

CRAFTING A POSITIONING STRATEGY FOR THE SOUTH AFRICAN APPLE AND PEAR INDUSTRY TO SUCCESSFULLY COMPETE AGAINST CHILE IN EUROPEAN SUPERMARKET BUSINESS

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DECLARATION OF ORIGINAL WORK

Hereby I, Stefanus Jacobus Conradie, declare that this research report is my own original work and that all sources have been accurately reported and acknowledged, and that this document has not previously in its entirety or in part been submitted at any university in order to obtain an academic qualification.

.....
S.J. Conradie

July 2008

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ABSTRACT

The goal of the study was to identify the ideal positioning strategy for the South African Apple and Pear industry to successfully compete as a supplier against Chile in the European retail environment. The hypothesis of the study states that the ideal positioning strategy for South Africa is a combination between a Corporate and a Generic strategy. The Corporate strategy would focus on what wants to be achieved while the Generic strategy would focus on how it needs to be achieved. A strategy framework combining available corporate strategies with available Generic strategies identified 12 potential corporate/generic strategy combinations. The outcome of the study would be the selection of the combination most suited to take the South African Apple and Pear industry into the future.

The research in this study included a full description of both the South African and Chilean industries discussing the physical, economic and political environment as well as the available human resources and industry structures. A thorough description of the European retail environment was followed by an external analysis identifying the key success factors required to successfully supply this market. The key success factors were used as the framework to do an internal situational analysis of the South African and Chilean industries. The internal situational analysis identified the key areas that South Africa needs to focus on to improve its competitive position against Chile in the European retail market. These key areas were pivotal in the selection of the optimal corporate / generic strategy combination.

The outcome of the study identified a *Market penetration strategy* (Corporate strategy) through the use of a *Differentiation* (Generic strategy) as most suited to improve the competitiveness of the South African Apple and Pear industry. This strategy will grow demand and market share for South African apples and pears in the existing EU retail market for its existing product range by focusing on:

1. Improving the retail value and sales volume of SA apples and pears in the European retail market through:
 - ❖ In-store promotional and media campaigns that will create awareness of South African apples and pears and SA Tourism as well as educate and communicate consumers about the attributes and different uses of SA apples and pears as well as SA Tourism opportunities.
 - ❖ The identification of all South African apples and pears through on-pack branding by using the “South Africa, Alive with Possibility brand”.
 - ❖ In-pack information booklets providing nutritional information and recipes for South African apples and pears
2. Communication of real time supply information to European retailers and importers through
 - ❖ E-mailing retail buyers direct website links giving them access to the weekly South African Pome Fruit newsletters indicating crop estimates, weekly inspection volumes and shipment volumes per variety
3. Active engagements with the SA government to gain their involvement and financial support for promotional activities in retail stores through
 - ❖ Active lobbying by industry representatives for the involvement of SA Tourism, the Department of Trade and Industry and the International Marketing Council in promotional campaigns where SA Apples and Pears are used as a vehicle to enhance the image of the South Africa amongst consumers, retailers and importers.
4. The active communication at an industry level to European retailers and importers about the South African Apple and Pear industry’s progress regarding the management of the carbon footprint of its products as well as the production of residue free fruit through
 - ❖ Yearly visits by industry representatives to European retailers and importers where South African progress reports in these areas are presented.

The assessment highlighted that South Africa is relatively strong throughout the value chain activities but that the lack of a unified industry whereby its strengths are communicated to consumers, retailers and importers, has led to South Africa losing market share to Chile.

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CHAPTER 1 : INTRODUCTION TO THE STUDY

1.1 BACKGROUND

Increased competition is a reality of doing business in the global economy. The rapid development of technology in the past two decades, especially in the area of communication has seen the world become a very small place. The internet for example has given us access to a new world of information and put us into contact with countries, cultures and business opportunities which twenty years ago would have been unimaginable. Improved technology and the increased availability of information have brought new challenges however, change is taking place quicker than it use to and companies and industries need to be much more flexible in their business approach and decision making to stay competitive. The challenge for every company and industry competing in this global village is how to transform themselves to compete successfully by improving its competitive position and growing their share of the market.

The South African Apple and Pear industry have major challenges facing it to stay competitive in the global apple and pear arena. After the deregulation of the South African Apple and Pear export industry in 1997 the industry became fragmented in the distribution and marketing of its product. The one-channel export system did have inefficiencies that needed serious attention but the lack of a controlled deregulation process left the industry fragmented and in a weakened condition. The industry stopped acting as a unified front in competing against other Southern Hemisphere apple and pear producing countries. Of these countries Chile is by far the most significant. The past 25 years have seen Chile surpassing South Africa as an apple export country up to the stage where they are now growing three times the volume of South Africa. Chile is yearly strengthening its presence in the US and especially Europe, traditionally South Africa's main export destination.

The most significant trend that has changed the playing field for South African growers and exporters is that there has been a consolidating process happening amongst world

supermarkets. The South African industry is currently in a situation where a fragmented industry consisting out of 145 registered apple and pear exporters, now has to negotiate with retail giants (Perishable Products Control Board (*PPECB*), 2007). This situation has evolved to the point where South African exporters in most cases have become price takers while 15 years ago the industry had a lot more negotiating power in determining prices for its product. Retailers currently have suppliers queuing to supply them which definitely suggest an oversupply of good quality apples and pears in world retail markets. A saturated market is one of the toughest environments for any industry or company to excel in.

In recent years the South African industry found it difficult to stay viable as the lack of market intelligence, a unified approach and a sound long term strategy is now starting to take its toll. The percentage of the product value that the grower receives at the farm gate is declining and the industry need to find answers on how to turn this situation around. A clearly defined industry strategy that is based on a theoretically sound analysis of the competitive internal and external environment is needed to give strategic direction to the South African industry.

1.2 RESEARCH PROBLEM

South Africa is currently ranked number 11 and 12 in the world regarding overall competitiveness in the growing of apples and pears respectively while Chile is ranked number 1 in both apples and pear. The ranking is determined by looking at production efficiency and infrastructure, input costs and stability of financial markets (OABS, 2007). The research problem is identifying an industry positioning strategy on how South Africa can improve its competitive position in the European retail business. Chile has clearly identified itself as South Africa's toughest competitor from the Southern hemisphere in the world apple and pear market. This study will analyze the competitiveness of the South African apple and pear industry versus Chile in the context of serving the UK and European supermarket business. The study will mainly focus on the requirements of the UK retail sector as it is seen as the most developed and sophisticated in the European Union.

The SA Fruit industry plan that was accepted by the SA Government in 2007 defined its primary marketing and promotion strategy as follows: A non-racial and prosperous fruit industry that is characterized by a marketing and promotion system recognized internationally and locally as championing innovation and efficiency at each level of the value chain. The primary strategy was supported by the following sub-strategies (SA Fruit industry plan, 2006).

1. Establish and maintain a crop mix that will lower risks associated with changing consumer tastes and preferences in order to maintain and increase real returns on investment, as well as profits for all role players in the value chain.
2. Establish, maintain and promote sustainable, as well as environmentally and human-friendly, production, picking and packing practices that adhere to and comply with market and regulatory forces.
3. Identify critical points in the value chain where transaction costs can be reduced taking into account demand and supply patterns, available and needed logistical infrastructure, transport modes, level of training and relationships between role players.
4. Identify and capitalize on emerging niche markets in an orchestrated manner.
5. Establish mechanisms to streamline current export initiatives.
6. Improve and develop new approaches to ensure optimal market access procedures.
7. Determine the optimal market structure and conduct for the domestic fruit market.
8. Improve the local market's product quality and safety.
9. Determine the optimal promotional strategy.

This study is in support of sub-strategies 5 and 6 of the Fruit Industry Plan in that it will define an optimal marketing strategy aimed at European retail business. The main focus is to define the specific activities that need to be included in the positioning strategy to improve competitiveness to effectively grow South Africa's market share in European supermarket business.

1.3 *RESEARCH OBJECTIVE*

The objective of the study is the establishment of a sound long term marked related positioning strategy for the South African Apple and Pear industry to successfully compete against Chile for market share in the European supermarket environment.

The South African Apple and Pear industry needs a clearly defined marketing and promotional strategy to become a world power in the apple and pear industry. The strategy must be distinctive, tilt the playing field in South Africa's favor by giving international buyers reasons to prefer its products and services and produce a sustainable advantage over other apple and pear producing countries of the world.

1.4 *RESEARCH DESIGN*

The research design will be a comparative study that focuses on the similarities and differences between groups of units of analysis. In this research project the units of analysis will be South Africa and Chile as apple and pear producing countries.

1.5 *RESEARCH METHODOLOGY*

South Africa and Chile will be analyzed according to how well they can cope with similar factors in their external and internal environment. A thorough analysis of the external retail supply environment will also be done, discussing the macro environment and identifying the main driving forces and key success factors present in supplying the EU retail industry.

- The data that will be used are documentary sources in the form of historical documents, annual reports, speeches, interviews, official memoranda as well as questionnaires.
- A country situational analysis will identify factors in the external and internal environment that will be used to determine supplier/country attractiveness and competitiveness.
- These factors will be weighted according to the perceived importance of contributing to supplier attractiveness and competitiveness.

- South Africa and Chile will then be scored on each these factors and given a mark out of 10 based on perceived current performance. The technique used is a weighted competitive analysis as described by Arthur, Thompson, Strickland, & Gamble, (2005). The weighted result will guide the crafting of South Africa's future positioning strategy.
- The retail buyers will also be asked to score South Africa and Chile as well as other Southern hemisphere supply sources by giving them a mark out of 10 based on their current perceived performance in terms of the identified driving forces in supplying the retail industry.

1.6 *CHAPTER OUTLINE*

Chapter 1 served as an introduction to the study while chapter 2 will cover a literature review regarding possible strategies to compete in a saturated market and will provide a framework for deciding on a positioning strategy that will be finalized in Chapter 8. In chapters 3 and 4 an industry description and discussion (internal environment) of the South African and Chilean industries will be done respectively. Chapter 5 describes and discusses supermarket trends in the European retail sector mainly focusing on the UK retail sector (external environment). This is followed by Chapters 6 - 7 which respectively analyses the external and internal situation of both the South African and Chilean industries based on the information given in Chapters 3 - 5. Chapter 8 uses the analysis of Chapters 6 - 7 in view of the framework created in Chapter 2 to provide the recommended positioning strategy for the South African Apple and Pear industry. Chapter 9 consists of conclusions and recommendations.

CHAPTER 2 : LITERATURE REVIEW

2.1 INTRODUCTION

In deciding on a positioning strategy for the South African Apple and Pear industry to compete successfully against Chile in European supermarket business it is important to have a good understanding of the strategies that can be considered. Strategy is management's game plan for growing the business, staking out a market position, attracting and pleasing customers, competing successfully, conducting operations, and achieving targeted objectives. (Arthur, Thompson, Strickland, Gamble, 2005:1). What separates a powerful strategy from an ordinary or weak one is management's ability to forge a series of moves, both in the market place and internally, that makes the supplier distinctive, tilts the playing field in the suppliers' favour by giving buyers reason to prefer its products or services, and produces a sustainable advantage over rivals.

"A Positioning Strategy results in the image you want to draw in the mind of your customers, the picture you want him/her to visualize of you what you offer, in relation to the market situation, and any competition you may have" (Taha, 2004).

A good strategy for the South African industry needs good execution. Weak implementation and execution undermine the strategy's potential and pave the way for shortfalls in customer satisfaction and industry performance. In this chapter corporate and generic growth strategies will be discussed as well as the key elements that make the use of a particular strategy applicable. The four different corporate growth strategies that were identified included market penetration, market development, product development and diversification while the generic growth strategies included cost leadership, differentiation and focus.

2.2 CORPORATE GROWTH STRATEGIES

Deciding on a corporate growth strategy represents the highest level of strategic decision. It involves considering ways to grow market share via existing and new products, expanding existing markets and entering new markets. (Ansoff, 1957) presented a matrix as can be seen in table 2.1 that focused on the individual companies existing and potential products and retail customers. Four different growth strategies were identified that included Market penetration, Market development, Product development and diversification.

Table 2.1 : Four different growth strategies:

	Existing products	New Products
Existing markets	Market penetration	Product development
New markets	Market development	Diversification

Source: Ansoff (1957)

2.2.1 Market penetration

This strategy is used to achieve growth with existing products in their current market segments, aiming to increase market share (Ansoff, 1957). Market penetration is the depth of sales of a particular product in a given market. The deeper the penetration, the higher the volume of product sales expected. In order to expand the sales of current products in markets where their products are already being sold, marketers utilize market penetration strategies such as cutting prices, increasing advertising, obtaining better store or shelf positions for their products, or innovative distribution tactics (Allbusiness, 2008). This strategy carries the least risk as the competitor is able to leverage many of its existing resources and capabilities. Market penetration has its limitations in terms of growth potential in a maturing market as it means that the competitor will have to take market share away from competitors to achieve growth. In a market that is growing the competitor simply have to maintain market share to grow sales.

2.2.2 Market development

This strategy is used to achieve growth by targeting existing products to new market segments (Ansoff, 1957). Market development is the manufacturer's attempt to identify and develop new markets for marketing current products. There are three general strategies applied in market development: (1) working within the demographic market to see if any particular demographic group can be encouraged to buy more of the product or if any new group within the demographics can be encouraged to purchase the product; (2) looking at the institutional market to see if these buyers can be increased; (3) attempting to develop markets in new geographical areas. To affect these strategies, marketers will attempt new distribution methods, change the design of promotional efforts, and attempt to discover and promote innovative uses for an existing product (Allbusiness, 2008). Market development includes targeting additional market segments or geographical regions. This strategy can be successful if the firm uses its core competencies to present their product in a way that will attract the attention of new market segments and geographical markets. The competitor will be expanding into new markets and will therefore carry more risk than a market penetration strategy as it will be a new learning experience where mistakes can be costly.

2.2.3 Product development

This strategy is used when the competitor develops new products and targets it towards its existing markets segments (Ansoff, 1957). New product development (NPD) is the term used to describe the complete process of bringing a new product or service to market. There are two parallel paths involved in the NPD process: one involves the idea generation, product design, and detail engineering; the other involves market research and marketing analysis. Companies typically see new product development as the first stage in generating and commercializing new products within the overall strategic process of product life cycle management used to maintain or grow their market share (Wikipedia, 2008). This strategy may be effective when the competitor's strengths are related to its specific retail customer rather than the product itself. In this case the competitor can leverage its strengths by developing a new product targeted towards its existing retail customers. A product development strategy also carries more risk than

simply increasing market share as a new product failure can have a very negative impact on the competitors trust relationship with retail consumers.

2.2.4 Diversification

This strategy is used when the competitor grows by diversifying into new businesses by developing new products for new markets (Ansoff, 1957). Diversification is used to expand the organizations operations by adding markets, products, services, or stages of production to the existing business. The purpose of diversification is to allow the company to enter lines of business that are different from current operations (Enotes.com, 2008). Diversification is the most risky strategy as it requires both market and product development and could happen outside of the core competencies of the competitor. It can be successful if the competitor gain a foothold in an attractive industry with a high rate of return. Diversification can also reduce overall business portfolio risk.

The second level of strategic decision making is to decide on generic strategy within the corporate growth strategy selected.

2.3 *GENERIC GROWTH STRATEGIES*

The South African industry must position itself by leveraging its strengths. A business competitor's strengths ultimately falls under two headings namely cost advantage or differentiation (Porter, 1999). If you apply these strengths in either a narrow or a broad scope, three generic strategies result: cost leadership, differentiation, and focus.

2.3.1 Cost leadership strategy

This strategy is aimed at being the lowest cost producer or supplier for a given level of product quality to a selected market (Porter, 1999). Cost-leadership strategy attempts to gain a competitive advantage primarily by reducing its economic costs below its competitors (Jaquier, 2003). The competitor will sell its products either at average industry prices and earn a higher profit margin versus its rivals or sell at below average industry prices to gain market share. In the case where competitive pricing result in a price war the competitor can maintain some profitability while rivals suffer losses. In a

saturated market where prices are in decline because of supply outweighing demand, the competitor can stay profitable for a longer period of time compared to rivals.

The ways that an international competitor acquires cost advantages are by improving process efficiencies, gaining unique access to a large source of lower cost materials, negotiating better rates in the cost chain due to volume advantages or long term relationships, making optimal forward or backward integration decisions, or eliminating costs out of the system.

Competitors that succeed in cost leadership often have the following qualities or strengths (Porter, 1999):

- ◆ Enough capital to continuously invest in improved technologies and production assets
- ◆ Focus on cost efficiency for every element of the supply chain
- ◆ High production volume to create economies of scale
- ◆ High levels of expertise in process design and management
- ◆ A holistic approach to cost saving by creating an integrated supply chain

The major risk with a cost leadership strategy is that new technology can easily eliminate the advantage of production capabilities. All competitors have a consistent focus on cost and creating efficiencies.

2.3.2 Differentiation strategy

This strategy is aimed at the development of a product or service that offers unique attributes that are valued by customers and are perceived to be different or better than products of the competition (Porter, 1999). Product differentiation is a competitive business strategy whereby firms attempt to gain a competitive advantage by increasing the perceived value of their products and services relative to the perceived value of other firm's products and services (Jaquier, 2003).

The uniqueness of the product and the perceived value thereof may allow the competitor to charge a premium price for it. The higher price would then cover any

additional costs in creating the uniqueness of the product. The uniqueness of the product or service should be difficult to copy by competitors. There are many aspects that can make a product or service unique. Design, quality, durability corporate image, added benefits, promotional campaigns and versatility are all examples of attributes that can contribute to the uniqueness of a product or service.

Competitors that succeed in a differentiation strategy often have the following qualities or strengths (Porter, 1999):

- ◆ Access to leading scientific research
- ◆ A highly skilled and creative management team
- ◆ Successful communication of the perceived uniqueness of the product or service
- ◆ A strong corporate image that creates trust

The risks involved with a differentiation strategy include imitation by competitors and changes in customer tastes. In cases where competitors pursue focus strategies it is possible that they can achieve even greater differentiation in their market segments.

2.3.3 Focus strategy

This strategy concentrates on a narrow market segment and within that segment tries to achieve either a cost advantage or differentiation (Porter, 1999). What sets a focus strategy apart is concentrated attention on a narrow piece of the total market (Jaquier, 2003). The argument supporting this strategy is that the needs of any group can be serviced better by focusing entirely on it. A competitor using a focus strategy often enjoys a high level of customer loyalty. A competitor using a focus strategy usually has lower volumes and therefore less bargaining power with suppliers. Competitors using a differentiation – focused strategy might be able to pass higher costs onto customers since close substitute products don't exist.

Competitors that succeed in a focus strategy often have the following qualities or strengths (Porter, 1999):

- ◆ Access to leading scientific research

- ◆ A highly skilled and creative management team
- ◆ Ability to anticipate consumer needs and therefore leading product development in their narrow market segment.
- ◆ Successful communication of the perceived uniqueness of the product or service
- ◆ A strong focus on going the extra yard for the customer to build loyalty

The risks involved in a focus strategy include imitation and changes in the market segment. It might also be fairly easy for broad market cost leader to adapt its product to compete directly. Other competitors following a focus market strategy may even be capable of carving out sub-segments of the market segment which leads to fierce competition.

2.4 STRATEGY FRAMEWORK FOR THE SA APPLE AND PEAR INDUSTRY

The study will join the best of both worlds by finding the optimum combination between a corporate and generic strategy to fit the South African Apple and Pear industry. Twelve potential combination strategies are formed by combining the four available corporate strategies with the three available generic strategies as can be seen in Table 2.2.

Table 2.2 : Twelve potential combination strategies

		Generic strategies		
		Cost leadership	Differentiation	Focus
Corporate strategies	Market penetration	MPCL - strategy	MPD - strategy	MPF - strategy
	Market development	MDCL - strategy	MDD - strategy	MDF - strategy
	Product development	PDCL - strategy	PDD - strategy	PDF - strategy
	Diversification	DCL - strategy	DD - strategy	DF - strategy

MPCL – Market penetration through Cost leadership (See 2.2.1 and 2.3.1)

MDCL – Market development through Cost leadership (See 2.2.2 and 2.3.1)

PDCL – Product development through Cost leadership (See 2.2.3 and 2.3.1)

DCL – Diversification through Cost leadership (See 2.2.4 and 2.3.1)

MPD – Market penetration through Differentiation (See 2.2.1 and 2.3.2)
 MDD – Market development through Differentiation (See 2.2.2 and 2.3.2)
 PDD – Product development through Differentiation (See 2.2.3 and 2.3.2)
 DD – Diversification through Differentiation (See 2.2.4 and 2.3.2)
 MPF – Market penetration through Focus (See 2.2.1 and 2.3.3)
 MDF – Market development through Focus (2.2.2 and 2.3.3)
 PDF – Product development through Focus (2.2.3 and 2.3.3)
 DF – Diversification through Focus (2.2.4 and 2.3.3)

2.5 *CHAPTER SUMMARY*

Chapter 2 identified the key attributes of each of the available corporate and generic growth strategies and gave the reader an understanding of when the usage of each strategy is applicable. The corporate growth strategies that were identified included market penetration, market development, product development and diversification while the generic growth strategies included cost leadership, differentiation and focus. The chapter concluded by identifying twelve possible corporate/generic strategy combinations for consideration. The twelve available strategies will act as reference framework when reading the following chapters. The final outcome of the study is aimed at identifying which of the twelve available strategies are the optimum corporate/generic growth strategy combination for the South African apple and pear industry. Chapter three starts the investigation by giving a full description of the South African apple and pear industry and identifying the main attributes of the SA industry to be considered in determining strategic decision making.

CHAPTER 3 : SOUTH AFRICAN INDUSTRY – INTERNAL ENVIRONMENT

3.1 *INTRODUCTION*

The South African deciduous fruit export industry was founded as early as 1892 by Percy Molteno, son of the Cape's first prime minister, when a consignment of peaches was exported to the Covent Garden Market in the United Kingdom. Since then the industry has grown to become an important earner of foreign capital with gross foreign earnings of about R8 billion through the exports of approximately 600 000 tons of fruit. The industry creates permanent job opportunities for 105 000 people with 417 000 dependants (OABS, 2006). In this chapter the South African Apple and Pear industry will be described in the context of its physical, economic, political and social environment as well as looking at the organizations responsible for managing the industry interests.

3.2 *PHYSICAL ENVIRONMENT*

3.2.1 Climatic conditions

South Africa stretches between the 22nd and 34th degrees of southern latitude and hence is part of the subtropical zone. Compared to other regions at that latitude, temperatures in many areas of South Africa are rather low. During winter temperatures drop to freezing point and in some places even lower, due to the high altitude. Rainfall is to be expected mainly in the summer months, with the exception of the Western Cape, which is a winter-rain area (Harvey, Gibson, Steyn, 2006). The Western Cape is an extremely important region to the economic development of South Africa. It is South Africa's most valuable agricultural producing region and makes a substantial contribution to the country's balance of payments (South African Government Information, 2007).

Apples and pears are largely dependent on cold winters to enhance fruit quality and size (Hurndall, 2008). Major production areas in especially the Western and Southern Cape have felt the impact of global warming as average temperatures have increased over the past 10 years. The increase in average temperatures is seen as a major risk to the South African apple and pear industry. Temperatures will continue to increase as levels of greenhouse gases rise, but how much and how quickly remain uncertain. Various uncertainties such as future greenhouse gas emission rates, the possible cooling effect of atmospheric particles such as sulphates and the climate's response to changes in the atmosphere makes any projections very difficult and highly debatable.

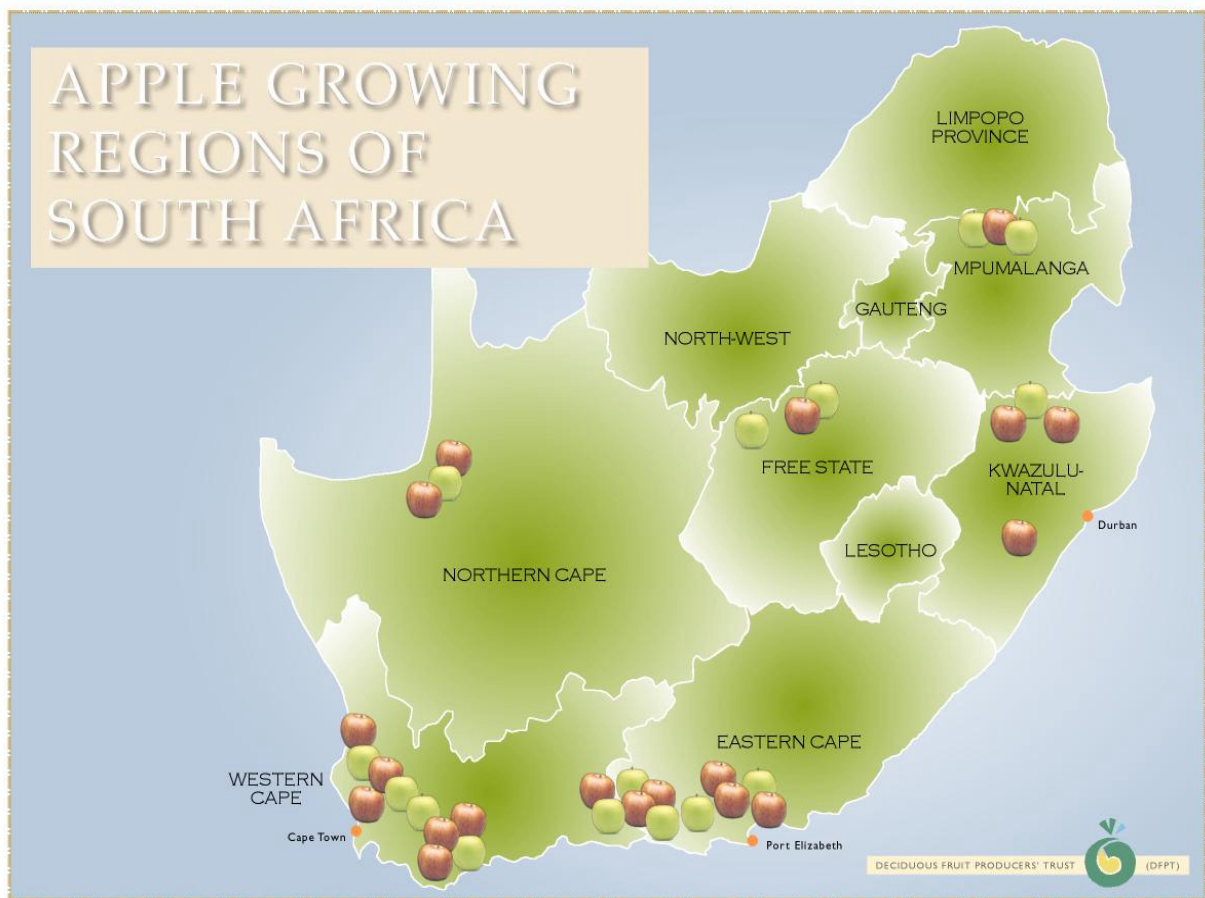


Figure 3.1: Apple growing regions of South Africa

Source: Deciduous Fruit Producers' Trust (2008)

3.2.2 Apple Production

3.2.2.1 Apple area planted

The Western Cape's climate is highly suitable for apple production. Three of the four top apple production areas are found in the Western Cape. According to the 2007 DFPT tree census South Africa has a total of 20,526 apple hectares planted. Groenland (EGVV) is the largest apple production area in South Africa and contributes 6096 hectares (30%) of the total. Langkloof, the third largest production area, is the only region in the top four that falls in the Eastern Cape region. Combined the four main production regions represents 18,527 (90%) of the total apple area in South Africa. Table 3.1 shows the contribution of all the production areas as well as the number of apple trees in the area.

Table 3.1: South African Apple area per region

District	Number of trees	Area (ha)
Groenland	7,118,415	6,096
Ceres	5,645,473	4,910
Langkloof East	3,633,644	4,023
Villiersdorp / Vyeboom	3,553,335	3,497
Langkloof West	480,291	478
Piketberg	424,845	327
Free State	401,204	274
Little Karoo	212,655	268
Southern Cape	292,163	211
Mpumalanga	255,730	166
Somerset West	193,736	121
Wolseley / Tulbagh	73,011	58
North Eastern Free State	50,937	32
Eastern Cape	3,739	15
Stellenbosch	19,789	14
Berg River	10,524	10
Worcester	14,244	9
Limpopo	11,286	7
Gauteng	10,872	7
Franschhoek	3,902	3
Grand Total	22,409,795	20,526

Source: DFPT (2007)

3.2.2.2 Apple area per variety

Traditionally South Africa has been the main Southern hemisphere producer of Granny Smith and Golden Delicious explaining why these two varieties still form the core of the

South African 2006 apple area representing 47% of the total. In 2001 Golden Delicious and Granny Smith contributed 54% of the total area indicating a trend away from the two traditional stalwarts. International consumer trends towards the consumption of Bi-colour apples led to a trend in the past 15 years where new plantings were more focused toward varieties like Royal Gala, Pink Lady and Fuji. These three varieties represented 23% of total area in 2006. Starking and Top Red are red apple varieties that are focused towards domestic and African markets and represent 12% of total area in 2006.

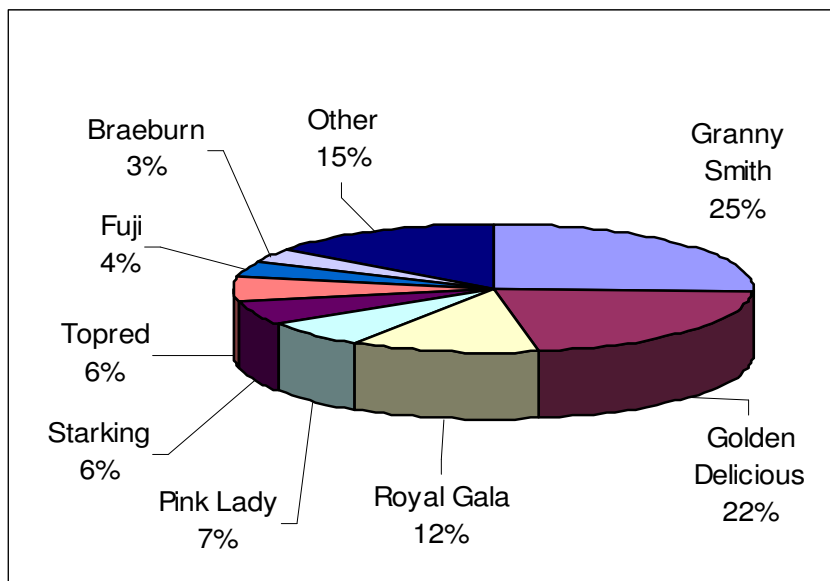


Figure 3.2: Apple variety distribution based on area in 2006

Source: DFPT, OABS (2006)

Table 3.2 shows that a significant restructuring took place in the South African apple basket in the past five years. The total area decreased by 2,493 hectares with Granny Smith the most significant by 1,592 hectares. Golden Delicious decreased by 1,033 hectares while red varieties like Top Red and Starking also showed significant decreases. Royal Gala, Pink Lady and Fuji showed increases with Fuji showing the most significant growth of 51%.

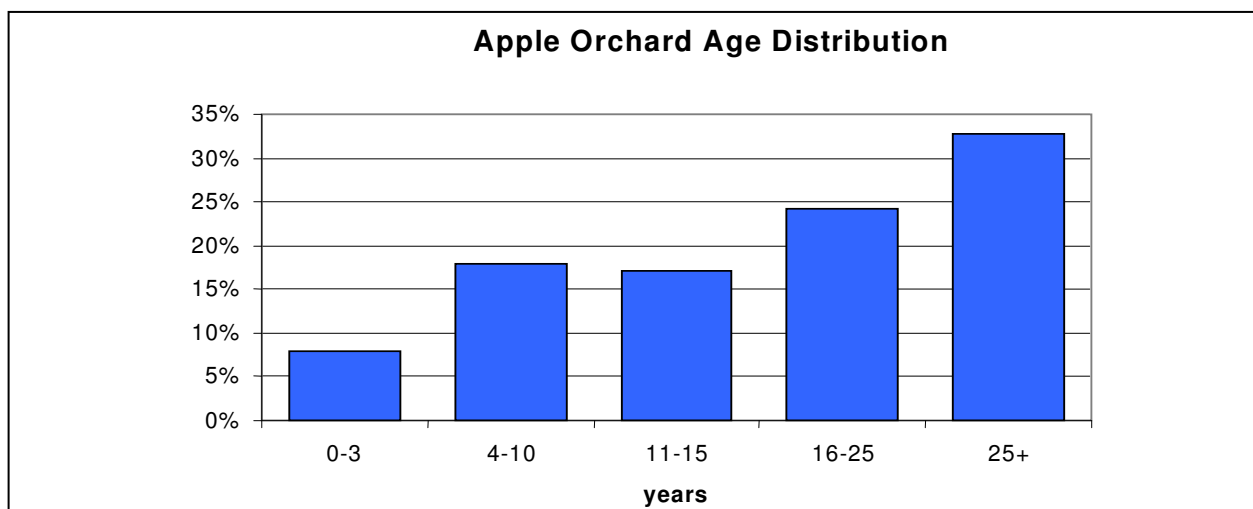
Table 3.2 Apple area (ha) by variety 2001-2006

Cultivar	2001	2002	2003	2004	2005	2006
Granny Smith	6,861	6,555	6,357	5,871	5,445	5,259
Golden Delicious	5,531	5,340	5,213	4,898	4,658	4,498
Royal Gala	2,247	2,284	2,382	2,341	2,416	2,410
Pink Lady	1,205	1,256	1,328	1,308	1,339	1,382
Starking	1,909	1,779	1,681	1,487	1,314	1,241
Topred	1,623	1,528	1,497	1,387	1,308	1,282
Fuji	546	622	684	712	767	825
Braeburn	700	656	662	643	649	685
Other	2,330	2,434	2,575	2,679	2,878	3,052
Grand Total	22,952	22,454	22,379	21,326	20,774	20,459

Source: OABS (2006)

3.2.2.3 SA Apple orchard age distribution

Figure 3.3 shows that over 30% of South African apples are above the age of 25 years. Optimal replacement age of most apple cultivars is agreed to be around 20 years old (Hurndall, 2008). The fact that such a large % of South African orchards are older than 25 years is a major reason for concern. Older orchards are associated with lower production, lower quality fruit leading to lower pack outs as well as economic inefficiencies in terms of tree planting distances and row widths. Only 42% of South Africa's apple trees are younger than 15 years, which is not adequate for a country wanting to grow its share of the export market through the supply of premium varieties and high quality apples.

**Figure 3.3 :Apple Orchard Age Distribution**

Source: OABS (2006)

3.2.2.4 Average Apple orchard age per variety

Figure 3.4 shows the main apple cultivars in South Africa and average ages. South Africa is facing a major problem concerning the apple varieties like Granny Smith and Goldens. Average orchard ages are 25 years and 19 years for these two varieties respectively which shows a lack of replacement in new orchards. This indicates an expected deterioration in volume and quality in the next 5-10 years as many of the old orchards will have to be grubbed. Popular bi-coloured varieties like Royal Gala, Pink Lady and Fuji are in a much healthier position averaging 12 years, 8 years and 7 years respectively.

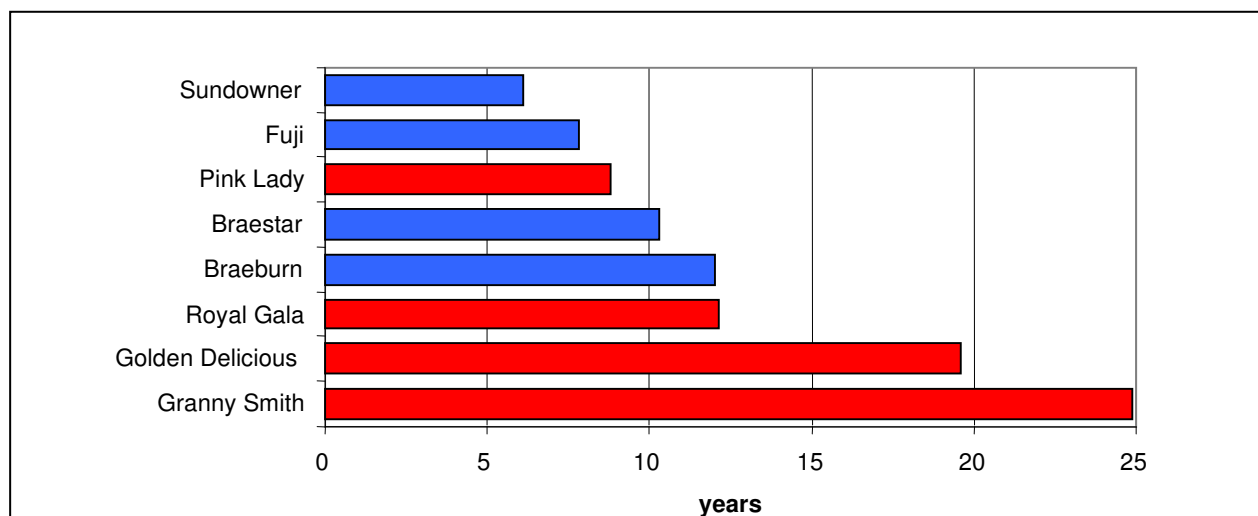


Figure 3.4: Apple orchard age per cultivar

Source: OABS (2006)

3.2.2.5 Apple Crop distribution

The South African apple crop is distributed to four different market segments namely the Fresh produce local market, the fresh produce export market, the processed foods market and the dried fruit market. Table 3.3 shows the market segments and the volume utilised in each of the market segments. The apple export market is the main marketing segment of the apple crop with approximately 40% of the crop going to this segment. The local market and the processed market are equally important with approximately 33% and 27% going to these two segments respectively.

