I. Assessment of overall opportunity

In 1998, the total imports (at exporter revenue value, not retail value) of floriculture products were US$6.85bn. This was broken down as follows (in US$000):

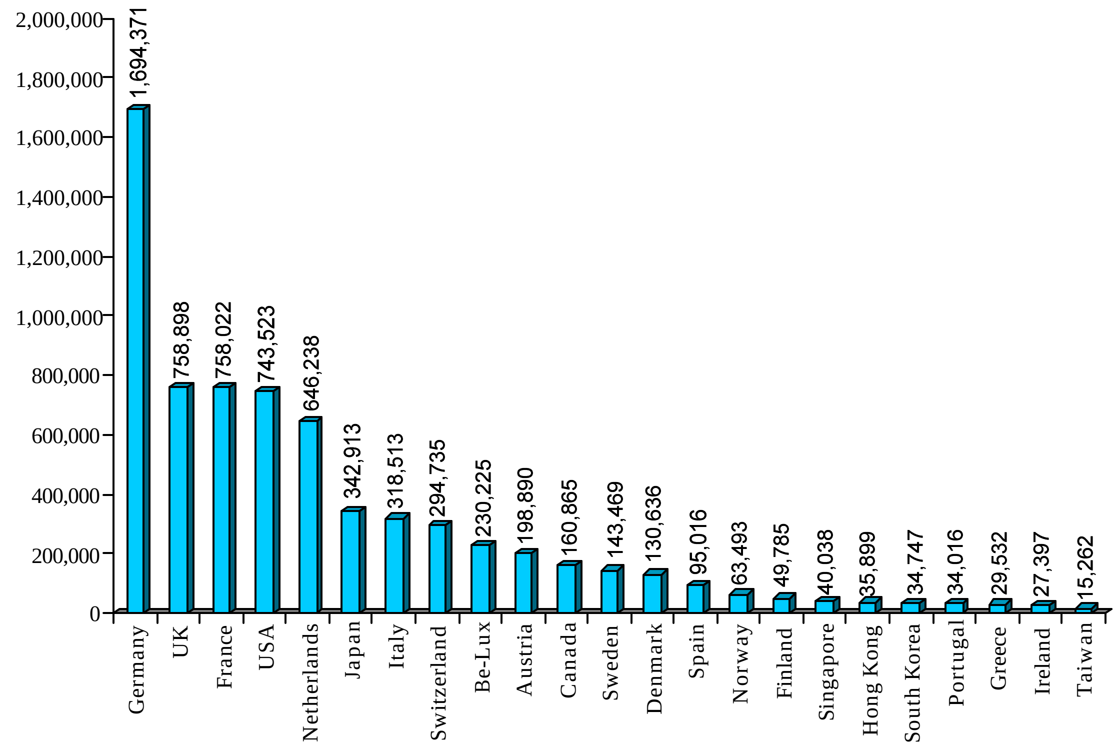

Figure 4: 1998 Total floricultural imports by country of import
Source: AIPH

South Africa has 0.44% market share of the world import market. Percentage market share, by country, for South African floriculture is as follows:

