AN INQUIRY INTO THE COMPETITIVENESS OF THE SOUTH AFRICAN WINE INDUSTRY

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This article is aiming to provide a comprehensive and understandable statement about the competitiveness of the South African wine industry. A measurement of the competitive performance of the South African wine industry - the ***WINE COMPETITIVENESS INDEX (WCI)*** *- indicates that South Africa's wines are internationally highly competitive with a sustainable and increasing positive trend over recent years. The wine industry in South Africa also shows positive trends in competitiveness in the long run and it should not lose its competitiveness status in the near future if its dynamic ability to continue to trade is sustained. An analyse of the key success factors that established competitive advantage and constraints that impacted negatively on competitiveness of the wine industry through the -* ***WINE EXECUTIVE SURVEY (WES)*** *- indicates that for the present intense competition in the market, the production of affordable high quality products, stringent regulatory standards in the industry, efficient supporting industries, and the availability of internationally competitive local suppliers of primary inputs are the major success factors to the competitiveness of this industry. The major factors that impact negatively on the competitive success of this industry are the strong Rand, fluctuations in the exchange rate, trust in the political support system, competence of personnel in the public sector, crime, South Africa's labour policy and the growth and size of the local market. These factors should be crafted into a Strategic Plan for the industry.*

1. INTRODUCTION

In today's global economy businesses face an increasingly competitive trade and production environment that requires continued vigilance to stay ahead of rivals. Competitiveness is therefore a major focus of national, regional and local governments, representative industry groups, business executives and shareholders as they seek to strengthen their ability to compete. There is a growing recognition that competitiveness requires more than a favourable trade environment. Domestic policies and supporting institutions are as critical to reap the full benefits of global trade liberalisation.

This article is aiming to provide a comprehensive and understandable statement about the competitiveness of the South African wine industry. A four-step framework developed by the Agricultural Business Chamber of South Africa in collaboration with the ABSA Chair in Agribusiness of the University of Pretoria (2000), to analyse the competitiveness of agribusiness in South Africa, and based on the methodology used by the World Competitiveness Report (IMD, 2005), was applied by the South African Wine and Brandy Company (SAWB) in this inquiry. This framework focuses on answers to the following questions:

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- How is competitiveness defined in context of the South African wine industry?
- How competitive is the wine industry in South Africa? How is it measured?
- What are the key success factors and the constraints impacting on the competitiveness of the South African wine industry?
- How can the competitiveness of the wine industry be enhanced? The extension of this analysis is to establish a strategic development path for the South African wine industry and will be explored in a following article.

2. THE SOUTH AFRICAN WINE INDUSTRY TODAY

The wine industry is an important contributor to the economic growth in South Africa, in particular the Western- and Northern Cape. The industry contributes R22 549 million to the Gross Domestic Product (GDP) of South Africa. The industry generates an amount of R10 billion of private disposable income of which 18% is destined for low-income households. Exports amount to R3 153 million. This activity demonstrated a dramatic growth over the past ten years. Exports increased more than ten fold over this period.

The farm level value contribution to the GDP is R1 593 million, while wine tourism contributes R4 198 million. The wine industry employs 256 908 workers (including wine tourism). The labour capital ratio for the wine industry (5.51) is higher than that of the economy as a whole. This sector should thus be viewed as a national asset, providing an unique proposition for the image of South Africa (or Brand SA).

From the perspective of the competitiveness of the wine industry in South Africa - where recent growth is largely based on exports - the global playing field is anything but even. Competitor wine producing countries draw on natural resources, capital and labour pools with vastly different levels of quality, skill, and at different costs and direct government support; different countries also have regulatory environments and support systems that impact differently on their domestic wine businesses. Access to finance, technology and knowledge furthermore differs dramatically (Organisation for Economic Co-operation and Development [OECD], 2004).

European agriculture for example receives ± 46% of farm level income as government support and subsidy; South Africa records a level of only 3% with Australia 4%; New Zeeland 1%; Canada 16% and USA 26%. This distorted environment impacts directly on competitiveness and provides particular challenges to the South African wine industry – at firm, industry and government levels. Factors determining competitiveness in the wine industry should clearly receive priority attention and should be supported from an economic development and growth viewpoint.

3. METHODOLOGY AND FRAMEWORK OF ANALYSIS

3.1. Defining competitiveness

Step one is to define competitiveness in context of the wine industry. To compete means to try to gain or win something by defeating the competitors. For example, a competitive firm has the ability to satisfy the consumer by trading with a product of the right price, right quality, right packaging etc. Such a firm therefore gains by beating the competitors for the scarce consumer's Rand, Dollars, Pounds etc. available in the market.

Competitiveness must be viewed in context of sustaining such gains achieved. Competitiveness strategies should therefore enable the firm (sector, country) to successfully compete for the consumer's money and at the same time, attract sufficient scarce economic resources from other, less competitive economic endeavours, thus allowing it to reinvest, innovate, expand and perform in a sustainable and profitable manner.

