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CASE STUDIES OF **EMERGING FARMERS**
AND **AGRIBUSINESSES**

IN SOUTH AFRICA



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Edited by Edward Mabaya, Krisztina Tihanyi, Mohammad Karaan and Johan van Rooyen



Case Studies of Emerging Farmers and Agribusinesses in South Africa

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The Editors

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FOREWORD

Nearly two decades after the first democratic elections in South Africa, the agriculture and agribusiness landscape of the country are still under transformation. A new group of historically disadvantaged individuals have and continue to enter this historically white- and male-dominated formal value chain. They are driven by their own ambitions and supported by several transformation initiatives. Two programs, Agricultural Broad-Based Black Economic Empowerment (AgriBEE) and the Comprehensive Agricultural Support Programme (CASP), initiated by my department are prime examples of such support by government that aim to mainstream emerging farmers and agribusinesses. The case studies profiled in this book are a timely illustration of the progress made to date and also the challenges remaining.

Indeed, much has been said in the media and various other political, business, academic, and development forums about the plight and prospects of South Africa's emerging farmers. While opinions on the role and contributions of emerging farmers to the economy and the issues they face are diverse, just as often the group has been viewed as a homogenous entity and juxtaposed against established white commercial farmers. As the cases in this book illustrate, the truth is more nuanced and multi-faceted. First, there is great diversity within this group based on the type of enterprise, location, ownership, age of enterprise, management capacity, and other socio-economic factors. Second, there are many similarities in terms of opportunities and threats at the macro level between black-owned farms or agribusinesses and their white counterparts.

As the Director General of Department of Agriculture, Forestry and Fisheries, I regularly read reports on the challenges and opportunities facing emerging farmers and recommendations on the best ways to integrate them into mainstream agriculture. While these reports are important in giving a broad, "big picture" perspective to guide policy makers, they lose a lot of useful information in the process of aggregation. Specifically, the dynamic interplay of specific social, economic, political, and technological factors at micro level is lost in the "single lens" approach that is typical of analytical reports. Importantly, emerging farmers and agribusinesses lose their identity and voices as they are lumped into numbers, figures, and tables. A holistic understanding of emerging farmers and agribusinesses requires both the macro perspective provided by the analytical reports ("seeing the forest through the trees") and the detailed, enterprise-level dynamics captured in these case studies ("understanding the trees that make up the forest").

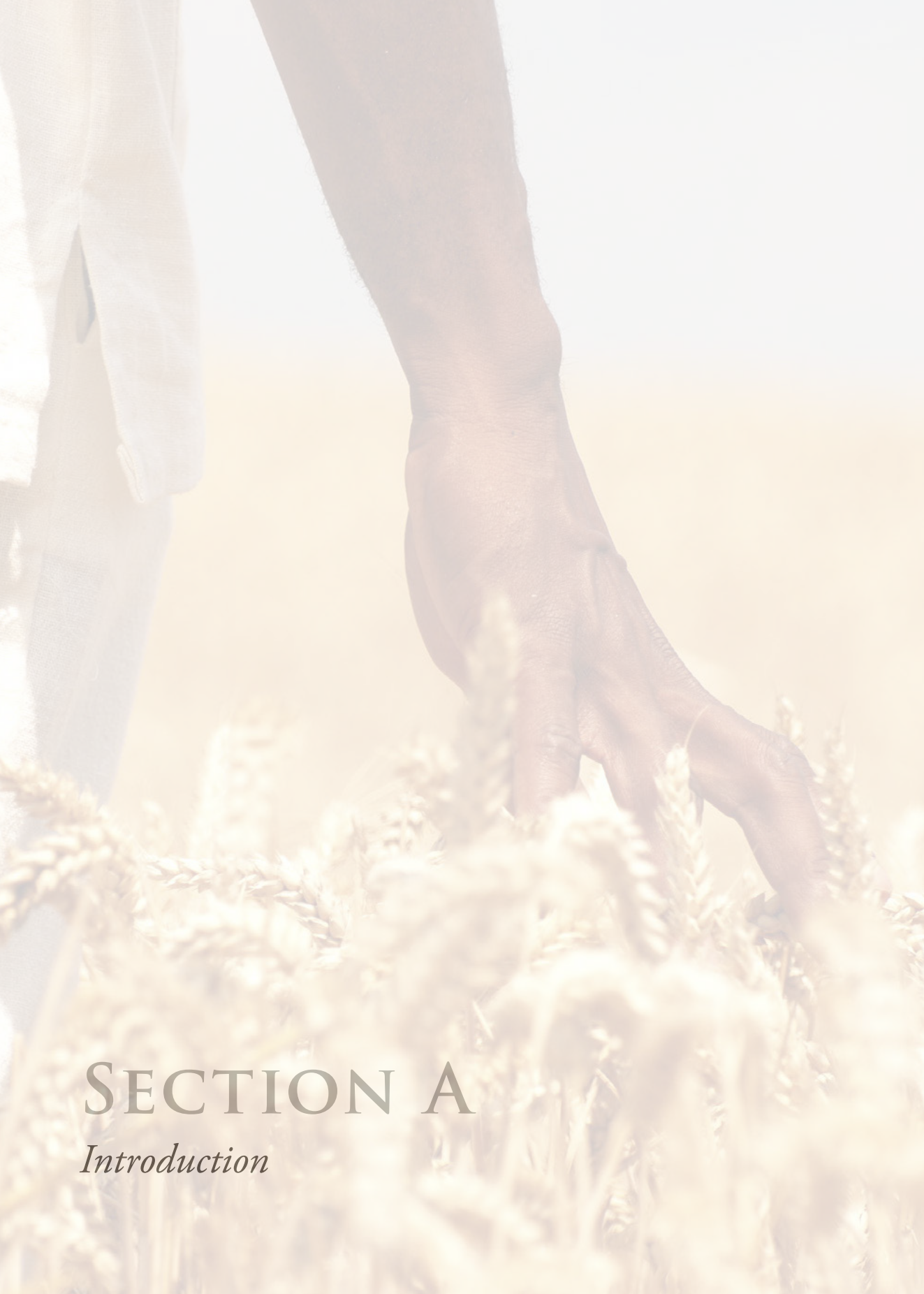
Last but not least, this book makes an important contribution as a teaching tool for academic and training programs in South Africa and around the world. In recent years case studies have become an invaluable tool of teaching in the fields of farm and enterprise management because of their applicability to real life, contemporary nature, and accessibility by a broad and general audience. As we train the next generation of emerging farm managers, agro-entrepreneurs and development practitioners, this book presents a unique teaching tool with which students can get their “hands dirty” and work on real life challenges that are not boxed into the typically narrow course focus.

It is impossible to understand the current state of South Africa’s agricultural sector without looking at the country’s history. Similarly, one cannot fully understand the opportunities and challenges facing emerging farmers and agribusinesses in South Africa without first walking in their shoes. This book is an excellent effort in giving the unfiltered perspectives of emerging farmers from an enterprise level. It is a “must read” for anyone working with agriculture and agribusiness transformation in South Africa.



Mr Langa Zita

Director-General of the Department of Agriculture, Forestry and Fisheries



SECTION A

Introduction

Chapter 1

SETTING THE SCENE

Krisztina Tihanyi, Kenneth Robinson

INTRODUCTION

“Emerging” (or “black”) farmers are often talked about as a group, which, to some extent, implies that they are a homogeneous bunch. While individual emerging farmers and agribusinesses share a common history, there are significant differences among them that are often hidden beneath the averaging and aggregation that is typical of most published reports and analytical research. Departing from other research publications, the aim of this volume is to document a set of case studies¹ of emerging farmers and agribusinesses in order to paint a more detailed picture of this growing and important segment of South Africa’s agriculture and agribusiness sectors. Putting together a collection of case studies that are diverse in terms of geography and sub-sector allows for the presentation of a more nuanced picture of emerging farmers as a whole; at the same time, using the case study method provides in-depth accounts of individual farmers and agribusinesses in a way that brings to life the day-to-day realities and challenges of the enterprise. The specific objectives of this book are threefold:

1. To showcase the human stories behind the emerging farmers and agribusinesses in South Africa in a way that brings to light the rich diversity, historical backgrounds, current context, and future directions;
2. To highlight the best practices, opportunities, and challenges facing South Africa’s emerging farmers and agribusinesses; and
3. To create a new set of instruction and learning materials for academics and development practitioners interested in South Africa’s agriculture.

¹ The case study research method is an empirical inquiry that investigates a contemporary phenomenon within its real-life context; where the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used (Yin, 1984).

Importantly, the case study format also allows for a close-up view of the entrepreneurs at the heart of the businesses and find out what motivates them, what ‘makes them tick’. As such, this volume asks question such as: Just who are the emerging farmers and entrepreneurs? What challenges do they face and what opportunities do they have in South Africa today? Is the current policy environment helping them succeed? If it is, could/should it do more? And, having looked at the cases, and perhaps as an outlook for those contemplating starting their own business, what can be said about the future of emerging agribusinesses in the country?

While emerging farmers and agribusinesses may present a diverse picture, what they all have in common, at least in broad measures, is the natural and socio-political landscape in which they find themselves in South Africa. This landscape is complex and filled with legacies of a racially and economically divided past and challenges of the present. Therefore, before delving into the case studies, this introductory chapter will outline, in broad strokes, the landscape surrounding South African agribusinesses today, looking at the agroecological conditions, the history of the agriculture sector, including the important issue of land tenure reform and other post-Apartheid policies such as AgriBEE that are relevant to emerging farmers and agribusinesses. Since the focus of this book is not the history, this background chapter is limited in detail and it assumes some prior familiarity with South Africa on the part of the reader.² The second part of the chapter turns to the present and employs a political, economic, social, and technological/environmental (PEST) analysis, an analytical tool that allows for the survey of the present economic and social landscape through the eyes of an emerging farmer: In other words, it asks what opportunities and threats (challenges) emerging farmers and agribusinesses face in South Africa today.

The third and final section of the chapter looks at case studies as a tool of research and learning. This method, which has been commonly used in business and legal environments, is relatively new to other academic fields, including agribusiness management. It is sometimes criticised for its lack of generalisability. Anticipating such criticism, this section outlines the merits of case studies and (it is hoped) makes a compelling case as to why case studies make an excellent teaching and research tool in undergraduate, graduate, and professional education.

DEFINING EMERGING FARMERS AND AGRIBUSINESSES

First the terms “emerging farmer” and “emerging agribusiness” need to be defined. This is an important point as it explains one of the key criteria used to select the businesses profiled in this volume. It is important to note that neither term has one standard and widely used definition in

2 South African readers or those highly familiar with the country’s history may choose to skip the historical sections on pages 4-10.

South Africa today. Moreover, they are often used interchangeably with the term “black farmer/entrepreneur”, which, strictly speaking, is incorrect, as not all emerging entrepreneurs are black (nor, for that matter, are all black farmers emerging). While some of this is semantics, having a clear definition is important because if policy-makers are interested in developing programmes that target emerging farmers (whether they be training programmes, financing mechanisms, or other policy measures) identifying the correct target group is crucial. If the definition is too wide (as the term “black farmer” may very well be), we run the risk of programmes and policies failing, seemingly because they do not work, but in fact because the beneficiaries were not well defined and selected.

In coming up with a definition, the categorisation developed by the Land Bank is useful (Figure 1), although it applies only to farmers, not to agribusiness entrepreneurs. The figure puts farmers on a continuum from subsistence farming to established commercial farmer. The group focussed on in this volume is “emerging commercial” farmers, although, as will become apparent, even in this volume the range is quite wide encompassing farmers who export their products overseas and small farms or projects that serve their immediate community. (At the end of this chapter we provide a list of the companies featured in this volume indicating their sub-sector and main products.) Thus variation clearly exists and the categories are not always clear-cut, but what appears clear is that in South Africa’s dualistic agriculture (Ortmann & Machethe, 2003), characterised by commercial farming on the one end and subsistence farming on the other, emerging commercial farmers sit at the nexus of the dualistic agriculture system, with one foot in small-scale agriculture and the other in commercial agriculture.



Figure 1. Classification of South Africa’s farming sector.

In defining emerging agribusinesses this volume relies on existing definitions of what an agribusiness and its owner—a historically disadvantaged individual (HDI)—are. The term agribusiness refers to commercialisation and value addition in the agricultural sector with a focus on pre- and post-production enterprises and building linkages among enterprises (FAO, 2007). An HDI is defined as a South African citizen (1) who, due to the apartheid policies, had no franchise in national elections prior to the introduction of the Constitution of the Republic of South Africa, 1983 (Act No 110 of 1983) or the Constitution of the Republic of South Africa, 1993 (Act No 200 of 1993 of the interim Constitution); and/or (2) who is a female; and/or (3) who has a disability; with the exception that a person who obtained South African citizenship on or after the coming to effect of the Interim Constitution is deemed not to be an HDI. Loosely stated, the definition of “emerging agribusiness” is a micro- to medium-sized agribusiness owned by an HDI.

SOUTH AFRICA: AGROECOLOGICAL CONDITIONS

South Africa lies at the tip of the African continent. Its area measures 1 219 090 km². Overall classified as semi-arid, South Africa's climate is characterised by variations induced by factors such as proximity to oceans, relief features (e.g., mountain ranges), and elevation. As a result, the country features regional climates such as the sub-tropical climate of KwaZulu-Natal and parts of Mpumalanga, and the Mediterranean climate of the Western Cape, while in the central part of the country, such as the Free State, Gauteng, and parts of Mpumalanga, the climate is characterised by summer rainfalls and dry, cold winters (Department of Agriculture, Forestry and Fisheries, 2010b). Another important agricultural area is the province of Limpopo, where "the climatic conditions in this province allow for double harvesting seasons, which ultimately translate into Limpopo becoming the national food basket" (Department of Agriculture, Forestry and Fisheries, 2010b).

The country has a relatively low average rainfall (450 mm compared with the world average of 860 mm). However, due to the regional climatic variations, rainfall patterns vary widely. For example, the subtropical areas of KwaZulu-Natal receive around or above 1 000 mm per year (Rainfall, 2011), while the driest areas of the country (21%), located in the west, receive less than 200 mm per year. Overall, "about 65% of the country receives less than 500 mm per year, which is generally accepted as the minimum amount required for successful dry-land farming" (Department of Agriculture, Forestry and Fisheries, 2010b: 6). With relevance to agriculture, there are 100,6 million hectares of agricultural land, but only 14 % receives enough rainfall to enable arable farming. Further, "[o]nly 1,35 million hectares of the arable land is available irrigated" (Vink and Kirsten, 2003: 3).

SOUTH AFRICA: A BRIEF HISTORICAL OVERVIEW

From colonialism to democracy

Although what is today the country of South Africa has been inhabited by people for tens of thousands of years, for the topic of this book it makes sense to go back only a few centuries to 1652, when the first European settlement was established at the southern tip of Africa. What followed were 250 years of colonial rule, mostly under England, with a continuous stream of white settlers from various European countries such as the England, France, and Netherlands, and a period of slavery (1652-1795), with most slaves arriving from Asia (Thompson, 1995: xv). Importantly, the Dutch settlers in particular were interested in farming, which initiated a process of land acquisition that led to conflict and wars with local African tribes and later brought about the creation of legal structures that ensured white farmers' continued access to land.

In 1910, South Africa became the Union of South Africa. This meant that the country gained autonomy over its own affairs and became a British dominion similar to countries such as New Zealand and Canada. In subsequent years, governments (all led by Europeans) were focussed on consolidating power in the hands of the white minority (Thompson, 1995: 157), in the process greatly curtailing the rights and opportunities of South Africans of colour. The process culminated in the system of Apartheid in 1948, which solidified already existing patterns of racial discrimination, creating a highly bureaucratic system of segregation and discrimination, with laws that governed virtually every aspect of life and interaction among the four “official” race groups created by the Apartheid regime: white/European, black/African, Coloured, and Asian.

Space constraints prohibit a detailed account of the intricate legal framework set up to govern virtually every aspect of life in South Africa, but in addition to the already existing acts regulating land ownership rights (e.g., The Natives Land Act, 1913) and the movement of black South Africans (various “pass laws” that aimed to keep black people out of white areas unless they had a permit to work there), the new laws also created a highly segregated society [e.g., The Population Registration Act of 1950, which allowed for the racial classification of each South Africa, and the Reservation of Separate Amenities Act of 1953, which legalised segregation (Thompson, 1995: 190)]. These and other laws had devastating and lasting negative effects, one of the most serious being a highly segregated education system that relegated the majority of the population, in particular black South Africans, to poorly resourced schools that provided few prospects for advancement. While Apartheid laws clearly had the most adverse effects on South Africans of colour, in particular blacks, they also created an insular existence for white South Africans. For example, Dlamini (2009: 27) points out that the government first allowed television in South Africa in 1976, as it feared that the medium would threaten its near-absolute control over information, especially in the political arena.

Post-1994—the democratic era

Apartheid came to an end in the early 1990s, culminating in the first democratic elections in 1994, which ushered in a majority black government led by the African National Congress (ANC). The political change was accompanied by an overhaul of the legal system, which included the repeal of Apartheid era legislation and the introduction of new laws, including a brand new constitution, considered to be among the most progressive in the world. On the social front, the country embarked on a national reconciliation process, which was aimed at healing the wounds of past injustices. In early 2011, about 20 years into the “transition” (if one can still call it that), most observers from all sides of the racial line agree that the legacies of the past (not just Apartheid but also the preceding centuries) continue to affect, if not bedevil, the country’s progress today. The rate of poverty remains high, and the education system, despite reforms, has not yet managed to produce well-educated and highly trained South Africans of colour in large numbers. Other challenges, such as the high

incidence of crime (which is linked both to poverty and to the country's history of violence) remain a problem, and so do health concerns such as HIV/Aids, which are not directly related to the past but certainly disproportionately impact those already disadvantaged by the legacy of the past.

The challenges and the—often valid—complaints about the pace of change notwithstanding, successive governments (all ANC-led) have launched numerous initiatives to improve the lives of the previously disadvantaged and to offer better-quality education, health care, housing, etc. The size of the need is enormous, however, and the pace of change has been slow, too slow, some argue, pointing to a small but rather prominent group of black South Africans who have attained enormous wealth since the end of Apartheid but have not shown sufficient interest in promoting broad-based economic transformation for those still living in poverty.

THE SOUTH AFRICAN AGRICULTURE SECTOR

The history of the agriculture sector

Closer to the interest of this book, a look at the history of the agriculture sector reveals the central themes of land ownership and land rights. Land acquisition by white settlers led to conflict with Africans already occupying the land, but over time white settlements expanded further inland. As early as 1913, the white government sought to ensconce white land ownership in the Land Act of 1913, mentioned above, followed two decades later by the Land Act of 1936, which “created the South African Native Trust, managed by whites, and empowered it to buy more land for Africans from funds provided by the government” (Thompson, 1995: 163). These funds were used to purchase land that served as reserves set aside for the country's black population by the white government. These areas formed the basis of what, during Apartheid, came to be known as “homelands” (“Bantustans”), the only areas in South Africa where black people could settle and own land. The areas reserved for the homelands were overcrowded and had less infrastructure than other parts of the country, overall presenting poor potential for anything beyond subsistence agriculture.

In the meantime, during the twentieth century, especially the decades following World War II, South Africa's (white) commercial agriculture sector grew steadily. The trends were towards large-scale, private-owned commercial farms, which took advantage of mechanisation, new technologies, and paid farm labour (Vink and Kirsten, 2003). Marketing of products was regulated through 22 marketing schemes introduced in the 1930s (Vink and Kirsten, 2003). Up until the late 1970s, South Africa's commercial farming was flourishing—apart from periodic dips due to droughts (Ortmann & Machethe, 2003). In the early 1980s, however, along with the overall collapse of the economy due to both internal and external pressures resulting from Apartheid, the agriculture sector also began to suffer.

Post-Apartheid reforms relevant to the agriculture sector

Institutional and policy reforms

In the post-Apartheid period, agriculture, just like other sectors, underwent significant restructuring. Marketing parastatals were abolished and the National Agricultural Marketing Council was set up to assist government in its new, less regulated, approach to agriculture. Besides the marketing institutions, other state and non-state agencies, such as the Development Bank of South Africa, the Land Bank, the Agricultural Research Council, and, of course, the institutions of the former homelands, were all restructured or, in some cases, abolished altogether in order to align these institutions to the new post-Apartheid mandates (Vink and Kirsten, 2003).

South Africa's agricultural policy for the new century was charted by government in The Strategic Plan for South African Agriculture released in 2001 (Department of Agriculture, 2001). The plan acknowledges the challenges faced by the sector, such as skewed distribution and low profitability, and sets forth a vision for "a united and prosperous agricultural sector" (Department of Agriculture, 2001: viii). To achieve this, the plan formulates the following overarching strategic goal: "to generate *equitable access* and participation in a *globally competitive, profitable, and sustainable* agricultural sector contributing to a better life for all" (Department of Agriculture, 2001: viii; emphasis added). This goal not only recognises the need to redress the existing inequalities but also takes into account other significant challenges facing South Africa's agriculture sector in terms of global competition and environmental challenges, such as the effects of global warming, in particular water scarcity, which is predicted to affect South Africa in a significant way (Fenyés and Meyer, 2003).

Land reform

Land tenure controls access to productive opportunities on the land, helps shape patterns of income and employment in rural areas, and largely determines the distribution of wealth, status, and authority in society (Cohen, 1980). Conventional economic wisdom suggests that exclusive and secure property rights promote efficient land use, which potentially leads to increases in productivity and total household income. In a study of freehold and trust farms in KwaZulu, Kille and Lyne (1993) show that crop income and expenditure per hectare are considerably higher where smallholders have exclusive rights to farm land. Also, previous research suggests that individual and secure tenure is necessary for efficient land use and, along with the land market, promotes efficient and sustainable farming. Farmers with title have better access to credit, make more improvements, and have higher productivity than non-titled farmers. Kille and Lyne (1993) also find that individual owners cultivate a larger percentage of their farms than other "owners".

All this points to the importance of successful land reform that creates an environment conducive to the establishment of emerging farms. The government embarked on land reform by issuing a "White

Paper on South African Land Policy” (1997), which outlined a policy framework for land reform. It had a three-pronged strategy, namely “to return land to people who were forcibly evicted in the past and compensate them; redistribute land to people who suffered discrimination; and improve land tenure security for farm workers and others” (Boudreaux, 2010: 15).

Implementation was to take the form of settlement and land acquisition grants (SLAGs), which by and large targeted small-scale farmers or landless people and provided small grants for them to acquire land. However, as Vink and Kirsten (2003) points out, the programme was stopped when it was discovered that after eight years, only 1 million hectares of available land had been redistributed through SLAGs (and about 2 million through regular market transactions). Policy makers concluded that the pace of change was too slow and that too often the land was insufficient in size and capacity to allow for a full-time income (Lahiff, 2008: 1). Hence the policy was redesigned and in 2011 relaunched under the name Land Redistribution for Agricultural Development (LRAD). The thrust of the new initiative is to develop a class of black commercial farmers. The grants available to applicants are larger, but applicants also have to provide some of their own capital and demonstrate some potential for success (Boudreaux, 2010). Still, as Lahiff (2008) points out, redistribution has worked on a willing buyer–willing seller principle, which means that transfer of land from one party to another cannot be mandated. Nevertheless, the new programme “has a target goal of redistributing 30% of agricultural land in South Africa from white farmers into the hands of black farmers by 2014” (Boudreaux, 2010: 16).

Another important reform element was the application of new labour laws in the agriculture sector, in which workers had very little protection up in to the 1990s. The year 1993 saw the introduction of the Agricultural Labour Act (Vink and Kirsten, 2003). In addition, as new labour regulations were drawn up during the 1990s as part of the overall restructuring of the legal system, these also became applicable to agricultural workers [Labour Relations Act 1995, Basic Conditions of Employment Act (1998), Skills Development Act (1998), and Employment Equity Act (1998)] (Ortmann & Machethe, 2003). Finally, in 2003, a minimum wage requirement also came into effect in the sector (Vink and Kirsten, 2003).

Broad-based Black Economic Empowerment)

Broad-Based Black Economic Empowerment (BBBEE) is a government initiated programme that aims to increase previously disadvantaged South Africans’ participation in the mainstream economy. The origins of the policy date back to 1994, when “in its . . . Reconstruction and Development Programme (RDP), the ANC declared that a ‘central objective of the RDP is to de-racialize business ownership completely through focused policies of black economic empowerment” (Tangri & Southall, 2008: 699). Tangri and Southall (2008: 702) note that “in creating a BEE policy, the government has attempted to satisfy the competing interest of white companies, black

entrepreneurs, and organised labour”. Trying to please these rather different constituencies has not been easy, and implementation has lagged due to conflicting aims (grow the economy vs. provide broad-based poverty alleviation). Five years into the programme there were relatively few beneficiaries, among them some famously wealthy members of the political elite, which invited strong criticism. Authors like Murray went as far as to call BEE “a token corporate blackwash” (Murray cited in McEwan and Bek, 2006: 1024.), with little noticeable change for the masses of poor black South Africans. The government responded to such criticism by creating the Black Economic Empowerment Commission, headed by Cyril Ramaphosa. The commission advocated more involvement on the part of government, and it called for the creation of a new BEE Act. While the new act proposed “an increase in the ownership and control of the economy by black persons, the document emphasized that BEE would be negotiated with the private sector and not imposed on it” (Tangri & Southall, 2008: 706), showing once again the government’s hesitation to make any risky moves. The document also gave rise to the term “Broad-Based” (Black Economic Empowerment), recognising that BEE had not reached enough people to make a meaningful impact on the lives of millions of South Africans living in poverty. The BBBEE Act was signed into law in 2004, and its goal was “the economic empowerment of all black people including women, workers, youth, people with disabilities, and people living in rural areas through diverse but integrated socio-economic strategies” (McEwan and Bek, 2006: 1024). Importantly, this new form of BEE introduced the BEE Scorecard, which evaluated companies’ performance based on seven criteria, all related to their practices of employing or working with black people or black-owned companies.

In addition, various industries have also devised their own BEE charters. The agriculture sector is no exception, as it has set up the AgriBEE programme, which includes the AgriBEE scorecard. Figure 2 shows a summary table of the AgriBEE scorecard and the several core components it measures (AgriBEE Score Card, 2008). (The full version of the Score Card is available in the gazetted AgriBEE Charter on the website of the Parliamentary Monitoring Group (<http://www.pmg.org.za/>).

While the government has clearly made an attempt to influence the rate and extent of empowerment, one criticism levelled at the BEE process has been that it reaches too few companies, as only large corporations are obligated to comply with the measures. Small and medium-sized enterprises, which either do not have to comply or can comply with four out of seven measures, make up the vast majority (98%) of companies in South Africa. In addition, multinational companies have been exempted from the measure altogether, although they have to make up for this exemption with “alternative measures” (Tangri & Southall, 2008: 712). Clearly, this is a concession to foreign companies and foreign investors. (For a more detailed discussion of AgriBEE in practice, see Chapter 17, in which the authors outline the successes and shortcomings of several current AgriBEE initiatives.)

| Core Component | Indicators | Conversion Factor | Raw Score | Weighting | Total Score |
|-----------------------------------|---|-------------------|-----------|-----------|-------------|
| DIRECT EMPOWERMENT SCORE | | | | | |
| Equity Ownership | % share of economic benefits | | | 20% | |
| Management | % of black persons in executive management &/or executive board and board committees | | | 10% | |
| HUMAN RESOURCE DEVELOPMENT | | | | | |
| Employment Equity | Weighted employment equity analysis | | | 10% | |
| Skills Development | Skill development expenditure as a proportion of total payroll | | | 20% | |
| INDIRECT EMPOWERMENT SCORE | | | | | |
| Preferential Procurement | Procurement from black-owned & empowered enterprises as a proportion of total procurement | | | 20% | |
| Enterprise Development | Investment in black-owned & empowered enterprises as a proportion of total assets | | | 10% | |
| TBD by sector/enterprise | | | | 10% | |
| TOTAL SCORE OUT OF 100% | | | | | |

Figure 2. AgriBEE Scorecard.

Trade policy

The area of trade policy was also reformed in the 1990s. The previously existing regulations were replaced by tariffs once South Africa signed the Marrakech Agreement in 1994 (Vink and Kirsten 2003). In South Africa, tariffs mirror the protectionist approaches used in other developing countries, with high tariffs imposed on consumer goods, moderate tariffs on intermediate goods, and low tariffs on capital goods (Vink and Kirsten, 2003).

These trade policy reforms were in line with the general deregulation of world markets following the General Agreement on Tariffs and Trade (Ortmann & Machethe, 2003). The significance of deregulation is that it takes away support previously available to producers. This can lead to problems for some producers, and one often sees a series of bankruptcies and people leaving a particular industry. However, it also opens up possibilities for “alert entrepreneurs” (Ortmann & Machethe 2003: 57) who are able to take advantage of the opportunities created by new markets. Importantly for this discussion, however, a deregulated agriculture sector is particularly challenging for emerging farmers and agribusinesses, most of whom are already starting with multiple disadvantages in terms of size, available capital, existing knowledge and training, etc. Not only do emerging farmers have to compete locally, by now they have to be globally competitive to stay in business.

South Africa's agriculture sector today

According to statistics published by the Department of Agriculture, Forestry and Fisheries (2010b), commercial agricultural occupies 86,2 million hectares, while developing agriculture occupies 14,5 million hectares, the latter mostly in the former homelands.[Note, however, that the source of these figures is cited as from 1991; work is presently underway to update them (Vink, 2011; personal correspondence).] There were a total of 39 982 commercial farms in South Africa, according to the latest figure from 2007 (Department of Agriculture, Forestry and Fisheries, 2010b: Table 6).

Contribution to economy

According to 2009 figures, agriculture, forestry and fisheries contributed about R66 billion, or 3%, to the gross domestic product in 2009. The figure was R38 billion in 2002 (Department of Agriculture, Forestry and Fisheries, 2010b: 44). The gross value of agricultural production in 2008/2009 was estimated at R119 billion (ibid.). While agriculture in South Africa is one of the smaller sub-sectors of the economy, some researchers have argued that a more complete look at agriculture would also include upstream and downstream economic activities, which would increase agriculture's contribution significantly. Also, as will be seen, agriculture is a significant source of employment in the country.

According to the latest statistical data from 2008 (released in 2010),

For the past five years, agricultural exports have contributed on average about 6,5% of total South African exports. Exports increased from 5% (1988) to 33% (2008) of agricultural production. However, South Africa is losing on its net trade balance on processed goods, owing to the growth in imports of processed goods. The estimated value of imports in 2008 came to R38,4 billion, while exports totalled R44,3 billion in 2008 (Department of Agriculture, Forestry and Fisheries, 2010b: 44).

Major export products are wine, citrus, sugar, grapes, fruit juice, wool, and deciduous fruit (Department of Agriculture, Forestry and Fisheries, 2010b: 44). In contrast, the main import products are wheat, rice, oil cakes, vegetable oils and poultry meat (ibid.).

Contribution to employment

Primary commercial agriculture contributes an estimated 7% to formal employment. However, "there are strong backward and forward linkages into the economy, so that the agro industrial sector is estimated to comprise about 12% of GDP" (Department of Agriculture, Forestry and Fisheries, 2010b: 44). The number of employed stands at about 8,5 million people, who "are directly or indirectly dependent on agriculture for employment and income" (ibid.).

As mentioned above, prior to and during the Apartheid era in many instances agricultural workers, no doubt in large part because many of them were unskilled or low skilled, worked for sub-standard wages and in sub-standard conditions. The new labour regulations and the minimum wage requirement set in 2003 were all measures aimed to increase the quality of working conditions in agriculture.

Main agricultural products

Figure 3 indicates the most important agricultural products for each region of South Africa.

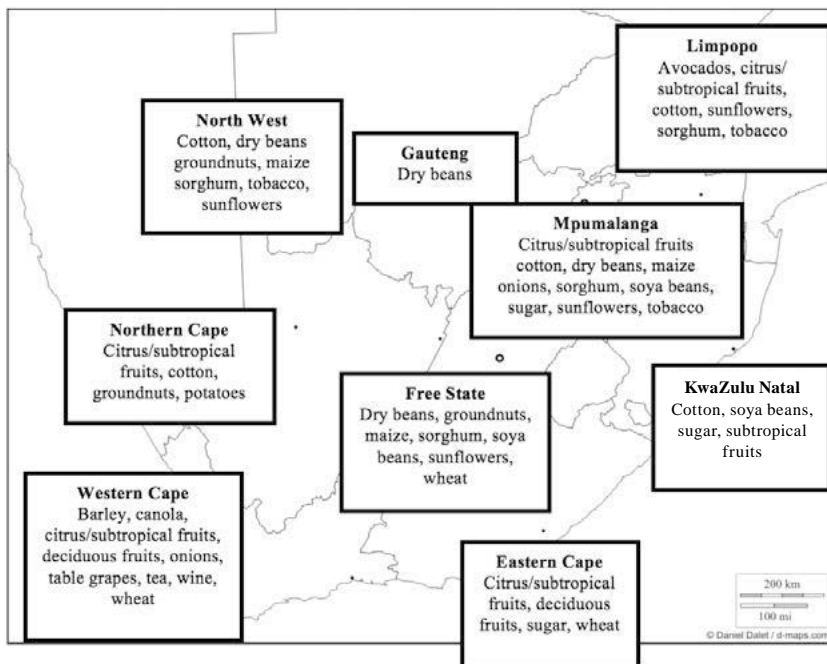


Figure 3. Main agricultural products of South Africa per growing region (based on Department of Agriculture, Forestry and Fisheries, 2010b; products listed alphabetically).

Certain plants such as tomatoes, cabbages, potatoes are cultivated throughout the country, and animals (poultry, pigs, cattle, sheep, goats) are found across the country.

A PEST ANALYSIS

In order to look at the present macro-environment in which emerging farmers and agribusinesses operate, the PEST analysis framework is helpful. The PEST framework allows for placing the emerging farmer centre stage and asking: What does the South African agricultural and agribusiness

landscape look like from the viewpoint of an emerging farmer? What factors influence—positively or negatively—his/her chances of success? The rest of this section lists and briefly describes the most relevant factors that impact emerging farmers and agribusinesses. Table 1 provides a summary of the PEST analysis, followed by a brief discussion. The analysis is not necessarily exhaustive, although it captures the most significant factors. As it will become apparent, the picture facing emerging farmers and agribusinesses in South Africa is a complex one, with significant challenges that threaten emerging businesses disproportionately, but also with significant opportunities that carry the potential of long-term business success. On the whole, it appears that for long-term business success, many factors need to be in place at the same time, including market access, financing, and capacity building, to mention but a few. Table 1 provides a summary of the PEST analysis; as we will see, some of the factors, such as climate change, affect all agriculture-based businesses; others are challenges particular to emerging agribusinesses.

Table 1. Summary table of PEST analysis.

| Factor | Aspects Relevant to Emerging Farmers |
|---|--|
| <u>P</u>olitical | Land reform/restitution programme Progressive legal framework BBBEE and AgriBEE Loans and grants, both public and private |
| <u>E</u>conomic | Lack of agricultural subsidies Size of commercial farm and capital needed Market access Established supply chain Availability of loans and grants (both government and private sector) |
| <u>S</u>ocial | Employment pool Legacies of racial divisions Availability of white mentors Low level of skills and education HIV/AIDS Growing black middle class |
| <u>T</u>echnological/ <u>e</u>nvironmental | Access to technology Climate change Agriculture and food-related research |

Political/legal factors

Land tenure and the land reform process

Land is probably the single most important agricultural resource. As detailed above, the land reform process in South Africa has had its challenges and has proceeded more slowly than envisioned.

The current LRAD programme, which places emphasis on providing larger grants to more established farmers and entrepreneurs, has been criticised for not providing enough opportunity for the millions of low-income farmers in the country; however, from the standpoint of an emerging farmer—as defined at the outset—the LRAD programme with its more substantial initial support presents a better platform from which to enter the industry and therefore a better chance for emerging farmers to build agro-enterprises that can compete with existing commercial ventures.

A progressive employment law framework

As shown above, Apartheid was characterised by highly discriminative employment practices, so it is not surprising that the post-Apartheid, ANC-led governments sought to introduce new employment legislation. Replacing the old, discriminatory legislation in favour of laws that protect the rights of workers was clearly justified; however, as Ortmann and Machethe (2003: 51) point out, from the employer’s point of view, the new laws also present a restrictive environment. Namely, the laws have increased the cost of labour to employers, which can be a particularly difficult challenge for emerging farmers and agribusinesses, which often work with limited cash flows but still need to comply with the new laws to provide a competitive working environment—and, ultimately, to remain in business.

Government support, in particular BBBEE

Similarly to the employment laws, in principle BBBEE is a progressive framework that aims to provide a nuanced solution to the complex issue of how to facilitate the entry of previously disadvantaged South Africans into the mainstream economy. As mentioned, in practice BBBEE has also had its challenges and fair share of criticism. But what does BEE mean for emerging enterprises? For emerging enterprises, BEE can open a number of doors, especially to large companies, such as food retail giants, which are required to comply with the BEE policy and therefore are actively looking for black-owned suppliers and other business partners that help them meet or improve their BEE score.

One would expect that emerging enterprises would jump at the chance to identify their companies and products as “BEE”, akin to labels such as “Fair Trade”, which tend to provide access to more affluent market segments. Of course, accessing premium markets may not be a goal for all emerging farmers and agribusinesses; however, as some of the case studies show, even those with the “right” products do not always want to take advantage of what BEE has to offer. The concluding chapter elaborates this point further.

Other forms of government (and private sector) support are loans and grant programmes aimed at emerging businesses. South Africa is a relatively wealthy nation, and emerging farmers and agribusinesses are relatively high on the government’s agenda. Private lenders, too, seem eager to fund emerging businesses. In short, there is no shortage of potential funding sources for enterprising

business-owners. However, applications do not always meet the funders' and lenders' requirements, including that for equity.

International trade policies

South Africa has a number of preferential trade agreements both in Africa and beyond, including the United States and the countries of the European Union (Ortmann & Machethe, 2003). More recently China has also become a focus of trade negotiations. Overall, South African producers have been able to take advantage of access to deregulated markets and produce a number of niche products, such as fruits, flowers, ostrich feathers and meat, etc. Of particular relevance to smallholder farmers (and emerging farmers often fall into this category) Ortmann and Machethe (2003: 57) emphasise that these already existing links to markets can be of great benefit to these small producers as long as they are able to meet the quality requirements.

Economic factors

Lack of agricultural subsidies

As mentioned above, South Africa's agriculture sector, in line with the agriculture sectors in many other countries, was deregulated in the mid-90s. This presented a situation in which some of the "safeguards", such as subsidies and controlled prices, were no longer available. The result was an increase in farm bankruptcies in cases where the business could not cope with the new pressures (Ortmann & Machethe 2003: 55). At the same time, this new environment also presented opportunities in the form of market access to those able to take advantage of them.

South Africa's agribusiness sector continues to be deregulated, and for emerging farmers, this does present a barrier to entry because starting and growing a business carries more risks today than before. Add to this the worldwide economic turmoil of the late 2000s, and the situation is even more difficult.

Capital requirements

Different industries have different initial capital and infrastructure requirements, as well as different economies of scale. Several case studies in this volume highlight the point that certain industries have significantly greater initial capital requirements or greater economies of scale than others. This raises the important question of whether some industries are better suited for emerging farmers and agribusinesses, or, put differently, if perhaps different strategies and levels of support are needed to assist emerging farmers in different areas of agriculture.

Market access

Perhaps the most often cited challenge with regard to emerging farmers in South Africa is lack of market access. On the part of the emerging farmers, this is due to a variety of reasons, such as lack of

information about market opportunities, not producing at the required quality standards, physical distance, and lack of transportation infrastructure. The challenge is compounded by the fact that South Africa's food industry is highly centralised, revolving around a few food retail giants. Securing a contract with one of these companies is the primary goal of many farms and agribusinesses, as there is a lack of smaller, more localised grocery stores or chains that would present other profitable market opportunities. On the positive side, many programmes assisting emerging farmers in South Africa today are recognising this as a key challenge and designing comprehensive programmes that include facilitating market access.

A related point is that, given the highly concentrated nature of the food retail industry, the choice of product for emerging farmers is particularly important. Some have suggested that emerging farmers would be better off trying to enter the market with low-quantity and high-value niche products as opposed to high-volume, low-priced items like tomatoes or maize (K. Carden, 2011, personal communication).

Established supply chains

Emerging farmers whose produce and products meet the standard requirements can benefit from the fact that South Africa already has established and well-functioning supply chains (for example, in fruit exports) that new entrants into the industry can take advantage of. When it comes to international markets, this clearly puts South African emerging farmers ahead of their counterparts in many African countries.

Social opportunities and threats

In the social arena, we can list several issues that present either opportunities or threats to emerging farmers (and South African agribusiness entrepreneurs in general). Some of them stem from the country's racially and economically divided past, while other are more recent phenomena. Altogether they make a complex social landscape for emerging farmers to navigate.

Legacies of a racially divided past

While laws can change relatively quickly, changes in attitudes often lag behind. Attitude change is more nuanced because, while a new law is instantly "in effect", attitude shifts are not universal—while some people already harbour no discriminatory sentiments, others do, and these sentiments inform their perceptions and actions. The case studies in this volume will reveal that South Africa's racially divided past is a reality that emerging farmers continue to face.

The persistence of negative racial sentiments notwithstanding, for every negative example, it appears, one can find a positive interaction between established white farmers and emerging black ones. A common thread running through the case studies is the positive contribution made by an established

white commercial farmer, often in the form of a mentorship arrangement. Many of these relationships grew organically and were not the result of any structured programme. In most cases the white farmer does not receive any payment for his/her services, though often the emerging farmer makes use of already existing facilities on the white-owned commercial farms and pays rental fees for their use. Some programmes aiming to help emerging farmers also employ a “principal farmer” scheme, in which a white commercial farmer has a stake in the business of an emerging farmer for a period of time, which ensures that the white farmer is committed to the success of the emerging farm beyond his desire to help. These are all opportunities that can help pave the way for success for emerging farmers.

Quality of the workforce

The overall quality of the workforce in South Africa is low when compared with many other countries. In part this is due to the legacies of the past, when building a highly skilled and competitive workforce among South Africans of colour was not on the government’s agenda. Low skills levels are still a reality today and, in agriculture, are also compounded by other issues such as alcoholism.

Another issue in agriculture is low productivity in smallholder agriculture, cited by Ortmann and Machethe (2003) among the challenges faced by South Africa’s agriculture sector. This, the authors argue, is due to the lack of “reliable and effective farmer support services such as extension, finances, and marketing” (Ortmann & Machethe, 2003: 53).

The prevalence of HIV/AIDS

Based on a national survey published in 2008, the rate of HIV/AIDS infection for South Africans over the age of 2 is 10,9%. This is one of the highest rates in the world, and shows considerable variation by age group (the highest infection rate, 17,0% for the 15-49 age group), race (13,6% among black South Africans), and province (KwaZulu Natal leading the nation with a 15,8% rate of infections) (The South African National HIV Survey, 2008). HIV/AIDS poses a clear threat to a business because it reduces worker productivity and presents additional costs in the form of health care expenditures that employers may have to cover. Of course, HIV/AIDS is not a challenge that is particular to emerging farmers; however, to the extent that emerging farmers are already facing a somewhat uphill battle to establish and grow their businesses, adding a burden such as caring for a workforce that has a high prevalence of HIV/AIDS is significant. Moreover, as HIV/AIDS disproportionately affects the poor, and since many agricultural workers are in low-paying jobs, HIV/AIDS is a more serious problem in agriculture than in some other industries (e.g., “white collar” industries like information technology).

The emergence of a black middle class

On the positive side, while South Africa continues to grapple with serious economic and social challenges, for a growing group of black South Africans the post-Apartheid era has brought previously

unknown educational and career opportunities. Along with this has come a concomitant increase in standard of living, which in turn has created a relatively small but growing black middle class. This market is likely to continue to grow, increasing the overall size of the market for food producers, emerging and otherwise. It remains to be seen whether a trend of black consumers supporting emerging businesses will develop. Even if it does, agriculture is not an industry that lends itself easily to this development, unless emerging businesses can get into value-adding.

Technological/environmental opportunities and threats

Infrastructure

On the technological front, South Africa's infrastructure is generally considered on par with developed countries, especially in the areas of communication and transportation, although in rural areas, where much of the agricultural activity takes place, infrastructure is often considerably less developed. In principle, farmers and agribusinesses have access to information technology tools that can make their businesses more competitive. In reality, though, many emerging farmers are not nearly as well equipped as most established commercial farms. One positive development in this arena is the availability of low-cost options, such as cell phone banking and ordering, which has spread rapidly in developing parts of the world and has narrowed the gap between new entrants and established businesses.

Environmental threats

It is commonly accepted that global warming and other accompanying climate changes are going to put a strain on food production worldwide. Some areas, however, are more likely to feel the effects than others, and sooner. South Africa, with its water-scarce climate, is one of these areas. The International Water Management Institute (cited in Otieno & Ochieng, 2004) has estimated that by 2025 South Africa will experience water scarcity. As can be seen in the case study of Suid Bokkeveld, some agribusinesses have taken this warning seriously and have started to plan for the various adverse affects of climate change that have been forecast. In the case of this particular co-operative, however, this preparedness is happening in large part due to the involvement of supporting organisations that have the capacity and skills to facilitate the process of planning for future change. Most independent emerging farmers—and probably even established ones—are not in a position to plan for the future 15 to 20 years from now.

ROLE/USE OF CASE STUDIES

The second main goal of this introductory chapter is to provide a justification for the focus on case studies and, having provided the justification, to outline the various applications one may foresee for the case studies in this volume. While this book is a collection of case studies, it is not a theoretical

piece about case studies, and we will therefore dispense with a lengthy theoretical discussion about the value and use of case studies. By using one rigorous academic piece by Flyvbjerg (2006), which in fact reviews the work of many other scholars, some of the common criticism levelled at case studies will be discussed—and dispelled. Thus, according to Flyvbjerg, case studies have been plagued by “five misunderstandings or oversimplifications”, namely:

1. Case studies are concrete and practical and therefore cannot easily be converted to general, theoretical knowledge.
2. Case studies look at one specific situation (or company, or place, etc), and therefore one cannot generalise from them. By implication, they are of little value to science, whose goal is to create theories that can be generalised.
3. Case studies are best used in the initial phase of a research project to generate hypotheses: beyond that, they are of little use in testing hypotheses and building theories.
4. Case studies have an inherent tendency to confirm the researcher’s existing ideas.
5. Case studies are difficult to summarise and to develop and distil into succinct conclusions (Flyvbjerg, 2006: 221).

What follows is a look at these five misconceptions in detail.

1. Case studies are concrete and practical and therefore cannot easily be converted to general, theoretical knowledge.

The obvious assumption in this first statement is that “theoretical” and “general” is what we want out of scientific inquiry. Flyvbjerg convincingly argues, however, that in fact human beings learn more effectively from context-dependent examples, such as case studies. Think of the example of an expert, such as a doctor, who, besides gaining general, textbook knowledge, hones his or her skills precisely through becoming familiar with (through treating patients day in and day out) hundreds and eventually thousands of case studies. The situation is much the same with other case studies; if one gains familiarity with enough well-researched and -presented case studies, one is likely to develop a rich and nuanced understanding of the particular area that also includes an awareness of the broader, common, aspects of it.

One argument Flyvbjerg makes, which is particularly relevant to the adult learning context, is that “true expertise [is] reached only via a person’s own experiences as practitioner of the relevant skills. Therefore, beyond using the case method . . . for teaching, the best that teachers can do for students in professional programmes is to help them achieve real practical experience; for example, via placement

arrangements, internships, summer jobs, and the like” (Flyvbjerg, 2006: 223). The reason why this statement is particularly relevant to adult learners in business development courses, who are one of the target groups to benefit from a book like this, is that many such learners are also business owners, which means that they can readily test and implement any new knowledge and skills. Therefore case studies are likely to be even more meaningful to this group and may very well be preferable to other teaching methods.

2. Case studies look at one specific situation (or company, or place, etc), and therefore one cannot generalise from them. By implication, they are of little value to science, whose goal is to create theories that can be generalised.

Flyvbjerg offers two arguments to counter this criticism. First, he says that one may in fact generalise from a single case *if* the case is carefully chosen. Now, “carefully chosen” sounds somewhat subjective, but suffice it to say here that Flyvbjerg (2006: 226) cites several examples of well known theories developed by scientists like Newton, Einstein, and Darwin, that were based less on extensive experimentation than on the selection of one particularly good example or case to observe. This, he says, is not to say that generalisations have no place in knowledge generation; rather, it is to say that case studies also have a role to play.

3. Case studies are best used in the initial phase of a research project to generate hypotheses: beyond that, they are of little use in testing hypotheses and building theories.

This criticism derives from the second one: if one assumes that one cannot generalise from case studies, then it follows that one should not use them to build theories. Flyvbjerg argues otherwise, however, pointing out that “the strategic selection of cases” (Flyvbjerg, 2006: 229) means that one’s goal is “to maximize the utility of information from small samples and single cases. Cases are selected on the basis of expectations about their information content” (ibid., 230). Flyvbjerg says that this type of selection stands in contrast to random selection (the more commonly used scientific sampling method), but points out that random selection may not be very useful (or even applicable) when working with a small sample. If the researcher has a particular narrow sample, then case studies may be appropriate. A case in point is this volume: the goal was to generate knowledge about a seemingly amorphous group called “emerging farmers and agribusinesses of South Africa”. People already have some basic information about this group—that its members are people of colour; that, compared with established commercial entities, they tend to lack the requisite skills, training, tools, etc. But is there more specific information about who these individuals are? And are there any examples that do not fit the already existing general profile? It is questions like these that have guided the selection of cases for this volume, where the goal was to include cases that add detail and nuance to the already existing picture, often confirming what is already known, and at times providing new information.

4. *Case studies have an inherent tendency to confirm the researcher's existing ideas.*

Flyvbjerg asserts (*à la* Francis Bacon) that this criticism is in fact rooted in a general human tendency to find order and meaning everywhere, often resulting in seeing patterns and order where none may exist. In fact the author claims that this tendency is evident in other methods and types of research as well. Interestingly, however, when it comes to case studies, many researchers [Campbell (1975), Ragin (1992), Geertz (1995), Wieviorka (1992), all cited in Flyvbjerg (2006), and the author himself (1998, 2001)] have observed that in the course of developing a case study, their previously held views were challenged and altered (Flyvbjerg, 2006: 235).

5. *Case studies are difficult to summarise and to develop and distil into succinct conclusions*

For this one, the most elegant counter-argument is simply that case studies do not need to be summarised—their value lies in their richness. As Peattie (2001) says: “It is simply that the very value of the case study, the contextual and interpenetrating nature of forces, is lost when one tries to sum up in large and mutually exclusive concepts” (Peattie cited in Flyvbjerg, 2006: 238). Or, put more succinctly by the author, unlike other studies, which have one or several results, “the case study is itself the result” (Flyvbjerg, 2006: 238). This, too, applies to the cases in this book, which are not meant to be summarised—though in the closing chapter we do point out some of the common threads (shall we say “generalise”?)—but rather meant to be seen as a rich depository of information.

WHO IS THIS BOOK INTENDED FOR?

This volume of case studies is intended for several audiences, listed below in no particular order.

- **Academics:** South African universities and universities of technology, especially the faculties of agriculture, veterinary science, and economics departments, who may use the volume or selected cases as instructional materials in agribusiness management courses.
- **Government:** Department of Agriculture at national and provincial levels, extension officers, and public policy makers, who may find the case studies useful as information from the field about various government programs include BBBEE.
- **Development Practitioners:** non-governmental organisations offering rural development, agricultural training, and capacity building programmes, who may use the case studies as instructional material or simply as a source of information about the state of emerging agribusinesses today.

- **Private Sector:** Emerging farmers and agribusiness entrepreneurs may find the cases of interest to learn about other emerging enterprises and to use the cases to inform their thinking about their own business. Further, agribusinesses that sell inputs and services to emerging farmers and agribusinesses that source outputs to emerging farmers may find the cases a useful source of information.
- **International Audience:** Academics, multi-national corporations, and development practitioners seeking to understand South Africa's agriculture.