Table 3.3: Crop Distribution: Apples

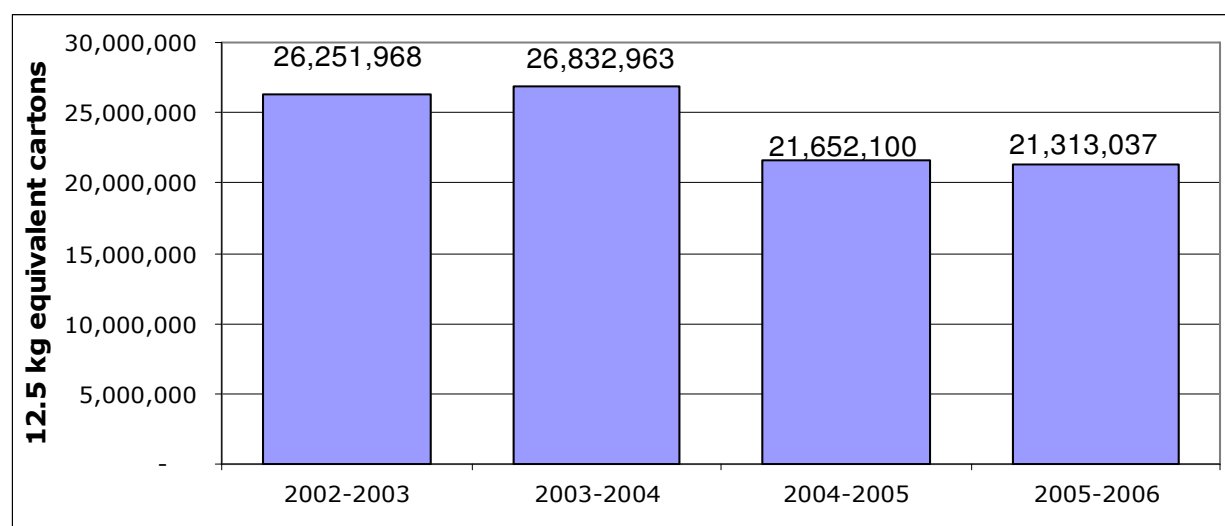
Year	Total production	Local market	Export market	Processed	Dried
2004/2005	700,260	237,067	270,651	191,632	910
	100%	33.9%	38.7%	27.4%	0.1%
2005/2006	638,150	205,012	266,413	165,725	1,000
	100%	32.1%	41.7%	26.0%	0.2%

*Figures indicated in tons

Source: PPECB (2007), OABS (2006)

3.2.2.6 Apple export cartons

Export volumes peaked in the 2003/04 season on 26.8 million 12.5 kg equivalent cartons. The 2004/05 and 2005/06 marketing seasons saw a decline of approximately 4.3 million cartons due to the grubbing of old orchards in especially Granny Smith and Golden Delicious as well as size and quality problems. A stronger Rand exchange rate versus major currencies and a growing domestic market also contributed to increased volumes directed towards local sales.

**Figure 3.5: Apples passed for exports 2002/2003 – 2005/2006**

Source: PPECB, OABS (2006)

3.2.2.7 Apple export markets

The United Kingdom and Northern Europe representing 44% and 19% respectively of South African apple export volumes, constitutes the two main export destinations. South African exports are heavily focused towards the retail trade in these two markets, a clear reason why the strategic planning addressed in this document is so important. Current export markets which are growing in importance include the Middle and Far East, Russia as well as North Africa.

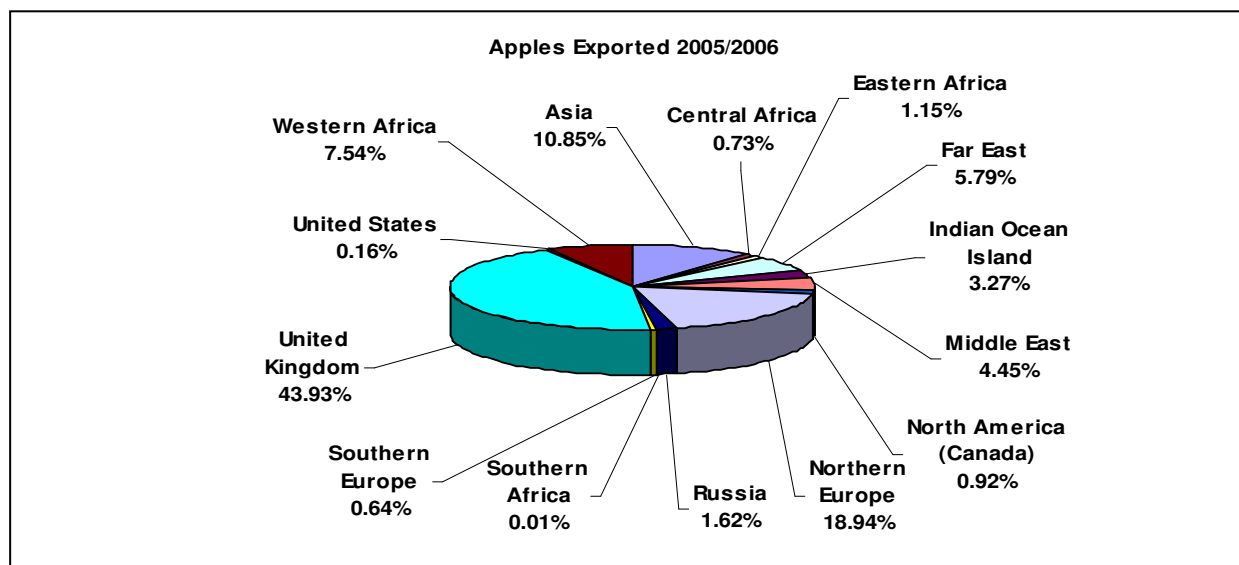


Figure 3.6 : Apple Export Markets during 2005/2006 season

Source: OABS (2006)

3.2.2.8 Monthly Apple availability

Golden Delicious, Granny Smith, Top Red and Starking are virtually in year round supply to the domestic market. Important export varieties like Granny Smith, Golden Delicious, Pink Lady and Fuji are available for export for nine months of the year while increased availability and long term storage of Braeburn and Royal Gala are also potentially extending their current six month period of availability. Extended availability periods are making South Africa an attractive source of apple supply to foreign markets.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Royal Gala												
Golden Delicious												
Granny Smith												
Braeburn												
Pink Lady												
Fuji												
Top Red												
Starking												
Sundowner												

Figure 3.7: South African Apple availability

Source: Hurndall (2008)

3.2.3 Pear production

3.2.3.1 SA Pear area

Table 3.4 shows all the production areas as well as the number of apple trees in the area.

Table 3.4 : Pear planting per region

District	Number of trees	Area (ha)
Ceres	4,925,159	4,618
Groenland	2,069,335	1,476
Langkloof East	1,472,877	1,431
Wolseley / Tulbagh	1,530,429	1,219
Villiersdorp / Vyeboom	1,100,037	915
Klein Karoo	718,596	791
Somerset West	317,477	219
Berg River	261,278	204
Piketberg	178,422	189
Stellenbosch	207,268	168
Langkloof West	125,866	111
Southern Cape	128,543	116
Hex Valley	129,777	34
Franschhoek	46,567	27
Worcester	1,100	28
Eastern Cape	170	1
Namaqualand	1,000	1
Mpumalanga	336	0.4
Total	13,214,237	11,548

Source: OABS (2006)

The total area planted with pears in South Africa is 11,548 ha with Ceres (39.9%) being the largest followed by Groenland (EGVV) with 12.8%, Langkloof East (12.8%) and Wolseley/Tulbagh (10.6%). The top four districts in South Africa contributed 76% of the

total area in hectares. The top four districts in South Africa are all in the Western Cape except Langkloof East, which is in the Eastern Cape.

3.2.3.2 Pear hectares planted per variety

Traditionally South Africa has been leading Southern Hemisphere producer of Williams Bon Chretien and Packhams Triumph explaining why these two varieties still represents 48% of the total plantings. In 2001 the Williams Bon Chretien and Packhams Triumph formed 55% of total plantings indicating a trend away from the two traditional stalwarts. The growth in international consumer demand toward the Bi-colour pears has led to a trend in the past 15 years where new plantings were more focused toward varieties like Forelle, Flamingo and Rosemarie. South Africa has been the only Southern Hemisphere country that has grown Forelle with any notable success. Bi-coloured varieties represent 27% of total South African pear plantings in 2006. Early Bon Chretien has also grown in importance representing 9% of plantings in 2006.

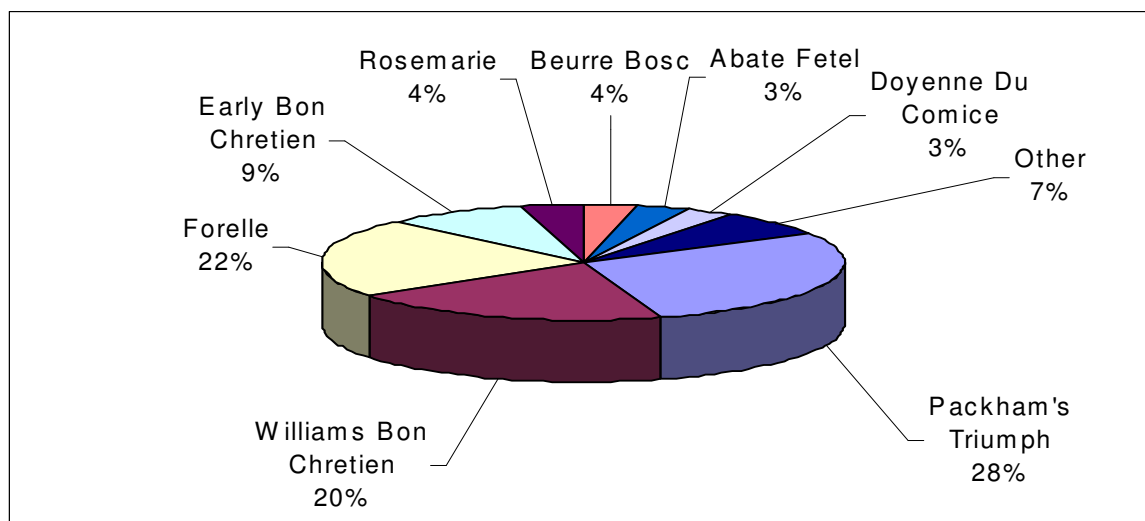


Figure 3.8: 2006 Variety planted hectares distribution

Source: OABS (2006)

There have been significant structural changes in the make-up of South African pear plantings in the past five years. Packhams Triumph declined by 13% while Williams Bon Chretien declined by a very significant 35%. Varieties that increased significantly in plantings included Forelle with 36% and Early Bon Chretien with 94% (see Table 3.5).

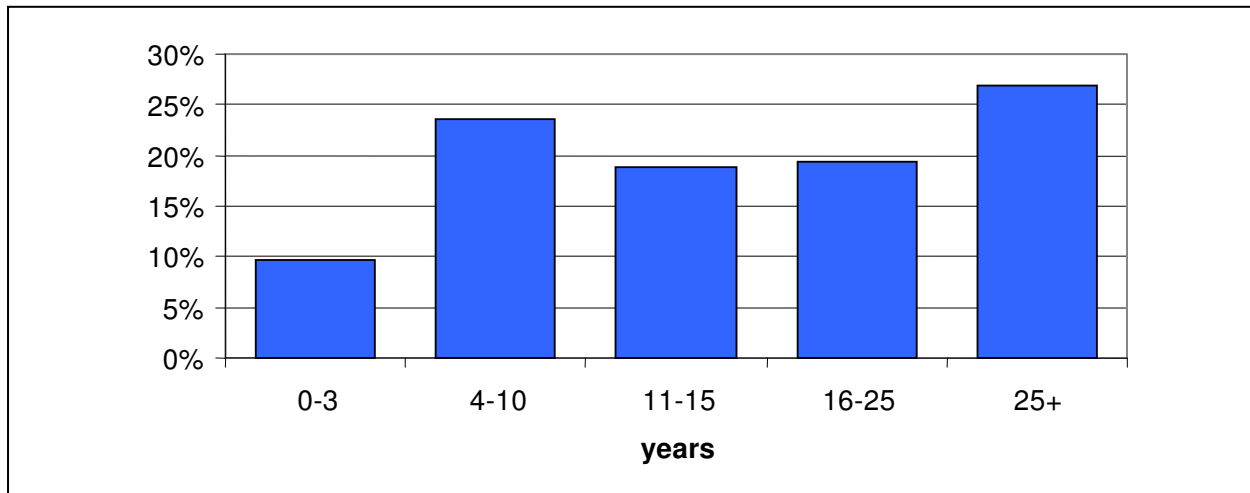
Table 3.5 : Pear area planted per variety 2001-2006

Cultivar	Area (ha)					
	2001	2002	2003	2004	2005	2006
Packham's Triumph	3,813	3,618	3,486	3,398	3,331	3,301
Williams Bon Chretien	3,596	3,235	3,180	2,830	2,625	2,326
Forelle	1,867	2,049	2,108	2,261	2,442	2,539
Early Bon Chretien	523	649	729	866	979	1,016
Rosemarie	711	662	629	517	450	428
Beurre Bosc	730	644	629	517	446	412
Abate Fetel	169	176	221	260	315	384
Doyenne Du Comice	506	431	463	372	314	294
Other	1,540	1,448	1,332	1,109	911	848
TOTAL	13,455	12,912	12,777	12,130	11,812	11,548

Source: OABS (2006)

3.2.3.3 SA Pear orchard age distribution

Figure 3.9 shows that 53% of South Africa's pears are 15 year's and younger which indicates a healthier position compared to apples. The 2006 survey indicated that 27% of pear orchards are older than 25 years. This is an area of concern that still needs attention. Pear producers will have to make significant investments in the next 5-10 years in terms of orchards replacements and renewal. Varieties that will feature in new plantings are expected to be Forelle, Early Bon Chretien and Packhams.

**Figure 3.9: Pear Orchard Age Distribution**

Source: OABS (2006)

3.2.3.4 Average Pear orchard age by variety

Figure 3.10 shows the main pear cultivars in South Africa and average ages. South Africa is facing ageing orchards for pear varieties like Williams Bon Chretien, Buerre Hardy and Buerre Bosc. Average orchard ages are 25 years, 23 years and 19 years for these three varieties respectively which shows a lack of replacement in new orchards. Buerre Hardy and Buerre Bosc have deteriorated as varieties in terms of consumer demand and it is therefore expected that very little will be replaced in future. The reality is that volumes in these two varieties will continue to decline. Williams Bon Chretien is still a popular variety but average orchard age indicates a decline in volume and quality in the next 5-10 years as many of the old orchards will have to be grubbed. Popular bi-coloured varieties like Forelle and Rosemarie is in a much healthier position averaging 9 years and 10 years respectively.

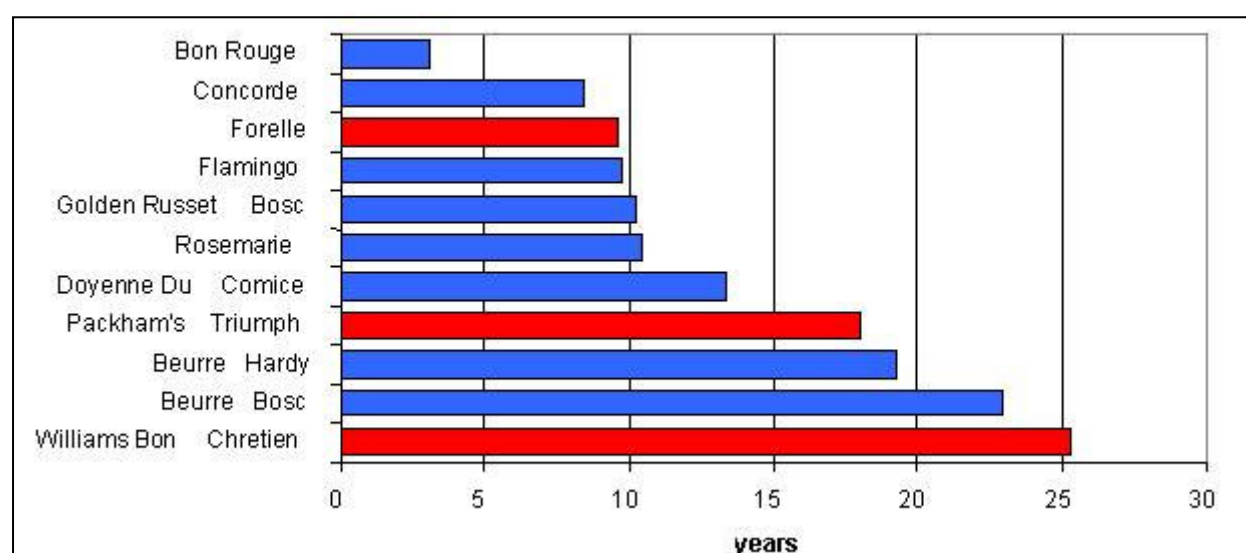


Figure 3.10: Average Pear Orchard Age per variety

Source: OABS (2006)

3.2.3.5 Pear Market Segment distribution

Table 3.6 shows the four different market segments for South African pears. The two largest segments include exports with approximately 40% and the processing market, which also accounts for about 40% of production. The domestic fresh fruit market was consistently around 18% of production for the 2004/2005 and the 2005/2006 seasons.

Processed pears increased by 22 262 tons from 2004/2005 to 2005/2006. The dried fruit market segment is still relatively small at 2%.

Table 3.6: Pear market segment distribution (tons)

Year	Total production	Local market	Export market	Processed	Dried
2004/2005	316,142	57,610	141,157	111,935	5,440
	100%	18%	45%	35%	2%
2005/2006	323,833	57,441	124,691	134,197	7,504
	100%	18%	39%	41%	2%

Source: PPECB (2007), OABS (2006)

3.2.3.6 Pear export cartons

Export volumes peaked in the 2003/04 season on 12.2 million 12.5 kg equivalent cartons. Pear exports declined during the 2004/05 and 2005/06 marketing seasons due to the grubbing of old orchards, lower yields as well as increased processing volumes in especially Williams Bon Chretien and Packhams Triumph. A stronger Rand exchange rate versus major currencies and a growing domestic market also contributed to increased volumes directed towards local sales.

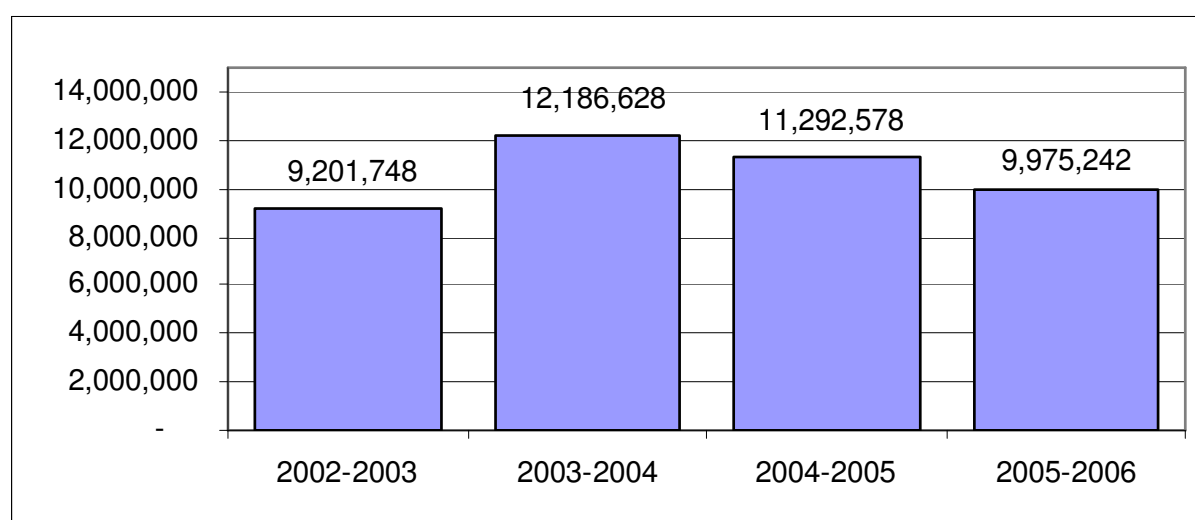


Figure 3.11 : Pears passed for exports 2002/2003 - 2005/2006

Source: PPECB, OABS (2006)

3.2.3.7 Pear export markets

Northern Europe and the United Kingdom representing 50% and 24% respectively of South African apple export volumes, constitutes the two main export destinations. South African exports are heavily focused towards the retail trade in these two markets, a clear reason why the strategic planning addressed in this document is so important. Current export markets which are growing in importance include the Far East, Russia as well as Asia.

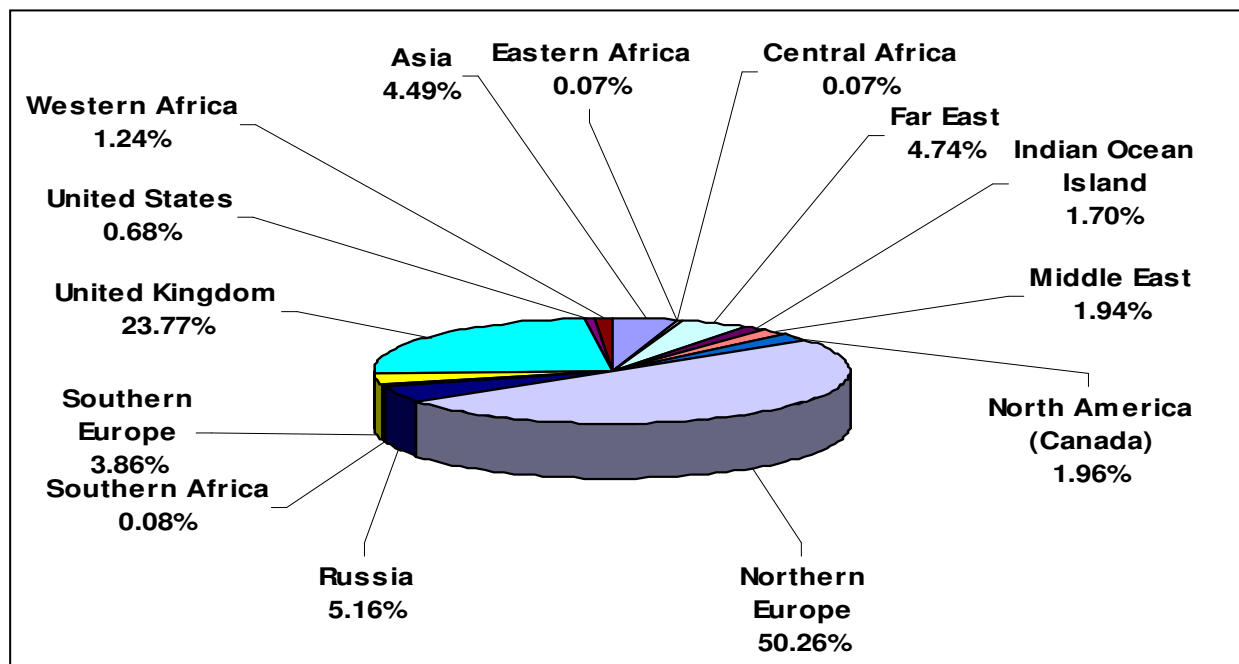


Figure 3.12: Pear Export markets

Source: OABS (2006)

3.2.3.8 Monthly Pear availability

Packhams Triumph is available for eleven months of the year to both the export and domestic market. Increased production volume and good cold storage ability is also growing the period of export availability of Forelle pears. The two extended availability of these two varieties makes South Africa an attractive source of supply to foreign markets.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Pachams Triumph												
Williams Bon Chretien												
Forelle												
Rosemarie												
Flamingo												
Buerre Bosc												
Bon Rouge												
Star Crimson												
Doyenne du Comice												

Figure 3.13 :South African monthly Pear availability

Source: Hurndall (2008)

3.2.4 Road transport infrastructure

The South African road network is under the management of the South African National Roads Agency Limited. It is an independent, statutory company registered in terms of the Companies Act. The South African government is the sole shareholder and owner of the company. Its mandate is to develop, maintain the country's national road network comprising over R30 billion in assets, excluding land (South African Government Information, 2007).

South Africa's national road network currently covers 7,200 km. The roads include 1 400km of dual carriageway freeway, 440 km of single carriageway freeway and 300 km of single carriageway main roads which have unlimited access. Approximately 1 900 km are toll roads, serviced by 27 mainline toll plazas. A total of 20,000 km of primary roads are being planned for the future. Paved roads cover 57,568 km (Harvey *et al*, 2006). Heavy transport pressures and the lack of maintenance has caused serious deterioration of the national road system.

Government projects to maintain new and existing roads, as well as the construction of several new toll road developments, are under way. The South African government has set aside R3.8 billion for public transport infrastructure for the 2010 Soccer World Cup. South African road networks need a lot of attention to ensure a successful 2010 Soccer World Cup as the success of this event is dependent mainly on our ability to provide world-class transport systems (South African Government Information, 2007). South

Africa needs to preserve existing transport assets and make better use of these to ensure international competitiveness in the long term.

3.2.5 Shipping infrastructure

Shipping is the main source of transporting perishable products from South Africa to international markets. The development of South African shipping infrastructure will play a major role in the long-term sustainability of the South African fruit industry, which directly and indirectly provides employment for hundreds of thousands of people in all nine provinces of our country. The growth of the South African domestic economy has led to increased imports which in return has placed more pressure on harbour infrastructure. This has impacted negatively on the reliability of South African exporters to service the needs of international clients. In 2006 the South African government approved a budget of R25 billion to upgrade South African ports in terms of capacity and equipment. The bulk of the money is being spent on a new port in Port Elizabeth as well as upgrades in East London, Richards Bay and Durban. These ports have been declared Industrial development zones and are receiving incentives and favoured fiscal treatment on import duties and VAT (South African Government Information, 2007).

Reefer vessels have traditionally been the format of shipment used by South African exporters and are specifically built to ship perishable goods under cooled conditions. Reefer vessels servicing South African harbours have the capacity to carry 3,500 to 5,500 pallets weighing approximately a ton each (Perishable Products Control Board (PPECB), 2007). In recent years there has been a major trend in perishable goods towards the use of containerized shipping away from conventional shipping (PPECB, 2007). In Figure 3.14 it can be seen that 2003 conventional shipping dominated in terms of total volume exported. In 2006 a reverse of this trend is evident with containerized shipping dominating volume shipments in all fruit categories which includes citrus, grapes, pome fruit, stone fruit and subtropical fruit.

Containerization allows for the improved management of the cold chain as fruit are loaded in containers at pack houses after which the cold chain is not broken till the fruit reaches the international client. Cranes, pallet cages and c-hooks are used to lift containers on board the vessels.

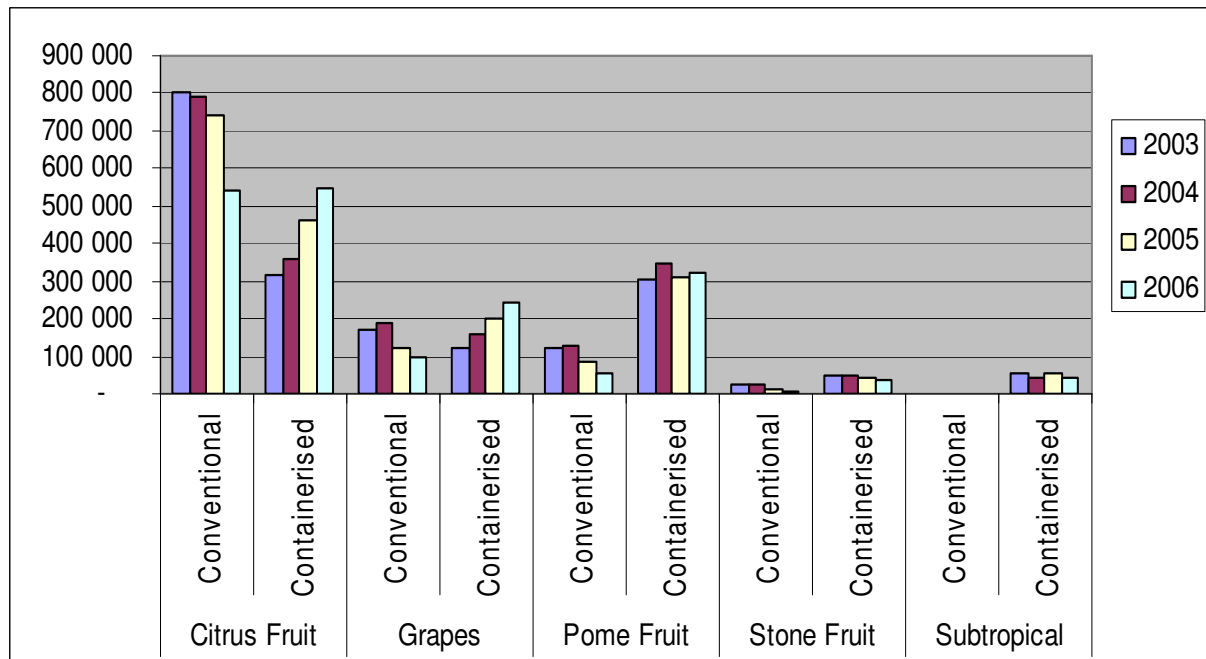


Figure 3.14 : SA Shipping trends: Containerised versus Reefer

Source : PPECB (2007)

South Africa has six commercial ports with 13 cargo terminals, which forms the largest and best-equipped harbour network on the African continent (South Africa at a glance, 2007). The most significant South African export harbours for apples and pears are Cape Town and Port Elizabeth as the main production regions are the Western and Eastern Cape. On average 40% of South African apple and pear production are sold in the international market and it is an extremely important source of foreign currency for the domestic economy (OABS, 2006).

3.2.6 Airfreight infrastructure

South Africa's national and international airports will be ready for the influx of visitors expected in South Africa for the 2010 Soccer World Cup (International Marketing Council of South Africa, 2005). Airports Company South Africa (ACSA) indicated a capital expenditure budget of R5.2 billion to be spent over five years to accommodate the 2010 soccer World Cup (Ghadebe, 2007). This improved infrastructure bodes well for trade after 2010 as well and promises to bring increased demand for South African products. South Africa boasts a total of 728 airports of which 144 have paved runways. South African Airways is the national airline and serves 503 cities worldwide and

provides a maintenance service for 47 of the world's major airlines (South Africa at a glance, 2007). The airline is a reckoned force in global aviation and provides an airfreight export service to local exporters. The majority of airfreight exports out of South Africa are done by SAA.

Early in the season it often makes economic sense to fly out high value apples and pears to take advantage of the early market. Airfreight as an alternative to shipping fresh fruit is too expensive. The value of the cargo needs to be more than the inherent value in fresh fruits for airfreight to become a viable alternative. The devaluation of the rand will certainly impact negatively on this mode of transport for apples and pears.

3.2.7 Quality of cold-chain management

The maintenance of the optimum storage temperature during the handling, transport and marketing of perishable produce is referred to as the cold chain. The objective of cold chain management is to ensure that the fruit reaches the end consumer in top quality condition and as fresh as possible. The optimum handling temperature for apples and pears is -0,5°C (Van Wyk, 2008).

In South Africa it is the duty of the Perishable Products Export Control Board (PPECB) to create worldwide confidence in South African perishable products, through certification of good practices. The PPECB must guarantee consistency and ensure that optimum procedures, handling and storage techniques are applied in suitable transport equipment. Temperature management from time of loading until product reaches its final destination port is very important. PPECB play a pivotal role, in order to ensure that all products are carried at optimum conditions (PPECB, 2007).

Apples and pears must be harvested at the correct maturity and pre-cooled to 0 °C within 48 hours of harvest (Van Wyk, 2008). Fruit should ideally be transported inland in refrigerated transport. This is however a problem for South African producers, because of insufficient refrigerated transport and from a cost point of view. When South African fruit is exported, strict regulations prescribed by the South African Department of Labour are enforced by the PPECB to ensure that the cold chain is not broken and the fruit is free from visual defects. This procedure ensures the excellent quality of our fruit abroad

(Fresh Produce Exporters Forum (*FPEF*), 2005). For Apples and pears on the domestic market however the cold chain is seldom correctly maintained and managed.

A worrying factor that the South African Apple and Pear industry has had to cope with since 2007 is regular power outages that have been caused by inability of South Africa's power supply to cope with the strong economic growth that the country has been experiencing in recent years. South Africa's economic growth averaged more than 5% for the past four years but is seen slowing to 4%, or lower, this year, partly due to an electricity crunch as state power utility Eskom's ageing generation infrastructure struggles to cope with demand (Reuters, 2008) This has led to additional cost and pressure for apple and pear exporters to ensure optimum cold chain management. Eskom is addressing the problem but are still vulnerable to unplanned power cuts especially during winter months when electricity usage is very high (Etzinger, 2008.)

3.3 *ECONOMIC ENVIRONMENT*

3.3.1 South African Economic overview

South Africa is a middle-income, emerging market with an abundant supply of natural resources; well-developed financial, legal, communications, energy, and transport sectors and a modern infrastructure supporting an efficient distribution of goods to major urban centres throughout the region.

South Africa is the economic powerhouse of Africa, with a gross domestic product (GDP) four times that of its southern African neighbours and comprising around 25% of the entire continent's GDP. The country leads the continent in industrial output (40% of total output) and mineral production (45%) and generates most of Africa's electricity (over 50%) (International Marketing Council of South Africa, 2008). Its major strengths include its physical and economic infrastructure, natural mineral and metal resources, a growing manufacturing sector, and strong growth potential in the tourism, higher value-added manufacturing and service industries.

South African banking regulations rank with the best in the world. The sector has long been rated among the top 10 globally. There are 55 locally controlled banks, 12 foreign-

controlled banks and five mutual banks. Some of the world's leading institutions have announced their intention to enter the local banking sector through mergers and acquisitions.

The Johannesburg Stock Exchange (JSE) Limited is the 18th largest stock exchange in the world by market capitalization with R3.3 trillion traded in September 2005 (International Marketing Council of South Africa, 2007). South Africa's economy has been in an upward phase of the business cycle since September 1999. According to the South African Reserve Bank, there is no sign of this period of expansion coming to an end. Gross domestic product (GDP) growth was running at an annualized 4.8% in the second quarter of 2005 (compared to 3.7% in 2004 and 28% in 2003). South Africa's economic growth rate declined moderately in the first quarter of 2007 to an annualized quarter-on-quarter rate of 4.7% (South African Government Information, 2007).

The decline is attributable mainly to a contraction in the mining sector and slower manufacturing sector growth. The construction sector grew at over 21% mainly as a result of non-residential construction and civil engineering projects. This strong performance is indicative of the continuing domestic investment boom which has been given further impetus by the investment activities of public corporations. The economy is still growing at a rate around estimated potential and the higher rate of fixed capital formation, which is now in excess of 20% of GDP, is expected to sustain economic growth going forward as well as increase the growth potential of the economy (South African Government Information, 2007).

3.3.2 Fiscal policy

South African economic policy is fiscally conservative but pragmatic focusing on targeting inflation and liberalizing trade as means to increase job growth and household income. The policy shows commitment to a fiscal framework that supports economic growth and development while advancing social development and providing relief for the most vulnerable members of society (South African Government Information, 2007).

An expanding tax base, a growing economy and a decade of sound fiscal policies have given the South African government the freedom to massively increase spending on

services and infrastructure. Government spending has risen by over 9.2% a year over the past few years, and will be raised a further 7.7% a year over the next three years as government ensures that effective programs and promising new initiatives are funded in line with government's capacity to implement them (International Marketing Council of South Africa, 2007).

The total main budget government revenue for 2007/08 is R544.6 billion and will be divided among the three spheres of government. National departments will receive 50.4% of available resources, while 42.4% has been allocated to the nine provinces and 7.2% to South Africa's 283 municipalities. This gives provincial and local governments almost half of South Africa's national financial resources for the 2007/08 financial year (International Marketing Council of South Africa, 2007).

The 2007/08 budget allocated R105.5 billion to education while economic services received R109.8 billion clearly indicating that government has identified these areas as most important in achieving increased job growth and household income. About 500,000 jobs was created each year for the past three years and a 7% increase in household consumption in 2006 showed that South Africa's sound fiscal policies are starting to bear fruit (South African Government Information, 2007).