Competitiveness is clearly a dynamic and involved process rather than an absolute state of affairs and can only be assessed in a relative sense. The growth produced by competitive activities should be sustained rather than short-lived. Short-term efforts such as opportunistic "price wars and cost cutting" will thus not sustain a competitive position. Long-term performances are therefore relevant in defining and describing competitiveness. Competitiveness could also be viewed as the ability (of a sector, industry or firm) to trade successfully to achieve sustainable growth within the global environment while earning at least the opportunity cost of returns on resources employed.

Competitiveness is thus not a clear economic concept that only depends on theoretical comparative advantages or the economic efficient use of the existing resource base (land, labour or capital); it rather describes the ability to exploit the evolving market reality for gains and depend on the ability to innovate and to adapt in order to continue to do so. Competitiveness is not only about a firm's comparative advantage or economic potential. It is about the ability of a firm to win today, tomorrow and in the future, by defeating competitors for the consumers' dollar, despite the presence of economic distortions such as manipulated price signals and policies resulting in highly "unequal economic playing fields" in the global economy.

With these considerations in mind, the following definition of competitiveness was used in this study.

"(Wine) industries and firms are competitive when they are able to deliver (unique) products at qualities and prices as good or better than their competitors; and they are able to attract sufficient investments of scarce resources such as capital, land, labour, technology, innovation and initiative and management from other competing economic activities".

In short, "to be competitive in today's world is to be in the position to continue to trade your products". While profitability is not necessarily the same as competitiveness, sufficient returns to investment of scare resources, however, are implicit in this definition, as competitiveness will allow continuation of business through sufficient returns and profits. Competitiveness will therefore result in sustained profitability. This view is particular relevant as the recent growth in the wine industry was largely based on exports, despite the highly uneven, global economic playing fields in the production and trade of wines. To make profits in such an "unfair" environment, competitiveness as defined will be the key.

It is clear that achieving and sustaining a globally competitive wine industry in South Africa will require a comprehensive and sustained effort - lowering production costs, developing new products, training workers or the entering of new markets *pér sé* are important but will not result in a sustained position. Vision 2020 and the Wine Industry Strategy Plan (WIP) provide a strategic framework for such an achievement. Specific short- and long-term constraints and enhancing factors should, however, also be determined and strategically and operationally be attended to by the relevant groups concerned.

3.2. Is there a conflict between empowerment and competitiveness?

An interesting but highly relevant question in the current South African environment relates to the issue of Black Economic Empowerment (BEE) and its relationship to competitiveness. From the policy directives as set out by the Broad-based Black Economic Empowerment legislation, the DTI Codes of Good Practice on BEE and from the positions already taken by the South African wine industry in the process of drafting a Wine-BEE Charter and Industry Scorecard, it is held that the selected BEE strategy for the wine industry should primarily focus on achieving long-term sustainable growth while broadening the participative capacity of historically disadvantaged groups (black persons) to compete as a successful wine industry. In this context, BEE must be viewed as (a) a major strategy to achieve sustained economic performance; and as (b) a set of particular targeted outcomes (as per the wine industry BEE scorecard) to be achieved through competitive performance.

In this view, no inherent conflicting positions should thus emerge between BEE and sustained economic growth and competitiveness in the wine industry. It is rather a challenge of strategic balance and business development tactics to be followed to achieve these two imperatives required for a successful South African wine industry.

3.3. Measuring competitiveness

The Revealed Trade Advantage (RTA) method originally developed by Balassa (1977, 1989) and extended by Volrath (1991); ISMEA, (1999); Van Rooyen, Esterhuizen and Doyer (2000); Valentine & Krasnik (2000); Pitts, O'Connell & McCarthy (2001) and Esterhuizen (2005) was used to measure quantitavely to what extend the South Africa's wine industry compete internationally. The operational trading performance of a product, firm or country viz-a-viz that of its rivals is determined by the RTA The application of the method will provide a measurement of the competitive performance of the South African wine industry - the **WINE COMPETITIVENESS INDEX (WCI)**.

In this quantitative method, it is argued that "revealed" trade advantage (or competitive advantage as revealed in actual or operational terms) could be measured by the trading performance of individual firms, commodities, industry chains and countries in the sense that the trade pattern reflects all relative market advantages, enhancements, constraints, market costs as well as differences in non-price competitive factors, such as government policies.

This method therefore allows for the measurement of competitiveness under real world conditions such as "uneven economic playing fields, distorted economies and different trade regimes". In view of the significant export performance by the wine industry over the past 10 years, the RTA[3]. provides a relevant measuring method.

3.4. Determining the key success factors and constraints

The third step is to determine how competitive performance was achieved. To analyse the key success factors that established competitive advantage and constraints that impacted negatively on competitiveness of the wine industry, the determinants of competitiveness as described by Porter (1990, 1998) will be used as "building blocks".

Porter's (1990, 1998) theory of "competitive advantage" provides a framework to identify the major factors that influence competitiveness and to show how they relate to each other and to economic performance. While the traditional and new trade theories provide the important explanation of production and trade patterns and their effects on economic welfare, the work of Porter aims at describing the determinants of change and why particular industries in particular countries have been more successful than others.