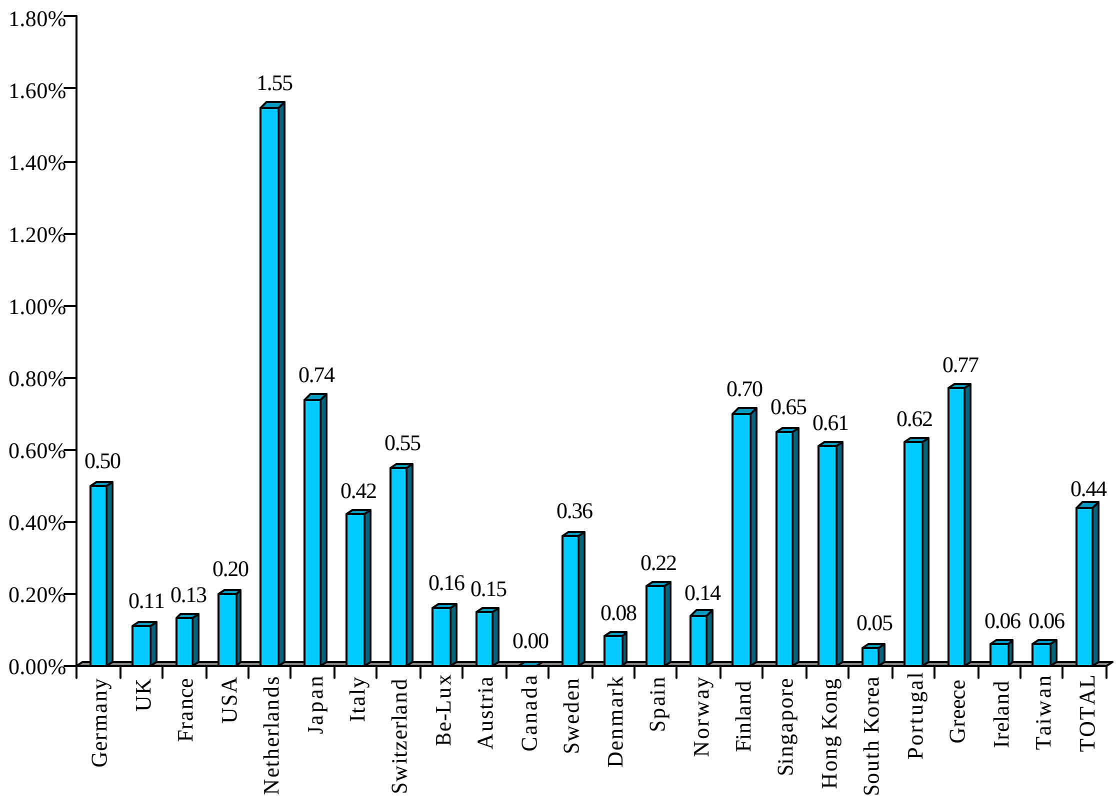

Figure 5: 1998 SA penetration of world imports
Source: AIPH

Given South Africa's diversity of product range and strong infrastructure (relative, for example, to other SADC countries), **0.44% of the world market is a fraction of South Africa's true potential**.

Take, for example, the export revenues of developing nations, most of whom have a one-product-one-market strategy:

Country	1998 Export revenues (USD)
Colombia	$367m
Costa Rica	$126m
Kenya	$118m
Zimbabwe	$53m
South Africa	$30m

Figure 6: 1998 Total floricultural exports
Source: AIPH

By implementing the initiatives identified in this document, **South Africa can expect to achieve between a 2.5% and 3% market share of world floriculture imports over the next 10 years**. This, at current world growth rates represents **US$260m of exports for South Africa at an average compound annual growth rate of only 24%**.

Building South Africa's competitive advantage

Background

South Africa has **an inherently strong competitive position** due to the following factors, which can all be classified as **'natural' advantages**:

1. The **demand for South African indigenous products is strong world-wide**, and particularly in the target markets identified (UK, Germany, Japan and Holland)
2. The **diversity of South Africa's product range will protect its growth** from sudden shifts in demand (geographical and product)
3. **South Africa's climate will guarantee it will always enjoy seasonal advantages** supplying to the Northern Hemisphere

Kaiser Associates discovered during the course of its research into the dynamics of the world floriculture market, that whilst **these natural advantages** may always bring South Africa a certain level of success, they **are not enough to make it a significant player in the world floricultural market for two main reasons**:

1) **South Africa's indigenous products are being copied and improved by its competitors** at an alarming rate due to the fact that there is currently **no protection strategy** in place.
2) The true basis for competition lies **not in direct production factors (cost, climate, etc)** but in **non-price factors** such as quality perception and delivery capability which rely on efficient supply chains and strong enabling environments.

Indigenous products in danger

South Africa's indigenous products, particularly proteaceae, are **rapidly "losing their indigenousness"** as South Africa's competitors in Europe, the Middle East, the US and the Pacific Rim begin to **cultivate large quantities of these products**.

Not only does this mean that our indigenous product is being scattered across the globe, but so too are the researchers dedicated to these products. **Many South African experts are emigrating to better paid and better funded research projects for protea and fynbos in Europe and Australia**, whilst South Africa continues to block the entry of "foreign" scientists brought in to bolster resources here and to teach South Africans, for example, the latest post-harvest and flower farm management techniques.

The plant materials for these formerly unique indigenous products, now internationally grown, enter foreign territories in primarily legal ways. **South Africa's indigenous research institutes (predominantly the ARC) have been forced to share South Africa's natural products with other floriculture producing countries out of a desperate lack of resources dedicated to keeping them in South Africa. Specifically, the ARC has had to sell off cultivars from its commercial nursery in order to fund research**, as it has not been properly funded from within South Africa. Also, it has been forced to embark on joint ventures with competitors such as Hawaii in the US, in order to fund proper gene-bank research. If things continue as they are **it will not be long before protea (the national flower) suffers the same fate as freesia or gladioli**, which were also once indigenous South African products.

