

III. Products

Classification of product opportunities

'Floriculture' products, for the purposes of this exercise (and for the best way to categorise opportunity) has been divided into three main areas:

1. Indigenous products
 - a. Protea and other fynbos (Proteaceae)
 - b. Foliage (eg. Leatherleaf, Coral ferns etc.)
 - c. Indigenous bouquets (combining a. and b.)
2. Traditional greenhouse products
 - a. 'Classics' (Roses, Carnations, Chrysanthemums etc.)
 - b. 'Exotics' (Orchids, Lilies etc.)
 - c. Summer flowers (fillers, eg. Gypsophila, Monte Casino etc.)
 - d. Traditional bouquets
3. Mixed bouquets (combining 1. & 2.)

Process for product prioritisation

Using the above categories, Kaiser Associates conducted a screening analysis to identify the highest opportunity products in the short, medium and long term, using the following criteria:

1. Market demand/product preference
2. Current South African export volumes
3. Perception of South African products
4. Ease of increasing capacity

A summary of the findings against the above criteria can be found on the next page.

<p>Market demand/product preference</p> <ul style="list-style-type: none"> • Largest volume demand (world-wide): traditional greenhouse products (although highly competitive and commoditised) • Strongest growth in demand: novelty, variety, exotic (indigenous) 	<p>Current South African export volumes</p> <ul style="list-style-type: none"> • Top export products: Protea, other fynbos and indigenous foliage • Penetration across all products unnecessarily low (average 0.44%)
<p>Perception of South African products</p> <ul style="list-style-type: none"> • Indigenous products: generally good quality, good continuity of supply and (obviously) strong associations with South Africa • Traditional greenhouse: lower quality and non-cost competitive (both primarily perception-based) 	<p>Ease of increasing capacity</p> <ul style="list-style-type: none"> • Traditional greenhouse products most flexible in terms of capacity increase (less market reaction time) although more capital intensive • Indigenous products require limited capital investment although cycle time significantly greater for indigenous cut flower cultivars

Figure 11: Results of product screening analysis
Source: Kaiser Associates

Product prioritisation

Based on the interviews with the 15 top floriculture importing markets, and in particular the top target markets of Germany, UK, Japan (and Netherlands), Kaiser Associates arrived at a product prioritisation plan. The prioritisation criteria focuses on identifying the highest demand products in the short, medium and long term in order to determine the product areas for immediate production and export focus from a physical standpoint.

Although there will be an immediate ramp up of physical production in certain indigenous product types, there still needs to be concurrent enabling environment investment across all product types.

NB: This product prioritisation plan focuses on production and export volumes only. This does not dictate all investment levels, merely those relating to physical production.

The production prioritisation can be summarised as follows:

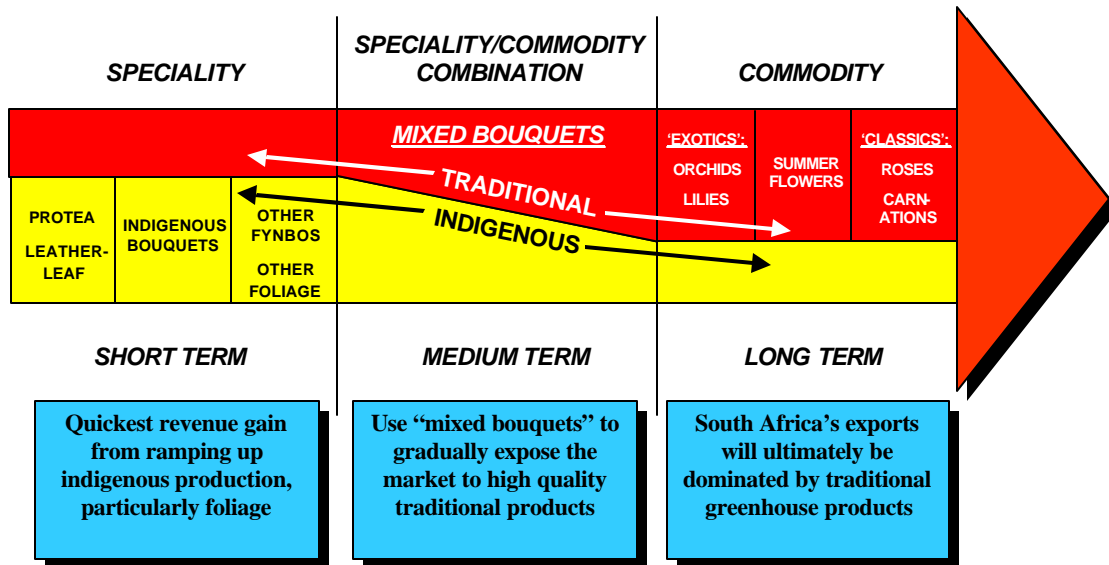


Figure 12: Product prioritisation model (based on production volume focus)
Source: Kaiser Associates

By concentrating first on increasing the scale of its indigenous product exports, South Africa will realise the quickest gain in revenue and employment due to the high value added labour intensive nature of the products. South Africa currently exports \$12m in foliage and \$9m of protea and other fynbos (together over 70% of SA's total exports) mainly to the European, US and Japanese markets, yet market demand for these products is significantly higher and inward buying trips from these markets indicate **a continual increase in consumer demand for these "novelty" products**. The only way for South Africa to ensure that it capitalises on the revenue gain and associated employment creation opportunities deriving from its "natural" competitive advantage in indigenous products is to increase production and export of these products (foliage, proteas and other fynbos) as quickly as possible.

