

# Introduction

## Executive Summary

The South African Floriculture industry has the opportunity to grow into a significant player on the international stage. **Whilst the industry currently employs 17,500 people with export revenues of \$30m, over the next 10 years, with the appropriate focus and investment, the industry can expect to attract over \$250m in foreign exchange and create over 80,000 further jobs.**

**Floriculture is at the heart of the SMME environment.** The specific opportunities in rural employment, particularly previously disadvantaged individuals (PDIs), are difficult to match in any other sector. The industry, particularly for South Africa's indigenous products, has one of the highest employment multipliers, has minimal barriers to entry, and capital expenditure is relatively low. The floriculture industry, therefore, **falls directly in line with government objectives of maximising foreign exchange and SMME development, both of which will be significant.**

This exercise has focused on identifying the most appropriate export markets and selecting the right products as well as setting down a clear and distinct strategy for achieving maximum penetration of world markets in the short, medium and long term.

In terms of products and markets, **there is exceptionally strong demand for South African floriculture across the world.** In particular, Germany, the UK, Japan and the Netherlands represent the greatest opportunities in the short term. For example, **by simply doubling South Africa's foliage exports to Germany (one product to one market), total export revenue for floriculture would increase by over 20%.** The UK is experiencing consumer spending growth of over 15% and Japan's import markets are opening up to the types of unusual varieties that are at the heart of South African production. However, this is just the beginning. The diversity of South Africa's product offering is at the heart of its competitive edge. Unlike Kenya, Zimbabwe and even Colombia, South Africa will not be subject to sudden changes in consumer or country demand – South Africa supplies a wide range of products, from bulbs to roses to proteas.

Moving on to the internal initiatives that will support this growth, **the solutions are, at least in principle, fairly straightforward.** By focusing on producing the right products (initial emphasis on the indigenous side), ensuring good industry-wide marketing, establishing a strong selling network and achieving economies of scale in logistics, South Africa will maximise the efficiency of the value chain. These initiatives coupled with the **creation of a more sophisticated enabling environment** (particularly industry organisation, communication and financing) will ensure that South Africa can out-manoeuvre the competition in even the most commoditised volume products.

Furthermore, ***the impact of these initiatives on other agricultural sectors is significant***, both in terms of addressing similar issues as well as areas of potential co-operation. ***A number of the initiatives identified will be best dealt with on a pan-agricultural level, if not a pan-export level.*** Pooling products for airfreight export, for example, will create significant economies of scale at the floriculture level, but improvements in freight rates and guaranteeing space exponentially increase with the involvement of other agricultural products. Similarly, to consider a pan-floriculture branding initiative (to impact all areas from brochures to packaging) without taking into consideration potential cross-agricultural branding opportunities, again would not be an optimisation of resources or the associated benefits. Lastly, other agricultural sectors may already have initiatives in place that address some of these topics but from a sector-specific point of view. It will be critical to tap into these existing programmes and address them from a cross-sectoral perspective where relevant before designing any new cross-sectoral programmes from scratch – ***the floriculture industry (and all other agricultural sub-sectors) cannot be developed to its full potential in isolation.***

Whilst all the initiatives are industry led, the industry needs a “kick start” to be able to invest in the initiatives it needs across the board, to ensure its successful development. ***The DTI should consider designing an all encompassing supply-side package aimed at developing a world-class agricultural sector (e.g. an Agricultural SMME Development Programme), much like the commitment shown in the design of the Motor Industry Development Programme. The potential return is enormous.***

***Supporting SMME growth through a tailored package of measures will*** guarantee that the industry is able to develop efficiently and ***provide adequate support for the much needed participation of emergent farmers*** who are critical to the industry in gaining critical mass.

## ***Introduction to the Floriculture Cluster Study***

The National Economic Development and Labour Council (NEDLAC), in co-operation with the Fund for Research into Industrial Development, Growth and Equity (FRIDGE) sponsored a study to develop a world-class South African floriculture export industry. Kaiser Associates was commissioned to conduct this exercise in November 1999 and it was completed in June 2000.

The motivation for the project was based on a strong feeling from within the industry that floriculture was far short of realising its full potential in terms of employment creation, SMME development and foreign exchange earnings. The industry was also considered fragmented, particularly in respect to exports, and therefore did not attract the benefits from economies of scale.