The book is written mostly for a South African audience, although in providing background information this introductory chapter tries to walk the fine line between giving enough information for those not that familiar with South Africa and not restating the obvious for a South African audience.

CASE STUDIES COVERED IN THIS BOOK

We began the writing of this book with twenty-two case studies, fifteen of which made it into the final selection along a diverse set of criteria, including geographical location, gender, type of business, sub-sector, and the overall “value” of the material as a case study that will make good instructional material. While fifteen case studies cannot span the gamut of all possible sub-sectors and all possible geographical locations in South Africa, no two case studies in this volume are alike. Table 2 summarises the key characteristics of each case study.

A word about the research methods is in order. The case studies are all based on original pieces of research. Four of them (M'hudi Wines, Intaba Jam, DeFynne Nursery, and Ezulwini Chocolat) were originally compiled by a team of students from Cornell University, who, led by a faculty member, participated in a semester long course that included a two-week intensive engagement with each company providing assistance on a particular business development need identified by the company, followed by a collaborative process of writing a case study of the company. The other case studies were prepared by academics and practitioners who were familiar with the particular sub-sector or business. Whenever necessary, the researchers visited the particular company to conduct interviews with the owners and key staff and to review other pertinent information (e.g., business plans, financial records). The draft cases were submitted to the editors, all familiar with the case study format, and went through several rounds of editing, during which additional information was gathered, if needed. All companies were consulted about releasing information about their company for the case study, and all companies had the option to strike any information from the case study deemed too strategic to reveal in public.

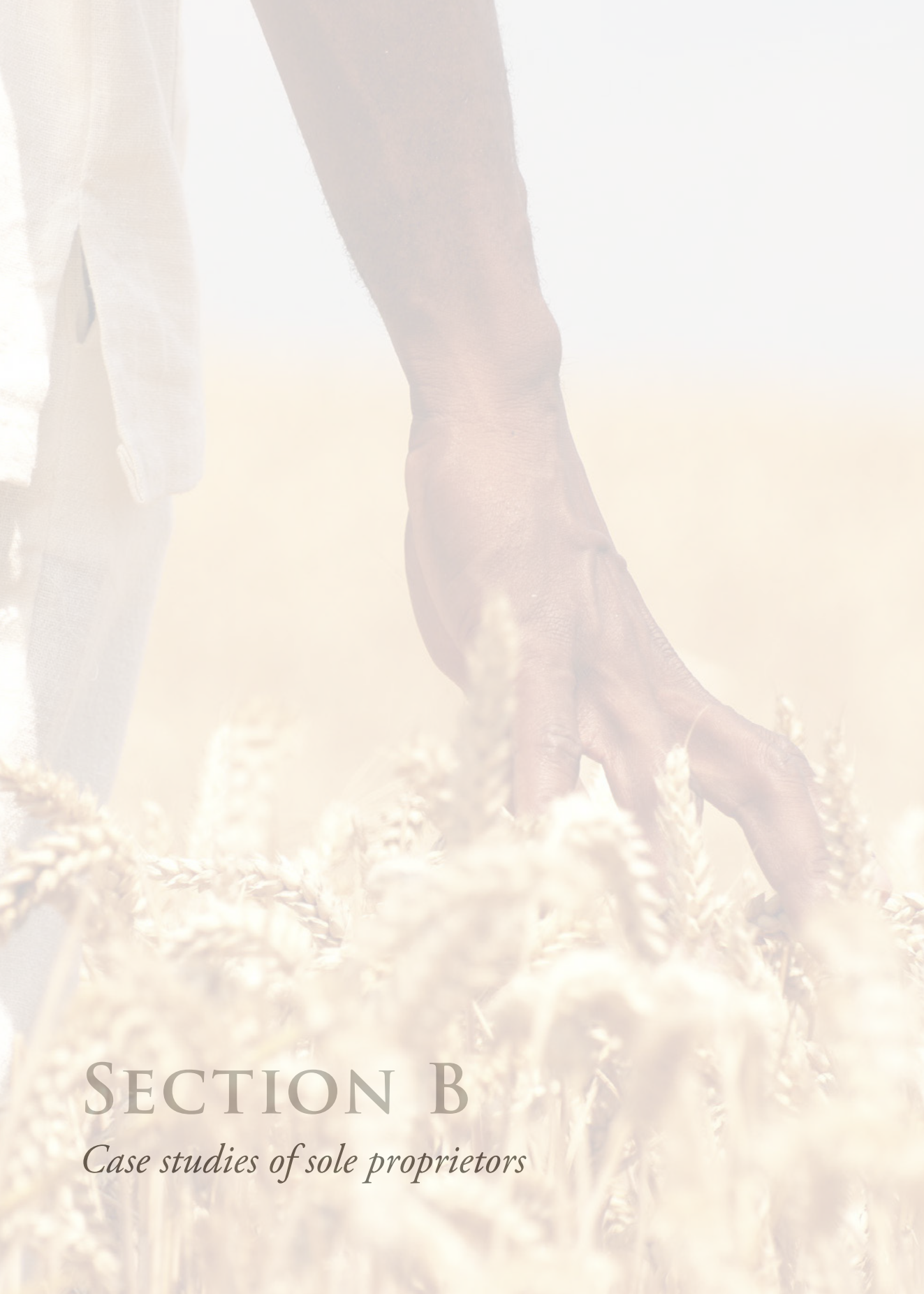
Table 2. List of case studies.

| Name of case study/company | Geographical location (province) | Gender/owner profile | Sub-sector | Main products |
|--|--|---|----------------------------|---------------------------------------|
| 1. <i>Agro-Processing Development in the Eastern Cape: The Role of the Bakkie-Miller</i> | Eastern Cape | Woman and family owned | Grains (maize) | Maize meal |
| 2. <i>M'budi Wines</i> | Western Cape | Woman and family owned | Wine | Wine |
| 3. <i>Nieuwborn Ostrich Farm</i> | Northern Cape | Woman owned | Ostrich | Ostrich |
| 4. <i>Ezulwini Chocolat</i> | Western Cape | Woman owned | Confectionery | Chocolate truffles |
| 5. <i>DeFynne Nursery: A Small Wholesale Nursery</i> | Western Cape | Mixed, two owners | Plant nursery (indigenous) | Indigenous plants, fruit trees, herbs |
| 6. <i>Fort Hare Dairy Trust</i> | Eastern Cape | Mixed, multiple owners | Dairy | Milk |
| 7. <i>Hands-On Fish Farmers Co-operation Ltd.: Small Fish in a Small Pond</i> | Western Cape | Mixed, multiple owners | Aquaculture | Trout |
| 8. <i>Intaba Fruit Processing: A Matter of Jam</i> | Western Cape | Mixed, multiple owners (Community) | Fruit-processing | Jams and preserves |
| 9. <i>Suid Bokkeveld: Rooibos Tea</i> | Northern Cape | Mixed, multiple owners (Community) | Tea | Wild rooibos |
| 10. <i>Communal Wool Farmer's Project</i> | Eastern Cape | Mixed, multiple owners | Animal husbandry (sheep) | Wool |
| 11. <i>Timbali Technology Incubator: Growing Flowers, People and Livelihoods</i> | Mpumalanga | Mixed, multiple owners | Floriculture | Fresh cut flowers |
| 12. <i>Westfalia: Small-scale Communal Avocado Farmers</i> | Limpopo | Mixed, multiple owners (public-private partnership) | Horticulture (vegetables) | Avocados |
| 13. <i>MGK Operating Company (Pty) Ltd (Temo Agriservices)</i> | Northwest/ Limpopo/ Mpumalanga/ Gauteng | Mixed, AgriBEE initiative | Agricultural input | Irrigation equipment |
| 14. <i>NWK Limited</i> | Northwest | Mixed, AgriBEE initiative | Grain | Storage and handling |
| 15. <i>Sundays River Citrus Company</i> | Eastern Cape | Mixed, AgriBEE initiative | Citrus | Citrus fruits |

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SECTION B

Case studies of sole proprietors

Chapter 2

DEFINING DE FYNNE

A SMALL WHOLESALE NURSERY

Edward Mabaya, Aleksandra Janjic, Toniaqua Hay, Tamara Struk

INTRODUCTION

Jacky Goliath's expert eyes quickly looked over the expanse of blueberry plantings in the propagation tunnel, checking them for growth irregularities. A gentle smile tugged at the corner of her mouth as she watched a frog nestle itself at the base of one of the plants, but faded when her mind shifted to the tasks still looming ahead of her. It was Sunday afternoon in early January of 2011, and she was visiting De Fynne Nursery grounds in Simondium, South Africa. Jacky was expecting her business partner, Elton Jefthas, to arrive at any moment and help her tend to the plants. Attending to the nursery was an activity they left for weekends due to lack of time during the workweek.

The journey of De Fynne started back in the early 1990s, when, as horticulture specialists, Jacky's and Elton's thoughts turned to future security and long-term goals through enterprise. They decided to channel their passion and expertise into establishing their own nursery, and thus De Fynne Nursery sprouted as a backyard venture on Elton's property and began to grow indigenous ornamental plants called fynbos described in Shaded Box 1. What had started as a passion had grown into something bigger, and they now found themselves competing with other well-established indigenous plants growers in this emerging niche market. In addition to ornamentals, their business now included a highly lucrative blueberry plant contract, which took copious amounts of time and resources away from their focus on indigenous plants. They faced new challenges both in managing the current growth and figuring out how to expand their presence in the horticulture industry. Jacky and Elton realised that the blueberry contract was their 'bread and butter crop', but they also wanted to discover a path to increase production of fynbos plants, the namesake of their nursery.

Shaded Box 1: Fynbos

Fynbos is an Afrikaans word meaning “fine bush”. Fynbos makes up four fifths of the Cape Floral Kingdom, which covers an area of less than 90 000 square kilometres. The Cape Floral Kingdom has been designated as one of earth’s six plant kingdoms. These plants have learned to thrive in nutrient-poor soils, long dry summers, lots of wind, and frequent fires. Some of these plants date back to over 60 million years ago. Fynbos is primarily used as an ornamental fresh, cut, or dried plant. One of the most common pot plants around the globe, the sunny geranium, has been hybridised from the pelargonium. Other fynbos hybrids common to gardeners are daisies, freesias, gladioli, lilies, and irises. The plant abounds with many *herbaceous aromatics*, and the recently launched Estee Lauder fragrance, Beyond Paradise, contains floral and herbaceous notes inspired by fynbos plants. Some of the fynbos species, such as rooibos and honeybush, are used in tea production.

Fynbos have evolved into four distinct groups; *proteas*, *ericas*, *restios* and *geophytes*.

- *Proteas* are tall shrubs (1-3 metres) with big, feathery or leathery leaves and impressive blooms. The King Protea is South Africa’s national flower and can easily be spotted in Table Mountain National Park. They include Aulas, Leucadendron, Leucospermum, Mimetes, Orothamnus, Paranomus, Protea, and Vexatorella species.
- *Ericas* are heath-like bushes with minute leaves and dainty bell-shaped blossoms.
- *Restios* are reed-like grasses, which are the oldest plants in the region. They comprise all 310 species in the Restionaceae, a family closely related to the grasses.
- *Geophytes* are beautiful flowering bulbous plants that can be seen in the rainy season or after a fire.

Data source: Encounter South Africa, 2011; Safari Now, 2011

INDUSTRY BACKGROUND

Biodiversity

South Africa is regarded as a hotspot for biodiversity with more than 22 000 plant species growing within its boundaries. This number represents 10% of the world's species, although South Africa encompasses less than 1% of the earth's surface (Coetzee et al., 1999). The biodiversity of the Western Cape, home of De Fynne Nursery, is even more remarkable. The 470 km² of the Cape Peninsula, including Table Mountain, is home to 2 256 different plant species—more than all of Great Britain, an area 5 000 times bigger. South Africa is also the only country in the world that contains an entire plant kingdom. South Africa's dominant vegetation type, which contributes most of the species to the flora in the Cape Floristic Region, is fynbos (Cowling et al., 1992). At the moment, demand is growing for the cultivation and use of indigenous plants in South Africa.

Floriculture market

Total world exports and imports of floriculture products both exceed US\$9 billion, Europe being the largest importer and exporter (Matthee et al., 2005). Figure 1 shows Europe, the United States, and Asia as the largest consumers and markets for floriculture products from South Africa. More than 90% of fynbos exports find their consumers in the European market.

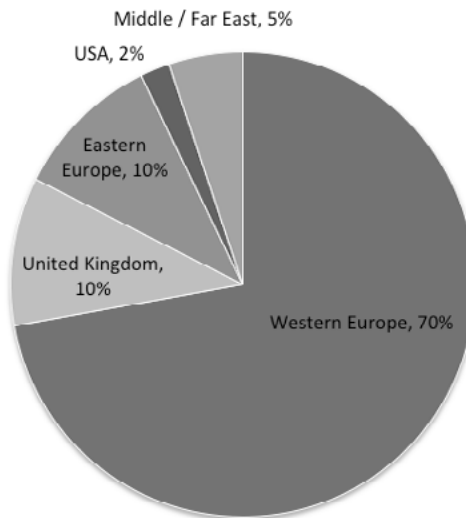


Figure 1. Sales of South African fynbos to international markets in 2008.

Data source: Dorrington, 2008.

60% of South Africa’s floriculture exports are cut flowers. In addition the country exports foliage, bulbs, and plants as depicted in Figure 2.

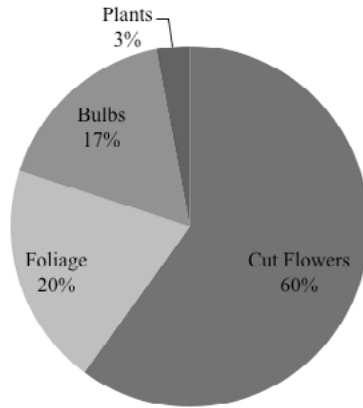


Figure 2. Main floriculture products exported by South Africa.

Data source: Bester et al., 2009.

Although the floriculture industry in South Africa is currently small, it forms an important part of the country’s agricultural sector. There is plenty of opportunity for South Africa to further grow this market according to reports from Icon Group International, which publishes market research and business intelligence reports. The country is the largest floriculturist market in Africa and it has the potential to capture 22% of the African market as shown in Figure 3.

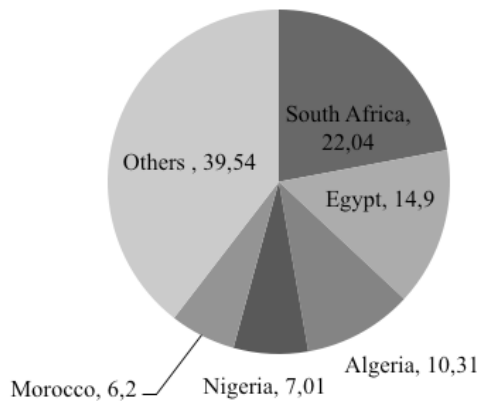


Figure 3. Market potential for nursery, garden centre, and farm supply stores in Africa as a percentage of the African market, 2006.

Data source: Parker, 2005.

In monetary terms, the overall demand in South Africa is expected to increase by almost 21% between 2003 and 2013, as can be extrapolated from Table 1. The yearly increase in demand from 2007 to 2013 will keep the steady pace of 2-3%.

Table 1: Latent demand forecast for nursery, garden centre, and farm supply stores in South Africa, 2003-2013 (US\$ million).

| Year | South Africa | Africa | The World |
|------|--------------|------------|--------------|
| 2003 | \$1 485,20 | \$6 525,11 | \$171 518,22 |
| 2004 | \$1 493,46 | \$6 492,93 | \$171 761,01 |
| 2005 | \$1 501,77 | \$6 462,05 | \$172 080,79 |
| 2006 | \$1 513,80 | \$6 464,24 | \$173 165,67 |
| 2007 | \$1 547,99 | \$6 659,43 | \$178 477,94 |
| 2008 | \$1 586,69 | \$6 894,57 | \$184 706,84 |
| 2009 | \$1 626,36 | \$7 139,19 | \$191 196,23 |
| 2010 | \$1 667,02 | \$7 394,00 | \$197 958,79 |
| 2011 | \$1 708,69 | \$7 658,59 | \$205 007,93 |
| 2012 | \$1 751,41 | \$7 934,30 | \$212 357,80 |
| 2013 | \$1 795,20 | \$8 221,31 | \$220 023,38 |

Data source: Parker, 2005.

The South African government is interested in developing both the market and product in the floriculture industry. Although obtaining funding is difficult for crops not identified as meeting food security needs, the successful growth of this sector will assist with poverty alleviation through the addition of rural jobs. A study showed potential growth of employment in the floriculture industry from 17 500 people to over 80 000 people over the next 10 year period (Kaiser Associates, 2000).

De Fynne works and operates primarily in the retail nursery and landscape industry. This is different from the floriculture market, which comprises mostly cut flowers. Even with those differences, however, there are also significant connections between these two sub-sectors that make it worthwhile for De Fynne to explore the status and trends in the much larger floriculture market.

Local floriculture sales were valued at R260 million (approximately US\$37 million) and the export revenue amounted to approximately R371 million (US\$53 million) in 2005 (Boshoff & Coetzee, 2007). The export revenue is low because the large domestic market draws many of the producers to focus their efforts at home. Well-known industry boards such as the Dutch Floriculture Wholesale Board feel this view is too narrow for South African producers, causing them to miss out on the larger international market. The international market provides great opportunities for growth, especially in Europe, where the seasons run opposite to South Africa's. As depicted in Figure 4, the

potential of the Europe and Middle East market in 2006 comprised 29% of the world market and translated into US\$53 338 million, as shown in Table 2.

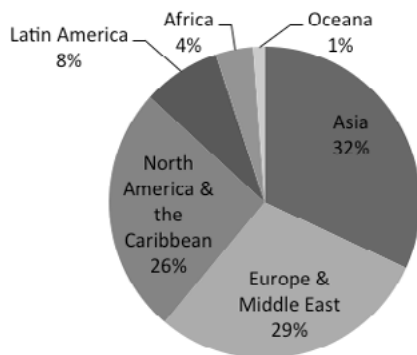


Figure 4. Distribution of worldwide market potential for nursery, garden centre, and farm supply stores, 2006.

Data source: Parker, 2005.

Table 2: Worldwide market potential for nursery, garden centre, and farm supply stores, 2006 (US\$ million).

| Region | Latent Demand (Potential) |
|---------------------------------|---------------------------|
| Asia | 58 198 |
| Europe and the Middle East | 53 338 |
| North America and the Caribbean | 46 893 |
| Latin America | 14 813 |
| Africa | 7 130 |
| Oceania | 2 282 |
| TOTAL | 182 654 |

Data source: Parker, 2005.

Blueberries

South African producers have an attractive market for the provision of blueberries to Europe during the early season. Export quality blueberries are produced on the eastern Highveld of South Africa. These areas, as well as the Eastern and Western Cape mountain areas, accumulate ample winter chill units for Rabbit-eye and Southern Highbush blueberry production (Meyer & Prinsloo, 2003). With berry production declining in Europe due to poor weather conditions, the cost of labour and production, limited availability of agricultural land, and strict pesticide control, South African growers have gained significant export opportunities. European demand for berry fruit far

outstrips supply, and given South Africa's strategic advantages and ideal berry-growing climate, the country is well placed to tap into these markets (southafrica.info).

Economic Impact

In economic terms, the agriculture industry in South Africa contributes nearly 3% of gross domestic product, but accounts for almost 8% of employment (South African Government Information, 2010). From 2002 to 2007, South Africa's gross farming income from horticulture increased by almost 34%. The Western Cape region contributed nearly 41% of total horticulture income. The share of horticultural production in the value of total agricultural output increased from 21% in 1990 to 29% in 2004 (OECD, 2006). The increase was largely due to South Africa's export reforms and the opening up of other countries' markets to South African exports.

Since the end of apartheid in 1994, land reform has been a major issue and possible opportunity for many blacks in the agriculture industry. The black population in rural areas is the target of land reform policies, but it is clear that adequate support infrastructure must also be in place if these new entrepreneurs are to survive (Bagherzadeh, 2007). The government has set the target of handing over 30% of commercial farmland to black burgeoning farmers by 2014 as part of the plan to correct racial imbalances in land distribution. Black-owned businesses that, like De Fynne, are well networked and focused on quality products and services may rise to the top of the list of businesses bidding for these land opportunities. In order to empower black-owned firms, the government now also incentivises companies and people that conduct business with black-owned enterprises. This action is governed by the Broad-Based Black Economic Empowerment Act in an effort to distribute wealth among black South Africans.

COMPANY PROFILE

Background

De Fynne turned from a dream to reality the moment Jacky and Elton's partnership formed in 2001. Figure 5 illustrates the progression of Jacky and Elton's business ventures from 2001 to present day. Together, Jacky and Elton have over 25 years of experience in the horticulture and agriculture sectors. Further, Elton holds a Master of Philosophy in Agriculture Management, Bachelor of Technology in Horticulture, and National Diploma in Horticulture, while Jacky holds a Bachelor of Technology in Horticulture, National Diploma in Horticulture, and is currently working on her Master's degree in horticulture.

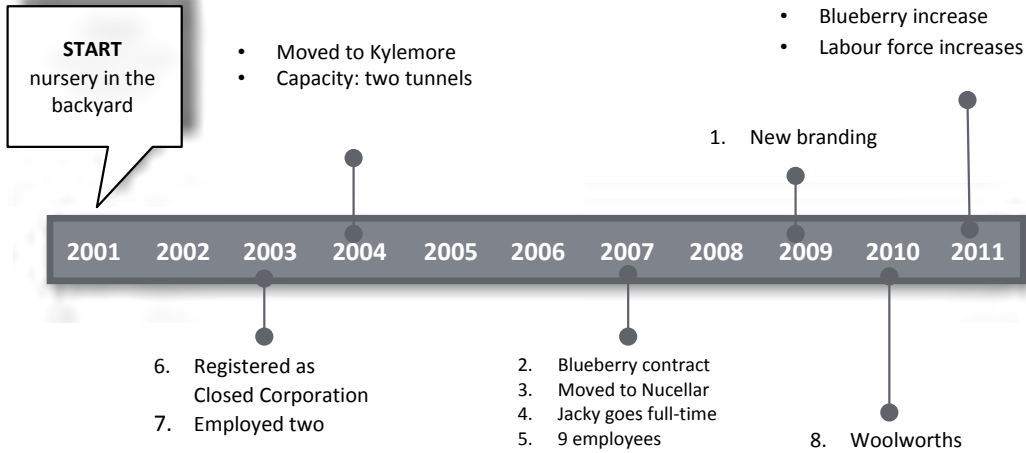


Figure 5. De Fynne's timeline.

Data source: Interview with De Fynne team.

Both Jacky and Elton were employed at the Agricultural Resource Council (ARC)—with a specialised focus on indigenous plants of the fynbos biome. Both dedicated the majority of their time to training other workers on how to grow these species. With their unique knowledge and skills in plant science coupled with experience in agri-business, the two colleagues decided to open their own nursery in 2001. They opted to grow three fynbos varieties that no one else produced at that time. This was a calculated business move since not many nurseries grew indigenous plants at the time, yet native plant landscaping was growing ever more popular in part because of a water conservation movement. In 2010, almost a decade later, Jacky recalled rushing home from her day job to spray the plants and tend to them. It was a challenge to maintain the business while working full-time, but their enthusiasm kept them going. Elton remembers: “We started by growing three plant varieties, and with one purchase they were gone! Our first season we sold everything as fast as we could produce it. It was then I realised this could be a very lucrative business.”

Their careers diverged from ARC a few years later when Elton joined Agribusiness in Sustainable Natural African Plants Products (ASNAPP), which he co-founded and for which he acts as a CEO. Shaded Box 2 describes the impressive mission of this non-profit organisation. Jacky joined him at ASNAPP not long after, but the backyard venture remained their true passion. As the business continued to grow, they realised that it needed the full-time attention of at least one of the partners, so in 2008 Jacky left ASNAPP to run the nursery full-time and focused all her energy on growing the business.

Shaded Box 2: ASNAPP

Agribusiness in Sustainable Natural African Plants Products (ASNAPP) is a non-profit organisation that works to create and develop successful African agribusinesses in the natural products sector. These businesses uplift and sustain communities by providing income and employment, and they produce high quality natural products for local, regional, and overseas markets.



ASNAPP provides supply chain services to accelerate poverty reduction as specified in the African Union / New Partnership for Africa's Development (AU/NEPAD) action plan by addressing market accessibility; increasing food supply for hunger reduction; and promoting agricultural research, technology dissemination, and adoption. ASNAPP drives its services directly towards the achievement of the Millennium Development Goal of eradicating extreme poverty and hunger, by providing various farm-to-fork services.

Data source: ASNAPP, 2011.

Jacky and Elton's combined expertise and zeal contributed to the early success of the business. Exceeding the capacity of the backyard venture, De Fynne Nursery needed to expand. They moved to the town of Kylemore, where they rented two tunnels (refer to the glossary). With this initial success under their belts, Jacky and Elton registered De Fynne Nursery as a black-owned business in 2003, which made them eligible for government incentives.

From the outset, De Fynne earned the reputation of being a quality wholesaler of fynbos plants. Quality is precisely what landed them a contract to grow blueberries for Amathola Farms in 2007, a farming enterprise located in the Eastern Cape. Amathola offered De Fynne a contract for 500 000 blueberry plants per year for five years. It was a deal too large to pass up because of the financial growth it offered the small business. Among the many challenges of undertaking such a large contract with such a small firm was the need to move quickly and accommodate the production volume of the blueberry plants. They relocated to Nucellar in Simondium, where the nursery remains today. Once a leading nursery growing citrus trees, Nucellar had closed its operations at Simondium after 40 years and now rented its tunnels and equipment to other nurseries. It was at this point that Jacky started working full-time for the nursery in order to grow the company's operations. Once Jacky dedicated all of her time to the nursery, the business grew substantially. "We realised that if we want to grow and expand, we need a jockey—someone to

take it to the next level. When Jacky started working full-time, we expanded three-fold within a year. That was a valuable lesson on the importance of having a full-time manager,” stated Elton.

Present day

The current business model provides a diverse product range: indigenous and ornamental plants, herbs, fruit seedlings, and the blueberry plants. De Fynne grows ornamental and herbal plants for retailer Woolworths, provides blueberry seedlings to Amathole Berry Farms, and supplies plants to a number of landscapers and other retailers including Cape Garden Centre, Garden Pavilion, Rademachers, Starke Ayres, Stodels, Superplants, and Van Den Bergh Garden Centre. Fruit seedlings include pears, apples, pomegranates, and apricots, and are sold to different companies such as Amatole Farms, Citrogold, and Colors Fruit Exports.

De Fynne currently runs its operations on 1,5 hectares of land in Simondium, Western Cape, located in the upper point of a triangle with Stellenbosch and Franschhoek on highway R45. The small village of Simondium is nestled in a picturesque valley surrounded on three sides by mountains. To the east lie the Klein-Drakensteinberg, to the north the Paarl Mountain and Nature Reserve, and immediately behind the village is the Simonsberg, its lower slopes dotted with vineyards. This small out-of-the-way village is found in the very heart of the finest wine lands. The nursery is secluded from the main road and 800 meters of maze-like road leads to the nursery grounds. Although the location is inaccessible to the typical retail consumer, it is accessible by truck and, as such, within reach of wholesale customers.

De Fynne rents eight tunnels, shaded areas, a full-sun area, and an office building from Nucellar. The land-lease agreement is for only one year and is renewable at the end of each year with both parties' consent. The short-term lease causes challenges for De Fynne because it makes the company appear unstable in the eyes of conventional money lenders. The grounds are fully equipped with relevant infrastructure including an existing irrigation system. Nucellar facilities include 52 tunnels, which are rented to two other nurseries apart from De Fynne. One of the other nurseries will be relocating to its own premises by the end of 2011, giving De Fynne an opportunity to obtain four extra tunnels for their operations.

De Fynne is a socially responsible company that engages with the local schools and churches. Jacky and Elton provide educational toys to elementary school students and organise Christmas parties for disadvantaged children. They also use the nursery as an outdoor classroom and give tours to students and the elderly community. Currently they are heavily involved with school environmental projects and helping beautify school grounds. At the local churches, they conduct educational workshops on plant care as well as supply plants for community faith-based festivals.

“We’ve received so much that we feel the need to give back,” Jacky says. The tradition of giving back to the community has been part of the organisation since inception and inspires a new generation of horticulturalists.

Marketing

In an effort to increase its overall industry presence, the company engaged a marketing agency to help with its branding strategy. Except for business cards, De Fynne previously had no marketing materials. The new branding includes new plant tags with bolder green and yellow logos set against close-up shots of their plant varieties, new business cards and logo stationary. The premium quality branding materials will serve the company in its effort to stand out on the shelves and to create a strong, memorable image easily recognisable by its customers. Since De Fynne has always branded itself as a quality wholesaler of fynbos plants, it was important that the branding materials also reflect this.

The strong referral networks of past customers have served as great sources for sales leads; however, De Fynne lacks internal marketing expertise. Jacky and Elton realise they need someone on their team to focus on marketing, but budget constraints limit those staffing efforts. The company also lacks an online presence. Elton realises now that many of their competitors are using websites to display their products and access a wider client base. In order to compete with the larger-scale competitors in this industry, De Fynne needs to consider how to leverage the reputation it has built to establish strategic partnerships moving forwards.

SMALL BUSINESS NURSERIES/COMPETITORS

Landscape beautification once meant growing a few trees and flowers, but today it means much more. People are combining a diverse palette of plant materials, architectural features, and new construction techniques to meet functional, aesthetic, and environmental requirements. This process creates tremendous opportunities and challenges for landscape designers, contractors, and plant growers. De Fynne is in competition with local fynbos growers and producers of other landscape design material such as gravel, boulder rocks, pavement, etc.

At present, De Fynne’s main competition within the region consists of five large wholesale nurseries that supply fynbos potted plants: Arnelia, Caledon Fynbos Nursery, Glen Elgin, Nonke Plants, and Shadowlands. Profiles of the five competitors are given in Table 3. In general, the target market is the same for all these companies: retail nurseries, landscapers, garden centres, and property developers and the key competitors have been in the industry longer than De Fynne.

Customer loyalty is high, which poses a challenge for De Fynne in capturing additional domestic market share.

Competitors have approached product diversification differently. Two of the nurseries also supply the cut flower industry in Europe with fynbos cut flowers. Arnelia has strong ties with the ARC because of its flower export division, and has recently released new varieties of fynbos available only to growers in South Africa. Arnelia maintains mother stock of these varieties and supplies rooted cuttings to the South African protea industry. Mother stock is necessary and crucial for the survival of the business as explained in Shaded Box 3. Further, they are contracted by Future Fynbos (a privately owned breeding initiative focusing on the selection and breeding of mainly *Leucadendron*, *Protea*, and *Leucospermum*) to propagate varieties of fynbos. Future Fynbos has positioned itself as a major player by supplying new innovative products to the fynbos flower industry. Another competitor, Glen Elgin, began almost 100 years ago as a fruit grower. To diversify its offerings, Glen Elgin introduced fynbos in 2006. Since then, it has been able to grow its cut flower market for fynbos overseas by forming joint ventures with South African exporters and a Dutch importer. Other competitors found a way to diversify their product selection by partnering with smaller local nurseries and selling their product.

Table 3: Competition profile.

| | De Fynne Nursery | Arnelia | Caledon Fynbos Nursery | Glen Elgin | Nonke Plants | Shadowlands |
|--------------------------------|--|---|--|---|--|--|
| <i>Type</i> | Wholesale, not open to the public | Wholesale, not open to the public | Wholesale, open to the public | Nursery, farm | Wholesale, not open to the public | Wholesale, open to the public |
| <i>Since</i> | 2003 | 1999 | 1995 | 1903 Farm 1995 Fynbos cutflower 2006 Fynbos nursery | 1982 | 1994 |
| <i>Target market</i> | Nurseries, plant wholesalers, farmers | Landscapers, retail garden centres, commercial cutflower growers | Farmers, retail nurseries, and services to the export market | Export, local market, top retail outlets, landscapers, commercial fynbos cutflower farmers | Nurseries, landscapers, farmers, garden centres, property developers | Local landscaping (30%) and garden production centres (70%) |
| <i>Product specialisation</i> | Indigenous plants and other ornamentals | Proteaceae plants | Fynbos (563 different species) | Fynbos cutflowers, potted plants, rooted cuttings | Non-specialising | Indigenous plants, ornamental perennial plants, herbs |
| <i>Product diversification</i> | Fruit: blueberries Testing seedlings: pears, pomegranates, apples | Propagator of fynbos varieties, maintains mother stock for new varieties (by ARC) | Other indigenous plants, trees, herbs | New fynbos variety joint venture with SA exporter and Dutch importer; grapes, bee hives | No fruit trees, no grass | Partnership with three other nurseries: - long grass plugs - trees and shrubs - large albes |
| <i>Size</i> | 1,5 ha | 15 ha | N/A | 1 690 ha: - 540 ha fruit - 45 ha fynbos cutflowers - 1 ha fynbos nursery - 30 ha wine | 16 ha | 750 square metre greenhouse, 22 tunnels |
| <i>Employee #</i> | 9 + casual workers | N/A | N/A | N/A | 95 | 68 |

Data sources: Interview with De Fynne team; Arnelia Proteaceae; Caledon Fynbos Nursery; Glen Elgin; Nonke Plants; interview with Shadowlands.

Shaded Box 3: Fynbos Propagation and Mother Stock

Proteas can be propagated either by means of seed or vegetatively by means of cuttings. Only healthy plants not subject to stress may be used for cuttings. No cuttings may be harvested from plants that display any symptoms of disease. Plants used for cuttings are commonly referred to as mother stock plants. *Cuttings from the mother stock* are usually harvested from December to the end of April. It is important to harvest them at the right age. A simple test to determine whether the cutting is ready is to take a cutting of 20 cm and bend it. If the ends can be made to touch each other, the cutting is too soft, and if the wood cracks, it is too hard.

The following dates can serve as guidelines for the harvesting of cuttings:

- Protea: December to April
- Conebush: February to April
- Pincushions: March to May

Preferably, the ends of shoots are used for the production of cuttings. Cuttings must be harvested in the morning and the mother stock plants should at no stage of the harvesting be subjected to heat or drought stress. The cuttings must be kept cool. The leaves on the lower half of the cutting are removed, and this end is dipped into a growth hormone. The cuttings are placed in growing bags (preferably transparent) that have holes and are filled with a mixture of coarse sand and peat, to develop roots. The cuttings must receive a mist spray every hour throughout the day and a spray programme against disease must be applied.

After six weeks, the cuttings begin to form roots. This usually takes place six to 16 weeks after harvesting. Cuttings that have not formed roots after five months can be destroyed. Cuttings are ready to be planted when the new roots are well developed and discoloured brown roots are visible on both sides of the bag. The cuttings must then be planted in well-drained acid soil that has not been fertilised.

Data source: Department of Agriculture, 2011.

COMPANY OPERATIONS

50/50

Jacky and Elton each own 50% of the business, but their duties differ significantly. Jacky is responsible for running the day-to-day operations of the company, and she dedicates her full-time to De Fynne as

manager. Elton is a visionary behind the business and devotes his time to new and innovative ideas on how to grow and secure more business. He also handles overall strategy development.

In order to meet administrative needs and boost current fynbos production, in 2010 they hired an assistant manager, Annalise. She has been employed for about five months and in addition to helping with administrative tasks, the majority of her time is spent outdoors overseeing the production process. She moved from Pretoria and has proven a valuable asset to the company with over 12 years of experience in the industry. Elton stated that at first Jacky and he could not afford an assistant manager, but they ultimately decided to make the investment recognising the benefits for the organisation. He said, “Now it’s been five months and we see the value of having our assistant manager. We now see the need for a dedicated sales person.” Annalise oversees three team leaders who run the different production areas of the nursery as depicted in the organisational chart in Figure 6. The nursery is divided into three main production sections: (1) fruit production, (2) propagation and production of fynbos, and (3) a ‘growing on’ section, which includes maintenance, pruning, weeding, feeding, and all activities within the full-sun area.

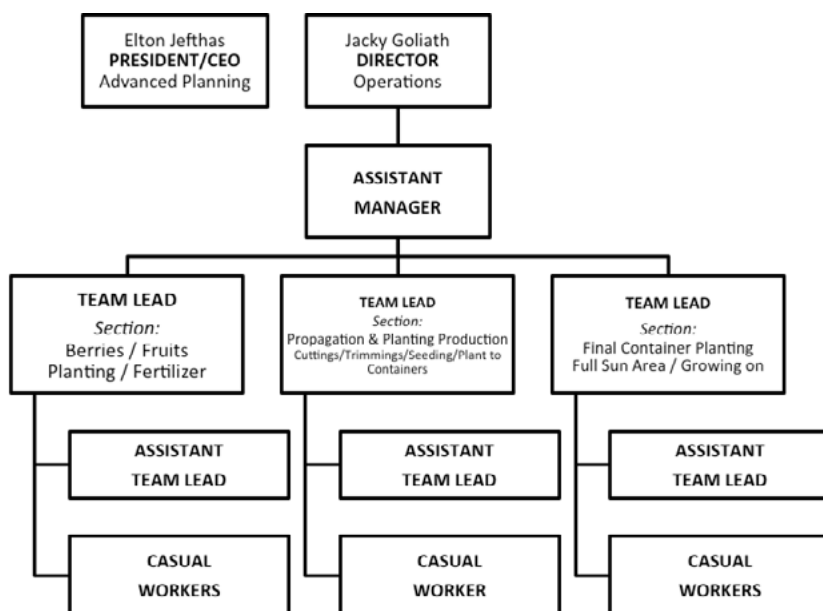


Figure 6. De Fynne organisation chart.

Data source: Interview with De Fynne team.

Every morning management meets with team leaders to establish the daily schedule and evaluate the need for casual workers, temporary and unskilled farm hands. Most of the casual staff is female—because they are generally more reliable—with the exception of three male employees

whose duties include driving, maintenance, and general site upkeep. Employees work eight hours a day, five days a week. Weekend duties rotate between two individuals per weekend who come to water and maintain plants. Casual staff is paid weekly and kept on contract as long as their performance is satisfactory. “If they perform well, their contracts are extended,” Jacky elaborated. “We don’t have to interview, but find the ones who look both interested and reliable, and then train them to do more. We don’t have structured training, but that’s something I want to plan for in the future, especially because it helps retain workers.”

The issue of labour

De Fynne and other companies in the surrounding regions currently face a significant labour shortage problem that stems from an unreliable workforce with low skill levels. The unreliable workforce is a direct consequence of lingering alcoholism that continues from the *dop* system, which existed in the Apartheid era when workers in the wine lands were often paid in cheap wine. This historic issue is an ongoing problem in South Africa, and many professionals such as doctors are working hard to address this institutionalism (London, 1999). Other companies address labour shortage by transporting labourers from nearby urban areas; De Fynne, however, does not have the capacity to do so. Even with 10 full-time and 11 part-time workers, De Fynne is still shorthanded. Elton stated, “We do have a problem with labour because some only want to work for one to two days and then go back to drink and come back when the money has been spent. They don’t want to work continuously. We struggle to get reliable males in the area and would like to recruit from further out, but don’t have the resources. We could use five extra reliable males, but cannot find them. However, the people we currently have are passionate, especially the team leaders.”

Difficulty with employee retention is a problem that partly stems from De Fynne’s operational procedures. Jacky stated, “When starting the nursery it was important for me to put operational systems in place that my staff could follow. Well, they were put in place obediently followed by the workers: however, the older the systems got, the more they needed to be nurtured and inspected to make sure they are useful. I found that the employees need to be trained and evaluated at least on a six-month basis.”

PRODUCTION

The nursery grows three main categories of products: (1) fruit seedlings, (2) fynbos and other ornamental plants, and (3) blueberry seedlings. Each of the products goes through three initial phases of growth: propagation, rooting, and planting, after which the life cycles of products differ.

Infrastructure and the function of the tunnels are strategically divided to follow the flow of the production process and increase efficiency.

Fynbos and other ornamental plants

The tunnels closest to the office host propagation activities for fynbos and other ornamental plants. An open area is dedicated to storing the plant mother stock. Mother stock plants are the sole source of the plant material necessary for propagation. The area currently holds 600 plants and with the average of 20 cuttings per plant can yield a total of 12 000 plants a year. At capacity, the nursery can hold up to 1 000 mother plants for a total yield of 20 000 plants per year. Even the maximum number of mother stock plants is not enough to meet De Fynne's yearly production forecast of 50 000 mature plants. Elton and Jacky are faced with the immense challenge of securing enough mother stock. The nursery is constrained by its size and the facilities are inadequate to keep a sufficient amount of mother stock. The competitors run their operations on land that is at least 10 times larger than De Fynne's and can afford the space to grow their own mother stock. Currently, to secure additional mother stock, De Fynne partners with large hospitality customers like hotels and a local golf course. In return for obtaining cuttings from their gardens, De Fynne returns a percentage of the rooted plant material to these companies.

As one continues north alongside the path, the tunnels to the right of the propagation tunnels are used for planting production. Fynbos takes a year to go through its production cycle as explained in Figure 7. Once plants mature, they are moved to the final container section for replanting and further continue to the full-sun area, where they stay until sold. With the current staff, Elton and Jacky can produce about 60 000 fynbos and other ornamental plants per year. The current facility with the necessary number of staff could yield a maximum of 80 000 plants. Current operations are not at full capacity, leaving Elton and Jacky in constant search for reliable labour.

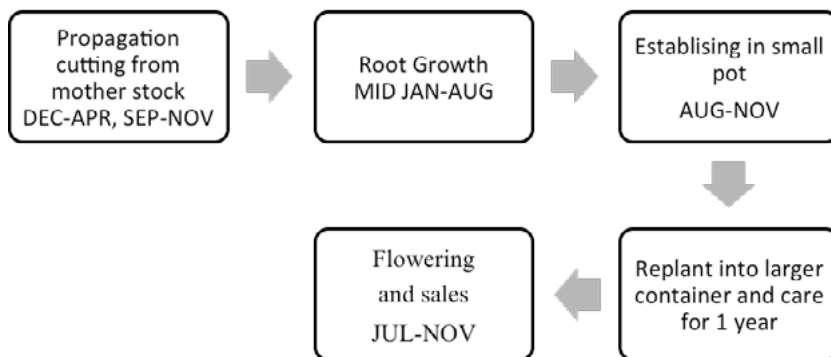


Figure 7. Fynbos production cycle at De Fynne.

Blueberry

De Fynne dedicates five tunnels solely to the production of blueberries for Amathola Farmers in the Eastern Cape and plans to add another tunnel to increase production. Amathola contracts with a laboratory to propagate blueberry seedlings from tissue cultures, which are then delivered to De Fynne for planting. (The blueberry production cycle is explained in Figure 8.) The new venture with the laboratory presented another challenge for Elton and Jacky. The lab's maximum production of tissue cultures yields only 300 000 berry plants a year, insufficient to satisfy De Fynne's contract volume of 500 000 blueberry plants. In this challenge, Elton saw another opportunity for growth and De Fynne began propagating its own berries from cuttings. De Fynne's blueberry propagation is experimental and does not yet yield enough volume to satisfy the contract.

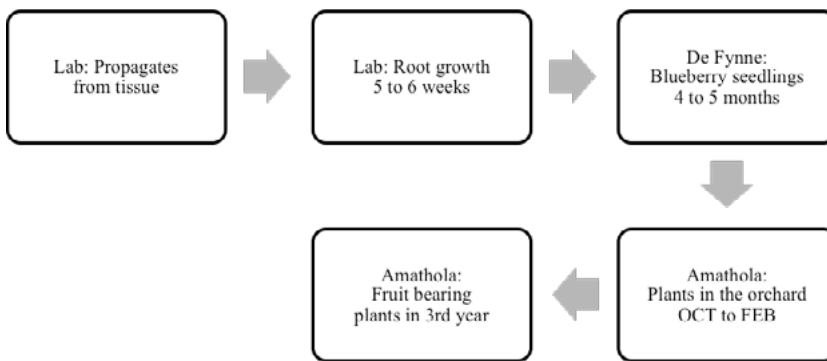


Figure 8. Production cycle of blueberry.

Data source: Interview with De Fynne team; Cornell University Department of Horticulture.

Blueberries can be propagated from either tissue or soft or hard cuttings as explained in Shaded Box 4. De Fynne either receives already rooted berries from the laboratory or propagates its own from the soft cuttings. Once seedlings reach full maturity, they are transported to a farmer in the East Cape for final planting in the orchard. Delivery of the blueberries occurs between October and February in batches of 40 000 to 45 000 plants per delivery. Coordination is a key to success between Amathola and De Fynne. Amathola grounds have to be ready for planting at the same time as De Fynne is ready to deliver 45 000 plants. Once the blueberry seedlings are packaged, they must be planted within five to six days before wilting. The time frame includes the delivery time that can take up to one day of driving.

Shaded Box 4: Blueberry Propagation

Blueberries are usually propagated from softwood or hardwood cuttings selected from healthy, disease-free mother plants. Cuttings are placed in a propagation bed in a growing media that holds moisture well, but allows adequate aeration. A peat/fine pine bark blend or sawdust has proven ideal. Water is delivered by means of an intermittent misting system. The misting system should apply water for 10 to 30 seconds each 15 to 30 minutes to ensure that cuttings remain moist. Certain commercial nurseries may propagate blueberry plants by means of tissue culture. The shoot tips are induced to produce multiple shoots in agar media supplied with modified standard culturing solutions. After sub-culturing, the shoots are cut off and placed into a peat-perlite rooting mixture under mist, where they root readily.

Data source: Greeff, 2003.

Fruit seedlings

Fruit seedlings are the test product De Fynne grows for a major intellectual property (IP) management company that focuses on the management of plant varieties in horticulture. Most of the deciduous fruits in South Africa are produced in areas that are climatically marginal (Costa et al., 2004). Deciduous trees need the cold winter months in order to foliate and produce excellent fruit the following year. South African winters are mild and provide insufficient chilling during the winter months, which results in marginal fruit quality, low yields, and uneven fruit size (Costa et al., 2004). The IP company contracts with De Fynne to grow different varieties of fruit seedlings: apples, nectarines, pears, and pomegranates. The objective is to develop orchard characteristics that are better adapted to the marginal environmental conditions in order for Southern Hemisphere growers to successfully compete on the export market with Northern Hemisphere growers.

Depending on fruit variety, the maturity of fruit seedlings can take up to three years. Once the young plants reach maturity, the IP management company plants them in the orchard and tests their properties. If the fruits prove successful and have properties desired by fruit producers, the management company will look for a nursery with which to contract in order to grow the specific fruit seedlings for numerous growers. De Fynne sees this as a long-term opportunity.

KEY RELATIONSHIPS

Amathola

The main aim of blueberry production in South Africa is to produce quality fresh fruit to export to Europe during the northern winter from October through February (Meyer & Prinsloo, 2003). In 2006, capitalising on its network, De Fynne initiated a conversation with Amathola Berries, a medium-sized blueberry grower in Eastern Cape, about the possibility of providing them with 500 000 blueberry plants per year for the next five years. As Elton recalls: “This [blueberry contract] was a blessing in disguise, and our big break! There must be a higher power for this guy to commit with us. Everything just fell into place at the right time. Any mistake could have cost either party.”

At the time the conversations started, De Fynne was running a small nursery operation in Kylemore. As luck would have it, Amathola did not request a tour of De Fynne’s facilities, which would have revealed its true capacity. The arrangement was based on a gentlemen’s agreement made sight-unseen. De Fynne quickly secured new grounds at Nucellar with eight tunnels and moved swiftly to start blueberry production. Nevertheless, it took a year to solidify the details and logistics of the agreement and the contract did not materialise until 2007.

Woolworths

In 2009, De Fynne secured a contract with Woolworths, South Africa’s top food retail chain. The contract was based on sales performance and included herbs, fynbos, and other ornamental plants. In 2009, De Fynne filled an initial order of 1 000 plants. By the end of that year the ordered quantity dwindled due to underperforming sales of the test product mix. To get the right products into the right markets was the goal for Woolworths and De Fynne’s test period. Still De Fynne found it spent too much time following the strict internal procedures of their new, large client. Along the way, Elton and Jacky started questioning whether the time expended managing the Woolworths orders was well spent.

Woolworths has many resources from which De Fynne could benefit. When De Fynne is ready to increase production, it will be able to access production loans through Woolworths. In 2010, De Fynne worked with Woolworths to test several different products to determine which ones warrant supplying in the future. As a result, many of the identified products are currently in production for 2011, by which time De Fynne would like to see orders from Woolworths double in volume. It may take additional resources on De Fynne’s part to meet these orders due to the additional processing steps Woolworths requires of their suppliers. Jacky and Elton recognise the reputation boost that affiliation with Woolworths will bring. It will be worth the extra work in the long run to remain

associated with such a big reputable partner. Customers equate Woolworths with quality products and De Fynne's reputation will benefit from aligning itself with the Woolworths name.

FINANCIAL PROFILE

Revenues from the blueberry agreement make up 60% of De Fynne's total revenue. The whole business operation depends on one client and an informal agreement. At the outset, this agreement worked to De Fynne's advantage, but now it poses a serious threat to the livelihood of the business. One wrong step could mean the demise of De Fynne. Amathola pays 50% of the contract upfront and 50% on delivery. The plants are delivered in batches of approximately 40 000 to 45 000 plants per delivery. The blueberry payment schedule can cause a bottleneck in cash flow since it takes four to five months between the deposit and final payment. Indigenous plants and other ornamentals can stabilise the cash flow if they are sold on the 30-day payment-in-full schedule. About 98% of De Fynne's customers pay within 30 days. Jacky has also established very good relationships with suppliers and pays them within 30 days of the invoice.

The business mainly finances its operational expenses through retained earnings. With the fast-growth expansion of the business, it is difficult to pre-finance from earnings the cost of selling the product. De Fynne's fixed costs remain low and account for less than 30% of revenue. Note that salary is not included in the fixed cost as it varies depending on the number of casual workers needed. The land rental is extremely affordable, includes all utility costs, and accounts for only 16% of total fixed costs. The one-year renewable contract, however, limits the opportunity for commercial loans as any lenders prefer stable, long-term land leases. Transportation costs are curtailed as well since Amathola picks up the blueberries at the nursery and De Fynne bears no expense for their delivery. Most of the local orders are delivered by two flatbed trucks that De Fynne owns. In order to decrease transportation costs, orders from different customers are combined and delivery is made only when placed orders represent a full truckload. This practice causes delivery lead times to be two to five days, whereas industry standards are one to two days.

The selling price for De Fynne product is set just below the industry standard for competitive edge pricing. Financial statements show a gross margin profit of approximately 16% for indigenous plants and other ornamentals. In other words, 84% of the revenue for indigenous plants and other ornamentals goes to cover expenses related to cultivation. On the other hand, approximately 92% of the blueberry revenue is contributed to gross profits (not including wages and fixed costs). Not only is the profit margin from indigenous plants and other ornamentals exponentially lower than profit earned from blueberries, but it takes at least one year to realise a profit from indigenous plants, whereas blueberry profits are realised in half that time.

LOOKING AHEAD

How should De Fynne define itself in the future? Should it stay true to its mission and ‘provide a consistent supply of high quality indigenous plants to the nursery retail and landscaping industry’? Or should it grow the mission to include blueberry plants and seedling testing? De Fynne is at a crossroads and it needs to decide how it should grow. In either case, Elton and Jacky understand that risk mitigation (i.e. reducing dependence on any one client) needs to be at the forefront of their strategic planning. They also must prioritise securing land ownership or obtaining a long-term lease.

To better understand the blueberry plantation operations, in 2011 Elton and Jacky visited Amathola’s grounds in the Eastern Cape. The visit proved rewarding for business as Elton and Jacky secured another gentlemen’s agreement for increased production of 800 000 blueberry seedlings over the next two years. On their way back to De Fynne, the partners discussed the outcome of their visit, which discussion initiated numerous questions and highlighted several uncertainties: Is it time for De Fynne to assess its capacity and labour? Just recently, due to the economic recession numerous small farms and businesses have shut their doors. De Fynne is using this opportunity to acquire tunnels and equipment at extremely low prices and increase its asset value. Should it concentrate on increasing the blueberry production rather quickly or diversify its portfolio by increasing production of fynbos? Either way De Fynne needs to explore possibilities for improved cash flow. Elton and Jacky wonder what the right growth strategy is at this time and whether they will be able to keep up with the increased production of both products simultaneously.