Once the market demand for these products has been satisfactorily serviced and the South African floriculture industry is recognised as a high quality and consistent volume supplier, South Africa can start larger-scale production of a wider product range and export significantly increased volumes of traditional greenhouse products. Therefore, while initial production increase concentrates on indigenous products, **in the long run it will be critical to also ramp up production of traditional greenhouse products**.

The key to developing a robust industry based for the most part on traditional greenhouse products is **to prepare the markets for traditional greenhouse products through the use of mixed products over a transitional period of time**. Essentially this means that as soon as South Africa has gained a strong foothold in the target markets with its indigenous products, **it must begin sending mixed bouquets of indigenous and traditional greenhouse products in order to slowly expose the market to South Africa's traditional greenhouse products**. In order for this to succeed, the quality of the

traditional products must match if not surpass the quality of the indigenous products supplied in order to preserve South Africa’s established reputation as a quality supplier.

Whilst the focus on production will be on speciality products as a first priority, simultaneous investment in the enabling environment for all products will set the scene for diversification. In other words **while the indigenous growers are focused on producing volume, the rest of the industry will be investing in marketing, logistics and sales improvements to improve South Africa’s delivery capability for all products**. Marketing and sales initiatives in the main target markets will **focus on changing perceptions about South African products as being low quality or protea only**. Logistics initiatives will improve freight rates and freight space issues so that South African growers will never have to turn down orders due to unreliable transport. By the time the mixed bouquet strategy is in place, **the enabling environment will be in place to support a South African floriculture export industry based primarily on traditional greenhouse products**.

Bouquet assembly and improved distribution capability

As bouquets not only play an important role in the transition of South Africa from a predominantly indigenous product exporter to a predominantly traditional greenhouse product exporter, they are increasingly important **as the supermarket channel world-wide grows**. **South Africa should explore the possibility of assembling bouquets overseas for ease of distribution**. Kaiser Associates proposes that the South African floricultural industry considers investing in a **European depot for the assembly of bouquets** which would allow more efficient exports to smaller volume markets such as Eastern Europe and the niche markets of Switzerland and Scandinavia. For example:

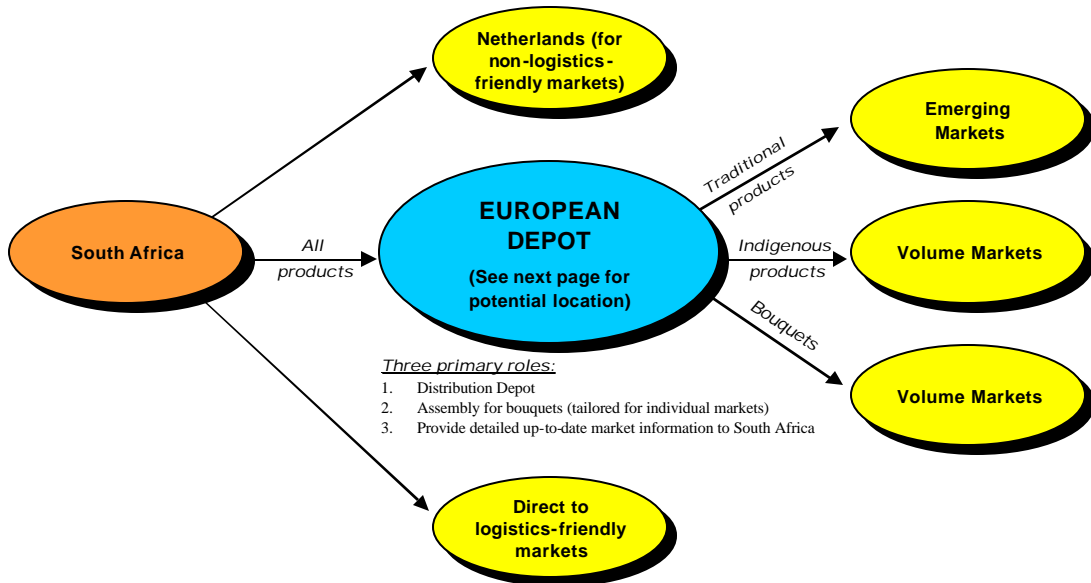


Figure 13: European depot scenario
Source: Kaiser Associates