3.3.3 Monetary policy

South Africa's year-on-year inflation is measured by the consumer price index (CPI) for metropolitan and other urban areas which excludes the interest cost on mortgage bonds (CPIX). CPI increased at a year-on-year rate of 6.3% in April 2007 compared to 4.9% in February and 5.5% in March (SA Reserve Bank, 2007).

Food and petrol price increases accounted for most of the increase although more broad-based pressures are also becoming evident. The biggest impetus to the increase in the inflation rate in April came from the petrol price. Petrol prices increased at a year-on-year rate of 15.5% in April compared to 7.9% in March 2007 (SA Reserve Bank, 2007).

Food price inflation also continued its upward trend in 2007 measuring 7.8% and 8.6% in March and April respectively on a year-on-year basis. Prices of household

consumables increased by 8% in April, compared to 6.1% in February 2007 (SA Reserve Bank, 2007).

Services price inflation has also been increasing steadily in 2007, having measured 5.5% on a year-on-year basis in April 2007, compared to 4.6% in January 2007. Certain components of housing services made a significant contribution to this upward trend (SA Reserve Bank, 2007).

Production price inflation increased at a year-on-year rate of 11.1% in April 2007, compared to 9.5% and 10.3% in February and March 2007 respectively. These developments point to further pressures on CPIX inflation in the coming months. The April increase was the highest since December 2002. Apart from textiles, clothing and footwear, the increases were across a wide spectrum. Prices of domestically produced goods increased by 11.2% in April compared to 10.5% for imported goods (SA Reserve Bank, 2007). Oil remains an upside risk to the inflation outlook. International prices remain dominated by geopolitical tensions, fluctuating inventory levels and supply disruptions in a number of oil-producing countries.

Household consumption expenditure has remained strong although preliminary estimates suggest that there has been a slight moderation in the first quarter. The continued underlying strength in household consumption expenditure is reflected in the high rates of domestic credit extended to the private sector. Twelve-month growth in banks' loans and advances extended to the private sector measured 26.2% in March before increasing to 27.4% in April. The sustained strength in consumer demand has been underpinned by higher levels of employment, higher real incomes and improved household balance sheets. Higher equity and house prices contributed to this positive wealth effect. This bodes well for domestic consumption of fruit especially under the buoyant black middle class where buying power is growing (South African Government Information, 2007).

According to the most recent Wage Settlement Survey by Employment Publications, wage settlements averaged 6.5% in 2006 and remained at this rate in the first quarter of 2007. These increases are consistent with the CPIX inflation target of 6.3% (Levy, 2007).

In view of the further deterioration in the inflation outlook for 2008, the monetary policy stance needs to be adjusted to ensure that CPIX inflation returns to within the inflation target range of 3-6% over time.

The central Reserve bank has in recent times stuck to raising rates by increments of 50 basis points, doing this nine times since June 2006 in a vain attempt to stem inflation. A full percentage point rise at the next policy committee meeting on 12 June 2008 will take the repo rate to 12.5%, it's highest in almost five years. The consensus repo rate is at 12.69% for the end of 2008, easing to 11.77% at end of 2009 and 10.38% in 2010, reflecting some loosening on the horizon. Higher interest rates are likely to further pinch growth, already under pressure from previous rate moves and the Eskom electricity crisis. (Surowiecki, 2008)

The Monetary Policy Committee of the South African Reserve Bank will continue to monitor developments which have a bearing on inflation outcomes and will not hesitate to adjust the policy stance as may be appropriate.

3.3.4 Exchange rates

The South African Apple and Pear industry is export orientated and therefore the Rand exchange rate against the major currencies of the world plays a vital role in final grower returns. The Rand has been known for its volatility against major currencies mainly because of the risks linked to South Africa as an emerging market. Most foreign investment in South Africa has been in the financial market which is mainly short term. The short term nature of the investments has contributed that the volatility of the Rand.

The UK and Europe is South Africa's main market for apples and pears explaining why the exchange rate to the Pound and the Euro plays a vital role in the viability of exports to these markets. The Far East, Asia, Middle East and Africa Indian Ocean Islands markets are US\$ based markets and combined they also form a critical part of South African exports.

Shipping rates to all of the abovementioned markets are paid in US\$, explaining why the Rand/US\$ exchange rate must also be monitored from a cost point of view. Figure 3.15 clearly shows the Rand volatility against the major currencies of the world for period September 2001 to December 2007.

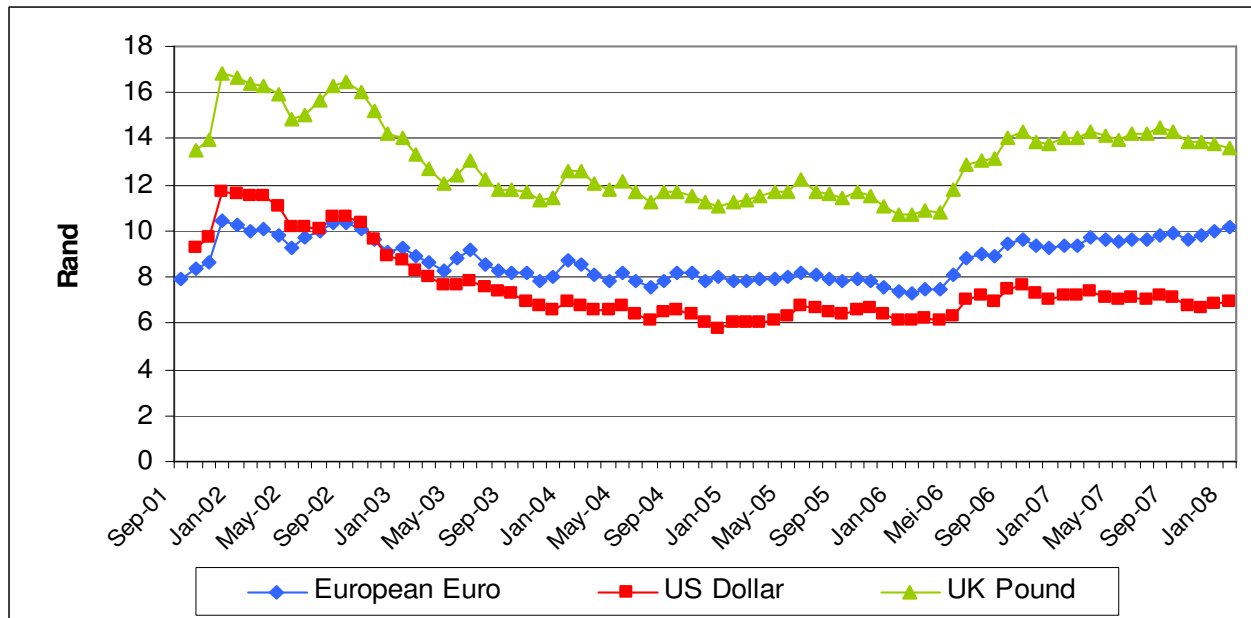


Figure 3.15 : Exchange Rate trends from September 2001 to December 2007

Source: Exchangerate.com (2008)

3.3.5 Apple and Pear export value chain

3.3.5.1 SA Value chain cost drivers

1. Packaging costs were 56% of the total cost per hectare of bearing orchards. Packaging material costs is increasingly becoming a problem because of:
 - The wide variety of carton types requested by exporters and international retailers place. Most international retailers and exporters have their own brand and carton types which often have to be manufactured without efficiencies of scale. Carton standardization will contribute to reduced packing material costs.
 - Increasing paper prices have led to sharp increases in the prices of cartons. In 2008 a 25% increase in carton prices is expected.
2. The minimum wages in SA agriculture has risen from R800 in 2003 to R1090 in 2008 and is closely linked to the South African inflation rate. A sharp increase in

the minimum wages is expected in 2009 with the inflation rate souring to around 10% in the first quarter of 2008.

Table 3.7 : Minimum wage summary from 2003 - 2009

Year	Area A		% Change
	Rand/Hour	Rand/month	
1/03/2003	R 4.10	R 800.00	
1/03/2004	R 4.47	R 871.58	9%
1/03/2005	R 4.87	R 949.58	9%
1/03/2006	R 5.10	R 994.00	5%
1/03/2007	R 5.34	R 1 041.00	5%
1/03/2008	R 5.59	R 1 090.00	5%

Source : OABS (2008)

Further drivers of labour cost are the shortage of labour caused by the HIV virus, increased food inflation and pressure from labour unions. South Africa's current food inflation in April 2008 of around 10% is expected to fuel higher wage increase demands by unions (SA Reserve Bank, 2007).

3. Fuel costs have become a major cost driver with the oil price rising to record highs of \$130 per barrel in June 2008 contributing to the April CPIX inflation of 10.4%. Oil prices are expected to rise to levels of between \$150 and \$200 because of the huge demand from developing economies like India and China (SA Reserve Bank, 2007). Fuel prices are impacting on cost at production level as well as throughout the logistics chain with transport and shipping costs being the main cost items.
5. The cost of electricity is seen as a major cost driver going forward with Eskom requesting an increase in power cost of 54% in April 2008 to improve on infrastructure to cope with the growing demands of the South African economy (Reuters, 2008).

3.3.5.2 Production cost

Table 3.8 shows the production cost per hectare for full bearing apple and pear orchards. These production costs were incorporated in the determining of the break even export sales values for both apples and pears shown in Tables 3.9 and 3.10.

Table 3.8 : SA Pome fruit production cost in 2006 per hectare

	Apples			Pears		
	Establishment Rand	Non-bearing Rand	Bearing Rand	Establishment Rand	Non-bearing Rand	Bearing Rand
Yield (ton/ha)			55			45
Number of trees per ha	1,650	1,650	1,650	1,650	1,650	1,650
Pre-harvest costs	83,922	10,382	18,876	79,702	9,410	16,985
Plant material	27,856	4,084	0	23,338	3,267	0
Land preparation	10,000	0	0	10,000	0	0
Irrigation	15,000	0	0	15,000	0	0
Drainage	4,930	0	0	4,930	0	0
Trellising	17,553	0	0	17,553	0	0
Fertilizer	3,772	1,624	2,833	3,811	1,140	2,318
Herbicides	101	123	335	101	157	335
Pesticides	219	0	4,009	181	199	2,895
Fungicides	207	570	1,303	207	235	1,687
Rest breaking agents	0	226	1,415	0	55	1,415
Consultants	500	500	500	500	500	500
Seasonal Labour	0	794	2,645	0	788	2,626
Fuel (diesel)	1,247	632	2,004	1,236	707	1,395
Repairs and maintenance	1,297	415	1,316	1,285	464	916
Electricity	808	1,331	2,433	1,128	1,816	2,815
General	432	83	83	432	83	83
Pollination	0	0	686	0	0	1,373
Post-harvest	0	0	74,355	0	0	52,315
Transport rental	0	0	4,979	0	0	3,974
Packaging	0	0	60,056	0	0	40,715
Seasonal Labour	0	0	8,206	0	0	6,714
Fuel (diesel)	0	0	675	0	0	552
Repairs and maintenance	0	0	439	0	0	359
Overhead costs	21,985	17,241	22,632	20,869	16,984	20,556
Fixed labour	6,040	5,508	5,508	5,363	5,508	5,508
Water costs	2,150	2,150	2,150	2,150	2,150	2,150
Licenses & Insurance	211	46	381	213	51	312
Other overheads	4,777	4,777	4,777	4,777	4,777	4,777
Interest on loans	4,613	566	5,623	4,381	513	3,824
Depreciation on orchard	4,194	4,194	4,194	3,985	3,985	3,985
Total cost	105,906	27,623	115,863	100,571	26,394	89,856

Source: OABS (2006)

3.3.5.3 Export Value chain of South African Pears

Table 3.9 shows the Export sales value per 12.5kg equivalent carton for a full bearing orchard South African pear orchard to break even taking into consideration the export cartons produced per hectare, production cost per hectare, packing cost per hectare and distribution cost per hectare.

Table 3.9 : South Africa - Breakeven Pear Export sales value per 12.5 kg equivalent carton

	South Africa
	Pears
Production Tons per hectare (full bearing trees)	45
Class1 – 12.5 kg export cartons per hectare	2340
Production cost per hectare	US\$5,800
Packing Cost per hectare	US\$8,200
Distribution Cost per hectare (Export)	US\$6,685
Total Cost per hectare	US\$20,685
Breakeven Export Price per 12,5kg carton	US\$8.80

Source : Based on OABS (2006)

3.3.5.4 Export Value chain of South African Apples

Table 3.9 shows the Export sales value per 12.5 kg equivalent carton for a full bearing orchard South African apple orchard to break even taking into consideration the export cartons produced per hectare, production cost per hectare, packing cost per hectare and distribution cost per hectare.

Table 3.10 : South Africa - Breakeven Apple Export sales value per 12.5 kg equivalent carton

	South Africa
	Apples
Production Tons per hectare (full bearing trees)	55
Class1 – 12.5 kg export cartons per hectare	1980
Production cost per hectare	US\$6,300
Packing Cost per hectare	US\$10,500
Distribution Cost per hectare (Export)	US\$5,660
Total Cost per hectare	US\$22,460
Breakeven Export Price per 12.5 kg carton	US\$11.60

Source : Based on OABS (2006)

3.4 **POLITICAL ENVIRONMENT**

The integration of South Africa into the global political, economic and social system has been a priority for democratic South Africa. As a country isolated during the apartheid period, an African country, a developing country; and a country whose liberation was achieved with the support of the international community it faced huge domestic challenges. The South African Government is committed to the African Renaissance, which is based on the consolidation of democracy, economic development and a co-

operative approach to resolving the challenges the continent faces (South African Government Information, 2007).

Since 1994 emphasis was placed on meeting basic needs through programs for socio-economic development such as the provision of housing, piped water, electricity, education and healthcare, as well as social grants for those in need (Human rights watch World report, 2006). The impact of these programs is seen in the increased proportion of South Africans who now have access to these basic services. This has been achieved despite a social revolution reflected in smaller household sizes and therefore many more households needing basic services.

Another priority has been the safety and security of citizens, requiring both transforming the police into a service working with the community, and overcoming grave problems of criminality and a culture of violence posed by the social dislocations inherited from the past. By the end of the first decade of democracy, crime levels had been stabilized and many categories were beginning to decrease. Since South Africa became a democracy in 1994 serious attention had to be given to improving the country's image to become integrated in the international economic and political environment (South African Government Information, 2007). To drive this process the South African government established the International Marketing Council of South Africa (IMC).

The IMC is an organization which aims to create a positive, united image for South Africa to give the country a strategic advantage in an increasingly competitive marketplace. This it does through the promotion of South Africa Alive with possibility brand (see Figure 3.16) (International Marketing Council of South Africa, 2008).



Figure 3.16 : Brand SA

The IMC's mission focuses on three areas:

- To establish a brand for South Africa (Brand South Africa), which positions the country in terms of its investment and credit worthiness, exports, tourism and international relations objectives.
- To establish an integrated approach within government and the private sector towards the international marketing of South Africa.
- To build national support for the brand within South Africa itself. To achieve this, the IMC enlists the cooperation of government departments, public entities, the private sector and the non-governmental organizations.
- Pivotal to the success of the work of the IMC is the realization of its mission as this will help the country deal with its socio-economic issues. The IMC is doing incredible work in promoting political stability in South Africa. (International Marketing Council of South Africa, 2008).

3.4.1 Market access & Free trade agreements (FTA)

South Africa has an important FTA with the European Union since 1999 and another with SADC (Southern Africa Development Cooperation) (South African Government Information, 2007). It also has preferential agreements with Malawi, Zimbabwe and Croatia plus a non-reciprocal trade arrangement with Mozambique. At present, it is considering further bilateral deals with Kenya, Nigeria, China, Singapore, South Korea and India (South African Government Information, 2007).

The South African Customs Union is in talks with the Indian government for signing a Free Trade Agreement (FTA) to enhance the trade and business between both the countries. India, along with China, is the two biggest emerging economies in the world. Trade and economic cooperation between South Africa and India will see a growth in overall trade from the current 6 billion dollars to 10 billion dollars by 2007. Economic and trade relations would help Indian businesses as South Africa had duty free access to markets in the European Union and the US which India don't have (South African Government Information, 2007).

The Southern African Customs Union and the Chinese have entered into negotiations on a possible Free Trade Agreement (FTA). While the terms of such a pact remain undefined at this time, there is broad concern among business in Southern Africa that detrimental longer-term effects due to the structural nature of the Chinese and African economies could offset any short-term advantages a Free Trade agreement (FTA) might provide to Africa. The two countries agreed to encourage and support mutual trade and investment and to expand co-operation in areas of mutual economic interest (South African Government Information, 2007).

3.5 *HUMAN RESOURCES*

3.5.1 Education system

The South Africa's education system has experienced considerable reform since 1994. Much-needed improvements are still required, particularly in access to primary education in rural areas. According to the Department of Education, 300,000 children still do not attend school across the country; the reasons vary from a lack of services for children with special needs to a child's inability to pay school fees (South African Government Information, 2007).

Rural education is confronted by even more problems, such as the generally poor condition of schools on commercial farms; the high level of illiteracy; lack of parental participation in school governing bodies; poor transportation; and the non-attendance and shortage of teachers. The government faces enormous challenges in attempting to protect the rights of those living in remote rural areas, particularly the right of children living on commercial farms to education (South African Government Information, 2007).

In 2006 the government made a commitment to implement a no-fee school policy for primary education in South Africa's poorer areas to address the problem of pupils too poor to pay the required school fees (South African Government Information, 2007).

3.5.2 HIV Aids

South Africa has one of the highest HIV/AIDS prevalence rates in the world, with the estimated number of people infected with HIV at 5.6 million, of which 3.1 million are

women. It is estimated that there are 1.1 million orphans in South Africa (Noble, 2007). The SA apple and pear industry is starting to feel the effect of HIV as finding suitable labour is becoming increasingly difficult as the disease is shortening the lifespan of skilled farm workers. This is leading to increased training costs as workers have to be replaced and trained more regularly.

This realization about South Africa's Aids problem, combined with the need for knowledge about the disease in the fruit industry, motivated the DFPT (Deciduous Fruit Producers' Trust) to develop the "Nyanisa" – Let's talk status" campaign. DFPT aims to develop an HIV and AIDS awareness campaign on national level to create expectancy for a better and healthier future and to accommodate and assist infected individuals, as well as their employers in their current job circumstances (Deciduous Fruit Producers Trust, 2008).

The Nyanisa – Let's talk status campaign distinguishes itself from other awareness programmes by:

- Using theatre as an educational medium to portray true to life situations through which farm workers are empowered with knowledge.
- Presenting the opportunity for voluntary counselling and testing facilitated by qualified professionals.
- Reaching audiences in their own unique environment. The mobility of the Nyanisa team ensures that even the most rural farms are reached (Deciduous Fruit Producers Trust, 2008).

The South African Department of Health Study estimates that 30.2% of pregnant women were living with HIV in 2005. The provinces that recorded the highest HIV rates were KwaZulu-Natal, Mpumalanga and Gauteng (South African Government Information, 2007).

Table 3.11 : Estimated HIV prevalence among antenatal clinic attendees, by age

Age group (years)	2000 prevalence %	2001 prevalence %	2002 prevalence %	2003 prevalence %	2004 prevalence %	2005 prevalence %
<20	16.1	15.4	14.8	15.8	16.1	15.9
20-24	29.1	28.4	29.1	30.3	30.8	30.6
25-29	30.6	31.4	34.5	35.4	38.5	39.5
30-34	23.3	25.6	29.5	30.9	34.4	36.4
35-39	15.8	19.3	19.8	23.4	24.5	28.0
40+	11.0	9.8	17.2	15.8	17.5	19.8

Source: Noble (2007)

3.6 INDUSTRY STRUCTURES

3.6.1 Fruit South Africa (FSA)

Fruit South Africa is an alliance of the various fruit exporting sectors consisting of citrus, deciduous and sub-tropical fruit. As such FSA facilitated an inclusive process through which all stakeholders were represented, to develop a Fruit Industry Plan (FIP) based on the framework provided by the Sector Plan for Agriculture (Symington, 2006).

The process was directed by a Steering Committee consisting of commercial and emerging farmers, business partners, labour and government officials from the DoA, DTI and the NAMC. The Steering Committee focussed on a process to identify all the factors that impacts on the 3 pillars as contained in the Fruit Industry Sector Plan.

- Equal access and participation of all;
- Competitiveness and profitability; and
- Sustainability

The vision of Fruit SA is to enable fruit industry to be the preferred supplier of fruit products out of South Africa to the most discerning customers anywhere in the world. Their mission is to create, within free - market principles, a united and prosperous fruit export industry that best serve the interest of all stake holders by doing the following (Symington, 2006).

- Penetrating and maintaining market share in the global fruit market
- Delivering products to any market of choice
- Balancing niche and unique products with commodity products
- Applying best practice principles
- Optimizing and sustaining the entire fruit business
- Ensuring social equity and environmental integrity
- Enlisting government support
- Ensuring unity amongst participating stakeholders

Fruit SA's primary objective is to increase the sales of fruit exports from SA in rand value terms. They want to drive meaningful transformation throughout the fruit industry in SA and increase the number of beneficiaries in the fruit export value chain. Their secondary objective is to promote SA Fruit products and to adapt production and handling practices to meet international market needs (Symington, 2006).

3.7 SA APPLE AND PEAR INDUSTRY STRUCTURES

3.7.1 Deciduous Fruit Producers Trust (DFPT)

The DFPT is a service organisation established on 1 October 1997 as a result of restructuring of the Deciduous Fruit Industry as well as the phasing out of the Deciduous Fruit Board. The vision of the DFPT is "Maintaining the Global Competitive Edge for the Deciduous Fruit Producer". The DFPT manages the day to day activities of the SA Apple and Pear Producers' Association (SAAPPA) and SA Stone fruit Producers' Association (SASPA). The DFPT is responsible for following functions on behalf of the producer associations (Deciduous Fruit Producers Trust, 2008)

- Research, Development and Technology Transfer
- Plant improvement and Plant Certification
- Training and Development
- Industry and Market Access Opportunities
- To protect and expand market share based on effective communication
- The building of long term relationships
- Lobbying with relevant authorities

- The lowering of input costs and the enhancement of efficiencies in the export value chain
- To enhance the long-term economic viability and sustainability of the industry increasing the bargaining position of the producers (Deciduous Fruit Producers Trust, 2008).

3.7.1.1 South African Apples and Pears Producers association (SAAPPA)

The South African Apple & Pear Producers Association (SAAPPA) was formed as a section 21 (non-profit) company. SAAPPA strives to ensure that the industry's essential capacity is maintained to the benefit of all pome fruit producers in South Africa. It falls under the DFPT structure (Deciduous Fruit Producers Trust, 2008).

The main function of SAAPPA includes promoting the common interests and needs of producers regarding the production and marketing of pome fruit products, through constrictive dialogue and mutual co-operation (Deciduous Fruit Producers Trust, 2008).

3.7.1.2 Culdevco

The (ARC) Agricultural Research Council and the (DFI) Deciduous Fruit Industry have formed a joint venture to commercialise ARC bred selections/varieties. The new company, wholly owned by 5 primary producers groups in the DFI, called Culdevco (Pty) Limited (CULTivar DEVELOPMENT COmpany) have obtained the rights to commercialise such selections/varieties on an exclusive basis (Van Molendorf, 2007).

Over the years, particular emphasis has been placed by the ARC on the development of new cultivars, designed to enable the South African deciduous fruit industry to remain competitive in world markets. The Royalty Income from tree and food sales finances Culdevco. The impact of cultivars developed by the ARC on the South African Deciduous Fruit Industry is clearly reflected in the number of new cultivars that have been released to the Industry during the last 20 years, as well as the foreign exchange earned through exporting fruit of these cultivars to countries abroad. In total 10 pome (apples and pears) fruit have been released to the South African DFI during this period (Van Molendorf, 2007).

The development and marketing of new deciduous fruit cultivars worldwide is becoming an extremely competitive enterprise. Safeguarding the ARC's intellectual property and to commercialisation the ARC Infruitec / Nietvoorbij cultivars became an important goal. It was therefore important for the DFI to take the necessary steps through the establishment of Culdevco (Pty)Ltd to effectively control the volumes, fruit quality and selling prices for ARC bred cultivars produced in foreign countries. Culdevco (Pty) Ltd will aim to acquire varieties that have good potential for all the different markets supplied by the SA-Industry and will aim to help the ARC to direct its breeding programmes at prospective markets (Van Molendorf, 2007).

3.7.1.3 Pome Joint Marketing Forum

The Joint Marketing Forum was formed in March 2006 and consists out of SAAPPA and the Pome fruit Exporters forum to facilitate dialogue between growers and exporters and to improve marketing decisions (Conradie, 2006b).

The Joint Marketing Forum focuses on the following areas (Conradie, 2006b):

- Information quality
- Consumer knowledge
- Cost chain efficiency
- Role player interdependence

The Joint marketing Forum initiated a project in 2006 that now deliver shipping and inspection data electronically to the PPECB from pack houses all across South Africa. The initiative was started to improve the market intelligence of the SA industry by making industry shipping and inspection information available within a week after shipment to exporters and producers. The project goal is to generate information quickly and on-time to improve strategic planning and decision-making in the markets. Market intelligence and trustworthy information flow forms the platform of the Joint marketing forum activities. Types of information collected as well as market intelligence products provided include (Conradie, 2007b):

- Industry tree census
- Southern hemisphere crop estimates
- Inspection information
- Southern hemisphere shipping information
- Northern hemisphere stock information
- SA Price database model

3.7.2 Fresh Produce exporters Forum

The Fresh Produce Exporters' Forum (FPEF) was registered in 1998 as a non-profit industry organization. Its membership is voluntary and open to all companies that export fresh fruit from South Africa.

FPEF's main mission is to create, within free-market principles, a united, prosperous and disciplined fruit-export industry. FPEF's activities are focused towards (Symington, 2006):

- Encouraging the international community to use its members as the gateway to procuring South African fresh produce.
- Signalling to the industry that the FPEF accreditation standards are worth aspiring to for all South African exporters and they're producers.
- facilitating access for its members to relevant, accurate and timely generic information.
- Sourcing funds, over and above the voluntary membership fees, so that the FPEF secretariat can more effectively perform its mandate.
- Facilitating increased international trade opportunities for its members

FPEF also empowers the previously disadvantaged by running a "Top of the Class" support program. This program exposes participants to the dynamics of the fruit industry and assist in skills and career development (Fresh Produce Exporters Forum, 2007).

3.8 CHAPTER SUMMARY

In chapter three the South African Apple and Pear industry was described in the context of its physical, economic, political and social environment as well as looking at the organizations responsible for managing the industry interests.

The South African industry is well established in especially the Western Cape area where climatic conditions are ideal for the production of apples and pears. There are concerns that global warming is leading to increased temperatures in this area which can impact negatively on production. Limited water availability is also a growing concern.

The economic outlook for the apple and pear industry is good with a weaker currency supporting the export industry. Strong economic growth in South Africa has led to the increased spending power of the upcoming black middle class which has led to increased demand from the domestic market. Acceleration in the increase of value chain costs is however a concern that needs to be monitored. South Africa's high inflation rate in recent times has caused the SA Reserve Bank to act decisively by increasing interest rates. This trend is expected to continue in the short term which will add pressure on cost for South African apple and pear growers. The inability of state power supplier Eskom to cope with the increased power demand of the SA economy is expected to lead to increased cost in the value chain for apple and pear growers. Unexpected power outages are expected to hold a major risk for optimal cold chain management for the SA apple and pear industry.

In South Africa a lot of attention will have to be given to cold chain management to improve the eating quality and shelf life of fruit sold on the domestic market. The parastatal, the Perishable Products Export Control board, is adding value to the South African apple and pear industry by maintaining minimum exports standards for South African fruit. The security of power supply by state power supplier Eskom is a major concern in ensuring optimal cold chain management and needs to be addressed.

Political stability with strong execution of a stable fiscal and monetary policy has contributed to economic growth. Resource capacity to maintain economic growth is

however an area which needs attention from government. HIV Aids, education and social problems amongst the South African workforce continues to be a major challenge and could slow down potential growth in the SA apple and pear industry.

Ten years after deregulation the South African apple and pear industry has re-organized itself well into a strong producer organization (SAAPPA). SAAPPA along with industry structures like FPEF (Fresh Produce Exporter's forum) and the DFPT (Deciduous Producers Trust) have seen to it that the industry is well positioned to cope with the increasing demands of the international market in areas like food safety, market intelligence and new cultivar development. These structures are critical in bringing an organized approach to industry matters that will facilitate industry growth in future. Production research, food safety, market intelligence and market development are all areas that will continue to get attention through industry structures. In chapter four the internal environment of the Chilean industry will be discussed. In Chapter seven a SWOT analysis will be done comparing the internal environments of the South African and Chilean industries.

CHAPTER 4 : CHILEAN INDUSTRY – INTERNAL ENVIRONMENT

4.1 BACKGROUND

The Chilean fresh fruit exporting industry very recently celebrated its 70th birthday in 2005 and holds a clear position of leadership internationally accounting for more than 50% of all fresh fruit exports from the Southern Hemisphere. Chile's fresh fruit industry is characterized by more than 7,800 fresh fruit growers and 250,000 hectares of cultivated land of fresh fruit (Decofrut , 2008).

Chile is exporting fruit directly or indirectly to over 100 countries in the world. The fresh produce industry is currently the third most important industry in Chile and uses sophisticated technology in all its operating and administrative procedures (ASOEX, 2005). In this chapter the Chilean Apple and Pear industry will be described in the context of its physical, economic, political and social environment as well as looking at the organizations responsible for managing the industry interests.

4.2 PHYSICAL ENVIRONMENT

4.2.1 Climatic and phytosanitary conditions

Chile being a thin strip of land stretching from 56 degrees in the north to 17 in the south has given the country a wide range of climates and made it suitable for a huge array of fruit crops. Chile extends over 4,200 km from the Atacama Desert area to the rainy and humid southern part of the hemisphere. The fruit production is concentrated from Santiago (33° south) to the Chilean (37° south latitude). The climate in this area is mild with well-defined seasons and the area has a variety of soils, from clay to loam, as well as ones with sandy-loam texture (ASOEX, 2005).

Chile is in a very privileged fruit production zone because of the naturally isolating effects of the country's landscape - the Atacama Desert in the north, the Andes

Mountains to the east, the Pacific Ocean to the west and the ice-fields to the south. These extraordinary natural conditions create a "phytosanitary island" which has enabled Chile to develop a fruit industry almost immune to plagues and viruses, problems that have limited other countries in their efforts to develop fruit export trade. These special conditions have allowed Chile to exercise a high degree of control over land use practices employed by its growers as well as packing house conditions. This means there is a minimal and very rational use of agro complements, and that all international requirements regarding their use are strictly adhered to. The Agriculture and Cattle Service of Chile (SAG), a division of the Ministry of agriculture, has carried out work that led to the establishment of regulations and customs procedures at all border entry areas. SAG was initially created to safeguard the country's optimum phytosanitary conditions (ASOEX, 2005).

Committed actions taken by growers and exporters have established Chile's reputation as a "phytosanitary safe" country in all the markets receiving its fruit. The recognition by the international market of "fruit fly free" areas in Chile, have been an important step in the export sector's drive to consolidate and increase the presence of Chilean fruit in diverse markets around the world. This has led to the elimination of some phytosanitary restrictions, thus reducing export costs and increasing competitive market opportunities.

4.2.2 Apple Production

4.2.2.1 Apple area planted per production region

Apples flourish in the colder regions of Central - Southern Chile. More than 20 different species are grown in these regions. The two main regions of apple production is Maule and Rancagua accounting for 59% and 34% of the total Chilean apple area respectively. These two regions represents almost 35% of total Southern Hemisphere and 31% of total Chilean fresh fruit exportation (Decofrut ,2008).

Table 4.1 shows the five apple production areas in Chile and their contribution towards the total area that each region represents.

Table 4.1 : Chilean apple area per region (ha)

Production region	Planted area(ha)	%
V region Velpraiso	191.5	1%
Metropolitan region - Santiago	536.6	2%
VIII region - Bío Bío	942.8	4%
VII region – Maule	14,990.8	59%
VI region – Rancagua	8,646.1	34%
Total	25,307.8	100%

Source: Decofrut (2008)

4.2.2.2 Apple area per variety

The period 2002- 2004 showed a sharp increase in Chilean apple plantings with and growth of 32% or 8966 hectares in total plantings. Plantings increased significantly in bi-coloured, red and green apple types. Bi-coloured apple types are the most popular in Chile as weather conditions assist in the beautiful colouring of this apple type. In 2005 the Chilean industry consolidated with very little additional plantings of the three main apple types as well as the grubbing of other apple types. Table 4.2 indicates the hectares planted per apple type for the period 2002-2006 (Decofrut, 2008).

Table 4.2 : Chilean area per variety 2002-2006

Apple type	Planted area (ha) 2002-2006				
	2002	2003	2004	2005	2006
Bi -colored	13,539	15,068	15,873	16,556	16,556
Red Apples	8,904	12,007	12,045	11,945	11,945
Green Apples	2,896	6,180	6,341	6,441	6,441
Others	2,730	2,742	2,776	722	722
Total	28,069	35,997	37,035	35,664	35,664

Source: Decofrut (2008)

Variety plantings are dominated by Royal Gala representing 35% of total apple plantings. Red Delicious is second with Granny Smith in third spot. Bi-colored varieties like Cripps Pink and Fuji are increasingly becoming popular in international markets and plantings of these two varieties are expected to increase in future years (Decofrut, 2008).

Table 4.3 : 2006 Chilean apple plantings by variety

Variety	Planted area (ha)	%
Royal Gala	12,482	35.0%
Red Delicious	9,986	28.0%
Granny Smith	6,063	17.0%
Fuji	3,210	9.0%
Braeburn	1,427	4.0%
Pink Lady	1,070	3.0%
Cripps Pink	892	2.5%
Sin Espicicar	178	0.5%
Jona Gold	178	0.5%
Golden Delicious	178	0.5%
Total	35,664	100.0%

Source: Decofrut (2008)

4.2.2.3 Apple orchard age distribution

The Chilean apple orchard age distribution statistics is not available as this census is not done by the Chilean industry. However with the total area increasing by 24% since 2002 the assumption can be made that approximately 36% of the apple area in Chile is younger than five years allowing for 2% grubbing of old orchards per year. This indicates a very healthy position in terms of average orchard age (Decofrut , 2008).

4.2.2.4 Average apple orchard age per variety / apple type

The Chilean average apple orchard age per variety statistics is not available as this census is not done by the Chilean industry. In terms of the three main apple types a few assumptions can be made with available planting statistics. Since 2002 total bi-coloured apples hectares increased by 18% which indicates that approximately 28% of bi-coloured plantings are younger than 5 years old allowing for 2% grubbing of old orchards per year (Decofrut, 2008).

Red apple plantings increased by 25% since 2002 which indicates that approximately 35% of plantings are younger than 5 years old allowing for 2% grubbing of old orchards per year. 55% of total Green apple plantings were made since 2002 which indicates that approximately 65% of plantings are younger than 5 years old allowing for 2% grubbing of old orchards per year. To have 15% of total orchards under the age of five

years is generally accepted as a good position to be in. Chilean bi-coloured, red and green apples varieties exceed the 15% mark by a large margin which indicates a strongly positioned apple industry where young plantings have been sufficient to make provision for future growth in the Chilean apple industry (Decofrut , 2008).

4.2.2.5 Apple Crop distribution

Table 4.4 showing the apple crop distribution of Chile for the period 2004 – 2007 indicate that the Chilean apple industry is predominantly focused towards the export market. An average of 66% of fruit production was exported in this period while domestic fresh market and the processed market represent 24% and 10% of total production respectively.

Table 4.4 : Chile apple crop distribution 2004-2007

Year	Total production	Local market	Export market	Processed
2004/2005	926,562	224,062	627,500	75,000
	100%	24.0%	68.0%	8.0%
2005/2006	1,057,692	243,269	687,500	126,923
	100%	23.0%	65.0%	12.0%
2006/2007	1,070,074	267,518	706,250	96,306
	100%	25.0%	66.0%	9.0%

Source: Based on Decofrut (2008)

4.2.2.6 Apple export cartons

The Chilean apple export industry have shown some strong growth in recent years with total export cartons rising from 51 million to 56.5 million 12.5 kg equivalent cartons for the period 2005 to 2007.