Just as the fynbos and other indigenous plants are in their natural habitat in South Africa, De Fynne is well situated within the industry. Although a young company in comparison with its competitors, De Fynne has more than two decades of invaluable horticulture expertise that differentiates the company in its journey towards future growth. Now is the time to make strategic decisions that will ensure future growth and sustainability.

GLOSSARY OF TERMS

| | |
|-------------------|---|
| Close Corporation | A business registered in terms of the Close Corporations Act of 1984, consisting of not more than 10 members who share its ownership and management. |
| Cuttings | A portion of root, stem, branch, or leaf used for the propagation of new plants. The piece must have at least one molecule of the original plant, which begins to produce a new plant after being put in a suitable medium such as soil or potting mix. |
| Motherstock | The source plant that gives the cutting. |
| Rooting | The process of plants putting forth roots. |
| Tunnel | A walk-in, hoop or gothic-shaped pipe frame structure covered with a single layer of film plastic. Plastic tunnels are designed to protect young plants from harsh weather (especially frost), while allowing access to light and ventilation. Ventilation is achieved by rolling up the sidewalls or end walls and opening doors. Irrigation water is provided typically through a drip system. Plant production can be in soil or in containers on top of a weed mat. |

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Chapter 3

EZULWINI CHOCOLAT

STANDING UP AND STANDING OUT

Edward Mabaya, Imani Grant, Yin Song, Krisztina Tihanyi, Phuong Tran, Jipei Zhang

INTRODUCTION

On any given weekday you can find Nontwenhle Mchunu, affectionately known by friends as Nonts, owner and operator of Ezulwini Chocolat, mulling around in the test kitchen of Pick N Pay Fresh Food Academy making truffles, teaching staff, and conducting business meetings. Ezulwini, which means heaven in isiZulu, is a start-up chocolate company specialising in truffles. Ezulwini turned its first profit in October 2010, but sales remain inconsistent and unpredictable. In order to continue to be profitable, Nonts needs to determine the best operations practices and business strategy for steady revenue.

When Nonts registered her business as a closed business entity in 2003, her dream was to establish Ezulwini as a premium brand in Africa. Her plan was to source all ingredients from Africa and produce premium chocolate in South Africa. At that time, the premium chocolate market was relatively untouched beyond the big companies that dominated the South African chocolate market, namely, Cadbury, Nestlé, and Tiger Brands. Since then, the market has exploded with many new brands and it has become increasingly difficult for Ezulwini to maintain a competitive advantage.

While the market was picking up, Nonts was taking entrepreneurship courses and learning the craft of chocolate making in Switzerland and United Kingdom, and her business was relatively dormant. After the training, she returned to South Africa, but her business was limited to door-to-door and informal sales until 2010, when Ezulwini joined Pick N Pay's Small Business Incubator

(SBI)¹. Being in the incubator has given Nonts much-needed facilities and resources to hone her craft and her business skills, but as Ezulwini gets closer to rotating out of incubation in 2013, Nonts wonders what strategies will ensure that Ezulwini remains a profitable venture on its own that can develop into the premium African chocolate brand of Nonts' dreams.

COMPANY PROFILE

Profile of the entrepreneur

Born into a family of women entrepreneurs and of Zulu royal descent, Nonts recalls that she has always had an entrepreneurial spirit. In 2002, at the age of 20 while she was working at a bakery, Nonts developed “a passion for food and entertainment”. Shortly thereafter she began making chocolate in her Durban apartment and sold it door-to-door. In 2006, Nonts received training from the Raymond Ackerman School of Entrepreneurship, and she furthered her training with a prestigious chocolate maker in Switzerland in 2007.

As she became more familiar with the chocolate industry, she also grew more aware of the role Africa and African farmers play in producing the raw materials and the often unfair practices associated with the trade. What she saw made an impact on her and her company's mission: “In Africa we produce a little less than 70% of [the] cocoa [produced worldwide]. My mission is to make sure there is a premium chocolate industry in Africa. Kids of cocoa farmers are exploited and producing chocolate in Africa is a way to make amends.” Thus the company's mission is to create a strong, high-end African chocolate brand and to make a difference in the industry by forming empowering partnerships with farmers, employees, customers, and distributors. To achieve this, Nonts would like to source all her ingredients directly from Africa; however, at present this is a long-term goal as she finds it more cost effective to import high-quality chocolate blocks from Europe to make the truffles. Besides creating a premium-quality product, the business value proposition is to provide premium customer service through in-depth product knowledge. The company will gladly go an extra mile to guarantee product satisfaction.

The Fresh Foods Academy (FFA) is a training facility owned by Pick N Pay. Located in Cape Town, South Africa, it houses several companies besides Ezulwini. The companies do not pay for rent or utilities, but they are responsible for their own cost of labour and the production equipment.

1 Pick N Pay is one of the leading grocery retailers in South Africa and SBI offers enterprise development that supports small, early-stage businesses with monetary investments, free manufacturing facilities, and small-business education services.

It is probably this high level of motivation and commitment to her business that landed Nonts in the Pick N Pay FFA. Nonts's relationship with Pick N Pay goes beyond Ezulwini's incubation in the FFA. She has known the Ackerman family, owners of Pick N Pay, since she placed first in her entrepreneurship course, which was sponsored by the Ackerman family. Since then, Suzanne Ackerman-Berman, director of SBI, has become one of Nonts's mentors.

Table 1. Company time line.

| | |
|------|---|
| 2004 | Nonts relocates to Cape Town because that is where most of the ingredients and tools are. Cape Town is the centre of the industry. |
| 2005 | Struggles to get land to open stores and manufacturing facilities. |
| 2006 | Accepted into Raymond Ackerman Academy (founder of Pick N Pay). Raymond academy is a school of entrepreneurship owned by Pick N Pay. Starts to supply chocolate to the Fresh Food Academy. Is best in class, wins internship sponsored by Raymond to go to food confectionary school in United Kingdom. |
| 2007 | Spends three months in Swiss chocolate factory Lamdach. |
| 2008 | Returns to South Africa: very capital intensive to start one's own factory. Looks for investors. Makes chocolate for Pick N Pay. |
| 2009 | Looks for other premises, needs a place that is compliant with food safety regulations. Moves to current premises at Fresh Food Academy in October. |
| 2010 | Sublime, line extension of Ezulwini, available in Pick N Pay. |

Product

Ezulwini Chocolat has two product lines, Ezulwini and Sublime. The Ezulwini brand is manufactured and distributed on a per order basis to hotels, weddings, and individuals, and Sublime is marketed exclusively in Pick N Pay stores and is currently available in 15 retail outlets in Western Cape province. Both brands have strong support from those who know Nonts or her story, but broader consumer awareness is limited.

Ezulwini Handcrafted Chocolates currently offers only truffles, but Nonts is continuously brainstorming new recipes for the development of other flavours and products. At present, the truffles come in 12 varieties: almond, caramel, chili, coconut, coffee bean, hazelnut, milk mousse, mint, orange, strawberry and cream, white mousse, and 70% dark truffle.

Sublime is the "bread and butter" brand of the company, representing 60% of sales volume. Sublime is available in boxes of 5-, 9-, and 18-count. It is competitively priced against other truffles at R3,80² per truffle and it is crucial to the survival of the small chocolatier in the competitive

² R is the South African rand (ZAR), current (as of 29 January 2011) exchange rate is R7,19 to USD1.

chocolate market. The average price per truffle was found using the price of the 16 count truffles and dividing it by the count number (example, R59,95/16 truffles). As indicated, both Sublime and Ezulwini are appropriately priced compared to the competitors (see Figure 1). The most common number of truffles per box is nine.

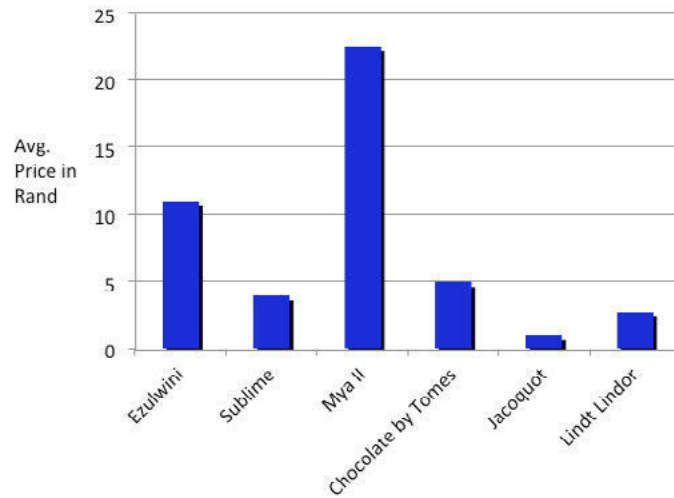


Figure 1. Average price per truffle.

The average price per slab shown in Figure 2 is based on a list of slabs of the company's direct competitors. Currently, Ezulwini does not produce slabs, but this information may be used for future reference if Ezulwini decides to produce slabs.

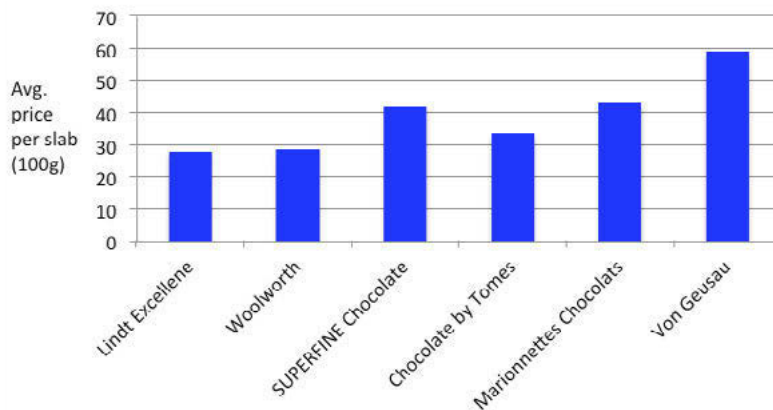


Figure 2. Average price per slab.

Sales and revenues

A key financial goal for Nonts is to turn the 60:40 revenue breakdown between Sublime and Ezulwini brand into 40:60, given that there are higher profit margins on the premium brand of Ezulwini.

In terms of day-to-day financial management, the company has benefited from relatively good payment arrangements thus far. It receives payment from Pick N Pay on every 15th and 30th of the month for the sales of its Sublime brand. Such favourable payment terms are uncommon in the industry, where the standard payment terms are 30 to 90 days post-delivery. Ezulwini receives payment on a per-order basis within 30 days of delivering an order. But despite such good payment arrangements, cash flow is a challenge in some months; putting the company first, Nonts pays herself a significantly lower salary than the average chocolatier and often pays her employees before paying herself.

Understanding the challenges of starting a small business, Nonts is satisfied with the company's financial performance in the short-run and optimistic about near-term financing. But as the company plans to expand capacity, launch a new outlet, and move out of incubation, Nonts needs to be able to identify appropriate sources of funding. In 2011, she is looking for financing alternatives to support her plan of establishing a new outlet, which is crucial to brand expansion. With respect to the end of the incubation period in 2013, she has considered bringing in strategic investors to increase market share and grow profit in the long term.

The company's sales revenues and net profits have doubled between 2009 and 2010, providing some stability in cash flow for the daily operations. In 2009, the company purchased new equipment with a R90 000 loan. As production continues, the company needs to monitor closely whether the increase in net profit can cover the cost of debt and offer enough retained earnings for its planned expansion.

Financing

Currently, Nonts prepares annual budgets, which can present a problem when applying for funding, as many funding sources require longer-term financial projections. Financing options are further limited due to risks involved in funding start-ups like Ezulwini, most of which do not meet the requirements of collateralised debt posed by commercial banks. Government funding exists, but such sources often require extensive supporting documents and many layers of approval before issuing funding.

In addition to domestic funding sources, Nonts also intends to seek investment from international venture capitalists. But this plan also carries risks: compared with other new lucrative industries, such as biotechnology and information technology, it is unclear whether the return rate of Ezulwini can meet the high expectation of venture capitalists.

Table 2. List of financing options and Ezulwini Chocolat's qualifications.

| Prioritized by Risk Level | Capital Size | Requirement | Qualification | Pros | Cons |
|---|--|--|--|--|---|
| <i>Pick and Pay Foundation</i> ³ | Unknown | <ul style="list-style-type: none"> - Emerging suppliers to Pick and Pay - Income generation and job creation | <ul style="list-style-type: none"> ✓ ✓ | High accessibility for immediate financing | Limited funding for long-term strategic development |
| <i>Government</i> | Variable | <ul style="list-style-type: none"> - Small, medium, and micro enterprises - Due diligence request | <ul style="list-style-type: none"> ✓ × | Lower interest rate than banks | Time-consuming application process |
| <i>Banks</i> | Limited | <ul style="list-style-type: none"> - Historical record of profitable operation and a realistic cash flow forecast - Collateral assets | <ul style="list-style-type: none"> × × | Reliable and consistent financing resource, tax deductible | Debt obligation |
| <i>Angel Investors</i> | \$150 000- \$1 500 000 | <ul style="list-style-type: none"> - Traditional business - Higher return rate - Updating reports routinely | <ul style="list-style-type: none"> ✓ Probably not ✓ | Lesser due diligence, lower interest rate than VCs | Equity partnership, business involvement by management or consulting roles |
| <i>Venture Capitalists</i> | Variable, large investments (more than \$1 million) provided by multiple VCs | <ul style="list-style-type: none"> - New high-growth industries - Highest return rate - Strategic investment by offering capital and management knowledge | <ul style="list-style-type: none"> × × ✓ | More cash on hand for growth, no obligation to repay the investment, no security necessary | Equity partnership, actively involved in management, potential buyout of small business, uncertainty of consistent injection of capital |

3 Source: Pick N Pay, 2011.

THE SOUTH AFRICAN CHOCOLATE INDUSTRY

Chocolate production in South Africa dates back to the late 1800s, when Cadbury was the main distributor of chocolate in the region. Others, such as Nestlé and Tiger Brands, were next to enter the market, but offered a relatively low-quality, mass-market product range. It was not until 2003 that the landscape changed and gourmet chocolatiers like Lindt entered the market. (Datamonitor, 2010)

Chocolate production is a slim-margin industry, which often requires significant upfront capital. Successful companies have been those with established brands in international markets or small chocolatiers with niche products and a clientele to support higher prices. Costs in chocolate manufacturing include procuring cacao beans; buying production equipment, which is often imported from Europe; and securing a distributor or opening a brick and mortar store. Because cocoa is a commodity, it is difficult to negotiate prices, and prices can be sensitive to political and social changes. For example, at the time of writing in 2010, increasing political tensions in Ivory Coast, where most of the world's cocoa is produced, and growing awareness of unfair child labour practices in cocoa production were threatening to increase the cost of raw materials.

Despite being a capital-intensive industry, the marketplace has quickly become crowded with multinational companies and smaller specialty brands, and the South African chocolate industry is well in its mature phase. Each company produces truffles, bars, origin chocolates, and/or another trendy specialty. Datamonitor (2010) estimated the South African chocolate market in 2009 at \$473 million, and predicted it to grow to \$567 million by 2014, a 20% increase. The growth is spawned by three political and economic factors.

First, since the end of Apartheid, trade barriers have been lifted to give companies incentives to trade with South Africa. This has allowed companies to import and export more non-essential goods. Lindt, a premium Swiss chocolate brand, for example, began exporting to South Africa in 2006 (Kutta, 2011).

Second, the Broad-Based Black Economic Empowerment (BBBEE) initiative, the government's strategy for motivating formerly disadvantaged South Africans into the mainstream economy has stimulated many firms to offer funding, support, and corporate partnership advantages to BBBEE compliant firms. The most notable effect of this effort is the emergence of a black middle class, or "Black Diamonds", according to Forbes (2010). Such black middle class had previously been almost non-existent but now presents a significant new consumer segment with interest in luxury items and brands.

Third, traditional chocolate markets are maturing and chocolatiers are seeking new markets. As of 2008, Switzerland was the largest consumer of chocolate at 10,77 kg per capita per year, followed by

United Kingdom (10,07 kg), Romania (9,84), Norway (9,8) and Germany (9,29 kg) (CAOBISCO, 2008). South Africa and its growing chocolate consumption therefore is an attractive growth opportunity given the country's interest in further economic development.

Consumer trends

Growth in the Cape Town tourism industry has created a luxury goods market. This revolving clientele is largely European and affluent. As a result, they are familiar with European brands and are contributing to the overall growth of the luxury goods market, including premium chocolate. At the same time, people in this segment are often interested in indigenous African products, and this presents an opportunity to local South African brands like Ezulwini.

Recent global trends such as fair-trade, organic, and origin chocolate are not uniformly high on the list of consumer preferences in South Africa. Fair trade is usually of interest to the more affluent community and business executives. After price, regular consumers purchase chocolate almost solely on factors of taste and brand (Moran, 2008). One notable new trend is chocolate and wine pairing. One winery in Stellenbosch worked together with a local chocolatier for seven years to perfect the chocolate recipes that complement their specific wines. These pairings include unique chocolates such as lavender, rock salt, and rose geranium flavoured chocolates to complement the wine. The experience of tasting these pairing is on the rise as other wineries are now joining the trend.

Competition

The South African chocolate industry, a subsector of the broader confectionary industry, is highly competitive in all product categories. Multinational corporations such as Kraft (U.S.A.), which has recently purchased Cadbury plc (Britain), Nestlé (Switzerland), and Tiger Brands (South Africa) are prominent players in this industry. Collectively, these three corporations dominate the South African confectionary industry with over 60% market share (Datamonitor, 2010).

These multinational corporations initially focussed on producing for the mass-market segment; however, given the rise in popularity of premium chocolates in South Africa, they have expanded their product line to include premium chocolate. Many competitors do not produce in South Africa, but rather import and distribute widely to retailers throughout the country.

Ezulwini's product line currently contains only truffles, thus the direct competitors to Ezulwini Chocolat are the multinational corporations and the boutique shops that produce or import truffles. Table 3 provides a list of some of the direct competitors that manufacture truffles.

Table 3. List of competitors.

| Company | Product |
|--|--|
| <i>International Brands</i> | |
| <i>Cadbury (Kraft)</i> | Bournville Classic Cadbury Dream, Dairy Milk, Dark Chocolate, |
| <i>Nestlé</i> | Nestle Aero, Nestle GOLD, Nestle Milo |
| <i>Symphony</i> | Fruit and Nut, Milk Chocolate, Mint, |
| <i>Mars Inc.</i> | Bounty, Mars, M&Ms, Snickers, Twix, |
| <i>Lindt</i> | Lindt Excellence, Lindt Lindor |
| <i>Domestic Brands</i> | |
| <i>Woolworths Organic</i> | Dark, Milk and Almond, Milk Chocolate |
| <i>Kees Beyers</i> | Amarula Cream, Dark Belgian, Marula, Superfine Chocolate |
| <i>Beacon (Tiger Brands)</i> | Berrylicious, Chunky Milk, Chunky Crispy, Forest Fruit and Nut, Milk Chocolate, Mint |
| <i>Boutique brands (available in Cape Town)</i> | |
| <i>Chocolate by Tomes</i> | |
| <i>Huguenot Fine Chocolate</i> | |
| <i>Von Geusau</i> | |
| <i>MYA II</i> | |
| <i>Marionnettes Chocolates</i> | |

Presently, Sublime competes with dozens of competitors in the chocolate aisle in Pick N Pay stores, while the Ezulwini brand competes with a handful of smaller boutique shops in Western Cape. Such boutique brands include Chocolates by Tomes and Von Geusau, both of whom have partnered with wineries in the region to promote their chocolates through the new and popular wine and chocolate pairing. MYA II, located in V&A Waterfront, an upscale shopping centre in Cape Town, targets tourists, celebrities, and hotels. Marionnettes Chocolates is an artisan chocolate shop that focusses on organic and sugar-free chocolate that is handmade in South Africa. The shop being located approximately 500 km from Cape Town, Marionnettes chocolate is currently not marketed in any of the outlets where one can find Ezulwini or Sublime. Woolworths is a high-end grocery chain that targets the premium chocolate segment with its organic, fair-trade chocolate offerings.

All this competition does not seem to deter Nonts. In fact, she does not view other small companies as dangerous competitors: “I look at competition in a different way. I think it’s healthier to work together with small companies. Bigger companies are my real competition because they will swallow you.”

Table 4. Direct competitors of Ezulwini Chocolat by brands.

| Direct Competitors to Each Brand | | | |
|----------------------------------|---------------------------|-------------------------|---------------------------|
| Sublime | <i>Cadbury</i> | Symphony | Beacon SUPERFINE |
| | <i>Woolworths</i> | Mars Inc. | Jacquot |
| | <i>Nestle GOLD</i> | Lindt | |
| | <i>Kees Beyers</i> | Ferrero Rocher | |
| Ezulwini | <i>Chocolate by Tomes</i> | Huguenot Fine Chocolate | Von Geusau Chocolate |
| | <i>MYA II</i> | Marionnettes Chocolates | Chocolate Studio by Lindt |

Sources: *Cadbury, 2010; Tiger Brands 2010; Nestlé Inc. 2011.*

Table 5. Direct competitors in the boutique chocolate industry.

| | Huguenot | Marionnettes | MYA II | Tomes | Von Gesau |
|-----------------------------|--|--|---|-----------------------------------|---|
| Company Profile | South African premier BEE chocolate company | Artisan chocolate, aim to make chocolate from one region | Café & Chocolatier located in V&A Waterfront. Gourmet food and chocolates | Manufacture premium Africa origin | Handcrafted Belgian chocolate with innovative spices |
| Sourced from | Belgium | France and Switzerland | Belgium | African origin | Belgium and France |
| Specialized Products | Truffles, slabs | Organic and sugar-free bar ranges | Truffles | Truffles, slabs | Truffles, slabs |
| Positioning | South African premier BEE producer of hand-crafted Belgian chocolate | Artisan chocolate and handmade in South Africa | Sophistication and style—pure indulgence | “A Tradition of Excellence” | Finest chocolate in the luxury chocolate market in South Africa |
| Target Market | Corporate clients, weddings | Retailers and outlets | Tourists, celebrities, hotels | Weddings, hotels, wineries | Private, corporate, hotels, and wineries |
| Strategic Partners | Danver Windvogel and Denver Adonis | N/A | N/A | Backsberg Wine Estate | Waterford Winery |

Source: *Huguenot Fine Chocolates 2010; Chocolate by Tomes, 2011; Chocolates Marionnettes, 2011; Von Geusau Chocolates, 2011.*

INSIDE EZULWINI

Production

The production of truffles at Ezulwini Chocolat starts with the import of slabs of chocolate from Belgium and Switzerland, although eventually Nonts hopes to source all raw materials from Africa. At Ezulwini, truffles are made as orders come in, and the current output at the facility is 1 540 truffles per day. Full capacity, however, is 2 500 truffles per day. The production team occupies one room that serves as the manufacturing, packaging, and inventory area. There is a machine used for melting the chocolate slabs to prepare for the handmade phase of making truffle shells and fillings. The shelf life of truffles is 8 to 9 months, but the products are best consumed within 3 to 4 months.

Beyond the current offering of chocolate truffles, Nonts continues to explore new flavours. Due to limitations in production facilities, the products for Sublime and Ezulwini brands are identical at the moment, but Nonts intends to develop different products for the two brands and expand varieties to include chocolate slabs.

Box 1. Chocolate production and varieties

Chocolate production occurs in four steps. First, cocoa beans are cultivated and processed. Approximately 71% of the world's cocoa is produced in Africa, namely, the Ivory Coast, Ghana, Nigeria, and Cameroon. Most of the remainder is produced in Brazil, Ecuador, Dominican Republic, Malaysia, Colombia, and Mexico. The type of cocoa determines whether chocolate is premium or mass market. Ordinary cocoa, derived from the Forastero variety of cocoa tree, represents 95% of world production. Fine/aromatic cocoa derived from the Criollo and Trinitario varieties accounts for the remainder (ZChocolat 2010).

In the second step, the processed cocoa is shipped to producers who make couverture, or chocolate bricks. Thirdly, the couverture is sent to a chocolate manufacturer to be processed into chocolate varieties that consumers can purchase at retail outlets. The fourth step is distribution to external markets or retailers (ZChocolat 2010).

End users can buy mass-market, medium-quality, or premium-quality chocolate. Usual varieties of chocolate include milk, dark, and white chocolate. There are an increasing number of options available to consumers including sugar free, no artificial flavors, vitamin additives, etc. Chocolate is distributed in the form of chocolate-boxed assortments, tablets, countlines (filled chocolate), plain dark chocolate, and snack bars (Datamonitor, 2010).

Distribution

Currently, Sublime can be found in 15 Pick N Pay locations in the province of Western Cape. In 2011, Nonts plans to expand to an additional 47 locations nationally: 27 in Western Cape and 10 each in Gauteng and KwaZulu-Natal. Such distribution arrangement, however, is not under an exclusivity contract, which presents an opportunity to secure additional retailers for distribution.

Sublime truffles are transported using a non-refrigerated vehicle operated by a third-party distributor. The distributor is unreliable, which makes it difficult to guarantee timely delivery to Pick N Pay stores. Nonts lacks a merchandiser to facilitate the distribution process and to sustain products availability in stores and proper shelf display. Due to demands on her time, Nonts is unable to monitor as closely as she should her product displays at all Pick N Pay locations, which causes her to lose business due to a lack of inventory control in these locations. Nonts is actively seeking a new distributor who will manage distribution, merchandising, and promotion of her products. But questions remain as to whether this is too much outsourcing and how it will affect future sales, display, and brand equity.

In contrast, bigger brands such as Cadbury and Nestlé usually have their own distributors and merchandisers to stock their products and track retail displays regularly. Without a dedicated merchandiser for Sublime, competitors' merchandisers may sometimes take down or move Sublime's display items. This clearly jeopardises Sublime's success in the marketplace.

Ezulwini is currently available for special private orders and has a contract with Vineyard Hotel⁴, which is distributing Ezulwini chocolate to its patrons via pillow turndowns. Capitalising on this opportunity, Nonts plans to open a chocolate shop at the Vineyard Hotel that will enable her to sell directly to consumers. She envisions the Ezulwini outlet as a destination and experience where customers can taste, purchase, and even hand-make premium chocolate. Nonts hopes to secure a location in the hotel because this would provide direct access to the tourists market, establish brand awareness for Ezulwini, and reduce transportation and distribution costs.

Human resources

From the viewpoint of a small-business owner, labour procurement in South Africa has two key characteristics: 1) the unskilled labour market is often unreliable and inconsistent; 2) South Africa has strict labour laws dictating payment schedules for contracted workers and break times for

⁴ Vineyard Hotel & Spa is a five-star luxury hotel with a 200-year history. Located on the banks of Liesbeek River, the hotel is 10 minutes away from downtown Cape Town and the popular Victoria & Alfred Waterfront. Vineyard Hotel & Spa Conference Center is one of the finest venues in Cape Town for conferences, weddings, or special occasions.

all workers. As a result, Nonts has developed a rigorous hiring process. Applicants go through two rounds of interviews to ensure they are capable of performing the required duties. Once hired, employees undergo a two-day orientation that covers personal and product hygiene, product knowledge, equipment operation and cleaning, product presentation, customer care, and an introduction to the company's vision, mission, and general ethos.

All three present employees of the company are black women, one of whom is deaf. Nonts's decision to hire a disabled person was a conscious effort to build an inclusive workplace, but the decision has also meant extra training time. Communication remains a problem as the rest of the staff are not yet proficient in sign language. Sometimes the deaf employee is sensitive about what her co-workers may be saying about her. Despite these challenges, Nonts is committed to keeping the deaf employee, as she is a productive, quality employee. In fact, she is considering employing more people with disabilities in the future but she understands the need to put in place a system to train and facilitate the experience of such workers.

Currently, Nonts runs the entire business from production to administration with her three employees and an outsourced bookkeeper. Nonts is committed to creating an enjoyable workplace, developing programmes for employee development, and hiring disabled people. The question remains, however, whether Nonts is ready to take on the mission of becoming socially responsible when she is struggling to establish the company in a highly competitive market.

As owner and head chef, Nonts is in charge of business operations and making truffles. The assistant chef, Zuzeka, oversees the general production process and makes fillings for the eggshell truffles. The other two workers assist the chefs with making coatings and packing truffles into small boxes before finally putting them into proper packaging ready for delivery.

Another challenge the small company faces is quality employee turnover. In the past three years, five experienced workers have left the company for better job opportunities presented by bigger firms. Nonts also recruits interns from cooking schools and local universities, but she also had to fire one recently due to unreliable and inconsistent work performance. At the critical moment of strategic expansion of the business, Nonts realises the difficulties in both hiring and retaining qualified staff. One of the issues certainly is how to give employees incentives beyond monetary means.

As start-up entrepreneurs often do, Nonts has taken on virtually all the responsibilities of marketing, administration, and production. However, informally, she has received a lot of support and guidance from professionals and experts who facilitated and ensured her success in the initial stage of her business. At present, she attempts to absorb new talents and organize complete marketing and sale teams.

Marketing

In the highly competitive South African confectionery market replete with recognisable brand names of European heritage, it is difficult for a new local brand to break in and gain consumer recognition through repeated sales. The company therefore needs a well-thought-out marketing plan. As mentioned, at present Sublime accounts for 60% of sales, while Ezulwini makes up the rest, and Nonts would like to reverse this ratio, but there can be tension between marketing strategies that continue to drive current sales of Sublime in retail and ones that are more geared towards reversing the balance of sales between the two brands. To grow both brands, the company should strive to develop a set of marketing strategies to promote Ezulwini through exclusive offerings at outlets, while simultaneously continuing to strengthen the existing Sublime line through retail channels.

Sublime

Sublime targets the Living Standard Measures (LSM) 4-6⁵ segments and the various types of shoppers at grocery chains, such as gift buyers and spontaneous shoppers. Its positioning emphasises the handmade process with the finest fresh ingredients. Unfortunately, when Sublime first came to market, the packaging presented unforeseen problems and hurt the marketing effort. Namely, the original packaging was a red and brown box with a transparent plastic window through which customers could see some of the truffles inside. Although the packaging was attractive in principal, in practice coatings such as coconut flakes and powdered sugar smudged the inside of the clear window during transportation and handling, making it difficult to see the product. In addition, the boxes did not seal tightly and leaked some of the coatings, making the end product not highly presentable. To fix this problem, Nonts redesigned the packaging for Sublime and eliminated the window. Another advantage of the new design presented Nonts the opportunity to recreate the packaging in a way that it emphasises elegance and style.

The Sublime packaging contains an account of the origin of fine chocolates, but the design bears no visible indication of its African origin and does not offer any information on the company. This is in contrast to the packaging for Ezulwini, which in a pamphlet enclosed in gift boxes highlights Nonts's passion and aspiration.

Sublime currently does not use in-store promotion or other forms of advertising, mostly because of budget limitations. Nonts does recognise the importance of such promotion and hopes to host tastings at selected stores in the near future to increase awareness of her products. Hosting a sampling in a store, however, is not an easy process either as it requires trained staff with time and knowledge.

5 LSM is a widely used marketing research tool in South Africa developed by the South Africa Advertising Research Foundation. It divides the population into 10 groups, LSM 10 having the highest and LSM 1 the lowest incomes (Business Monitor International, 2010).

Table 6. Average household income in LSM categories, June 2010.

| | Average Household Income |
|--------|---------------------------------|
| LSM 1 | R1 496 |
| LSM 2 | R1 732 |
| LSM 3 | R2 052 |
| LSM 4 | R2 829 |
| LSM 5 | R3 832 |
| LSM 6 | R6 398 |
| LSM 7 | R10 066 |
| LSM 8 | R13 698 |
| LSM 9 | R18 414 |
| LSM 10 | R27 143 |

Source: SAARF, 2011.

In the crowded chocolate section in Pick N Pay stores, the shelves are filled with well-known brands that often emphasise Swiss or Belgian origins. The real challenge for Sublime is to gain a foothold in the marketplace by building a recognisable name against its well-established competitors.

Ezulwini

The brand positions itself as a premium handmade chocolate and also hopes to be known for its excellence in service. The story of Nonts as a young and passionate woman entrepreneur of African royal descent is also closely woven into the Ezulwini brand identity. Ezulwini chocolate is presented as “African Indulgence”, highlighting the origin of the brand. This unique story has captured some media attention and has helped Ezulwini gain clientele.

The targeted consumer segments for Ezulwini are LSM 7-10, and specifically elite chocolate fanatics, tourists, the hospitality industry, government, corporations, weddings, and events. Nonts currently receives orders from a few hotels and weddings, but Ezulwini has yet to reach broad consumer awareness.

Opening the Ezulwini outlet is one of Nonts’s stated goals. The outlet will not only provide a new distribution channel and production space, but more importantly, it will serve as a platform for more systematic marketing and promotion of the brand. Such outlet can help Ezulwini broaden its current client base to include tourists and the general public.

Website and web store

Nonts realizes the importance of having a polished online presence to continue promoting the young company and to attract new customers. The company is in the process of updating its current website⁶, which is limited to presenting the product offerings. The new website will present the story of Ezulwini and display the products, including a detailed introduction to the different ingredients, tastes, and packaging. The new website will also incorporate links to popular social media site, such as Facebook and Twitter as interactive features.

The new website is designed to promote the company overall and to promote the namesake brand as that is where Nonts's original vision lies. The Sublime range as a mass market brand is not mentioned or promoted on the website, which strives for a premium image. Beyond launching the revamped website, Nonts is also eager to quickly launch a web store to start selling her products online. While websites can be powerful tools to promote a business and increase sales, the question is whether Ezulwini is ready to make the significant leap it takes to run an internet store.

LOOKING AHEAD

As a small start-up, Ezulwini has benefited a great deal from its relationship with Pick N Pay. It has received generous support from the founders of Pick N Pay in the form of business mentoring, investment, loans, and free facilities. Although the company has two more years in the Fresh Food Academy incubation programme, now is a critical time for the company to become independent and sustain its growth in the highly competitive South African premium chocolate market.

With two brands of distinct positioning and distribution channels, the company has to make sure each brand is differentiated through marketing. In the meantime, Nonts is eager to pursue the launch of the Ezulwini outlet and web store in order to grow the core business of the envisioned premium handmade chocolate by Africans in Africa. Nonts knows clearly that passion alone cannot make a business, and careful planning must be paired with disciplined implementation. In the following year, how should she be prioritising her goals? Will she be able to implement her concurrent goals of expanding Sublime, opening an Ezulwini outlet, launching a new website and online store? Will realisation of those plans enable her to shift more of sales revenue from Sublime to Ezulwini? Or will they prove too much for this fledgling company?

6 <http://www.ezulwinichocolat.co.za/TEST2/about.html>

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Chapter 4

M'HUDI WINES

A SMALL BUSINESS WITH A BIG VISION

Edward Mabaya, Bahirah Adewunmi, Jeff Aziakou, Kristin O'Planick, Krisztina Tihanyi

“We are a small business with a big vision and a big heart.” – Malmsey Rangaka

INTRODUCTION

When Diale and Malmsey Rangaka were developing the name for their South African wine business in 2005, they thought about how their lives had paralleled that of the eponymous heroine in the novel *Mhudi*.¹ The story's heroine is forced to flee her home due to tribal wars in the early nineteenth century. Her journey takes her and her husband to a different part of the country, where they build relationships, grow their family, and embrace a new way of life.

Recognising their own personal journey in that of *Mhudi*, the Rangakas adopted the name M'hudi, which is also a derivation of the Setswana word for harvester, to represent their family's wine brand. Malmsey reflected on the origin of the name, noting, “We liked the story. It was a parallel to our life . . . and not only us. Many people did the same [moving from their villages in pursuit of new ventures].” The Rangakas left their home after political upheaval and made a new life for themselves as the first black and family-owned winery in the Stellenbosch wine-growing region of South Africa.

Since its establishment in 2006, the M'hudi wine brand has gained a small domestic and a somewhat larger international presence through major retailers, airlines, magazines, and entertainment companies. Currently carried in the United States and the United Kingdom, the Rangakas'

¹ Written by Sol Plaatje in the late 1910s, *Mhudi* was the first novel written in English by a black South African author.

business has managed to survive; in fact, revenues in 2008 were R590 351, a 61% increase from 2006. While awareness of the M'huDI brand and story is slowly growing, the company continues, however, to face significant challenges in the area of human resource management, production, and marketing. Some of these challenges are to be expected with a fledgling company, yet others mirror South Africa's post-Apartheid realities: the concurrent presence of new opportunities not available to black farmers barely two decades ago and the legacies of a racially divided past that crop up in unexpected places.

INDUSTRY OVERVIEW

A global perspective

The global wine market value grew by 2,6% in 2008 to \$222,6 billion. By 2013, it is expected to have a value of \$254,6 billion. The global market volume grew by 1,4% in 2008 to 19,4 billion litres and is expected to grow to 20,9 billion litres by 2013. Europe constitutes the largest wine market in the world generating 76,4% of the global revenues ("Global Wine Market", 2010).

Old World² producers suffered a decline in domestic demand in 2009 and are exporting to balance the deficit. Oversupply conditions characterised the global industry from 2004 through 2006. In 2008 and 2009, the industry had tighter supply conditions, but faced the challenge of a downturn in demand in a number of key markets due to the global recession. Significant export markets are expected to experience a downturn in discretionary spending as well as low consumer confidence. Nevertheless prices are expected to remain above 2004-2006 levels in most markets ("Global Wine Manufacturing", 2009).

Wine consumption is a key factor in market attractiveness. In 2008, the United Kingdom, United States, and Germany ranked respectively as the largest importers of wine (in value) in the world (Maramarco, 2010). European countries generally have high levels of consumption, even though some do not produce much wine. This is attributable to high levels of production in the European Union, the common market for wine, and the close geographic proximity of European countries ("Global Wine Manufacturing", 2009). In contrast to major European producers (France, Spain), South Africa and the United States, although major producers, have low per capita consumption rates (Table 1). That said, the United States has exhibited strong consumption growth for more than a decade which, if it continues, may make it the largest wine market by the end of 2010 ("Global Wine Manufacturing", 2009).

² New World wines are those from countries outside of traditional wine-producing European areas, which are referred to as Old World. Old World countries include Austria, France, Germany, Italy, Portugal, and Spain.

Table 1: Wine consumption per capita for selected countries, 2006.

| Country | Litres | Country | Litres |
|-------------|--------|--------------|--------|
| France | 53,88 | UK | 19,30 |
| Italy | 46,96 | Chile | 17,35 |
| Portugal | 45,26 | Canada | 12,69 |
| Denmark | 31,19 | USA | 9,00 |
| Australia | 27,70 | South Africa | 8,37 |
| Argentina | 27,50 | Japan | 1,96 |
| Germany | 24,08 | China | 1,21 |
| Netherlands | 21,22 | Nigeria | 0,05 |
| New Zealand | 19,63 | | |

Source: *The Wine Institute, 2010.*

The demographic composition of wine drinkers varies from nation to nation (“Global Wine Manufacturing”, 2009). Traditional European consumer countries tend to incorporate wine consumption into everyday life in a way that has yet to occur in non-traditional wine consumer countries. In newer wine consumption markets, notably the United Kingdom, United States, Australia, and some Northern European countries, wine (and wine marketing) is aimed at those aged 35-60 years, affluent, and with above-average education. Wine marketing has also generally been aimed at women, beer drinking being a male-dominated market. As the market in these countries has matured, producers have sought to expand their audience with lower prices and better wine consumer education, making the beverage appear less elitist. The noted health benefits of wine consumption have also been used to win converts (“Global Wine Manufacturing”, 2009).

Wineries are becoming more interested in focussing their marketing tactics on influencing wine purchase decisions through innovative direct marketing. Philip James, chief executive officer (CEO) of Snooth.com, a website which attracts 10 million users around the world each month, has recognised the Internet is an attractive medium to market a lifestyle directly to the consumer, because it allows consumers to “self select”, establish “permission”, and create “authenticity.” The Internet also facilitates direct communication between brand managers and consumers, as opposed to the traditional model where retailers or other distribution chain partners have handled the marketing. Examples of noted new marketing methods are Facebook group pages, Yelp restaurant and winery reviews, Snooth wine reviews and winery profiles, Twitter “water cooler” talk, and MySpace brand profiles (James, 2010). Iron Chef America, The Food Network, Hell’s Kitchen, and Snooth.com were noted as other sources of information about wine that were popular with American consumers. The growing popularity of the Internet notwithstanding, it is important to

note that many of the above websites—perhaps with the exception of Facebook and Twitter—are not widely known outside the United States, their country of origin.

The South African wine industry

The South African wine industry is considered a New World wine producer. It contributed an estimated R16,3 billion (approximately \$1,6 billion) to South Africa's total gross domestic product in 2003. The industry sustains about 257 000 jobs, wine tourism comprising roughly 59 000 of those (South African Wine, 2010). In 2008, 3 839 producers and 562 cellars in South Africa produced 763 million litres of wine (see Table 2 for more information). South Africa was the world's seventh largest wine producer in 2006 (SAWIS, 2009). Production is primarily white wine (59,4% versus 40,6% for reds), although the country tends to be known for its red wine ("Global Wine Manufacturing", 2009). Of the 570 wineries in South Africa, less than 2% are partially black-owned (English, 2008). Until the dismantling of Apartheid, South Africa's wine industry was controlled by a cooperative called Koöperatieve Wijnbouwers Vereniging van Zuid-Afrika Bpkt, which had a market monopoly under which there was little growth or development.

South Africa produces 3,7% of the world's wines and exports 54% of its wine production (411,8 million litres in 2008) with a value of R6,27 billion per annum. South Africa's exports grew by 18% in the year ending May 31, 2009 (SAWIS, 2009). Sales to the United Kingdom, South Africa's main wine export market, increased by 24% in volume, and 23% in value in 2009 (southafrica.info, 2010). The United Kingdom (27%), Germany (17%), and the Netherlands (7%) are the major export destinations for South African wines (Maramarco, 2010).

Table 2: The South African wine industry.

| Year | 1991 | 2002 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Growth in wineries | | | | | | | |
| Number of primary wine producers | 4786 | 4346 | 4360 | 4183 | 3999 | 3839 | 3667 |
| Number of wine cellars which crush grapes | 212 | 427 | 581 | 572 | 560 | 585 | 604 |
| Number of producer cellars | 70 | 66 | 65 | 65 | 59 | 58 | 57 |
| Number of producing wholesalers | 6 | 11 | 21 | 17 | 20 | 23 | 23 |
| Volume of wine produced (million gross litres) | | | | | | | |
| Wine | | | 628,5 | 709,7 | 730,4 | 763,3 | 805,1 |
| Rebate | | | 82,9 | 82,1 | 101,5 | 86,6 | 71,4 |
| Juice | | | 64,6 | 73,2 | 65,2 | 72,5 | 34,7 |
| Distilling wine | | | 129,2 | 147,9 | 146,4 | 166,5 | 122,1 |

Source: Wines of South Africa, 2010.

As with many agricultural enterprises, the South African wine industry has thin margins for the producer, requiring economies of scale and large volume sales to gain profit (see Figure 1 for a breakdown of wine revenues across the value chain). In the domestic market the producer must cover grape costs and derive profit from an average of R3,66 per bottle of red wine and R0,85 per bottle of white (van Rooyen, 2008). Due to the high fixed costs and economies of scale needed to make wine processing profitable, many grape growers do not own processing facilities. Exacerbating the domestic squeeze, the export market has recently demonstrated heavy discounting due to demand for more bulk than bottled wines in foreign markets, particularly by retailers who do private label bottling (Mabiletsa, 2008). (The Rangakas resisted discounting their wines until recently due to the recession conditions and strong Rand. They do not supply bulk retail, exporting only 750 ml bottles.)

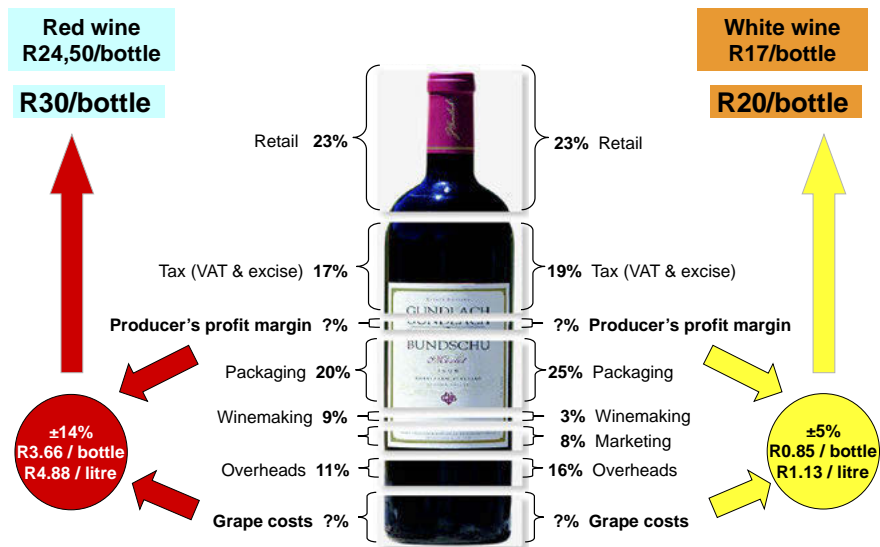


Figure 1. South African wine revenue breakdown.

Source: van Rooyen, 2008.

The industry is highly structured, saturated, and very competitive. To gain substantive access to the domestic market, a winery must cooperate with either the main distributors or the large retail chains. Distributors prefer to carry products with established and significant demand. Large retail chains either want bulk product to put under a private label or they ask for substantial slotting fees from the winery to buy shelf space. In both cases, these largest channels want wines that have pre-existing demand. Smaller wineries can try to establish niche status through smaller independent retailers or through onsite sales to tourists at the vineyards. Restaurants tend to carry the well-known brands. Consumers purchase more of their wine at supermarkets and other large retailers (Mabiletsa, 2008).

Two key national regulations structure the industry—the Wine of Origin scheme and the wine certification requirement. The Wine of Origin scheme was instituted in 1973 to help legally protect the uniqueness of specific wine-growing areas in the country. Beyond ensuring that the grapes are from a specific geography, the scheme also includes other principles of business operations and compliance with European Union regulations, which is a major export market (Wines of South Africa, 2010). Consumers can have confidence that a bottle stating “Wine of Origin Stellenbosch”, such as M’hudi wine, contains wine made only from grapes grown in Stellenbosch. Beyond the Wine of Origin requirements, all wine intended for export or claiming origin (e.g. Stellenbosch), cultivar (e.g. Pinotage), or vintage (e.g. 2008) must be certified by the Wine and Spirits Board. If approved, the bottle will carry a certification seal, denoting to the consumer that the wine’s claims have been verified and that the product is good quality. The certification establishes traceability to the original grape producer, and there are control points throughout the process. Wines are analysed both scientifically and by an official tasting board before the certification is finalised (Wines of South Africa, 2010). These certification processes require a high level of coordination between grape producers and wine processors.

Several associations exist that broadly support South African wines both domestically and internationally. The most significant is Wines of South Africa (WOSA), a non-profit industry organisation that promotes South African wines worldwide to build the industry’s brand. It also represents exporters in high-level dialogue and seeks to build domestic capacity within the industry. WOSA is funded by the statutory levies that wine exporters must pay. Diale is currently a WOSA board member, representing black-owned brands.

Other organisations focus on specific regions, varieties of wine, and environmental or social issues, including supporting black wineries. For example, the African Vintners Alliance Cooperative was created to bring together eight black women CEOs in the South African wine industry. (Malmsey is the current chairperson of this organisation.) The cooperative is still honing its purpose and direction but has attracted the attention of the media. One of the legal constraints of the entity is that the CEOs are members as individuals, not as company representatives, making collective action difficult.

COMPANY PROFILE: THE M’HUDI STORY

Finding the farm—the early days

M’hudi is a family-owned and -run vineyard located in the Bottelary Hills region of Stellenbosch. The business was founded by Malmsey and her husband Diale “Oupa” Rangaka. The Rangakas had no background in wine farming; Malmsey had worked for the government as a director of employee assistance programmes, while Diale had taught at a university. During Apartheid,

the family lived in the “homeland” known as Bophuthatswana. In 1994, Bophuthatswana was dissolved along with the rest of the “homelands”. In the midst of the political and social changes, the area became unstable and the family sought to move to another part of the country. Initially Diale took a job in Johannesburg, but the long commute was not conducive to the type of family life the Rangakas sought for their three children.

Around this time Malmsey and Diale learnt of a government incentive to encourage black landownership. Diale always had a passion for agriculture, though no practical experience. Malmsey, too, shared his vision: “I have always wanted to be able to produce something and put it on the table.” They started looking for a farm. Considering their lack of agricultural expertise, they sought an already functioning farm with workers and equipment in place. After considering 22 properties, they decided on a wine farm in the Western Cape. With government assistance they were approved for a R3 million loan to purchase what became M’hudi, the first black family-owned winery in South Africa. They purchased the farm in 2003, but during the first year Diale continued to work in Johannesburg, while Malmsey and son Tséliso moved to Stellenbosch to test the viability of the family’s new farming business (see Box 1 for profiles of the Rangaka family members and their roles in the company).

A visit to the M’hudi Wine Estate reveals a peaceful setting with uninterrupted views of the Simonsberg Mountains to the east and Table Mountain to the west. The entrance is a few kilometres from the main road, and the farm lane is a rutted dirt track that leads to the main house. The facilities on the farm are basic but adequate. Other vineyards surround the farm on all sides and form part of the Stellenbosch Wine Route. A total of 38 hectares, the land is divided as follows: 18 hectares of vineyards planted with Chenin Blanc, Sauvignon Blanc, and Pinotage varieties, a 10-hectare guava orchard, and 10 hectares of fallow land. The vineyards contain dryland bush vines, a more natural farming method and more cost-effective to establish than the typical irrigated, trellised vines.

To supplement their income from the wine, the Rangakas have experimented with selling the guava fruit grown on the farm. They have sold fruit fresh, for either canning or juice. Orchard maintenance was a substantial burden, however, even with the already existing sprinkling pipe irrigation system. The margins were thin at best and the markets volatile. In addition, the Rangakas faced labour shortages (see below for more detail). Eventually they decided to lease the orchard to a pulping firm. At the time of writing, they were one year into a five-year lease, under which the pulper was responsible for all orchard maintenance and management. The lease did not provide for any restrictions on how the orchard should be managed, and the pulper was using conventional agricultural techniques including synthetic fertilisers and pesticides. Although less lucrative, this lease arrangement has freed the Rangakas from the burden of managing the orchard and has provided a steady, if modest, stream of income.

Box 1. Rangaka family members and their roles in the company

Malmsey Rangaka, CEO: Malmsey is the matriarch and managing director of M'hudi. Her special skills are in strategic planning, organising, finance, and administration. Malmsey has also developed an acute eye for detail that pairs well with her business sense. She has a varied educational background including general and strategic management courses. Her professional experience has been in health, education, clinical psychology, and public service management. Since arriving in Stellenbosch in 2003, she has also completed a Hydroponics Production and Management System Program, the Front of House Certificate of the Cape Wine Academy, an Export Development Course, and Bookkeeping and Advanced Pastel Courses. Malmsey has been a mentee in the Cape Town Tourism Mentorship program. She was a member of the research and development subcommittee of the South African Black Vintners Alliance and is currently Chairperson of the African Vintners Alliance Cooperative.

Diale Rangaka, viticulturist/export marketer: Before joining Malmsey on the farm, Diale, the head of the family, was a professor of language, higher education administrator, and public relations practitioner at various universities. He had a role in the governance of various national bodies, including the National English Literary Museum, Kopanong Hospital, and the Environment Health Officers profession. Until recently Diale was the secretary of the South African Black Vintners Alliance and now sits on the board of Wines of South Africa (WOSA). Diale has completed courses such as labor and public relations and general management. His many years of experience as general manger of a university campus contribute to M'hudi's management.