The focus of step three of the analysis is at the firm-industry interface i.e. individual firms operating in the mainstream of the wine industry would be requested to participate in the data gathering process through questionnaires - the "**WINE EXECUTIVE SURVEY (WES)**".

Executive opinions and perceptions on factors and events enhancing and constraining their competitive performance will be gathered i.e. from those responsible for the operational and strategic management of firms and enterprises. Their perceptions of the business environment in

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[3] **RTA is formulated as:**

$$RTA_{iv} = RXA_{iv} - RMP_{iv} \qquad \ldots 1$$

Where for (n + v) countries and (m + i) products,

$$RXA_{iv} = \left[X_{iv} / \sum_{n=1}^{u} X_{in} \right] / \left[\sum_{m=1}^{h} X_{mv} / \sum_{m=1}^{h} \sum_{n=1}^{u} X_{mn} \right] \qquad \ldots 2$$

$$RMA_{iv} = \left[M_{iv} / \sum_{n=1}^{u} M_{in} \right] / \left[\sum_{m=1}^{h} M_{mv} / \sum_{m=1}^{h} \sum_{n=1}^{u} M_{mn} \right] \qquad \ldots 3$$

where X and M refer to exports and imports, respectively. The numerator in equations [2] and [3] is equal to a country's export value (imports) of a specific product category relative to the export value (imports) of this product from all countries except for the country in consideration. The denominator reveals the exports (imports) of all products except for the commodity in consideration from the respective country as a percentage of all other countries' exports (imports) of all other products. The level of these indicators represents the degree of revealed export competitiveness/import penetration.

While the calculations of indices RXA and RMP are exclusively based on either export or import values, the RTA considers both export and import activities. This seems to be important in view of trade theory and globalization trends and due to the growth in intra-industry and/or entrepot trade, this aspect is increasing in importance (ISMEA, 1999).

which they work are captured in their responses to a comprehensive and scientifically constructed questionnaire. In the application of this descriptive methodology, the institutional forces that have an influence on the competitiveness of the wine industry in South Africa will be examined.

This approach combines quantitative and hard data (RTA) with qualitative analysis and opinion survey data – a similar process is followed by the World Competitiveness Yearbook (IMD, 2005). These measures provide different but complementary viewpoints on the issue of competitiveness, and will contribute to the establishment of a comprehensive statement and an enhanced understanding of the competitiveness of the wine industry in South Africa. This may help precipitate debate within the wine industry, between government and business leaders and executives, professional advisors, members of civil society and the academic community on key problem areas and how best to address them to achieve sustained competitiveness in the wine industry.

4. MEASURING THE COMPETITIVENESS OF THE WINE INDUSTRY IN SOUTH AFRICA

4.1. Data used

To measure how competitive the wine industry in South Africa is, it is necessary to determine how successful the industry traded its products over time. For this purpose imports and export data is needed to compare the South African performance against global competition. Ideally, different product categories will shed light on the competitiveness of particular products (cultivars, red, white, blends, etc.). However, such information is seldom fully available as it is considered firm level intelligence and confidential.

Such data collection process is therefore quite formidable and the data is not necessarily available or published in the required format. Generic information, however, is generally available. For this study trade data (imports and exports values) were taken from the well established and respected Food and Agricultural Organisation of the United Nation's (FAO) trade database, which is available on the Internet (http://www.fao.org). Trade data from year 1961 to 2003 were used to calculate trends in the competitiveness status of the wine industry in South Africa.

4.2. Measurement

The South African WINE COMPETITIVENESS INDEX (WCI): In Table 1 the competitiveness index and the trends in competitiveness for the wine industry in South Africa are shown. In Figure 1 this status and trends are illustrated. From the table and figure it is clear that South Africa's wines are internationally highly competitive with a sustainable and increasing positive trend over recent years. The wine industry in South Africa also shows positive trends in competitiveness in the long run and it should not lose its competitiveness status in the near future if its dynamic ability to continue to trade is sustained.

It is interesting to note that the deregulation of the South African wine industry which coincides with the introduction of South Africa's first democratic government in 1994 provided the basis for a dramatic increase in its competitiveness status. Some analysts refer to this as the "Madiba Magic" period with international markets opening up for the wines of the "rainbow" country. The situation, however, is clearly more complex with factors such as improved market knowledge, replanting of improved grape varieties and virus free plant materials, especially since 1997/8 required to sustain performance.

Table 1: The competitiveness index of the wine industry in South Africa in 2003, 2002, 2001 and 2000 and trends in competitiveness from 1961 to 2003 based on the Relative Trade Advantage (RTA) index

Product	RTA 2003	RTA 2002	RTA 2001	RTA 2000	Trends 1961-03	Trends 1980 - 03	Trends 1993 - 03	Trends 1998 – 03
Wine	4.93	4.28	3.76	4.02	+	+	+	+

Source: Own calculation based on data from FAOSTAT 2005
Notes: Competitive (RTA > 1), marginal competitive (1 > RTA > -1), not competitive (RTA < -1); '+' Positive trend; '-' negative trend.