Basis for competition

Kaiser Associates conducted a detailed analysis of South Africa's key competitors by product in each market to answer the questions:

- Who is South Africa directly competing with in its target markets of the UK, Germany, Netherlands and Japan?
- How is the competition beating South African products in these markets?

In looking at its direct competitors by product to UK, Germany, Netherlands and Japan, Kaiser Associates identified the following countries as being the greatest competitors:

	COMPETITORS TO EUROPEAN (UK, GERMANY AND THE NETHERLANDS) MARKETS	COMPETITORS TO JAPANESE MARKET
PROTEA & OTHER FYNBOS	• Israel – all Protea & Leucospermum • Australia – all products • USA (California and Hawaii) – Protea • Zimbabwe – Protea & Leucospermum	• Australia – all • USA – Protea
TRADITIONAL GREENHOUSE FLOWERS	• Netherlands (actual production) – all • Colombia – carnations and roses • Ecuador – roses and summer flowers • Kenya – roses and summer flowers • Zimbabwe – roses, carnations and summer flowers • Zambia – roses	• Japan (domestic production) – all • Netherlands – bulbs • Thailand – orchids
FOLIAGE	• USA (Leatherleaf) • Costa Rica (Leatherleaf) • Italy (whole range)	• China ('potted' foliage) • USA (Leatherleaf)

Figure 7: Competitors to South Africa in European and Japanese markets (by product)
Source: Kaiser Associates

In order to determine the basis for each competitor's advantage, Kaiser Associates analysed each country's strengths and weaknesses. Once this analysis was completed, we were able to validate the idea that South Africa was not losing out on price factors to its competitors, but rather on **quality perception** and on **other non-price factors** such as its ability to deliver sufficient quantities of product on a consistent basis with guaranteed freight space.

The most illustrative examples of the fact that in order to maximise potential revenue growth a country must compete on a strong support system rather than just on it natural advantages are Australia and Israel. **Australia** has all the natural advantages (climate, etc) that South Africa has but **due to its lack of investment in its enabling environment and value chain, it has not been able to make a significant impact on the world's floricultural market, exporting a mere $28 million annually**. **Israel**, on the other hand, has few "natural" advantages, but with significant investment into its enabling environment (particularly R&D and marketing), it **has managed to become a major player on the floricultural scene exporting $185 million a year**.

The summary of the strengths and weaknesses of each competitor can be found in the DFD.

Therefore, the best way for South Africa to gain competitive advantage is by building a world-class export capability with an efficient supply chain and a fully developed enabling environment to support the export of high quality, innovative products to high opportunity markets.

Employment and capital investment

Floriculture, as a whole, has some of the most attractive employment ratios. A social accounting matrix study conducted by the Agricultural Research Council analysed the floriculture sector against 48 agricultural and manufacturing activities. Floriculture was ranked:

- Sixth in potential employment
- Sixth in potential value added per R1 million invested
- Fourth on Gini ranking (potential for improved wealth distribution)
- Third in terms of the overall multiplier effect

Within the floriculture sector, **employment in indigenous products is, on average, 4 times greater per rand of capital investment** than for intensive greenhouse products (roses, carnations etc.). On a per hectare basis, **greenhouse products employ over twice as many people than that of indigenous**.

Capital investment (including infrastructure) also varies greatly from product to product. In short, **capital investment for intensive greenhouse products is, on average, over 10 times greater than that of indigenous products per hectare**.

The specific numbers, for both employment and capital investment, are as follows:

Product	Capex/ha (including infrastructure) – R000	Employment/ha	Employment/R1m of capex
Traditional greenhouse products	1,800	20-25	13
Protea/fynbos (indigenous)	170	10	59
Foliage (indigenous)	220	10	45

Figure 8:Capital expenditure and employment creation
Source: Kaiser Associates/IDC

The average employment across the three groups (i.e if R1 million were invested in each) is **39 people per R1m of capital expenditure**.

The total floriculture industry currently employs approximately 17,500 people. Based on the above profile (and taking into account product mix and economies of scale), an increase in exports from $30m to $260m would **create further employment for over 80,000 people**.