Tsêliso Rangaka, brand manager: Tsêliso studied journalism and advertising and has put those skills to use promoting M'hudi. He joined Malmsey to start the farm venture and has been heavily involved since 2003. He has written for several wine magazines (wine.co.za; *Winescapes*) and has contributed to John Platter's *South African Wines* and to *Wine*. He represents the M'hudi brand in Gauteng and is slated to take over the business when Diale and Malmsey eventually retire.

Lebogang Rangaka, local marketer: Lebogang, the only daughter, worked in the field of human resources in various senior positions at several companies before joining the family business. She joined M'hudi to establish the wines in the local market and has been trained in wine retail by professionals from the UK retail giant Marks & Spencer.

Senyane Rangaka, marketing manager: Senyane is a filmmaker by profession and was part of the team that produced the short film "Ongeriewe", which achieved top honors at the prestigious Cannes Film Festival. Senyane also plays a key role in the family business as he is responsible for all marketing materials, product development, and creation of a strong online presence for the company. He also builds brand equity through partnerships, promotions, and events.

Learning viticulture: the role of mentors

The Rangakas were new to viticulture, but they knew that they quickly needed to acquire the skills needed to run the farm. Diale began by trying to learn about the trade from textbooks, but he soon realised that textbook learning had its limits. Luckily for the Rangakas, Malmsey and Diale found several neighbours who were willing to help and who quickly became their mentors and friends.

One such family were the Griers, owners of the well-known Villiera winery located next door. Simon and Jeff Grier originally came to the farm during the first harvest season to purchase M'hu-di's Sauvignon Blanc grapes. They realised that Malmsey and Tséliso had little experience in the wine industry, and Simon offered to be a mentor to the family. This mentoring relationship, jokingly known as a game of "Simon says", continued until the Rangakas became adept at managing the production cycle. Soon thereafter in 2005, the two wineries decided to strengthen their partnership by signing an agreement that allows M'hu-di access to Villiera's machines to make and sell wine under the M'hu-di brand name.

Another important mentor has been the Schonenberg family, whose members extended to the Rangakas use of a small wine processing plant on their property free of charge. The Rangakas have used this opportunity to learn about wine processing and blending and hope one day to start their own small-scale processing.

In addition, the Schonenbergs allow one of their skilled workers to perform tractor work at M'hu-di. The Schonenbergs also have started teaching the Rangakas about organic production techniques as M'hu-di transitions to an organic winery. The Rangakas are interested in organic production both to be environmentally friendly and to save on input expenses. They have not yet determined if they will seek organic certification for their grape production, in part due to concerns about costs and the impact of the guava orchard inputs, which do not meet organic standards.

In addition to learning on their own and from their neighbours, Malmsey and Diale have also taken various courses on different aspects of the wine business over the years to complement and deepen their practical experience.

Human resource management: challenges of finding and retaining a workforce

As pointed out earlier, the Rangakas purposefully looked for a farm with an existing group of employees. Not having run a farm before, they were hoping to rely on the expertise of their workers in the initial period. Their relationship with their new employees got off to a somewhat rocky start, however: the workers, most of whom were "Coloured", had not been informed of the change in ownership and were surprised to discover that the new owners were not only black but, at least one

of them, a woman. By their own admission, the workers faced some ridicule in their community because they were working for a black woman. Language also posed a problem, as the Rangakas spoke very little Afrikaans, the mother-tongue of most of their workers. Malmsey and Diale were eager to build a good relationship with their employees: they offered competitive salaries and made efforts to learn Afrikaans. Over time, however, all permanent workers left the farm, leaving the Rangakas searching for new employees.

M'huri ideally needs two full-time skilled workers³ for the vineyard and at least two for the guava orchard, but the farm continues to lack the permanent full-time, skilled labour necessary to ensure peak production capacity. When the Rangakas have been able to hire permanent employees, they generally have had to train them or bring in outside trainers. For some of the more skilled tasks, like operating the tractor, they have not been able to find a suitable worker. At times they have subcontracted the more technical tasks such as spraying⁴, but it is often difficult to line up the service provider at the right time because all surrounding farms need the seasonal services simultaneously.

During harvest and pruning time, the farm needs additional casual labour, typically 30-40 unskilled workers for harvesting and 10 for pruning. During these peak times, the worker availability situation improves. There is a black settlement in nearby Kraaifontein with many unskilled and unemployed workers looking for jobs. Even these workers, however, prefer to work for white-owned farms due to their perception that white owners are more reliable when it comes to payment. Due to the high number of job-seekers, however, M'huri has been able each year to find the casual labourers needed, and although some years the harvest has been delayed, this has not yet caused a bad-quality crop.

An additional factor making M'huri less competitive than most other wine farms in the area is the inability to offer suitable worker housing. Although the farm came with buildings used for worker housing, the Rangakas decided right away that those were substandard and would need to be upgraded. To date they have not been able to raise the funds necessary to improve the units, which presents an obstacle to hiring permanent workers.

Finally, with both past and present employees the Rangakas have experienced one of the key challenges facing all wine farms in the regions—that of employee alcohol abuse. The alcoholism among workers stems from the Dop System, “whereby workers were paid a component of their wages in the form of low-grade wine [. . .], resulting in serious social problems in worker

3 Skilled labour means individuals possessing agricultural production expertise including knowledge of crop production techniques and farm machinery operation. Unskilled or casual labour means individuals with no agricultural knowledge who can be trained quickly for relatively simple tasks such as pruning or picking grapes.

4 While the Rangakas have recently stopped using pesticides, spraying was a task that they previously outsourced.

communities, including alcoholism, domestic violence and foetal alcohol syndrome” (McEwan and Bek, 2006). Although the Dop System has been outlawed, alcohol abuse remains one of the major challenges facing the health services in the Western Cape and is particularly dangerous for the workers operating machinery (London, 1999). Through a number of instances on their farm, the Rangakas learned firsthand that alcohol dependence continues to play a major role among agricultural workers in the area and that this would continue to pose significant human resource challenges for M’hudi.

M’hudi’s marketing strategy: a family with a story to tell

M’hudi’s foremost goal is to produce a good-quality wine, and, as we have seen, the family has made great strides to learn about wine-making and to gain access to top-quality production facilities through their links with other wineries. Once they had a good product, it was time to create an attractive image through packaging. Working with their children, particularly their son Tséliso, who had studied advertising, they carefully devised their name and elegant logo (Figure 2), which is an abstract silhouette of—one presumes—M’hudi, the heroine of Plaatzje’s novel. Their logo is modern and African, fitting for the image the company seeks to create for itself.



Figure 2. M’hudi’s logo and sample products.

Photo: Aziakou.

The company’s marketing strategy aims to capitalise on two stories: first, they seek to emphasise that they are a close-knit and fun-loving family, who like to entertain. The idea is to give consumers the feeling that at M’hudi, each customer is a guest, or better, a member, of the family. A wine tasting on the M’hudi wine farm will certainly convey this feeling, as Malmsey and Diale are usually personally on hand to welcome and serve visitors. For those unable to visit in person, they hope to convey the image of their family through their marketing materials with the hope that consumers associate their product with the ideas of family and fun. The strategy of building

a brand around one's family is consistent with that of other smaller, family-owned and -operated businesses. Other local wineries, such as Paul Cluver Wines or Meerlust, all emphasise the close-knit ties between business and family.

Often the emphasis on family extends to workers as well, and M'hudi is no exception. Although, as we have seen, they have struggled to find and retain a loyal workforce, Malmsey and Diale are committed to providing a safe and comfortable work environment, including housing for workers, and to treating workers with dignity.

When it comes to building personal relationships, the foundation of such a marketing approach, M'hudi has some significant strengths. Diale is a natural storyteller full of humour, and Malmsey, while softer-spoken, is equally compelling. Their ability to connect with people and build relationships is remarkable and has taken them relatively far since 2006. Their story—and thus M'hudi—has been profiled in local and international media outlets such as www.wine.co.za, the Los Angeles Times, the Daily Telegraph, and Voice of America, among others. They were even filmed for “Wine”, a production by Oxford Film and Television, which aired on BBC4. M'hudi has an attractive if basic website (www.mhudi.com) that can be expanded as needed. They are also exploring the use of social media such as Facebook and YouTube. In 2010 M'hudi received the Emerging Tourism Entrepreneur of the Year award (www.southafrica.net/).

Besides trying “new age” marketing channels, the family also uses more-traditional marketing channels such as international exhibitions and trade shows. They make an annual marketing trip to the United States and visit other countries where they see business opportunities. Two of their children live in Johannesburg, the largest South African market for wine, and work on local distribution and marketing.

The second leg of their marketing strategy pertains to their story as an emerging black enterprise in post-Apartheid South Africa. This story is about a family coming out of adversity and taking advantage of opportunities not available to them before 1994. This narrative sets M'hudi apart from virtually all of the other South African wineries, which have been owned by white farmers and families for decades, if not centuries. As we will see, these two stories resonate differently with different customer segments.

A third leg of their marketing strategy is still under development: as mentioned above, M'hudi is aspiring to become an organic winery, and plans are underway to change cultivation and production techniques in this direction. Once these changes are made, the marketing strategy can, and should, incorporate messages of sustainability, environmental stewardship, and such. This strategy will be in line with the relatively small size of the estate and its limited production capacity. Box 2 explores some of the issues surrounding organic wines and wine grapes.

Box 2: Organic wines and wine grapes

A growing trend among wineries is to label wines “organic” or “made with organically grown grapes”. Both are made with grapes grown without synthetic fertilisers, pesticides, herbicides, or fungicides for a period of at least three years with third-party inspection approved by the US Tax and Trade Bureau and FDA’s National Organic Program. The key difference is that wines labeled “organic” do not have added sulfites to prolong shelf life and must have laboratory certification that the wine contains no more than 10 parts per million of sulfites (Wine Institute). While these definitions are distinct in the United States, the regulations in Europe are vague and lead to consumer confusion around what organic wine means.

The purchasing power of the US personal health segment (which includes natural organic products) represents \$118 billion (LOHAS, 2007). Consumers consider taste, value, pedigree, and familiarity, respectively, in purchasing wine. Environmental responsibility plays a role in purchase decisions, but less so in this case (Charles, 2010). Top trends in beverages as related to sustainability are: alternative packaging as the new norm, consumption of local wines and seasonal ingredients in cocktails, and biodynamic and fair trade production. While there are criticisms that the US wine industry and consumers are well behind their European counterparts in developing the organic wine industry, current trends indicate that the US organic wine market is growing.

According to a 2007 survey, 77% of the respondents “think it’s important to buy environmentally friendly products,” and 75% are “nearly four times as likely to pay a 10% premium for sustainable products” and think these purchases have an impact on society (Charles, 2010). Other research from the Natural Marketing Institute says that just over “70% of consumers indicate that knowing a company is mindful of their impact on the environment and society makes them more likely to buy those products or services” (Charles, 2010).

FROM LAUNCH UNTIL NOW:**THE MARKET’S RECEPTION FOR M’HUDI WINES**

M’hudi wine first hit the market in 2005. The business produced 1 000 cases (with 12 bottles per case) of each of the three varieties that year, which the Rangakas planned to sell on the domestic market. Sales were slow, however, and they found the local market to be difficult to penetrate due to a variety of reasons, explained below. Looking for alternative markets, the company discovered that there was strong government support for exports, particularly for black-owned enterprises, so M’hudi reoriented a large part of its marketing efforts towards exports. Thus far, it has made successful inroads on the British and American markets (see below for detailed descriptions about M’hudi’s domestic and international marketing and sales).

More recently in 2009, sales, in particular exports, declined due to the global recession and the strength of the Rand. M'hudi typically sells 50-60% of its inventory, but in 2009 the percentage was lower. The company pays Villiera by the bottle for production costs, which is approximately 60% of the per bottle revenue. The retained revenue is used to service the outstanding R2 million debt from the purchase of the farm, leaving little excess for capital expenditure at the moment.

Despite a slow 2009, 2010 saw an expansion of the M'hudi product line. Purchasing grapes from other vineyards, the Rangakas have expanded their product line to eight varieties (see Table 3 for M'hudi's complete tasting list with descriptions of each wine). The biggest sellers are their Pinotage, Merlot, and Sauvignon Blanc. The wines have good ratings and have won awards (Table 4). Current production is 7 200 cases a year and M'hudi still has room for growth since it can buy the balance (2 800 cases) of Villiera's excess processing capacity of 10 000 cases per year.

Table 3: The M'hudi product range, including prices.

| Varietal Wines | Description | Price per 750 ml Bottle (Rand) | Price per Case (Rand) |
|-----------------------------|---|-----------------------------------|--------------------------|
| <i>Sauvignon Blanc 2009</i> | Classic cool climate Sauvignon Blanc | 46,50 | 558 |
| <i>Merlot 2006</i> | Barrel matured dry red wine | 50,50 | 606 |
| <i>Pinotage 2007</i> | Barrel matured red wine | 46,50 | 558 |
| <i>Rea 2009</i> | Dry white wine (Semillon) | 30,50 | 366 |
| <i>Kwena 2009</i> | Well-balanced blend of Pinotage, Shiraz, Merlot | 42,50 | 510 |
| <i>Thanya 2009</i> | A refreshing, off-dry Pinotage Rose | 32,50 | 390 |
| <i>Rati 2009</i> | Delicious, semi-sweet Gewürztraminer | 32,50 | 390 |
| <i>Palesa Vin-Sec 2009</i> | An aromatic Sauvignon Blanc sparkling wine | 39,50 | 474 |

Table 4: M'hudi awards and recognition.

| Wine | Award |
|------------------------|---|
| <i>Pinotage</i> | International Wine Challenge 2008, Bronze medal U.S. Professional Wine Buyers Competition 2006, Bronze medal |
| <i>Sauvignon Blanc</i> | Wine Spectator rating of 89 out of 100 International Wine Challenge 2007, Silver medal Decanter Magazine World Wine Award 2007, Bronze medal Swiss International Airlines Wine Awards 2007, Bronze medal |

In short, despite the challenges—many of which are typical growing pains of a new business—since its launch, M’hudi has grown considerably and, judging from the accolades the wines have garnered, succeeded in producing good-quality wines. Identifying and keeping a consistent target consumer segment has, however, been a challenge for M’hudi. Next we will take a look at the company’s forays into the domestic and foreign markets and the different lessons learnt from each venture.

A challenging local market

M’hudi’s initial strategy was to divide its sales 70/30% between domestic and export sales. M’hudi wines, however, have not received the kind of favourable reception on the local market that the Rangakas had hoped for. Several reasons account for this including the saturation of the domestic market, the ineffectiveness of the marketing message, and the challenge of finding a distributor.

Although relatively small, the South African domestic wine market is highly saturated. (The Stellenbosch region is home to over 300 vineyards.) Most existing companies have been in business for a long time, and customers have significant brand loyalty. Wooing them away from their existing favourites is not easy, especially in the wine market, where newness is not necessarily an asset but rather a sign of lack of experience and history. Related to this point is that most wine consumers in South Africa today are white (Mabiletsa, 2008), and most have already formed tastes and preferences. There is a growing black middle class, but surveys have shown that most people in this segment prefer drinking sweet wines and liqueurs, as opposed to the more traditional varietals produced by M’hudi.

In addition, the “post-Apartheid, black family rising out of adversity” story has not resonated well locally. Perhaps the Rangakas’ story is not seen as such a novelty locally. Or perhaps the reason is linked to the fact that the emerging black middle class, whose members are most likely to identify with the M’hudi story on an emotional level, has not (yet) caught on to wine drinking. Whatever the reason, it is clear that, at least for the time being, a different marketing message may work better in the domestic market.

Finding a local distributor has also been a challenge. With so many suppliers on the market, access to distributors remains limited, and M’hudi is having a difficult time establishing a retail presence. Often the obstacle is that local distributors are looking for larger sales volumes than M’hudi can currently supply. The family also began negotiations directly with local retailers Checkers and Woolworths but has yet to reach an attractive agreement with either. With supermarkets, high slotting fees have been the main obstacle, and stores sometimes want to buy in bulk to bottle and sell under their private label. This can obviously threaten the company brand, and deciding whether to go this route is a consequential decision for the business M’hudi is not prepared to take

at this time. Still, M'huri needs to pursue this distribution channel as recent research has shown that consumers tend to make most of their wine purchases at supermarkets (Mabiletsa, 2008).

At present, with local distribution remaining limited, M'huri wine is sold through a few independent retailers and restaurants. Frequently this has been the result of requests by foreign visitors who had purchased M'huri wine in their home countries and looked for it while on holiday in South Africa. This points to a more successful export marketing effort, which we will examine next.

Establishing an international presence

When looking for export markets, Malmsey and Diale identified the UK and US markets as having a socially conscious consumer base and a strong black middle class. Given these two factors, they felt that the M'huri brand was in good position to create a niche market for itself. M'huri quickly made international marketing efforts a priority: Malmsey and Diale travelled to Europe and the United States regularly to promote their product, attending international wine exhibitions and conferences. Their efforts paid off relatively quickly, as already in 2006 M'huri acquired its first major international client, when British retailer Marks & Spencer, seeking to showcase a selection of black economic empowerment (BEE) South African wines, decided to carry the M'huri label. Marks & Spencer opted to sell just two of M'huri's top wines, Merlot and Sauvignon Blanc, and insisted on exclusive UK distribution rights. In exchange, they assisted M'huri with administrative matters, worker health and safety regulations, and most importantly, Wine Industry Ethical Trade Association (WIETA) accreditation⁵. The WIETA certification cleared M'huri for export into the European Union, clearly an important steppingstone for the company. Marks & Spencer's business soon accounted for nearly 50% of M'huri's exports. Importantly, with Marks & Spencer M'huri was able to retain its label, providing the company with strong brand visibility in 36 stores throughout the United Kingdom.

Also in 2006, M'huri developed a partnership with Heritage Link Brands, a United States-based importer and distributor of African wines. The two companies met at the Soweto Wine Festival. Heritage Link Brands negotiated a right of first refusal, five-year, renewable contract with M'huri and is currently M'huri's only distributor in the United States. It selected M'huri as one of its first four brands to bring to the US market. Heritage Link Brands selects products that cater to three types of American customers: the conscientious consumer, seeking to make responsible purchases that support environmental and social causes; the African-American consumer, who draws a parallel between the struggle for African economic development and the Civil Rights movement; and the so-called "Millennial" consumer, young, usually well-

⁵ WIETA strives to improve working conditions for agricultural employees through its code of good practice. Companies with accreditation are subject to regular audits of their employment practices (WIETA, 2010).

educated wine consumers, who often drink wine on social occasions with friends and family. Heritage Link Brands sells M’hudi wine via a network of independent wine distributors with retail presence in 42 US states. The success of its sales model can in large part be attributed to various corporate volume agreements with licensed retailers. M’hudi wine has also been carried, in small quantities, by several significant clients such as Whole Foods, Sam’s Club, Disney’s Epcot Center (all three in the United States), the Mandela Rhodes Hotel, and several airlines including British Airlines, KLM, South African Airlines, and Swiss Air.

Clearly, all of M’hudi’s marketing narratives (family focus, overcoming adversity, and—eventually—environmental friendliness) have a high potential to resonate in the UK and in particular the US markets. These markets are also large, providing a big customer base. However, they are targeted by winemakers from all over the world, making them very competitive. Still, a black-owned South African winery like M’hudi is likely to stand out as unique even in such competition.

LOOKING AHEAD: OPPORTUNITIES FOR GROWTH IN SOUTH AFRICA

At present the company is considering several strategies to support its growth, in the areas of both human resources and skill building and marketing.

Strengthening human resources through university partnerships

Malmsey and Diale are working to build partnerships with neighbouring universities to develop an internship programme. They already have experience working with the Cape University of Technology and are considering other institutions such as Stellenbosch University and the University of Cape Town. Through these partnerships, the Rangakas would benefit from inexpensive yet valuable assistance across a variety of business functions (sales, finance, operations, etc.), while providing students with hands-on business experience. As a secondary benefit, the relationships with universities could also increase the brand’s visibility among a young demographic of potential consumers and promote viticulture among black students.

Taking more advantage of black economic empowerment

Under the Broad-Based Black Economic Empowerment Act, a BEE Scorecard system was put in place to measure the BEE compliance of companies. The Scorecard contains seven elements, and each is given a different weight. Preferential procurement (purchasing products from black-owned or BEE-compliant enterprises) is weighted at 20% weighting (BEE Scorecard, 2010). The Rangakas are

planning to leverage their black-owned status with government agencies and companies that need to meet BEE Scorecard benchmarks to gain access to new clients with significant purchasing power.

Direct marketing—a domestic marketing opportunity

Recognising that opportunities in the domestic market are limited, the Rangakas have been considering more creative approaches to promoting their product and generating demand for the M'huri brand. Among other plans, the family is considering the development of a direct sales model. Drawing inspiration from the Tupperware direct sales model, the model requires developing a sales force to host wine-centric events in customers' homes. This grassroots programme would be heavily reliant on referrals, but could provide a low-cost and effective sales option. It also would provide a relaxed setting for black consumers to learn about wines, develop a palate, and build brand affinity.

LOOKING AHEAD:

OPPORTUNITIES FOR GROWTH IN INTERNATIONAL MARKETS

Nigeria: gateway to West Africa

The Rangakas have identified Nigeria as perhaps the most attractive market on the continent. Nigeria is the most populous African country, and while half of its population is Muslim, the remaining 75 million Nigerians make it a large target market. Although per capita wine consumption is still only .05 litres per year (2006), it has been growing. Further, the Rangakas believe that establishing a strong presence in Nigeria would create a gateway into neighbouring and nearby markets such as Cameroon and Ghana. The family has already been approached by Nigerian importers who want to carry the M'huri brand, but they turned down three potential distributors because they did not find them reliable enough. At the time of writing, the Rangakas were in talks with a fourth distributor.

Seeking breadth in Europe

While the United Kingdom's demand for their product is steady, it is relatively low, and the Rangakas are turning their sights towards other European countries. They have already made small forays into the Dutch, Italian, and Swiss markets, with sales of a few cases, but no repeat orders materialised. They are now pursuing fresh opportunities in Germany and the Netherlands, both of which are significant import markets for South African wine. The Netherlands has historical links to South Africa, and German consumers are particularly interested in wines with strong social and environmental consciousness.

Expanding M'hudi's US market

Although Heritage Link Brands provides them with a diverse distribution network, the Rangakas still feel that the United States remains a partially untapped opportunity for the company. Reaching more of the US market, however, is not easy. The US wine industry is comprised of approximately 1 000 companies, including a few major players such as Constellation Brands, E&J Gallo, and The Wine Group (Hoovers). The industry is highly concentrated, with the largest 50 companies generating more than 80% of the revenue. Demand for wine in the US is driven by restaurant and hotel industries, the level of business entertainment spending, and consumer income—all of which were hurt in the global recession (Hoover's, 2010).

Though M'hudi's sales in the United States grew significantly in 2008, the 2009 economic recession had a major effect on the brand's performance in the United States. According to Selena Cuffe, CEO of Heritage Link Brands, a major disadvantage of the M'hudi brand has been its non-competitive pricing. With the retail price ranging from \$16 to \$18 per bottle, M'hudi's Sauvignon Blanc and Pinotage varietals are having trouble competing with the \$10 or cheaper bottles that are clearing from retailers' shelves. The Rangakas have debated lowering their price but are concerned that reducing their retail price may dilute the long-term value of M'hudi's brand equity. If they reduce their price point to that of a lower segment now to gain popularity, the prospect of moving up-market later is greatly diminished.

In addition, Heritage Link Brands only imports M'hudi Pinotage and Sauvignon Blanc. Cuffe explains that M'hudi's other products do not perform well enough in the company's consumer focus groups, which are held annually in seven major US cities and include a packaging test and blind taste test. Recognising this reality, the Rangakas have been visiting more US wine exhibitions to create more demand for their products. The Rangakas therefore focus on driving new demand for their products by increasing the number of their US wine exhibition appointments.

Thus, while the United States remains a significant market for M'hudi, it presents a variety of challenges and factors that the Rangakas need to consider and sort through when developing a coherent and longer-term marketing strategy.

The enticement of Asia

Finally, Diale and Malmsey are also considering the growing Asian wine market. China, in particular, with its enormous population, growing middle class, and affinity for wine, presents an attractive opportunity. It is already one of the world's largest wine importers. Since 2003, the imported wine market has had a 37% average annual growth rate (Sun, 2009). However, the Rangakas have concerns about the viability of a black-owned winery and brand story. M'hudi's

current premium price point could also be problematic. In 2008, 86% of the wine sold in China was priced less than \$7 a bottle (Sun, 2009). Moreover, the Rangakas want to be able to protect the value of their brand and have reservations due to China's notorious problems with intellectual property rights and counterfeiting. Several of their acquaintances in the wine industry have seen their brands pirated.

CONCLUSION: THE M'HUDI STORY CONTINUES

After more than 30 years together, building their family and the business, the Rangakas continue to strive for more success. They want M'hudi to grow into a sustainable and profitable enterprise that can support their family. Their charismatic personalities and ability to make connections with people have helped spread the M'hudi story and get their business off the ground. Now, after five years of being in business, Malmsey and Diale can look back on their successes with pride—they have established and grown a business with relatively few resources but with ever more ambition and hard work. Their journey has just begun, however, as they now face the difficult questions of where and how to market their products and how to weather the market fluctuations, all the while remaining true to their mission and vision—to make a good-quality wine and promote their core values: family, rising above adversity, and environmental stewardship.

Appendix 1: M'hudi Financial Statements**Balance Sheet**

| Figures in Rand | 2008* | 2007 |
|-------------------------------|--------------|-------------|
| Assets | | |
| Non-Current Assets | | |
| Property, plant and equipment | 18 063 | 19 417 |
| Current Assets | | |
| Cash and cash equivalents | 123 350 | 136 783 |
| Total Assets | 141 413 | 156 200 |
| Equity and Liabilities | | |
| Equity | | |
| Share capital | 100 | 100 |
| Accumulated loss | (480 704) | (215 556) |
| Total Equity | (480 604) | (215 456) |
| Liabilities | | |
| Non-Current Liabilities | | |
| Loans from shareholders | 526 879 | 325 009 |
| Current Liabilities | | |
| Trade and other payables | 95 138 | 46 647 |
| Total Liabilities | 622 017 | 371 656 |
| Total Equity and Liabilities | 141 413 | 156 200 |

* Year ended 29 February 2008.

M'hudi Income Statement

| Figures in Rand | 2008* | 2007 | 2006 |
|----------------------------|--------------|-------------|-------------|
| Revenue | 590 351 | 428 694 | 365 665 |
| Cost of sales | (13 277) | (16 568) | (103 044) |
| Gross profit | 577 074 | 412 126 | 262 621 |
| Other income | 3 078 | 405 801 | – |
| Operating expenses | (845 300) | (744 326) | (551 769) |
| Operating (loss) profit | (265 148) | 73 601 | (289 148) |
| Finance costs | – | – | (8) |
| (Loss) profit for the year | (265 148) | 73 601 | (289 156) |

* Year ended 29 February 2008.

M'hudi Cash Flow Statement

| Figures in Rand | 2008* | 2007 | 2006 |
|---|--------------|-------------|-------------|
| Cash flows from operating activities | | | |
| Cash (used in) generated from operations | (211 895) | 127 740 | (292 350) |
| Finance costs | – | – | (8) |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | (3 408) | (23 705) | – |
| Cash flows from financing activities | | | |
| Proceeds on share issue | – | – | 100 |
| Repayment of shareholders loan | 201 870 | 29 416 | 295 593 |
| Total cash movement for the year | (13 433) | 133 451 | 3 335 |
| Cash at the beginning of the year | 136 783 | 3 335 | – |
| Total cash at end of the year | 123 350 | 136 786 | 3 335 |

* Year ended 29 February 2008.

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Chapter 5

NIEUWBORN FARM

STARTING A BUSINESS WITH NOTHING BUT A DREAM

Worship Mugido

“Obtaining success with nothing but a dream.” – Felicity Fillies

INTRODUCTION

When Felicity Fillies was a councillor for De Aar in the Northern Province of South Africa, she had a dream of providing job opportunities for unemployed people. One way to achieve her dream was to start her own business and create jobs. Felicity’s choice for a business venture fell on ostrich farming, which she started in her garage with 100 chicks. Within weeks, however, the birds outgrew the garage, and Felicity was forced to look for a farm with enough space for her operations.

The neighbouring white farmers advised her against ostrich farming because the De Aar area was more suitable for sheep and cattle production. Others held the view that ostrich farming belonged in the ‘traditional’ ostrich farming area of Oudtshoorn. All the same, many thought that Felicity was bound to fail, as successful ostrich farming would require significant amounts of capital, experience, and knowledge. Felicity did not have these, but she had plenty of determination. “I started without any money, without any experience, without any knowledge. I did not know what a baby ostrich looked like. All I had inside me was this dream that seemed so impossible at that stage,” recalls Felicity six years after starting her business. Moreover, Felicity had the courage (or perhaps lack of judgement?) to start her ostrich business at a time when avian influenza was damaging the reputation of the ostrich industry and prices were at their lowest. But six years

on, Felicity's business prevails: from humble beginnings she created a formal business called Nieuwborn farm. Having started with 100 birds in 2004, in 2010 she was selling more than 1 000 ostriches per season.

Despite its success, Nieuwborn Farm is facing challenges such as the exorbitant cost of ostrich feed, the variable exchange rate bound to affect an export-oriented industry, and the negative attitudes of other ostrich farmers who do not wish to expand the industry and who look at newcomers with suspicion. With characteristic resolve, Felicity faces these challenges openly and she is determined to overcome them.

THE BEGINNINGS OF NIEUWBORN FARM

In 2004, Felicity Fillies was working as a teacher and had recently completed her five-year term as a local and district councillor for De Aar. As a councillor, her main focus was on job creation. For example, she created a project that made and sold rubbish bins. While working on this project she came in contact with guesthouse owner Mike Coetzee. Mike used to run an abattoir for ostriches, and in the course of their conversation he encouraged Felicity to venture into ostrich farming. "Being black I take a lot of white man's advice with a pinch of salt," explains Felicity, so she pushed his advice to the back of her mind. But, since she travelled frequently, she began to notice ostrich farms wherever she went and began to think that perhaps they could be a solution to the problem of unemployment. "I saw ostriches wherever I travelled, in a lot of magazines, even dreamed about the birds," explained Felicity. Thus the conversation she had had with Mike Coetzee kept returning to her mind.

In 2004 she decided to give ostrich farming a try. The beginnings were not easy. Felicity started by applying for capital to finance her farming operations, but her applications were turned down. "I tried all the banks for money to start this project, but none of them could help—they told me ostrich farming was a risky business and that they couldn't see me succeeding," recounts Felicity (BuaNews, 2005). She did not approach the government for funding. "Approaching government is a very long process and I knew my heart would not be patient for that," explains Felicity. But Felicity was determined to realise her goal: "I had already made up my mind, and could not allow anything to stand in my way. As a child there was something my mother used to tell me: 'If you do not stumble, you are not making progress,' so for me it was okay to get doors slammed in my face," she says (BuaNews, 2005). So she sold her dining room suite, originally purchased for R30 000, for R8 000. "It was painful to see it go for such a pittance. For the more than 20 years I worked as [a] teacher it was the only most valuable thing I had to show off for my long service in the profession," she added (BuaNews, 2005). With the money, she went to buy her first 100 ostrich

chicks. Although R8 000 was not enough to pay for them all, she was told she could bring the balance later. With chicks on her farm, she now needed feed as well, which was expensive as it needed to be shipped from Oudtshoorn, about 460 km from De Aar.

Felicity housed the 100 birds she had bought in the double garage of her home. Within weeks the birds outgrew the garage and moved into the yard. Felicity bought shadow netting and made a temporary shelter for her birds. Within weeks, however, the ostriches outgrew the yard as well. “One day when I came from town, the ostriches were running all over the township,” recalls Felicity. She was feeling quite lost at that stage and decided to call Mike Cotzee for help. She and Mike went to look at agricultural plots near town, and Felicity found a plot to rent with an option to buy later. Felicity recalls Mike’s help with gratitude: “He was walking with me all the miles in the beginning. He played a key role in everything,” explains Felicity.

Regarding the new plot, Felicity struck an agreement with the owners that in case they wanted to sell the plot, they would give her first preference. She was keen on buying the land right away, but lacked the R150 000 asking price. One day Felicity was talking with a friend, an experienced commercial sheep farmer, about her plans to buy the land. Having seen Felicity’s business take off quite well and having faith in her future success, the farmer offered to lend her money to buy the plot. “White guys really played a big role in achieving my dreams. I treated him like my mentor because he knew everything about farming,” explains Felicity.

She named the farm ‘Nieuwborn’, Afrikaans for ‘newborn’. Nieuwborn Farm is 4 hectares in size. “As small as it is, I managed to make a lot of magic on this small piece of land,” explains Felicity. As Felicity uses feeding lots, her ostriches do not need as much space as free-ranging ostriches.

In a little over a year, her flock increased from six ostriches to almost 3 000. Having seen Felicity’s success, her sister encouraged her to enter the competition for Top Producer for National Markets. This award is conferred by the Department of Agriculture. At first she was reluctant to enter the competition but eventually submitted her registration and won the 2005 award. In an interview conducted at the time Felicity said: “I entered the competition because I wanted to network with other female farmers—I didn’t expect to win anything, particularly due to the fact that I’m still new in farming” (BuaNews, 2005). After winning the award Felicity went to pay her debt to the farmer who had sold her her first 100 chicks; the farmer, however, said she did not have to pay because he was pleased to see her success.

Winning the award gave Nieuwborn Farm national media attention and opened doors for Felicity in the ostrich industry. She was chosen as the first black and female member of the South African Ostrich Board. Being a part of this board gave her access to valuable information. On the heels of such success, the government realised that Felicity had potential to do very

well in her business, and the Department of Agriculture approached her about providing help. She asked for help with setting up a feed processing plant on her farm. The department obliged and installed a feed processing plant on the farm for free. Importantly, Felicity does not see the government's assistance as part of Broad-Based Black Economic Empowerment, as she is of the view that black economic empowerment refers to partnerships between a black farmer and a white owned company.

Though it had been in existence for a few years, Nieuwborn farm was not officially registered as a company until Felicity won the Top Producer for National Markets award. "After I won the award then I started to take the business serious because I suddenly had a lot of exposure. I realised that it can go bigger," explains Felicity. And Felicity has set big goals for her company, as evidenced by its vision and mission (Box 1). At the centre of her vision is her community and job creation. Felicity sees her ostrich business as a way of empowering herself economically. She believes that if she can empower herself economically she can also empower the community. "I'm such a community person. If I'm empowered I can actually do more for my community," says Felicity.

Box 1. Vision, mission, and objectives of Nieuwborn Farm

Vision

The vision is focussed on community building and spreading ostrich farming to areas other than the traditional Klein Karoo. Ostrich farming is mostly white dominated and the dream is to have many more black ostrich farmers. Job creation is an important factor in establishing ostrich farming in the black communities.

Mission Statement

The mission lies in training new farmers to be effective and focussed, in establishing ostrich farming in Pixley Ka Seme District, and in opening an abattoir in De Aar and looking at the possibility of a tannery.

Objectives

- To raise ostriches until they can be slaughtered. Currently all birds are sold at 4-5 months old.
- To assist more farmers in De Aar to join in this venture.
- To use the food processing plant to its maximum.

INDUSTRY OVERVIEW

Historical background of the South African ostrich industry

Ostriches were found around the Mediterranean Sea over 20 million years ago (NAMC, 2003:14). In South Africa, the indigenous people have been using ostriches for their meat and eggs in the Klein Karoo region for hundreds of years. The eggs were mainly used as a source of food. The empty egg shells were also used as containers for carrying or storing water (Oudtshoorn Info, 2004).

South Africa started exporting ostrich feathers to Europe in 1838 (NAMC, 2003:14). As a result of high demand for the feathers from the fashion market, the number of wild ostriches declined and this led to taming and breeding of ostriches. Thus the ostrich industry became established around 1863, with the introduction of wire fencing, lucerne production, and the invention of the incubator in 1869. Lucerne is a legume pasture plant used by farmers as a source of valuable feed for livestock. The incubator stimulated ostrich farming to such an extent that from 1870 ostrich farming became a highly profitable business (NAMC, 2003:14). In 1882 ostrich feathers was South Africa's fourth most valuable export product after gold, diamonds, and wool (Oudtshoorn Municipality, 2005:14; Murray, 2007:4).

In 1914 there were about 1 million ostriches in South Africa. World War I, changing fashion, over-production of feathers, and disorganised marketing led to the collapse of the South African ostrich industry. By 1930 the number of ostriches had plunged from 770 000 to 23 000, but the population started increasing again after World War II (Murray, 2007:4) and from there onwards ostrich breeding, raising, and marketing have spread to other parts of the world such as Australia, Canada, China, Israel, the Philippines, and the United States (Oudtshoorn Municipality, 2005:14).

The Klein Karoo Cooperative (KKC) was founded in 1947 in Oudtshoorn and became known as the "cradle of the ostrich industry" (Adams and Revell, 2003). In 1959 the one-channel marketing system was established (Murray, 2007:4). Thus the KKC was given the single channel marketing rights for ostrich feathers, followed by other ostrich products at later dates, under the Co-operatives Act (ECIAfrica, 2010:4). This was done mainly to enable the farmers around Oudtshoorn to earn a satisfactory income (NAMC, 2003:17-18).

In 1964 the world's first ostrich abattoir was built in Klein Karoo to supply dried and fresh ostrich meat locally (Murray, 2007:4). The first tannery for ostrich leather was established in 1970 (NAMC, 2003:34). Leather remained the main source of income for ostrich farmers until the early 1990s, when ostrich meat was introduced into international markets as a speciality meat product (ECIAfrica, 2010:3).

The South African ostrich industry was deregulated in 1993 in response to pressure from producers denied access to the single marketing channel, and the KKC lost its control over the industry (NAMC, 2003:18). Since then the ostrich production has spread from the Klein Karoo to other parts of the country (Department of Agriculture, Forestry and Fisheries, 2010b:63).

The Department of Agriculture introduced AgriBEE in 2004, aiming to empower “previously disadvantaged individuals” (Moremi, 2009:7). The Department of Agriculture (2004) defined previously disadvantaged individuals as “any person, category of persons or community, disadvantaged by unfair discrimination before the Constitution of the Republic of South Africa, 1993 (Act 200 of 1993)”. Thus AgriBEE intends to facilitate the ownership and management of enterprises and production assets by black communities, workers, cooperatives, and other collective enterprises. South African Ostrich Business Chamber (SAOBC) has shown a commitment to enabling previously disadvantaged individuals to participate in the whole value chain through a project called OstriBEE. OstriBEE targets small-scale farmers to enter the ostrich industry (Moremi, 2009:7). OstriBEE offers training of artisans at ostrich abattoirs and ostrich tanneries. It also offers mentorship programmes on farm and processor levels (SAOBC, 2010b:1).

Felicity is a notable black ostrich farmer, farming at De Aar in the Northern Cape Province of South Africa, who did not benefit from OstriBEE (ECIAfrica, 2010:26). “I have never engaged in a BEE business with a white owned company. Unfortunately I’m not part of BEE. I had to fight my own fight without BEE,” says Felicity. Felicity believes that BEE is not something that one applies for, but it is something you engage in mostly on invitation from a white owned company. “Yes, I was invited by quite a number of white owned companies (after she won the Top Producer for National Markets award), to be a BEE a partner for them, but I turned them down because I felt that I was not ready to partner with any company,” recalls Felicity. Felicity was not ready to partner with partners that do not share her “humble values and principles of life”.

Current structure of the South African ostrich industry

SAOBC, formed in 1998, represents all ostrich farmers in South Africa and is seen as an umbrella body as it is made up of producers represented by the South African Ostrich Producers Organisation (SAOPO) and processors represented by the National Ostrich Processors Organisation of South Africa (NOPSAs) (Oudtshoorn Municipality, 2005:15). The main aim of SAOBC is to make the ostrich industry sustainable and economically viable through collaboration of stakeholders (SAOBC, 2010a). Figure 1 shows the current structure of the South African ostrich industry.

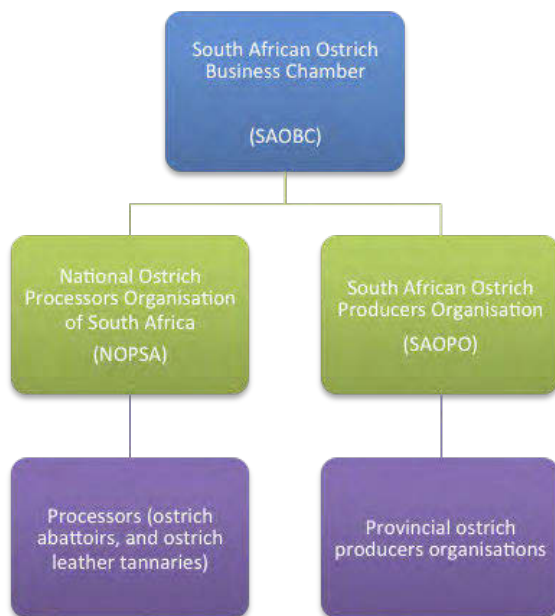


Figure 1. Current structure of South African ostrich industry.

Source: NAMC, 2003:19.

Ostrich producers are members of provincial ostrich producer organisations, which are affiliated with SAOPO. Seven provinces are members of SAOPO, with individual farmers being members of their respective provincial ostrich producer organisations. Western Cape Province has about 77% of the registered export farms, followed by the Eastern Cape Province with 17%, and the other provinces with 6% (NAMC, 2003:21-22). NOPSA represents the processors, that is, the ostrich abattoirs and ostrich leather tanneries. Formed in 1995 to promote the interests and efforts of processors, NOPSA has 21 members.

Production

At least 65% of the world's ostriches are found in South Africa. South Africa contributes 90% of ostrich products traded internationally, contributing R1,2 billion per annum to the South African economy (SAOBC, 2004:1). In 2002 world production of slaughter ostriches was approximated at 560 000, with South Africa accounting for about 60,7% of total (NAMC, 2003:37).

In 1997, South African slaughter volume exceeded 300 000 ostriches for the first time, and this led to a global surplus of ostrich leather, a decrease in leather prices, and subsequent liquidation

of a number of farmers. It is estimated that slaughter volumes declined to 240 000 per annum in 1999 and 2000, but increased again to more than 300 000 ostriches per annum in 2001 and 2002 (NAMC, 2003:3-27). In the 2005/06 season the number of slaughtered birds declined to 257 000 ostriches as a result of the outbreak of avian influenza in the Eastern and Western Cape Provinces of South Africa in August in 2004, which resulted in the European Union, Hong Kong, Mozambique, and Singapore banning ostrich imports from South Africa (meat, live ostriches, and fertile eggs). The European Union lifted its ban in October 2005 (SAOBC, 2006:1). It is estimated that about 222 000 birds were slaughtered in South Africa during the 2008/09 season (Department of Agriculture, Forestry and Fisheries, 2010b:64).

Approximately 75% of ostrich output comes from the Western Cape, where the Klein Karoo dominates production. In South Africa, ostrich production is in the top 20 of agro-based industries and it is highly ranked for exports. The total investment in production and processing ostrich activities is more than R2,1 billion (SAOBC, 2004:1).

There are about 1 040 ostrich farms in South Africa. This figure refers to the total number of producers in all the different stages of the ostrich industry (Murray, 2007:5-6), which range from breeding and hatching eggs to produce day-old chicks, rearing chicks, raising birds, and the final phase of weight addition to slaughter. The various phases are often undertaken by different producers. In the Klein Karoo there are believed to be about 200 producers of slaughter ostriches, about 50 of which account for probably 80% of slaughter output (Murray, 2007:6). More than 60% of the farms in Klein Karoo are smaller than 2 000 ha in size (Cupido, 2005:50). Usually the *veld* is divided into camps that house the ostriches. In the Klein Karoo the average number of camps per farm is eight and the average camp is 391,2 ha in size. Small farms in the Klein Karoo have an average of four camps per farm, each camp with an average size of 230,5 ha (Cupido, 2005:51).

The South African ostrich industry used to employ an estimated 20 000 workers, but the number declined to about 16 000 due to the outbreak of avian influenza in 2004 (Department of Agriculture, Forestry and Fisheries, 2010b:64). More recent estimates show that the South African ostrich industry employs just below 20 000 workers (Murray, 2007:6).

Value chain

The value chain of the South African ostrich industry has many independent players (Klein Karoo International (Pty) Ltd, Mosstrich, Grahamstown Ostrich Abattoir, Swartland Ostriches etc), who are in stiff competition to market their products. Because these players regard ostriches as a niche product, they are protective of their perceived market advantage and are reluctant to work together

or to provide essential functions, such as product development, generic marketing, and research. Processors sell their ostrich products individually on the international market. This resulted in the undercutting of prices so that larger volumes could be sold. This also negatively affected the monitoring of quality standards, which in turn led to a decrease in the financial returns realised for ostrich products (Department of Agriculture Forestry and Fisheries, 2010a:6-7).

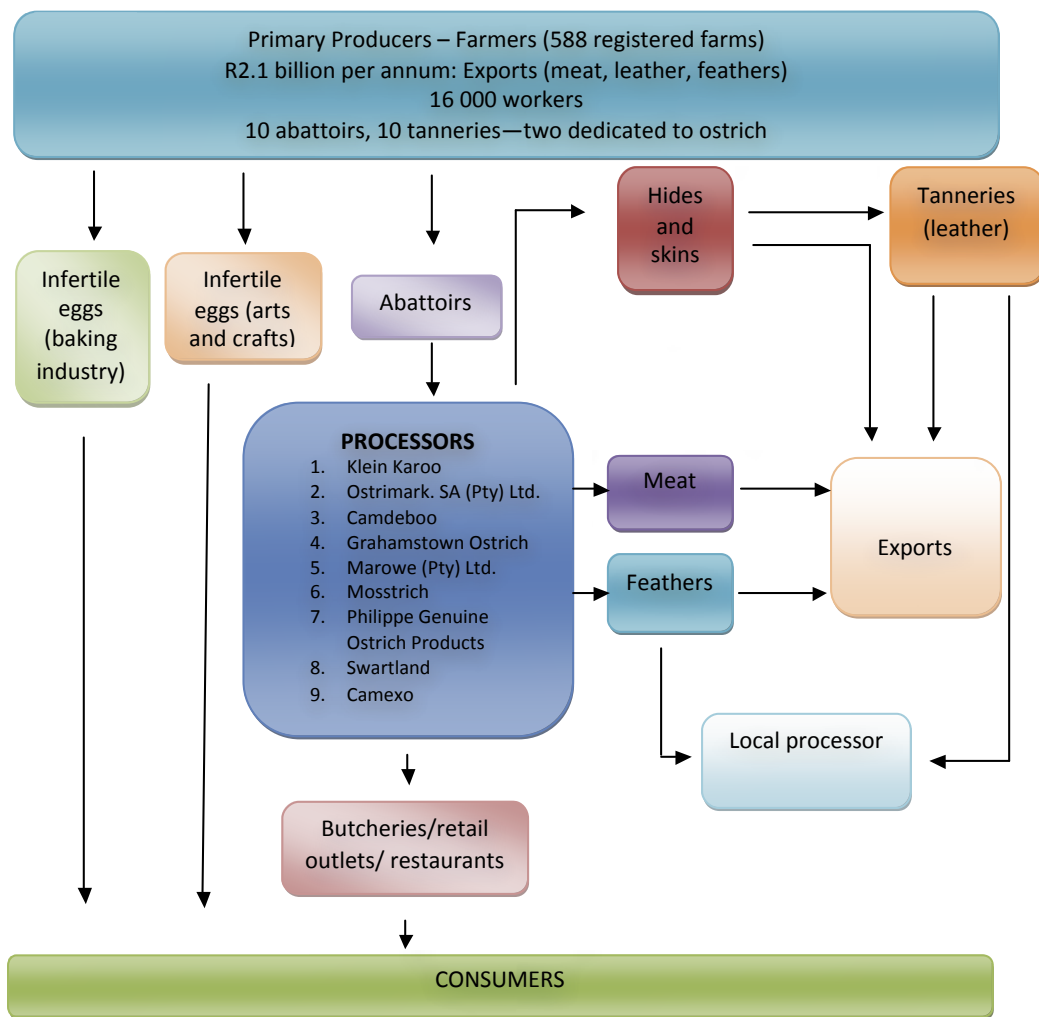


Figure 2. South African ostrich production value chain.
 Source: Department of Agriculture Forestry and Fisheries, 2010a:8.

The KKC abattoirs and tanneries have a strong position in the global ostrich products market (with 50% of global production). Currently, South Africa's 558 export registered ostrich farmers (producing an estimated 300 000 slaughter birds per year) have a choice of 10 tanneries and access to 10 European Union export approved abattoirs (BIDPA, 2005:8). Some 90% of the ostrich meat harvested is destined for export.

South Africa is the regional hub of the ostrich leather industry. It receives about 200 000 skins a year from the ostrich abattoirs in southern African countries. It also receives about 15 000 skins from the rest of the world. South African tanneries export about 90% of their finished leather to manufactures, mainly in Europe and East Asia (BIDPA, 2005:6-11). There is also demand in upholstery for both furniture and car seating. The remaining 10% goes to South African manufacturers of the same range of products. Of these, some 75% are exported and 25% go to the domestic market, mainly tourists (BIDPA, 2005:6-11). Figure 2 shows the ostrich product value chain.

Marketing

South Africa is leading the world in international ostrich trade, with about 80% of the volume of the ostrich products traded globally coming from South Africa. Leather products represent 65% of the value of the South African ostrich output, meat 30%, and feathers 5%. The major competitors to South Africa are Namibia and Zimbabwe for finished products. In Zimbabwe, commercial production has declined since the fast track land redistribution in 2000 that resulted in decreased investor confidence. In Namibia, ostrich production is stable, although it had declined slightly in recent years (BIDPA, 2005:9). Other competitors are Mexico and Korea with low production costs of their tanning industries, and Brazil and China whose governments subsidise their ostrich industries (Murray, 2007:7). Korean tanneries buy ostrich skins and create stiff competition for South African ostrich leather in Korea and Japan (NAMC, 2003:43).

Table 1 shows the products derived from a slaughtered ostrich, the percentage contribution of each product to total income, and the key markets of each product. Besides the products listed in Table 1, there are also other by-products from ostrich farming. Infertile egg shells are carved as ornamental pieces such as lamp shades popular especially with tourists as local gifts. Pet food is manufactured from the offal of the ostrich carcass. The tendons are used to manufacture dog chews. Ostrich fat is used to extract oil used in the cosmetic industry (ECIAfrica, 2010:1).

Table 1. Ostrich products, their uses, estimated contribution to revenue, and key markets.

| Products | Uses of products | Estimated contribution to revenue (%) | Key markets |
|-----------------|--|--|---------------------------------------|
| Hide | Gloves, handbags, shoes, travel goods, wallets; furniture and car seating | 32 | China, Japan, Mexico, United States |
| Meat | Human consumption | 62 | Belgium, France, Holland, Switzerland |
| Feathers | Manufacturing feather dusters and decorative items; used in fashion industry | 6 | Brazil, France, Russia |

Source: SAOBC, 2010a.

Japan and the United States are the main markets for the high-value leather products, whilst lower-value products (such as wallets, belts) are exported mainly to Mexico and China (Murray, 2007:7). For many years meat was regarded as a by-product of ostrich processing in South Africa, but this has been changing: While in 1993 ostrich meat accounted for only 15% of the total income from a slaughter bird, the figure was a much higher 62% in 2010. This increase can be attributed to the realisation by consumers that ostrich meat is a tasty and healthy red meat low in cholesterol and fat. This has led to a small increase in the price of ostrich meat, in spite of the strong South African currency in the year 2010 (SAOBC, 2010c:1). South Africa exports 35% of its meat to Belgium and Holland, 20% to Switzerland, 15% to France, and 12% to Asia. The KKC and Mosstrich are the two main marketing channels available to producers (Murray, 2007:7). About 90% of the slaughter ostriches for export meat are handled by KKC and Mosstrich. The remaining 10% of slaughter and further value adding is handled by smaller participants that are not integrated through all steps in the value-adding processes (ECIAfrica, 2010:14-15).