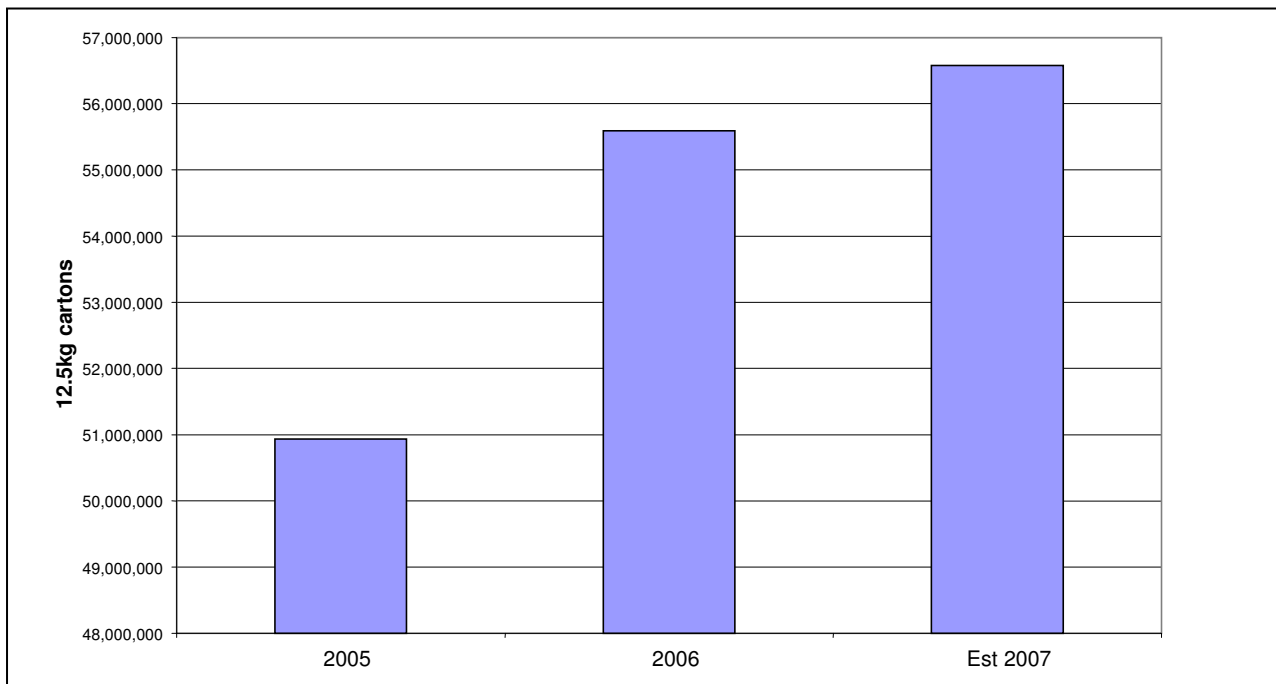


Figure 4.1: Chile total apple export cartons 2005-2007

Source: Decofrut (2008)

Bi-coloured varieties like Royal Gala, Fuji and Cripps Pink have shown significant increases in recent years while the export of Red Delicious are decreasing. An estimated 22 million cartons of Royal Gala was expected to be exported in 2007, an increase of 33% since 2005. This clearly indicates the increased popularity of bi-coloured apples in world markets while traditional varieties like Red Delicious are starting to lose market share. Granny Smith exports are also expected to grow significantly in the coming years after significant plantings in the past 5 years (Carvajal, 2007).

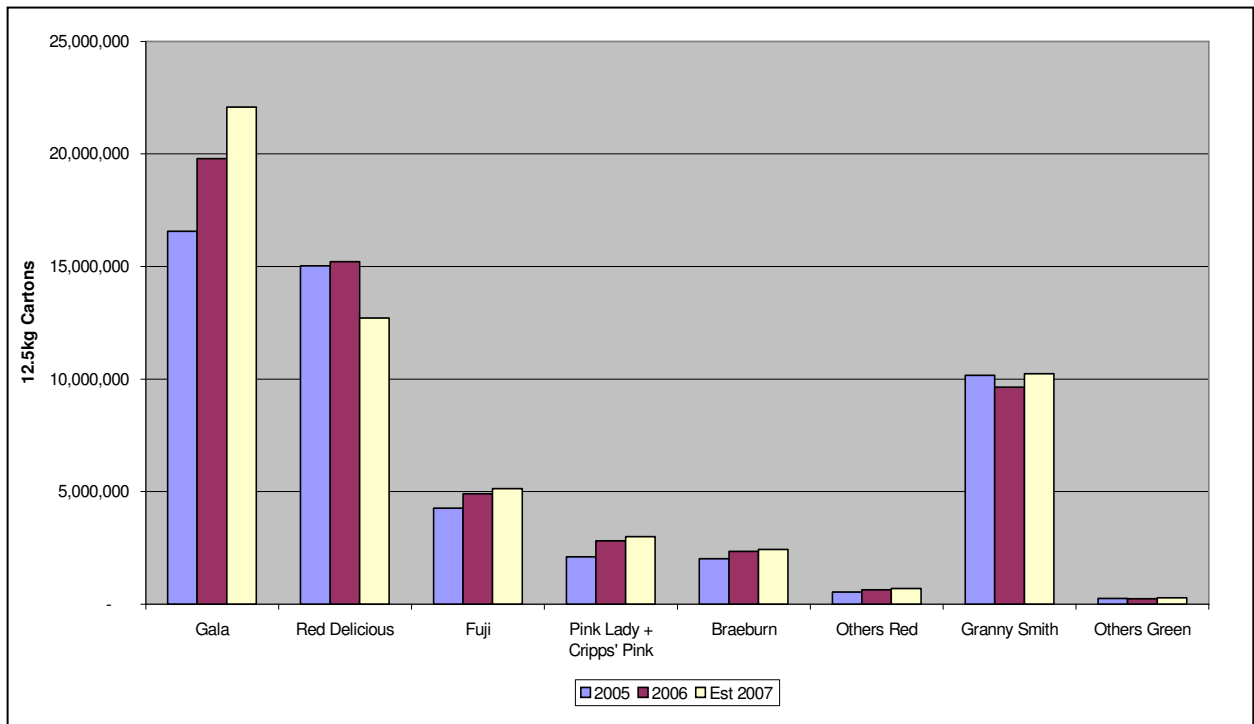


Figure 4.2: Chilean apple exports

Source: Decofrut (2008)

4.2.2.7 Apple export markets

Apples for exports from Chile is available from January to May. Figure 4.3 shows Chile's main apple export destinations during 2005/06. Europe, South America and the United States are the most important export destinations representing 30%, 24% and 18% of Chilean apple exports respectively. Chile is also targeting the UK and the Far East as important destinations to grow their market share. Growth in these two markets is expected in the coming years (Carvajal, 2007).

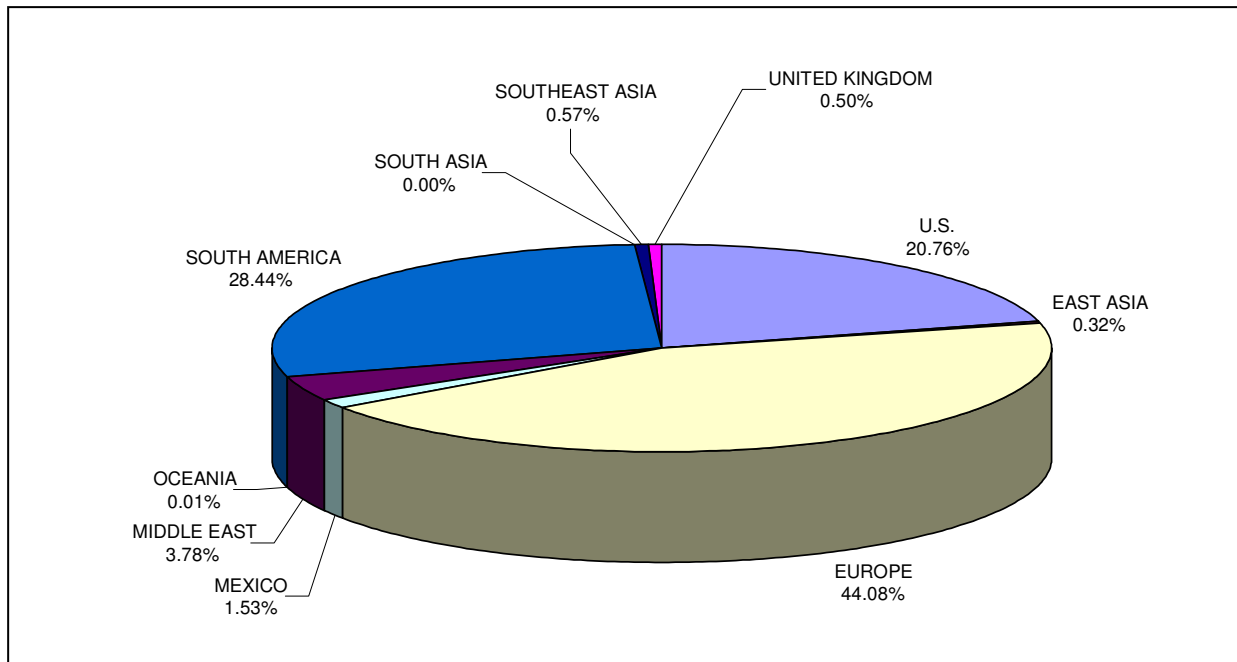


Figure 4.3: Chilean apple export destinations 2005/06

Source: Decofrut (2008)

4.2.2.8 Monthly availability of apples

Chile has an excellent infrastructure in terms of cooling facilities and this contributes to Chile's ability to supply apples for almost twelve months of the year. Royal Gala, Fuji and Granny Smith are each sold for nine months of the year while Red Delicious tops the list being available for ten months of the year. An extended availability of Cripps Pink is expected in the near future with the further development of Controlled atmosphere facilities and techniques. Apples from Chile are available from late January until December (ASOEX, 2005).

Apples from Chile are available from late January until December.



Figure 4.4 : Chilean monthly apple availability

Source: Decofrut (2008)

4.2.3 Pear Production

4.2.3.1 Pear area planted per production region

Pear is the fifth largest fruit crop in the Chilean export basket, representing 5% of the planted area of fruit trees. Chilean exports comprise 7% of the world pear exports. Pears flourish in the Central zone of the country (32°-36°33' S) under temperate climatic conditions. Sixteen different types of pears are grown in Chile, and they all have two things in common: outstanding flavour and an intensive aroma. The three main regions of pear production are Maule, Santiago and Rancagua accounting for 28%, 22% and 46% of Chilean planted pear hectares respectively (Decofrut, 2008).

In Table 4.5 the five pear production areas in Chile is indicated with their planted hectares and the percentage of total planted hectares that each region represents.

Table 4.5: Chilean pear area per production region

Production region	Planted area (ha)	%
IV region - Coquimbo	13.3	0%
V region - Vapraiso	254.5	4%
Metropolitan region - Santiago	1445.8	22%
VI region - Rancagua	3053.5	46%
VII region - Maule	1865.4	28%
Total	6632.5	100%

Source: Decofrut (2008)

4.2.3.2 Pear area planted per variety

For the period 2002-2006 Chilean pear plantings have been quite stable with a small decrease of 4% or 290 hectares in total plantings. Chilean growers have been struggling with pear profitability in recent times which explains the period of consolidation. Chile concentrates mainly on green and russet pear types and the lack of a bi-colour pear type in their basket can be seen as a weakness. Table 4.6 indicates the hectares planted per pear type for the period 2002-2006.

Table 4.6 : Pear area per year

Pear type	Planted area (ha) 2002-2006				
	2002	2003	2004	2005	2006
Green pear	4423	4207	4207	4198	4164
Red Pear	341	284	264	264	264
Russet	1588	1548	1527	1507	1482
Others	570	630	722	722	722
Total	6922	6669	6720	6691	6632

Source: Decofrut (2008)

Variety plantings are dominated by Packhams Triumph representing 57% of total pear plantings. The russet type pears, Buerre Bosc and Abate Fetel, is in second and third spot respectively. Abate Fetel is becoming very popular in especially Germany and growth in plantings is expected in this variety. The search for a bi-colour pear variety that can be grown successfully in Chile continues (ASOEX, 2005).

Table 4.7: Pear area per cultivar

Variety	Planted area (ha)	%
Packhams	3,780.5	57%
Buerre Bosc	663.3	10%
Abate Fetel	596.9	9%
Summer Bartlett	398.0	6%
Buerre de Anjo	398.0	6%
Coscia	331.6	5%
Pera roja	265.3	4%
Golden Russet	132.7	2%
Winter Nelis	66.3	1%
Total	6,632.5	100%

Source: Decofrut (2008)

4.2.3.3 Pear orchard age distribution

The Chilean pear orchard age distribution statistics is not available as this census is not done by the Chilean industry. However with a decrease of 4% in total planted hectares since 2002 the assumption can be made that approximately 6% of the pear hectares planted in the Chile is younger than five years allowing for 2% grubbing of old orchards per year. Low profitability in pear cultivation has led to the grubbing of older orchards with limited new plantings. This indicates a weak position in terms of average orchard age (Decofrut, 2008).

4.2.3.4 Average Pear orchard age per variety

The Chilean average pear orchard age per variety statistics is not available as this census is not done by the Chilean industry is. In terms of the three main pear types a few assumptions can be made with available planting statistics. Since 2002 total green pear hectares decreased by 6% which indicates that approximately 4% of green pear plantings are younger than 5 years old allowing for 2% grubbing of old orchards per year (Decofrut , 2008).

Red pear plantings decreased by 22% since 2002 which indicates that no plantings are younger than 5 years old allowing for 2% grubbing of old orchards per year. Total Russet pear plantings decreased by 6% since 2002 which indicates that approximately 4% of plantings are younger than 5 years old allowing for 2% grubbing of old orchards per year. To have 15% of total orchards under the age of five years is generally accepted as a good position to be in. Chilean green pear, red and russet pear varieties are below the 15% mark by a large margin which indicates a weakly positioned pear industry where young plantings have not been sufficient to make provision for future growth in the Chilean pear industry (Decofrut , 2008).

4.2.3.5 Pear Crop distribution

Figures showing the pear crop distribution of Chile for the period 2004 – 2007 indicate that the Chilean pear industry is predominantly focused towards the export market. An average of 69% of fruit production was exported in this period while domestic fresh

market and the processed market represent 24% and 7% of total production respectively (Decofrut, 2008).

Table 4.8: Pear Crop Distribution

Year	Total production	Local market	Export market	Processed
2004/2005	172,101	43,025	118,750	10,326
	100%	25.0%	69.0%	6.0%
2005/2006	158,927	38,142	111,250	9,535
	100%	24.0%	70.0%	6.0%
2006/2007	156,715	37,611	105,000	14,104
	100%	24.0%	67.0%	9.0%

Source: Based on Decofrut (2008)

4.2.3.6 Pear export cartons

The Chilean pear export industry have shown some a sharp decline in recent years with total export cartons decreasing from 9.5 million to 8.4 million 12.5 kg equivalent cartons for the period 2005 to 2007.

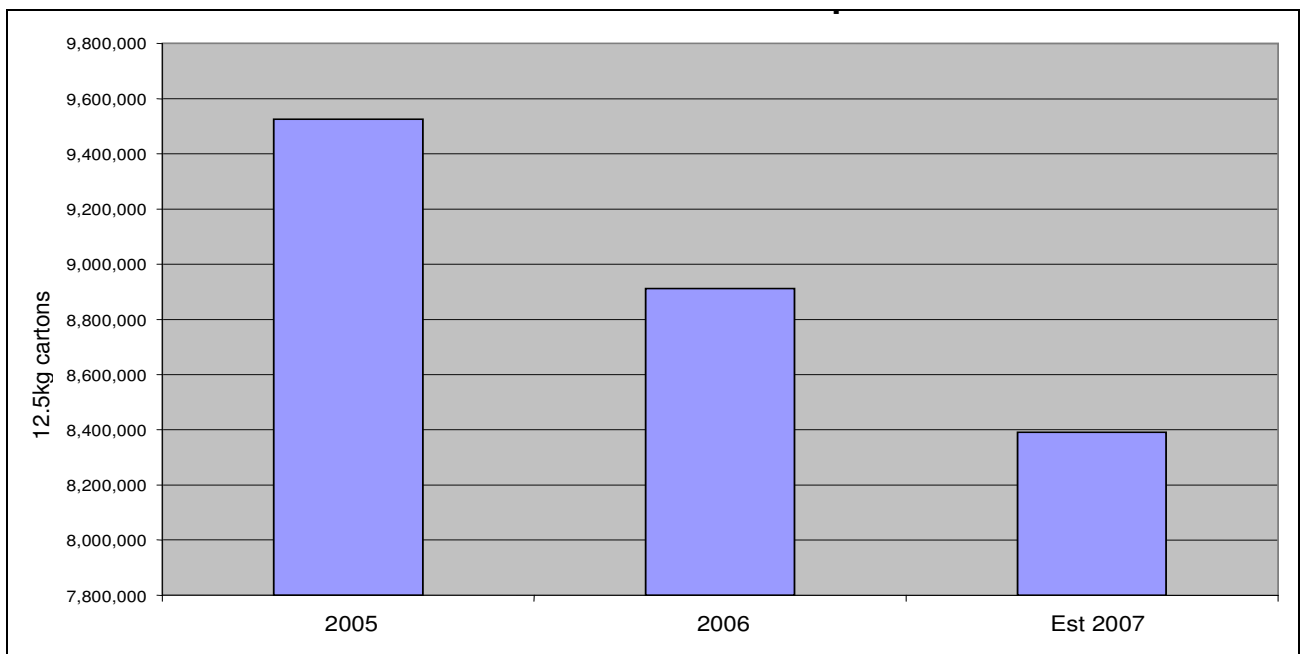


Figure 4.5: Total Chilean pear exports 2005 – 2007

Source: OABS (2007)

Green varieties like Packhams Triumph and Bartlett have showed significant decreases in recent years. An estimated 4.7 million cartons of Packhams Triumph was expected to be exported in 2007, a decrease of 20% since 2005. This clearly indicates the problems Chile is experiencing with pear profitability at the moment. Buerre Bosc exports mainly focused towards the US market have been quite stable while Abate Fetel exports to especially Germany are expected to grow in the coming years. The major weakness in the Chilean pear basket is the lack of a bi-colour pear. Forelle have been tried but fruit size and alternate bearing have been highlighted as problems that have prohibited the variety from taking off in Chile (Carvajal, 2007).

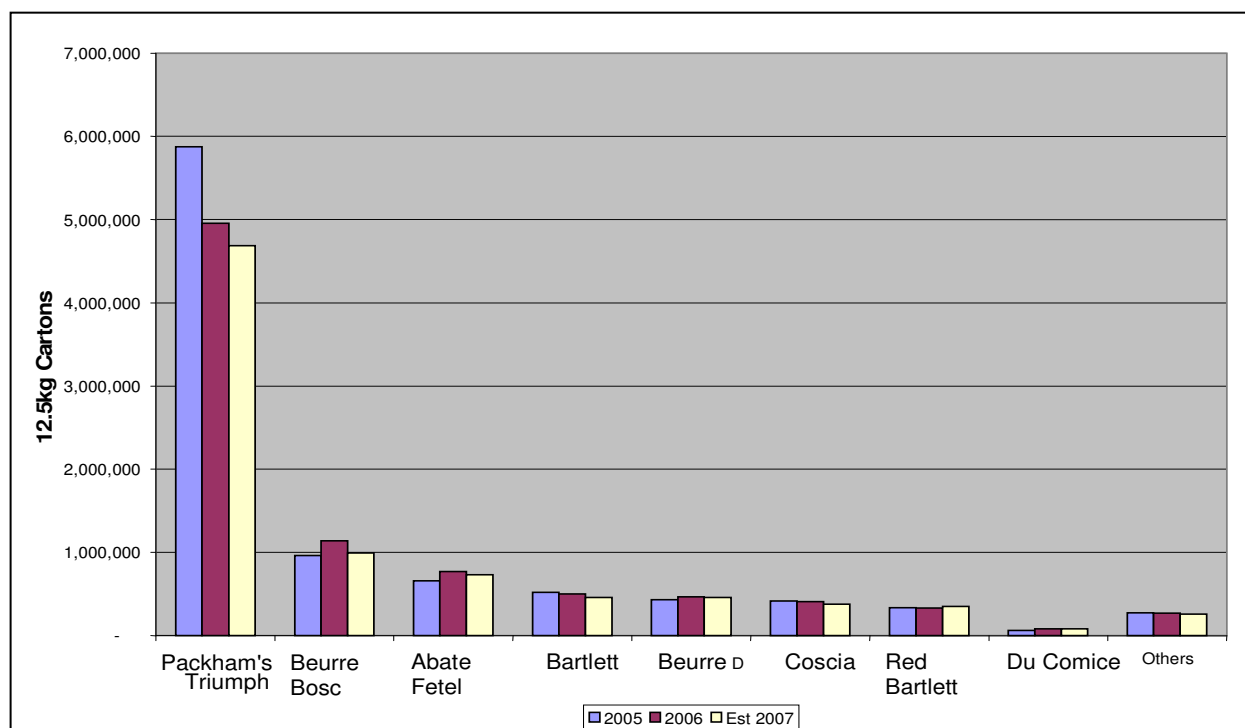


Figure 4.6: Chilean pear exports per variety

Source: OABS (2007)

4.2.3.7 Pear export markets

Europe, South America and the United States are the most important export destinations representing 44%, 28% and 21% of Chilean pear exports respectively. Chile is also targeting the UK and the Middle East as important destinations to grow their market share. Growth is expected in these two markets in the coming years. Chile

pear exports were dominated by varieties such as Packham's Triumph, Beurre Bosc, Abate Fetel, Bartlett and Beurre D Anjou (Carvajal, 2007).

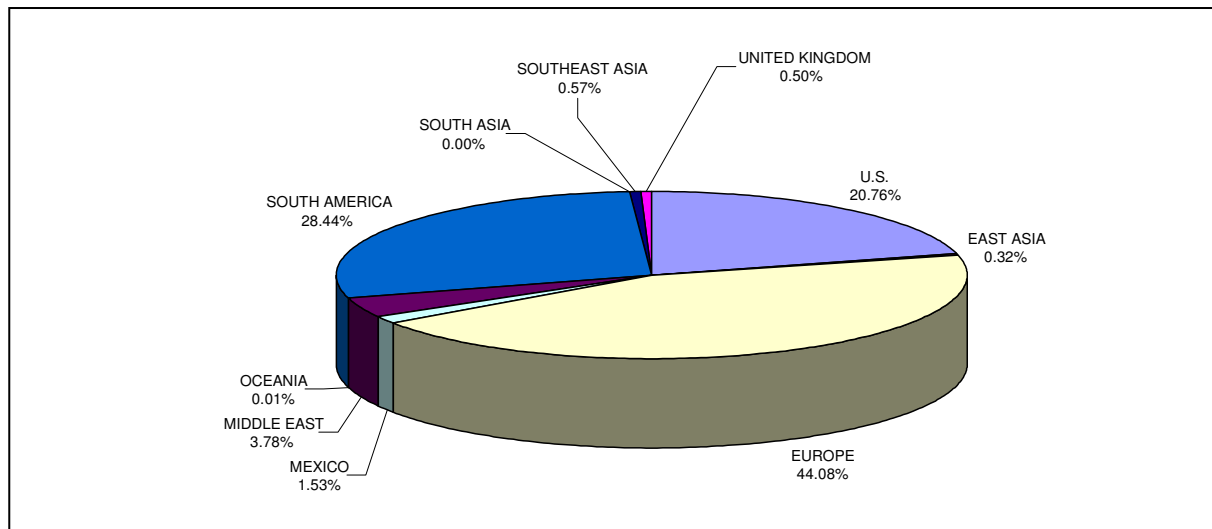


Figure 4.7: Chilean pear export destinations 2005/06

Source: Decofrut (2008)

4.2.3.8 Pear monthly availability

The two leading green pear varieties in terms of volumes exported namely Packhams Triumph and Buerre D'anjou, are available for ten and nine months of the year respectively. Buerre Bosc is the only Russet type variety where volumes produced currently warrants long tem storage. With Abate Fetel volumes set to increase in future years, availability will also be extended through more fruit going into long-term storage (ASOEX, 2005).

Table 4.9 : Chilean monthly pear availability

Pears	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Coscia												
Summer Bartlett												
Packham's Triumph												
Red Sensation												
Red Bartlett												
Beurre D'anjou												
Beurre Bosc												
Abate Fetel												
Hosui												
Kosui												
Shinseiki												
Nijisseiki												

Source : Decofrut (2008)

4.2.4 Road transport infrastructure

Chile national road network covers 79,800 km of highway roads of which 2,653 km are freeways. The Pan American Highway runs the length of the country, forming the 3,600 km backbone of the road system, with transversal roads leading from it east and west. The Pan-American Highway is a network of roads nearly 48 000 km in total length. Except for an 87 km rainforest gap, the road links the mainland nations of all Americans in a connected highway system. Chile's length and physical barriers constrain communication and traffic flow. International road transport has an important part to play in the economic and social development of (Chile Federal Research Division of the Library of Congress, 1994).

Chile's internal transport network is well developed, and has been upgraded in March 2005. Chile has about 10,388 km of paved road, with the region around Santiago and the Central Valley being the best served. Gravel roads total 33,440 km, and improved and unimproved earth roads total 35,972 km. There are about 1.1 million motorized vehicles of all kinds in Chile, including at least 700 000 automobiles and 300 000 trucks and buses. Chile's national bus service and Santiago's metro system are considered excellent (Chile Federal Research Division of the Library of Congress, 1994).

Chile has struggled to balance the need for investments in infrastructure with the pressing demand for better social services. During the final decades of the 20th century, the country's infrastructure spending did not keep pace with its economic growth, creating serious bottlenecks for producers who depend on roads, seaports and airports to market their goods (Chile Federal Research Division of the Library of Congress, 1994).

4.2.5 Shipping infrastructure

Having a long coastline makes it possible for Chile to have eighteen ports but unfortunately the country has few good natural harbours. Only five ports have adequate facilities to handle export fruit and about ten are used primarily for coastal shipping. All shipping facilities are used to capacity. Coastal shipping is restricted to Chilean flag

vessels. The main ports are Antofagasta, Arica, Coquimbo, Iquique, Puerto Montt, Punta Arenas, San Antonio, Talcahuano, and, most important, Valparaíso. The state controls port organization and approximately 40% of the merchant marines. Chile's inland waterways are navigable for a total of only 725 km, mainly in the southern Lake District. The Río Calle Calle provides a waterway to Valdivia from at least one lake for ships up to 4,000 tons deadweight (Chile Federal Research Division of the Library of Congress, 1994).

4.2.6 Airfreight infrastructure

Chile is one of the most advanced countries with regard to the liberalization of air transport. The Chilean air transport policy is based on the principles of free market entry, freedom of pricing, open skies and minimum government intervention. Linking the country's extremes, air transport has also become an important way of moving people and freight. Chile has 351 usable airports, forty-eight with paved runways, but none with runways longer than 3,659 m. The international airport in Santiago is served by eighteen international airlines and two national airlines. The state carrier, National Airline LAN-Chile, serves major cities in Chile and also carries passengers to numerous international destinations. Privatized in 1989, LAN-Chile merged with a new airline, Southeast Pacific, in 1992 (Chile Federal Research Division of the Library of Congress, 1994).

LAN-Chile's domestic coverage is supplemented by the services of Chilean Airlines. Ladeco is Chile's second largest carrier and has a 52 percent share of passengers, and LAN-Chile has a 46 percent share. LAN-Chile controls 84 percent of the international movement of passengers while Ladeco controls 16 percent. In 1992 Fast Air, Chile's largest air cargo carrier incorporated the first of three DC-8 aircraft as part of a US\$75 million service improvement program (Chile Federal Research Division of the Library of Congress, 1994).

4.2.7 Quality of cold-chain management

The maintenance of the optimum storage temperature during the handling, transport and marketing of perishable produce is referred to as the cold chain. The objective of

cold chain management is to ensure that the fruit reaches the end consumer in top quality condition and as fresh as possible.

In Chile it is the duty of The Production Development Foundation (CORFO) to create worldwide confidence in Chilean perishable products, through certification of good practices. CORFO has undertaken development projects that include the following (ASOEX, 2005):

- Compliance with international quality standards through the implementation of verifiable management systems that guarantee the quality of products and processing.
- The development and implementation of traceability systems that permit proper tracking of the product through the packing plant to the point of sale. This gives the consumer the assurance that effective controls are in place at every stage in the process.
- Encouraging co-operation between companies in the cold chain to jointly pursue new business opportunities that could lead to an competitive edge for the Chilean industry.
- “Just in time” inventory control systems that optimizes stock control in the system and thereby eliminate unnecessary losses and cost.
- Increasing productivity through production management, such as soil studies, fertilization improvement, irrigation optimization, cargo management etc.

The Chilean cold chain practices have reached a high level of standardization which has created operational fluency and confidence in the Chilean cold chain with international customers (ASOEX, 2005).

4.3 *ECONOMIC ENVIRONMENT*

4.3.1 Chilean Economy overview

Chile has an open economy, with clear and stable rules. The country enjoys varied natural resources, skilled labour, first-rate managers and a competent, effective administrative structure. Today’s successes are largely due to the consensus achieved

on economic policy. The central pillars of this policy are openness to the world, the market as the chief means of resource allocation, and the State as a regulating and balancing factor (Chile Federal Research Division of the Library of Congress, 1994).

Chile's varied climate and topography explain the richness and diversity of its natural resources, which are distributed throughout the country with mineral deposits in the north and central zones. The forests of the central zone and south give the country its enormous timber potential. Chile's central zone offers fertile soil for agriculture and ranching. According to the International Monetary Fund (IMF) Chile's economy has grown at an average rate of more than 5.9% over the last 18 years while the world economy grew at a rate well below 4% during the same period. Chile's growth has taken place in the framework of a free economic environment and strong economic indicators such as balanced fiscal accounts, low levels of public debt, low inflation, sound external accounts and high levels of investment and saving. Political and social stability, together with the existence of open and competitive markets, guarantee a secure business environment. Stable and transparent rules, an efficient and independent judiciary and a dynamic and innovative private sector, which constitutes the main engine of growth, are all factors that further enhance the country's position as an extremely competitive economy (Lipsky, 2006).

This free economic and business environment is coupled with a proactive trade policy based on multilateral and regional trade negotiations, as well as bilateral trade agreements signed with the leading world economies.

4.3.2 Fiscal policy

The macroeconomic institutional and policy framework of Chile has been transformed radically in the last 25 years, from one that made stabilization an exceptional result to one that has facilitated achieving price stability. Chile's current macroeconomic framework is based on four pillars namely (Corbo, 2007):

- An autonomous Central Bank with the explicit mandate of safeguarding stability of prices and payments

- A low public-debt to GDP ratio and a fiscal policy rule anchored to a structural fiscal surplus. The structural fiscal surplus rule stabilizes government spending over time by linking it explicitly to permanent government revenue.
- A robust financial system, with a dynamic, competitive, and well capitalized banking industry, appropriately regulated and supervised
- A full-fledged inflation targeting monetary framework, complemented by a floating ER regime. Chile has shown a responsible fiscal policy, which has contributed significantly to successful monetary policy.

Central bank autonomy and Chile's sound fiscal policy has ruled out fiscal dominance of monetary policy. The result has been that public debt expressed as a percentage of Gross domestic product has shown a substantial decline from 75.5% in 1990 to 19.6% in 2006. The consolidated net public debt position expressed as a percentage of GDP went from 34% in 1990 to -6% in 2006. This is a clear indication that the balance sheet of the Chilean government is looking very healthy (Corbo, 2007).

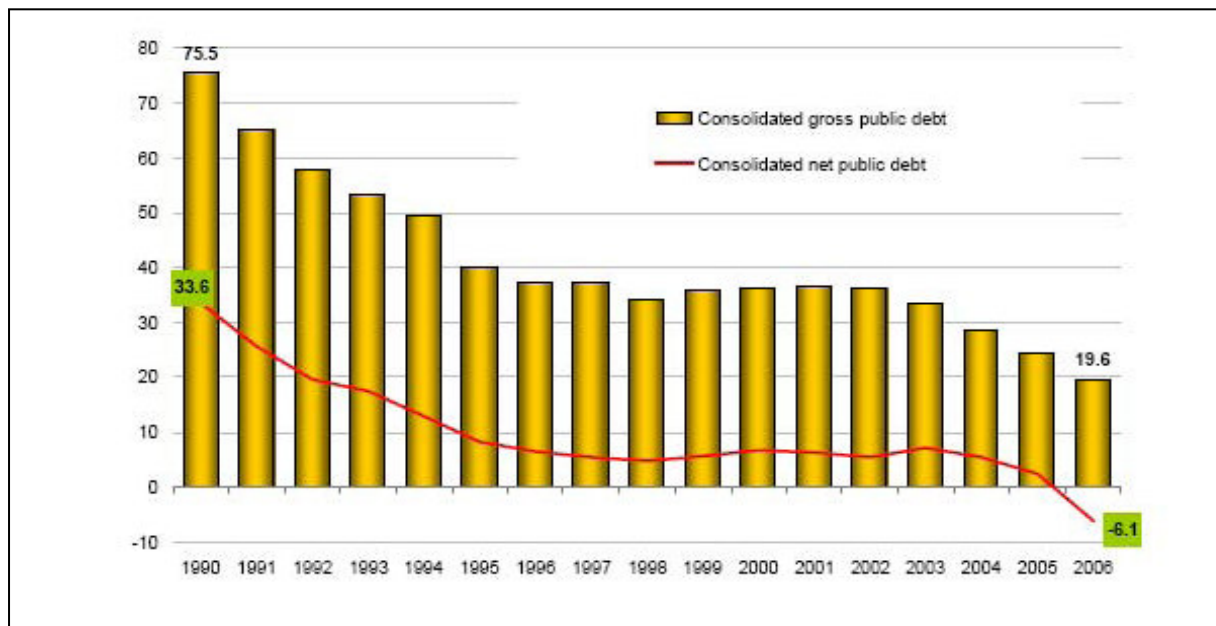


Figure 4.8: Chilean government debt expressed as a % of GDP (1990-2006)

Source: Corbo (2007)

4.3.3 Monetary policy

The main purpose of the Central Bank of Chile's monetary policy is to keep inflation low and stable, defined as a range of 2% to 4% per annum, centred on 3%. Controlling inflation is the means by which monetary policy contributes to the population's welfare. Low, stable inflation improves economic performance and growth, while preventing the erosion of personal income. The focus on inflation targeting helps to moderate fluctuations in employment and domestic output (Corbo, 2007).

Table 4.10 : Major Economic Indicators in Chile

	2005	2006
Population (million)	16.2	16.4 (est)
GDP (US\$ billion)	115	140 (est)
GDP per capita (US\$)	7,124	8,570 (est)
Real GDP growth (%)	6.3	5.2 (est)
Inflation (%)	3.1	3.5 (est)
Unemployment (%)	8.1	8.8 (Sep-Nov)
Exports (US\$ billion)	41	43 (Jan-Oct)
Export growth (%)	+28	+50
Imports (US\$ billion)	33	21 (Jan-Jul)
Import growth (%)	+32	+17
Exchange rate (Peso/US\$1)	560	531 (Oct)

Source: Corbo (2007)

4.3.4 Gross Domestic product

The strong growth in the Chilean economy is clearly illustrated by Figure 4.9 that shows that the GDP has grown consistently above 4% except for 1999 when a world economic crisis as well as a severe drought led to lower exports and prices for especially agricultural and electrical products. This resulted in a negative GDP growth for 1999 (Corbo, 2007).

4.3.5 Inflation

The Consumer Price index (CPI) in Figure 4.10 shows that since 2000 Chile's Central Bank has achieved its inflation target of 2-4% except for a short stint of deflation in 2004. The Whole sale price index showed a lot of volatility but the stable CPI showed that monetary policy succeeded in keeping this volatility away from consumers.