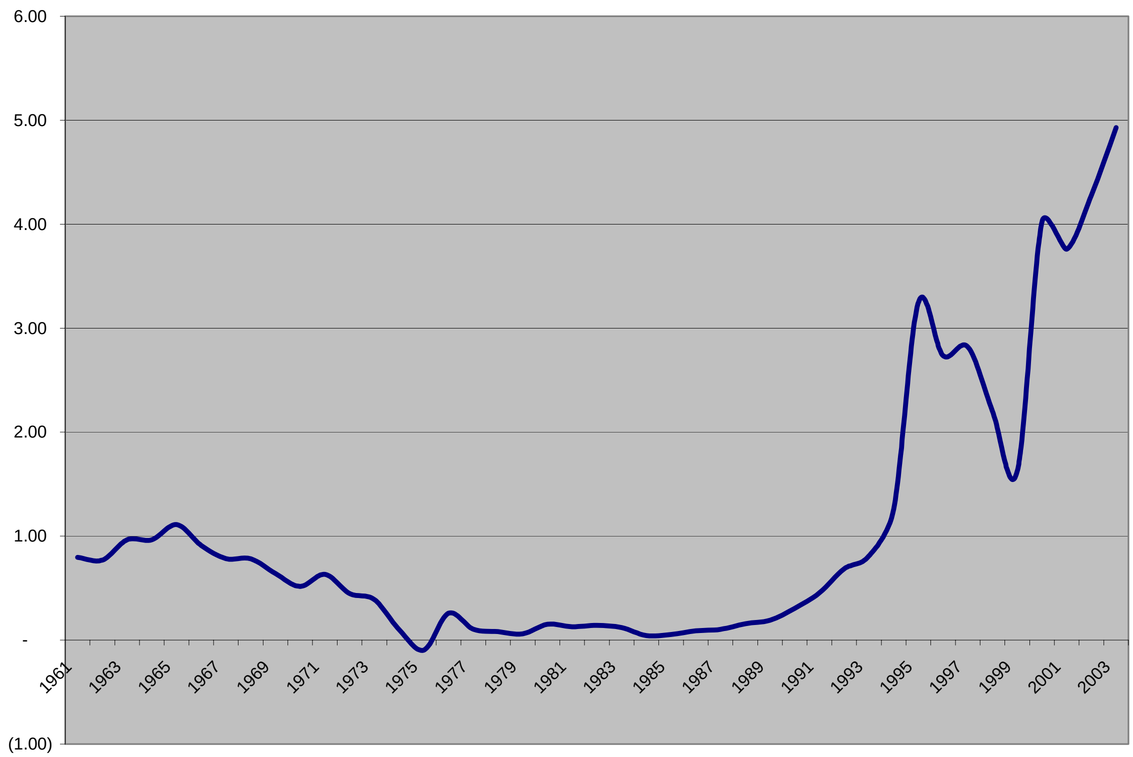

Figure 1: Trends in the competitiveness of the wine industry in South Africa (1961 – 2003)

Wine in the agro-food complex: The wine industry operates within the wider agribusiness environment which shares the performance of the agro-food complex in South Africa. Table 2 describes the trends in the competitiveness of wine in comparison to selected sectors in the agro-food complex of South Africa from 1993 to 2003. This is important because wine originates as an agricultural product and competes in the farm input market as well as the food and beverage markets.

Table 2 is divided into six blocks. The competitiveness of the products, in 1993 as the base year for comparison, is shown on the vertical axis and the trend in competitiveness for the period 1993 to 2003 on the horizontal axis. If the competitiveness in 1993 was positive and there was an increase in competitiveness in the period from 1993 to 2003, the sector was classified as a "winner" and if a sector was not competitive in 1993, but there was an increase in competitiveness in the period 1993 to 2003 the sector was classified as a "turnaround", etc.

From Table 2 it is clear that the wine industry in South Africa can be classified as one of the **winning industries** together with fruit products. The National Agricultural Marketing Council's (2005) report on the competitiveness of the agricultural sector in South Africa confirms this finding and stated that the wine sector has been one of the big success stories in South Africa agribusiness over the last 10 years.

Table 2: Trends and status in the competitiveness of selected industries in the agro-food and fibre complex of South Africa, 1993-2003

		Trends in competitiveness 1993 -2003	
		Increase	**Decrease**
Competitiveness in1993	**Competitive**	Winners: Sugar; Groundnuts; Oranges; Apricots; Grapefruit; Grapes; Lemons; Pineapple; Plums; Wool; **Wine**	Declining high performers: Maize; Apples; Avocados; Mangoes; Pears; Sweet potatoes; Mohair; Hides and skins;
	Marginal	Rising moderate Performers(catch-up): Potatoes; Sunflower; Tobacco; Tomatoes; Soya beans; Green beans; Bananas; Cabbages; Carrots; Chillies and peppers; Coffee; Honey; Lettuce; Onions; Papayas; Peaches; Strawberries; Watermelons; Eggs; Milk; Pork	Declining moderate Performers: Asparagus; Sorghum; Barley; Garlic; Hops; Mushrooms; Peas; Chicken meat; Mutton and lamb;
	Not Competitive	Turnaround: Wheat; Cotton seed; Dry beans; Tea; Beef;	Chronic under-performers (losers):

Source: Own calculations

The global picture: Wine trading (both at import and export levels) is one of the most dynamic and competitive activities in the agro-food environment. It is considered as "an intriguing case study of globalisation at work' (Anderson. 2004). Since the late 1980's, the share of wine production that is traded internationally has nearly doubled and wine trade has brought major gains to participants in expanding countries, but pain to many traditional producers.