KKC membership consists of 1 300 farmers and the organisation is responsible for the first stages of ostrich processing, namely, slaughtering, feather processing, and leather manufacturing. The KKC generates nearly 70% of its total income from ostrich processing (Oudtshoorn Municipality, 2005:15). The KKC abattoirs and tanneries dominate the global ostrich products market (with 50% of global production) (BIDPA, 2005:8).

Mosstrich was founded after the deregulation of the ostrich industry in 1993 by about 70 ostrich farmers in the Southern Cape of South Africa. It operates the second largest abattoir in South Africa at Mossel Bay. Mosstrich owns an abattoir, de-boning, and meat packaging plant and a tannery and has a slaughter capacity of 70 000 birds per year (ECIAfrica, 2010:6-15).

COMPANY PROFILE

Human resources

Felicity is involved in the daily running of every aspect of her business. She employs six full-time and two part-time workers. Although she is the sole owner of the farm, she has taken on three of her workers as business partners. Instead of getting monthly wages, each partner receives 20% of the profits, while Felicity keeps 40%. The expenses are divided equally among the partners. Felicity says that the system works well because “you get better results than when people depend on a salary”.

In terms of responsibilities, each partner oversees the care of a different age group of birds, including feeding, cleaning, and medical care. Partners may hire assistants when needed and the farm also employs two general hand workers who help out as needed. Partners manage their own administration, and they all report to Felicity.

Production activities—the rearing of ostriches

The main production activities that take place on the farm are ostrich rearing and animal feed production.

Ostriches on the farm are divided into four age groups: 0-1 month, 1-2 months, 2-3 months, and 3-5 months. New ostriches arrive on the farm as day-old chicks; each fortnight Nieuwborn Farm buys 200-300 day-old ostriches. The first few weeks are crucial for the survival of the birds. During this phase they sleep in rings and clean blankets. They need constant care and intensive attention and receive daily injections for disease prevention and feed supplements. The coops are cleaned and disinfected daily to avoid the outbreak of diseases. The workers also keep a close eye on the birds to ensure that they do not fall into the water and drown and that they do not suffocate each other.

Once a bird reaches the age of two months, another partner takes over its care. The coops still need to be kept clean, but the birds spend much of their day outside. They get their medicine in their drinking water (not by syringes) and they are still monitored for crowding. Having grown quite a bit, their grazing requirements are significantly bigger than those of babies.

Following the first two, difficult stages, stage three is easier. Although the birds consume more feed than before, they need less personal care. The camps still need cleaning, however, and caregivers still provide drinking water and safe sleeping space. During the fourth—and easiest—stage, the birds increase their feed intake and need less attention from caregivers. They are tagged as they are prepared for sale.

Marketing, sales, and financial profile

Unlike for many other businesses, marketing is not a major problem for Nieuwborn Farm, as ostriches are much sought after. “We really have no problem selling them and we do not even have to market them. Most of the sales I make are in advance, so customers put down a deposit and pay the balance when they come to fetch the birds, which is usually in two months’ time,” Felicity explains (BuaNews, 2005). Felicity’s main buyer is KKC in Oudtshoorn, where the birds are raised until they are ready to be slaughtered. She sells a few birds to other commercial farmers, who either keep them on their game farms just to show them off or continue to rear them and later sell them to KKC or Mosstrich when they are ready for slaughter. Mosstrich has also bought birds from Nieuwborn Farm, but Felicity prefers to sell her birds to KKC because she believes that KKC is more established than Mosstrich.

Felicity started her business using her own funds. She managed to remain in business because of the relatively high returns associated with ostrich farming (see Box 3). Felicity sells an average of 1 000-1 500 ostriches per season. The current gross margin per bird is R549,00. Felicity used part of the income from her business and prize money she won from the awards to buy several plots adjacent to her land. Whenever cash flow has been a challenge, she has sold one of these plots and injected more cash into her business. Using her feed processing plant, Felicity processes livestock feed and she sells it to the neighbouring farmers and shops. This brings in extra income and helps boost her cash flow especially during the off season. Her season starts in August and ends in January.

PRESENT CHALLENGES AND FUTURE POSSIBILITIES

Despite its success, Nieuwborn Farm continues to face risks. One of these at present is that the exchange rate is disadvantageous for export industries like ostrich farming. During the first six months of 2010 the rand firmed against both the euro and the US dollar, reducing demand from countries in those regions, which has called into question the long-term profitability of the industry (ECIAfrica, 2010:1). Some expect the rand to gradually weaken over the next 18 months to three years (Klein Karoo International, 2010:4), but that is a long time to sustain a business, especially a relatively new one.

The other challenge Felicity faces is that well established farmers do not encourage expansion of the ostrich industry to other areas of the country. This fear is fuelled by concerns about over-production, which would lead to ostrich farming losing its niche market status. Yet others seem to harbour discriminatory attitudes of the past, at least based on Felicity’s observations: “I was the

member of the Ostrich Board, and I was the only black member, they are not really impressed with ostrich farming in black hands, that is the feeling I got.”

Such challenges notwithstanding, Felicity plans to increase her ostrich flock because she feels that there is much room to grow in the industry. Currently she is in the process of building 50 houses for the birds. Once these are completed, she will be able to double her current flock. This expansion will also enable the farm to raise ostriches up to the age of 12-14 months (as opposed to the current five months), by which age they are ready for slaughter. She also plans to buy an old ostrich abattoir in De Aar and revamp it. In the long run, her dream is to establish De Aar as a second hub for ostrich production after Oudtshoorn. Importantly, she hopes that her success will encourage others to venture into ostrich farming.

Box 3. Gross margin budget of the production of five-month-old ostriches with and without feeding lot.

The feed requirements of an ostrich farm are significant, and given the distance of feed suppliers, Felicity with the help of the Department of Agriculture built a feed processing plant on her farm. The plant has a capacity of 10 tonnes per hour. Making her own feed has been a good business decision because she saves about 40% on the feed alone, not counting the transport costs. (Felicity can produce feed at a cost of R160,00 per bag, while feed in Oudtshoorn costs about R250,00.) Table 2 illustrates the gains from the feed lot even more clearly by showing the gross margin of the production of five-month old ostriches with and without feeding lot. Assuming a farmer sells 100 birds and produces his or her own feed, the farmer makes a gross margin of R78 180. If the farmer bought feed for the birds, the farmer would make a smaller gross margin of R64 500.

Table 2. Gross margin budget of the production of 5-month old ostriches with and without feeding lot.

| | With feeding lot | Without feeding lot |
|---|--------------------------|----------------------------|
| Income and direct cost items | Per 100 birds (R) | Per 100 birds (R) |
| Sale of five-month old ostrich (50 kg @ R28/kg) | 140 000 | 140 000 |
| Gross income | 140 000 | 140 000 |
| Directly allocatable costs | | |
| Purchasing day-old chicks | 30 000 | 30 000 |
| Feed | 24 320 | 38 000 |
| Medicine | 5 000 | 5 000 |
| Labour | 2 500 | 2 500 |
| Total directly allocatable costs | 61 820 | 75 500 |
| Gross Margin | 78 180 | 64 500 |

CONCLUSIONS

After six years in the ostrich business, an industry dominated by white, male commercial farmers, Felicity Fillies has made a name for herself as one of South Africa's few black female ostrich farmers. Although Felicity started her business at the age of 55 ("when most women will be thinking of retiring," as she says), she has shown the determination and energy of business owners half her age. Despite her detractors and the challenges along the way, she has benefited from the help of mentors (many of them white), the support of government, and media publicity. But are her commitment to the business and the support she has garnered sufficient to ensure long-term success? And what of her vision of empowering her community by providing employment? To date, she has employed a handful of people on the farm, a nice achievement in itself, but falling short of her goal. It is perhaps too early to tell how her business will evolve in the long run; but how should Felicity position her business to ensure that it continues to follow its vision and mission?

GLOSSARY OF ABBREVIATIONS AND ACRONYMS

| | |
|-------|--|
| BEE | Black Economic Empowerment |
| BIDPA | Botswana Institute for Development Policy Analysis |
| KKC | Klein Karoo Cooperative |
| NAMC | National Agricultural Marketing Council |
| NOPSA | National Ostrich Processors of South Africa |
| SAOBC | South African Ostrich Business Chamber |
| SAOPO | South African Ostrich Producers |

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Chapter 6

MRS. NOFOTO'S BAKKIE MILLER

AN INFORMAL SECTOR AGRO-PROCESSOR

Lulama Ndibongo Traub

INTRODUCTION

The silence of the countryside is disturbed by the crunch of the car's tires as we make our way along the dirt tracks leading to Mrs. Adelaid Nofoto's family homestead. Located no more than 5 km from Nelson Mandela's homestead, the Nofoto family has strong ties to and a rich history within the area. Born and raised in the old Transkei, a former Bantustan, Nofoto continues to enrich her community not only in her role as principal of the local primary school but also as a small-scale maize miller. The service she provides as a miller allows her neighbours not only to add value to their maize harvest, but also to experience cost-savings during the harvest season as they consume their own maize rather than the more expensive maize meal available at local retail stores.

Despite the valuable service she provides as a maize miller, however, Nofoto's business enterprise faces many challenges, some of which are unique to the informal agribusiness sector. This case study illustrates some of the factors that limit the growth and expansion of small-scale milling within South Africa's post-reform maize sector. The case study describes the operations of Nofoto's *bakkie*¹ milling enterprise, which operates within the Eastern Cape, a maize deficient province with the lowest per capita income in the country.

1 A *bakkie* (or pick-up truck) is a light motor vehicle with an open-top rear cargo area which is separated from the cab to allow for chassis flex when carrying or pulling heavy loads. In this case study it is used to carry and power a hammer mill used for maize milling.

INDUSTRY ANALYSIS

Background

Maize meal is a staple food in South Africa's black communities, in particular for low-income families. Under market liberalisation during the mid-1980s the South African government enacted a series of legislations that reduced the role of government within the market and relied increasingly on market forces and the private sector. In the post-Apartheid era after 1994, the overall objectives of market reform remained the same, with the additional goal of redressing historical injustices through Black Economic Empowerment and poverty reduction. Despite an extensive reform process, however, studies done within the maize sub-sector indicate that maize market reform has not reduced processing and retailing margins in the maize meal supply chain. To the contrary, these margins have actually risen over the past decade, which has resulted in maize meal retail prices being generally higher in South Africa than in any other maize-producing country in the region (Chapoto & Jayne, 2006; Cutts & Kirsten, 2006; Traub & Jayne, 2008). Importantly, studies have observed a relatively large difference between maize wholesale and commercial maize meal prices, creating, it would seem, a good opportunity for small-scale producers to step in. Yet there has been a lack of investment response by informal small-scale processors and retailers.

Eastern Cape demographics

Located on the south-eastern seaboard of South Africa, Eastern Cape is the second-largest province in terms of land mass (Municipal Demarcation Board, 2010). It comprises six district municipalities: Alfred Nzo, Amatole, Cacadu, Chris Hani, O.R. Tambo, and Ukhahlamba. The major towns and cities in Eastern Cape include Aliwal North, East London, Grahamstown, King Williams Town, Port Elizabeth, Uitenhage, and Umtata. According to Statistics South Africa's 2001 data, the population was approximately 6,4 million representing 14% of the total South African population. Although 55% of the Eastern Cape population is considered functionally urbanised, the province has a relatively high rural population with only one third living in official towns (Buffalo City, 2010).

In terms of income levels, the Eastern Cape is the poorest province in South Africa. Given its Apartheid status as an independent Bantustan with little to no local employment opportunity, the province is afflicted by the twin economic ills of poverty and unemployment. As a result, the provincial gross geographic production (which is essentially the gross production level for the province) per capita is substantially lower than the national average. In 1999 the gross domestic product per capita for the province was R9 092, which is less than half of the national figure of R18 727 for the same year (Municipal Demarcation Board 2010).

Salient features of maize marketing system within the Eastern Cape

Traub and Jayne conducted an initial survey of large- and small-scale millers, grain wholesalers, and retailers in 2004. They attempted to sample the entire population of large and small millers in order to generate a clear picture of the maize marketing and milling supply chain in the Eastern Cape. The flow of maize grain through the maize sector in Eastern Cape province follows the general pattern of the national system, whereby the formal milling sector directly purchases the vast majority of maize grain, leaving approximately 5% to 10% of total domestic production for milling by the informal sector.

Maize consumed within Eastern Cape province is sourced from subsistence farmers, small- to medium-scale regional grain farmers, and grain from other provinces (the Free State, Kwazulu-Natal, and/or Western Cape province). In general, maize grain sourced from outside the province, particularly the Free State, makes up anywhere from 80% to 90% of total raw input to commercially produced maize meal within the province (Traub & Jayne, 2006). This distribution is due to several reasons including inconsistency of supply and poor quality of maize grain grown in the Eastern Cape.

The milling industry in the Eastern Cape comprises two types of maize millers: large-scale commercial companies and small-scale informal millers. Large millers may be further divided into regional and national millers, while small-scale millers are sub-divided into stationary and mobile *bakkie* millers. In this system, small-scale millers are largely responsible for providing maize-milling services to subsistence maize grain producers and to the occasional rural or peri-urban consumer who buys unmilled maize in bulk. It is within this group of millers that Adelaid Nofoto's milling enterprise is classified.

Large-scale milling is undertaken in the province by seven firms, six of which are regionally owned and operated mills, while one is associated with Pioneer Foods, a national food manufacturing company. In terms of sourcing raw material inputs, regional millers have three options: local producers, local maize grain assemblers and/or silos, and traders and farmers from outside the province. Among commercial millers, Idylla, Lambasi, and Sasko source maize grain from local maize producers. In the case of Lambasi Mill, 100% of its input stems from local producers throughout the marketing year, while Idylla and Sasko source 40% and 15%, respectively, of maize grain inputs from local producers between May and October. Idylla Mill also sources raw maize grain during times of local shortage through a regional maize grain assembler, Elliot Grain. The remaining millers obtain their grain inputs from outside of the Eastern Cape, from provinces such as Kwazulu-Natal, Western Cape, and/or the Free State.

The large-scale millers have a range of buyers, from individual households to national wholesale and retail enterprises. In the case of Sasko Mills, its final products flow to national retailers such as Metro Cash & Carries, Pick n Pay, Shoprite, and Spar, as well as regional retailers/wholesalers such as Boxer and Spargs. The estimated proportion of maize meal sales within the Eastern Cape attributed to Sasko was 70% for the 2003/2004 marketing year (Traub & Jayne, 2006). The regional commercial millers' output markets consist of *spazas*, which are small, independent retailers operating normally out of a home within a given community, as well as regional independent wholesalers and cash-and-carry stores. Their combined share of maize meal sales within the province amounted to 11% for the 2003/2004 marketing year (Traub & Jayne, 2006).

In terms of maize meal retailing, Pick n Pay, Spar, and Shoprite retail stores service medium- to higher-income consumers in urban and peri-urban areas. Wholesalers such as Boxer, Spar, and Spargs, on the other hand, serve both urban and rural consumers having low to medium income levels. Within this formal retailing sector, maize meal is sold in units of 1 kg to 50 kg bags, its consistency ranging from highly refined, super maize meal to less refined, sifted product. In the case of *spazas*, the majority of their customer base consists of low-income consumers in rural and peri-urban areas. As with formal retailers, maize meal consistency ranged from super to sifted meal, but unit sizes tend to range from 1 kg to 5 kg. As an example, Table 1 summarises maize meal brands sold within formal retail outlets in the Soweto area during November 2010. Within each store, different brands are priced at about the same level. Although Soweto is an urban township located in Gauteng province, the brands and unit sizes carried by these national chains are consistent with what is found throughout the country.

Table 1: Retail outlets, maize meal brands carried, and retail prices.

| Retail Outlet | Brands | Retail Price in Rands | | | | |
|-------------------|-----------------------|-----------------------|-------|-------|--------|------|
| | | 12,5 kg | 10 kg | 5 kg | 2,5 kg | 1 kg |
| Woolworths | <i>Iwisa</i> | – | 42,95 | 23,95 | – | – |
| | <i>Super Sun</i> | – | 42,95 | – | 13,95 | – |
| | <i>Woolworth</i> | – | – | – | 10,95 | – |
| Pick n Pay | <i>Ace</i> | – | 47,99 | 23,99 | – | – |
| | <i>White Star</i> | – | 47,99 | 25,99 | 18,99 | 4,49 |
| | <i>5-Star</i> | – | – | 16,89 | 8,99 | – |
| | <i>Tafelberg</i> | – | 39,99 | 19,99 | 9,49 | – |
| | <i>A1</i> | – | 39,99 | – | 19,99 | 4,49 |
| | <i>Tops Everytime</i> | – | – | 19,99 | – | – |
| Shoprite Checkers | <i>Ace</i> | 53,69 | 42,99 | 23,99 | 11,99 | 5,99 |
| | <i>White Star</i> | 57,69 | 47,99 | 25,49 | 12,99 | 4,99 |
| | <i>5-Star</i> | – | – | 16,89 | 8,99 | – |
| | <i>Tafelberg</i> | – | – | 19,99 | 9,49 | – |
| | <i>A1</i> | – | 39,99 | – | 19,99 | 4,49 |

Data Source: Store survey by author.

COMPANY PROFILE

History and area of operation

In 2004 Adelaide Nofoto bought her first small-scale hammer mill from Thesens Generators located in East London, the largest urban centre approximately 200 km from her home. The Nofoto family homestead is located within a stone's throw from the N2 highway, within the rolling hills of the former Transkei, now Eastern Cape province. At the time, Nofoto saw it as an opportunity to provide a necessary value-added service to her neighbours who produced their own maize grain, while she earned additional income for her family.

Since then, she has expanded her operation. In 2007 she invested in a second hammer mill, which allowed her to expand the area in which she operates. She has also brought in her eldest daughter as a partner to help manage the growing business. The area of operation of her milling business has expanded well beyond the borders of her neighbouring villages within Matyengqina Traditional Council and now extends all the way into the urban centre of Umtata, located approximately 30 km from her home. Currently she is for the only custom miller within the Mqekenqweni area, which includes the villages of Ceza, Idutya, Ngquthu, Ngqwala, Ntuwe, Tyalara, and Xhugxwala.

Human resources

Despite the growing demand for Nofoto's milling services, her business remains a family-owned side-business with services limited to weekends due to external work demands and pressures on Nofoto, her adult daughter Unathi, and her adult son Lihle, who returns home only on holidays to help manage the business. Although labour is relatively inexpensive within the former homelands, the family has chosen not to hire an external employee due to the perceived risk of equipment abuse and cash embezzlement. Since payments are made in cash, and monitoring of workers during the week is costly, Nofoto has chosen to rely on family members instead largely because of the inability to oversee and manage the mill during the workweek. Table 2 provides biographical information on key family members and their role in the company. Note, however, that at the moment no one is working full-time for the milling enterprise.

Table 2: Nofoto family members and their roles within the company.

| Name | Education | Alternative Employment | Position within Company | Responsibilities |
|----------------------------------|--|--|--------------------------------|--|
| Adelaid Nofoto (mother) | Bachelor in Education from UNITRA | School Principal at Qunqu Primary School | Owner and operator | Involved in day-to-day operations of mills, maintains business finances |
| Unathi Madwibi (eldest daughter) | Bachelor in Arts from University of Fort Hare | Museum officer for Eastern Cape Department of Arts and Culture | Owner and operator | Involved in day-to-day operations of mills |
| Lihle Madyibi (eldest son) | Bachelor of Science from University of Cape Town | Engineer at PetroSA | Operator | Involved in operation of mills when at home, responsible for equipment maintenance |

Production activities and marketing plans

Human consumption of maize in South Africa being approximately 4,6 million tonnes per year (compared with 3,1 million tonnes of wheat), the capacity of dry mills heavily influences maize processing (Bureau for Food and Agricultural Policy, 2010). There are two types of dry milling technology available to millers: (1) hammer milling, which produces whole meal, and (2) roller milling, which produces a large range of partially or fully de-germed maize meal. The major difference between the two types of technology is the resulting end product. With hammer milling, the final product is darker in colour and has a higher oil content than roller milled meal. Milling whole kernels yields a product with up to 4% oil, while the oil content in de-germed maize meal is around 1% (Mejia, 2011). Although the higher oil content improves the taste of the maize meal, it reduces its shelf life. Given the expense of roller milling technology (prices for a mill can range between R100 000 and R1,2 million), Nofoto's family business operations involve the use of hammer mills, each of which she purchased for approximately R15 000. Figure 1 depicts the basic components of a hammer mill.

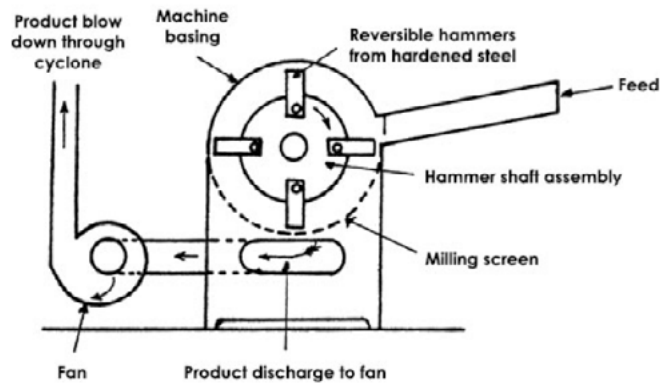


Figure 1. Stationary hammer mill.

Both of the business's hammer mills run on diesel fuel and consist of a hopper into which the grain is fed, a milling chamber where the maize is ground, and a filtering screen, which surrounds the hammers and allows ground grain to escape when it reaches desired consistency. This technology does not separate the bran, germ, or endosperm in the maize grain, but rather it shears and grinds the whole kernel. What results is a maize meal that can be used for human consumption or as animal feed. The milling capacity is dependent on the size of the mill and the power source. The volume of output can range from 0,5 to 1,5 MT per hour. In the case of Nofoto's operation, during the harvest season, they mill up to 1 MT per day, while in the post-harvest season, the production level falls to approximately 0,5 MT per day.

As do other small-scale millers within the province, Nofoto provides maize-milling services to subsistence maize grain producers and, to a lesser degree, to rural and peri-urban consumers who source maize grain at the wholesale level and pay a fee to have their grain ground into meal. Clients who live over 10 km from her home may send her a text message to arrange a time and place for her to travel. Those living closer by may bring buckets or bags of maize grain for her to mill on Saturday and Sunday afternoons. The busiest time of year is from May to October, when local farmers harvest their own maize grain and require milling services. During this time Nofoto can have anywhere from 10 to 20 customers per day of operation. In November things quiet down a bit and then pick up again during December due to the holidays as well as traditional celebrations, which require the serving of traditional maize meal-based dishes. Between January and April, business is slow and the number of clients drops to below 10 per day of operation.

Nofoto charges a fee of R5 per 5 litres of maize, using a 5 litre jug to measure out her customers' grain into the hopper. In her estimation, the service she provides offers her customers a cost saving. Table 3 summarises the cost savings, as estimated by Lihle.

Table 3: Custom milling cost savings.

| Product | Source | Cost | Milling Fee | Cost of 50 kg of Maize Meal |
|-------------|----------------|----------|-------------|-------------------------------|
| Maize grain | • Own* | unknown | R5/5 litre | $R5 \times 10 = R50$ |
| | • Wholesaler | R71/50kg | | $R71 + (R5 \times 10) = R121$ |
| Maize meal | • <i>Spaza</i> | R20/5 kg | – | $R20 \times 10 = R200$ |
| | • Wholesaler | R20/5 kg | – | $R20 \times 10 = R200$ |
| | • Retailer | R20/5 kg | – | $R20 \times 10 = R200$ |

Allowing for 5 litres to be roughly equivalent to 5 kg, we see that Nofoto's customers can save anywhere from R79 to R150 on 50 kg of maize meal, depending on whether they purchase maize grain from a wholesaler or harvest it from their own fields. According to Lihle, it is this cost saving that keeps customers coming back. For this reason, as well as because of the informal nature of the business, the family does no marketing of their services. All their clients learn about the service through word of mouth.

Financial profile

Given the informal nature of their milling enterprise, the Nofoto family maintains no records of the business's financial dealings. All payments are made in cash and they maintain no receipting system. The initial start-up capital, used to purchase the two mills, was provided by Nofoto and her daughter Madwibi from their own personal savings. Since Thesens Generators does not offer credit, both machines were paid for with cash at approximately R15 000 each. The overhead costs of running the business remain relatively low since the mills are housed within the Nofotos' garage. The major operating costs include the petrol and diesel for the mills and *bakkie*, as well as machine maintenance. Since only family members who do not receive a salary or wage operate the machine, there are no labour costs associated with the operation of the mill.

When asked to list the main factors limiting profitability, Lihle mentioned the following:

- frequent machine breakdowns due to grain impurities;
- rising fuel price makes service costly to low income customers ;
- low grain productivity within region reduces customer base since many households use the business for the processing of their own grain; and
- inability to expand operations due to low staffing.

In particular, Lihle stated that rocks and coins within customers' grain can damage the milling screen, which then needs to be replaced. In general, it may take anywhere from 4 to 12 weeks to replace parts and/or service the machines, largely due to the lack of ready cash to pay for repairs. Since the business's income stream is not separated from other household expenses and all profits earned are immediately spent, little income/cash is left to reinvest into the business. In fact, at the time of this study, one of machines was idle for this very reason. In Lihle's opinion, the inability to save on the parts of Nofoto and his sister creates a bottleneck in service provision, since machine repairs constituted the largest part of the operating expenses.

LOOKING AHEAD

As she looks towards the future, Nofoto envisions several scenarios for her *bakkie* milling enterprise. These include sale of the business, scaling up of operations, service diversification, and formalising the business. A brief description of each of these options is given below.

Sale of business: Realizing that none of the family members are willing to commit all of their time to developing the milling enterprise, Nofoto has on occasion considered selling the business assets to a more established small-scale miller. This option, however, is unattractive at this point given the household's dependence on the additional income stream, which allows the family to purchase luxury items and amenities.

Scaling up operations: Since they have already increased the geographic area of operation, Nofoto's family is now considering expanding operations by increasing the number of days on which they operate. In other words, instead of limiting service to weekends and holidays, they could provide milling services during the week. The challenge in this option is the availability of trustworthy labour. Since each of the current operators is already otherwise engaged in full-time employment, to expand the hours of operation would require hiring additional labour from the community at large. Given that the business is run on a cash basis with no formal receipting system, the family does not want anyone else to run the mill without direct family supervision.

Service diversification: The family has considered adding more services to the core function of milling grain for households in the area. Under this option, the family could purchase maize grain and produce a branded maize meal. Given the structure of the maize sub-sector in South Africa, however, access to white maize grain, outside of their own on-farm production, is constrained. Also, since hammer-milled maize meal has a limited shelf life of approximately two weeks, the appropriate timing of production and accurate prediction of local demand would be imperative to making this a viable option.

Formalise the business: If the family could grow the *bakkie* milling enterprise, they would consider formalising their operations through appropriate registration and compliance. Formalising the business could potentially open up new opportunities for financing and strategic partnerships. Under this option, the family could enter into full-time production milling, but such a move would require the following pre-requisite conditions:

- a steady year round supply of maize grain to achieve the necessary economies of scale;
- investment in appropriate technology that would allow for fortification of maize meal in order to comply with the Food Fortification Act. The price tag on such technologies can range from R750 000 to R1,7 million per machine;
- investment in appropriate maize meal packaging and labelling capacities; and
- registration with the South African Revenue Services, which opens the business up to taxation. Since this is a second stream of income for Nofoto, the tax rate may reach as high as 45%—a big financial disincentive for formalising business operations.

Maize meal continues to be a staple food within South Africa, particularly among low-income households. Efforts to reduce costs within the maize marketing system and to enhance low-income consumers' access to less expensive staple food can promote the country's objectives of national food security, efficiency, and competitiveness. The example of the Nofotos' family-owned milling enterprise illustrates the demand for hammer-milled maize produced by informal millers as well as the cost savings realised by households which obtain their maize meal through this marketing channel.

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SECTION C

Case studies of collective business enterprises

Chapter 7

INTABA FRUIT PROCESSING

A MATTER OF JAM

Edward Mabaya, Michelle Manket, Seth Mosner, Perla E. Parra, Krisztina Tihanyi

INTRODUCTION

Elouise Joseph sat in the company office on an early Monday morning, looking out a window upon the valley that supplied her company with fresh fruit. For Elouise, Intaba was a journey, a testament to her perseverance and an opportunity to affect the community in which she had always lived. Elouise, one of the nine partners of Intaba Fruit Processing (Pty) Ltd, was waiting to meet with Henry Leslie, another partner and acting head of the company. The two colleagues wanted to discuss the direction of the business, knowing that their decisions over the next few months would define the company's future. Their task was to position Intaba for sustainable success, while remaining loyal to their vision and corporate mission "to produce high quality products and create jobs that improve the livelihood of the community". The business had recently turned profitable, but the increasing volume of orders was proving too much for Intaba to handle.

Intaba—which means "on the mountain" in Xhosa—is a small enterprise that produces jams, marmalades, and preserves located in the Piketberg Mountains in the Western Cape. The region's abundance of fruit farms makes it an ideal location for a fruit processing company.

Intaba opened its doors for business in 2002. During the first five years of production the company struggled to remain afloat. "There have been a lot of sacrifices made to keep the company running," Elouise explained, as several employees held full-time jobs during the week to support their families and worked at the factory on weekends. Things changed for Intaba recently, however, when the company secured a sizeable contract with Woolworths. The contract with the high-end retail giant surpassed any past and present opportunities Intaba has had, and it required a massive increase in production; in fact, at the time of this writing production for Woolworths represented 95%

of Intaba's revenue. The company's management team projected that it would need to double its production level to fulfil demand.

Opportunities to grow represented new challenges for Intaba; rapid expansion and the possible mechanisation of various phases of production were of great concern to Henry and Elouise. We want to be a profitable company, but our mission is also to create employment for the community, Elouise thought, and mechanisation threatened to make superfluous some of the current employees. On the other hand, the inadequate production conditions and inefficient processes threatened Intaba's livelihood and potential for the future. Continued commercial success seemed to be in conflict with the company's community goals. Elouise let out a heavy sigh as she rose from the chair in her office, wondering whether Intaba could find a balance between profitability and supporting the community.

THE AGRO-PROCESSING SECTOR

Intaba is in the agro-processing industry, which contributes R124 billion to South Africa's gross domestic product and accounts for 16,4% of national manufacturing sales annually. The industry is highly consolidated due in part to the presence of multinational corporations, with 10 companies responsible for 70% of the sector's revenue (Department of Trade and Industry, 2010).

The South African fruit processing industry exports 85% of its collective production (Ross, 2007). The top five export destinations for agro-processed products are the United Kingdom (R1 971 million), the Netherlands (R1 546 million), Belgium (R908 million), Japan (R898 million) and Mozambique (R889 million). South Africa ranks among the top three global exporters of avocados (1), clementines (1), ostrich products (1), grapefruits (2), table grapes (2), and plums (3). (See Exhibit 3 for a trend chart of agro-processed exports.) Within the deciduous fruit processing industry specifically, South Africa is internationally competitive due to lower input costs and generally superior product quality. The industry's producers and manufacturers, however, lack industrial policy support from the government. The decline in export profitability has been largely attributed to the capture of margins by retailers (Ross, 2007).

THE FORMATION OF INTABA

Henry Leslie, an engineer who had previously worked for an aircraft manufacturer, played a pivotal role in the formation of Intaba. In 2001, Henry was part of a governmental committee established to study the feasibility of a community-owned enterprise in the Piketberg region. The committee

saw great potential in helping members of the local community establish a fruit processing company in an area surrounded by abundant fruit farms and available labour. The committee interviewed members of the Piketberg community and selected 21 people as potential co-owners of the company. The committee was looking for people with “qualities of leadership, initiative, and perseverance,” explained Henry. After a second round of interviews, eight community members were selected to join Henry as shareholders of a fruit processing company. “Intaba was formed out of an idea and a need to create jobs; there was no capital at the beginning to make this vision a reality,” Henry said. Elouise Joseph was one of the eight co-owners, and she was selected for her display of aptitude and passion to embark on this venture. At the time she had been unemployed for some time, a common trend in the Piketberg region, as most of the women work only during the fruit-picking and fruit-packing seasons. Now, almost a decade after the venture started, Elouise is second in command. She has lived on Piketberg Mountain all her life and is deeply committed to its people: “This is where I grew up, where I went to school, where my family lives, and where my children go to school; I care a lot about this community”.

FROM VISION TO REALITY

Intaba was officially established in 2002 with a grant of R300 000 from the Izandla Women’s Initiative, a group dedicated to building foundations for sustainable income-generating projects in rural South African communities (Vuya Investments, 2008). This grant enabled the Intaba team to purchase their future factory, a dilapidated mountaintop school owned by the Moravian church. Members of the Intaba team met with the local director of the Moravian church, and the building was ultimately purchased for a price well below the market and asking value. With the remaining funds, Izandla contracted the Agricultural Research Council (ARC) to provide technical training to the Intaba team at a highly subsidised rate. The ARC trained the group in the manufacturing of jams, chutneys, and dried fruits, as well as the regulatory procedures for handling food products. Intaba then used the rest of the grant money to purchase gas burners and 7-litre cooking pots, which could be used for small-scale production. At the time, the existing facilities and equipment allowed the team to produce approximately 200 units of output per day.

A difficult start

Elouise recalls having to walk 8 kilometres up the winding tarred road while carrying her toddler in her arms to get from the town to the top of the mountain for work. “Those were some difficult times,” Elouise reflected, “but I am still here on the mountain and at Intaba, and I want to take this business to the highest level possible so we are able to employ more people from the community”. Initially, the company struggled to find buyers and to meet its financial obligations. A few orders

for jams and chutneys did arrive, but they were small and irregular, barely generating enough revenue to cover the costs of raw material. “There were many times when we could not afford to pay a salary in cash. We often paid ourselves in the form of jams and marmalades, and tried to sell the merchandise on our own to get some cash,” explained Henry.

Searching for clients

The Intaba team attended numerous agriculture and wine trade shows to showcase their products, but enjoyed little success in terms of sales from these events. Henry recalled one specific three-day trade show, *Bien Donne*, where the company suffered a major loss; their product sales did not even suffice to cover the expenses of attending the show, such as transportation and the admission fee. A year later, however, an agent from the provincial government, who had been highly impressed by Intaba’s products and story at the exhibit, approached the company with an offer to incorporate Intaba into a government job creation programme. The programme provided grant money to upgrade the facilities to food health standards and to receive technical assistance and formal training for team members. A representative from the Council for Scientific and Industrial Research (CSIR) was commissioned to oversee the project; the R1 million grant was to be utilised strictly to upgrade the current building facilities and to purchase modern equipment for production and a pick-up truck for transportation. Intaba leveraged the funds to purchase a new cooking pot with larger capacity for production, paint for the building façade, and other construction materials to upgrade the facilities. The team performed much of the work themselves, including the painting and remodelling of the production building and offices.

In 2005, three people began working full-time at Intaba, earning a salary of R150 per week. Profits, however, were still negligible and inconsistent, and payment for employees during this period often continued to be in the form of jams and other manufactured products. Intaba persevered through its insolvency and continued to push its product into the marketplace. “We knew all along our product was unique, but we needed a big customer,” Henry recalled. Intaba approached several major retailers in South Africa to get its jams on store shelves, but most grocery stores requested free products and slotting fees that Intaba could not afford.

In 2006, the tide seemed to turn when Woolworths placed an order for 2 000 jars of jams and marmalades. Other similar orders followed, although, for a while, they were inconsistent and only for special occasions, such as Christmas, Mother’s Day, and Valentine’s Day. Finally, in September of 2009, the order Intaba had been waiting for arrived. Vuya Investments (Pty) Ltd, a majority women-led Black Economic Empowerment company that had recently become involved with Intaba, connected the company with a representative from Woolworths, who approached Intaba with an order of 40 000 jars of product per month, far above Intaba’s production capacity at the time.

INTABA'S OPERATIONS

Farms in close vicinity to the factory provide Intaba with a rich variety and ample supply of fruits. Intaba has formed relationships with the surrounding fruit farms through the Bo die Berg (community) Forum, which includes the Farmer's Association, unemployed community members, and other residents. All of the suppliers grow their fruit according to stringent international quality standards, as fruit production in the area is highly export-oriented. Although Intaba demands a relatively small amount of fruit from suppliers on a volume basis, local orchards often store Intaba's purchased fruit in their own facilities, due to the company's limited refrigerated inventory capacity. This allows Intaba to ensure a higher quality of their products by collecting only the quantity of fruit from farms that can be processed within each workday.

Management and employees

The management team comprises Henry Leslie, Jenine Jansen, Elouise Joseph, and Soly Jansen. Henry functions as the chief executive officer and primarily oversees daily operations, fruit purchasing, collection, delivery, and the company's finances. Although Intaba is definitely a team-oriented operation, in practice Henry oversees the management of the company and mentors the rest of the team. Being a white South African (and, as he puts it, "previously advantaged"), Henry has the benefit of a good education and years of management experience that the rest of the team have not had access to.

Elouise is second in command as vice chairman of the executive committee. Her main responsibilities are quality inspection, inventory management, and marketing. As of late, she has also been assuming more and more overall management functions. Soly serves as production manager, and Jenine supervises labelling and packaging. Together, the four represent a capable and hardworking management group, but their main problem, as Henry described it, is that they "are so involved in the day to day operations that it's hard to find time to think about the big picture". The four managers spend most of their working day supervising factory production, rather than focussing on future plans for developing the business. Reflecting Intaba's mission, production employees are hired from the local community, and they are generally without formal education and receive only basic, on-the-job training when hired. As a consequence, the managers must monitor the production process closely throughout the day. Due to Intaba's made-to-order production schedule and the inexperience of employees, many of whom have never been employed full-time, management is apprehensive about delegating the responsibilities of daily tasks to others.

Facilities and capacity

There are currently 21 full-time employees at Intaba. The company produces 38 varieties of jellies, jams, preserves, and apple sauces. The current facilities include a production building, an office

building and two large storage containers, one of which functions as the freezer and the other as a labelling and storage area. These facilities are located approximately 100 metres from the tar road atop Picketberg Mountain, allowing for limited truck access only.

There are five manufacturing staging areas inside the production building: receiving, the cloakroom, preparation, cooking, and bottling. The cloakroom contains a sink for sanitation before employees enter the factory and lab coat storage. Inside the factory there are two specially designed steel tables for fruit preparation, one 480-litre steam cooker to make the jams and marmalades, one 480-litre pot for pasteurisation, quality control equipment (for pH level and sugar content measurements), a trolley for transportation, and steel tables used for packaging. This equipment accounts for Intaba's operational assets.

Production

The production process starts in the receiving area, where the fruit arrives in wooden bins of 500 kg and is inspected for quality before being moved to the preparation area. The batches of fruit are brought with certificates of traceability from the suppliers, and Intaba's employees record every step of the production process on a job card, accounting for all costs incurred and specific batch measurements. This allows for precise tracing in case of a customer complaint or product recall. Once the fruit enters the preparation area, it is put into water pools in the centre of the specially designed tables, which are surrounded by 16 workers who peel, pit, and inspect the fruit against specified standards of quality. The accepted fruit is separated into 10 kg bags and each is marked with a batch tag specifying its date, weight, and supplier. Thereafter the fruit is taken either to the cooking area for processing or to the freezer to be stored for later use.

Once the cooking process concludes and the batch meets quality standards it is ready for bottling. Bottles and caps are brought into the bottling area from one of the storage containers and, once the bottles are sterilised, as many as eight workers line up to begin the process, which takes about 45 minutes to complete. Once the bottling has been completed, the jars are pasteurised and placed back on the trolley with a batch tag, washed, cooled, and left to dry.

Just before labelling, the product is tested for the correct sugar content, consistency, colour, and texture. Next comes labelling, a rather tedious process done by hand; it takes four people about one hour to label 170 jars. The jams or marmalades are then packaged into 12-jar boxes, 108 of which fit on one pallet. Intaba completes about four batches per day, and it generally takes four days to complete a typical Woolworths order. (See Figure 1 for the production flow chart.)

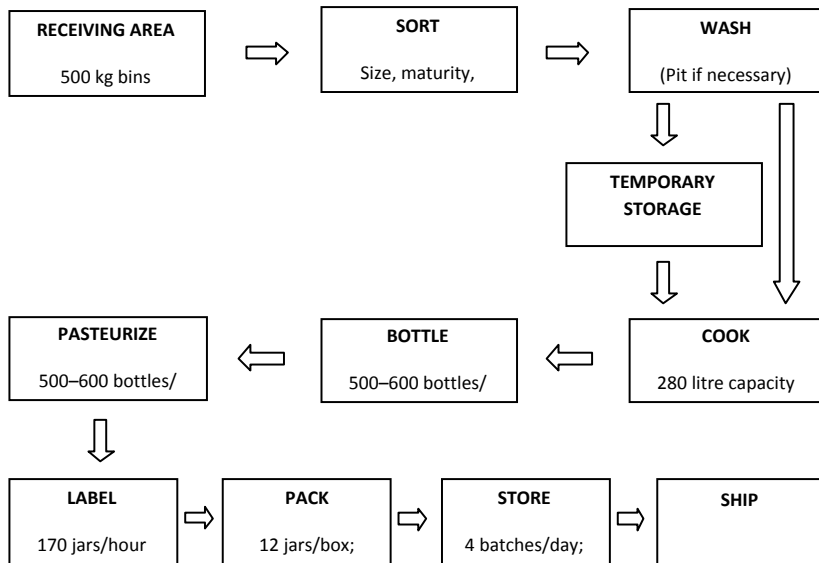


Figure 1. Production flow chart.

Developing the flavours

Prior to working for Intaba, none of the employees or managers had any experience working in the agro-processing food industry. After the team was initially trained to process fruit and make jams, they were left to create all of their unique flavours and recipes by themselves. The team develops each recipe with passion through an *ad hoc* process and sends new products to be informally tested by “friend and enemies,” as Henry put it, to ensure that they receive unbiased reviews. Some flavours were invented for practical reasons, such as the spicy fig jam, which was developed when Intaba had an excess fig supply. Others, however, such as the strawberry rose jam, were created for special occasions, including Valentine’s Day and Christmas. Table 1 shows a complete listing of Intaba’s flavours, prices, and their corresponding harvest seasons.

Table 1: Intaba's flavours, prices, and harvest seasons.

| Product | Store Price | Harvest Month | | | | | | | | | | | | |
|-----------------------------|-------------|---------------|---|---|---|---|---|---|---|---|---|---|---|---|
| | | J | F | M | A | M | J | J | A | S | O | N | D | |
| Apple & Cinnamon Jam | R14,00 | | | X | X | X | | | | | | | | |
| Apple & Ginger Jam | R14,00 | | | X | X | X | | | | | | | | |
| Apple & Plum Chutney | R14,00 | | | X | X | X | | | | | | | | |
| Quince and Honeybush | R14,00 | | | X | X | | | | | | | | | |
| Lime Marmalade | R14,00 | | | | | | | X | X | X | X | | | |
| Orange Marmalade | R14,00 | | | | | | | X | X | X | X | | | |
| Buchu Marmalade | R14,00 | | | | | | | X | X | X | X | | | |
| Three Citrus Marmalade | R14,00 | | | | | | | X | X | X | X | | | |
| Green Fig, Pear & Honeybush | R14,00 | | | | | | | | | | | X | X | X |
| Peach and Honeybush Jam | R14,00 | X | | | | | | | | | | | | X |
| Plum & Honeybush Jam | R14,00 | X | X | | | | | | | | | | | X |
| Granny Smith Apple Sauce | R14,00 | | | | X | X | X | | | | | | | |
| Pink Lady Apple Sauce | R14,00 | | | | X | X | X | | | | | | | |
| Grape Fruit Marmalade | R15,00 | | | | | | X | X | X | | | | | |
| Apple & Rooibos Jam | R16,00 | | | X | X | X | | | | | | | | |
| Apple Basil Jelly | R16,00 | | | X | X | X | | | | | | | | |
| Apple Mint Jelly | R16,00 | | | X | X | X | | | | | | | | |
| Apricot Jam | R16,00 | | | | | | | | | | | X | X | |
| Quince Jelly | R16,00 | | | X | X | | | | | | | | | |
| Wild Watermelon Preserve | R16,00 | | | | X | X | X | X | | | | | | |
| Tomato and Basil Jam | R16,00 | | | | X | | | | | | | | | |
| Persimmon and Ginger | R16,00 | | | X | X | | | | | | | | | |
| Ginger Marmalade | R16,00 | | | | | | | X | X | X | X | | | |
| Whole Kumquat Jam | R16,00 | | | | | | | | X | | | | | |
| Apricot & Honeybush Jam | R16,00 | | | | | | | | | | | X | X | |
| Blackberry Jam | R16,00 | | | | | | | | | | X | X | | |
| Blackberry & Apple Jam | R16,00 | | | | | | | | | | X | X | | |
| Whole Green Figs | R18,00 | | | | | | | | | | X | X | | |
| Spiced Figs | R18,00 | X | X | | | | | | | | | | | |
| Raspberry Jam | R18,00 | | | | | | | | | | X | X | | |
| Aloe Marmalade | R20,00 | | | | | X | X | X | X | | | | | |
| Strawberry and Rhubarb Jam | R20,00 | | | | | | | | | | | X | X | |
| Strawberry & Rose | R20,00 | | | | | | | | | X | X | X | X | |
| Blueberry & Marula Jam | R20,00 | | | | | | | | | | | X | X | |
| Blueberry and Rhubarb Jam | R20,00 | | | | | | | | | | | | X | |
| Cherry & Strawberry Jam | R20,00 | | | | | | | | | | | X | X | |
| Blueberry & Raspberry Jam | R20,00 | | | | | | | | | | X | X | | |

Production—a summary

Given its recent growth, Intaba is constrained by its present production facilities. At present, each batch of jam it makes yields 500 to 600 jars. The equipment is capable of producing 2 000 jars of jam per day, but Intaba restricts the size of batches in order to ensure product quality. In other words, Intaba would be able to increase production only if it had a net set (or sets) of equipment that could simultaneously produce jam. Other equipment constraints include the freezer, which at present is too small to hold large quantities of fruit, and the lack of storage space to stock inventory. There is a single equipment line on which all fruit sorting, washing, peeling, bottling, and labelling is completed by hand, which can get crowded and presents a less-than-ideal production environment. In short, additional production capacity would clearly enable the company to produce more jam, although it is also keenly aware of the value the handmade attribute adds to its product.

WOOLWORTHS: A TURNING POINT FOR INTABA

The relationship with Woolworths

In 2006, CSIR brought Woolworths to Intaba in hopes of piquing the retailer's interest in the company's product. (See Box 1 for more information on the Woolworths company.) It took a full two years for Woolworths to contact Intaba and to begin negotiating the terms of business for holiday orders. For the following two years, Woolworths placed only two orders per year for special occasions. It was not until 2009 that the retailer began to purchase regularly from Intaba. Today, Intaba sells a variety of products to the grocery chain, which sales constitute 95% of Intaba's business, or 20 000 jars per month. Woolworths would like to receive 40 000 jars per month, but at present Intaba cannot satisfy this demand. Woolworths has committed to helping Intaba expand gradually, with the goal of both fulfilling the complete Woolworths order and developing new retail channels. Woolworths has also supported Intaba beyond its corporate responsibilities. Ceri Coxon, head of trading at Woolworths, has become a personal mentor to Elouise through the development of their professional relationship.

Woolworths has a highly selective vetting process for each potential new supplier to ensure that its values and culture are aligned with its own, which are based on factors that include quality, ingredient origin, health, and the environment. Once the terms of trade have been set, Woolworths displays unparalleled loyalty to its suppliers by investing in equipment and facility development, agreeing to flexible payment terms, and, if necessary, helping them apply for government grants. Currently, Intaba's only steady revenue stream is derived from Woolworths. Due to its production limitations, Intaba is restricted to serving this sole client. There is significant risk associated with

its lack of client diversification. In fact, many consumers of Intaba’s jams are unaware that they are ‘eating Intaba,’ because Woolworth’s uses its private label on all Intaba products.

The issue of branding

As a general practice, Woolworths uses its private label for the majority of the commodity and value-added products for sale in its retail locations. There is little information about the supplier on these jars and, in effect, Intaba’s story is lost to the consumer. There is an Intaba label for jars sold outside Woolworths, but these can be purchased only from the factory store, which severely limits Intaba’s exposure as an independent brand (see Figure 2 for images of Intaba’s products). A rudimentary, self-made website currently exists through a free domain hosting site, which serves to market Intaba. The company is hesitant to improve the site due to its fear of inviting online orders that it will not be able to satisfy given the current production limitations. The concern about production limitations notwithstanding, Intaba continues to attend trade and food shows to gain exposure.

Box 1. Woolworths: A Company Background

Founded in 1931, Woolworths has upheld a reputation of providing high quality products for monetary value. After 74 years of operation, it has 149 corporate-owned stores, 51 international franchise stores throughout Africa and the Middle East, and 69 South African franchises (Woolworths online). Woolworths targets the luxury class consumer by focussing on households of a Living Standard Measure of 8 and above (South African Advertising Research Foundation). (See Box 2.) They position themselves as an upscale supermarket chain in South Africa that promotes its social conscience. The majority of goods, including Intaba’s products, are sold under the Woolworths private label.

Small Enterprise Development at Woolworths

According to the Woolworths website, “Woolworths is committed to supporting existing suppliers to improve their empowerment credentials and introducing small, medium, black-owned and black women-owned suppliers to the business”. To achieve this goal, the company created an enterprise development division, which is in charge of identifying and working with black-owned enterprises. Participating companies such as Intaba represent Woolworths’ entire supply chain (e.g., farmers, producers, transportation companies, etc.) and have access to a range of services. In the financial arena, supported companies are eligible for loans, shorter payment terms than usual (as short as one week), and, in some cases, grants. Woolworths also provides business training, coaching, and mentoring in an effort to maximise the long-term benefits of its financial support, the latter often through partnerships with other organisations, such as business training outfits. According to its website, in 2010 the company was assisting 25 black-owned enterprises. The company sees this effort “as an investment in the future of our business supply chain, the wider economy and the society in which we operate” (Woolworths, 2010).



Intaba private label



Woolworths label



Intaba company logo

Figure 2. Intaba's product labels and company logo.

Pricing and perceived quality

Although Intaba has a unique, premium-quality product, the jam market in South Africa is highly developed and competitive. Retail outlets selling jams and jam-like products are likely to carry dozens of brands, each with multiple flavour options. The case study team completed an informal study of perceived competitor quality that assessed the following factors: the calibre of store in which competitive products were found, the number of varieties offered, shelf placement, featured marketing materials, and packaging quality and design. Intaba products ranked 4th out of 13 brands surveyed, which included All Gold Brand, So!Go, Weigh-Less, Thistlewood Diabetic, St. Dalfour, Hillcrest Berry Orchards, Danish Choice, Ritebrand, and hand-crafted products found at independent farm stands and wine outlets. Despite Intaba's high quality, its products were priced well below most of the competition based on comparisons of 100-gramme units. See Figures 3 and 4 on price comparisons and perceived quality. Box 2 provides information on Hillcrest Berry Orchards, a key competitor to Intaba.

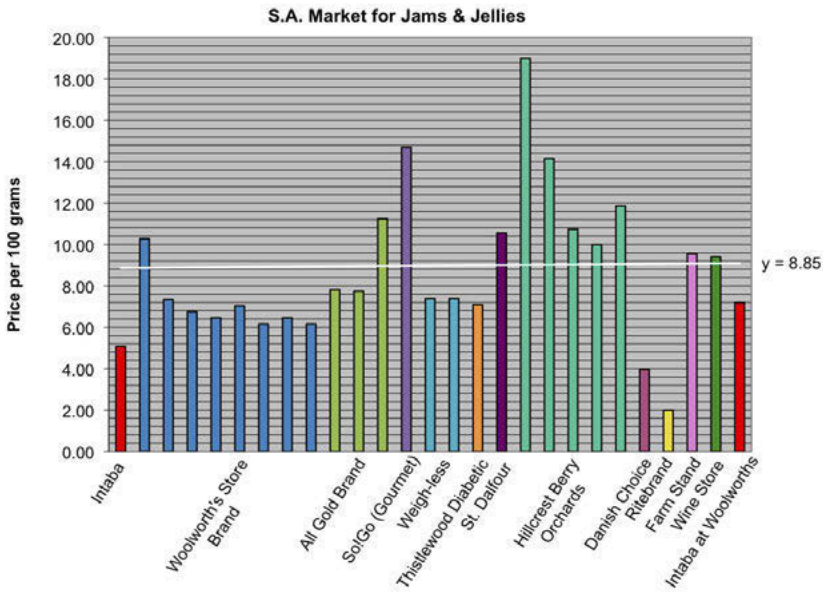


Figure 3. Price comparison between Intaba and other brands.