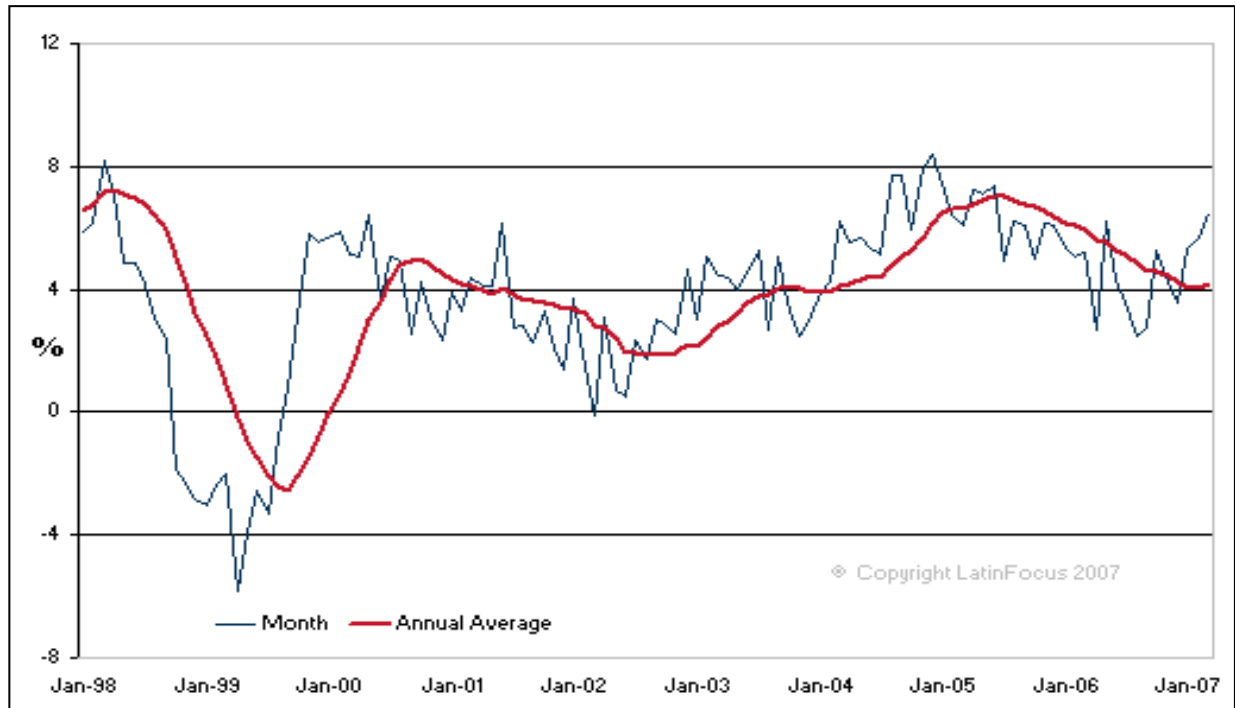


Figure 4.9: Chilean GDP per year

Source: Latin Focus (2007)

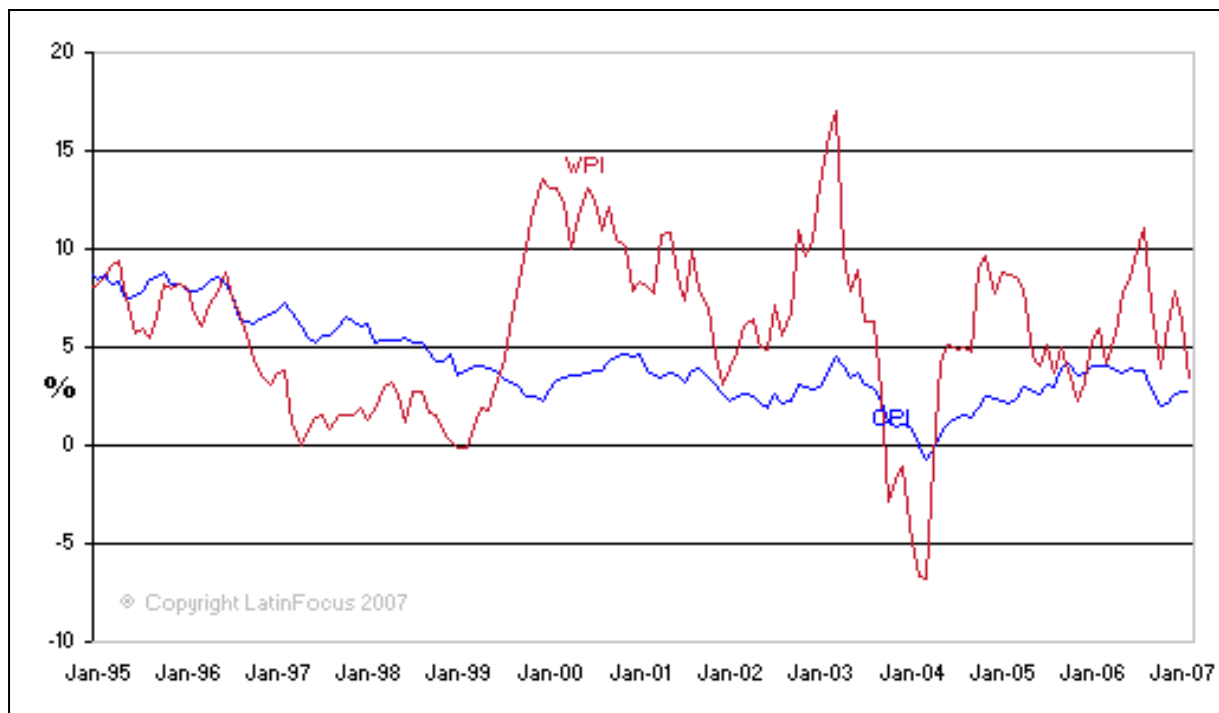


Figure 4.10: Annual variation of Consumer Price Index (CPI) and Wholesale Price Index (WPI)

Source: Latin Focus (2007)

4.3.6 Interest rates

During the world economic crisis in 1999 Chilean prime lending interest rates went as high as 19%. It was extremely expensive to borrow money which contributed to slow economic growth. Subsequently the Chilean economy has stabilized to such an extent with inflation being under control that interest rates have come down to levels of about 5% (Corbo, 2007).

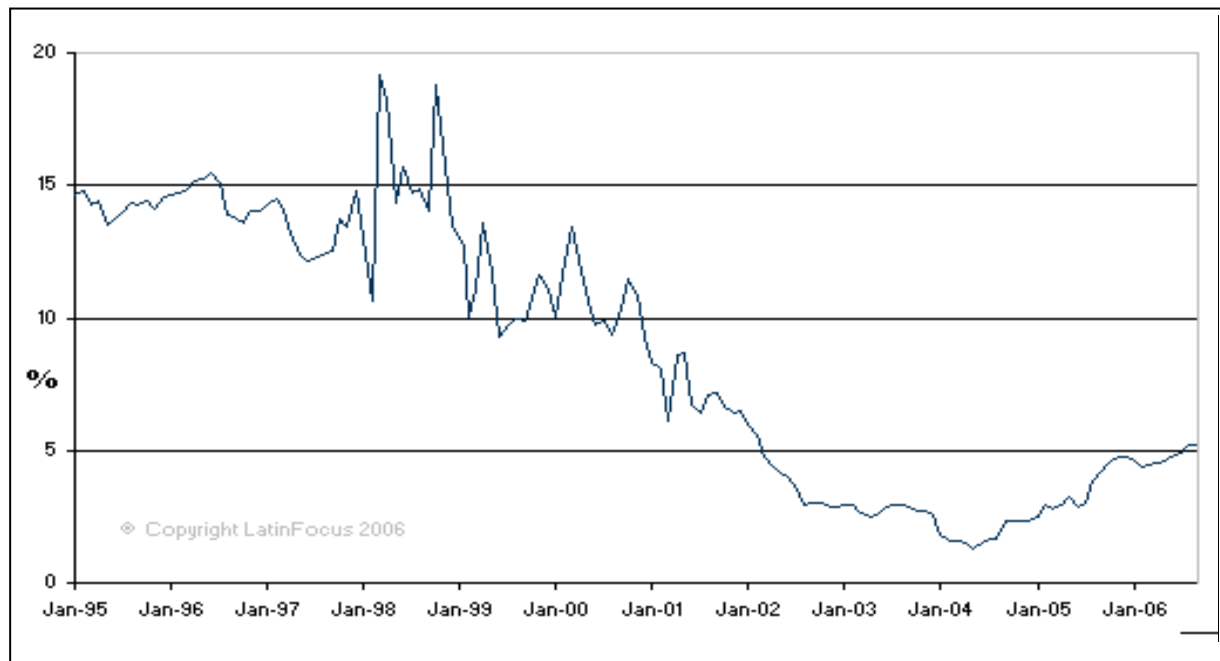


Figure 4.11: Chilean prime lending interest rates Jan 1995-2006

Source: Latin Focus (2007)

4.3.7 Balance of Payments

In Figure 4.12 shows that till 2004 Chile predominantly had a shortage on their balance indicating that it was a net importer of goods. Since 2004 this position has changed with surpluses being achieved. This clearly indicates that exports have been growing strongly while imports have become cheaper with the strengthening of the Chilean currency since 2003 (Corbo, 2007).

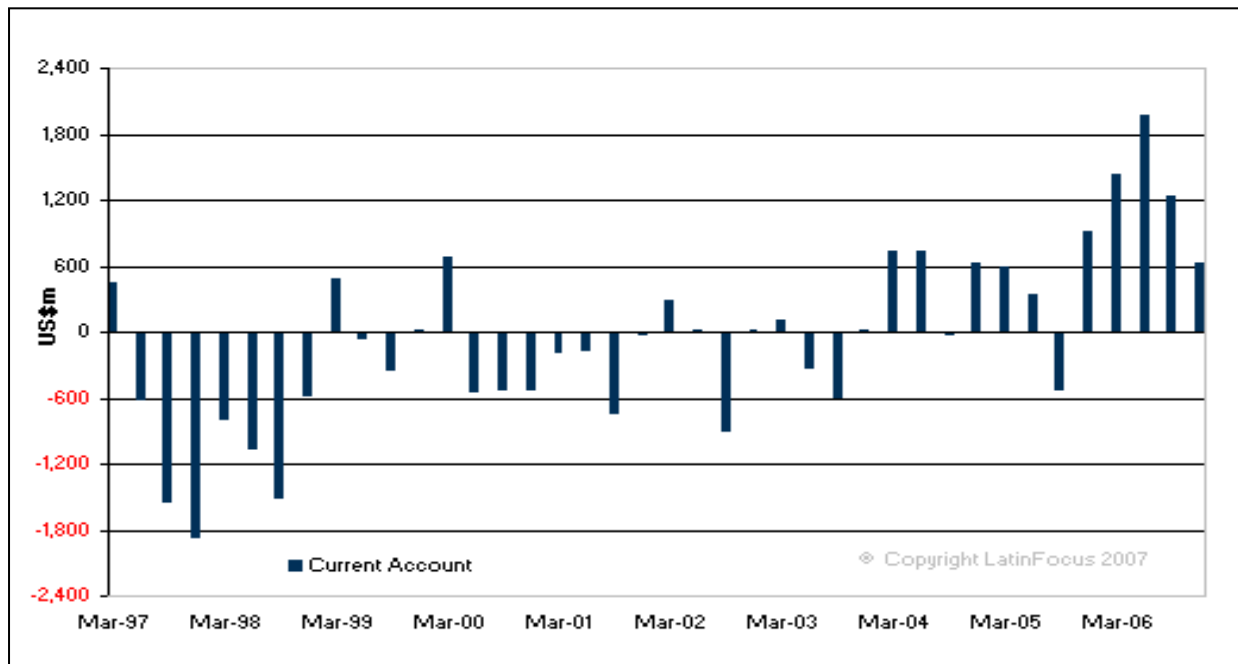


Figure 4.12: Chilean balance of payment : March 1997-2006

Source: Latin Focus (2007)

4.3.8 Exchange rates

The Chilean Apple and Pear industry is export orientated and therefore the Peso exchange rate against the major currencies of the world plays a vital role in final grower returns. South America, the US and Europe are Chile's main markets for apples and pears explaining why the exchange rate to the US Dollar and the Euro plays an important role in the viability of exports to these markets. The UK market is increasingly becoming important to Chile and therefore the Peso exchange rate to the Pound Sterling will be monitored closely. The Far East, Asia, Middle East and Africa Indian Ocean Islands markets are US\$ based markets and combined they also form a critical part of Chilean exports (Carvajal, 2007).

Shipping rates to all of the abovementioned markets are paid in US\$, explaining why the Peso /US\$ exchange rate must also be monitored from a cost point of view. In Figure 4.13 it shows that the Peso was gradually weakening against the US Dollar till June 2003. Since then the Peso has been strengthening against the US Dollar. This stronger currency illustrated the positive sentiment towards the Chilean economy but is expected to put the export profitability under pressure (Corbo, 2007).



Figure 4.13: Chilean Peso / US Dollar exchange rate Jan 1995-2007

Source: Latin Focus (2007)

4.3.8.1 Chilean Peso / US Dollar exchange rate June 2006- June 2007

The Peso is currently at a stronger level to the US\$ compared to a year ago hovering around the CP 5.20/ US \$1.00 versus CP 5.50/ US\$1.00.

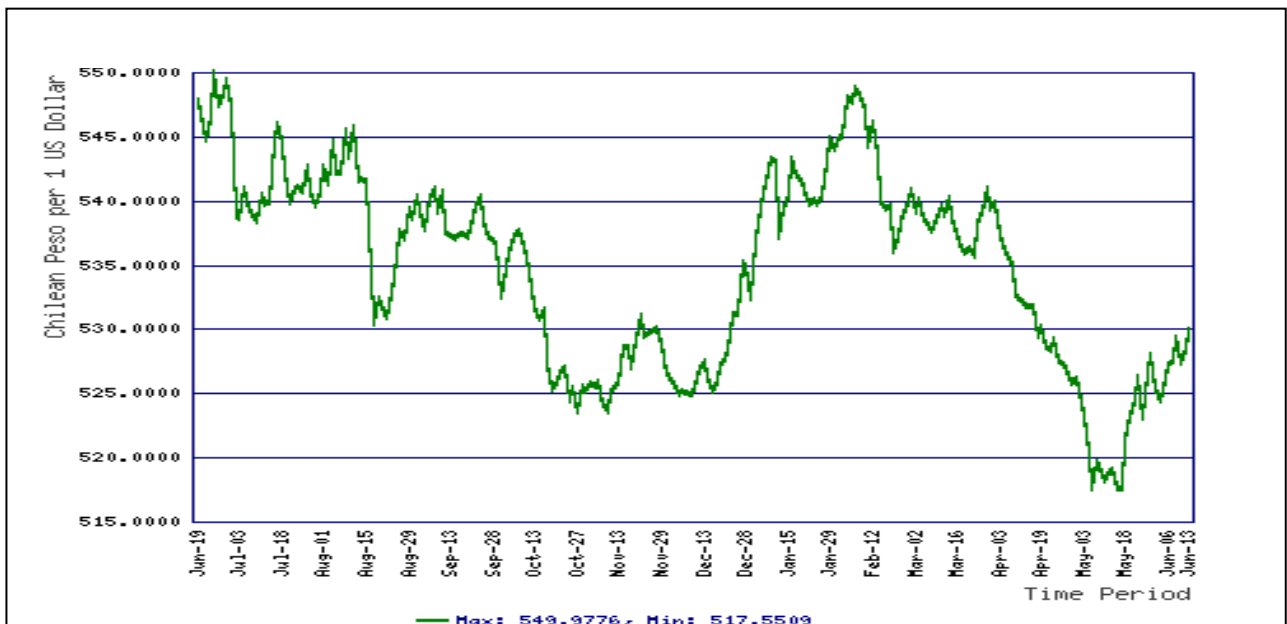


Figure 4.14: Chilean Peso / US Dollar exchange rate June 2006- June 2007

Source: Exchangerate.com (2007)

4.3.8.2 Chilean Peso / Pound Sterling exchange rate June 2006- June 2007

The Peso weakened against the Pound Sterling from CP 1010 /£1.00 in June 2006 to levels of around CP 1050 /£1.00 reaching its weakest point in January 2006.

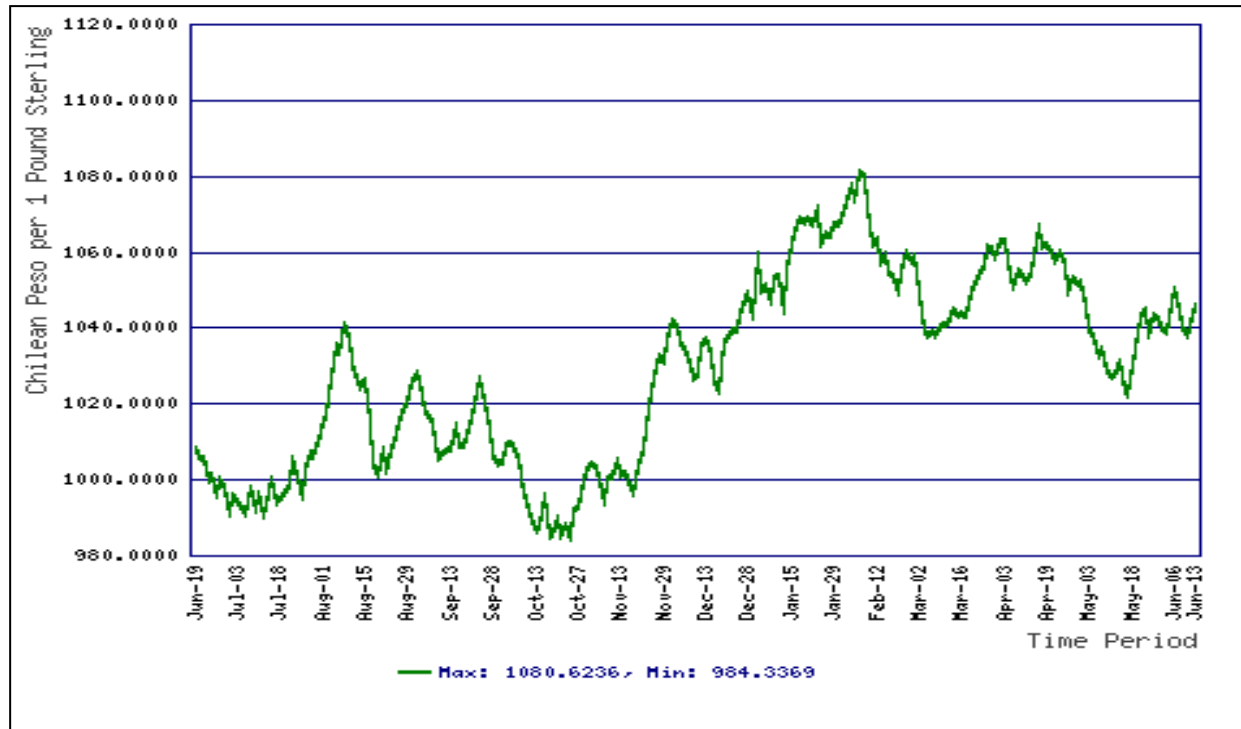


Figure 4.15: Chilean Peso / Pound Sterling exchange rate June 2006- June 2007

Source: *Exchangerate.com (2007)*

4.3.8.3 Chilean Peso / Euro exchange rate June 2006- June 2007

The Peso weakened against the Euro from CP 690 /€1.00 in June 2006 to levels of around CP 705 /€1.00 reaching its weakest point of CP 720 /€1.00 in April 2007.



Figure 4.16: Chilean Peso / Euro exchange rate June 2006- June 2007

Source: *Exchangerate.com (2007)*

4.3.9 Apple and Pear Export Value Chain

4.3.9.1 Chilean Value chain cost drivers

Fuel costs have become a major cost driver with the oil price rising to record highs of \$130 per barrel in June 2008. Fuel prices are impacting on cost at production level as well as throughout the logistics chain with transport and shipping costs being the main cost items. Chile is situated a long way from export markets like the Middle and Far East and rising oil prices are leading to higher freight rates that are threatening Chile's viability to export to these markets. Chile is also further than South Africa from the UK and Continental European markets placing them at a distinct disadvantage to South Africa in terms of transport costs to these markets (Decofrut, 2008) .

In Chile there are problems with the availability and productivity of labour. Labour is currently one of the main cost drivers in the Chilean fruit industry. Working in the fruit industry as pickers and packers are seen as an inferior job involving hard labour for low wages. There is increasing pressure from unionized workers to be paid higher wages (Decofrut, 2008).

4.3.9.2 Apple export value chain

Table 4.11 shows the Export sales value per 12.5 kg equivalent carton for a full bearing orchard Chilean apple orchard to break even taking into consideration the export cartons produced per hectare, production cost per hectare, packing cost per hectare and distribution cost per hectare.

Table 4.11 : Chile - Breakeven Apple Export value per 12.5 kg equivalent carton

	Chile Apples
Production Tons per hectare (full bearing trees)	65
Class1 - 12,5kg export cartons per hectare	2780
Production cost per hectare	US\$6,500
Packing Cost per hectare	US\$11,000
Distribution Cost per hectare (Export)	US\$11,520
Total Cost per hectare	US\$29,020
Breakeven Export Price per 12.5 kg carton	US\$10.40

Source : Based on Decofrut (2008)

4.3.9.3 Pear export value chain

Table 4.12 shows the Export sales value per 12.5kg equivalent carton for a full bearing orchard Chilean pear orchard to break even taking into consideration the export cartons produced per hectare, production cost per hectare, packing cost per hectare and distribution cost per hectare.

Table 4.12 : Chile - Breakeven Pear Export value per 12.5 kg equivalent carton

	Chile Pears
Production Tons per hectare (full bearing trees)	55
Class1 - 12,5kg export cartons per hectare	2640
Production cost per hectare	US\$6,000
Packing Cost per hectare	US\$8,500
Distribution Cost per hectare (Export)	US\$11,100
Total Cost per hectare	US\$25,600
Breakeven Export Price per 12.5kg carton	US\$9.70

Source : Based on Decofrut (2008)

4.4 *POLITICAL ENVIRONMENT*

4.4.1 Political situation

Chile is a Republic based on parliamentary democracy where the President enjoys considerable powers. Chile is one of South America's most stable and prosperous nations. The President is both the chief of state and head of government, and holds the executive powers. The President appoints the Cabinet and has the authority to remove the commanders-in-chief of the armed forces. The President is elected by popular vote for a single four-year term. The parliament called National Congress consists of a Senate and a Chamber of Deputies. The Senate has 47 members (38 elected and 9 appointed) who serve an eight year term. The Chamber of Deputies has 120 members who are directly elected for four years. The citizens of Chile enjoy considerable political rights and judiciary is independent (Lipsky, 2006).

The main source of the law is the constitution of 1980 and has been amended several times. The country's legal system is based on Code of 1857 derived from Spanish law and subsequent codes influenced by French and Austrian law as well as various judicial reviews of the legislative acts by the Supreme Court. In June 2005, Chile completed overhauled its criminal justice system to adopt a new US-style adversarial system. The judicial language in the country is Spanish. Chile is ruled by law. Foreign nationals in the country can enjoy treatment at par with the natives from the judiciary, including commercial disputes. Corruption in the country is limited and under control (Lipsky, 2006).

4.4.2 Market access & Free trade agreements

In the last 10 years, Chile has signed Free Trade Agreements (FTAs) with the Canada, Central American nations, European Free Trade Association, Mexico, and the United States. Very recently Chile has signed free trade agreements with the European Union, South Korea, New Zealand, Singapore, Brunei, and the People's Republic of China. It reached a partial trade agreement with India in 2005 and began negotiations for full-fledged free trade agreements with India and Japan in 2006 (SICE Foreign Trade information system, 2007).

The free trade deal with China promises to boost job creation and long-term economic growth, and is expected to be followed by agreements with other major Asian economies. This deal is also important to the United States which is Chile's main trading partner and main foreign investor. The free trade agreement will make it easier to increase the value added Chilean exports, and it is expected to help boost investment and boost the Chilean capital market. This Free Trade Agreement with China does not merely focus on market access, but also attaches importance to institutional matters that contribute to transparency and improved conditions of competition which will benefit all countries that trade with Chile. February 2003 saw the entry into force of the free trade agreement between Chile and the European Union that covers not only trade issues, but political and cooperation areas as well (SICE Foreign Trade information system, 2007).

4.5 HUMAN RESOURCES

4.5.1 Education system

The education system is managed by a mixed administration. The head of this system is the government which set the rules and the guide lines. The private sector is an important participant in the education system. 43% of the student population attends private education institutions. Education is looked at by the government as a business rather than a social investment. Public interest in education must be renewed. The education system in Chile is well organized and is operational on the following levels (Lipsky, 2006):

- Kindergarden level: Children under 6 years old attend to these programs in different public and private institutions.
- Basic Level: This level is integrated for 8 year old level. It is accomplished in public and private schools.
- Middle level: there are four levels in this phase. These levels are offered in two types, which are scientific-humanistic and professional-technical which combine general studies and preparation to work.
- Superior level: This level is related to universities and Professional Institutions, which are public and privates.

Pre-Basic instruction (3-5 year olds) is free, but attendance is not mandatory. Many Chilean educators feel that this early start should be mandatory. Only 30% of students are attending this phase. Attendance at the Basic instruction level (6-14 year olds) is much more encouraging, with a 95% attendance rate. Of those who attended the Basic level, only 65% go on to the final level (14-18 year olds). This drop in numbers is primarily due to the fact that many students, especially in rural areas, find it necessary to enter the work force. Of those that remain and finish the Middle level, only 20% take the required examination to go further on to the superior level for tertiary education (Lipsky, 2006).

4.5.2 HIV Aids

Chile has all of the elements needed to win the fight against AIDS, unlike many other Latin American countries. One of the main achievements so far has been a decrease in the rate of new infections by HIV, the virus that causes AIDS, according to official statistics. There are roughly 26,000 people infected with HIV in Chile, a country of nearly 16 million people, although only 12,000 cases have been diagnosed. Of the total number of people living with HIV/AIDS in Chile, roughly 80 percent are men and 20 percent are women, mainly homemakers infected by their spouses. There are also around 100 children receiving medical treatment for HIV/AIDS, after contracting the virus from their mothers in the womb or during birth. Another growing cause for concern in Chile is the number of infants and children who are left orphaned when one or both of their parents die of this disease (Lipsky, 2006).

The government, civil society and people with HIV/AIDS are working together extremely well. President Ricardo Lagos is fully committed to this issue. A particularly significant advance has been 100 percent coverage of antiretroviral therapy for all of the 4,838 AIDS patients registered with the public health system who require this treatment. Chile's centre-left government pays for 80 percent of the cost of these drugs, with the other 20 percent covered by the Global Fund (Lipsky, 2006).

4.6 *INDUSTRY STRUCTURES AND PROGRAMS*

4.6.1 ASOEX

The Chilean Exporters Association (ASOEX) is a non-profit private trade association, whose members represent a total of 90% of Chilean Fresh Produce exports and more than 50% of the country's fresh fruit production. ASOEX has played a key role in protecting the interests of the fruit and vegetable producing and export industry. ASOEX have also made a huge contribution in terms of the expansion and technical development of production and the marketing of these products in Chile and abroad (ASOEX, 2005).

ASOEX has the following priorities:

- To protect the interests of the Chilean fruit growing industry
- To facilitate and protect market access and to international markets
- To administer international phytosanitary agreements
- Making technical information available in support of the industry
- Contribute to the development of Chile's image and to promote consumption of Chilean fruit in international markets
- Facilitating the professional enhancement and training of workers at all levels through the development of extensive training programs
- Developing research programs to improve the industry's results in the area of production and post harvest treatments. (ASOEX, 2005).

4.6.2 Decofrut

Decofrut is a privately owned company and was founded in 1988 and focuses on the quality management of exported produce from Chile. The company has offices in more than 12 produce production and reception centers around the world and is responsible for the inspection of 150 million boxes of fruit and vegetables each year. Their services include quality control services at packing centers and at ports of destination and are specially designed for growers, exporters, importers and retailers. They provide operational support to the Chilean fresh produce industry through temperature control

and monitoring supervision of re-packing and claims management. Market information, market studies and projections, weekly market reports and full cargo reports are also important services that Decofrut render to their clients (Decofrut, 2008).

Their service portfolio is supported by state-of-the-art technology assisting in the inspection process as well as the communication of information to their clients. Information generated by Decofrut services is routed through powerful web-based software. A sophisticated data base allows on-line retrieval of specialized reports and analysis. Decofrut is a major asset to the Chilean fresh produce industry (Decofrut, 2008).

4.6.3 Business consortium for research

The Chilean exporters association, the Foundation for fruit development, the Catholic university of Chile and more than 30 grower and exporter businesses, have created a business consortium for research. The main of the consortium is to develop new varieties that are suited to local production conditions and the demands of long distance transport to foreign markets. The development of new and better varieties is also seen to very important for the Chilean industry to stay competitive in international markets. Research is also aimed at the creation of new technology to improve the productivity of Chile's existing fruit varieties to enhance and protect Chile's competitiveness and leadership position (ASOEX, 2005).

4.6.4 Promotional programs and activities

Chile has been very active with promotional activities in the international market. The Chilean exporters association in cooperation with the Agricultural and Livestock fund of the Ministry of Agriculture, ProChile and Chilean embassies in the countries of destination has been administering the activities surrounding promotions. The activities focus on promoting Chilean fruit using a common corporate image which contributes to positioning the image of Chile abroad. The promotional programs developed in the various markets are based on certain common elements namely (ASOEX, 2005):

- Providing strategic and category information to supermarkets

- Intensive market research done in each market
- Differentiation of the country through the presentation of its principal characteristics
- Communicating the advantages of the Chilean Good Agricultural practices program
- Activities and promotional material to support trade in general
- Facilitating visits to Chile by foreign journalists and purchasers
- Promotional activities and material at point of sale
- Participation in international conventions and trade fairs (ASOEX, 2005)

The core elements of the message that Chile wants to bring to the world is:

- The quality, freshness and safety of its products
- The natural beauty of the country
- The environmentally friendly way in which their products are produced
- A reliable fresh fruit supply partner to the world
- Promoting the health benefits of fruit
- On going concern for the well-being and working conditions for those employed in the Chilean fruit industry (ASOEX, 2005)

Since 1998 Chile has made four television commercials communicating Chile's agricultural tradition and the quality of its fruit varieties. These commercials called "Centuries", "Natural wonders", "Chilean Summer" and "Experience the flavours of Chile" was based on intensive market research and identified the need of consumers to know more about Chile, its products and its people. The advertising message of the three commercials is directed to the end consumer and the trade and includes the logo's that distribute Chilean fruit as well as support the campaign for consumption of fruit and vegetables sponsored by the Produce for Better Health foundation (Five a day). The four commercials with supporting point of sale campaigns have been implemented in the USA, Canada, Germany, the UK, France, Sweden, Spain, Belgium and Holland (ASOEX, 2005).

Promotional campaigns have now also been extended to non-traditional markets like Colombia, Mexico, Japan, South Korea and China. All the promotional campaigns are supported by various publications that consist of informational and technical material that is distributed to export partners, importers across the world and industry leaders.

In its latest endeavour, “Experience the flavours of Chile”, the Chilean fruit industry is partnering with other Chilean food and beverage groups to increase and diversify the country’s offerings as well as promoting Chile’s image as a reliable and safe supplier of top quality foods (ASOEX, 2005).

4.6.5 Phytosanitary programs

The optimum phytosanitary conditions in Chile are a key factor in the country’s competitiveness and future ability to grow its apple and pear industry. To safeguard and maintain this reputation the Chilean Exporters association (ASOEX) cooperates with the Agricultural and Livestock Service (SAG) on the protection of the country’s phytosanitary assets. (ASOEX, 2005)

A Technical Cooperation Agreement was recently signed between ASOEX, SAG and the Inter-American Institute for Cooperation in Agriculture, whose main purpose is to reduce the risk of fruit flies entering Chilean territory. The goal of the agreement is to ensure Chile status as a country free of this pest. ASOEX is also working with government to implement preventative measures to minimize the risk of fruit fly and other pests entering the country. (ASOEX, 2005)

4.6.6 Chile Gap program

Various international markets have differing requirements regarding the compliance of the application of good agricultural practices. Because of these differences ASOEX decided to implement an overall plan with uniform procedures in Chile to address these requirements. This led to the formation of the Chile Gap program driven by ASOEX with technical support of the Fruit development Foundation. This means that through a single audit and certification process the requirements of all the principal international purchasers of Chilean fruit are met. The implementation of the program has already

been widely recognized in Chile's main international markets with formal equivalencies that have already been secured in Europe and the USA (ASOEX, 2005).

4.6.7 OTIC AGROCAP training program

In 1999 ASOEX sponsored the creation of the OTIC AGROPCAP, an organization designed to develop and coordinate training activities for the enhancement of the competitiveness of agriculture by providing effective training tools for the various components of the industry. Through this program over 50,000 workers have received training to date with an annual investment of US\$2 million. This program has also contributed to increased worker compensation and that nearly all workers in the apple and pear industry has been enrolled in a health and welfare plan. OTIC AGROPCAP are also partnering with various private and public institutions orientated towards the development of human resources in the industry. The program is also sponsoring bursaries for post degree studies in the area of agronomics (ASOEX, 2005).

4.7 CHAPTER SUMMARY

In chapter four the internal environment of the Chilean Apple and Pear industry was described in the context of its physical, economic, political and social environment as well as looking at the organizations responsible for managing the industry interests.

The Chilean industry is well established as the power house in apple production in the Southern Hemisphere. Climatic conditions are ideal for the production of apples and pears. The country is surrounded by mountains and the sea which forms a phytosanitary island and makes it very easy and cheap to control pests. The country has rich soils and an abundance of water that it gets through snow on the Andes Mountains.

The economic outlook for the Chilean apple and pear industry is good with strong worldwide demand for its apples and pears. Inflation has been moving within the 2-4% target of the Chilean central bank which has enabled a very stable interest rate contributing to a positive business environment in Chile. Chile is well situated to export to the US market and is by far the biggest net exporter of apples and pears to the US

market. Sharply increased shipping rates in recent years on Chilean export routes have made long distance destinations like the Far East and Europe less attractive. A local currency performing strongly in recent years against the major currencies of the world has also made export conditions quite tough. Chile has struggled to balance the need for investments in infrastructure with the pressing demand for better social services. During the final decades of the 20th century, the country's infrastructure spending did not keep pace with its economic growth, creating serious bottlenecks for producers who depend on roads, seaports and airports to export their goods to international markets. The Chilean Apple and Pear industry lacks a strong domestic market which leaves it quite exposed exports market conditions. Political stability with strong execution of the fiscal and monetary policy has contributed to economic growth. HIV Aids are well managed while education and social problems among the workforce are areas that still need major attention going forward.

The Chilean apple and pear industry has very good industry structures and is well organized. Especially ASOEX has played a major role in organizing the Chilean apple and pear export industry in terms of market access, market development and market intelligence. The export industry has also benefited from ASOEX's close relationship with the Chilean government with financial grants being obtained in various areas. The Chilean apple and pear industry is currently seen as world leaders in terms of phytosanitary programs, worker training programs, promotional programs and information systems. There will be a strong emphasis on strengthening research programs in especially the development of new varieties. In chapter five the characteristics of the external European retail environment will be discussed. Both the South African and Chilean apple and pear industries are major suppliers to this market. In Chapter seven a SWOT analysis will be done comparing the internal environments of the South African and Chilean industries.

CHAPTER 5 : EXTERNAL ENVIRONMENT – DESCRIPTION OF THE INTERNATIONAL RETAIL MARKET (CASE STUDY : UK MARKET)

5.1 INTRODUCTION

The past ten years have seen the major retailers of the world like Wal Mart, Carrefour, Ahold and Tesco globalizing their businesses. The fight for supremacy in the retail business has now become a global one and the modern day retailers are increasingly becoming the **one stop shop** of consumers to buy all their goods.

In an environment of fierce competition, retailers strive to attract as many consumers as they possibly can by giving them the best value for money. This very often leads to price wars between retailers and these price cuts usually get spiralled down to suppliers. With retailers growing in size it increases their negotiating power to drive down prices with their suppliers. The increased buying power of retailers as well as increased competition between them is major threats to any retail supplier. This however is merely the tip of the ice berg in terms of conforming to the demands of the modern day retailer. The apple and pear suppliers of both Chile and South Africa have to deal with a wide variety of threats and demands when it comes to the retail business.

This chapter will start off by giving as background an overview of the global grocery retail market. It will be followed by an overview of the Western and Central European retail sector which is the focus market for both South Africa and Chile. In order to measure the competitiveness of Chile and South Africa in later chapters of the study the requirements and demands of doing business in the European retail sector will be identified.

The Western and Central European market is the most important retail sector for both South Africa and Chile and as supplying countries they compete for market share. The United Kingdom is the leading fresh produce retail market in this sector. Standards are very high and consumers are use to the best fresh produce the world can offer on a year round basis. The UK retail market is also seen as very demanding for suppliers in terms of meeting the required standards to successfully supply UK retailers. The UK market will be used as the barometer in measuring the competitiveness of Chile and South Africa to successfully supply the Western and Central European retail sector.

5.2 THE GLOBAL RETAIL GROCERY MARKET

In Figure 5.1 it shows that the USA is the biggest grocery retail market in the world with total sales adding up to \$1,579 billion in 2004 (Planet Retail Limited, 2008). The USA is followed by Japan, China, United Kingdom, Germany and France. It is significant to see the United Kingdom, Germany and France amongst the top 6 leading grocery retail markets of the world. This emphasizes the importance of the Western and Central European market as export destinations for both South Africa and Chile.

Global: Grocery retail sales, 2004
Modern Grocery Distribution (USD bn)

PlanetRetail

Rank	Country	MGD, Total sales 2004 (USD mn)
1	USA	1,579
2	Japan	778
3	China	322
4	United Kingdom	285
5	Germany	260
6	France	254
7	Italy	127
8	Korea, South	100
9	Spain	96
10	Mexico	92

Figure 5.1 : Top 10 global grocery retail markets in 2004

Source: Planet retail (2008)

Predictions made in terms of global grocery sales in 2009 (Figure 5.1) shows very significant changes compared to the actual sales figures of 2004. The USA is expected to still grow strongly with an estimated increase in turnover of 30% over the 5 year period. The Chinese market is expected to grow by a staggering 189% to \$933 billion over the 5 year period while Russia is the other big mover jumping from outside the top 10 countries to position 7, grossing \$234 billion by 2009. Unfortunately South African apples and pears haven't got trade access to the Chinese market yet but Russia is a definite opportunity to grow sales. Chile is already active in both China and Russia. The UK retail market, where the study will be focused, is expected to grow by 23% over the same period while less significant growth is expected for France and Germany (Planet Retail Limited, 2008).