A view of South African performance in comparison with some other major wine trading economics will therefore be instructive. Table 3 and Figure 2 illustrate the trends and status in the competitiveness of selected wine producing countries. From this South Africa shows an increasing trend albeit from a relative low level in the early nineties.

Table 3: Trends and status in the competitiveness of selected wine producing countries, 1993-2003

Trends in competitiveness 1993 -2003			
		Increase	**Decrease**
Competitiveness in1993	**Competitive**	Winners: Australia; Chile; Italy; South Africa	Declining high performers: France; Portugal; Spain
	Marginal	Rising moderate Performers (catch-up): New Zealand; Argentina.	Declining moderate Performers: USA
	Not Competitive	Turnaround:	Chronic under-performers (losers):

Source: Own calculations

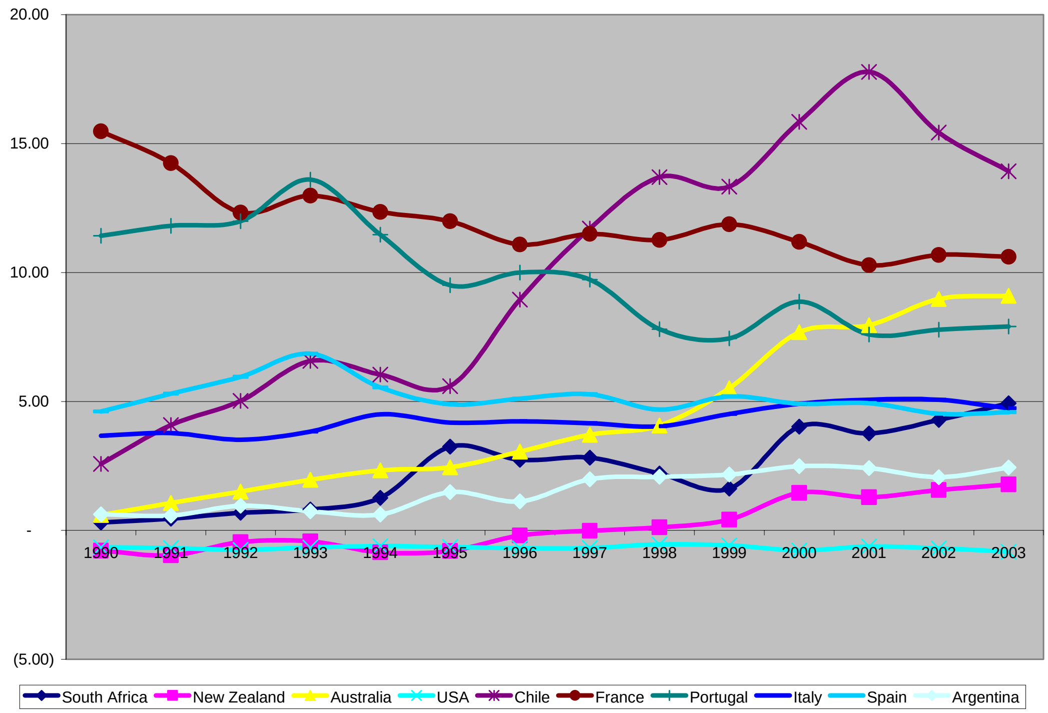

Figure 2: Trends in the competitiveness of selected wine producing countries (1990 – 2003)

5. KEY SUCCESS FACTORS AND CONSTRAINTS: THE WINE EXECUTIVE SURVEY (WES)

5.1 Data used

What are the key success factors and the constraints impacting on the competitiveness of the South African wine industry? To answer this question, the opinions of executive decision-makers were sought. Primary data was obtained through a postal survey at firm level in the wine industry. Executive management, responsible for the decisions to manage a business successfully, were targeted - without being competitive a business will not survive! A questionnaire, focusing on this grouping in the wine industry, was developed using Porter's determinants of competitive advantage. A random sample where taken and eight hundred questionnaires were posted - 146 returned questionnaires were used in the analysis. This represents an acceptable respondent rate of 18.25%. 43.97% of the respondents were wine producers; 14.18% of the respondents were in the cellar sector; 7.80% of respondents were wine traders; 21.28% of respondents were wine producers and cellar owners; 2.83% of respondents were wine producers and wine traders; and 7.80% of respondents were wine producers, traded wine and own a cellar.