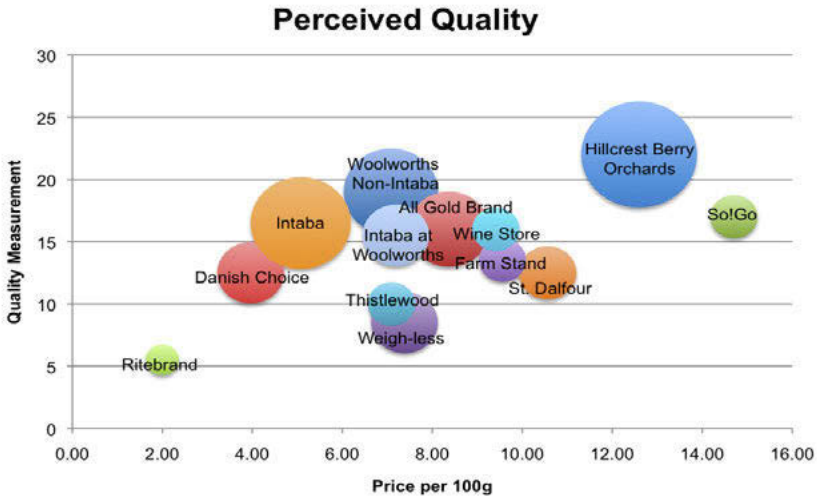


Figure 4. Perceived quality of Intaba and competitors' products.

Box 2: Spotlight on a Competitor: Hillcrest Berry Orchard

One notable competitor that is an exemplar in the industry is Hillcrest Berry Orchards. As a family owned company established in 1989, it has built a strong “reputation for attention to detail, innovative ideas, and exceptional service”. The Hillcrest farm shop sells a wide range of products including fresh and frozen berries, jams, dessert toppings, relishes, jellies, berry vinegars, and liquored berries, and has a restaurant and tea garden on the premises. Hillcrest has a well developed website (<http://www.hillcrestberries.co.za/>) that showcases relevant certificates for food safety inspection standards and Black Economic Empowerment ratings, as well as its product lines categorised as fresh, frozen, jams and honeys, gifts, hospitality, and condiments. Additionally, Hillcrest Berry Orchards has published books, recipes, and created a partnership with Carlsbad Cottages, a resort nearby the premises. As a result of its highly developed image, Hillcrest Berry Orchards is able to set a higher price point than Intaba. It employs marketing schemes such as selling jam gift sets of three 30 gram tasting sizes, which allows Hillcrest to charge more per gram than for product sold in the typical 320 gram jars.

LOOKING AHEAD

“The necessity to grow is undoubted, but where do we begin?” – Henry Leslie

“We must not sacrifice our mission and our pledge to this community.” – Elouise Joseph

Ultimately, both Henry and Elouise recognise the inherent risk of Intaba’s dependence on a single buyer and the immediate need to find the ‘next Woolworths’ to add to their portfolio of clients. The task for Intaba is to achieve two-pronged growth, both in production capacity and in brand/financial strength. They sat and wondered if there was a single solution to their predicament. To what degree could Intaba mechanise and automate without losing its sense of identity? Should the company move to a larger location or attempt to maximise production on its current site? Did Intaba need professional management? How could the company embark on sophisticated pricing and market strategies, considering its budget constraints? Was there another strategic partner in South Africa and, if so, should new business development come at the expense of Intaba’s current relationship with Woolworths?

There was more than a company at stake. An entire community looked to Intaba to embody the very ideals with which the country had approached its transformation. Intaba was a brand with a story—a company with a vision of community transformation that preceded the birth of a successful product. Can Intaba upgrade its efficiency without abandoning its founding vision?

POSTSCRIPT

The Intaba case study was completed during the period of January to May, 2010. Further editing was done on the case study in September 2010, when the editors also acquired updated information on the company from an interview with Woolworths Enterprise Development programme manager Kenneth Carden. He confirmed Woolworths' dedication to Intaba as a business partner and said that it was one of the success stories of the Enterprise Development programme, and one he personally cared about a great deal. He did add, however, that following January 2010, the company went through a challenging period. As we saw above, at the time of the initial research, Intaba was looking at the possibility of large monthly orders from Woolworth (40 000 jars), which challenged it to consider how to expand existing capacity of 20 000 jars per month. As the holiday season passed, however, Woolworths' order decreased substantially, creating some confusion at Intaba about whether company expectations had in fact been correct. According to Kenneth Carden, the confusion was in large part due to lack of communication between the retailer and Intaba, which failed to prepare the company for what is in fact a usual sales pattern (initial large orders followed by smaller orders, stabilising over time). Once the communication problem was resolved, however, the relationship was restored and Intaba was in fact given a new loan from Woolworths to help expand its business.

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Chapter 8

FORT HARE DAIRY TRUST

TRAINING A NEW GENERATION OF BLACK COMMERCIAL DAIRY MANAGERS

Maureen Bandama

INTRODUCTION

Leonard Mavhungu has received much media attention for his successful establishment and running of Fort Hare Dairy Trust (FHDT) since 2007. FHDT represents an example of successful skills development from experienced white commercial dairy farmers to formerly disempowered young black South Africans. While Leonard manages this “flagship” farm, he has taken on the task of mentoring and developing other young black dairy managers for commercial dairying. FHDT has become an established centre of practical training in commercial dairy management, churning out a breed of highly trained black commercial dairy farm managers.

Leonard Mavhungu has been running FHDT since its establishment, and he has played an instrumental role in achieving the mission of demonstrating low-cost, high-profit, sustainable pasture-based dairy farming. With a vision “to establish a centre for excellence in pasture based dairy in Africa”, FHDT represents the results of cooperation not only across racial lines but among the commercial agriculture sector, business, and academia. Yet Leonard sees FHDT as representing an opportunity to access economic opportunities.

In FHDT’s farm office, a lengthy to-do list is displayed on a wall. The attention to every minute detail is meticulous as even tasks that may seem ordinary and mundane are listed and ticked off upon completion. This attention to detail clearly shows the dedication Leonard and his team have for their work and their company. As Leonard looks to the future, he envisions a time when he will move beyond being the manager of a successful commercial dairying enterprise, to owning one.

BACKGROUND

Dairy farming in South Africa

Although more than 80% of South Africa is dry to semi-arid with unreliable rainfall, dairying is still an important contributor to South African agriculture, generating employment for about 60 000 farm workers and indirectly providing jobs to approximately 40 000 people. Milk production in South Africa is concentrated in the coastal areas, where the system of production is generally characterised by vast natural and irrigated pasturelands. The coastal climate and natural resources allow for lower-cost dairy production. Coastal production is largely motivated by the need to gain efficiencies in production and to reduce costs following increasing feed and fodder prices on the markets (Gertenbach, n.d.). In addition, pasture-based herds have higher total milk production than intensive non-pasture-based herds. Peak milk production occurs between September and November, while the colder winter months of May and June generally have the least milk production.

Dairy farmers in South Africa prefer the following six breeds of cattle: Holstein-Friesland, Jersey, Ayrshire, Guernsey, Swiss (Brown- and Dairy-), and Dairy Shorthorn. The Holstein-Friesland is by far the most popular, followed by the Jersey, Ayrshire, and Guernsey (Gertenbach, n.d.). These popular breeds are preferred for the milk yields and their good feet and strong legs that can withstand the South African terrain. Other factors such as fat and protein yield, udders, dryness, and body capacity are also important in the selection of breeds.

Although increases in input prices of pasture inputs such as fertiliser and fuel usually limits production in both intensive and pasture-based herds (NAMC, 2008), South African milk production shows an increasing trend over time. Total milk production increased from 2,425 billion litres in 2006 to an estimated 2,5 billion litres in 2009 (NAMC, 2008; Milk Producers Organisation, 2010).

According to the Milk Producers Organisation (2010), the average milk production per cow per day was 17,3 litres/day in 2009. A total of 89% of milk was sold in the formal market and 3% informally. The rest of the milk was used for own consumption and for feeding calves. Major milk buyers use the comparative base-pricing purchasing systems, i.e., pricing according to composition (milk fat and non-fat solids) and hygienic quality of milk. To the base price several premiums (e.g., volume) are added and penalties are deducted (NAMC, 2001, p. 36)

Consistent with worldwide trends, South Africa is characterised by falling milk producer numbers as shown in Table 1. With a milk producer base of 3332 as of May 2010, the South African Dairy industry has experienced a 53% decrease in the number of producers since 1997 (Milk Producers Organisation, 2010). As Table 1 shows, the Eastern Cape province, where FHDT is located, has

354 dairy farmers, representing just over 10% of South Africa's dairy farming population. This number is significantly smaller than the 717 farmers of 1997.

Table 1: South Africa's declining dairy producer numbers.

| | December 1997 | January 2006 | January 2007 | January 2008 | January 2009 | March 2010 |
|---------------------------|------------------|-----------------|-----------------|-----------------|-----------------|---------------|
| Western Cape | 1 577 | 878 | 827 | 815 | 795 | 754 |
| Eastern Cape | 717 | 422 | 420 | 407 | 387 | 354 |
| Northern Cape | 133 | 39 | 37 | 34 | 37 | 45 |
| Kwa-Zulu Natal | 648 | 402 | 385 | 373 | 373 | 348 |
| Free State | 1 204 | 1 067 | 987 | 919 | 884 | 835 |
| North-west | 1 502 | 649 | 596 | 549 | 540 | 507 |
| Gauteng | 356 | 275 | 245 | 228 | 217 | 212 |
| Mpumalanga | 866 | 407 | 357 | 302 | 286 | 248 |
| Limpopo | 74 | 45 | 45 | 38 | 32 | 29 |
| Total Producer Numbers | 7 077 | 4 184 | 3 899 | 3 665 | 3 551 | 3 332 |

Data Source: Milk Producers Organisation, 2010.

While farm numbers have been on the decline, farm and herd sizes have shown increasing trends worldwide. As Table 2 shows, declining farm numbers are a worldwide trend but this has been accompanied by increases in average herd size. When farmers exit the dairy industry, their farms are usually bought out by other more viable dairy farmers. The number of producers then decreases while herd sizes and sometimes farm sizes increase.

Table 2: Dairy statistics worldwide.

| | Number of Dairy Producers (1997) | Number of Dairy Producers (2008) | Annual Milk production (Billion litres) (2008) | Mean number of cows (2008) |
|--------------|-------------------------------------|-------------------------------------|---|----------------------------------|
| South Africa | 7 077 | 3 665 | 2 290 | 151 |
| New Zealand | 14 362 | 11 618 | 16 044 | 336 |
| Australia | 13 000 | 7920 | 9 388 | 200 |
| UK | 31 753 | 17 060 | 13 332 | 112 |

Data source: Australian Dairy Industry in Focus, 2009; Milk Producers Organisation, 2010; DairyCo Datum, 2009; LIC; DairyNZ, 2009.

Falling producer numbers are due in part to increasing milk production costs along with volatile farm-gate prices, which cause many farms to become unviable and many dairy farmers to exit the industry. Worldwide, although milk prices at the retail level have increased, this raise has rarely been accompanied by increases in the farm-gate price of milk. As a result, the farmer's share of the milk dollar has been declining, which has led to concerns about the market power dynamics within the supply chain. Retailers and milk processors are thought to possess significant market power (buyer power), which they in turn exert on farmers who are the “weakest” within the supply chain.

A historical overview of dairy marketing in South Africa

The South African agricultural sector was previously highly regulated. The dairy sector was governed by various milk and dairy boards, which have applied regulations such as minimum pricing since the 1930s. Legislation such as the Marketing Act of 1937 (Act 27 of 1937) and later on the Marketing Act of 1968 (Act 59 of 1968) served to provide the framework of operation within the dairy sector. However, from the early 1970s, the dairy sector underwent a gradual deregulation process that began with a change in legislation governing the colouring of margarine. This was followed by a series of moves towards total deregulation and culminated in the promulgation of the Marketing of Agricultural Products Act of 1996 (Act 47 of 1996) (Du Toit & Ortmann, 2009). The Marketing Act of 1996 marked the end of decades of regulation and the beginning of the “market” era for South African agriculture, including the dairy sector. The deregulation process had significant impacts on the dairy industry. It “dismantled the existing state-managed marketing infrastructure that had linked co-operatives, agri-processors, marketing boards and marketing agents” (Qeqe & Cartwright, 2004, p. 2)

Dairy farmers

The South African dairy supply chain is characterised by many dairy farmers transacting with a few milk buyers. Within the fluid milk supply chain, there are just over 3300 dairy farmers, who sell their milk to about 135 milk buyers and 148 producer distributors. Most provinces have a dominant milk buyer. Table 3 depicts regional market shares in terms of milk procurement in South Africa's provinces. In the Eastern Cape, where FHDT is located, three processors (Parmalat, Clover, and Nestle) procure over 80% of raw milk produced.

Table 3: Regional market shares in raw milk procurement of major producers.

| | Ladi-smith Cheese | Dairy-belle | Wood-lands Dairies | Parmalat | Clover | Nestle | Other |
|---------------|----------------------|-------------|-----------------------|----------|--------|--------|-------|
| Western Cape | | 32,1% | | 30,1% | | 11,5% | 26,4% |
| Eastern Cape | | | 9,9% | 27,8% | 29,2% | 26,4% | 5,1% |
| KZN | | 3,6% | | | 78,1% | 11,5% | 7,1% |
| Free State | | | 9,3% | | | 68,3% | 19,5% |
| North West | | 50,5% | | | 36,6% | | 13,1% |
| Mpumalanga | | | | | 77,3% | | 22,9% |
| Southern Cape | 10,9% | | 47,3% | | 27,8% | | 13,9% |

Source: Chabane, Rakhudu, & Roberts, 2008 citing BFAP, 2006.

The South African dairy sector is highly concentrated. Although there were up to 148 producer distributors and 135 milk buyers in the country in 2009, the reality is that 10% of the buyers of raw milk bought 90% of the milk from farmers (NAMC, 2009, p. 13) “During 2000, the four largest dairy companies processed between 74% and 78% of the total of commercial milk delivered to dairies” (NDA, 2003, p. 214). By 2006 it was estimated that four of the largest processors accounted for roughly 65% of the total commercial milk delivered from producers (Cutts & Kirsten, 2006, p. 6).

This phenomenon of multiple and mostly fragmented dairy farmers supplying a small number of processors within the supply chain is a dominant characteristic of the market worldwide. In Australia, for example, three milk processing companies account for over 70% of milk purchased (Murray Goulburn, 37%; Fonterra, 20%; and National Food, 15%) (Commonwealth of Australia, 2010, pp. 15-16). At the retail level, over half of Australia’s drinking milk is sold by two major supermarket chains. The result is that dairy farmers are price takers who face concentrated and powerful processors and have very few alternative markets for their milk.

Processing sector

Post farm-gate, the South African dairy market is divided into 60% liquid and 40% concentrated products. As shown in Figure 1, among the concentrated products, hard cheese is the most prominent product (Milk Producers Organisation, 2010).

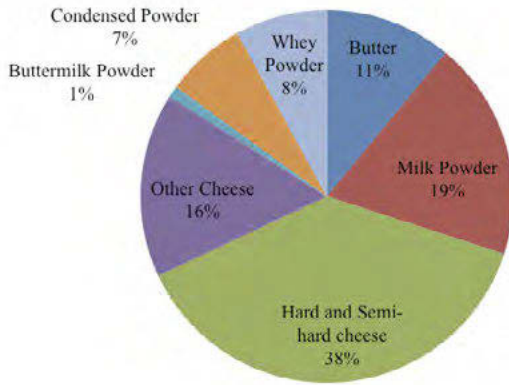


Figure 1. Concentrated milk products on a mass equivalent basis (2009).

Ultra high temperature (UHT) milk and pasteurised milk are the major liquid products (over 70% of the total), while products such as yoghurt and buttermilk take smaller shares (see Figure 2).

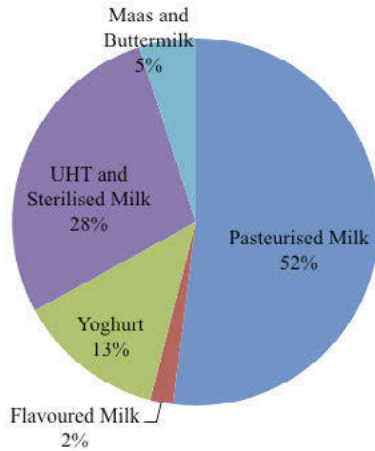


Figure 2. Liquid Products on a milk equivalent basis (2009).

Evidence of concentration can be found at the processing stage of the supply chain. For instance, of the six processors of UHT milk to the market, the top three supplied 80% of milk in UHT market in 2006 (Woodlands Dairy, 35%; Parmalat, 35%; and Clover, 12%) (NAMC, 2009, p. 13)

Box 1: Profile of Clover Industries Limited

As of 2008, Clover Industries Limited, a part of Group Danone was the largest competitor in the South African milk market, with a 35,4% share of revenues. In 2009, Group Danone's market share was down to 23,4%, although the group remained the largest player in the milk market. Parmalat's market share by value increased from 18,85% in 2008 to 23,2% in 2009. Danone is South Africa's largest dairy company and one of the leading manufacturers and marketers of food products in Southern Africa. Clover processes some 30% of South Africa's milk in 17 factories and distributes its range of dairy and related products through 33 distribution depots. The company has around 5800 employees and is headquartered in Roodepoort, South Africa. Headquartered in Parma, Italy, Parmalat employed about 15 475 people as of 31 December 2007. The Parmalat group specialises in the production of milk and other dairy products. The milk products division produces milk and cream, including UHT, pasteurised, functional, flavoured, sterilised, and powdered products. The dairy products division produces yoghurt, desserts, ice cream, cheeses, margarine, and butter.

Source: Datamonitor 360, 2010.

Retail sector

Downstream in the supply chain, retailers represent the primary outlet for dairy products to the consumer. "Most dairy products are distributed through hypermarkets and supermarkets, which negotiate prices on a central and/or regional basis. This puts them in a position of strength" (NDA, 2003, p. 217). A structural oligopoly, the country's retail sector is dominated by four main supermarket groups (some of which have chains trading under different names). These retailers—Shoprite/Checkers, Pick 'n Pay, Spar, and Woolworths—jointly control over 75% of the retail food market in South Africa and serve as the main distribution centres for dairy products. Table 4 illustrates the market share of the largest supermarkets in South Africa.

Table 4: Market share by supermarket in South Africa.

| Supermarket | Market Share, 1999 (%) | Market Share, 2004 (%) | Market Share, 2005 (%) |
|--------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Shoprite/Checkers | 31,0 | 26,3 | 26,2 |
| Pick & Pay | 21,9 | 24,7 | 25,3 |
| Spar | 15,0 | 15,2 | 15,3 |
| Woolworths | 10,4 | 10,4 | 10,1 |
| Other | 21,7 | 23,4 | 23,1 |

Source: (Funke, 2006)Funke, 2006; NAMC, 2009.

South Africa's retail sector is characterised by intense competition for market share. As supermarket chains gain greater market shares, South Africa's processors face greater buyer power (Mather, 2005, p. 8). So while dairy processors are positioned to exert market power on the large number of mainly fragmented dairy farmers, they have to contend with an increasingly powerful and concentrated retail sector which is their main distribution channel. Buyer power within the supply chain causes concern because it may have an adverse effect on producer viability as well as efficiency. When buyers (retailers and dairy processors) exercise buyer power against sellers (farmers), causing lower returns than those that would be experienced in the absence of significant buyer power, such pressure affects viability, negatively influences production decisions, and may have undesirable long-run effects on consumer welfare (NAMC, 2009, p. 9).

THE BIRTH OF FHDT

The end of apartheid marked a new era in which it was necessary to redress the injustices of the past. Within the agricultural context, land reform represents a critical pillar for transformation. South Africa's land reform process has three main components: land restitution, land redistribution, and land tenure reform (Thwala, 2006). A feature of land reform had thus far been that "new" recipients of land were often unskilled and inexperienced in farming resulting in under-utilisation of land, if any farming took place at all.

To further facilitate transformation, the government through the Broad Based Black Economic Empowerment Act of 2003 embarked on a transformation programme. The key objectives of Broad Based Black Economic Empowerment are

- to transform South Africa's economy to allow meaningful participation by black people;
- to substantially change the racial profile of companies' owners, managers, and skilled professionals;
- to increase the ownership and management of companies by black women, communities, workers, cooperatives and others, and help them access more economic opportunities;
- to promote investment that leads to broad-based and meaningful participation in the economy by black people;
- to help rural and local communities access economic opportunities; and
- to promote access to finance for black economic empowerment (Codes for Better BEE, 2011) (Codes for Better BEE, 2011)

In light of these objectives, a group of 70 successful white commercial dairy farmers from

the Eastern Cape and KwaZulu-Natal formed Amadlelo Trust in 2004 as a vehicle for white commercial farmers to foster long-term partnerships with emerging (black) farmers and provide them with training and resources as part of the transformation of the country's agricultural and agribusiness sectors. Armed with a vision of creating "Profitable Black Empowered Agri Business", Amadlelo partnered with Vuwa Investments and the farmers' approximately 600 farm workers and approached the University of Fort Hare (UFH). Vuwa Investments is a black economic empowerment company with a vision to contribute towards and facilitate the broad-based economic transformation agenda. UFH is a historically "black" tertiary education institution established in the town of Alice in 1916. UFH had unutilised land (courtesy of the Department of Agriculture) and academic knowledge; Amadlelo had commercial dairying experience and put up R5 million, while the Land Bank made available R15 million in credit and equity.

The goals of the partnership between Amadlelo and UFH were to establish successful dairy farms on redistributed land; to promote the successful adoption of pasture-based dairy production; to establish a skills transfer programme involving the local community and training participants to manage dairy farms; and to provide employment for community members on the farms. Currently the 70 white commercial farmers own 49% of Amadlelo; Vuwa Investment, 35%; and the 600 farm workers, 16%. Amadlelo Agric was a recipient of a Gold Award from Impumelelo Innovations Awards Trust in the 2010 Sustainability Awards. Impumelelo identifies, rewards, and promotes good governance and service delivery through an annual awards programme, case study research, policy analysis, and training workshops, and it encourages the replication of innovations in the public sector and civil society (Impumelelo, 2010).

Professor Jan Raats, executive dean of the Faculty of Science and Agriculture, recalls that he was "excited out of his shoes" about the opportunity presented to UFH. From his perspective, the new collaborative enterprise presented an excellent opportunity for an academic institution to work together with the commercial agricultural sector. Professor Jan Raats explains, "You cannot teach the business of agriculture from a book. It is the farmers who know best about the business of farming. If you make money, you can teach others to make money. If we are to have successful black farmers, then we must train them how to make money."

Amadlelo established a two-year internship programme for students interested in commercial dairy farming. During this period, interns spent time learning about the business of dairying from successful white commercial farmers through practical experience. The two-year farming programme attracted the attention of Leonard Mavhungu, who had a desire to get into farming. Originally from Thohoyandou in Venda, Leonard worked for Rand Water before joining Amadlelo. In his early thirties, Leonard began the internship in 2005 with a passion for farming but no experience. He distinguished himself and when he completed the internship programme, Leonard

was recruited by Amadlelo to set up FHDT. In 2007, together with his family, Leonard set out to turn the land next to UFH into a productive commercial farm. He maintained close ties with his mentors from Amadlelo Agric and by October 2007, began operations at FHDT.

The vision of FHDT from its conception has been to establish a centre for excellence in pasture-based dairy in Africa. FHDT's mission is to teach research and demonstrate low-cost, high-profit sustainable pasture based dairy farming as a catalyst for socio-economic growth in the region.

OPERATIONS AT FHDT

FHDT has 30 employees who work shifts throughout the week. Milking happens twice a day, at 5 a.m. and 2 p.m., all year round. The farm has a highly mechanised 800-cow rotary parlour, which has the capacity to collect up to 14 000 litres of milk a day. Cows are fed a daily diet of 4 kg concentrates and 12 kg of silage, and on average produce 21 litres of milk a day. To minimise input costs, Leonard set up facilities to produce maize for silage at the farm. Making the necessary silage requires up to 600 tonnes of maize per year. Because FHDT allocated some of the land to silage production, it is now constrained by lack of space to expand operations. Currently FHDT's 400 heifers are kept at another farm to free space for milking cows and silage production.

FINANCIAL PROFILE OF FHDT: EFFICIENCY BRINGS PROFITS

Since its establishment in 2007, FHDT has already become economically viable. In the 2008-2009 financial year, FHDT realised a profit of R2,4 million. In the following fiscal year (2009-2010), after targeting a net profit of R2,1 million, Fort Hare Dairy exceeded its goal by making a R3,1 million profit. Leonard expects profits to reach R4,5million in the 2010-2011 financial year. This is a remarkable achievement at a time when many dairy farmers are exiting the industry citing sustainability constraints. So how has FHDT done it?

Leonard concedes that many dairy farmers are exiting the industry. Although milk consumption is on the rise in South Africa, the production is coming from fewer but bigger farms. "For us at Fort Hare, efficiency is the key," says Leonard. Expanding on this statement, Leonard adds that in 2007 it cost the farm R2,50 to produce 1 litre of milk, which since then has dropped to R2,30-R2,40 in 2008 and to R2,00-R2,05 in 2010. "It takes discipline and precise planning to attain efficiency in operations," concludes Leonard, emphasizing the importance of monitoring costs at all levels on the farm.

Leonard also attributes part of FHDT's success to finding the right type of animal for its production system. FHDT's herd consists of Jersey and Friesland cows as well as some cross-breeds, the latter particularly well-suited for the pasture-based production system of the dairy. The cows have ideally structured bodies and feet as well as strong legs. All this is important because, as Leonard says, "cows have to travel over a kilometre from the pastures to the milking shed and any large breeds would be inefficient in such a system."

THE HUMAN ELEMENT

Central to a successful transformation within the agricultural sector is the availability of appropriate skills. Without prior exposure to commercial dairy farming, it is nearly impossible for beneficiaries of the land reform process to make it in the competitive arena of the commercial dairy industry. In short, land reform without the necessary accompaniment of skills building, both in farming and in business management, has little chance of developing strong emerging agribusiness entrepreneurs in South Africa.

Amadlelo and its partners, being keenly aware of the need for capacity building for commercial dairying, have embarked on extensive training of black managers well versed in the business of commercial dairying, a value and goal that lies at the core of FHDT's vision and mission. FHDT has become the flagship of this empowerment initiative. While FHDT is primarily a profit-making dairy farm, it serves as a teaching centre where students learn about managing a successful dairy farm. Each year students are recruited from around South Africa and they receive training and mentoring for a two-year period. During this period they learn the dedication that is required to become successful in commercial dairy production. Following a year of intensive practical training, the exceptional students are assigned responsibility over various projects. Leonard highlights that "many of the students who have passed through FHDT have gone on to successfully manage commercial dairy farms". The expectation is that these farm managers will not only work for established dairies but come to a point of ownership through the accumulation of their own dairy cows in the herd.

Middledrift Dairy Farm is evidence of FHDT succeeding in empowering young black people to become successful commercial farm managers. Established in 2008, Middledrift is an initiative of Amadlelo, the National Empowerment Fund (NEF) together with a local farmer trust (Gwebindla Trust). The NEF was established by the National Empowerment Fund Act No 105 of 1998 ("NEF Act") to promote and facilitate black economic equality and transformation. Its mandate and mission is to be the catalyst of Broad-based Black Economic Empowerment. Middledrift farm is managed by a product of FHDT. Box 2 gives a profile of Middledrift Farm.

Box 2: Middledrift Farm—a vision realised

It is midmorning. Winter is drawing to a close and spring is in the air. The lush green pastures of Middledrift farm represent an oasis in the otherwise dry landscape. There are some communal cows milling just outside the entrance to the farm, eyeing the green pastures on the other side. We arrive at Middledrift and are greeted by the sight of a young black woman, tending some calves. This is Middledrift Dairy Project, and 21-year-old Jeanette Rekhoto is its farm manager. Financing for Middledrift came from the National Empowerment Fund (R9,5 million) and Amadlelo (R8 million). The farm sits on 280 hectares of communal land on lease to the farm. The farm's success lies in industry cooperation and mentoring, which are at the core of FHDT's mission and vision. This pasture-based dairy production system currently has 540 cows, each producing an average milk yield of 17 l/day. At the time of interview, Middledrift had a supply arrangement with Clover, which was paying R3 per litre. Milk production costs at the farm stood at about R2 per litre.

Farmers in one community normally adopt similar practices when it comes to dipping and inoculating their cows, and if these precautions are neglected, it has consequences that affect the whole community. Middledrift farm sits in the midst of a community where insufficient dipping and inoculating has resulted in high disease prevalence. In setting up the farm, stress and mortality levels were high. Jeanette tells us that the farm still experiences some problems with communal trespassing and tick-borne diseases. When asked what the secret is to making a profit when the dairy sector worldwide is in doldrums, Jeanette's response is, "Amadlelo takes the best. I think I am one of them." Jeanette is a product of the training programme run by Amadlelo at FHDT. After she successfully completed her internship, her hard work paid off and she was assigned to Middledrift Farm. She remains under the mentorship of Leonard Mavhungu.

Middledrift Farm not only provides employment to the local community, but it also uses land that was previously under-utilised. Currently, Middledrift farm has 15 employees. There are four men and one woman in the milking parlour. When asked about the low representation of women, Jeanette explained that farm workers were expected to perform all tasks on the farm with no specialisation and that in her experience women were unwilling to perform other tasks beyond the milking parlour. Hence, the dominance of men in the labour force. In setting up Middledrift, Leonard and his team had to inculcate a new work ethic in the employees who came from the community. The sheer hours and dedication that go into commercial dairying were foreign to many of their employees. Leonard notes that many workers, having never had commercial dairying experience, found it "abnormal" to be up and at work by 5 a.m. For Jeanette and her team, a typical workday begins before the first milking time of 5 a.m. and may be up to 12 hours long. Their hard work pays off as this dairy made close to R2,1 million profit in the last financial year.

CHALLENGES

While FHDT is a successful black managed commercial dairy enterprise, Leonard is keenly aware of the challenges. Leonard feels that one of the most significant obstacles is that FHDT is not training enough people. As a result, there is a lack of well trained dairy farm managers who can replicate FHDT's success in other areas such as Keiskammahoek, Whittlesea, or the five or more potential sites that have been identified in Umtata. Leonard also mentions the financial challenges faced by interns who often work 14- or 15-hour days in return for a relatively small sum awarded through the government-funded AgreSETA.

Although FHDT successfully trains students each year in the ins and outs of managing a successful dairy farm, the road for these students to owning their own farm is long and marked by difficulties. While most of them come out of the programme equipped with useful knowledge, they lack the starting capital required to buy cows and begin to accumulate a herd. Given the background of these new farm managers, most are unable to offer any collateral needed to obtain financing. Consequently, it takes a long time for the manager to accumulate enough cows to truly benefit him, let alone start his own dairy.

Students exiting the training at FHDT are destined for employment within other commercial farms. Leonard does not give an indication of how many of these have gone on to own their own farms, or how long it takes them. For all his success as a manager of a commercial dairy farm, Leonard owns 100 cows today. He envisions a time when he will cease to be a manager and be running his own 1000 cow commercial dairy. The path to this is one fraught with challenges even for a person with such dedication as Leonard has. In this regard, FHDT becomes a breeding ground for black commercial dairy managers who service the still largely white commercial dairy sector.

More than three years after its establishment, FHDT still stands within the Alice community with minimal community buy-in. At present, some of the locals work on the farm, but Leonard thinks the farm presents even better opportunities if only the community chose to take advantage of them. For a start, community members could take advantage of the training offered at FHDT and Middledrift and move into higher positions other than farm workers. FHDT is still to train any community members in commercial dairy production. Secondly, as community members have land, they could contract with the dairy to take care of the heifers on their land. Leonard has to engage other commercial farmers to care for his heifers. Third, the Alice community could use some of its land to produce silage for the dairy farm. Leonard has had a difficult time getting the community involved, however, which he attributes to the attitudes in the community of waiting for handouts, of wanting to get everything for free. Leonard thinks that most in the local community prefer to live on government grants, which, however small, are easily obtainable, rather than dedicate time to dairying.

Summing up the challenges, Leonard laments: “Setting up the dairy was not a challenge. It was special because I am black. There wouldn’t be this much talk about it if I was a white man. And people need to get away from that mindset. I can do what any white man can do too. We now have equal opportunities.” But looking at the challenges, one leaves FHDT wondering how long it will be before many others share Leonard’s attitude to his business and appetite for success. How far reaching is this transformation initiative? Will Leonard and the other products of this new system one day own their own dairy farms or are they being prepared to manage the dairy farms of white commercial farmers?

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Chapter 9

HANDS-ON FISH FARMERS' CO-OPERATIVE “SMALL FISH IN A SMALL POND”

Khalid Salie

INTRODUCTION

Aquaculture is the rearing of aquatic species and organisms in controlled conditions. It can include fish, mollusks, crustaceans, and plants. Fish farming is one form of aquaculture. Fish farming is an ancient practice that can provide many profitable opportunities today. The raising and selling of fish on a commercial basis has been economically successful throughout the world, especially in developing countries such as Brazil and China (Helfrich & Libey, 2010). In South Africa fish farming is growing in popularity and has been recognised as a potential commercial activity that can address many socio-economic challenges such as lack of food security, limited livelihood and job opportunities. It has also been seen as a way to diversify the country's agricultural activities. Increasing recognition that fish is a healthy food, low in calories and cholesterol but rich in protein, has increased consumer demand in both restaurants and supermarkets and in the informal markets, *inter alia*, roadside trading and farm markets. Although consumption of fish products is considered relatively low in South Africa (about 8 kg/person/year), this does not include the amount of canned fish consumed, which is estimated to be as much as 1 million cans per day (Rana, 2001). This phenomenon increases demand dramatically and adds to the required fish products in the near future.

Fish are excellent animals to rear. They can convert feed into body tissue more efficiently than most farm animals, transforming about 70% of their feed into flesh. Fish also have excellent dress-out qualities, providing an average of 60% body weight as marketable product and a greater proportion of edible, lean tissue than most livestock (Helfrich & Libey, 2010).

The Hands On initiative is a community-based, small-scale fish farming programme created to alleviate some of the socio-economic challenges. The aim of the programme is to develop and propagate trout cage farming in irrigation dams in the Western Cape by concurrently empowering and educating previously disadvantaged groups about fish that can be intensively cultured in relatively small amounts of water. Farm-reared fish offer a new alternative agricultural crop that can potentially replace or supplement those that are declining in popularity or profitability. Healthy farm-reared fish, guaranteed free of diseases, pesticides, and other harmful toxicants, are a more desirable substitute for wild fish from potentially polluted waters.

This case study takes the reader on a journey of co-operative fish farming in the Western Cape Province of South Africa, and it sketches the motivation, the trials and tribulations, and ultimately a justification for existence and survival of fish farming. It unravels the harsh reality of fostering economic empowerment in marginalised farming communities in a small developing aquaculture industry. Along the way, the project has raised important and difficult questions about the value of socio-economic support in a competitive business environment. Can the co-operative be profitable and still meet its development objectives?

BACKGROUND

History of rainbow trout farming

Rainbow trout farming began in Europe and has expanded to more than 60 countries. Most freshwater farmed trout is rainbow trout. The main rainbow trout producing countries, in descending order of production, are Iran, France, Italy, Denmark, the United States, and Spain. These countries are also the biggest consumers of trout. South Africa has a limited number of freshwater and marine species used in aquaculture, and trout is the main species used in freshwater aquaculture. Western Cape and Mpumalanga provinces are the most important producers of fish. Freshwater rainbow trout is produced in a variety of systems, including cages in dams, flow-through systems, ponds, and recirculating systems. It can be found in the market as whole fish, fillets, smoked or canned. Eighty percent of South African-produced trout is destined to be smoked.

The fish market in South Africa

South Africa produced approximately 1 600 tonnes of trout in 2008, with a farm gate value of R63 million and a unit value of R35/kg (Stander, 2010). Between 2008 and 2010, the local production of trout declined to approximately 1 200 tonnes per annum due to rising operational costs, which in turn also resulted in some of the farms ceasing operations. The main trout

producing regions in the country are Mpumalanga (700 t/year) and Western Cape (550 t), while South Africa's neighbour, the Kingdom of Lesotho, produces 300 t per year (Stander, 2010). The Western Cape and Lesotho focus mainly on the production of larger trout (> 1 kg), while Mpumalanga produces mainly fresh plate size (300-400 g) and live trout for stocking fishing ponds for the eco-tourism industry in that region. The country at this stage is a net importer of frozen headed and gutted trout during the first quarter of the year, a period when trout production is limited in South Africa due to warmer temperatures throughout the country. Trout imported during that time usually comes from Chile or Scotland. At present there is an import levy of 25% on all imported trout. This levy protects the local industry to some extent, but the levy may be lifted in the next few years, which would pose new challenges to the local industry. The current demand in the local market is approximately 2 000 tonnes per annum (Stander, 2010).

All rainbow trout produced in South Africa is destined for the local market. Trout cannot be economically exported from Southern Africa to Europe, the Far East, or America because the domestic prices of trout in these markets are lower than what South African producers could offer. In other words, fish farming in South Africa is only commercially viable for local markets. Some of the local processors are, however, exploring trade with regional countries, specifically Namibia and Botswana (Stubbs, 2010).

The market for trout in South Africa has been relatively stable at approximately 1 000-2 000 tonnes per annum for the last 15 years. Over the last 10 years the market has grown slowly, but at a steady pace (Stubbs, 2010). It has the potential to grow more, but the growth needs to be market-led as opposed to production-led to avoid a sudden price drop due to overproduction.

In Southern Africa trout competes for market access with imported salmon and imported trout. Internationally trout prices track salmon prices and are 10-20% lower. For a trout farm to be successful it requires a larger scale of operation (approximately 50 tonnes per annum). This is clearly a challenge for most local producers, especially emerging farmers, but gives producers more bargaining power when they achieve these production levels (Stander, 2010).

At present marketing is done through one big company, which guarantees a form of market procurement when a contractual agreement is reached with a fish farmer. The farmer must scrutinise such uptake agreements to the finest detail so that market security is absolutely solid. Strategically it makes business sense for a producer to integrate vertically to include processing, value adding, new product development, branding, packaging, distribution, and marketing. Given the relatively small industry in South Africa, however, it is difficult to establish a brand and secure clientele. Although the general client base or market segment for salmonid products (salmon and

trout) is a sophisticated, well-educated, and high-income consumer, the trout industry aspires for rainbow trout to create its own brand separate from salmon.

Trout are sold in a variety of forms including fresh whole (in the round) fish (gilled and gutted or head-off and gutted), fillets, smoked products, and a range of other value-added products which are processed by utilising off-cuts and meat salvaged from the bones. The most popular form of processed product is cold and hot smoked fillets (Stander, 2010). Marketable sizes range from plate size (300 g to 400 g) upwards, the bulk of marketed fish being in the > 1 kg range (Table 1). About 60% of the processed product is for the retail market and the rest goes to the catering sector such as deli shops, restaurants, and airline companies. Production costs are generally higher than in Europe due to less favourable economies of scale. Fluctuations in the value of the South African currency and cyclical oversupply on world markets often affect the local trout sector in terms of competition from substitute products such as imported Pacific and Atlantic salmon. In spite of the challenges, the sector has managed to maintain stability and competitiveness, particularly with regards to value added products.

Table 1: Range of trout products.

| Fish size (g) | Product form |
|----------------------|---------------------------|
| 300-400 | Whole, fresh plate size |
| 400-600 | Whole smoked fish |
| 600-800 | Fresh fillets |
| 1 000 or more | Smoked fillets and sliced |

Box 1: Health Benefits of Trout

Oily fish such as trout is a rich source of certain polyunsaturated fats known as omega-6 and omega-3 essential fatty acids. These fatty acids cannot be manufactured by the human body and have to be obtained from food. Salmonid products, including trout, have a marketing advantage in the significant health benefit derived from regular consumption. Eating trout decreases the risk of coronary heart disease. The American Heart Association recommends that adults eat at least two servings (approximately 250 g) of fish, especially fatty fish, a week. Fish that is baked, broiled, or grilled is best. There are a number of good fatty fish to choose from. Farmed rainbow trout stand out among them thanks to their affordability, wide availability, and health benefits. They truly show that one does not have to spend fortunes to enjoy good, delicious, healthy fatty fish.

Source: Eating Farmed Rainbow Trout: A Sustainable Fatty Fish. <http://www.suite101.com>.

HANDS-ON FISH FARMERS CO-OPERATIVE LIMITED

“We as farmers need to stand together and work together. That’s the only way we will survive out there.” These are the words of Abe Anthony, the oldest and first of the fish farmers, who has been involved in fish farming since 1996, when he was part of a project initiated by the farm workers’ committee on a local wine estate. The rest of the group of farmers nod in acknowledgement. Abe is not one who talks much, but when he speaks people tend to listen. All his life he has worked as a dairyman and hard, honest work is written all over his face. Anthony’s leadership established co-operation as a ground rule of the Hands-On co-operative. It was now just a matter of getting the paperwork done. For a moment the room was filled with silence, until someone from the back of the room shouted: “I wonder what trout taste like.” This was Esau Daniels, one of the first group of emerging fish farmers who attended the information session. Laughter erupted in the room. The co-operative was born.

The early days

What is today Hands-On started as research collaboration in the early 1990s. In 1992 and 1993, Stellenbosch University (US), in collaboration with the Department of Agriculture, Western Cape, and Kromme Rhee Agricultural College, Stellenbosch, began a set of trials with net-cage culture systems in farm dams. Most importantly, the research investigated the feasibility of rainbow trout farming in the warmer climate of South Africa as opposed to the cooler North American and European climates.

The following year, in 1993, the now defunct¹ non-governmental organisation Rural Foundation, based in Stellenbosch, with its Rural Enterprise Programme came on board to investigate the feasibility of freshwater aquaculture of rainbow trout as a possible rural enterprise. The project team conducted market research in Hex River Valley during which freshwater fish (carp and tilapia²) were distributed to members of the farming community who were asked questions about their preference for size, taste, cooking preparations, and willingness to buy freshwater farmed fish, if supplied fresh and affordably. In October 1993, the pilot project for freshwater small-scale fish farming was launched in the valley. Initially, farmers only grew out juvenile trout to marketable size, which was marketed through Three Streams Smokehouse³, a processing company

1 The Rural Foundation closed its doors in 2002.

2 Carp and tilapia were chosen as they are more affordable for low-income populations and still provide health benefits. This practice was later abandoned in favour of trout, a high-value product that could fetch high prices on the market.

3 Three Streams Smokehouse is a family-managed trust. It is the largest trout processing facility in South Africa.

in Franschhoek. Future plans, however, included getting the farmers involved in other areas of the value chain such as processing and marketing.

Between 1996 and 2001 nine trout farming operations were implemented (listed in Table 2). Four of the projects had to be abandoned for various reasons. At Mount Joy⁴ and Suurbraak⁵, the projects were abandoned for environmental impact concerns. Mount Joy's farm management raised concerns about the water quality in the bottom layers of the dammed river, which became depleted of oxygen and thereby presumably led to increased iron levels in the outgoing irrigation water. The farm owner took a precautionary approach and decided not to continue with fish farming for the farm exports high-quality deciduous fruit and could not risk potential compromise in quality. Suurbraak was unsuitable due to dam water management and extremely variable water levels, as well as seasonal high levels of suspended solids in the water caused by sediment runoff during periods of strong rainfall. Genadendal stopped its activities after the farming system was vandalised and fish were stolen. After 2001, another two projects, Ceres Enterprises and Rustenberg, discontinued in 2007 and 2009, respectively. The remaining three are operational and successful.

Table 2: Fish farming operations launched between 1993 and 2001, the year Hands-On was formed.

| Project name | Location | Year launched | Current status |
|-------------------|---------------------------|---------------|-------------------------------|
| Ganskraal | De Doorns, Worcester | 1993 | Stopped in 1998—farm sold |
| Rustenberg | Idas Valley, Stellenbosch | 1996 | Stopped in 2009—stock loss |
| Genadendal | Genadendal | 1996 | Stopped in 1997—stock loss |
| Nietvoorbij | Cloeteville, Stellenbosch | 1997 | Operational |
| Mount Joy | Kylemore, Stellenbosch | 1998 | Stopped in 2000—water quality |
| Worcester | Brandwag, Worcester | 1999 | Operational |
| Suurbraak | Suurbraak, Swellendam | 2000 | Stopped in 2002—water quality |
| Cape Olive | Huguenot, Paarl | 2001 | Operational |
| Ceres Enterprises | Ceres | 2001 | Stopped in 2007—management |

Power in numbers—the formation of Hands-On Co-operative

In 2001, the farms of Cape Olive, Ceres Enterprises, Nietvoorbij, Rustenberg, and Worcester joined together to ensure greater competitiveness of the individual farms. Assisted by members of the Department of Agricultural Economics of Stellenbosch University and the National

4 Mount Joy is a fruit producing farm in Kylemore Valley, Stellenbosch.

5 Suurbraak is a small rural town in Southern Cape.

Department of Agriculture, the farmers learnt about forms and functions of different business entities available in South Africa (e.g., sole proprietor, trust, close corporation). Eventually they chose the 'co-operative' legal entity as it presented a farming model that would allow existing farmers to assist emerging enterprises. This social contribution was identified as a key objective of the business venture. Hands-On Fish Farmers Co-operation Ltd. was registered as a trading co-operative in September 2002. The name Hands-On was chosen to signal that participating farmers use no electrified machinery. The logo, which consists of two green hands enveloping a blue fish, signifies through the green hands environmental sustainability and through the blue fish the hope of a nation for a better future.



Figure 1. Hands-On logo.

The mandate of the co-operative was defined as follows:

1. To forge bulk buying to negotiate further discounts on supply inputs
2. To provide collective marketing to nurture competitiveness and price negotiations
3. To coordinate vocational and business training to the members
4. To act as a conduit to secure capital and investment for growth
5. To provide inputs such as juveniles and feed
6. To provide promotion and growth strategies.

Operations and setup

Hands-On farmers cultivate fish in floating cage systems on irrigation dams. The small-scale farmers use cages consisting of two cube units of 10 by 10 meters each. Each cage is surrounded by a 45 cm wide walkway to provide adequate access to the net cage and working space for production management tasks such as feeding, sampling, grading, and harvesting. The nets are suspended from the walkways to depths of 4 metres and more. The depth at which the nets hang can be adjusted according to the water depth profile of the dam. The rule of thumb is that there should always be free space of at least 1 metre between the cage and the dam bottoms in order to allow for

unrestricted water movement under the cages so as to provide improved oxygen concentrations. Anchor ropes from cages are fixed to moorings on the dam bottom or to the dam wall. Cages are usually moored some distance away from the dam wall for security reasons. A float or pontoon is used for accessing the cages from the dam wall. Anti-predation netting has to be installed on the sides and over the top to keep predator birds from harming the fish.

The cages are stocked at very low densities of 7,5 kg of fish per cubic metre of water or 750 kg per hectare. The goal of the cage farming operation is to grow juvenile trout weighing 100-250 g to a market-size fish (ideally over 1 kg) during the growing season. To achieve this, the fish are fed intensively on an extruded diet with high protein content to accelerate growth (De Wet, 2010). One standard size cage can produce 2 to 3 tonnes of trout per season. Each dam is supplied with two units, producing 5 to 6 tonnes of trout. With the volume of 400 m³ per net, the density of trout is usually around 6 to 7 kg/m³ at harvest time.

Due to the temperature requirements of rainbow trout, the production cycle is during the colder winter months. The cycle usually starts in May and continues until October or November. The number of months available for growth is subject to the water temperature. The ideal temperature for the production cycle of trout is 16 to 18 °C. As soon as the water temperature reaches 21 °C or above, the fish experience stress and production problems occur. Thus, ideally, farmers want their fish to be market-ready before the temperature warms up.

The main inputs are the juvenile fish, feed supply, finances, and technical and extension services. The juveniles are sourced from various trout hatcheries, *inter alia* an established hatchery at a research institution, a newly developed black-owned hatchery, and a larger commercial white-owned hatchery. Feeds are purchased from NutroScience Feed Company⁶. To date, financial assistance has been procured from loans from commercial banks and development organisations. Other support services such as training and financial management are contracted from Independent Financial and Accountancy Agency (IFAMA) and Stellenbosch University. Marketable fish continue to be delivered to Three Streams Smokehouse. Non-marketable fish are sold at much reduced prices to the informal fish trading sector.

When it comes to finances, the co-operative represents the farmers in all contractual and financial transactions, and in turn the small-scale farmers sign contracts only with Hands-On. The farmers do not receive direct cash transfers, but rather profit payouts at the end of the season.

6 NutroScience Feed Company is locally one of the largest fish feed producers.

The organogram for the management of Hands-On is shown in Figure 2. The Board of Directors is represented by three farmers and four non-farmers, the latter including two staff members from Stellenbosch University, one person from IFAMA, and one from KaapAgri, an agribusiness that supplies services and equipment. It is the prerogative of the board of directors to include on the board a representative of the other strategic partners. Other such partners include New Farmers⁷ and Woord en Daad⁸. The co-op is run by a full-time manager, who is assisted by an executive committee of three technical staff members. The executive committee has authority to make operational decisions such as how much feed to purchase. It cannot, however, make decisions on core issues, such as the appointment of additional staff. IFAMA supplies a financial service provider to Hands-On.

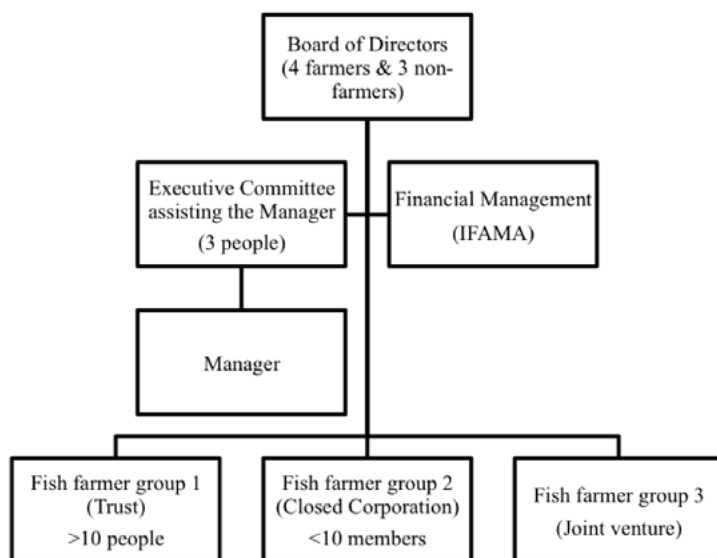


Figure 2. Hands-On organogram.

The fish farmer groups are shown at the bottom of the organogram. The fish farmers are in daily contact with the manager. All of the farmer groups are independent legal structures and the nature of the structure depends on the number of individuals involved in the project, i.e. a trust for less than 10 individuals or a closed corporation for more than 10 individuals. There are also examples of joint ventures, in which farm workers and commercial farm owner share the responsibilities as well as the profits of the project.

⁷ Newfarmers, now called AquaHarvest, is a developing investment company.

⁸ Woord en Daad (Word and Deed) is a Dutch development non-governmental organisation.

Box 2: Beneficiary Milestones

Abe Anthony is the longest serving member. He started fish farming in 1996 as supplementary income to his full-time employment in the farm dairy. In 2007 he resigned due to ill-health and managed the project for two years. Unfortunately the project lost its harvest through escapees in 2009. The group did not farm in 2010. Plans are on the table to revive the project.

Joseph Burns was the first physically challenged person in the programme. He had polio disease as a child and lost full motion in his legs. The fish farming operation was suitable for him to manage on a daily basis. He ran a project successfully for three years (1996-1998). Thereafter he sought alternative employment outside the farming community.

