maintain and enhance quality and respond more quickly to customer demands.

From a competitiveness viewpoint, the South African wine industry must focus on four major aspects *viz* (i) the crafting of a “Brand South Africa” proposition to portray the uniqueness of South Africa as a wine-producing region. This will enable individual firms to place unique and differentiated products in the world market; (ii) measures to reduce the negative impacts of the strong and unstable Rand value must be introduced such as cost effective processes, increased productivity and unique marketing strategies; (iii) the promotion of successful BEE activities in order to sustain growth and development; (iv) and the establishment of a sound industry government partnership to create a competitive framework in order to stimulate growth, investment and development in the sector.

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