This initiative has been led, from the outset, by the stakeholders of the industry. A Counterpart Group, comprising of representatives from industry, government and labour, was established for project governance. Throughout the project, Kaiser Associates and the Counterpart Group have had a series of progress meetings to refine the nature of the work. This document, along with all other reports, has been approved by the Counterpart Group.

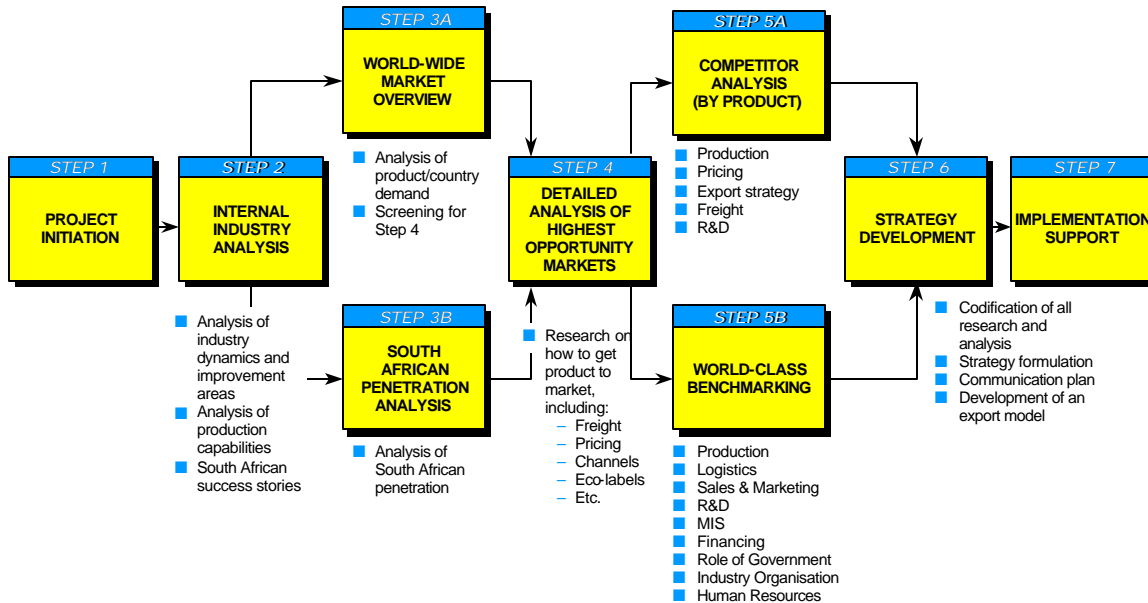
### ***Introduction to this document***

This document represents the strategic recommendations made by Kaiser Associates based on the past six months of research and analysis. It is aimed at providing a comprehensive strategy for the industry to maximise foreign exchange earnings and employment across the entire sector by detailing the strategic initiatives coupled with the associated responsibilities.

A further document, *Detailed findings of the Floriculture Cluster Study* (referred to hereafter as the DFD), contains all the supporting information on the South African industry, target markets, world-class flower producers and competition.

## Kaiser Associates' methodology

Kaiser Associates used a seven-step process to arrive at the strategic recommendations for the Floriculture Cluster Study:



**Figure 1: South African Floriculture Cluster Study Project Plan**  
Source: Kaiser Associates

Step 1 defined the nature and framework for the entire project. Step 2 involved interviews with all the key stakeholders in, and related to, the local (South African) industry, to ascertain the current 'state of play'. Step 3a focused on the analysis of the 15 highest opportunity markets, with Step 3b indicating South Africa's current success in each market. This resulted in the selection of the top 3 focus markets for South African floriculture. Step 4 analysed these markets in detail, providing all the information required for South Africa to achieve maximum penetration. Step 5a resulted in detailed best practice information from world-class floriculture exporters and Step 5b analysed the key competitors to the selected target markets. Steps 6 & 7 pulled together all the above analysis, resulting in the specific action steps for the industry. This document is the core of steps 6 & 7 providing the strategy for the industry. Full details on the methodology and the specific results of each phase can be found in the DFD.

## ***Introduction to the stakeholders***

All of the strategic initiatives set out in this document are coupled with specific responsibilities divided between the relevant industry stakeholders and based on interviews with each group to determine capacity and resources available to implement the recommended initiatives.