Figure 5.2: Expected top 10 global grocery retail markets in 2009

Source: Planet retail (2008)

5.2.1 The World leaders in the grocery retail market

According to 2004 figures from Planet retail, suppliers of e-intelligence on global retailing, Wal Mart is leading the way in terms of gross turnover having had sales to the value of \$310 billion world wide (Planet Retail Limited, 2008). This is almost 3 times bigger than Carrefour, the retailer in second place. The leading 5 global retailers

including Wal Mart (USA), Carrefour (France), Ahold (Netherlands), Metro (Germany) and Tesco from the UK, all originated from different countries.

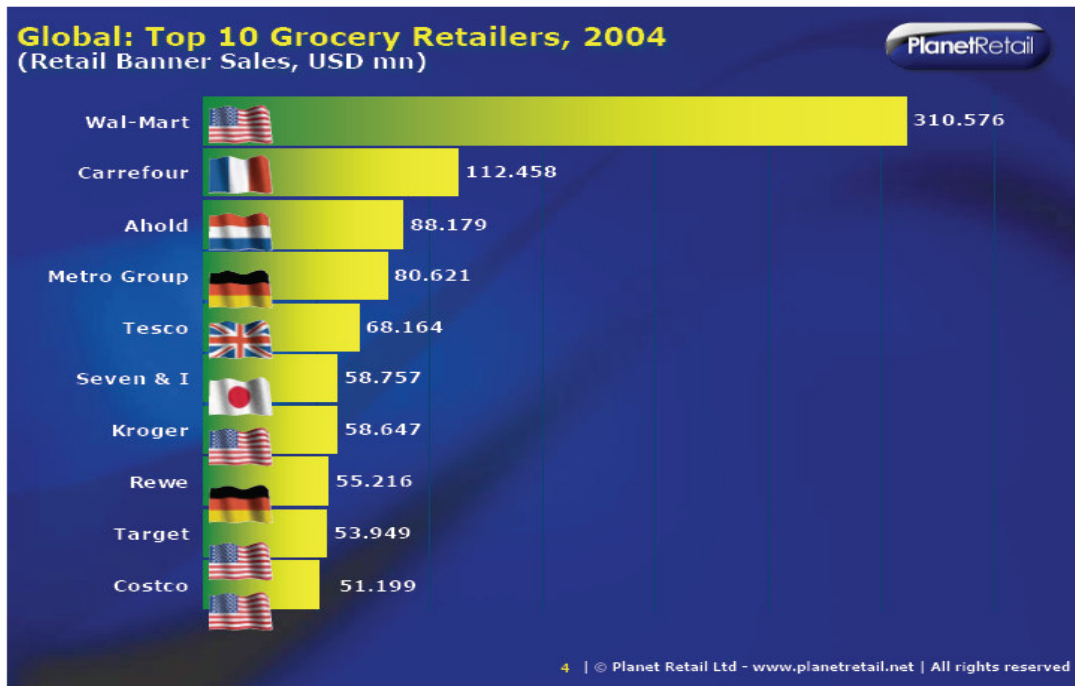


Figure 5.3: Top 10 retailers in global grocery retail sales in 2004

Source: Planet retail (2008)

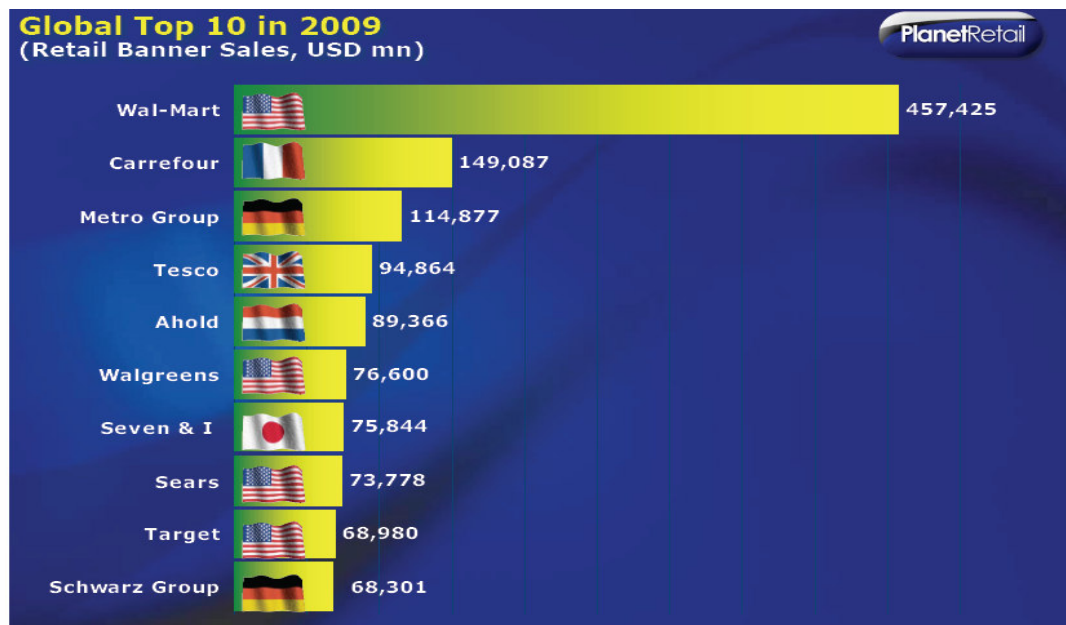


Figure 5.4: Expected top 10 retailers in global grocery retail sales in 2009

Source: Planet retail (2008)

Predictions made in terms of the expected grocery turnover in sales in 2009 see the top two, Wal Mart and Carrefour, consolidating their position with Ahold losing ground slipping back from the third position to fifth position. Tesco, the leading retailer in the UK moves up one place to the fourth position.

5.2.2 Market share of global retailers

According to sales figures indicated in Figure 5.5 the top 10 global grocery retailers were responsible for 18% grocery retail sales in the world in 2004. This figure is expected to decrease to 17% by 2009. Wal Mart is the only retailer in the top 10 expected to grow their share of global sales (Planet Retail Limited, 2008).

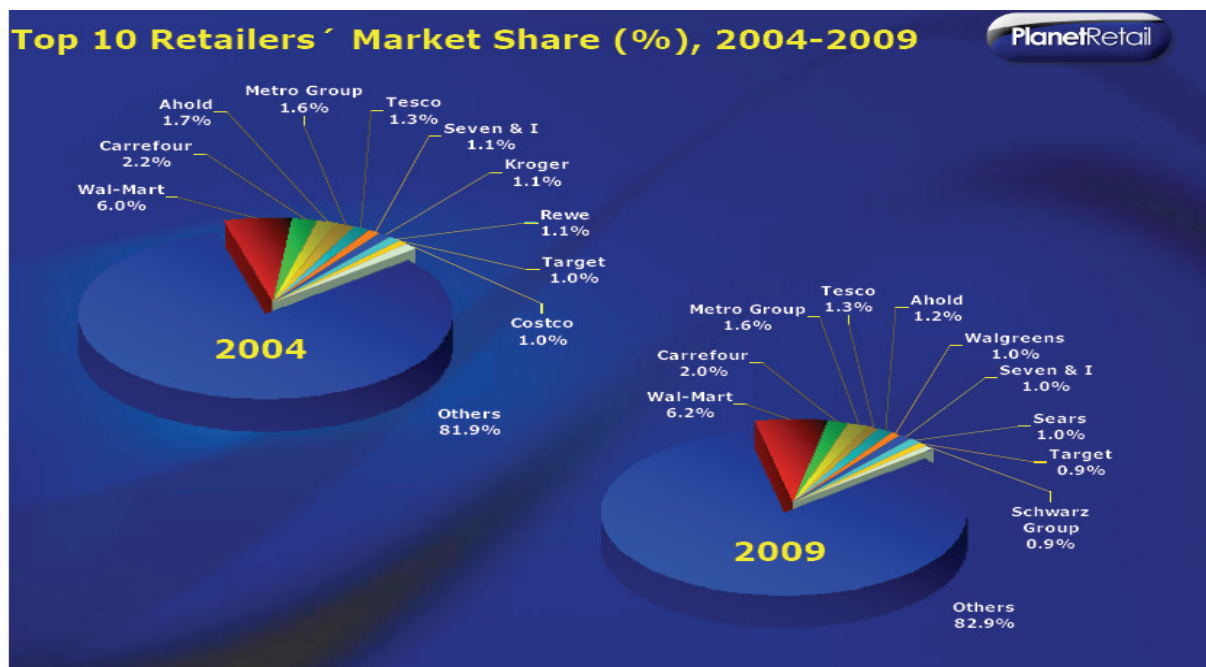


Figure 5.5: Top 10 global retailers market share % 2004-2009

Source: Planet retail (2008)

5.2.3 Sales channels used by global retailers

In Figure 5.6 it clearly indicates that the top 5 retailers are covering as many sales channels as possible. All of them have a multi channel approach with the most popular channels being hypermarkets, supermarkets, discount stores and e-commerce. The bulk of sales take place in hypermarkets and supermarkets. This trend is expected to continue (Planet Retail Limited, 2008).

Multi-Channel Approach PlanetRetail

Retailer	Wal-Mart	Carrefour	Metro	Ahold	Tesco
Hypermarkets & Superstores	•	•	•	•	•
Supermarkets & Neighbourhood stores	•	•	•	•	•
Discount stores	•	•		•	•
Convenience & Forecourt stores		•		•	•
Cash & Carries	•	•	•	•	•
Drugstores & Pharmacies				•	
E-commerce	•	•	•	•	•

Figure 5.6: Sales channels utilized by 5 largest global retailers

Source: Planet retail (2008)

5.3 THE CENTRAL AND WESTERN EUROPEAN RETAIL MARKET

The Central and Western European market is dominated in terms of gross grocery sales by the UK, Germany and France. All three markets are very important export destinations for apples and pears for both South Africa and Chile. The UK retail market is the biggest with a total value of \$285 billion. Italy and Spain are also significant markets but not as important in terms of apple and pear sales for South Africa and Chile (Research and Markets, 2006).

The countries in the Benelux and Scandinavia are important consumers of South African and Chilean apples and pears. The grocery retail markets in these countries are very similar in size when comparing turnover of yearly grocery sales in 2004 shown in Figure 5.7 (Planet Retail Limited, 2008).

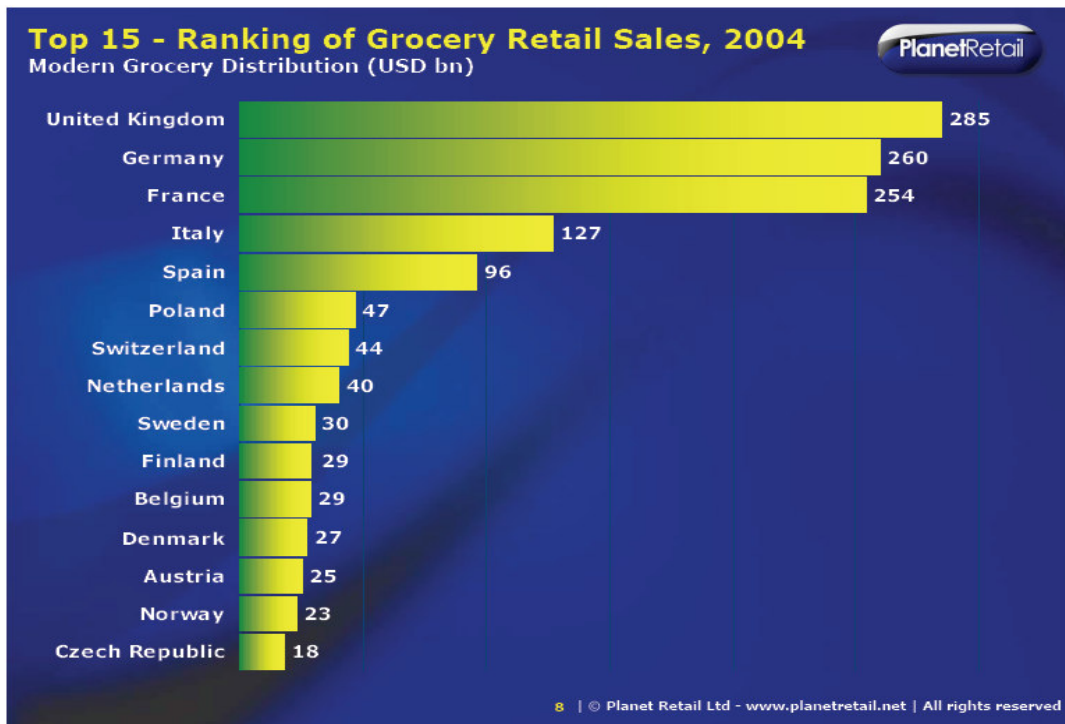


Figure 5.7: 10 Largest Western and Central European countries in grocery retail sales

Source : Planet retail (2008)

5.3.1 The grocery retail leaders in Western and Central Europe

According to 2004 figures from Planet retail, suppliers of e-intelligence on global retailing the French retailer, Carrefour was leading the way in Western and Central Europe. Carrefour had gross turnover to the value of \$95 billion in this region. This is significantly more than Metro, the German retailer in second place that showed sales of \$76 billion. The leading 5 Western and Central European retailers in 2004 included Carrefour (France), Metro (Germany), Tesco (UK), Rewe (Germany) and Auchan (France) (Research and Markets, 2006).

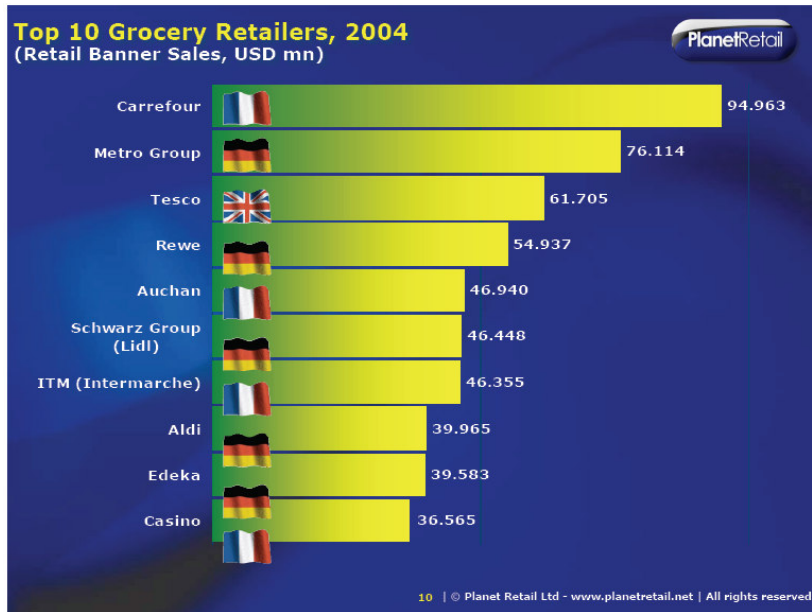


Figure 5.8: Top 10 grocery retailers in 2004 in the Western and Central European market

Source: Planet retail (2008)

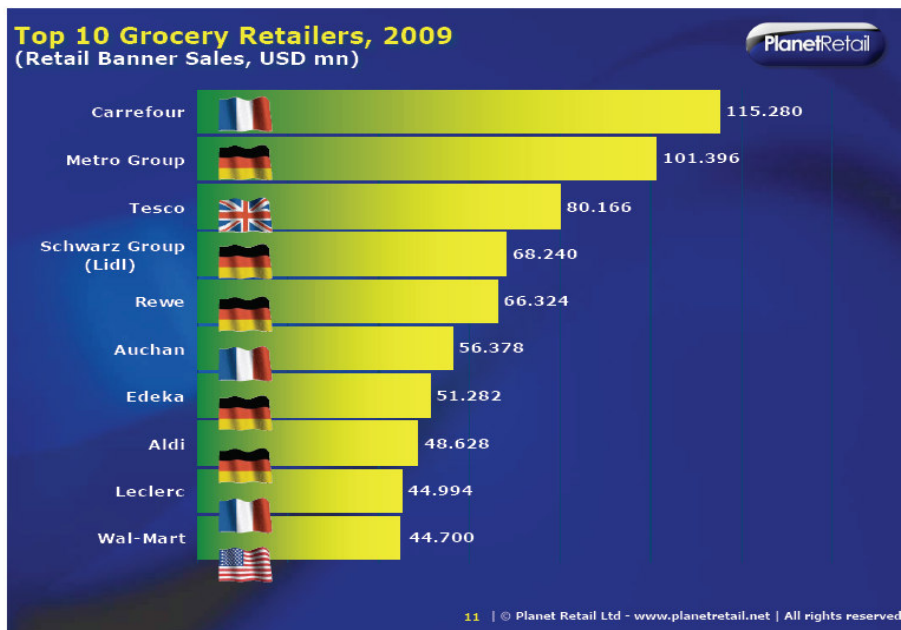


Figure 5.9: Predicted Top 10 grocery retailers in 2009 in the Western and Central European market

Source: Planet retail (2008)

Predictions made in terms of the expected grocery turnover in sales in 2009 sees the top three, Carrefour, Metro and Tesco consolidating their positions with Lidl moving into the 4th position ahead of Rewe and Auchan. The prediction of the entry of the world

retail giant , Wal Mart, into the top 10 in this sector will be concerning for other retailers as Wal Mart will have access to resources to grow faster than competitors (Planet Retail Limited, 2008).

5.3.2 Sales channels used by Western and Central European retailers

In Figure 5.10 it clearly indicates that hypermarkets and supermarkets are responsible for the most sales by retailers in this region. Hypermarkets had sales of \$381 billion in 2004 and are expected to still be the largest in 2009 with sales of \$479 billion. Discount stores, convenience stores, drug stores are also showing strong growth as retailers are increasingly making better use of these sales channels. Retailers are increasing starting to tap into new sales channels to increase visibility and to target the disposable income of consumers on all possible fronts (Research and Markets, 2006).

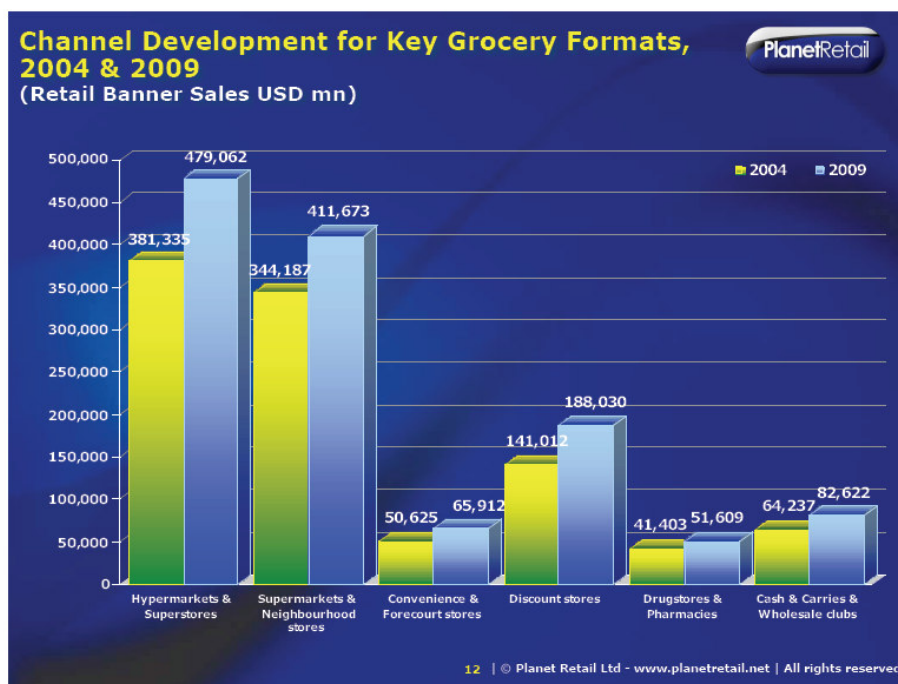


Figure 5.10: Sales channels utilized in the Western and Central European market

Source: Planet retail (2008)

5.4 THE UK RETAIL MARKET

The UK market has traditionally been the primary target market for South African exporters. Affluent consumers that are willing to pay a premium for good quality fruit and

a highly developed retail system have made it a very lucrative market to supply to. The competition between Southern Hemisphere countries to supply this market are becoming fiercer by the day and South African producers and exporters will have to pay close attention to the needs of the UK retailers and consumers if South Africa were to remain a source of choice. It is therefore vital to know what UK retailers are looking for in a source of supply. The UK retail market is one of the most developed and sophisticated retail markets in the world. Four retailers dominate the grocery retail scene in the UK. They are Tesco, Sainsbury, ASDA and Morrisons. As can be seen in Figure 5.11 currently 65% of retail grocery sales in the UK are done through these 4 retailers. U.K supermarkets are expected to grow in value by just over 20 percent in the next couple of years. Analysts predict that by 2008, supermarkets and grocery stores will earn more than \$200 billion in revenues (Valentine, 2005) .

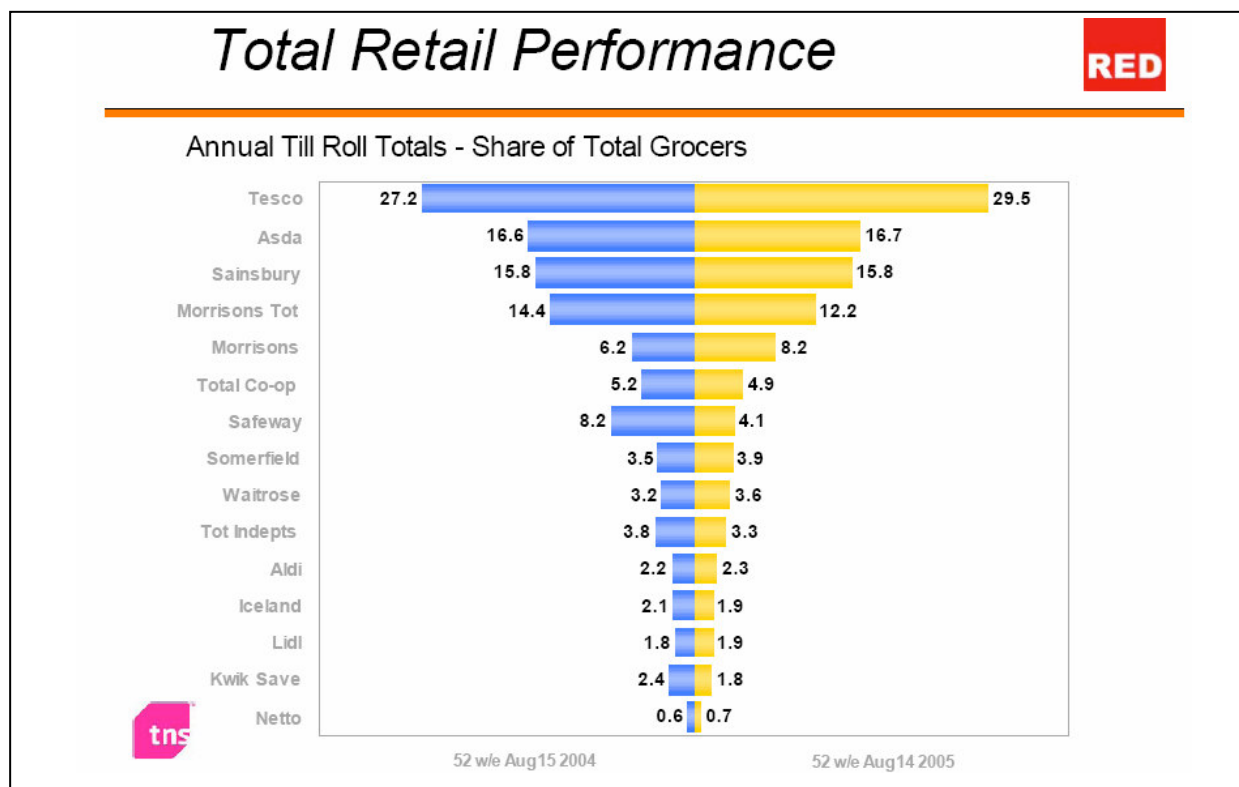


Figure 5.11 : UK retailers market share 2004 versus 2005

Source: Valentine (2005)

The UK fresh produce retail market is worth £7.1 billion and growing at around 6% per year. The fruit retail market were valued at 3.36 billion in November 2005 and showed growth of 7% from November 2004 (Valentine, 2005).

Very recent figures released in by the TNS World panel on the 7th of July 2007 indicated that spending on fresh produce has increased to £7.6 billion over the last year. In local UK supermarkets the fresh produce category is the fastest growing category driven by the increasing demand of fruit. This fruit category went up by 6% on the UK top ten grocery rankings, closely followed by dairy products and chilled food (Valentine, 2005).

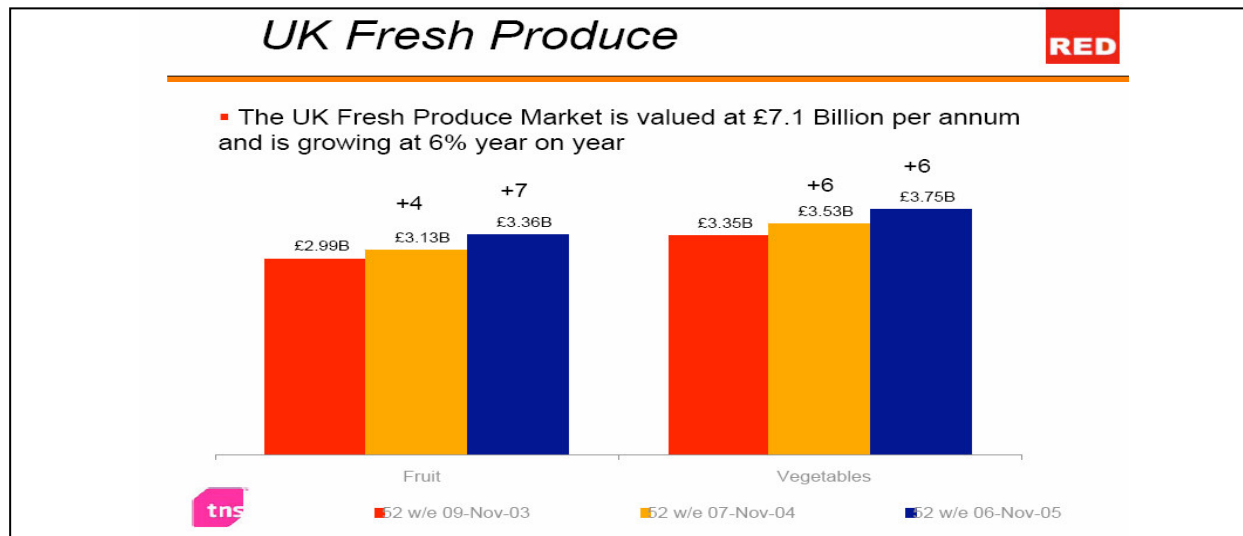


Figure 5.12: UK fresh produce market value 2003 - 2005

Source: Valentine (2005)

This strong growth clearly indicates why the UK fruit retail market is so lucrative for both Chile and South Africa. A number of different factors have contributed to this tremendous growth. Growth factors included population shifts, increases in individual income, improvements in the manufacturing process, and increased levels of brand recognition and customer loyalty. The changing population in the UK had an effect on how retailers do business. Marketing and promotions has become more consumer orientated to enhance consumer purchasing. Most retailers made adopted the quote “customer is king” in their mindset of doing business. Since 1971 disposable income per head have more than doubled in the UK and implied that more finances were available to buy fruit. This contributed to increased supply to the UK retail market and also stimulated increased production in supplying countries like Chile and South Africa. A higher income opened the door to consumers buying healthy food for a healthier life style (Valentine, 2005).

5.4.1 The leading UK Retailers

In the UK there are four major national retailers who control over 70% of the total UK fruit and vegetable sales. Tesco is the largest player with a fresh produce share of over 30% followed by Sainsbury with 18%. Asda is the third largest retailer of fresh produce in the UK with 12% with Morrison being the smallest of the big 4 with 11% (Hughes, 2006).

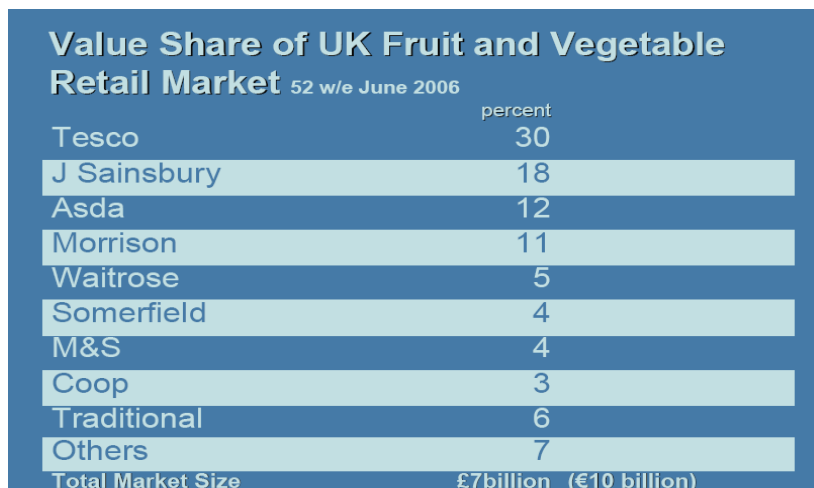


Figure 5.13: Value share per retailer of the UK Fruit and Vegetable market

Source: Hughes (2006)

Tesco, the UK's largest retail store, has 2,291 stores worldwide in 11 countries and is the biggest retailer in 7 of those countries. Wal-Mart, the largest retailer in the world, arrived in the UK through the take-over of the country's third-largest store, Asda. Global sourcing has extended the variety and the availability of fruit and vegetables to UK consumers and has driven growth in a number of categories. Like Tesco, Wal Mart are also targeting the Western and Central European market to expand their business and this has led to fierce competition and price wars with local European retailers and discounters fighting to keep their share of the market (Hughes, 2006).

5.4.2 General UK Retail trends

Personal interviews conducted with the Fresh Produce Managers of Tesco, ASDA, Waitrose, Somerfield, Morrisons and Coop identified the following as general fruit retail trends that will impact on decision making and strategy in future (Conradie, 2007a):

- Exotic fruit sales are growing which includes cherries, berries, etc.
- Smaller stores are increasing rapidly – focus on consumer convenience
- Fruit sales lines are getting less – lines that aren't making money will be eliminated
- Loose fruit sales are decline and will increasingly make way for convenience lines like bags, punnets and ready to eat – good fruit size is very important especially in ready to eat lines.
- Traditional food retailers are getting involved in other products like clothes, insurance, credit, fuel, etc – Retailers are becoming a **ONE STOP SHOP** for consumers
- Cross product selling is having a major impact on trade – E.g. spend £100.00 on food, and get £5.00 discount on clothes.
- The supply chain is becoming increasingly integrated to cut costs
- Retailers are focusing on their house brands and will increasingly see it on more product categories.
- The threat of global warming has made the carbon footprint of fruit products major discussion point in UK trade and government. A Carbon Footprint is a measure of the impact human activities have on the environment in terms of the amount of greenhouse gases produced, measured in units of carbon dioxide (Carbon footprint Limited, 2007).
- Consumers perceive food that has been produced organically to be healthier. The emphasis has from retailer have shifted towards the organic production of fresh produce.

As showed in Figure 5.14 through a study done by Red communications, UK consumers are becoming increasingly aware of the organic foods and perceives it to be beneficial to their health but also better for the environment. Organic foods are also seen as being superior in taste, quality and value (Valentine, 2005).

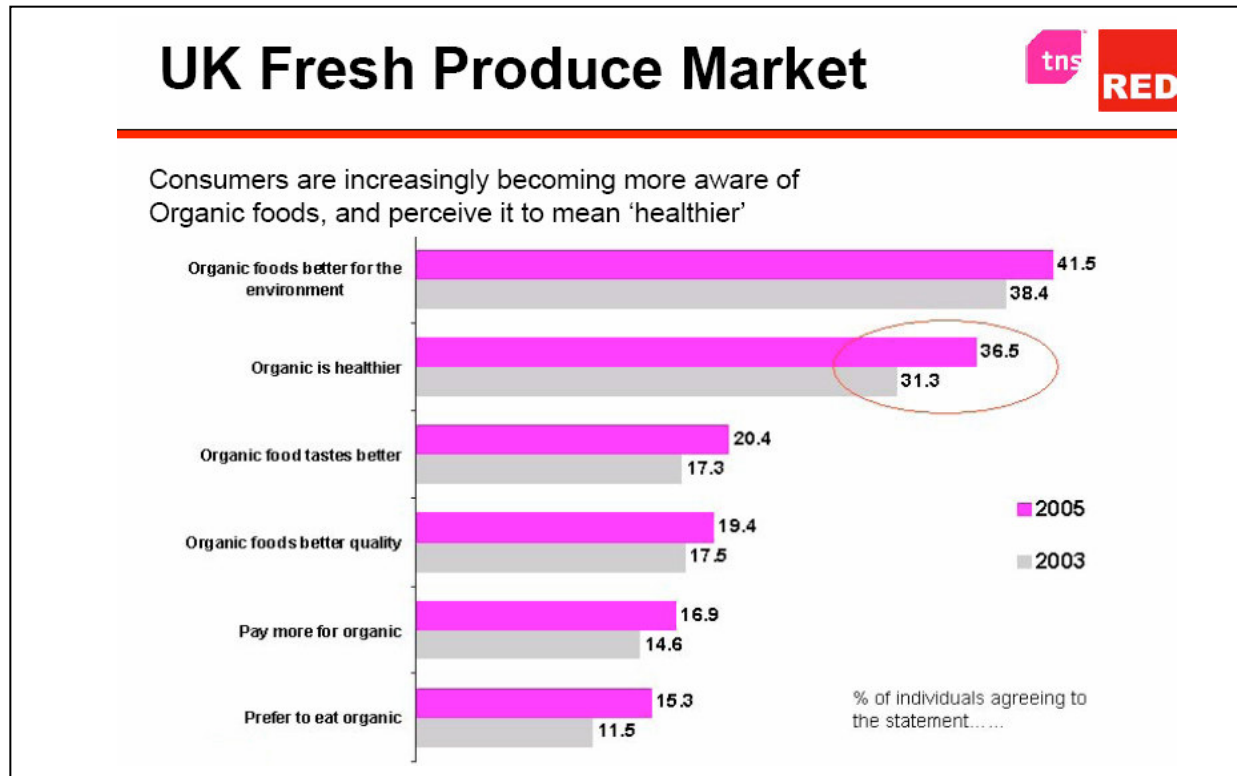


Figure 5.14: Consumer knowledge and perceptions of organic foods

Source: Valentine (2005)

5.4.3 Understanding the UK consumer

Role-players involved in the supply of fruit to the UK market must also have a good understanding of who the **UK consumer** is. The United Kingdom has some of the most educated and well-informed consumers in the world and the following comments were made regarding the buying habits and culture of UK consumers (Research and Markets, 2006).

- The UK consumer buys ideas that contribute to an attractive, healthy life style, not a necessarily a product
- The UK consumer likes to take a break to go on holiday and is not restricted in their mindset regarding when that will be during the year. They are quite flexible in this regard.
- Like being rewarded when supporting a product or retailer – Cross product selling provides added benefits, e.g. Tesco slogan of Every little bit helps
- Love entering competitions– everyone loves winning prizes doesn't matter how old they are

- They buy with their eyes and don't care where the product comes - British produce the exception (Research and Markets, 2006)

For UK supermarkets it is important to develop effective promotional strategies and therefore it is essential that they understand the motivations and needs of the end consumer. The majority of primary fruit purchasers in the UK are women. In the UK alone there are 60 million consumers, but the consumer-growing rate is increasing slowly. Household numbers are increasing, while household sizes are declining. Incomes of households are rapidly increasing, while the gap between rich and poor is widening (Research and Markets, 2006).

The UK did qualitative consumer research to get a closer understanding of the end consumer's buying decisions, using a focus group methodology. The results of this study have led to a growth of sales offers that closely matches the needs of consumers. From the study it was clear that consumers buy products, which packaging, colour and promotional efforts are of top quality and different from the usual. UK consumers pay on average 20% more for pre-packed fruit and vegetables than they do for loose products. Retailers tend to favour pre-packed fruit and packing at source can deliver significant benefits in terms of cost savings. Promotional activities centered on improving the consumer's health by making them aware of the relationship between their diet and health conditions (Hughes, 2006).

Studies done have shown the UK consumer tends to increase fruit consumption once they become older and more health conscious (see Table 5.1). For example only 36% of consumers between the ages of 19 and 24 eat apples and pears while the percentage increased to 60% for consumers between the age of 50 and 64 (Hughes, 2006).