In Table 4 the percentage of respondents as classified in terms of their annual turnover are shown. 30.71% of respondents have an annual turnover of less than R1 000 000; 33.57% of the respondents have an annual turnover of less than R10 000 000 but more than R1 000 000; 35.72% of the respondents have an annual turnover of more than R10 000 000. A well-balanced response was thus received.

Table 4: Annual turnover of respondents, 2004

Annual turnover	% of respondents
R1 000 – R1 000 000	30.71%
R1 000 001 – R10 000 000	33.57%
R10 000 001 – R50 000 000	18.57%
R50 000 001 – R100 000 000	9.29%
Above R100 000 000	7.86%

Source: Wine Executive Survey, 2005

5.2. Findings

In Table 5 the major enhancements to the competitiveness success of the wine industry in South Africa are shown. Intense competition in the local and international market; availability of unskilled labour; entry of new competitors on a regular basis; the production of affordable high quality products; and the production of environmental friendly products are the five major factors enhancing the competitive status of the wine industry in South Africa. The availability of unskilled labour, however, must be read together with the cost and the quality of those unskilled labours. The cost and the quality of unskilled labour are rated by the wine industry in South Africa to have only a moderately positive impact on their competitiveness success.

Factors, such as intense competition in the local and international market and entry of new competitors in the domestic market, together with the introduction of unique products and services describe rivalry in the market. The pattern of rivalry in the South African domestic market is viewed to have a profound role to play in the process of innovation for competitiveness.

Other factors that are rated by the wine industry in South Africa to have a positive impact on its competitiveness status are economies of scale because of a large (and expanding) international market; strategies by the wine firms to employ quality technology; the availability of competitive local suppliers of primary inputs; a high degree of trust and ethics in the production process; continuous innovation; research and development; investment in human resources; scientific research and stringent regulatory standards in the industry.

From the top fifteen major enhancements to the competitiveness of wine industry in South Africa, seven (production of affordable high quality products, continuous innovation, investment in human resources, unique products, services and processes, the strategy to employ quality technology, business ethics, environmental friendly production practises) are grouped under business strategies. This can be related to the 2004 Global Competitiveness Report (WEF, 2004). According to the report South Africa was rated 25th best (out of 104 countries) when it came to a micro economic or business environment that allows for companies to pursue effective business strategies.

Table 5: Enhancements to the competitiveness success of the wine industry in South Africa

	Factors	**Average**
1.	Intense competition in the local and international market	1.76
2.	Availability of unskilled labour (seasonal and contractual)	2.05
3.	Entry of new competitors	2.15
4.	Production of affordable high quality products	2.26
5.	Environmental sensitive production practises	2.42
6.	International market large enough to obtain economies of scale	2.46
7.	Product support, services and processes	2.58
8.	Ethics and trust in business	2.60
9.	Continuous innovation	2.63
10.	Competitive local suppliers of materials, components, equipment and services	2.84
11.	Investment in human resources to attract, train and retain staff	2.92
12.	Among the world's most stringent regulatory standards in the industry	2.94
13.	Best and efficient technology in the production process	2.97
14.	Technical information flow	3.16
15.	Availability of scientific research	3.26
	1 = major enhancement 7 = major constraint	

Source: Own calculations from the 2005 Executive Survey

Does size make a difference? Table 6 shows the top five enhancements for different firm sizes in the wine industry according to annual turnover. All five groups in Table 6 ranked intense competition in the local and international markets the number one enhancing factor. It is interesting that bigger businesses (scale economies) view continuous innovation as a "cutting edge" factor. Small businesses do not rate this factor as high, possibly because they are late adopters of innovation due to financial constraints. The production of high quality affordable products is rated high by all.

Table 6: The top five enhancements for different business sizes in the wine industry according to annual turnover

	ANNUAL TURNOVER				
	R1 000 – R1 000 000	**R1 000 001 – R10 000 000**	**R10 000 001 – R50 000 000**	**R50 000 001 – R100 000 000**	**Above R100 000 000**
1	Intense competition in the local and international market	Intense competition in the local and international market	Intense competition in the local and international market	Intense competition in the local and international market	Intense competition in the local and international market
2	Entry of new competitors into the local market	International market large enough to obtain economy of scale	Availability of unskilled labour	Continuous innovation	Continuous innovation

3	Availability of unskilled labour	Entry of new competitors into the local market	Entry of new competitors into the local market	Production of affordable high quality products	Availability of unskilled labour
4	Production of affordable high quality products	Availability of unskilled labour	Continuous innovation	Availability of unskilled labour	International market large enough to obtain economy of scale
5	Environmental friendly production practises	Production of affordable high quality products	Production of affordable high quality products	Business ethics and trust	Production of affordable high quality products

Source: Own calculations from the 2005 Executive Survey

In Table 7 the major constraints to the competitiveness success of the wine industry in South Africa, as experienced by industry executives, are indicated. These factors were weighted according to their average scores. The strong Rand; the fluctuation in the exchange rate; and the low trust in political support to drive a sound economic agenda are the three major constraints to the competitiveness success of the wine industry in South Africa. The difficulty to start a new business in the industry; the competence of the bureaucracy in the public sector and burdensome administrative regulations; crime factors and aspects of South Africa's labour policy follow these.