Rachel Pieterse was the first woman involved in the programme. She shared duties with the men on the farm. In 2008 she started an informal service of making nets for Hands-On's projects. The small-scale fish farming programme endeavours to provide opportunities to all.

Rustenberg Farmers' Committee was the first farming entity to manage a project. The committee appointed a full-time operator to see to the day-to-day management. Profits realised were ploughed back into the community for initiatives such as school fees for children and maintenance of the farm hall and library.

At the height of the programme in 2008 Hands-On consisted of 28 farmer groups/projects. Typically, a fish farming project employs one person full-time and makes use of temporary labour of up to eight persons for a week at a time during the stocking of juveniles and the harvesting of the fish. Once a month four people are needed to conduct a sub-sample of the fish population, and once a season four people are needed for a day to do grading.

Government involvement: a catalyst for growth

In 2005 the Department of Science and Technology approached Hands-On and proposed to use the small-scale fish farming system and the co-operative model to expand its Technology for Social Development Programme in the Western Cape (Brink, 2010). In the process, partnerships were formed with Three Streams Smokehouse, the Division of Aquaculture, New Farmers Development, and Woord en Daad. This development enabled Hands-On to approach critical volumes in production, and soon it produced over 10% of the total rainbow trout production in South Africa. In the period of 2004 to 2010 Hands-On has also experienced a roller-coaster ride in successful and non-successful events. A summary of events is provided in Table 3.

Table 3: Events for Hands-On from 2004 to 2010.

| Date | Aspect | Partners and co-workers |
|--------------|------------------------|---|
| April 2004 | First market contract | The Flying Trout Processors |
| January 2005 | Government support | Department of Science and Technology |
| April 2005 | Second market contract | Three Streams Smokehouse |
| April 2005 | First loan finance | New Farmers Development |
| April 2006 | Second loan finance | ABSA Bank and Woord en Daad |
| May 2005 | 13 projects registered | Stellenbosch University, Woord en Daad, Three Streams Smokehouse |
| May 2006 | 23 projects registered | Stellenbosch University, Woord en Daad, Three Streams Smokehouse |
| May 2007 | 6 projects registered | Stellenbosch University, Woord en Daad, Three Streams Smokehouse |
| May 2008 | 28 projects registered | Stellenbosch University, Woord en Daad, Three Streams Smokehouse |
| May 2009 | 19 projects registered | Stellenbosch University, Woord en Daad, Three Streams Smokehouse, Department of Agriculture |
| May 2010 | 6 projects registered | Stellenbosch University, Woord en Daad, Three Streams Smokehouse, Department of Agriculture |

Supply chain challenges

The key to harvesting marketable trout is to stock quality juveniles at the beginning of the season that are healthy, disease-free, and large enough (minimum 200 g). Healthy juveniles will ensure that the fish grow fast and are more resistant to pathogens and related diseases present in the water. Initially, the small-scale farmers were completely dependent on juvenile sources from suppliers, which caused serious problems. For example, in 2007, only six projects could be stocked with juvenile fish due to supplier problems. The main supplier of juvenile trout had high mortalities at its operation and lost almost 90% of its stock. Subsequently Hands-On farmers received inadequate supply and had to limit operations. This situation called attention to the importance of managing risk on the supply side, and since 2007 Hands-On has sourced juveniles from a number of suppliers as well as from one of its own members, who began to rear juveniles for the co-operative.

When it comes to the 'final product' fish processors generally require fish that weigh a minimum of 1 kg, because this size produces a fillet large enough for smoking and slicing. If the water is too warm, the fish cannot grow to optimal size and the meat quality is affected. Such sub-optimal quality fish is referred to as B-grade, which can be sold to informal markets or to smaller processors who smoke it. Besides size, the fish are also evaluated according to pigmentation of flesh and flavour of meat. A particular concern with regard to taste is that certain algae species in the water

produce a so-called 'algal taint', which negatively affects the taste of the product. Stellenbosch University is currently investing into product development with B-graded trout in order to increase the value of the fish through several value-added products. Table 4 gives an example of fluctuating market prices based on different fish sizes of the same quality.

Table 4: Sliding scale of trout prices.

| Fish size (kg) | Roche scale value⁹ | Class | Rand/kg |
|-----------------------|--------------------------------------|--------------|----------------|
| > 1,3 | 27 | A+ | 40 |
| 1,1 up to 1,3 | 27 | A | 39 |
| 0,9 up to 1,1 | 27 | B | 38 |
| < 0,9 | 27 | C | 37 |

Financial profile and challenges

Table 5 shows an example of an income statement (with projections for the 2010-2011 financial year). The original statement contains a monthly breakdown, but for brevity here we give only the total figure for the year. The main input costs are the juvenile trout (fingerlings) and feed. Feed can be as much as 60% of operational costs, as its price closely resemble the market price per kilogramme for whole fish. The figures show a profit of R27 654, which indicates a modestly profitable enterprise that, at its current size, is too small to provide a sustaining income for an individual or a family. The income is reasonable, however, if the fish farming operation is just one of several income generating activities pursued by the farmer or, as is the case with several of the farmers, one project has several such cage systems.

9 The Roche Scale quantifies fish on the basis of the colour of fresh salmonid flesh pigmented with carophyll.

Table 5: Hands-On income statement, March 2010-February 2011.

| Item | Value (R) |
|---|------------------|
| Sales income (trout) | 228 475 |
| Direct production costs (incl. fingerlings and fish food) | 153 184 |
| Gross profit | 75 291 |
| Operating expenditures (wages, transport, rental, maintenance, administration, equipment) | 37 850 |
| Interest payment | 9 787 |
| Profit before tax | 27 654 |
| Taxes | 0 |
| Profit after tax | 27 654 |

We mentioned earlier that individual farmers and farming groups do not sign contracts directly; instead the co-operative has applied for and received loans to enable the operations and training of its farmers over the years. While the co-operative started with high hopes and plenty of support from government, development groups, and banks, since 2008 Hands-On has struggled to repay its debt on time. The main reason, it appears, has been that not all of the farms have generated enough profit to maintain both the co-operative and its members. Only 6 of 23 projects indicated a profit for 2009. Table 6 shows the outstanding financial obligations of Hands-On as of September 2010. Hands-On has held meetings with each creditor to work out a schedule of payments. Importantly, the table also shows that one of the main creditors are a group of six members of the co-op, who have not received profits since 2009. This has generated some mistrust between members and co-op administration. A recent evaluation of the initiative has suggested that if Hands-On is to have a chance of success in the long run, relationships with farmers need to be salvaged first (Wiggins, 2010).

Table 6: Hands-On financial commitments, possible receipts, and assets, September 2010.

| Financial Commitment | Amount (R) |
|--|-------------------|
| Commercial bank | 144 557 |
| Investment funder ^a | 140 087 |
| Non-governmental organisation (31 August 2010) ^b | 273 284 |
| South African Revenue Services (VAT) | 296 095 |
| Members (farmers pay-outs for 2010 production) | 450 000 |
| Tertiary institution | 400 000 |
| Commercial trout farm | 2 832 |
| Fish processor 1 | 27 672 |
| Accounting firm | 15 985 |
| Auditors | 13 680 |
| Total commitments | 1 764 193 |
| Possible receipts | |
| Fish processor 2 (expect R 40 000; disagree on interest charges) | 61 771 |
| Fish processor 3 | 30 392 |
| Members who signed surety and who might pay their arrears ^c | ? |
| Total possible receipts | 92 164 |
| Shortfall | -1 672 029 |
| Assets¹⁰ | |
| Market value of 30 cages ^d | ? |
| Ice machine ^e | ? |
| Bins | ? |
| Container | ? |
| ^a Final loan instalment | |
| ^b August 2011 final loan instalment of R 203 957 payable | |
| ^c Apparently very few members, if any, signed surety | |
| ^d New cage < R 100 000. Limited market for 2nd hand cages. | |
| ^e Scrap value most probable scenario at auction | |
| ? = information unavailable | |

10 Information was unavailable about the value of the assets, but they are reasonably significant. See the section "Hands-On at the crossroads" below for further mention of assets.

HANDS-ON ON BALANCE

Achievements

Global small-scale aquaculture has proven successful in many developing countries such as China, India, Indonesia, Thailand, and Vietnam. Hands-On has pioneered small-scale co-operative aquaculture in South Africa. Seasonal fish farming on irrigation dams presents an opportunity for a multi-ecosystem approach to utilising valuable resources. It also carries the promise of providing income for farming communities, which would learn a valuable and marketable skill in the process. Its board of directors has provided valuable guidance in terms of organisational development. While on the whole Hands-On finds itself in a challenging position, it can boast a few notable achievements, as listed below.

- *Established Hands-On as an empowerment brand*

Hands-On's philosophy is to facilitate the unblocking of constraints to fish farming experienced by emerging farmers in South Africa. Real empowerment is achieved once the fish farmers are capable of managing their operation successfully as well as representing a voice in the wider industry. To date, five Hands-On farmers have built a profitable and stable enterprise and have turned a profit for each year since they've started. These five projects are between two and three years old. The rest of the projects indicated varying profits and losses over the last five years.

- *Managed to secure loans from various registered financial service providers*

Many prospective or emerging farmers do not have the required collateral or surety demanded by financial institutions to qualify for loan financing. Hands-On has successfully negotiated loans for its farmers from commercial banks and other finance providers. The co-op has accepted the associated liability and administration of the loans to farmers.

- *Secured an uptake agreement/marketing contract with the largest trout processing company in South Africa*

Individual farmers have found it difficult to secure market contracts with processors due to small production quantities. With the collective farming model Hands-On can pool production, thus increasing volumes and securing a marketing contract. It provides a secured market to the fish farmers.

- *Pursued corporate governance through a well-functioning board*

Since the inception of Hands-On the board has embarked on a capacity building programme for directors in order to familiarise them with responsibility as well as accountability duties. Many of the directors were serving in such a position for the first time and the training was crucial to ensure proper corporate governance.

- *Implemented a number of small-scale fish farmers*

According to the financial forecasting, Hands-On had to implement 35 successful projects to reach financial viability as a co-operative. Hands-On reached 28 projects in 2008 and structured the institutional support to increase that number. Unfortunately not all of the 28 projects were successful and Hands-On operated at a loss.

- *Presented numerous technical and business training opportunities in aquaculture*

All new fish farmers were required to undergo theoretical as well as practical training. The formal training programme was followed with on-site training. Operational farmers received advanced business training, including marketing, as well as courses on processing.

- *Created basis for environmental impact monitoring and evaluation as well as protocols for sustainable feed management and other farm management*

A few associated research programmes were implemented to investigate the impact of small-scale fish farming on farm dams. Further investigations also provided management guidelines to site selection and environmental practices to ensure greater sustainability of projects.

Goals for a viable future

The above achievements notwithstanding, Hands-On and its members recognise that sustained growth and long-term profitability of the business requires constant innovation and development. During a recent (2009) strategic planning session the group identified the following medium- and long-term goals.

Short- to medium-term goals:

1. To secure consistent juvenile trout supply to farmers
2. To optimise production quality and overall success rate
3. To maintain environmental ecology and integrity
4. To optimise business modelling and profits to farmers
5. To continue with capacity building and empowerment of members
6. To participate in pre-processing of fish
7. To investigate diversification of marketing channels
8. To promote awareness of Hands-On's products and services
9. To provide Hands-on with financial sustainability and growth

Medium- to long-term goals:

1. To achieve entry into processing and marketing, e.g., via partnerships and joint ventures
2. To investigate feasibility of other fish farming commodities and products

The present: Hands On at the cross-roads

While medium- to long-term goals for a viable future are important, as we have seen, at the moment Hands-On is facing an immediate challenge in the form of a large debt that is in fact threatening the co-operative's very existence. Board and management agree that the immediate priority is to repay all outstanding debt; however, the size of the debt is so large that it prompted board and management to look at options for survival at a recent meeting. Following extensive discussions, the following options were identified as possible scenarios:

1. Declare Hands-On insolvent and close all operations: the drawback to this option is that the current assets are worth more than the liabilities, and therefore it does not make business sense to declare insolvency.
2. Wait for one of the creditors to call for liquidation of Hands-On (forced liquidation): the drawback to this situation is that it puts the co-op in a weak negotiating position.

3. Request voluntary liquidation: the drawback to this option is that it may destroy the relationships Hands-On has built with creditors and result in an undervalued sale of assets.
4. Restructure Hands-On as a company and entice shareholding and investment: the problem with this scenario is that it is in conflict with the mandate which precisely addresses the core value of assisting emerging farmers to technical sustainability and economical viability. This goal will be marginalised in a company set-up.
5. Secure finances to settle outstanding debt and provide a turn-around strategy for the current situation. If successful, this option would enable the company to hold on to its asset base and its brand, both of which are worth more than the outstanding debt.

Another important decision the board of directors has contemplated is the separation of the development agenda from the business imperative. The board has proposed that an institution like Stellenbosch University take the lead in developing emerging farmers, who would then join Hands-On only once they have reached a level of viability and represent a reasonable promise of success as an independent business.

Just as members and directors were weighing these options, a new twist in the story of Hands-On occurred in April 2011, when the co-op was presented with a business offer by a prominent fish processor, who offered to buy a percentage share of the company. In return all outstanding debt would be paid and the co-op could continue operations. The proposal was unanimously accepted by the members, who tasked the board with considering the plan in detail.

CONCLUSION

The case of Hands-On Co-operative illustrates the challenges of trying to build and run a profitable business and meet a developmental agenda at the same time. Given that the 'regular' business environment is highly competitive (it is probably no coincidence that it is often referred to as 'cut-throat'), it leaves little room for trial and error and often requires immediate—positive—results. On the other hand, development projects tend to take longer and by design often leave space for trial and error because most participants do not have the kind of experience and training required by for-profit companies. In the decade of its existence, Hands-On has tried to find the delicate balance between running a for-profit business and furthering a development agenda. On the whole, one might say that the experiment has not been very successful, but with the latest effort to rescue the company, Hands-On may have been given another chance to run its fish farming structure and see if it can get it right the second time.

GLOSSARY

| | |
|--------------------------|---|
| Algal taint | The musty, earthy taste of fish flesh when contaminated with chemical compounds released by certain bacterial activity. |
| Aquaculture | Culture of aquatic species in both marine and freshwater environments under controlled conditions. |
| B-grade products | For rainbow trout it refers to inadequate size fish, insufficient colouring/pigmentation of flesh or the presence of off-flavours in taste. |
| Cage culture system | Floating device housing net cages in which fish production occurs in the confined area. |
| Candidate species | Aquatic species that has been investigated as viable commercial commodities. |
| Carophyll | Pigment added to feed, which gives the pinkish colour to salmonid flesh when feed is ingested. |
| Dress-out percentage | Percentage of bodyweight remaining after the fish has been headed and gutted. |
| Empowerment | Refers specifically to Black Economic Empowerment of the South African society. |
| Feed conversion ratio | Ratio of conversion of feed into biomass of the animal. |
| Fish farming project | Refers to a cage system consisting of two units housing 6 000 fish. |
| Fish farming group | An organisational structure, i.e. a committee or trust, comprising a number of persons. One farming group can have a number of fish farming projects. |
| Fish feed | Commercial extruded diet presented in pellet form of different sizes, e.g. 2 mm, 4 mm, 6 mm. |
| Hatchery | Station where juveniles are produced for ongrowth by commercial fish farmers. |
| Juvenile fish | Refers to the small specimens of 5-200 g fish; also called 'fingerlings'. |
| Multi-ecosystem approach | All the stakeholders are taken into account regarding access and management. |

| | |
|--------------------|--|
| Plate size fish | A fish of approximately 300 g which fits in a dinner plate. |
| Roche scale | Quantifies the basis of the colour of fresh salmonid flesh pigmented with carophyll. |
| Small-scale farmer | Fish farmers producing fish in production systems of 6-8 tonnes and usually less than 50 tonnes in total production. |
| Smoke trout | Trout fillets are processed with smoke from wood cuttings and this can be done at low temperatures (more smoking time) or high temperatures (less smoking time). |
| Stocking | Transfer of juveniles from hatcheries to the floating net cages. |

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THE HEIVELD CO-OPERATIVE

MAKING THE “WORLD’S FINEST ROOIBOS TEA”

Rhoda Malgas, Noel Oettle, and Bettina Koelle

INTRODUCTION

The Suid Bokkeveld is a remote rural area south of the small town of Nieuwoudtville near Calvinia in Northern Cape Province of South Africa. The region is biologically diverse, as it spans an area of convergence of different geological strata, of winter and summer rainfall regimes, and of the Fynbos and Succulent Karoo vegetation types. The Suid Bokkeveld is also home to small-scale farmers of the Heiveld Co-operative Limited, whose members produce export quality cultivated and wild-harvested rooibos tea for niche overseas markets.

Over the past 10 years the Heiveld Co-operative and its members have shown that marginalised and resource-poor South Africans in a drought-stressed region can produce a world class product and enter global markets, given the appropriate tools and assistance. Further, the co-op has responded successfully to a set of challenges (drought, market shocks, and financial constraints) and has embraced a sustainable approach to production and conservation of the natural resources of its members.

The case of the Heiveld Co-operative illustrates how a resource-poor community has collaborated with the local government, a nonprofit organisation (the Environmental Monitoring Group), and the latter’s academic partners to establish and grow a for-profit enterprise benefiting the entire community building on the practices of Participatory Action Research (PAR)¹. Although overall a success story, the Heiveld case also illustrates the challenges and difficulties that such entities

1 Participatory Action Research is an inclusive learning approach to problem solving that differs from conventional research by ensuring that problem owners are fully part of the process of identifying and defining findings and outcomes. Research questions are developed collaboratively, investigation and analysis of results are inclusive, and ownership of findings and responsibility for implementation of future actions reside with local problem owners.

may encounter as a group of formerly disadvantaged individuals with little, if any, formal business training try to enter the formal economy in a new democratic South Africa with a neoliberal economic agenda.

BACKGROUND

How Heiveld Co-operative came about

Suid Bokkeveld farming communities have historically been poorly serviced and under-resourced. Despite poor infrastructural development, limited service delivery, and minimal market access, farmers had managed to sustain their livelihoods with the small-scale production of rooibos, meat, and cereals such as wheat, rye, and oats. Restrictive policies of the Apartheid era limited small-scale farmers' access to land, and to this day land tenure is highly variable amongst small-scale land users in the region.

In 1998 the Environmental Monitoring Group (EMG) ran a series of workshops and facilitated several community-to-community exchange visits, whereby communities of different regions with similar livelihood circumstances visited each other to exchange ideas and share their experiences. During that intervention small-scale land users of Suid Bokkeveld identified a market opportunity in the harvesting and production of wild rooibos for niche organic and fair-trade markets, and with the help of local nongovernmental organisations (NGOs) and collaborating partners, Heiveld Co-operative was established in 1999 with 14 pioneer members.

With the first successful exports, members of Heiveld Co-operative wanted to ensure that their traditional local harvesting methods were sustainable and not harmful to populations in the wild. With support from local NGOs, EMG, and Indigo development & change, the co-operative conducted a study that showed that traditional harvesting techniques were indeed sustainable and did not negatively affect the health of populations in the wild.

Wild rooibos has a limited natural distribution and requires different management techniques from cultivated plants for sustainable production. Traditionally considered a poor man's beverage (Malgas and Huntly, 2006) today it is a premium-priced product valued for its honey-like flavour, its deep red colour, and for its cultural and historical significance and value. Heiveld Co-operative is one of only two small-scale farmer organisations, and dozens of unaffiliated small-scale land users also harvest and manage the wild resource. Members of communities in Suid Bokkeveld and Wupperthal (in Cederberg) harvest wild rooibos as a livelihood strategy. Although both communities have long produced cultivated and wild rooibos, it was the Heiveld Co-operative

that initially secured a niche market for wild rooibos in 2004. Heiveld producers of wild rooibos must abide by a harvesting protocol designed to ensure the sustainable management of the plants and associated biodiversity. In keeping with findings that supported traditional practices (Louw, 2006), plants are harvested only every second year and harvest is limited to 50-70% of the height of wild rooibos plants.

Much of the initial research on wild rooibos was conducted because local farmers had an interest or concern that needed to be addressed. Academic contributions from research partners at the University of Cape Town and other organisations, and support and guidance from local NGOs, have all added to the process of participatory learning amongst researchers, practitioners, and farmers alike. As those communities face environmental stressors due to climate change, land-users are again sharing knowledge and resources to cope with effects of drought, water shortages, and shifting rainfall patterns. Participatory learning has thus become a means of building and maintaining resilience in a harsh environment for members of Suid Bokkeveld communities. It has also been a strong contributing factor to the sustainable management of valuable resources, including wild plant populations of rooibos tea.

Geography and ecology

Driving north from Cape Town along the N7 highway, past the towns of Malmesbury, Citrusdal, Clanwilliam, and Klawer, where the Olifants River parallels the road, is “rooibos country.” The Cederberg Mountains lie to the east, beyond the river, displaying dramatically folded layers of sandstone rock formations that reflect the geological events that shaped the landscape millennia ago, when the Cape Fold Mountains were formed. About 300 km along that route, a turn to the right will lead to the western edge of the Bokkeveld Plateau. The village of Nieuwoudtville lies several kilometres east of the edge of the escarpment.

Soils in this landscape are derived from Table Mountain Sandstone (TMS), Dwyka tillite shales, and doleritic rock, weathered to form adjacent bands of different soils. These soils have given rise to floral mega-diversity, and the area is globally famous for spectacular displays of flowering bulbous plants, many of them endemic. To either side of the Fynbos lies the Succulent Karoo. Both these vegetation types represent biodiversity hotspots of global significance.

Fynbos vegetation is characterised by evergreen restio species and large shrubs such as *Protea repens*. In contrast, the Renosterveld, a distinct and endangered vegetation type within the Fynbos, is dominated by relatively shorter, hardy shrubs (primarily *Renosterbos*, *Elytropappus rhinocerotis*). Geophyte species and annuals appear after the first winter rains. The contrast in vegetation corresponds with changes in soil types and the geological substrates from which they

derive. Much of the tillite soil has been ploughed for the cultivation of wheat, but some areas still support stands of Renosterveld.

Suid Bokkeveld extends to the banks of Doring River 75 km south of Nieuwoudtville. Along this north–south gradient the altitude gradually drops from above 800 m to less than 200 m above sea level, and rainfall similarly decreases from more than 400 mm to less than 150 mm per annum.

Sheep and rooibos tea farming are the primary agricultural activities among both small-scale and large-scale commercial farmers of the area. Most of the small-scale farmers of Heiveld Co-operative are located in the southernmost part of Suid Bokkeveld. They grow stands of cultivated rooibos and subsistence crops for household use in the sandy TMS-derived soils that occur in patches and belts between the predominant rocky outcrops. These coarse-grained soils are relatively nutrient poor, high in acidity, and have low water retention capacity. The Fynbos vegetation that they support includes stands of wild rooibos.

The socio-political landscape

Far more recent than the geological processes that have shaped the physical landscape of Suid Bokkeveld, politically motivated human activity did also leave its mark on the social history of the area. From the mid-seventeenth century, colonisation of the Cape by the Dutch led to the steady and at times rapid erosion of the economic independence, political freedom, and culture of the indigenous peoples of the region (Lucas, 2006), including the case study area (Penn 1986; 2005).

Bokkeveld plateau was originally settled by Khoikhoi and San groups and only in 1740 did the first colonial settlers establish themselves in the area. The reliable water resources of the Bokkeveld as well as the valuable winter grazing areas of Knersvlakte and Hantam, and the summer grazing available in Bushmanland farther to the north-east, were strong motivations for colonial settlement (Penn, 2005; Amschwand, 2009). Each of the original settlements was developed around a permanent water source.

After the first wave of colonialism in the seventeenth century, policies of successive governments forced the descendents of the indigenous peoples, who later came to be known as “coloureds”², into positions of servitude on white-owned farms. Despite a period of liberal governance in Cape Colony, which saw some limited rights being extended to coloured people (Lewis, 1987), the twentieth century saw these rights being eroded (Worden, 2000). The advent of Apartheid in 1948

2 The word “coloured” became the general classification term for people perceived to be of mixed ethnicity during the Apartheid era in South Africa. While it was a term applied to people born to parents of different ethnic origins, it was also applied to descendents of Khoikhoi and San communities and to people considered to be of intermediate status with regards to ethnic classification. For further reading on this extensive topic, please refer to Pickel (1997), Erasmus (2001), and Adhikari (2005).

further solidified the highly unequal balance of power with its discriminatory policies that limited land access and economic and social freedoms.

Today communities of coloured farmers in Suid Bokkeveld are dispersed in settlements of often not more than a few buildings, housing one or more families. Few individuals own their own motor vehicles, and no public transport is available to link the inhabitants to the village of Nieuwoudtville, where a clinic, schools, and government offices are located. The physical isolation of each settlement makes transport and communication a major challenge. In the context of rooibos production, farmers have to drive long distances along badly corrugated gravel roads to transport workers and to facilitate tea production. Production costs are extended to include vehicle maintenance, telecommunication costs, and fuel.

Livelihoods are agricultural: livestock (sheep, and to a lesser extent goats and cattle) is kept, rooibos tea is cultivated or gathered in the wild, and some grain is sown for fodder or cereal production. Many of the small-scale farming families rely on incomes from seasonal labour to supplement the revenue from their own agricultural enterprises and typically work for their neighbours or large-scale enterprises planting and harvesting rooibos. Families without access to agricultural land are entirely dependent on incomes from their labour on farms or on social grants provided by the government for the elderly, children, and persons with disabilities. Although very limited, social grants received by family members are the only guaranteed cash income for many marginalised families without permanent employment.

Suid Bokkeveld is serviced by a road and telecommunications network that has not been improved in the past decade, and is indeed both antiquated and inadequate. Fixed-line telephone communication is intermittent because the phone company does not maintain or upgrade the lines and delays are typically experienced in repairing faults. There is only extremely limited mobile phone coverage on the margins of the area. Electricity supply from the national grid does not extend to the parts of Suid Bokkeveld where small-scale farmers live.

Although all land in the area is held under freehold title, diverse systems of land tenure exist in Suid Bokkeveld: private land ownership by small-, medium-, and large-scale farmers, rights of land use by family affiliation, sharecropping systems, rental agreements, so called “bywoners” (persons living on the farm without having access to its resources), and in one case partial ownership of land by a Community Property Association. Of the many inhabitants who work as farm labourers, most do not have secure tenure.

Since the advent of democracy in 1994 a number of parallel events have affected the livelihoods of coloured people in general and small-scale farmers of Suid Bokkeveld in particular. The extension of franchise provided a nominal voice in governance, and coloured farmers in Suid Bokkeveld have

benefited from agricultural support services and the national land reform programme. A stable economy, a buoyant post-Apartheid export market for South African agricultural products, and concurrent high land prices have, however, made land purchase unaffordable for most small-scale farmers. Many farmers who were able to access government grants and Land Bank loans to purchase land have struggled to service their debts. State agricultural support services have been inadequate to address the production constraints experienced by small-scale farmers.

HEIVELD CO-OPERATIVE

Rooibos industry in South Africa prior to 2000

Starting in 1954 the rooibos industry was controlled by the Rooibos Control Board, which oversaw a single-channel marketing system until it was dismantled in the run-up to the first democratic elections in 1994. Coloured farmers struggled to access this marketing system, and only a small number were able to obtain membership in Clanwilliam Tea Co-operative, which operated in conjunction with the Rooibos Control Board. Furthermore, a quota system linked to differential prices made it difficult for new entrants into the market to obtain the same prices as established producers, and small-scale farmers experienced great difficulty in marketing their rooibos at reasonable and sustainable prices. Following the dismantling of the Rooibos Control Board and the conversion of Clanwilliam Tea Co-operative into Rooibos Limited, the quota system was retained by the new company and small-scale farmers continued to experience similar barriers to entry into the market. This development reinforced the belief of small-scale farmers that they had the skills to produce high quality rooibos, but were prevented from obtaining a rightful share of the benefits offered by the booming global market for rooibos. Experiences of unfair treatment and exclusion on the basis of race were common.

A decade ago some clear trends had emerged in the international market that offered opportunities for small-scale farmers such as those of Suid Bokkeveld. Not only was rooibos fast becoming well known internationally as a health drink of extraordinary value, but the organic and fair trade markets had experienced a decade of exponential growth. Furthermore, growing interest in artisanal agricultural products had spurred the formation of the Slow Food movement, and enhanced the perceived value of agricultural products from “traditional” communities adhering to ancient production methods. These opportunities, however, were unknown to small-scale farmers of Suid Bokkeveld, and even if they had known of them, they would probably have lacked the confidence to attempt to enter these markets.

Enter Heiveld

In 2000 most small-scale rooibos producers in Suid Bokkeveld either made their tea at facilities owned by other, wealthier farmers, or sold the raw product to them. In either case their common experience was that they were being exploited by others with better access to capital and markets. Even the few who had quotas with Rooibos Limited and thus enjoyed direct access to the market expressed frustration at the limitations of the quotas and with the grading and prices they received for their crop.

Heiveld Co-operative was established following a knowledge exchange visit by rooibos producers of Suid Bokkeveld to small-scale producers of Wupperthal Rooibos Tea Association and an organic rooibos exporter, Kings Products, in August 2000 (Oettle et al., 2009). The knowledge exchange provided farmers with opportunities to learn of organic and fair trade production from their peers, other farmers who were part of the same “community of practice” and shared similar constraints and opportunities (Oetlé & Koelle, 2003). EMG was able to raise funds for the exchange visit and some follow-up support, and the Department of Agriculture provided logistical and other support.

Participants in the knowledge exchange were able to learn about farmer organisation, marketing, prices, and finances, and returned from the visit inspired to form a collective business that would process their tea more cheaply and access the market collectively. Not only were they convinced that they could emulate the Wupperthal experience of running a tea processing facility, but they were inspired by what they had heard of the opportunities offered by the international market in organic rooibos.

In the following months an interim committee was elected. The members decided to form a co-operative, as this form of enterprise appeared best suited to their economic and social aspirations. An approach via EMG from a Dutch trader, Fair Trade Organisatie, resulted in a three-year sales contract being signed before year-end. In terms of the contract Heiveld and its members were certified as organic producers, had a guaranteed market for their rooibos via a South African trader, and gained access to the fair trade market in Europe for some of their product.

Heiveld Co-operative was formed precisely because of experiences of exclusion of many from the mainstream rooibos market, and exploitation of the economic, social, and political marginalisation of small-scale farmers by more powerful rooibos traders and owners of processing facilities. In this context, the fair trade movement offered a welcome alternative to mainstream economic behaviour. With its focus on economic justice, articulated in requirements for the payment of fair prices, long-term trading relations, fair terms of trade, and development of the capacities of producers and their organisations, the fair trade movement has proven a boon to producers.

Heiveld and its members have embraced fair trade as a vehicle for achieving their economic and social aspirations. Adherence to the required standards has been seen in a positive light, and the benefits of higher prices have been welcomed by all members. The provision of a fair trade “premium”³ has enabled the organisation to make economic and social investments in its own infrastructure and in the community, and the interpretation of “fairness” by members regarding wages paid to labourers working for members or for Heiveld itself has meant that all receive wages and conditions better than those enjoyed by others in the area.

Organisational background, production, and facilities

The Heiveld Co-operative was founded in January 2001 with capital of R1 400, provided by the membership fees of its founding members. A small grant from the Canadian Embassy enabled the business to purchase a tea cutting machine, and a white farmer rented his tea processing facility (or “tea court”) to Heiveld on an annual basis for four years. Skilled members of the co-operative were engaged to produce the tea on the tea court. This process, which entails finely chopping the green leaves and fine stalks of the plant and subsequently fermenting the green tea until it turns red prior to drying it on the concrete floor of the tea court, requires expert knowledge and close attention to each stage of the process. Heiveld has avoided mechanising the process at the expense of quality. This adherence to tradition has had the desired results as Heiveld has created a reputation for producing the finest quality rooibos, which in turn commands the highest prices in the trade.

The members of the co-operative agreed to establish their own tea court in a central location. One of the members agreed to provide a suitable piece of land, which was subsequently sub-divided from the farm Bloemfontein. A 99-year lease was granted to Heiveld at a nominal rental. Once the land was secured, the co-operative constructed tea making facilities, completing the first phase in 2005.

From its inception, Heiveld provided tea making services to members at a small profit. In addition, on the part of the production that was sold on the fair trade market in Europe Heiveld earned a “fair trade premium”, which was transferred to the co-operative’s account for financing the economic development of the organisation and its members. This enabled the fledgling business to employ staff and to invest in additional equipment.

A second small grant from the United Nations Environmental Programme enabled Heiveld to develop packaging for its product, engaging local women’s groups to manufacture cloth bags, which were subsequently filled and labelled for the local (and later export) market. Indigo and EMG provided support, establishing a precedent that has led to ongoing provision of strategic and

3 The “fair trade premium” is a pre-determined amount additional to the purchase price which must be administered separately by the producer organisation, should be invested in economic and social development, and may not be distributed directly to members.

marketing support to Heiveld by these organisations. Not only was this enterprise successful at creating local employment and earning a profit for Heiveld, but it provided a tangible experience to members of how their humble product could be transformed into an attractive product for the international market. This had a profound impact on the pride and confidence of members, and contributed to the development of Heiveld's first marketing slogan: "Produced with Pride".

Some of the Heiveld members have access to extensive areas of fynbos that include stands of wild rooibos, which had traditionally been harvested for domestic use and for processing with cultivated rooibos. It was a well-known fact in the industry that because of its rich flavour and colour, wild rooibos had value for blending with poor quality cultivated rooibos. The industry's pricing policy meant, however, that no premium was ever paid for wild rooibos. Following a pilot project conducted by Indigo and EMG, Heiveld in 2004 decided to market Heiveld Wild as a unique niche product. Since that time the product has been marketed in South Africa, North America, and Europe and is particularly sought after by connoisseurs and those concerned about the environmental footprint of cultivated rooibos. Not only does the product receive a higher price in the market, but Heiveld pays its producers a premium price for wild product, which must be managed and harvested according to established sustainability criteria.

Heiveld being a young organisation of limited means and experience, financial management of an increasingly sophisticated system became ever more demanding. In response to a request from the co-operative, Fair Trade Assistance (a not-for-profit arm of Fair Trade Organisatie) provided grant funding for technical assistance and training of Heiveld staff in financial management. As a result Heiveld was able to establish a full accounting system in its second year of existence. The first full-time member of the staff was a bookkeeper, who has since become general manager of the co-operative.

External audits of the accounts of the co-operative have been carried out for every year of its existence, and the auditors have reported back to the membership at every annual general meeting. This has built the confidence of members in the sound management of their resources. Ongoing financial management is bolstered by a finance task team, which comprises staff, two directors, and an external advisor from EMG. The finance task team prepares cash flow projections for the board and advises the board of key financial decisions. These forms of external support and internal capacity development have created an environment in which there is a greater level of confidence in transparency and sound management of the resources of the co-operative (which members see as their resources).

Since the founding of the co-operative the members of Heiveld have expressed a profound interest in sustainability from the perspectives of their families and community, their business, and

the environment that sustains them. This “triple bottom line” approach has proven sound as a foundation for their business, and has won the co-operative awards and loyal business partners.

Marketing the product

For the first three years (2001-2003) Heiveld Co-operative was bound by its contract, in terms of which all members delivered their product via Heiveld to Cape Town-based secondary processor and exporter of rooibos Coetzee and Coetzee, which in turn paid members the contract price for their tea via Heiveld. This price was strictly market linked and was the same as that paid to other organic rooibos producers in the industry. Nevertheless, the processing and administrative services provided by Heiveld, reliable payments for deliveries, and ready access to the market persuaded members to deliver most of their product via Heiveld to Coetzee and Coetzee.

Exposure to the wider fair trade and organic market for rooibos via contacts made by partner NGOs resulted in demand for Heiveld’s tea in Europe. Its contractual agreement limited Heiveld’s ability to trade in its own product as it was not the holder of its own organic certificate, and members were contractually bound to sell their production to Coetzee and Coetzee. Heiveld addressed this constraint by purchasing a quantity of processed rooibos back from Coetzee and Coetzee and subsequently engaging Coetzee and Coetzee as the contracted exporter for Heiveld rooibos. Although this convoluted process involved a number of additional fees and other costs, the co-operative was nevertheless able to export its product profitably. Profits were declared in the hands of members, with the proviso that one-half of the profit was retained in a members’ bonus fund for use as working capital by the co-operative until such time as its liquidity and reserves would allow it to pay the funds to members.

The constraints imposed by the contract with Coetzee and Coetzee limited Heiveld’s ability to trade in, and profit from, its own product. The primary beneficiary of the contract was Fair Trade Organisatie, which was able to secure a guaranteed supply of whatever proportion of Heiveld’s production it could sell at favourable terms. In order to trade on more favourable terms, in 2003 Heiveld engaged EcoCert to certify the organisation and its members as organic producers. Shortly thereafter Heiveld became the first producer of rooibos in the world to be certified by the Fairtrade Labelling Organisation (FLO).

This dual certification enabled Heiveld to negotiate a far more favourable contract with Fair Trade Organisatie for the 2004 season and to export directly to its other clients on better terms. Indigo provided the necessary logistical support in complying with export regulations, obtaining the necessary documentation, and arranging for shipping. Although Coetzee and Coetzee were initially retained as the service provider for sieving and sterilising Heiveld’s rooibos for export, the

co-operative was at liberty to seek alternative service providers and subsequently transferred its business to The Red Tea Company, situated more conveniently near Clanwilliam.

The newfound independence of Heiveld enabled the business to purchase product from its members and to set prices paid to members for their tea. Heiveld raised the producer price for raw rooibos to above that offered by Coetzee and Coetzee, and since that time it has consistently paid a higher price to its members than any other company.

Although the fair trade market has proved a boon to producers, FLO certification of the product since 2004 has proved to have both advantages and disadvantages. Prior to the entry of rooibos into the FLO system only small-scale farmer rooibos was traded in the fair trade market and prices were reasonably stable. FLO, however, subsequently opened the door to large-scale producers to enter the fair trade rooibos market. Following the entry into market of the first FLO certified rooibos from large-scale producers in 2006 prices tumbled. It is ironic that the image and stories of small-scale producers have served to promote FLO certified rooibos in the market: the article “From Workers in Plantations to Independent Farmers” reflecting the experiences of Heiveld was one of four small-farmer stories to appear in the 2006 annual report of FLO International (Fairtrade Labelling Organization International, 2006).

A study of production costs and pricing of small-farmer rooibos (Wynberg & Custers, 2005) showed that 2005 producer prices (R20/kg) for organic and fair trade rooibos tea covered the costs of production for small-scale producers, but were insufficient to cover living expenses and further investment for farmers exclusively reliant on rooibos tea production. Following publication of the study, FLO allowed large-scale producers to enter the market with Fairtrade certified rooibos tea. This had an immediate and disastrous impact on small-scale producers, forcing prices down and limiting demand. Subsequent overproduction in the industry, coupled with shrinking markets due to the global economic downturn and the entry into northern markets of fair trade certified rooibos from large-scale producers, forced Heiveld to reduce its producer price to R16/kg in 2008 and R15/kg in 2009 and 2010. This reduced price to producers enabled Heiveld to return to profit in 2008 after two loss-making years, but reflects ongoing difficult trading conditions. In the industry at large the equivalent price for organic rooibos dropped from approximately R12/kg to approximately R8/kg in the same period.

Heiveld currently maintains direct trading relations with 12 trading partners in South Africa, Europe, North America, and Australasia, and markets its product in South Africa via an internet portal (www.heiveld.co.za). In 2009 Heiveld undertook a rebranding exercise associated with the re-launch of its website and the production of new packaging for its product on the local market. The main result of the re-branding process was the decision to focus on the consistently

high quality of Heiveld's rooibos as the key brand message: "World's finest rooibos". Marketing and Export Manager René Marinus, supported by other members of staff, directors, and NGO colleagues, is responsible for marketing.

Box 1: Re-branding the Heiveld product

In consultation with a brand strategist it was noted that there are many unique aspects that make Heiveld and its products extraordinary and add value to the brand within the "triple bottom line" approach of Heiveld:

- A certified fair trade product linked to demonstrable social and developmental benefits provided to local community members
- A certified organic product produced in harmony with nature and a sustainably harvested wild product managed in accordance with traditional knowledge and state-of-the-art research findings
- A "product of origin" from an area known to have the right combination of climate and soils to produce the finest rooibos
- A hand-made product that is not only of finer quality than that produced in a more mechanised processing facility, but that is also produced with a smaller carbon footprint
- A "climate friendly" wild rooibos product produced in a manner that does not release any carbon from the soil or diminish the biodiversity of the natural environment.

But as noted elsewhere, in the end the co-operative decided to focus on one key aspect of its brand: the high quality of its product.

Product for the local market is packaged in tea bags or loose in cloth bags. Tea bags are packaged in cardboard boxes designed and printed with the support of the Finnish Embassy, which also funded the 2009 redesign of the Heiveld website.

Within South Africa, Heiveld markets the bulk of its product in Pick n Pay supermarkets, where the product is sold under the Pick n Pay house brand for organic rooibos. Initially brokered via the Organic Freedom Project, which sought to link organic producers with the mainstream market, this relationship has proved a sound and reliable market outlet for Heiveld tea, which is reportedly Pick n Pay's best-selling organic product line.

Outside South Africa, Heiveld personnel have travelled to the Austria, Belgium, France, Germany, Italy, Switzerland, and the United Kingdom to meet partners and undertake promotional activities. Most trading partners also visit the organisation annually. Direct relations with trading partners are a significant part of Heiveld's business strategy. This approach is also consistent with the operating principles of the fair trade system.

The supporting role of extension services

At the time of the establishment of the Heiveld Co-operative no written information on organic rooibos production was available to farmers, let alone in Afrikaans. To remedy the problem, EMG and Indigo researched and published a farmers' handbook on organic rooibos production, which has since been widely used as a reference work for farmers and as a training manual in formal training courses (Oettlé et al., 2002). Formal training in organic production is provided to members in the course in a two-day annual training workshop.

The Heiveld Co-operative manages a data and information system to record all relevant data to ensure quality control and traceability of its certified rooibos products. Farmers keep records of their production by field, and each delivery to the tea court is recorded in the farmer's record book and in the Heiveld record system. From this point until the tea is sold to the client comprehensive record keeping at each stage of primary and secondary processing, as well as packaging, enables full traceability.

The primary vehicle for sharing agricultural knowledge that Heiveld uses is peer learning. With the support of three part-time mentor farmers employed by the co-op, members discuss constraints to production and devise ways of addressing these. Some questions have been beyond the capacities of farmers to address themselves, and in these cases collaborative research with scientists has been able to provide much-needed insight and knowledge. As a result of this collaborative approach, knowledge has been elaborated and/or local knowledge validated regarding wild rooibos ecotypes, sustainable harvesting of wild and cultivated rooibos, and production of rooibos seedlings. This work has resulted in the publication of a manual for sustainable production of wild rooibos (Malgas and Oettle, 2007). In addition, collaborative research has contributed knowledge of cluster roots, plant nutrition, and pollination of rooibos.

Heiveld employs an internal inspector to provide technical support in the management of its internal control system for organic production. The internal inspector is based near Piketberg and visits each producer in the co-op at least twice a year to ensure that all are keeping adequate records and following organic production practices.

Organic certification of Heiveld members relies on accurate geographic information system (GIS) maps reflecting the fields of each member. Many of the fields are tiny and of irregular size, and thus measuring them by global positioning system (GPS) and mapping them using GIS is the only practical way to collect and collate this information. Indigo has provided GPS training to members of the local community to enable them to gather the data with the farmers, and these data are translated into GIS maps by Indigo staff. Field data and associated maps are updated annually and presented to the organic inspector on the occasion of the annual organic inspection of Heiveld members.

Technical support for sustainable rooibos production is also provided by EMG and includes planning and reflection with mentor farmers as well as technical advice in the design of measures undertaken by farmers to enhance the sustainability of their production systems.

The Heiveld initiative was initially supported by officials of the Northern Cape Department of Agriculture, which participated in the PAR process and co-facilitated knowledge exchange visits that led to establishment of the co-operative. At the time the department had no technical extension capacity relating to rooibos and there was no local extension staff in the Nieuwoudtville area. In 2002 changes of leadership and staff within the department resulted in withdrawal from the PAR process. Heiveld has not received any financial or extension support from government. Although the members were deeply disappointed that their repeated and formalised requests were ignored, this neglect no doubt spurred the co-operative to greater independence.

Over the past four years Heiveld has gradually expanded its tea court and associated production facilities. Construction of the first phase of the initial tea court and cutting platform was completed in 2005. Subsequently a store, office, and toilet facilities were constructed, and the buildings were equipped with solar power. In 2010 a second tea court was completed, and the facility is now capable of processing in excess of 100 tonnes of dry tea per season.

CHALLENGES FACED BY HEIVELD CO-OPERATIVE

The growth of Heiveld Co-operative has not been smooth. At the outset, most members lacked any experience in collective organisation and the sophisticated management systems required to ensure that a quality product could be produced consistently and profitably, whilst also complying with the legal obligations of a registered co-operative.

A constitution was developed in a participatory manner with the support of a lawyer. Following its adoption an ongoing learning process has been important in ensuring that decision making is in accordance with the constitution and that members are able to utilise the constitution to uphold their rights and those of others.

Over the years, tensions, disagreements, and even conflicts have emerged over a range of issues such as use of Heiveld resources, discipline of staff, behaviour at meetings, and conformity with quality, fair trade, and organic standards. Typically such tensions have prompted the board to develop a policy that can be referred to in similar future instances. A comprehensive set of policies has thus taken shape to provide guidance, stability, and efficiency in day-to-day decision making. Procedures for effective, accountable, and documented decision making had to be learned by the general membership and, in more depth, by a succession of elected directors of the co-operative.

Notwithstanding the provisions in its constitution, the organisation and its leadership had to learn how to discipline members and staff. All of these processes involved difficult choices, challenges, and disagreements, many of which had the potential to precipitate a major crisis in the organisation. Evaluative and reflective learning processes have played an important role in enabling and consolidating organisational learning.

The Heiveld membership, its NGO advisors, and its long-term fair trade trading partners have worked towards ensuring that access to information, participation, accountability, and organisational capacity are realised in their way of working and interactions. In the world of commerce, however, information is frequently not shared and traders tend to want information and products to be provided as fast and efficiently as possible. As a result, some traders tend to prefer to communicate via NGO advisors, who are fluent in English and highly accessible. This practice may be good for trade, but does not necessarily serve the empowerment objective.

Heiveld's investment in a minority share in a packaging company in Cape Town was not profitable and provided many challenges to the co-operative. Poor quality and delayed deliveries by the company to Heiveld trading partners resulted in losses of market share, but representatives of the Heiveld board were long frustrated in their efforts to ensure the needed improvements in management or transparency in the financial management of the company. Following legal intervention to defend the rights of the co-op and its members, and the provision of audited financial statements, the Heiveld membership voted to sell its shareholding and write off its losses. Despite being highly stressful, this experience nevertheless strengthened Heiveld's desire to manage the packaging of its own product, and in 2011 the co-operative invested in a building suitable for this purpose in Nieuwoudtville.

It has proven challenging to find the appropriate balance between self-sufficiency/independence on the one hand and support/dependency on the other. Staff and members depend on trusted NGO colleagues (who in some instances have greater confidence, wider networks, or specialised knowledge and skills) for information and advice. NGO employees, however, do not share any of the risks of the business, and do not have as much at stake. Within the PAR context it has thus

been important to regularly clarify responsibilities and to ensure that the owners and employees of the business accept full responsibility for decisions and operational outcomes. Whereas the NGOs have a local presence and are likely to be able to provide support sometime into the future, this assistance is by definition of a temporal nature and will come to an end at some point. Capacity development has thus been consciously directed towards building the capacity of staff and membership to fulfil key functions, and to engage professional assistance where specialised skills are required. Services engaged on this basis include accounting support and an external advisor on organic rooibos production and certification.

Organisational learning has been vital to the growth and the sustainability of the business. Some of the Heiveld's plans have not come to fruition and mistakes have been made. Yet the organisational culture is one which sees these events as opportunities for learning that are at least as rich as more successful ventures. The organisation has sought to include younger people in its management and to ensure that women play a role in the governance of the organisation, and this approach has brought new perspectives and skills to the decision making processes. Reflection on similar past processes serves as the basis for planning future interventions, and organisational capacity is stimulated in the process. Heiveld has come a long way since the time when its NGO partners were essential to the success of visits to clients in the north, and Heiveld staff and board members now undertake these missions on their own.

CONCLUSIONS

Heiveld has come a long way in 10 years but still faces an uncertain future. The co-operative is in a unique position to create and capitalise on opportunities that relate to its being a member-owned co-operative that has demonstrated its ability to produce and market a high-quality product. On the other hand, the business faces a number of risks, and others will no doubt manifest themselves in the future. Other companies will vie for the business's market share and product, and Heiveld will need to remain mindful of the reality that any success inevitably invites competition.

Fostering local initiatives to enhance sustainable production and enhanced livelihoods is a multi-faceted, delicate, and dynamic process that needs local ownership and is easily diverted or undermined by inappropriate outside support or competition. Heiveld has steadily developed to a point at which it employs professional staff (three full-time office personnel and 10 seasonal employees at its tea court). The NGOs that provide mentorship and support do not receive any funding for this work, which takes relatively little of their time and is based upon a relationship of mutual respect, as opposed to any contractual obligations. Increasingly tasks previously undertaken by NGO advisors are contracted out to service providers hired by the co-operative (for example,

the external inspector). Nevertheless, the situation is dynamic and the support provided by NGOs cannot be sustained in perpetuity.

On-going capacity development of staff, membership, and leadership is essential if the business is to be able to respond adequately to emerging challenges and be “at the top of its game”. The process of drawing younger and better-educated members into the organisation and its leadership should continue and be deepened. The process of professionalising staff and service provision must continue, but should be matched by a steady increase in the capacity of the elected Board of Directors to provide leadership and direction and to manage the staff. Heiveld needs to strengthen its ability to engage with government agencies, support networks, and donors so as to prepare itself for a future when it might be called to stand its ground on its own in a hostile business environment. Not least, the uncertainties of future climate imply that the organisation and its membership shall all have to continue to learn to adapt their practices and strategies accordingly.

The spirit and vision that moved the founders to establish Heiveld in 2001 have proved their integrity and validity. Organisations like the Heiveld Co-operative must retain their valued traditions and build on their successes while also re-inventing themselves in creative ways. Out of this tension the organisation has the opportunity to emerge as a long-lasting, deeply rooted yet innovative community-based business.