Table 5.1: Proportion of UK consumers eating fruit by age group

Fruit	Age Group				
	19-24	25-34	35-49	50-64	All
Apples & Pears	36	45	55	60	52
Citrus	16	21	30	35	27
Bananas	26	47	55	64	53
Other Fruit	25	34	48	57	44

Source: Hughes (2004)

Tesco is the largest retailer in the UK and the segmentation of their fresh food consumer market gives an accurate reflection of how the UK fresh produce retail market is segmented. In Figure 5.15 this segmentation of consumers is illustrated. The up-market segment is divided into finer foods and convenience as main sales drivers while the mid-market captures an element of convenience buying and also healthy living and mainstream consumers. The less affluent segment consists out of the traditional consumers as well as price sensitive buyers. The Up-market and the less affluent segments are more or less equal in size with the mid-market forming the bulk of sales (Hughes, 2004).

Several of the UK's leading multiple retailers are failing to help consumers make healthy eating choices, despite increasing action from the government to tackle the rising levels of obesity and dietary-related health problems. A survey done (The Food Commission, 2008), showed that many leading retailers are failing to provide consumers with enough snack- and confectionery-free checkouts. The survey, involving over 3,500 checkouts across three hundred UK supermarket stores, found that Morrisons was by far the worst offender, with none of its stores providing snack-free checkouts. Conversely, up-market retailer Waitrose finished in pole position with 96 per cent of its checkouts involved in the survey found to be snack-free (The Food Commission, 2008).

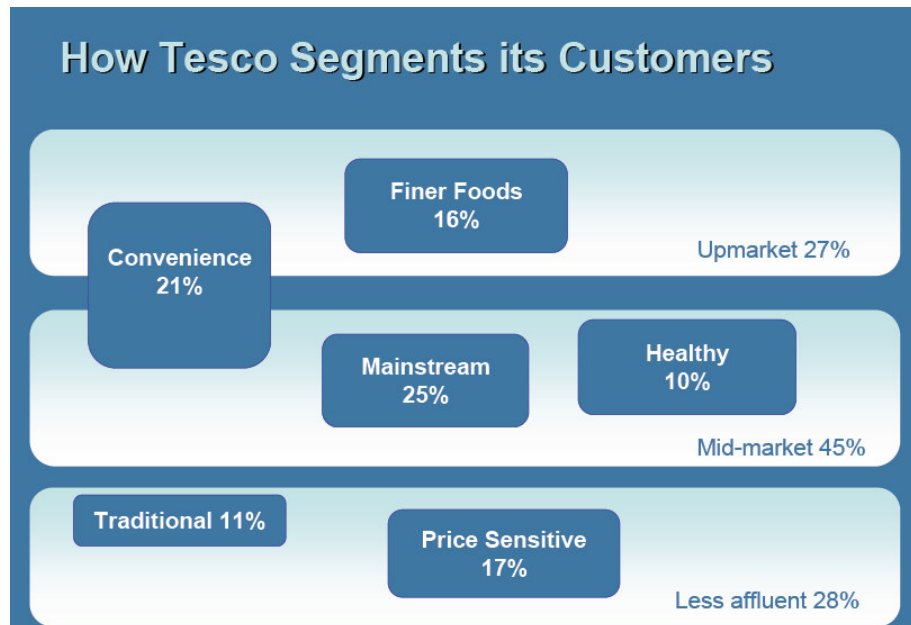


Figure 5.15: Tesco consumer segments

Source: Hughes (2004)

5.4.4 Sales channels utilized by UK retailers

The introduction of the hypermarket or superstores to the British economy has led to a huge increase in fruit sales. Hypermarkets are large retail stores that sell groceries as well as other items such as household products, electronics and clothing. UK hypermarkets recently started selling gasoline. In 2003, hypermarkets were responsible for slightly more than 40 percent of all supermarket sales in the U.K. The introduction of small food stores or corner stores by large retailers like Tesco, Somerfield, Marks & Spencer have increased consumer contact and have increased consumer spending on food items and specifically fruit (Research and Markets, 2006).

5.4.5 Supplier attributes recommended by UK retailers

Consumers want suppliers to show them full commitment and many retailers now expect their suppliers to drive sales promotion and innovation in the category. Because of this certain suppliers have started to develop year-round promotion activities to ensure they keep their supply programs. The leading UK supermarkets have tended to reduce the number of suppliers. According to Hughes (2006) *“customer value is created by business systems consisting of firms working together for common consisting of*

firms working together for common aims and not created by one firm working in aims and not created by one firm working in isolation”.

The concept of category leader suppliers is now being promoted. The following are some of the main qualities that retailers highlighted as essential for fruit suppliers to remain successful in the UK retail market (Conradie, 2007a).

- Prospective suppliers must be able to deliver fruit of consistent good quality and taste – This is seen as the minimum requirement
- Sufficient volume per variety must be available to service all depots of the retailer for at least two weeks on Stone Fruit and a month on Pome fruit. It creates major difficulty and hassle for retailers if they have to change varieties on the shelf on a regular basis.
- The grower club system which limits the plantings of most new varieties are seen by retailers as a stumbling block for suppliers as it prohibits the natural development of availability and continuity of supply. Larger supermarkets need a critical volume before they can stock a new variety.
- Good service levels and proper communication identifying potential supply problems early enough to ensure continuity of supply
- Retailers like simplicity and encourage suppliers to produce fewer but better varieties. South Africa must pick its winners and concentrate on them to ensure availability of selected varieties.
- Suppliers must have a clear supply strategy in terms of variety that must be communicated to the retailer.
- Production must take place in an ethically and environmentally friendly way.
- South Africa must try to create a point of difference through service levels, availability, variety mix and consumer marketing initiatives.
- There are increasing pressure on their supply chain to conform to recognized health and safety protocols such as EUREP - GAP and Natures Choice (Tesco). These protocols are likely to become mandatory for suppliers to continue supplying the UK retail sector.
- Price competitiveness is a major determining factor in where the retailer decides to source its fruit from.

- Suppliers who work closely with retailers are more successful than those who don't.
- Large suppliers get more out of partnerships with retailers than smaller-scale suppliers as they have more resources to apply.
- Suppliers producing value-added products and/or services are more successful and attractive to retailers than commodity providers (Conradie, 2007a).

5.4.6 The importance of consumer marketing and promotion

Supermarkets and consumer health awareness programs differentiate fresh fruit products on the basis of colour and eating characteristics, giving rise to new concepts such as “bicolour”, and “seeded” or “seedless”. The food industry's response to changing marketplace conditions is designed to increase convenience to the consumer, a development that will also mean new ways of doing business for the fruit grower. The world fruit sector is currently going through a major process of transformation. The pressures for change are coming from multiple directions. Fruit is increasingly exported through a global value chain dominated by large supermarket buyers and their agents. This is continually going through technological and organizational restructuring with increasing demands for higher standards. Global competition between southern countries exporting onto a tight world market is intensifying and rapidly changing our marketing environment. The need to somehow be different and more attractive to a retailer has shifted the focus towards consumer marketing as an opportunity to increase the significance of the supplier (Research and Markets, 2006).

Consumer marketing has been neglected by fruit suppliers' world wide and is seen by retailers as essential to increase the consumption of fruit. The following recommendations and considerations were mentioned by UK retailers to be successful in consumer marketing (Conradie, 2007a):

- It is essential to market a lifestyle to consumers and not only a product
- Product marketing gets lost in a sea of messages in the UK as it is very difficult to differentiate fruit products from as quality from all origins is normally very good.
- The suppliers in conjunction with the retailer must create some theatre for the consumer

- Supplier countries can use their counties lifestyle attributes like wildlife, golf courses, beaches, and holidays to promote sales of their products by cross selling.
- Fruit can be used as a platform to do a national marketing campaign for a supplying country. Competitions to win holidays, vouchers, scratch cards in pre-packed product, leaflets with recipes, are some of the options that can be used.
- In the case where marketing and promotional campaigns are presented correctly:
 - It will create a pull for the fruit where currently in an saturated market it is usually a push
 - Suppliers will sell more product, get additional shelf space, be able to sell at higher prices and make more money
 - Retailers will optimize turnover and sales on available shelf space
 - The supplying country can get wonderful exposure in the UK market which in return will lead to more tourism

UK Retailers highlighted the low involvement of suppliers across the world in consumer marketing as a major opportunity and encourage suppliers to lead the way in developing a unique consumer marketing campaigns.

5.5 CHAPTER SUMMARY

Chapter 5 started by giving an overview of the global grocery retail market. The overview illustrated the dominance and growth of grocery retailers worldwide. It was be followed by an overview of the Western and Central European retail sector which is a focus market for both South Africa and Chile. The fast growth of outlet channels like superstores, supermarkets and discount stores became very evident from this overview. The UK is seen as the leading retail market in Europe and its attributes and requirements will be used as framework for measuring the competitiveness of Chile and South Africa to successfully supply the European retail sector. The main retail and consumer trends in the UK market that was identified included an increasing focus on convenience, food safety, environmentally friendly production because of global warming as well pro-active communication of product information to the consumers. Promotional activities are seen as a necessity to create consumer awareness and knowledge about the products on the shelf. Requirements identified for success in terms of supplying UK retailers included continuity of supply, good taste and eating

quality of product delivered, environmentally friendly production and good communication with retailers. These trends, attributes and requirements of the UK retail environment and consumers will be used in Chapter 6 to identify and analyze the supplier attributes needed to successfully supply the European retail environment.

CHAPTER 6 : KEY DEMAND AND SUPPLY DRIVERS OF THE EUROPEAN RETAIL ENVIRONMENT

6.1 *INTRODUCTION*

For South Africa's apple and pear industry to start thinking strategically it is essential to understand the European retail supply industry and the competitive environment with the forces driving change. In this chapter the dominant economic features and competitive forces in the European retail supply environment will be identified as well as the factors driving industry change. The UK market as the most significant individual fruit market within the European retail sector in was used as a case study in identifying the factors driving industry change. The South African apple and pear industry current market position compared to other Southern Hemisphere suppliers will be identified in terms of the core qualities necessary to supply the European retail market. Based on the economic features, competitive forces and factors driving industry change the chapter will end off by identifying the key factors for future competitive success in supplying the European retail market.

6.2 *DOMINANT ECONOMIC FEATURES OF THE EU APPLE AND PEAR RETAIL MARKET (CASE STUDY : UK)*

Market size – The UK Fresh produce market was worth US\$16 billion in 2004 from a total of US\$285 billion in total UK grocery sales (5.6%) (Valentine, 2005).

Growth rate grocery sales – The UK apple and pear retail market is growing at around 6% per year while the rest of Western Europe is growing at 2%. The market can be seen as reaching a maturity phase with increased innovation needed to stimulate consumption (Hughes, 2006).

Scope of competitive rivalry – The rivalry between Southern hemisphere suppliers from South Africa, Chile, New Zealand, Brazil and Argentina in the European retail market is fierce with all competing for market share in Europe. Retailers playing off suppliers against one another often lead to price wars as retailers try to attract more consumers by offering them the lower prices than other retail competitors (Hooper, 2007).

Numbers of rivals – The number of suppliers competing in the EU retail market is getting less and growing in size. The global apple and pear industry is going through a consolidation phase as a mature market is forcing suppliers to improve efficiencies to sustain profitability while retailers are driving consumer prices down. Larger suppliers with economies of scale and more resources find it easier to sustain profitability in a tough price environment (Dunnett, 2007).

Retailer needs and requirements – The needs of apple and pear supermarket buyers are driven by the need to consistently provide consumers with a better deal than competitors in terms of product price, taste, availability, presentation, safety, health and added benefits. Consumers also want assurance from their retailers that the product was cultivated in an environmentally friendly and ethical way therefore these are important considerations for buyers when deciding on with which supplier they will source their apples and pears (Jones, 2007).

Pace of technological change – Technological change that are experienced in the value chain is phenomenal as suppliers increasingly try to gain a competitive advantage by improving the service to the retailer either through better and quicker information flow, improving the cold chain management and developing a trust relationship with the retailer by having early warning systems to timorously warn buyers of possible supply problems to give them enough time to react and find solutions (Jones, 2007).

Vertical integration – Vertical integration is becoming prevalent in especially the UK market with large supermarkets like ASDA and Sainsbury investing in sourcing companies, creating sourcing companies that source directly from suppliers in foreign countries and thereby cutting out exporter agents in these countries. This is done to minimize the cost in the value chain and does have benefits for the retailer. Vertical

integration by retailers is potentially a major threat to suppliers as this could deny them access to supply major retailers and thereby decreasing their potential market (Scrace, 2007).

Product innovation – Retailers have a constant demand for new apple and pear varieties that have a better looks, eating quality and taste and are presented in a more attractive and consumer friendly way. Consumers are becoming very health and environmentally conscious and food safety is also a concern. Therefore there is a lot of pressure on suppliers to invest in product innovation to improve the offering to the retailer and their consumers (Selman, 2007).

Sales capacity – The ability of suppliers to deliver on promises in terms of volume, quality and timing and to communicate possible problems early enough to leave time to find solutions is essential to be successful supplying retailers. A sales team with good communication, analytical and management skills is pre-requisites if a supplier plans to have a successful long term relationship with European retailers (Selman, 2007).

Degree of product differentiation – The way in which different Southern hemisphere suppliers present their products as well as their product offering is very similar, and therefore causes heightened price competition between suppliers. There are however a constant drive from suppliers to differentiate them from competition by securing exclusivity for new varieties or products (Dunnett, 2007).

Economies of scale – There are definitely advantages in economies of scale for larger suppliers in terms of costs in the chain. The larger the volume controlled by a supplier the more power the supplier has to drive the costs down of service providers like freight forwarders, transport companies and shipping lines. With economies of scale it allows suppliers to integrate vertically in the value chain and thereby gain control over more costs in the chain (Dunnett, 2007).

Learning and experience curve effects – In the process of supplying retailers with apples and pears there are definitely learning and experience that can be beneficial. By understanding the requirements of the retailer and the consumer and understanding product behavior under different conditions suppliers that have the experience have a

major advantage over new suppliers wanting to enter the retail supply market (Dunnett, 2007).

6.3 COMPETITIVE FORCES IN THE INDUSTRY

6.3.1 Intensity of rivalry

Large number of suppliers - A large number of apple and pear suppliers from South Africa, Chile, Argentina, New Zealand and Brazil are targeting the same European retailers active in the European retail market which creates intensifies rivalry fighting for market share (Jones, 2007).

- ❖ **High level of fixed cost** - Suppliers have a high level of fixed cost in terms of labor, production, packaging and distributions cost. Growing apples and pears is a long term investment as trees are only in full production at the age of 8 years. This makes the apple and pear industry very inflexible dealing with the fluctuating supply and demand situation in the EU retail market. In periods where the supply outweighs the demand the rivalry intensifies between suppliers to get their products sold first.
- ❖ **Perishable products** - Apples and pears are perishable products which increase rivalry between suppliers to sell the products within the shelf life period of the product to minimize losses due to wastage.
- ❖ **Retailer competition** - Strategically retail competitors are consistently trying to out maneuver competitors through improved consumer offerings in terms of product range and value for money to increase market share. This leads to increased rivalry between suppliers competing for the right to supply the retailer. This very often leads to cheaper price offers to secure supply programs with retailers (Jones, 2007).
- ❖ **High exit barriers of suppliers** - Apples and pear suppliers have relatively high exit barriers as buying farms and producing apples and pears are very capital intensive which limits the amounts of viable buyers that could buy it. Vehicles and other equipment used on apple and pear farms are highly specialized and are relatively difficult to sell. The high exit barriers intensifies the rivalry between suppliers to make a financial successful when they are in the trade (Research and Markets, 2006).

- ❖ **High level of maturity in the retail market** - The grocery retail market in the EU retail market is growing at around 2% which indicates a high level of maturity. This leads to increased rivalry between existing apple and pear suppliers with take-overs being fairly common. Supplying retailers with apples and pears have become a highly specialized job which created a high barrier to entry for new supplier entrants. Small suppliers are finding it extremely difficult to compete against the large suppliers in a mature market as they just don't have the necessary resources to satisfy retailer needs (Research and Markets, 2006).

6.3.2 The threat of substitutes

- ❖ **Apples and Pears are classified as a snack product** - Apples and pears is a ready to eat snack and competes with sweets, chocolates, chips, wheat snacks, cool drinks, milk products like yoghurt and vegetable snacks. All the products types mentioned are competing for the consumer's attention in terms of a product that can be consumed immediately. All snack type products have one thing in common and that is great taste that creates immediate satisfaction for the consumer. The developments of a huge amount of ready to eat products have increased competition for shelf space in the ready to eat product segment and the prices of these substitute products definitely has an effect on the demand for apples and pears. This trend holds a real threat to apple and pear suppliers as it could mean a decrease in the existing retail market for apples and pears (Hughes, 2006).

6.3.3 Supplier power compared to retailers

- ❖ **Negotiation position** - Suppliers are generally in a weak position to negotiate on price as many other suppliers can deliver the same product. In some cases where a supplier has exclusivity in producing a new variety that is of interest to the retailers that supplier is in a stronger position to negotiate a better price (Hughes, 2006).
- ❖ **Selling a commodity** - Apple and pear suppliers are in a weak position compared to European retailers as they are selling a commodity product and the available apple and pear supply is larger than the demand from existing European retailers (Hughes, 2006).

- ❖ **Fragmented supply base** - The different retailers are decreasing in numbers and are growing in terms of volume sales. Retailer buying is concentrated which puts suppliers in a weak position to determine price (Valentine, 2005).
- ❖ **Backward integration by retailers** - Retailers are increasingly starting to integrate backwards in the value chain by taking over import companies that have acted as category managers for the retailer. A recent example is ASDA in the UK taking over the ownership of International Produce that previously acted as their category manager of fresh fruit (Scrace, 2007).

6.3.4 Buyer power

- ❖ **Low switching cost** - Grocery retailers are in an extremely powerful position as the switching cost to change from one supplier to another is extremely low. If a retailer is unsatisfied with the supply performance of a particular supplier in terms of presentation, quality, price or safety it is very easy to switch to another supplier (Jones, 2007).
- ❖ **High retailer expectations** - Retailers are trying to attract more consumers to their stores through the shopping experience, product offering and value for money they offer their consumers. Retailers expect their suppliers to work closely together with them to enable them to give their consumers the best offer. The demands of consumers and retailers and the low switching cost to change suppliers increases the pressure on suppliers to perform (Jones, 2007).
- ❖ **Concentrated buyer power** – Retailer companies are decreasing making existing retailers larger and more powerful. Apple and pear sales handled by retailers are growing throughout Europe which are making suppliers more dependent on retailers relationships and therefore increasing retailer power (Research and Markets, 2006).

6.3.5 Potential barriers to entry for potential new retailer suppliers

- ❖ **Low profit margins** - The first barrier to entry in supplying the European apple and pear retail market is that existing supplier profit margins are low as they consistently have to offer retailers the best possible value for money (Research and Markets, 2006).

- ❖ **Importance of economies of scale** - Economies of scale allow the large suppliers to cut their margins to offer their retailers the most competitive prices. For any new supplier it will be very difficult to offer similar competitive prices and still be profitable (Dunnett, 2007).
- ❖ **Mature market** - The European grocery retail market is a mature market growing at only 2% per year. This means that any new supplier will have to take market share away from existing large suppliers to significantly grow their market share. This is potentially very difficult to achieve without the luxury of economies of scale (Research and Markets, 2006).
- ❖ **Capital intensive** - The initial capital investment required is for a new supplier is high in terms of gaining expertise as well as establishing a well trained team that can meet the high service level requirements of retailers (Selman, 2007).

6.4 FACTORS DRIVING EU RETAIL INDUSTRY CHANGE

- ❖ **Dominance of retailers worldwide** – In the UK market grocery retailers are responsible for 70% of apple and pear sales. This percentage of apple and pear sales handled grocery retailers throughout Europe is growing which is increasing the power of retailers to dominate negotiations in terms of price and supply standards prescribing quality and food safety standards. Significant retailer take-over's like Morrisons taking over Safeway in the UK has confirmed the trend that retailers are pushing for cost savings through economies of scale. This implies that retailers will become fewer but larger in future (Hughes, 2006).
- ❖ **Supplier fragmentation** – In the past 10 years retailers have been consolidating through take-over's while suppliers have become more fragmented weakening their position of negotiation with the retail giant (Hughes, 2006).
- ❖ **Improving the eating experience of the consumer** - Fierce competition between retailers has initiated a strong drive from retailers to differentiate their product offering to consumers from their competition. The focus is on improving the eating quality of the existing apple and pear offering and identifying and sourcing new varieties that potentially will improve the eating experience of consumers (Forbes, 2007) .
- ❖ **Ready to eat products** – Consumers buy fruit with more regularity but in smaller quantities. Apples and pears are seen as a snack product that has to be ready for

immediate consumption. Especially health conscious business people are buying fruit as lunch with more regularity (Patel, 2007).

- ❖ **Health consciousness of the consumer** – Worldwide the problem of obesity is making headlines and retailers are making a conscious effort to improve the eating habits of consumers by making them aware of the health benefits of fresh products (The Food Commission, 2008).
- ❖ **Life style or convenience shopping** - Consumers are progressively buying products in formats that suits their lifestyle. The time available for consumers to do their shopping has decreased as the tempo of living has increased. Fresh produce has to be conveniently packaged for easy shopping as well as consumption. Time constraints of consumers has led to the growth in the prepared foods market with many consumers choosing this option to save time whilst preparing food for their families (Hughes, 2006).
- ❖ **Online shopping** – The technological development that created the internet as a mode of shopping has had a major impact on the shopping habits of consumers. Many consumers are using the retailer websites to do their shopping by placing orders online with products being delivered to the consumer doorstep. This places an emphasis on product packaging requirements for easy delivery to consumers (Hughes, 2006).
- ❖ **Plant owners rights and new varieties** - Retailers are integrating backwards by starting to get involved in the process of securing plant owners rights to ensure that new varieties developed by research institutions and nurseries are accessible to them and at the same time trying to secure exclusive supply of exciting new varieties (Scrace, 2007).
- ❖ **Sustainability of supply** - Environmentally conscious organizations like Greenpeace are putting pressure on retailers to ensure that all fresh produce that are sold through their stores are being produced in an environmentally friendly way. This has led to the initiation of stringent supply standards set by retailers to ensure that their suppliers are producing in an environmentally friendly way. The recent regularity of natural disasters has initiated a focus on the amount of carbon produced in the production of a product which is called **the carbon footprint** of the product. Research has shown that the amount of carbon released in the

atmosphere warms up the atmosphere and leads to climate change which in return is encouraging natural disasters. Environmental audit processes like Eurogap and Nature's choice are examples of audits that are prescribed by retailers to suppliers as a pre-requisite standard to adhere to before getting entry to supermarket supply programs (Carbon footprint Limited, 2007).

- ❖ **Food safety consciousness** - Consumers are becoming more health conscious while health pressure groups are fighting any form of chemical pesticides that are used to produce fresh produce that might potentially be harmful to consumers or contribute to any form of sickness. Food safety requirements are covered with suppliers in audit processes like Eurogap and Nature's choice. Requirements of retailers are becoming more stringent and more retailers moving towards creating their own unique audit process to comply with environmental and food safety issues (De la Fuente, 2006).
- ❖ **Ethical trading** – Human right pressure groups as well as consumers have been putting pressure on grocery retailers in recent years to ensure that workers of suppliers in especially third world or developing countries are well looked after in terms wages, working conditions, safety, housing and health care. Retailers have already started to put audit processes in place to audit the worker conditions of suppliers to make sure that their suppliers are producing in an ethical way (De la Fuente, 2006).
- ❖ **Communicating with the consumer** – Consumers walking into any retail outlet is increasingly faced with a growing range of choice. It is increasingly becoming important that apples and pears must have a voice communicating the attributes and uses of apples to consumers. Any snack product that is ready for immediate consumption is targeting the same disposable income as apples and pears and therefore it is vital that apples and pears keep the consumer interested or risk losing potential sales (Hughes, 2006).
- ❖ **Working in partnership with suppliers** – Retailers are busy reducing suppliers that are awarded with programs to supply the retailer. Retailers are looking for fewer and larger suppliers that can ensure volume and continuity of supply that adheres to all the supply standards required by the retailer. This cultivated long

term relationships and trusts between the retailers and their suppliers and makes it much easier for the retailer to manage (De la Fuente, 2006).

- ❖ **Regulatory changes and government policy changes** – The European Union supports free trade and is opening their markets to more countries. In apples and pears the recent inclusion of Poland in the European Union have further increased the availability of apple and pear supply to Western and Central European retailers in the Northern hemisphere season. The ongoing existence of subsidies, provided by the European Union to European farmers, is still creating an uneven playing field and is artificially keeping northern hemisphere volumes high (Research and Markets, 2006).
- ❖ **Impact of Controlled storage on seasonality** - Apples can now be stored for 12 months of the year which impacts on the seasonality of supply. Where apples and pears were only available from Northern hemisphere counties at certain times of the year, the Southern hemisphere countries can now also supply the product in the same time period. This reverse situation is also applicable. This increases availability and puts retailers in an even stronger position as a buyer (Hurndall, 2008).
- ❖ **The growing strength of retailer house brands** - The trend of retailers increasingly moving more products into their House brands has meant very limited opportunities to push exporter or country of origin brands at consumer level (De la Fuente, 2006).
- ❖ **Continuity of supply** – Retailers place a big emphasize on selecting suppliers that are able to provide them with continuity in terms of being able to supply over an extended period of time as well as having the ability to supply sufficient volumes as needed by the retailer (De la Fuente, 2006).
- ❖ **Backward integration in the value chain through supply partnerships** - Retailers are increasingly controlling more aspects of the value chain through ownership of sourcing companies and fixing long term supply contracts with major suppliers. By doing this the actions of the sourcing companies and the suppliers are focused on the retailer and are growing and adapting to the changing needs of the retailer (Scrace, 2007).

- ❖ **Improved cold chain management** – An area that makes a big difference in the profitability of a retailer is limiting the wastage % of fresh products through improved shelf life. To ensure optimal shelf life for the product operational and transport processes has to be carefully managed from the farm to the retailer shelf. Packaging material and modes of transport has to be integrated to ensure optimal temperature management for the product (Jones, 2007).

6.5 SOUTHERN HEMISPHERE SUPPLIERS – SUPPLY POSITION IN THE EU MARKET

Interviews with different UK retailers identified two outstanding qualities that retailers measure the success of their suppliers by and that is *Value for money* and *Service levels* (Conradie, 2007a):

Value for money = Price / Product quality (Eating quality, Safety, Range)

- ❖ **Value for money** is seen as a **function** of **Price paid** divided by the **Product Quality**. Product Quality is seen as a function of the eating quality, the safety and the range of product received from the supplier.

Service levels = Availability and Continuity of supply / Product quality (Eating quality, Safety, Range)

- ❖ Service levels are seen as a function of **Availability and Continuity of supply** divided by the **Product quality** received. Product Quality is seen as a function of the eating quality, the safety and the range of product received from the supplier.

Retail buyers were asked to complete a questionnaire rating each of the supplying countries from the Southern hemisphere on a scale of 1 to 10 on their performance based on these two qualities. Two different questionnaires were completed for apples and pears. A score of 8 and higher was seen as ideal. A score of 6 and 7 was seen as acceptable while 5 and below was seen as not acceptable.

6.5.1 Southern hemisphere apple suppliers

To be seen as the ideal supply country a rating of 8 and above must be achieved for both Value for Money and Service levels. Retailers rated the Southern Hemisphere apple suppliers based on perceived performance on a scale of 1 to 10. See results in Table 6.1

Table 6.1: Retailer rating questionnaire - SH apple suppliers

Retailer interviewed	Value for money					Service levels				
	Chile	SA	ARG	NZ	BRAZIL	Chile	SA	ARG	NZ	BRAZIL
Tesco	7	8	6	6	8	7	8	5	7	5
Morrisons	8	7	6	6	8	8	7	4	7	6
ASDA	8	7	5	5	7	7	8	5	6	6
SAINSBURY	7	7	6	5	7	7	7	5	7	6
Total	30	29	23	22	30	29	30	19	27	23
Average (Rounded)	8	7	6	6	8	7	8	5	7	6

Source: Conradie (2007a)

Figure 6.1 shows that in terms of apple supply to the EU retail market, Chile and South Africa is currently seen as the best positioned apple suppliers with South Africa being superior in terms of service levels and Chile offering better value for money.

Grey zone = Ideal supplier

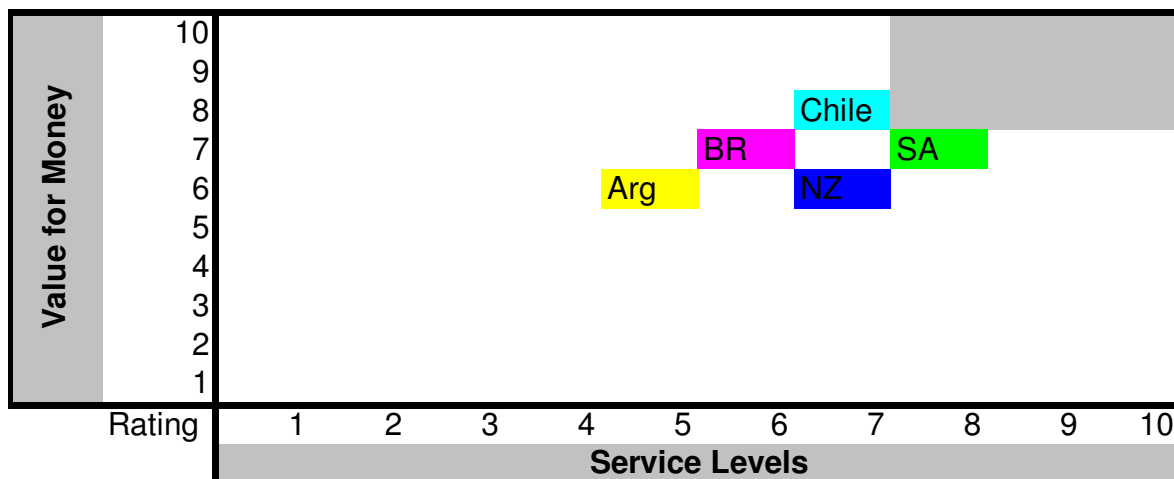


Figure 6.1: Performance map – SH apple suppliers

Source: Conradie (2007a)

6.5.2 Southern hemisphere pear suppliers

To be seen as the ideal supply country a rating of 8 and above must be achieved for both Value for Money and Service levels. Retailers rated the Southern Hemisphere pear suppliers based on perceived performance on a scale of 1 to 10. See results in Table 6.2

Table 6.2: Retailer rating questionnaire – SH pear suppliers

Retailer interviewed	Value for money					Service levels				
	Chile	SA	ARG	NZ	BRAZIL	Chile	SA	ARG	NZ	BRAZIL
Tesco	6	8	7	5	n/a	6	7	5	7	n/a
Morrisons	6	7	8	5	n/a	6	7	4	7	n/a
ASDA	5	8	8	5	n/a	6	8	5	6	n/a
SAINSBURY	6	7	7	5	n/a	7	7	5	7	n/a
Total	23	30	30	20	0	25	29	19	27	0
Average (Rounded)	6	8	8	5	0	6	7	5	7	0

Source: Conradie (2007a)

Figure 6.2 shows that in terms of pear supply to the EU retail market, South Africa is currently seen as the best positioned pear supplier outperforming Argentina in service levels.

Grey zone = Ideal supplier

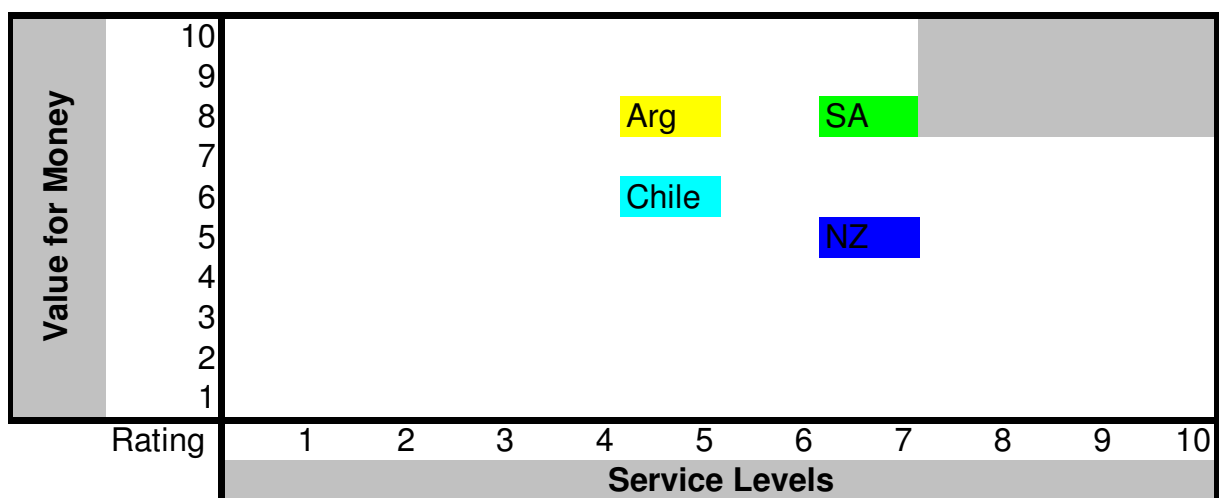


Figure 6.2: Performance map – SH pear suppliers

Source: Conradie (2007a)

6.6 **KEY SUCCESS FACTORS FOR SUPPLIERS IN THE EU RETAIL MARKET**

- ❖ **Long term partnerships with retailers** – Retailers are tired of chopping and changing suppliers and suppliers must be willing to build long term relationships with the retailers they want to supply. Retailers expect suppliers to have a good understanding of their business in order to optimally service their requirements (De la Fuente, 2006).
- ❖ **Well managed and transparent cost chains ensuring competitive but fair pricing** – Retailers want consumers to see the products on the shelf as affordable and value for money. Retailers also want growers to get good returns for their products that will enable them to farm profitably and to ensure reinvestment that will enable sustainable supply from growers in future years. Therefore retailers are going to put the cost in the value chain under increased scrutiny and work with supply partners that have a transparent cost- chain (Scrace, 2007).
- ❖ **Affordability of products through economies of scale** – Economies of scale is seen by retailers as a crucial tool to lower costs in the value chain. Retailers are expecting suppliers to where possible to consolidate activities in the value chain that will lead to lower cost in the chain (De la Fuente, 2006).
- ❖ **Sustainable production of fresh fruit** - Suppliers wanting to supply retailers will have to make sure that their product is being produced in an environmentally friendly way. Suppliers failing to do so will risk losing their programs with retailers going forward (Forbes, 2007) .
- ❖ **Residue free production** – Advocating minimal use of chemicals during the production process is high on the agenda of retailers. Some retailers have told suppliers that they want their products in store to measure residue free levels promoting environmentally friendly production and increased emphasis on food safety (Gibson, 2007).
- ❖ **Improved product offering to the consumer** – To stay competitive attracting new consumers to their stores retailers want suppliers to consistently improve their product offering in terms of presentation, variety, information, added benefits and packaging (Hooper, 2007).
- ❖ **Improved eating quality of products** – Retailers are emphasizing the importance of repeat sales. If a consumer had a bad experience in terms of

eating quality they are immediately turned off regarding the product and won't buy the product again. Therefore eating quality in store is seen as vital to increase sales especially through repeat purchases (Jones, 2007).

- ❖ **Exciting new varieties** – New and better varieties is seen as essential in increasing the consumption of apples and pears. Competition from other snack products is stiff and apples and pears will have to continue improving their product offering if they were to remain competitive (Selman, 2007).
- ❖ **Ethical trading** – Retailers are under increased pressure from Human rights pressure groups to ensure that products sourced are produced in an ethical way. Therefore retailers will be very strict in selecting only suppliers that provide good worker conditions. Suppliers will be audited on a continuous basis to ensure that ethical standards are met (De la Fuente, 2006).
- ❖ **Excellent service levels ensuring consistent and continuous supply** – An integral understanding of the retailers' business is necessary to ensure excellent service levels. Continuous supply of the required standard is seen by retailers as non-negotiable when selecting a supplier (De la Fuente, 2006).
- ❖ **Communication with the consumer** – Retailers are expecting suppliers to take more ownership of their product by initiating communication with consumers to increase sales and create product awareness. The communication must be done in partnership with the retailers. Increased product knowledge by consumers will make the product a more attractive option to buy (Patel, 2007).
- ❖ **Government support** – Active government participation in market development campaigns is essential in terms of providing credibility to the campaign as well as improving the image of a supplying country. Suppliers also need the financial support of government to give market development campaigns the necessary momentum to be effective (De la Fuente M. 2006).
- ❖ **Knowledge of the consumer** – Retailers are emphasizing the need that suppliers must equip themselves with knowledge of the consumer as retailers are expecting suppliers to come up with ideas to drive sales. Retailers want suppliers to take ownership of their own product and have an increased understanding of what influences people to buy their product (De la Fuente, 2006).
- ❖ **Optimum cold chain management** – Retailers are emphasizing the importance of the product reaching the consumer in the optimal condition in terms of eating quality and cosmetic appearance. Individual suppliers as well as supplying

countries must work on ways to consistently improve cold chain management to enhance the consumers eating experience. This is especially relevant for suppliers from the Southern hemisphere where products travel over long distances and take a long time to reach the retailer shelf (Scrace, 2007).