Unclarity on South Africa's Black Economic Empowerment and transformation policies and the impact of the tax system also fall under the top ten factors constraining the competitive success of the wine industry. Cost of finance; the quality of skilled labour; the land issue and the size and growth in the local market are also factors that have a negative impact on the competitiveness of the wine industry in South Africa.

Table 7: Major constraints to the competitiveness success of the wine industry in South Africa

Factors		Average
1.	Strong Rand	6.20
2.	Fluctuations in the exchange rate	6.12
3.	Trust in the political support	6.08
4.	Extremely difficult and time consuming to start new businesses	5.72
5.	Competence of personnel in the public sector	5.68
6.	Administrative regulations	5.49
7.	High cost of crime	5.38
8.	South Africa's labour policies	5.38
9.	Uncertainty on South Africa's BEE and transformation policies	5.27
10	The impact of the tax system on investment and risk taking	5.26
11.	High cost of finance	5.22
12.	The land issue	4.89
13.	Quality of skilled labour	4.88
14.	Size and growth in the local market	4.74
15.	Cost of doing business in South Africa	4.73
7 = major constraint 1 = major enhancement		

Source: Own calculations from the 2005 Executive Survey

These findings are again largely corresponding with the 2004 Global Competitiveness Report published annually by the World Economic Forum (WEF, 2004). According to the report South

Africa has increased its position on the world competitiveness ranking order by one place from 42nd to 41st out of 104 countries, in 2004. The World Economic Forum, however, expressed its concern that the stronger Rand was tarnishing what would have been an even better performance by South Africa. Last year the Rand gained 23% against the dollar and the WEF report appears to provide proof that the Rand's gains had knocked South Africa's competitiveness.

South Africa's labour policy and labour laws (96th out of 104 countries), the cost of crime (92nd), and the availability of skilled labour were other major constraints to South Africa's competitiveness success. South Africa's macro-economic stability has worsened from 41st place to 87th place. South Africa was also almost stone last when it comes to the obstacles the country puts in place to prevent its companies hiring foreign labour.

Table 8 illustrate the top five constraints for different business sizes in the wine industry (according to annual turnover). The top five reflect a consistency of constraints to the industry. It is, however, significant that market factors, financial markets and monetary factors – value of the Rand and exchange rate fluctuations – was most influential for bigger firms, while political and social issues were viewed relevant by smaller firms. As most farms in the wine industry would fall in the smaller sizes categories, factors such as uncertainty with aspects of government policy – land distribution and BEE – is likely to cause concern. Medium size business highlights the cost and difficulty to start new businesses (to expand). All sizes rate competency of the bureaucracy in the public service as frustrating.

Table 8: The top five constraints for different business sizes in the wine industry according to annual turnover

	ANNUAL TURNOVER				
	R1 000 – R1 000 000	**R1 000 001 – R10 000 000**	**R10 000 001 – R50 000 000**	**R50 000 001 – R100 000 000**	**Above R100 000 000**
1	Trust in political support to the industry	The strong Rand	Fluctuations in the exchange rate	Fluctuations in the exchange rate	Fluctuations in the exchange rate
2	The strong Rand	Fluctuations in the exchange rate	The strong Rand	The strong Rand	Competence of bureaucracy in the public sector
3	Competence of the bureaucracy in the public sector	Trust in political support to the industry	The difficulty to start new businesses	The difficulty to start new businesses	The strong Rand
4	High cost of crime	The difficulty to start new businesses	Trust in political support to the industry	Trust in political support to the industry	Administrative regulations
5	Fluctuations in the exchange rate	Competence of the bureaucracy in the public sector	Competence of the bureaucracy in the public sector	South Africa's BEE and transformation legislation	Trust in political support to the industry

Source: Own calculations from the 2005 Executive Survey

6. TOWARDS A STRATEGIC PLAN OF ACTION FOR THE SOUTH AFRICAN WINE INDUSTRY

The status of the various determinants and the particular elements thereof, provide a framework to develop a strategic plan of action to enhance the competitiveness of the South African wine industry. From the analysis, it is clear that achieving and sustaining a globally competitive wine industry will require a comprehensive and sustained effort at firm level, government and industry levels (Van Rooyen & Esterhuizen, 2006). Lowering production costs, developing new products, training workers or the entering of new markets *pér sé* are important strategies, but will not result in a sustained competitive position. Vision 2020 (2002) and the Wine Industry Strategy Plan (WIP) (2003) provide a strategic framework for such an achievement. Specific short- and long-term constraints and enhancing factors should also be determined and strategically and operationally be attended to by the relevant groups concerned.

The competitiveness of the wine industry in South Africa will be enhanced when the business environment of agribusinesses in South Africa become dynamic, stimulating and innovative. On the other hand, wine business will experience a negative trend in competitiveness if the local business environment excludes agribusinesses from innovation and productivity.