Kaiser Associates has segmented the various stakeholders of the industry into 5 groups:

<b>INDUSTRY-WIDE BODIES</b>	<ul style="list-style-type: none"> <li>■ INDUSTRY-WIDE ASSOCIATION (SAFIC)</li> <li>■ PRODUCER ASSOCIATIONS (SAPPEX, SANA, SAFGA, KZN CUT FLOWERS, NATAL ROSE GROWERS, ETC.)</li> </ul>
<b>GROWERS/EXPORTERS</b>	<ul style="list-style-type: none"> <li>■ INDIVIDUAL GROWERS AND EXPORTERS</li> <li>■ EXPORT AGENTS</li> </ul>
<b>GOVERNMENT</b>	<ul style="list-style-type: none"> <li>■ DEPARTMENT OF AGRICULTURE</li> <li>■ DEPARTMENT OF TRADE &amp; INDUSTRY</li> <li>■ DEPARTMENT OF TRANSPORT</li> </ul>
<b>LABOUR</b>	<ul style="list-style-type: none"> <li>■ FAWU (FOOD AND ALLIED WORKERS UNION)</li> <li>■ SAAPAWU (SA AGRICULTURAL PLANTATION AND ALLIED WORKERS UNION)</li> </ul>
<b>RELATED INDUSTRIES</b>	<ul style="list-style-type: none"> <li>■ FINANCING: IDC, INTERNATIONAL DEVELOPMENT BANKS, SA COMMERCIAL BANKS</li> <li>■ FREIGHT: FREIGHT FORWARDERS, AIRLINES, CHARTER ORGANISATIONS</li> <li>■ R&amp;D AND TRAINING: ACADEMIC INSTITUTIONS</li> <li>■ IT: WEB DESIGNERS, IT CONSULTANTS</li> <li>■ PR AND ADVERTISING AGENCIES</li> </ul>

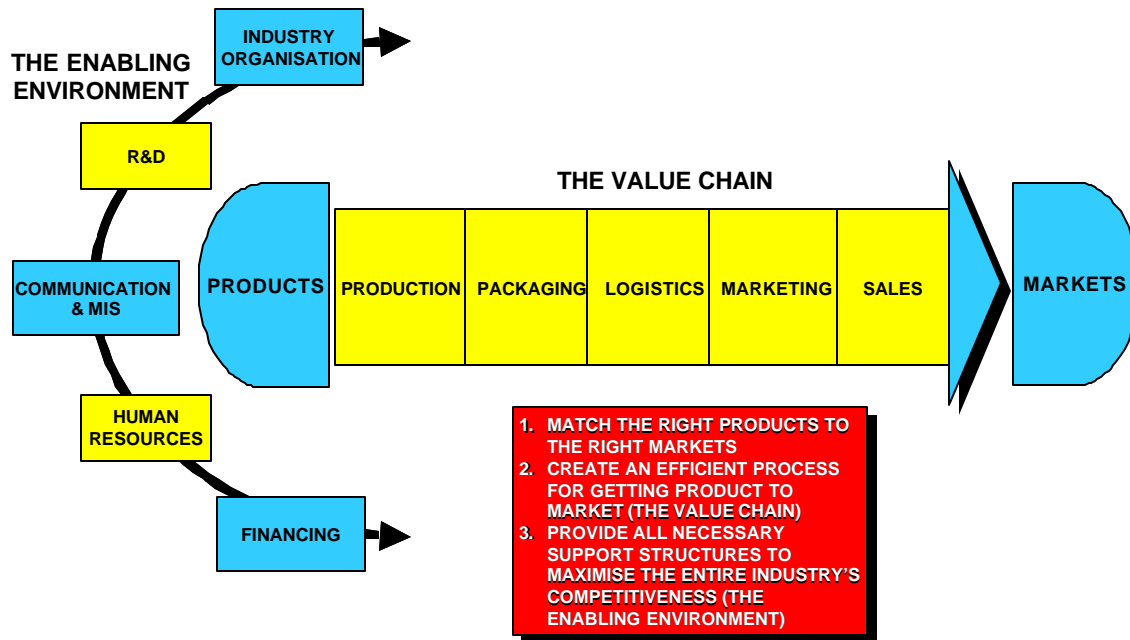
**Figure 2: Floriculture Study Stakeholders**  
Source: Kaiser Associates

The *primary responsibility* for all initiatives lies with the industry (either industry-wide bodies or individual growers/exporters) and *support* will come from different combinations of government, labour and related industries.