6.7 CHAPTER SUMMARY

In Chapter 6 the dominant economic features and competitive forces in the European retail supply environment was identified as well as the factors driving industry change. Southern Hemisphere suppliers were judged by four of the major UK retailers in terms of service delivery and value for money. Value for money is seen by retailers as a function of price paid divided by the product quality while service levels are seen as a function of availability and continuity of supply divided by the product quality received. Product quality is defined as a function of the eating quality, the safety and the range of product received from the supplier.

The questionnaires completed by retail buyers at the four largest retailers in the UK showed that the South African apple and pear industry is strongly positioned compared to other Southern Hemisphere suppliers in terms of the core qualities necessary to supply the European retail market. South Africa is seen as the number one Southern Hemisphere pear supplier to the EU retail market. In terms of apple supply to the EU retail market Chile and South Africa is jointly seen as the best positioned apple suppliers with South Africa being superior in terms of service levels and Chile offering better value for money. The key factors for future competitive success in supplying the European retail market was also identified and included: long term partnerships with retailers, well managed and transparent cost chains ensuring competitive but fair pricing, affordability of products through economies of scale, sustainable production of fresh fruit, Residue free production, improved product offering to the consumer, improved eating quality of products, exciting new, ethical trading, excellent service levels ensuring consistent and continuous supply, pro-active communication with the consumer, government support, knowledge of the consumer and optimum cold chain management. In Chapter 7 these key success factors will be used as guidelines in doing an internal SWOT analysis of both the South African and Chilean industries to identify

the actions that South Africa need to take to improve their competitive position versus Chile.

CHAPTER 7 : INTERNAL ANALYSIS OF THE SOUTH AFRICAN APPLE AND PEAR INDUSTRY'S COMPETITIVE POSITION VERSUS CHILE

7.1 INTRODUCTION

This chapter will start off by measuring whether South Africa's current apple and pear industry strategy is working. As the saying goes, "If it is not broken don't fix it", but if it is broken we need to identify what needs to change going forward. The success of the current strategy will be measured by comparing South Africa growth in the export market in the past five years with that of Chile. This will be followed by a SWOT and value chain analysis of both countries to identify South Africa's competitive position on critical success factors. The chapter will close with the identification of the key issues that South Africa will need to address to improve its competitive position.

7.2 IS THE CURRENT SOUTH AFRICAN STRATEGY WORKING?

Table 7.1 shows us that the South African Apple and Pear industry's growth stagnated in the past five years showing a growth rate of only 2%. Chile started from a higher base volume and showed excellent growth of 20%. This clearly shows that whilst South Africa's strategy has merely maintained their exports Chile's strategy has created strong growth in the export market. The need for a repositioning strategy for the South

Table 7.1: Industry Export Comparison: Apple and Pear Tons exported for the period 2002-2006

Unit: Tons	2002	2003	2004	2005	2006	5 Year growth %
SA	430,639	475,798	393,808	377,825	439,494	+2%
Chile	690,431	718,437	855,732	757,472	829,108	+20%

Source: ASOEX Chile & PPECB South Africa

African Apple and Pear industry is clearly identified by the lack of growth experienced in the past five years.

7.3 SWOT ANALYSIS OF THE SOUTH AFRICAN AND CHILEAN APPLE AND PEAR INDUSTRY

When comparing the strengths, weaknesses, opportunities and threats of South Africa and Chile a clearer picture should arise in terms of what areas need to be addressed in South Africa's future strategy.

	SOUTH AFRICA	CHILE
STRENGTHS	<ul style="list-style-type: none"> ❖ Good quality product with definite advantages in terms of taste ❖ Reliable and resourceful suppliers ❖ Adaptability of suppliers in free market trade ❖ Geographically well placed to supply the European market ❖ Advanced production practices and research ❖ High % of internationally accredited SA producers and pack houses producing and packing in an environmentally friendly way ❖ Good international reputation in terms of food safety ❖ A government body PPECB (Perishable Products Export 	<ul style="list-style-type: none"> ❖ Good quality product that is cosmetically attractive and eats well. ❖ Chile produces large fruit which is ideal for the US and European markets ❖ Chile is well situated to supply the US market ❖ Chile natural landscape has contributed to a "phytosanitary island" which has enabled Chile to develop a fruit industry almost immune to plagues and viruses. This has ensured Chile market access to numerous markets throughout the world ❖ Lack of pests in Chile makes the transition to produce residue free fruit easier than their Southern Hemisphere counterparts

	SOUTH AFRICA	CHILE
	<p>Control Board) ensuring that all apples and pears leaving South Africa are inspected to minimum quality and food safety control standards</p> <ul style="list-style-type: none"> ❖ Well developed road infrastructure ❖ No language or culture barriers to successfully communicate with European retailers ❖ World market leader in Forelle pears ❖ Established producer association in the form of SAAPPA with statutory funding creating stability in resources ❖ All the main South African exporters are members of the Fresh Produce exporters forum ensuring good export practices ❖ The South Africa economy has been growing strongly creating more buying power in the domestic market 	<ul style="list-style-type: none"> ❖ The yearly snowfall on the Andes mountains has ensured an abundance of water throughout the year ❖ Excellent road infrastructure linking pack houses with shipping ports ❖ Small number of large export companies handling 90% of Chilean exports ensuring economies of scale, well coordinated marketing and distribution to international markets ❖ Exporters handling 90% of Chilean exports are all members of ASOEX, the Chilean exporters association ensuring good cooperation and high ethical trade standards in the industry ❖ Financial support from government in terms of international market development initiatives, workforce education, research and funding of international visits contributing to market access ❖ Chile has existing International market development initiatives linking the images and tourism opportunities to the Chilean

	SOUTH AFRICA	CHILE
		<p>apple and pear industry</p> <ul style="list-style-type: none"> ❖ ASOEX, the exporter body, ensures that the Chilean apple and pear industry is extremely well organized driving programs in worker education, market development, best agricultural practices, production research and optimal cold chain management ❖ Decofruit acts as the market intelligence hub of the Chilean industry ensuring real access to crop estimates and shipping info ❖ Chile has a strong image in the US and European market as being a reliable supplier of apples and pears providing good information ❖ Political stability with a stable fiscal and monetary policy has strengthened the Chilean economy and has created a stable environment to export apples and pears to various markets
WEAKNESSES	<ul style="list-style-type: none"> ❖ Industry was very fragmented after deregulation in 1997 ❖ Poor natural resources – climate, water and soil ❖ Our product fruit size is small compared to our competition 	<ul style="list-style-type: none"> ❖ The shipping infrastructure of Chile is coming under increased pressure with the the strong growth in the apple and pear industry ❖ The industry is export focused

	SOUTH AFRICA	CHILE
	<ul style="list-style-type: none"> ❖ Lack of involvement and financial support from the SA government ❖ SA has a lack of free trade agreements with other countries ❖ SA has been unable to brand and differentiate their product at a consumer level ❖ Infrastructure problems in SA ports leading congestion contributing to delayed shipments to international markets ❖ The lack of a central market intelligence hub addressing crop estimates, inspection info and shipping info ensuring that all producers and exporters operate in an environment where they are well informed ❖ The lack of a unified South African communication strategy improving South Africa's image in international trade and communication the many attributes of the South African apple and pear industry 	<p>with 70% of total production being exported. The domestic market is very small leaving the industry very vulnerable to export markets</p> <ul style="list-style-type: none"> ❖ Chile is not well situated to supply the European market with journey time of 3-4 weeks by vessel. ❖ Chile is dependent on the US, New Zealand and Australia for research in new varieties as Chile doesn't have their own breeding program ❖ Chile's apples and pears doesn't show the same resilience as their South African counterparts in terms of shelf life after Controlled atmosphere storage conditions ❖ Chile doesn't have a government export control board assuring minimum quality and food safety standards. Different private companies perform this service for exporters which can be a worry for retailers and importers
OPPORTUNITIES	<ul style="list-style-type: none"> ❖ The Middle East, Asia and Far East Markets hold large potential ❖ The African market can be 	<ul style="list-style-type: none"> ❖ Chile has got access to various major economies like the US, EU market, Canada and China through free trade agreements

	SOUTH AFRICA	CHILE
	<p>developed further</p> <ul style="list-style-type: none"> ❖ The South African domestic market holds large potential with the increase in buying power of the black middle class. ❖ Establishment of premium brands like Pink Lady ❖ Consumer education especially in the domestic and African markets ❖ Communicating the attributes of the South African apple and pear industry at a consumer and a trade level ❖ Linking a the images of SA tourism with SA apples and pears at a consumer level thus using apples and pears as a vehicle to market South African Tourism. ❖ The willingness of the International Marketing Council, responsible for marketing South African Tourism and investment, to make the brand “South Africa Alive with Possibility available to the SA apple and pear industry ❖ Forming alliances with the associations of competing countries to share market intelligence ❖ Improving the communication of 	<ul style="list-style-type: none"> ❖ Especially the fast growing Chinese market holds exceptional growth opportunities for the Chilean apple and pear industry ❖ Existing market developments campaigns aimed at the trade level can be expanded to include the consumer ❖ Increased communication of the attributes of the Chilean industry to the trade and the consumer ❖ Building on existing government relations and involvement to gain further financial assistance to support industry programs ❖ The development of the Chilean domestic consumption of fresh apples and pears ❖ An aggressive marketing campaign can increase their market share in the UK market ❖ Increased communication with other Southern hemisphere countries in terms of market intelligence

	SOUTH AFRICA	CHILE
	<p>crop estimates, inspection and shipping information of the SA Apple and Pear industry to international clients</p> <ul style="list-style-type: none"> ❖ Market access – Forming an Apple and Pear body to establish market access under the umbrella of SAAPPA. ❖ Currently exchange rates are favourable for exports 	
THREATS	<ul style="list-style-type: none"> ❖ Political stability might come under threat when Thabo Mbeki steps down as president ❖ The quality standards of supermarket business are constantly increasing ❖ The carbon footprint of our products might impact supermarket access in future ❖ Supermarket power is likely to increase even further in future ❖ Growing supermarket demand for residue free fruit ❖ The % of South African fruit being sold on consignment is still very high ❖ Volatile exchange rates will continue to hold a risk in terms of planning and viability of exports ❖ Large companies focused on their own brands refusing to 	<ul style="list-style-type: none"> ❖ Growing supermarket demand for residue free fruit ❖ The quality standards of supermarket business are constantly increasing ❖ The carbon footprint of Chilean products might impact supermarket access in future ❖ Supermarket power is likely to increase even further in future ❖ In recent years the Chilean currency has strengthened versus the various major currencies of the world which impacts negatively on the viability of exports ❖ The lack of a domestic market leaves the Chilean industry very vulnerable in terms of possible instability in world markets ❖ Complacency in terms of their current strong export position

	SOUTH AFRICA	CHILE
	<p>work together with the industry bodies in initiatives to build the image of the South African brand</p> <ul style="list-style-type: none"> ❖ Possible war conditions in oil supplying countries like Iraq and Iran can cause the oil prices to further increase thus impacting negatively on the viability of exports 	<p>can leave the door open to South Africa to increase market share.</p> <ul style="list-style-type: none"> ❖ Continuing to focus on market development at a trade level can open the door for South Africa to gain an advantage in the European and UK market by launching a campaign aimed at the consumer ❖ Possible war conditions in oil supplying countries like Iraq and Iran can cause the oil prices to further increase thus impacting negatively on the viability of exports ❖ Supermarkets increased focus on Just in time delivery leaves Chile at a disadvantage to South Africa because of their longer journey time by ship to the UK and European market.

7.4 EXPORT VALUE CHAIN COMPARISON TO EUROPE

The European export value chain in the apple and pear industry consists of three facets namely production cost, packing cost and distribution cost. The distribution cost is compared up to the point where the fruit is delivered in the Rotterdam harbour in Holland. The three facets will now be compared between the two countries in terms of apples and pears.

Table 7.2: Value chain Comparison between South Africa and Chile

	South Africa	Chile	South Africa	Chile
	Pears	Pears	Apples	Apples
Production Tons per hectare (full bearing trees)	45	55	55	65
Class1 - 12,5kg export cartons per hectare	2,340	2,640	1,980	2,780
Production cost per hectare	US\$5,800	US\$6,000	US\$6,300	US\$6,500
Packing Cost per hectare	US\$8,200	US\$8,500	US\$10,500	US\$11,000
Distribution Cost per hectare (Export)	US\$6,685	US\$11,100	US\$5,660	US\$11,520
Total Cost per hectare	US\$20,685	US\$25,600	US\$22,460	US\$29,020
Breakeven Export Price per carton	US\$8.80	US\$9.70	US\$11.60	US\$10.40

Source: Based on OABS (2006) and Decofrut (2008)

The above analysis of the export value chain taking into consideration the export cartons produced per hectare, production cost per hectare, packing cost per hectare and distribution cost per hectare shows us the following:

- ❖ South Africa has a more competitive export value chain per hectare in pears versus Chile
- ❖ Chile has a more competitive export value chain per hectare in apples versus South Africa

This value chain analysis support the current trends experienced in the two countries. South Africa's apple plantings have stagnated in recent years while pear plantings have showed significant growth. In Chile pear plantings are in decline while apple plantings have showed exceptional growth.

7.5 SOUTH AFRICA VERSUS CHILE: COMPETITIVE ANALYSIS

Which country is competitively stronger or weaker to supply the European retail market will be determined by using the weighted rating system (Arthur, 2005). In a weighted rating system each measure of competitive strength is assigned a weight based on its

perceived importance in shaping competitive success. The key success factors to successfully supply retailers were identified in Chapter 6 with the analysis of the external environment. These factors were weighted by the writer in terms of perceived importance. South Africa and Chile were given a mark out of 10 in terms of their perceived performance regarding each of the identified key success factors. The marks were multiplied by the weighted factor to indicate an overall mark out of 10 for Chile and South Africa in terms of apples and pear supply respectively.

7.5.1 The Weighted Competitive Strength Assessment

The units of analysis will be analyzed according to how well they can cope with similar factors in their external and internal environment.

- The data that was used were documentary sources in the form of historical documents, annual reports, speeches and official memoranda.
- A country situational analysis was used to identify factors in the external and internal environment that was used to determine supplier/country attractiveness and competitiveness.
- These factors were weighted by the writer according to the perceived importance of contributing to supplier attractiveness and competitiveness.
- South Africa and Chile were then judged by the writer on each these factors and given a mark out of 10 based on perceived current performance. The technique used was a weighted competitive analysis as prescribed by Arthur *et al* (2005). The weighted result guided the writer in crafting South Africa's future positioning strategy.

Table 7.3 shows that there is very little difference between the countries in terms of competitiveness in terms of apple and pear exports to the EU retail market. Chile came out on top in both apples and pears in terms of the competitive strength assessment.

- ❖ South Africa's pear industry has showed greater growth compared to Chile but this has been mainly due to the fact that South Africa has been the only country that has had success in producing Forelle pears, which is blush pear variety in high demand from the European market. This is about to change as Chile has

started with Forelle plantings in recent years and has acknowledged achieving production success with the variety.

- ❖ In apples Chile's superiority in competitiveness is more noticeable and is solely responsible for Chile 20% growth in Pome fruit production in the past 5 years. Chile has exploited the fact that the South African industry has been fragmented in the past 10 years and has used this opportunity to gain market share in the European retail market

Table 7.3: Competitive measures – South Africa versus Chile

Rating scale: 1= Very weak; 10 = Very strong

Key success factors	Importance weight	South Africa	Chile	South Africa	Chile
		Pears /score		Apples/score	
Quality/ Product performance	0.10	8	7	8	7
Variety of products	0.05	8	6	8	7
Size of products	0.025	6	8	6	8
Continuity of supply	0.025	7	6	8	6
Reliability of supply	0.05	7	7	7	7
Trade image in EU	0.05	5	9	5	9
Availability of industry supply info to producers , exporters, retailers and importers	0.05	4	8	4	8
Infrastructure Capability	0.075	7	6	7	6
Industry new variety breeding capability	0.025	7	2	7	2
Competitiveness of the Value chain	0.10	8	6	6	8
Free Trade agreements	0.05	5	8	5	8
Consumer product knowledge/ awareness	0.10	3	3	3	3
Quality of cold chain management	0.05	7	6	7	6
Reliability of Product Inspection services	0.05	8	6	8	6
Government financial support	0.05	4	8	4	8
Ability to grow residue free fruit	0.025	5	9	5	9
Industry knowledge of the Carbon footprint position	0.025	2	2	2	2
Branding the industry products at consumer level	0.05	3	5	3	5
Product safety	0.05	8	7	8	7
Sum of importance weights	1				
Weighted overall strength rating		6.05	6.23	5.88	6.48

Source: Based on Arthur et al. (2005)

7.6 CHAPTER SUMMARY

Chapter 7 started off by measuring whether South Africa's current apple and pear industry strategy is working. It showed that Chile exports have outgrown South Africa in the past five years by a large margin in especially apples. The SWOT and value chain analysis and the competitive strength assessment clearly highlighted the following key issues that South Africa needs to address to improve its competitive position versus Chile:

- Trade Image of South African Apples and Pears in the EU Retail market
- The availability of South African supply information to SA producers and exporters as well as EU retailers and importers
- Consumer knowledge and awareness of South African products on the shelf
- South African government involvement and financial support to the SA Apple and Pear industry
- Ability to grow residue free fruit
- The South African Industry ability to measure and improve its own carbon footprint
- Branding the South African industry products at a consumer level

The assessment also highlighted that South Africa is relatively strong throughout the value chain activities but that the lack of a unified industry whereby its strengths are communicated to consumers, retailers and importers, has led to South Africa losing market share to Chile. The positioning strategy that is recommended in the next chapter needs to firstly address the current SA industry weaknesses and minimize the risk of the threats identified. Secondly the strategy needs to build on its current strengths of the SA Industry and make sure that it is correctly positioned to seize the opportunities identified. In chapter 8 the key actions identified to improve South Africa situation is matched to the most suitable of the 12 potential strategies included in the strategy framework that was identified during the literature overview discussed in Chapter 2.

CHAPTER 8 : FORMULATING THE POSITIONING STRATEGY FOR THE SOUTH AFRICAN APPLE AND PEAR INDUSTRY

8.1 INTRODUCTION

In Chapter 7 the SWOT and value chain analysis and the competitive strength assessment identified the key issues to improve South Africa's situation. In Chapter the available Corporate and Generic strategies were discussed and it was decided that the optimal new positioning strategy for the South African Apple and Pear industry will be a combination of the Corporate and Generic strategy most suited to address South Africa's issues. The actions to address these issues were matched to the most suitable of the 12 potential strategies identified during the literature overview discussed in Chapter 2. The 12 potential combination strategies that were considered in the strategic decision framework can be seen in the table below.

Table 8.1: Twelve potential strategies

		<u>Generic strategies</u>		
		Cost leadership	Differentiation	Focus
<u>Corporate strategies</u>	Market penetration	MPCL - strategy	MPD - strategy	MPF - strategy
	Market development	MDCL - strategy	MDD - strategy	MDF - strategy
	Product development	PDCL - strategy	PDD - strategy	PDF - strategy
	Diversification	DCL - strategy	DD - strategy	DF - strategy

MPCL – Market penetration through Cost leadership (See 2.2.1 and 2.3.1)

MDCL – Market development through Cost leadership (See 2.2.2 and 2.3.1)

PDCL – Product development through Cost leadership (See 2.2.3 and 2.3.1)

DCL – Diversification through Cost leadership (See 2.2.4 and 2.3.1)

MPD – Market penetration through Differentiation (See 2.2.1 and 2.3.2)

MDD – Market development through Differentiation (See 2.2.2 and 2.3.2)

PDD – Product development through Differentiation (See 2.2.3 and 2.3.2)

DD – Diversification through Differentiation (See 2.2.4 and 2.3.2)

MPF – Market penetration through Focus (See 2.2.1 and 2.3.3)

MDF – Market development through Focus (2.2.2 and 2.3.3)

PDF – Product development through Focus (2.2.3 and 2.3.3)

DF – Diversification through Focus (2.2.4 and 2.3.3)

In matching the identified actions to the most suitable strategy it was important to re-visit the objective of the study. The objective was to identify a clearly defined marketing positioning strategy for the South African Apple and Pear industry to successfully compete against Chile in supplying the European supermarket business. The strategy had to be distinctive, tilt the playing field in South Africa's favour by giving international buyers reasons to prefer its products and services and produce a sustainable advantage over other apple and pear producing countries of the world. As a result demand and market share will grow for South African apples and pears in the existing EU retail market for its existing product range and will lead towards industry growth and improved returns for growers.

8.2 THE OPTIMAL CORPORATE STRATEGY DECISION

In terms of deciding on a corporate strategy that will improve returns and growth with an existing product range it can be achieved by either attacking costs of existing products in the value chain or by improving the retail value and sales volume of the product. As most of the cost in the value chain of the SA Apple and Pear industry is already at a stage where there are limited room for improvement, the most achievable strategy would be to focus on improving the retail value and sales volume of SA apples and pears in the European retail market. This is best achieved through a market penetration strategy.

Market penetration is used to achieve growth with existing products in their current market segments, aiming to increase market share (Ansoff, 1957). Market penetration is the depth of sales of a particular product in a given market. The deeper the market penetration, the higher the volume of product sales expected. In order to expand the sales of current products in markets where their products are already being sold, marketers utilize market penetration strategies such as cutting prices, increasing advertising, obtaining better store or shelf positions for their products, or innovative distribution tactics (Allbusiness, 2008). This strategy carries the least risk as the competitor is able to leverage many of its existing resources and capabilities. Market penetration has its limitations in terms of growth potential in a maturing market as it means that the competitor will have to take market share away from competitors to achieve growth. In a market that is growing the competitor simply have to maintain market share to grow sales.

Decision: A market penetration strategy is the best suited corporate strategy to focus on improving the retail value and sales volume of SA apples and pears in the European retail market

8.3 *THE OPTIMAL GENERIC STRATEGY DECISION*

The next step is to decide which generic strategy would best support the market penetration (corporate) strategy and in the process address the weaknesses identified that South Africa needs to improve on to strengthen its competitive position versus Chile. The weighted competitive analysis chapter 7 identified that South Africa is well positioned regarding its activities in the value chain but currently struggles to identify its product in the market place as well as communicate the attributes and availability of its products to consumers, retailers and importers. South Africa will achieve this through a differentiation strategy by identifying its product in the market place as well as communicating the attributes and availability of its products to consumers, retailers and importers.

A differentiation strategy is aimed at the development of a product or service that offers unique attributes that are valued by customers and are perceived to be different or better than products of the competition (Porter, 1999). Product differentiation is a

competitive business strategy whereby firms attempt to gain a competitive advantage by increasing the perceived value of their products and services relative to the perceived value of other firm's products and services (Jaquier, 2003). The uniqueness of the product and the perceived value thereof may allow the competitor to charge a premium price for it. The higher price would then cover any additional costs in creating the uniqueness of the product. The uniqueness of the product or service should be difficult to copy by competitors. There are many aspects that can make a product or service unique. Design, quality, durability corporate image, added benefits, promotional campaigns and versatility are all examples of attributes that can contribute to the uniqueness of a product or service.

Decision: A differentiation strategy is the best suited generic strategy to identify South African Apples and Pears in the market place as well as communicate the attributes and availability of its products to consumers, retailers and importers.

8.4 THE OPTIMAL CORPORATE/GENERIC STRATEGY COMBINATION DECISION

A Market Penetration strategy through the use of differentiation will grow demand and market share for South African apples and pears in the existing EU retail market for its existing product range by focusing on:

- A. Improving the retail value and sales volume of SA apples and pears in the European retail market through:
 - ❖ In-store promotional and media campaigns that will create awareness of South African apples and pears and SA Tourism as well as educate and communicate consumers about the attributes and different uses of SA apples and pears as well as SA Tourism opportunities.
 - ❖ The identification of all South African apples and pears through on-pack branding by using the “South Africa, Alive with Possibility brand”.
 - ❖ In-pack information booklets providing nutritional information and recipes for South African apples and pears

Responsible industry body : Joint Marketing Forum and FPEF

B. Communication of real time supply information to European retailers and importers through:

- ❖ E-mailing retail buyers direct website links giving them access to the weekly South African pome newsletters indicating crop estimates, weekly inspection volumes and shipment volumes per variety

Responsible industry body : Joint Marketing Forum

C. Active engagements with the SA government to gain their involvement and financial support for promotional activities in retail stores through:

- ❖ Active lobbying by industry representatives for the involvement of SA Tourism, the Department of Trade and Industry and the International Marketing Council in promotional campaigns where SA Apples and Pears are used as a vehicle to enhance the image of the South Africa amongst consumers, retailers and importers.

Responsible industry body : Joint Marketing Forum and FPEF

D. The active communication at an industry level to European retailers and importers about the South African Apple and Pear industry's progress regarding the management of the carbon footprint of its products as well as the production of residue free fruit through

- ❖ Yearly visits by industry representatives to European retailers and importers where South African progress reports in these areas are presented.

Responsible industry body : Joint Marketing Forum and DFPT Research

Final Decision: A Market Penetration strategy through the use of differentiation will make the South African Apple and Pear marketing positioning strategy distinctive, tilt the playing field in South Africa's favour by giving European retail buyers reasons to prefer its products and services and produce a sustainable advantage over other apple and pear producing countries of the world.

8.5 *CHAPTER SUMMARY*

The optimal South African positioning strategy is a market penetration strategy through the use of differentiation. The strategy will rest on four pillars namely:

1. Improving the retail value and sales volume of SA apples and pears in the European retail market through
2. Communication of real time supply information to European retailers and importers
3. Active engagements with the SA government to gain their involvement and financial support for promotional activities in retail stores
4. Active communication at an industry level to European retailers and importers about the South African Apple and Pear industry's progress regarding the management of the carbon footprint of its products as well as the production of residue free fruit

CHAPTER 9 : SUMMARY, CONCLUSIONS AND RECOMMENDATION

Chapter 1 served as an introduction to the study and provided the background to the research problem, the objective, the research design, and the research methodology and data used during the research process.

Chapter 2 identified the key attributes of each of the available corporate and generic growth strategies and gave the reader an understanding of when the usage of each strategy is applicable. The corporate growth strategies that were identified included market penetration, market development, product development and diversification while the generic growth strategies included cost leadership, differentiation and focus. The chapter concluded by identifying twelve possible corporate/generic strategy combinations for consideration. The twelve available strategies will act as reference framework when reading the following chapters. The final outcome of the study is aimed at identifying which of the twelve available strategies are the optimum corporate/generic growth strategy combination for the South African apple and pear industry. Chapter 3 starts the investigation by giving a full description of the South African apple and pear industry and identifying the main attributes of the SA industry to be considered in determining strategic decision making.

Chapter 3 described the South African Apple and Pear industry in the context of its physical, economic, political and social environment as well as looking at the organizations responsible for managing the industry interests. The South African industry is well established in especially the Western Cape area where climatic conditions are ideal for the production of apples and pears. There are concerns that global warming is leading to increased temperatures in this area which can impact negatively on production. Limited water availability is also a growing concern. The economic outlook for the apple and pear industry is good with a weaker currency supporting the export industry. Strong economic growth in South Africa has led to the

increased spending power of the upcoming black middle class which has led to increased demand from the domestic market. Acceleration in the increase of value chain costs is however a concern that needs to be monitored. South Africa's high inflation rate in recent times has caused the SA Reserve Bank to act decisively by increasing interest rates. This trend is expected to continue in the short term which will add pressure on cost for South African apple and pear growers. The inability of state power supplier Eskom to cope with the increased power demand of the SA economy is expected to lead to increased cost in the value chain for apple and pear growers. Unexpected power outages are expected to hold a major risk for optimal cold chain management for the SA apple and pear industry. In South Africa a lot of attention will have to be given to cold chain management to improve the eating quality and shelf life of fruit sold on the domestic market. The parastatal, the Perishable Products Export Control board, is adding value to the South African apple and pear industry by maintaining minimum exports standards for South African fruit. The security of power supply by state power supplier, Eskom, is a major concern in ensuring optimal cold chain management and needs to be addressed. Political stability with strong execution of a stable fiscal and monetary policy has contributed to economic growth. Resource capacity to maintain economic growth is however an area which needs attention from government. HIV Aids, education and social problems amongst the South African workforce continues to be a major challenge and could slow down potential growth in the SA apple and pear industry.

Ten years after deregulation the South African apple and pear industry has re-organized itself well into a strong producer organization (SAAPPA). SAAPPA along with industry structures like FPEF (Fresh Produce Exporter's forum) and the DFPT (Deciduous Producers Trust) have seen to it the industry is well positioned to cope with the increasing demands of the international market in areas like food safety, market intelligence and new cultivar development. These structures are critical in bringing an organized approach to industry matters that will facilitate industry growth in future. Production research, food safety, market intelligence and market development are all areas that will continue to get attention through industry structures. In chapter four the internal environment of the Chilean industry will be discussed. In Chapter seven a SWOT analysis was done comparing the internal environments of the South African and Chilean industries.

Chapter 4 described the internal environment of the Chilean Apple and Pear industry in the context of its physical, economic, political and social environment as well as looking at the organizations responsible for managing the industry interests. The Chilean industry is well established as the power house in apple production in the Southern Hemisphere. Climatic conditions are ideal for the production of apples and pears. The country is surrounded by mountains and the sea which forms a phytosanitary island and makes it very easy and cheap to control pests. The country has rich soils and an abundance of water that it gets through snow on the Andes Mountains. The economic outlook for the Chilean apple and pear industry is good with strong worldwide demand for its apples and pears. Inflation has been moving within the 2-4% target of the Chilean central bank which has enabled a very stable interest rate contributing to a positive business environment in Chile. Chile is well situated to export to the US market and is by far the biggest net exporter of apples and pears to the US market. Sharply increased shipping rates in recent years on Chilean export routes have made long distance destinations like the Far East and Europe less attractive. A local currency performing strongly in recent years against the major currencies of the world has also made export conditions quite tough. Chile has struggled to balance the need for investments in infrastructure with the pressing demand for better social services. During the final decades of the 20th century, the country's infrastructure spending did not keep pace with its economic growth, creating serious bottlenecks for producers who depend on roads, seaports and airports to export their goods to international markets. The Chilean Apple and Pear industry lacks a strong domestic market which leaves it quite exposed exports market conditions. Political stability with strong execution of the fiscal and monetary policy has contributed to economic growth. HIV Aids are well managed while education and social problems among the workforce are areas that still need major attention going forward. The Chilean apple and pear industry has very good industry structures and is well organized. Especially ASOEX has played a major role in organizing the Chilean apple and pear export industry in terms of market access, market development and market intelligence. The export industry has also benefited from ASOEX's close relationship with the Chilean government with financial grants being obtained in various areas. The Chilean apple and pear industry is currently seen as world leaders in terms of phytosanitary programs, worker training programs, promotional programs and information systems. There will be a strong emphasis on strengthening research

programs in especially the development of new varieties. In chapter five the characteristics of the external European retail environment will be discussed. Both the South African and Chilean apple and pear industries are major suppliers to this market. In Chapter seven a SWOT analysis was done comparing the internal environments of the South African and Chilean industries.

Chapter 5 started by giving an overview of the global grocery retail market. The overview illustrated the dominance and growth of grocery retailers worldwide. It was followed by an overview of the Western and Central European retail sector which is a focus market for both South Africa and Chile. The fast growth of outlet channels like superstores, supermarkets and discount stores became very evident from this overview. The UK is seen as the leading retail market in Europe and its attributes and requirements will be used as framework for measuring the competitiveness of Chile and South Africa to successfully supply the European retail sector. The main retail and consumer trends in the UK market that was identified included an increasing focus on convenience, food safety, environmentally friendly production because of global warming as well pro-active communication of product information to the consumers. Promotional activities are seen as a necessity to create consumer awareness and knowledge about the products on the shelf. Requirements identified for success in terms of supplying UK retailers included continuity of supply, good taste and eating quality of product delivered, environmentally friendly production and good communication with retailers. These trends, attributes and requirements of the UK retail environment and consumers will be used in Chapter 6 to identify and analyze the supplier attributes needed to successfully supply the European retail environment.

Chapter 6 identified the dominant economic features and competitive forces in the European retail supply environment as well as the factors driving industry change. Southern Hemisphere suppliers were judged by four of the major UK retailers in terms of service delivery and value for money. Value for money is seen by retailers as a function of price paid divided by the product quality while service levels are seen as a function of availability and continuity of supply divided by the product quality received. Product quality is defined as a function of the eating quality, the safety and the range of product received from the supplier. The questionnaires completed by retail buyers at the four largest retailers in the UK showed that the South African apple and pear industry is

strongly positioned compared to other Southern Hemisphere suppliers in terms of the core qualities necessary to supply the European retail market. South Africa is seen as the number one Southern Hemisphere pear supplier to the EU retail market. In terms of apple supply to the EU retail market Chile and South Africa is jointly seen as the best positioned apple suppliers with South Africa being superior in terms of service levels and Chile offering better value for money. The key factors for future competitive success in supplying the European retail market was also identified and included: long term partnerships with retailers, well managed and transparent cost chains ensuring competitive but fair pricing, affordability of products through economies of scale, sustainable production of fresh fruit, Residue free production, improved product offering to the consumer, improved eating quality of products, exciting new, ethical trading, excellent service levels ensuring consistent and continuous supply, pro-active communication with the consumer, government support, knowledge of the consumer and optimum cold chain management. In Chapter 7 these key success factors will be used as guidelines in doing an internal SWOT analysis of both the South African and Chilean industries to identify the actions that South Africa needs to take to improve their competitive position versus Chile.

Chapter 7 started off by measuring whether South Africa's current apple and pear industry strategy is working. It showed that Chilean exports have outgrown South Africa in the past five years by a large margin in especially apples. The SWOT and value chain analysis and the competitive strength assessment clearly highlighted the following key issues that South Africa needs to address to improve its competitive position versus Chile:

1. Trade Image of South African Apples and Pears in the EU Retail market
2. The availability of South African supply information to SA producers and exporters as well as EU retailers and importers
3. Consumer knowledge and awareness of South African products on the shelf
4. South African government involvement and financial support to the SA Apple and Pear industry
5. Ability to grow residue free fruit
6. The South African Industry ability to measure and improve its own carbon footprint

7. Branding the South African industry products at a consumer level

The assessment also highlighted that South Africa is relatively strong throughout the value chain activities but that the lack of a unified industry whereby its strengths are communicated to consumers, retailers and importers, has led to South Africa losing market share to Chile. The positioning strategy that is recommended in the next chapter needs to firstly address the current SA industry weaknesses and minimize the risk of the threats identified. Secondly the strategy needs to build on its current strengths of the SA Industry and make sure that it is correctly positioned to seize the opportunities identified. In chapter 8 the key actions identified to improve South Africa situation is matched to the most suitable of the 12 potential strategies included in the strategy framework that was identified during the literature overview discussed in Chapter 2.

Chapter 8 identified a market penetration strategy (corporate strategy) through the use of differentiation (generic strategy) will be optimal to grow demand and market share for South African apples and pears in the existing EU retail market for its existing product range by focusing on:

- A. Improving the retail value and sales volume of SA apples and pears in the European retail market through:
 - ❖ In-store promotional and media campaigns that will create awareness of South African apples and pears and SA Tourism as well as educate and communicate consumers about the attributes and different uses of SA apples and pears as well as SA Tourism opportunities.
 - ❖ The identification of all South African apples and pears through on-pack branding by using the “South Africa, Alive with Possibility brand”.
 - ❖ In-pack information booklets providing nutritional information and recipes for South African apples and pears

Responsible industry body : Joint Marketing Forum and FPEF

- B. Communication of real time supply information to European retailers and importers through:

- ❖ E-mailing retail buyers direct website links giving them access to the weekly South African pome newsletters indicating crop estimates, weekly inspection volumes and shipment volumes per variety

Responsible industry body : Joint Marketing Forum

C. Active engagements with the SA government to gain their involvement and financial support for promotional activities in retail stores through:

- ❖ Active lobbying by industry representatives for the involvement of SA Tourism, the Department of Trade and Industry and the International Marketing Council in promotional campaigns where SA Apples and Pears are used as a vehicle to enhance the image of the South Africa amongst consumers, retailers and importers.

Responsible industry body : Joint Marketing Forum and FPEF

D. The active communication at an industry level to European retailers and importers about the South African Apple and Pear industry's progress regarding the management of the carbon footprint of its products as well as the production of residue free fruit through

- ❖ Yearly visits by industry representatives to European retailers and importers where South African progress reports in these areas are presented.

Responsible industry body : Joint Marketing Forum and DFPT Research

Final Decision: A Market Penetration strategy through the use of differentiation will make the South African Apple and Pear marketing positioning strategy distinctive, tilt the playing field in South Africa's favour by giving European retail buyers reasons to prefer its products and services and produce a sustainable advantage over other apple and pear producing countries of the world.

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