The analysis of factors determining the competitiveness status of the South African wine industry is summarised in the "Porter spider" (Figure 2) to capture the relative strengths and weaknesses of the industry. Factor and demand conditions, supporting industries and industry structure indicate a moderate impact on the competitiveness of the wine industry in South Africa – surely it needs improvement. Firm strategies and rivalry are the key factors that provide the wine industry in South Africa a global competitive edge.

Government policy and support indicates an inability to influence the competitiveness of the wine industry in South Africa in a positive manner. With a score of between 1 and 2, government support is insufficient and viewed to be constraining the competitiveness of the wine industry in South Africa.

Chance factors also influence the South African wine industry's competitiveness in a negative manner, which indicates the vulnerability of businesses in South Africa against local and global shocks. These factors should now be introduced into a strategic plan to establish a development path towards increased competitive performance of the South African wine industry.

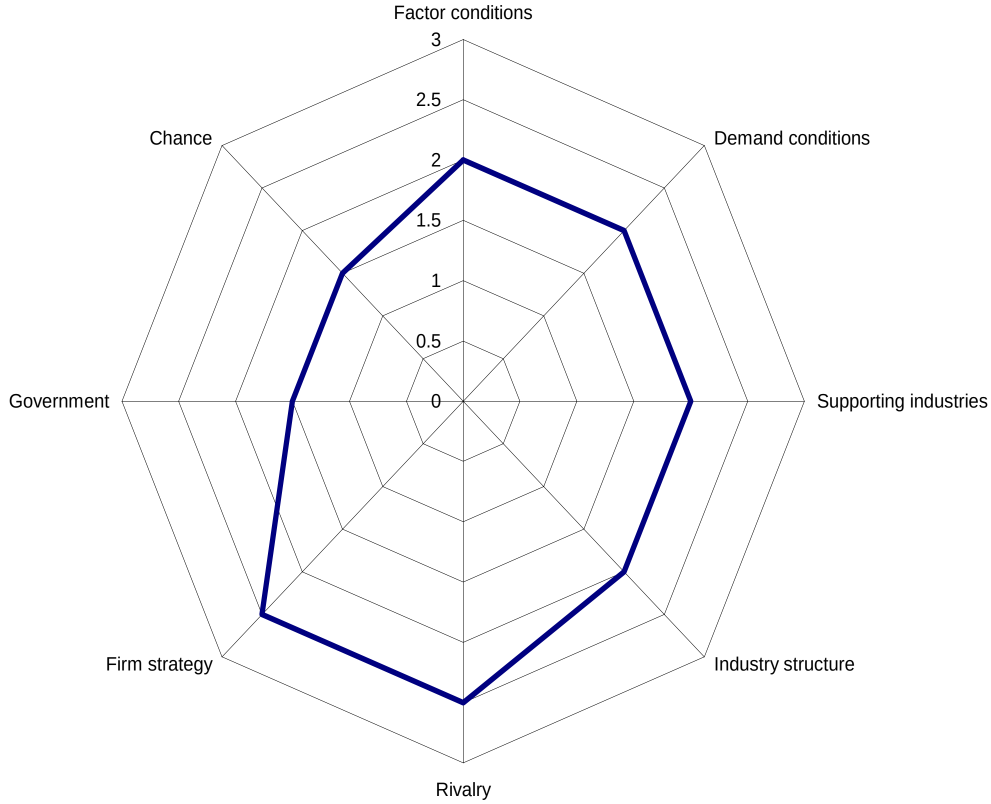

Figure 2: The status of the determinants of competitiveness in the wine industry of South Africa
Source: Own database
Notes: 1 = Constraint 2 = Moderate 3 = Enhancement

7. CONCLUSIONS

"Being competitive" is critical for the long-term survival of the wine industry in South Africa. The competitiveness of the wine industry in South Africa will increase and is sustained when the business environment of firms in the industry is dynamic, innovative, stimulating and intensely competitive. On the other hand the wine industry will have a negative trend in competitiveness if the local business environment detracted firms from a market focus, innovation and productivity.

In this investigation the competitiveness of the South African wine industry was firstly measured. This indicated a sustained improvement in competitiveness. The strengths and weaknesses, and critical strategic factors that influence the competitiveness of the wine industry in South Africa were then identified to which special attention must be paid in order to develop and sustain a competitive advantage in years to come. For the present intense competition in the market, the production of affordable high quality products, stringent regulatory standards in the industry, efficient supporting industries, and the availability of internationally competitive local suppliers of primary inputs are the major success factors to the competitiveness of this industry.

The major factors that impact negatively on the competitive success of this industry are the strong Rand, fluctuations in the exchange rate, trust in the political support system, competence of personnel in the public sector, crime, South Africa's labour policy and the growth and size of the local market. These factors should now be crafted into a Strategic Plan for the industry. A following article "Strategies to improve and sustain the competitiveness of the South African wine industry" (Esterhuizen & Van Rooyen, 2005) will elaborate on this.

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