Therefore, for the purposes of this document, each initiative has a section for roles and responsibilities with recommendations and descriptions for each stakeholder. Within that delegation, one stakeholder group, usually either the industry-wide body or grower/exporter, should assume the lead role (named “Lead”) in driving the implementation of that initiative. The rest of the stakeholders form the critical support network (named “Support”) for implementing the initiative.

## *The Kaiser Associates' SMME export model*

One of the pivotal outputs of this project was the development of an export model for the South African floricultural industry. As the name suggests, it is broadly applicable to all SMME export industries in South Africa:



*Figure 3: Kaiser Associates' SMME export model*  
Source: Kaiser Associates

Firstly, **we must establish the most attractive products** (in terms of market demand, growth, ease/cost of production, etc.) and **match them with the most attractive markets** (size, growth, market dynamics, ease of logistics, relationship with South Africa, etc.). This results in product and market priorities which allows the necessary marketing focus. Next we must ensure that **the value chain is structured in such a way that maximum direct penetration can be achieved** (the highest opportunity products to the highest opportunity markets). Finally, we must ensure that we have **created a highly efficient enabling environment to support and congeal all industry/value chain initiatives**. It is, in fact, this final stage that is the most critical – **South Africa will gain the most competitive advantage by creating a solid, unbreakable infrastructure making all the elements of the industry add up to a sum far greater than the parts.**

## *Immediate priorities in the SMME export model*

Of the five elements of the enabling environment, three must be considered first: industry organisation, communication and financing. **Without having in place firm industry structures, good communication channels and access to funding, the remaining initiatives cannot be realised.** The immediate steps for the industry, in these three areas are to implement the following recommendations:

- Redesign SAFIC and create a support services group to ensure full implementation of the recommendations set out in this document
  - Employ one full-time employee to run the support services group
- Conduct a series of workshops/roundtables to ‘operationalise’ and prioritise all strategic initiatives
- Explore all financing options (developmental, private sector and international) for both production and overall industry development

Full details of these initiatives can be found in the industry organisation, communication/MIS and financing sections of this document.

## *Structure of this document*

The remainder of this document is structured into the three core elements of the SMME export model:

- A. Markets and products:** How do we select the right products to send to the right markets?
  - I. Assessment of overall opportunity
  - II. Markets
  - III. Products
- B. The value chain:** What is the most efficient and effective way of getting products to market?
  - I. Production
  - II. Packaging
  - III. Logistics
  - IV. Marketing
  - V. Sales
- C. The enabling environment:** What support systems/structures need to be put in place to create the most efficient operating environment?
  - I. Industry Organisation
  - II. R&D
  - III. Communication/MIS
  - IV. Human Resources
  - V. Financing

Within the Value Chain and Enabling Environment, each topic is detailed as follows:

#### Background

Introduction to the topic (production, financing, etc) that details the current status including initiatives already in place as well as specific obstacles to further development.

#### Strategic Areas for Focus

Introduction of the initiatives needed in each area of the value chain or enabling environment.

#### Specific Initiatives

Within each initiative, there are three sub-sections:

- Context
- Key action steps
- Roles and responsibilities

Each initiative is introduced and placed in *context* by explaining the motivation behind the initiative and describing the impact that its proper implementation will have in building a successful industry.

The next section, *key action steps* details the steps necessary to implement the recommended initiative.

Lastly, Kaiser Associates provides guidelines for the *roles and responsibilities* of each of the stakeholder groups from *growers/exporters* and *industry-wide bodies*, to *government*, *labour* and to *related industries* to ensure that each initiative is successfully implemented.

#### Implications for other agricultural sectors

In the final section, Kaiser Associates proposes linking the initiatives in the floricultural industry with similar initiatives in other agricultural SMME sectors.

Many of the proposed initiatives should best be addressed on a larger pan-agricultural or even pan-export level, and for this reason this section outlines questions for further exploration of how to build these links and capitalise on the synergies across all agricultural sectors.