GLOSSARY OF TERMS

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| Apartheid | The system of legal racial segregation enforced by the National Party government of South Africa between 1948 and 1993, under which the rights of the majority ‘non-white’ inhabitants of South Africa were curtailed and minority rule by white people was maintained. |
| Clanwilliam Tea Cooperative | A registered co-operative of rooibos producers established in 1948. |
| Coloured | Persons of mixed descent with ancestry from the KhoiSan population, as well as Europe, India, Indonesia, Madagascar, Malaya, Mauritius, Mozambique, Saint Helena, and elsewhere in southern Africa. |
| Dolerite | A dark, fine-grained igneous rock formed by intrusion of magma into sedimentary rock. |
| Fair trade | An organised social movement and market-based approach that aims to help producers in developing countries achieve improved trading conditions and greater sustainability of production and livelihoods. |

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| Fynbos | Natural scrubland and heathland vegetation occurring in the Cape region of South Africa and characterised by the presence or dominance of restios (evergreen graminoids of the family Restionaceae), a high cover of ericoid shrubs (fine-leaved shrubs, especially from the families Ericaceae, Asteraceae, Rhamnaceae, Thymelaceae, Rutaceae, and Fabaceae) and the common occurrence of proteoid shrubs (Proteaceae). |
| Khoikhoi or Khoekhoen | The collective name which the herding people of the Cape used for themselves. |
| KhoiSan | Collective descriptor for the aboriginal people of southern Africa, and for the original “click” languages of southern Africa. |
| Knersvlakte | Arid plain lying north of the Olifants River and west of the escarpment in the region of Van Rhynsdorp, so-called because of the tradition of dispatching “knegte”, or servants, to graze livestock there in the winter rain season. |
| Participatory Action Research | A collective form of experimental research that involves direct participation by members of a group in a dynamic research process, while monitoring and evaluating the effects of the researchers’ actions with the aim of improving practice and increasing understanding of how change in one’s actions or practices can mutually benefit a community of practitioners by improving the performance quality of the community or an area of concern. |
| Rooibos Control Board | A statutory body established in 1954 whose members were appointed by the Minister of Agriculture to regulate marketing, stabilise prices, and improve and standardise the quality of rooibos. |
| Rooibos | Refers to both <i>Aspalathus linearis</i> , a fynbos shrub of the Fabaceae (pea) family, and the tea made from an infusion of its dried leaves. |
| San | The contemporary descriptive term used for the hunter-gatherer peoples of southern Africa, derived from the name used by the Khoekhoen herders of the Cape to describe hunter-gatherers. |
| Suid Bokkeveld | That part of the Bokkeveld Plateau lying to the south of the village of Nieuwoudtville. |
| Tillite | Sedimentary rock that consists of consolidated masses of unweathered blocks (large, angular, detached rock bodies) and glacial till (unsorted and unstratified rock material deposited by glacial ice) in a rock flour (matrix or paste of unweathered rock). |

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SECTION D

*Case studies of projects assisting
emerging farmers*

Chapter 11

COMMUNAL WOOL FARMERS' PROJECT

COMMERCIALISING COMMUNAL WOOL FOR ECONOMIC AND SOCIAL TRANSFORMATION

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INTRODUCTION

Traditionally, rural communities have seen sheep only as a source of meat, to be consumed in the household or to be sold in the community for weddings, funerals, or other gatherings. Many times the wool would be discarded or burnt under the assumption that it had no use and consequently was of no value. In commercial terms, however, up to 30% of a sheep's value is in its wool. Wool is potentially a renewable, sustainable, and significant income earner for many communal livestock farmers in South Africa, but a lack of wool producing knowledge and know-how and access to markets has historically limited its potential as a significant source of income.

The baseline of the Eastern Cape communal wool project was that in the late 1990s an estimated 220 000 kg of wool valued at R1,5 million was being produced by 100 000 small-scale producers who owned 3 million sheep in the former Ciskei/Transkei area of South Africa. Wool was considered ancillary to the production of mutton and the income-generating potential of wool, as a renewable and sustainable enterprise, was not highly rated. As a consequence the wool sector in the communal areas was unstructured, producers made no investments in wool production, and the marketing of the wool produced was through informal channels. Moreover, the quality of wool, prices, yield per animal, and reproductivity of the sheep were all poor, the shearing and classing infrastructure and know-how was limited, and the small quantities that individual producers could offer were insufficient to exploit commercially (ComMark, 2009).

South Africa's National Wool Growers Association (NWGA) initiated the Eastern Cape communal wool project in accordance with its mission to promote a sustainable and profitable sheep wool industry in South Africa. The opportunity and need identified in the communal areas of the Eastern Cape drew the attention of the formal wool sector in South Africa and through its mandate it was compelled to intervene. Consequently, with wool industry funding, supported by ComMark Trust, and technical support from the Agricultural Research Council and the Eastern Cape Provincial Department of Agriculture, Forestry and Fisheries, dramatic change was brought about in all aspects of the communal wool sector. The project supported producers to increase communal wool production tenfold to 2,8 million kg per annum, valued at R64 million. This marks an 11-fold increase in production and a 30-fold increase in value over just a decade of intervention. The project also saw growers' profits multiply 50-fold, and wool farmers in the former Transkei and Ciskei grew to contribute 10-12% of South Africa's wool production. In effect the previously unexploited 30% of the value of sheep farmed in the communal areas entered a commercialisation phase. Box 1 is an account of the positive impact of the project on the life of Nomfanelo Quluba.

Box 1: Villagers derive benefits from communal wool project

The rolling hills of communal land around Godidi village are studded with roving flocks of grazing sheep, which belong to individual communal farmers. Since the Sibanye shearing shed was built, these flocks are increasingly providing income for their owners. Nomfanelo Quluba, a 62-year-old widow, has a household of grandchildren to support. She might well have been disregarded by the community or pitied, but her position as a sheep owner has earned her high status. With a flock of 95 sheep, "Gogo" Quluba is one of the most respected members of the village. For her, the communal wool project has not only provided an unforeseen income, but also afforded her children the opportunity to be trained and to gain skills which they would probably not have received otherwise. Staff must be thoroughly trained to become respected specialists that provide efficient, goal-oriented training and support services to farmers.

Source: ComMark, 2009

This case study of the Communal Wool Farmer's Project highlights the specific interventions, strategies, and innovations employed to link communal farmers to formal, mainstream markets so as to bring about economic and social transformation in a region that holds immense, previously untapped agricultural potential. The project illustrates the power of strong partnerships and targeted interventions in helping marginalised farmers overcome the challenges they face. Leon de Beer, managing director of the NWGA, summed it up by saying, "Wool can really make a difference in people's lives in the short and medium term. There is such potential; this is a development strategy that really works" (ComMark, 2009).

GLOBAL INDUSTRY OVERVIEW

Global textile industry

The global production of textiles has grown along with the global population and technological development. The world market for fibres has tripled in 40 years. Global cotton production has risen steadily since the 1900s with no signs of tailing off. Animal fibre production doubled between 1900 and 1960, but since then, production has become relatively static. The production of semi-synthetic cellulosic grew 100-fold from 1920 to 1960, but then levelled off due to the introduction of other, more useful and attractive, synthetic fibres. The production of wholly synthetic fibres started in the late 1930s, grew slowly, and then took off explosively in the 1960s, rising 10-fold in just eight years. In the 1990s, synthetic fibres surpassed cotton as the primary global fibre, and currently they constitute more than half of global textile consumption (IWTO, 2009).

Figure 1 illustrates the historical consumption of various textile fibres, both natural and synthetic, from 1970 to 2008. The dominance of cotton and thereafter synthetic fibres as the primary global textile fibres is evident; including the switch point during the early 1990s when synthetic fibres eclipsed cotton as the leading global textile fibre. Although wool is a significant natural fibre, it is not a major textile fibre (IWTO, 2009).

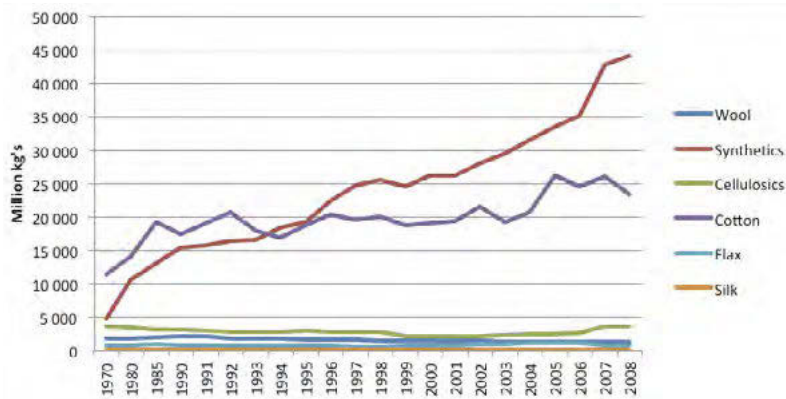


Figure 1. Global consumption of major textile fibres, 1970-2008.

Source: IWTO, 2009.

Trends in global wool production

In recent decades wool's share of the global textile fibre sector has declined from 8 to 2%. In 2008 around 2,1 billion kg of wool was produced, some 38% less than in 1990 (Figure 2). This decline is ascribed to adverse climatic conditions (especially drought) and to a shift towards meat production

and other farming enterprises. The main drivers in the declining production of natural fibres, and specifically wool, are, however, the shifting of global demand for different fibres and the increasing rate of substitution among competing fibres. Improved performance and affordability of synthetic fibres through a number of technological advances has allowed for this substitution to occur.

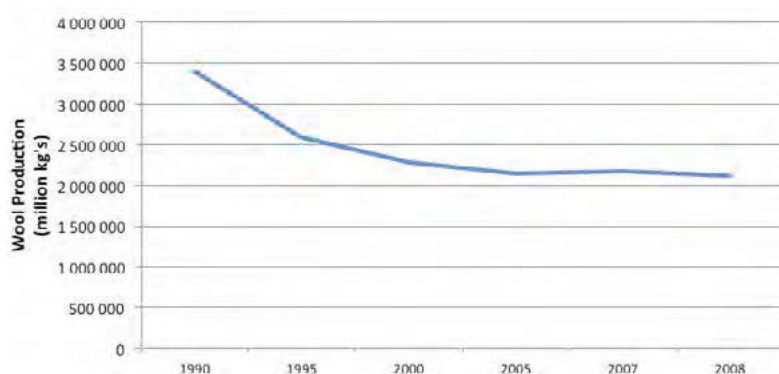


Figure 2. Global wool production trends, 1990-2008.

Source: IWTO, 2009.

Wool still constitutes significant sectors in a number of countries with respect to production, processing, and consumption. In 2008 the leading wool producing countries—Australia, China, and New Zealand—accounted for 54% of global production. Only 10 countries, including South Africa, produce 99% of the wool produced globally (IWTO, 2009).

Trends in global wool trade

Many traditional wool producing nations (Australia, New Zealand, Argentina, South Africa, etc.) are not processing the raw wool, but are exporting it in its greasy form. Australia and New Zealand are the leading exporting countries, with Australia exporting a significant 358 billion kg of greasy wool¹, which constituted 82% of total production in 2008 (IWTO, 2009). China and India are the leading importers of raw wool, with China importing a massive 280 billion kg of wool in addition to its annual production of 405 billion kg. India is a distant second with imports of just over 77 billion kg of raw wool in 2008 (IWTO, 2009).

1 Please refer to glossary for detailed description of technical terms and jargon.

Table 1: Prominent wool producers, importers, exporters, and consumers (% globally).

| Production | | Imports | | Exports | | Consumption* | |
|--------------|-----|----------------|-----|----------------|-----|--------------|-----|
| Australia | 31% | China | 48% | Australia | 54% | China | 52% |
| China | 28% | India | 13% | New Zealand | 21% | India | 10% |
| New Zealand | 14% | Italy | 9% | Germany | 6% | Australia | 7% |
| Iran | 5% | Germany | 8% | South Africa | 5% | Iran | 6% |
| Argentina | 5% | Czech Republic | 5% | United Kingdom | 3% | New Zealand | 5% |
| Russia | 4% | Turkey | 5% | Argentina | 3% | Russia | 5% |
| Sudan | 3% | Belgium | 4% | Turkey | 2% | Turkey | 5% |
| Turkey | 3% | Uruguay | 3% | Syria | 2% | Argentina | 4% |
| India | 3% | Russia | 2% | Uruguay | 2% | Sudan | 4% |
| South Africa | 3% | Taiwan | 2% | Spain | 2% | Italy | 4% |

Source: IWTO, 2009.

* Own consumption and/or processing for export.

Global trade figures of wool in 2008 reveal that a number of leading wool producing countries are either net exporters or process and/or consume only a small proportion of their annual production. Conversely, some countries are specialised processors of wool, which import raw wool, process it, and then export the value-added product (IWTO, 2009).

Trends in global wool consumption

Wool is consumed globally in the form of many different products. By weight, an estimated 42% of all wool is consumed as carpets (knotted, 11%; woven, 12%; tufted, 19%), while another 24% is consumed as knitted products and 34% as men's and women's apparel (IWTO, 2009). Although a marked reduction in the consumption of many products is taking place, there are commodities, like men's and women's overcoats, blankets, woven carpets, and tufted carpets, that show opposite drifts in all likelihood driven by economic and fashion trends. In spite of the very small position wool holds in the global textile fibre market, the demand for wool remains stable while a slow decline in production is evident. This creates an opportunity for new growers to produce wool to meet demand.

SOUTH AFRICA'S WOOL SECTOR

Historical overview

South Africa was the first country outside Europe to own Merinos. This history dates back as far as 1789, when the Netherlands government donated two Spanish Merino rams and four Spanish Merino ewes to the military commander of the Cape to experiment with. Over time the Merino breed successfully spread and established itself across South Africa due to its suitability to many of South Africa's agro-ecological zones. Today an estimated half of South Africa's sheep population lives in the semi-arid area which covers 85% of the country (BKB, 2010a; Davenport, 2010).

In the mid-nineteenth century, South Africa's economy was essentially agriculture based, sheep and sugar cane farming representing the two strongest sectors of the regional economy. In fact, it was wool production that was the strongest sector of the Cape colony and Orange Free State economies, evidenced by the fact that the production and export of wool grew from a mere 9 000 kg in 1822 to 11,8 million kg in 1862 (Davenport, 2010). Today the South African wool industry remains an important contributor to the South African economy and especially to the economy of some of the poorer and more rural provinces (Davenport, 2010). Currently an estimated 45 million kg of wool, valued at R1,15 billion, is produced in South Africa annually, and the commodity provides employment for up to 250 000 people (DAFF, 2010).

South African wool value chain

Champion and Fearn (2002) note that the apparel wool value chain is one of the more complicated and elongated (in terms of transformation stages, lead times, and geographical locations) value chains within the food and fibre industries. The same assessment holds for South Africa's wool value chain, which is characterised by numerous transformation stages, long lead times, and geographical dispersion of production, processing, manufacturing, and consumption. Figure 3 illustrates the market channels, by way of value chain diagram, for South Africa's wool.

Wool in South Africa is produced in various provinces and is traded through two primary marketing channels. Farmers can sell their wool through the mainstream public auction to wool buyers or privately to traders or wool processors. About 20% of wool sold is processed in South Africa, while the remaining 80% is exported in its greasy form to, amongst others, China, Czech Republic, Germany, India, Italy, and United Kingdom.

The 20% of wool not immediately exported is scoured by one of two scouring plants for wool in South Africa and combed into tops by the only remaining wool combing company in the country, Cape Hope Wool Combers. Wool scoureds or tops are then exported to spinning clients globally. Cape Wools (2010c) estimates that less than 3% of wool produced in South Africa is consumed locally.

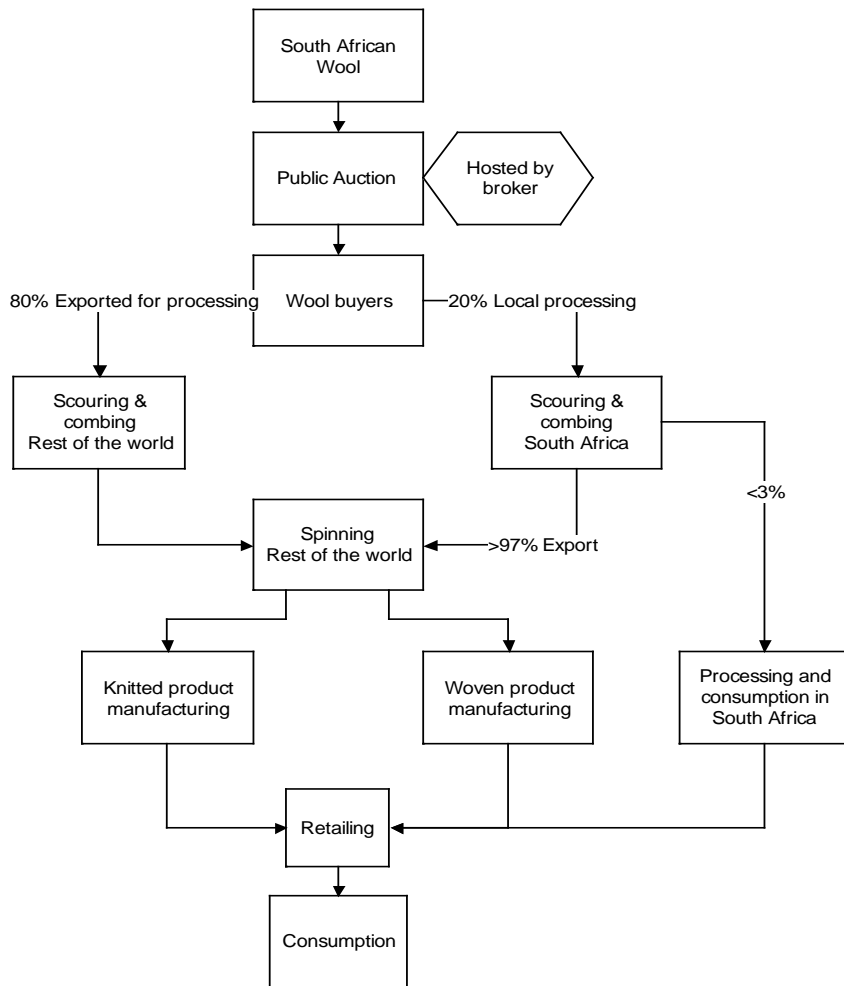


Figure 3. South Africa's wool value chain in context of the global chain.

South African wool production

South Africa produced around 45 000 metric tons of Merino and other wool in 2009 valued at R1,15 billion. At this level of production South Africa produced 2,2% of the wool produced globally in 2009 wool producing country (DAFF, 2009). In terms of production South Africa's wool clip has followed global trends with a 30% decline in sheep numbers and a 54% decline in wool produced in the period between 1990 and 2009. This trend is related to and the result of the receding market for wool driven by an increase in competition due to the success of other fibres such as cotton and synthetics.

In terms of productivity South African wool farmers have managed to improve the annual yield per animal by 52% from 1990 to 2008 to near 3,5 kg per animal. The value peaked in 2002 when 4,1 kg per animal was achieved. This is of particular interest in light of the historical productivity achieved by communal farmers of about 1,2 kg per animal. The small decline in productivity in recent years is due, in part, to farmers switching from pure wool sheep to dual purpose (mutton and wool) sheep to manage risk (based on portfolio theory) and to improve returns from both wool and mutton production. This switch to non-specialised wool sheep did have an impact on the productivity per sheep (DAFF, 2009).

Production area

Wool production is spread across South Africa's nine provinces, but the three Cape provinces (Eastern, Western and Northern) and the Free State province constitute the primary wool producing region, where 84% of the country's wool is produced (Table 2). These areas are characterised by low rainfall where blowfly is not as prevalent as in higher rainfall regions such as the coastal belt and the Highveld (Cape Wools, 2010b). The most prominent wool producing province is the Eastern Cape, where around 30% of South Africa's wool is produced. A substantial 22% of this figure is produced by communal farmers in the former Ciskei and Transkei homeland areas with a production level of 3 million kg per annum (Cape Wools, 2010b). Generally Namibia's and Lesotho's wool production is considered part of the South African production since it is marketed through the South African wool marketing system.

Table 2: South African wool production by province (2009).

| | Production (kg) | % Contribution |
|---------------|------------------------|-----------------------|
| Eastern Cape | 13 805 227 | 30,1% |
| Free State | 10 355 592 | 22,6% |
| Western Cape | 8 493 860 | 18,5% |
| Northern Cape | 5 617 319 | 12,3% |
| Lesotho | 3 566 260 | 7,8% |
| Mpumalanga | 2 470 874 | 5,4% |
| KwaZulu Natal | 786 648 | 1,7% |
| North West | 511 666 | 1,1% |
| Gauteng | 206 572 | 0,5% |
| Limpopo | 7 279 | 0,0% |
| Namibia | 4 623 | 0,0% |
| TOTAL | 45 825 920 | 100,0% |

Source: Cape Wools, 2010b.

Exports

Currently 68% of South Africa's wool exports are bound for countries in the Asia–Oceania region, 19% for Western Europe, and 12% for Eastern Europe (Cape Wools, 2010a). Export destinations for South Africa's wool have shifted dramatically in the past five years, however (Figure 4). Most significant is the remarkable growth of exports to China and the commensurate decline in market share of South Africa's traditional clients. In the short space of five years South Africa's wool exports to China have grown more than 15-fold from R50 million in 2005 to R832 million in 2009. As a consequence exports to traditional export destinations like Italy, Germany, and France have declined up to 98%. These developments emulate global trends, as noted earlier, where processing is rapidly and dramatically shifting away from traditional wool processing countries to industrialising countries, most notably China and India.

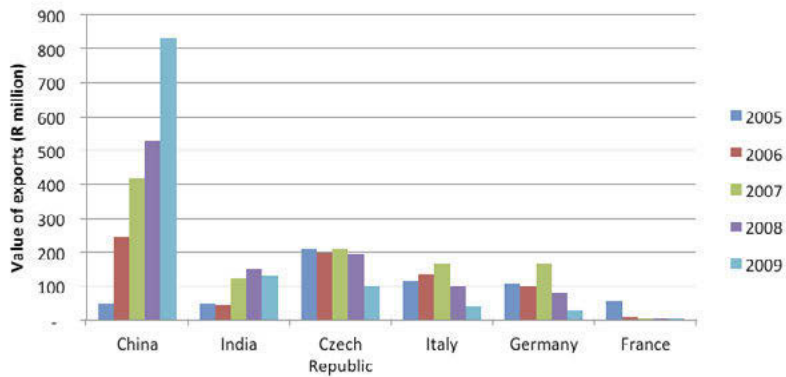


Figure 4. Value and destination of South African wool exports.

Source: International Trade Centre, 2010.

In terms of the “product mix” South African wool exports currently consist to 82% of unprocessed and to 17% of semi-processed (12% tops, 5% scoureds) wool (Figure 5). This emphasises the nature of global wool processing and the limited, if any, processing that many traditional wool producing countries undertake for either own consumption or value addition for export.

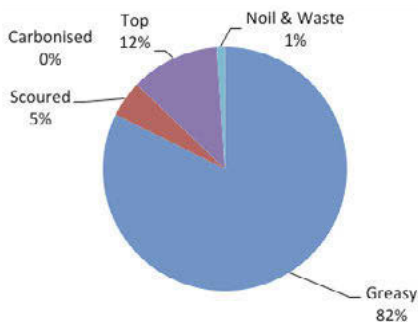


Figure 5. Product mix of South African wool exports.

Source: Cape Wools, 2010a.

PROJECT PROFILE: EASTERN CAPE COMMUNAL WOOL PROJECT²

Untapped potential of the Golden Fleece

Historically, communal livestock farmers, particularly wool farmers, were not integrated into the mainstream agricultural economy of South Africa, particularly those communal areas within the former homeland states (Bophuthatswana, Ciskei, KwaZulu, Lebowa, QwaQwa, Transkei, and Venda). To address this historical marginalisation and in light of South Africa’s recent political and economic transformation and development agenda, the commercialisation (and associated economic empowerment and mainstreaming) of small-scale and communal farmers has been the mandate of many public and private sector players. As a consequence the Eastern Cape communal wool project was initiated in line with the NWGA’s mission to promote a sustainable and profitable sheep wool industry in South Africa. The particular need was identified to improve the profitability of wool farming in the communal areas of the Eastern Cape, where 100 000 small-scale wool producers farmed with 3 million sheep.

To bring about the desired transformation and commercialisation of communal wool production, various institutions collaborated to launch the project that would contribute to rural economic growth and increased rural incomes through improved wool production and marketing. The broad project objective was to increase the profitability of communal wool sheep farming through introduction of improved farming practices and the efficient marketing of wool. The NWGA

² The Eastern Cape Communal Wool Project profile is compiled from a combination of notes from an interview with representatives of the NWGA and from secondary sources as denoted.

approached the Wool Trust to fund the training and development of communal wool farmers. In 1996 the Wool Industry Forum, the executive arm of the Wool Trust, resolved that the training and development of communal farmers be supported with wool industry funds in line with the economic transformation and development agenda in South Africa. The NWGA was to be the implementing and coordinating institution with seed funding from the Wool Trust. The NWGA also recruited the provincial government to contribute to the project by seconding extension officers, while the Agricultural Research Council contributed technical expertise. The NWGA also partnered with ComMark Trust (with funding from the British Department for International Development) to fund a part of the project.

The challenge

The challenges the project and intervention sought to address amongst wool growers in the communal areas of the Eastern Cape were wide ranging and characteristic of communal farming in South Africa. They include:

- Lack of private land tenure, restraining private incentive for development, such as infrastructure for production, management, and marketing;
- Lack of individual financial means for development (including lack of collateral for loans);
- Poor genetic quality of sheep;
- Poor nutrition of sheep, mainly resulting from continued overgrazing of communal land;
- Lack of business knowledge and technical skills amongst communal farmers required for progressive wool sheep farming (ComMark, 2009).

If not managed successfully, these challenges pose obstacles in the way of feasible, progressive, and sustainable wool production, such as:

- Low wool production per sheep and per unit of rangeland area;
- Inferior wool quality;
- Inefficient shearing process, poor wool classing, and unacceptable packing of wool;
- Unsatisfactory market access;
- Very low income from wool, resulting in little incentive to invest in wool farming; and
- Low reproduction rates, resulting in low income from sheep sales and very little opportunity to select for genetic improvement (ComMark, 2009).

The plan

The commercialisation of wool production in the communal areas of the Eastern Cape was approached by developing four strategies to be implemented concurrently to attempt to manage or overcome the various challenges faced by these growers. The primary goal was to transform communal wool production from an underperforming enterprise to a profitable, sustainable, and renewable venture. To achieve this goal, the following four strategies were pursued: development of infrastructure to support wool production; building capacity in the growing, shearing, and classing of wool; introduction of formal structures to organise producers; and the development of commercial market arrangements for wool produced by these communal farmers. These strategies were to be supported by other direct interventions including genetic improvement of the sheep flocks, improved animal nutrition and rangeland management, development of collective marketing arrangements, and training of shearers and farmers in the shearing, classing, sorting, and contamination of wool, as summarised in Figure 6.

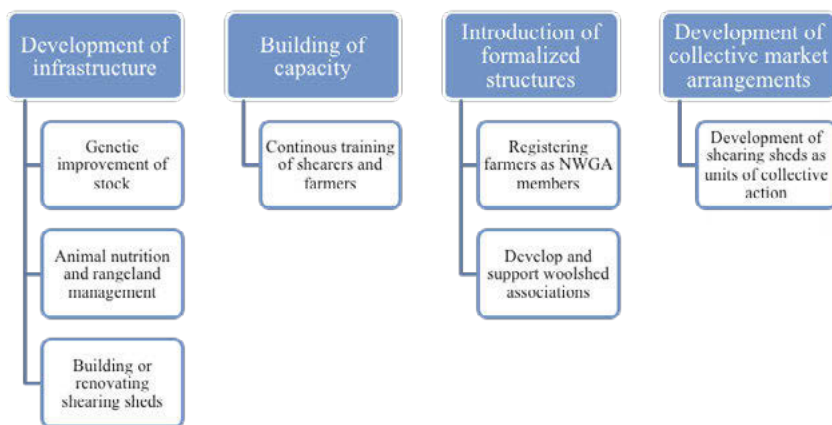


Figure 6. Project's four strategies and supporting interventions (ComMark, 2009).

Developing infrastructure

Some basic infrastructure is essential to offering wool of commercial value in the market. Foremost is access to a communal woolshed, where sheep can be shorn in a clean and protected environment, the wool can be classed to acceptable standards and baled (packaged) for transporting to the market. In light of the importance of communal woolsheds, the project focussed specifically on improving, upgrading, and expanding the network of woolsheds across the communal areas of the Eastern Cape. Through the project 846 communal woolsheds were brought into service as the backbone of the commercialisation process in the area. As the project gained momentum, the decision was made to focus primary interventions on the 310 sheds that produced 84% of the wool

entering the commercial marketing channel in order to achieve maximum impact with the limited resources available.

The woolsheds also served as the platform from which structure was brought to communal producers with organisation into various producer groups including shearing shed committees and woolgrower associations associated with the NWGA. These structures were essential for orderly contact with growers and for collective marketing of their product, and the establishment of woolsheds has been instrumental in this regard.

Building capacity

As noted earlier, a general lack of knowledge and know-how were contributing factors to the unsatisfactory returns communal growers attained from their wool production from husbandry to shearing. To remedy this shortcoming, capacity building was identified as the second essential intervention. The capacity building intervention focussed on two target groups, producers and sheep shearers. Producers received assistance in three key areas: technical training, business training, and improvement of genetic material. First, producers received ongoing technical training and market advisory services through the shearing shed structures, which encourage easy contact with producers. The technical training focussed on livestock management, breeding, reproduction, rangeland management, shearing, livestock handling, animal health, and business management to support producers to grow and harvest high-quality wool, and it usually coincided with the important activities in the sheep management cycle. The training programme also included study tours, lectures, and information days, which coincided with the wool production cycle. All these activities were conducted by extension officers from the provincial Department of Agriculture, Forestry and Fisheries assigned to the project and responsible for the particular communal shearing shed. Marketing extension training focussed on ensuring that the sheep were correctly shorn and the wool well classed and packaged into wool bales that the broker could market with confidence.

As part of the overarching NWGA Training and Development Programme, this intervention also facilitated communal farmers' access to improved genetic material, which had been identified as a key performance area needing to be addressed. To assist with this issue, the Agricultural Research Council funded a ram exchange programme—and production advisors who helped improve the genetic material in their sheep flocks. To date, an estimated 15 000 improved rams have been placed in the communal system through the ram exchange programme (Eastern Cape Provincial Government, 2010).

The second group that received training was the shearers. Their training focussed mostly on technical aspects of shearing, as it takes three to five years of training and experience to master the

art of shearing. In the 1980s the NWGA introduced a set of rules to govern the official training of shearers: four levels of official training for shearing were defined, ranging from a beginner's course to an instructor's course (NWGA, 2010). As part of the communal wool growers' initiative, the NWGA undertook the shearer training as part of the capacity building objective of the project and in the period 2004 to 2006 some 654 shearers underwent introductory shearing training through the NWGA Shearer Training Division programme.

Organizing farmers

Historically, communal sheep farming was not structured and organized in ways that facilitate setting up a wool growing business. Therefore, another objective for the project was to formalise grower structures to contribute to the commercialisation of wool growing in the former Ciskei and Transkei.

With the help of the NWGA, communal woolgrowers were encouraged to join a branch of the NWGA. The communal wool producing area was divided into four main regions and these main regions into various subregions, which host the various branches of the NWGA. Production advisors helped set up the associations and attended their meetings to strengthen these bodies. Through this membership drive the NWGA has become an organisation truly representative of all wool producers in South Africa: over half of the 10 000 members are black, communal, and emerging farmers. Emerging growers are represented on all levels of the NWGA, including the National Management Committee, Executive and Congress, as well as other relevant structures in the wool industry. This has opened the door for participation to all wool producers on all levels of decision-making, including government, and organised agriculture. Their inclusion in the formal industry association also brought communal wool producers services that were unavailable to them before, such as technical training, marketing advice, participation in genetic improvement programmes, representation in all structures of the wool industry, etc. Dr. Amie Aucamp, project manager at the NWGA, is of the view that "The formalizing of structures amongst communal woolgrowers has been pivotal in bringing about commercialization of communal wool production. This is evidenced by the successes and progress of growers who have joined formal structures as opposed to those that remain informal."

Commercial market arrangements

The improved organisation and structuring of the communal farmers in turn also contributed to the establishment of an institutional structure at the woolshed and NWGA branch level that enabled small-scale growers to overcome another important challenge, namely, access to the mainstream wool market. Traditionally growers sold their small, individual quantities of wool, shorn in poor conditions, to traders who bought the unclassed wool on sight for a small price. The traders would then class the wool and offer it for sale in the formal market, where they could reap the benefits of value added through classing and economies of scale. For the communal growers

the poor returns realised from this marketing channel were in many ways a disincentive to invest in the upgrading of their wool enterprise.

Clustering, however, which the establishment of the communal woolsheds brought about, permitted growers to enter into various market arrangements they could not access before, including access to the formal market for wool through collective marketing. Specifically, the woolsheds provided the following advantages of clustering:

- Shared access to infrastructure and services essential for commercial wool production;
- Bulk buying of inputs (especially transport);
- Collective marketing in commercial quantities;
- Shared risk and responsibilities; and
- Economies of scale in both inputs, operations, and output.

Through the NWGA's direct involvement in 310 communal woolsheds servicing more than 10 000 farmers, communal woolgrowers have been able to achieve the necessary economies of scale to market their wool commercially.

A MARKETING STRATEGY FOR WOOL PRODUCED BY COMMUNAL GROWERS

The marketing strategy for communal wool was developed and implemented by the various shearing sheds and coordinated by the NWGA. The Marketing Mix (also known as “four P’s”) model was used to develop the marketing plan, which includes: the product, price, placement, and promotion.

The product: wool from South Africa's communal woolgrowers

The bulk of global wool production is considered a commodity that is undifferentiated and unprocessed, and thus buyers usually incur minimal costs if they switch suppliers. Consequently the marketing strategy for the product of communal wool was primarily focussed on producing wool that complied with global market requirements since wool is traded globally and most of South Africa's wool is exported into the global market (Table 3).

Table 3: Comparison of market requirements and actual performance by South Africa's wool.

| Fibre Characteristic | Measurement | Requirement | Performance |
|-----------------------------|--------------------|--------------------|--------------------|
| Fibre diameter | Micron | 14-17 | 17-26 |
| Staple strength | Newtons/kilotex | >35 | >35 (79%) |
| Vegetable matter | Percentage | <1,0 | <1,0 (89%) |
| Staple length | Millimeters | 60-90 | 40-100 |
| Style | Good, Fair, Poor | Good | Good |
| Clean yield | Percentage | 60-70 | 61 (average) |
| Productivity | Kg/head | 3-5 | 3,5 |

Source: MTICM, 2009; Fibretrack, 2009.

Based on the comparison of market requirements and actual performance of South African wool it became clear that South African woolgrowers, including communal growers, did not produce their whole clip to the exact requirements for wool in the international market, though they were making good progress towards that goal. In particular, communal wool's average fibre diameter and length, and in particular the presence of coloured fibres, did not make it attractive to the international market. This was evidenced in the substantial discount (30-50%) applicable to the price of communal wool compared with the average South African clip. An important measure of success for the communal wool growers' project would therefore be the quality improvement of commercial wool, which in turn would increase the product's commercial value. With the market requirements for wool well defined, it was possible to guide communal wool farmers to focus specifically on consistently growing wool that met the quality requirements.

Pricing

The prices for all South African wool are inextricably linked to the supply and demand conditions in South Africa and the world. The prices of wool in South Africa are determined in regular public wool auctions held in Port Elizabeth during the wool marketing season. The South African Wool and Mohair Exchange facilitates the auction between producers and buyers of wool and mohair in South Africa. Brokers act as intermediaries who prepare and offer the wool and mohair for sale at auction. During the selling season weekly sales are conducted for wool and biweekly auctions for mohair. Wool is sold by catalogue, prepared by the respective brokers, as mentioned above. Prices are determined by way of an "English auction". The auctioneer opens the auction by announcing a suggested opening bid, a starting price or reserve for the item on sale, and then accepts increasingly higher bids from the floor.

Wool growers are “price takers” for their produce sold at auction given the nature of this market where supply and demand determine the market price. For wool specifically, fibre diameter and clean yield are the most important price determining factors. Prices for wool sold directly to traders or processors, though negotiable, are derived from the publicly known auction price for the particular type of wool. The wool auction is in essence the barometer from which prices are derived for any trade in wool outside the wool auction.

For communal wool growers the wool auction is an essential element in product marketing and price determination. As noted, wool growers are price takers because the commodity is traded internationally with many producers and few buyers. An estimated 60% of communal wool is currently sold at auction, where it fetches a market related price based on its quality. The remaining 40% of communal wool is still marketed through the traditional trader channel, where wool prices are reportedly much poorer although they are derived from the auction price. In both instances growers tend to be price takers because of the limited outlets for wool and the large number of sellers.

Marketing channels for communal wool

Wool produced in the communal areas of the Eastern Cape was traditionally marketed only through traders who roamed the hinterland and bought unsorted wool, usually in small quantities, from willing sellers at very low prices. These traders sorted and classed the wool into commercial qualities and quantities and then marketed it through the formal mainstream market on their own account.

The primary marketing channel for wool in South Africa, however, is through the wool auction, where the sale of producers' wool to buyers is facilitated by a public auction. For commodity wool this is considered to be the ultimate marketing channel where supply and demand determine the price of the product and the majority of woolgrowers and buyers congregate to sell and buy wool. This marketing channel is also considered the “mainstream” channel where the most competition for growers' wool is concentrated and where prices are likely to be closest to fair market value.

Promoting communal wool

A promotional strategy for communal wool presents various challenges, primarily due to the undifferentiated nature of raw wool and the difficulty in promoting a product that cannot be consumed without extensive processing. Notwithstanding the commodity nature of wool, attempts were made to create “brands” or “platforms” to promote the demand for wool produced by communal farmers. The differentiation factors may include quality (fineness, length, etc.), specific processing qualities (velour quality), place of origin (South Africa), end uses (velour, carpeting, etc.), production

practices (mules-free, environmentally friendly, etc.), or social factors (African wool, Fair wool, etc.). Boeremakelaars (Koöperatief) Beperk (BKB), the most prominent broker of communal wool, has developed a number of identities for communal wool in collaboration with global partners (Figure 7). The aim of this strategy is to segment the communal wool clip and, where appropriate and feasible, to target specific processors and/or clients to purchase the specific segments of the clip.



| | |
|--|---|
|  |  |
| <p><u>Wool Made in Africa:</u> Supporting African Communities through Trade (BKB, 2010b)</p> | <p><u>Fairwool:</u> Supporting EMERGING African wool producers and their communities (BKB, 2010c)</p> |

Figure 7. Wool Made in Africa and Fairwool brands.

In the global commodity market for wool a promotional strategy focussed on the development of brands may be difficult to implement and have poor feasibility. Over time, however, this may change as the market for wool products changes and consumers demand more unique and authentic products.

PROJECT STATUS

Working towards the goals

The project has achieved many of its intended goals. For example, a number of communal woolsheds are achieving average prices equal to or higher than the South African average price. There has also been a six-fold increase in the number of woolsheds that have attained the average price. These results clearly illustrate the impact of the intervention and the potential of communal farmers to create viable wool businesses.

Multiplying effects

Beyond the direct benefits of the project, a number of secondary impacts were also documented in the broader communities of the farmers. The share of income to communal farmers from the sale of mutton and wool has increased from 47% in 2004 to 65% in 2009, which illustrates both the role that livestock plays in the livelihood of farmers and the positive impact of the project. External revenue increased from R1,5 million in 1997 to R64 million in 2009, which is also bound to benefit the broader community through a multiplier effect.

The increased economic activity, ascribed to the transformation of the communal wool sector, has also resulted in the improvement of a number of social indicators. A recent NWGA survey to assess the social impact of the project since inception was conducted by way of interviews in target communities. Since the inception of the project a number of social indicators have improved (Table 4). These social indicators confirm that the broader goals of the project to improve the welfare of rural communities making their living from communal livestock farming are being achieved, albeit in small increments (NWGA, 2010).

Table 4: Impact of the project on social indicators.

| Social indicator | Before intervention | 2009 |
|---|----------------------------|-------------|
| Malnourished children | 43,1% | 27,3% |
| Number of households with savings accounts | 56,9% | 77,3% |
| Households having to borrow money for school fees | 78,4% | 52,3% |

Source: NWGA, 2010.

Private sector interest

The apparent development of the wool sector in the communal areas of the Eastern Cape has also piqued the interest of a variety of private agribusinesses, particularly those that offer products and services to livestock farmers. Historically few, if any, service or input providers were active in the former Ciskei and Transkei communal areas, because the prevailing subsistence agriculture presented limited perceived market opportunities for inputs and services compared with the traditional commercial market.

With the successes achieved through the NWGA project, however, and the dramatic growth in size and sophistication of the wool clip from communal wool farmers this market became more attractive for secondary agribusinesses. Particularly interested were companies in the wool and mohair industry, which identified this as an opportunity for diversification in light of the declining production of both wool and mohair by traditional commercial sources. The two most prominent fibre brokerage firms, which facilitate the sale of farmers' wool to large buyers, took a particular interest in the developments in the former Ciskei and Transkei. Both BKB and Cape Mohair and Wool (CMW) moved to establish a local presence with representatives to market their products and services to the emergent woolgrowers. Others, like Pfizer Animal Health, soon followed suit.

Along with the growing interest in the communal wool producing sector of the Eastern Cape both BKB and CMW have developed strategies to either establish black-owned wool companies or to sell or transfer shares to black partners like the communal woolgrowers of the Eastern Cape as part of their Black Economic Empowerment drives and responsibilities. In return, farmers or

farmers' associations that benefit from these endeavours are expected to reserve their business to the particular agribusiness. This development is noteworthy and specifically significant in illustrating the cascading effect that this intervention has had on Black Economic Empowerment.

Of particular interest in the context of developing small-scale wool farmers is the development of a "switch point" where the support that was offered to growers through a donor-funded project was gradually substituted by commercial interests with agribusinesses entering the same market to offer a bouquet of products and services to growers. This is evidence of how public, donor, or industry funding can be leveraged to drive sustainable economic development.

LOOKING AHEAD: OPPORTUNITIES FOR GROWTH

Following a period of growth and success for over a decade the NWGA communal wool project still faces a number of challenges. The first challenge is a general lack of human capacity with too few trained and experienced farmers and practitioners, especially extension officers, to sustain and grow the initiative. The second is the communal land tenure system, which frustrates any attempts to manage grazing for optimal nutrition, to manage organised breeding, and to prevent the spread of diseases. Box 2 relates sheep farmer Mandla Jack's views on the challenges of the communal land tenure system.

Box 2: Mandla Jack on communal farming

Mandla Jack, chairperson of the NWGA programme in Saki Village, is the owner of a small but growing herd of sheep. He relates that wool provides him with good money once a year at shearing time. Previously he had viewed sheep as a source of meat only, but now the added income is welcomed.

One of the many challenges faced by communal farmers, he says, is the communal land tenure system. Animals cannot be prevented from mixing, and grazing patterns cannot be properly managed. As a result, disease transference and over-grazing are constant realities.

Community members in Saki are, however, rallying together to solve some of the problems which they all face. Jack comments that "When one dips, we all dip. We are in this together!"

Source: ComMark, 2009.

In light of the apparent success of the project thus far the NWGA is well positioned to pursue a number of opportunities for growth that would contribute to the broad objectives of the

programme. With its collaborators the NWGA has identified a number of pivotal strategies to maintain the programme's growth and to develop sensible and relevant interventions. These include continuous improvement, establishment of commercial growers, development of holistic interventions, roll-out of the model to other provinces, and improving capacity. These interventions are described below.

Building human and physical capacity

The primary focus of the project going forwards is to strive for continued improvement by building on positive outcomes already achieved. In this regard there is a continued focus on the primary elements of the project including strengthening the woolgrower associations and shearing sheds, continued training and capacity building for growers and shearers (including basic adult education and training and introductory finance and business management), and continuation of the ram replacement programme to expedite genetic progress. Capacity building, in particular, is an important focus area to address the specific challenge posed by the state of human capital among officials and wool growers. The purpose of these focal areas is to ensure continuous improvement of the quality and quantity of wool produced along with building capacity and expanding growers' access to the mainstream market. The number of communal woolsheds able to achieve an average price equal to or better than the national average price is one of the indicators used to measure the project's progress towards achieving this objective.

Land reform and the establishment of commercial growers

A significant number of communal wool farmers have sizeable flocks of sheep that exceed 1 000 head. These farmers have proved they can be successful under trying communal tenure and would benefit from being settled on farms to which they have individual title and where they can make investments to the benefit of their enterprise. With this in mind the NWGA has initiated a process with the relevant government department to form a "wool industry land reform programme" that will prioritise these farmers for settlement onto private land and ensure their access to a range of post-settlement support services. The establishment of commercial growers on their own land would alleviate the challenges of the current communal land tenure system for these growers who have obvious commercial mind sets. The NWGA's view is that the establishment of commercial growers with a disadvantaged background would contribute meaningfully to the land reform process in South Africa, and the association is encouraged to be proactive in this regard. A land reform process coupled with the establishment of commercial growers by identifying those producers that have proven skills and are able to make an own contribution towards owning commercial farmland and livestock is seen as a screening exercise that would vastly improve the chances of commercial progress and successful, sustainable land reform and empowerment.

Development of holistic interventions

The development of holistic interventions aimed at addressing the challenges small-scale farmers face is also a key area for the project to develop. In this context it is recognised that communal farmers do not focus solely on the production of wool and that a broader view that incorporates a variety of enterprises is important to bringing about broad-based reform and economic transformation. A selective approach, where only a single enterprise is the sole focus of the intervention, may lead to skewed development and end up not delivering the desired results. A “whole farm” view creates the opportunity for collaboration with a variety of other commodity groupings to develop interventions that consider the farming enterprise as a whole and which would optimise the whole farm as opposed to the individual enterprises. Though no tangible step or progress has been made in this direction this is a strategic imperative for the future of the project.

Differentiated and targeted support

The project is more than a decade old and has been delivering on many of the initial goals it set out to achieve. In this regard the grassroots level support the project was able to offer to growers may have reached a maturity phase where the marginal benefit of additional basic training, for example, may be near zero. Consequently the need to develop a strategy to deliver differentiated and targeted support to producers was identified as the next step for the project. This strategy would be to ensure a continuum of support that is both useful and tailored to the specific level of development and empowerment that has been achieved to place growers on a continuous growth trajectory. This support may include funding to upscale the business and training in business management skills, advanced breeding, animal health, livestock and rangeland management, sorting and classing, etc.

Support from the private sector, specifically from agribusinesses that have close ties with communal growers, to develop capacity and offer support services becomes relevant, especially as growers and their businesses mature into commercial entities. Much of the support services that agribusinesses can offer producers would be on the basis of a commercial interest therein and would include production and marketing advice in exchange for their business. The assumption is that for communal producers that are positioned to grow a relationship with an agribusiness the support from the NWGA project can be tapered down and substituted with support from the agribusiness. This would enable the NWGA project to focus on basic support and service delivery to growers whose commercial interest is not yet sufficiently evolved and for whom “sponsored” intervention is required to bring about the desired change.

Establishing “Fair Trade” brand for communal wool

The establishment of a niche identity or brand for communal wool on the premise that it can be marketed as “fair trade” wool is another priority of the project. Although most wool in South Africa is typically marketed through the auction system, which is not conducive to the development of a brand, a number of alternative marketing options are being explored. Selected local and international retailers such as Woolworths in South Africa and Marks and Spencer in the United Kingdom have expressed a desire to the NWGA to purchase limited quantities of fair-trade certified wool directly from emerging farmer groups. In this regard much work has already been done by BKB and an international wool buyer to establish Fair Wool and Wool Made in Africa brands as platforms to address this need. Partnerships to develop the establishment of a brand and to facilitate emerging wool farmers' access to higher value niche markets is considered another vital focal area for the future.

CONCLUSION

The Eastern Cape's Ciskei and Transkei areas are starkly beautiful and hold immense agricultural potential, but as a region they are also economically underdeveloped and much of their potential has been neglected or never unlocked. In the space of a decade several thousand wool growers have been trained, equipped, and organised around newly established woolsheds that have begun to yield vastly improved quantities and qualities of wool suited for the commercial market. As a consequence communal growers have gained sustainable access to the mainstream market for South African wool. Through this project communal growers currently produce more than 10% of South Africa's wool and generate revenues that are empowering the communities where the wool is grown through a sustainable and renewable resource.

GLOSSARY

| | |
|-----------------|---|
| English auction | An English auction is a type of auction, whose most typical form is the “open outcry” auction. The auctioneer opens the auction by announcing a suggested opening bid, a starting price or reserve for the item on sale, and then accepts increasingly higher bids from the floor consisting of buyers with a possible interest in the item. Unlike sealed bid auctions, “open outcry” auctions are “open” or fully transparent as the identity of each bidder is disclosed to other bidders during the auction. The highest bidder at any given moment is considered to have the standing bid, which can only be displaced by a higher bid from a competing buyer. If no competing bidder challenges the standing bid within a given time frame, the standing bid becomes the winner, and the item is sold to the highest bidder at a price equal to his or her bid. |
| Greasy wool | Greasy wool is untreated wool, still retaining the lanolin, also known as raw wool. |
| Noil | Noil is the short fibre left over from combing wool. Since noil is a relatively short fibre, fabric made from noil is weaker and considered less valuable. |
| Raw wool | Raw wool is wool in its natural condition; not refined or processed. |
| Scoured | A scoured is the product from the first stage of wool processing. Wool scouring is the process of washing wool in hot water and detergent. Before wool can be used for commercial purposes, it must be scoured, a process of cleaning greasy wool to remove non-wool contaminants and then drying. Scouring may be as simple as a bath in warm water or as complicated as an industrial process using detergent and alkali, and specialised equipment. |
| Top | A top is a semi-processed product from raw wool made in a topmaking plant. The process requires that the wool be scoured (washed) and combed and sorted. The longer fibres resulting from the process are called tops because the combing operation takes out the short fibres from the desired, choice stock. A top is in a form that is ready for spinning. |

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Chapter 12

WESTFALIA ESTATE

LINKING COMMUNAL AVOCADO FARMERS TO LUCRATIVE MARKETS

Thulasizwe Mkhabela and Lusito Khumalo

INTRODUCTION

Westfalia Estate is situated in the foothills of Drakensberg escarpment near Tzaneen in Limpopo province in northern South Africa. The farm, once home to Dr Hans Merensky, arguably the most successful geologist in South African history, is the centre of Westfalia's South African agricultural operations. Westfalia Estate has been declared a Natural Heritage Site and demonstrates the achievement of balance between indigenous forest (natural vegetation), sustainable agriculture, and forestry—the vision of Dr Merensky.

In previous years, citrus was the main agricultural crop at Westfalia Estate. Due to greening disease, however, citrus production was phased out, the last trees being removed in the early 1960s. Since then the avocado has been the predominant agricultural crop. Other subtropical crops cultivated on a smaller scale are litchis and macadamias.

Large avocado producing and marketing companies like Westfalia have identified smallholder farmers on communal land as a potential source of additional avocado production to augment their own production without increasing the area under production. Westfalia has a contract to supply Woolworths with fresh avocados, but supply is limited by the small spread of production areas. Smallholder farmers in Venda were identified as potential partners for complementary production during the early production window in February, prior to the harvesting of the first orchards at Westfalia. This partnership was found to have a strategic fit with the company's supply programme to local retailers. Coupled with the need to increase supply, Westfalia also

wanted to be involved in developing emerging farmers in its vicinity as part of its corporate social investment strategy. Smallholder avocado farmers, however, face numerous constraints that limit their effective participation in the avocado value chain, including fragmented and uneven pieces of land, sub-standard phyto-sanitary practices (i.e. large number of avocado infested with blackspot), and improper handling of the fruit.

BACKGROUND

Fruit production, especially avocado, has a long history in Limpopo province. On average, each household has at least five avocado trees, mango trees, and banana plants that grow almost naturally without much input being applied. The smallholder farming section in the province has an untapped potential to produce fruits on a commercial scale and support lucrative markets. This smallholder farming community is, however, beset by numerous challenges ranging from production to marketing constraints.

Developing black emerging farmers has been a key objective of the South African government since the dawn of democracy in the early 1990s. The main focus of developmental interventions by the state has been production-orientated. The extension system in the country was largely focused on providing farmers with technical production support. Recently, there has been the realisation that technical production skills, although a necessary precondition to farmer development, alone are insufficient in moving these farmers up the developmental ladder. This realisation has engendered a move towards market-oriented agricultural practices that seek to integrate emerging farmers into lucrative and sustainable markets.

Linking emerging farmers to markets is not an easy undertaking and is riddled with many obstacles that have to be overcome in order to succeed. To begin with, the majority of emerging farmers do not have sufficient throughput (quantity) and produce of acceptable standards (quality) to satisfy the exerting demands of formal agricultural markets. Furthermore, as resource-poor farmers, emerging growers are unable to supply retailers consistently over 12 months of the year to meet the critical mass requirements of programmes. The inability of emerging farmers to consistently supply the required quantities and quality is largely a consequence of farmers lacking the required capital to invest in irrigation, controlled growing environments such as greenhouses, and phyto-sanitary practices. Another issue that has to be addressed in order to successfully link farmers to markets is fostering partnerships among all stakeholders in the value chain. That is, cooperation among farmers and the private sector is imperative to complement and augment government endeavours. Thus vibrant and dynamic public private partnerships (PPP) anchored on trust and transparency are indispensable.

The private sector (i.e. supermarkets and export companies) in South Africa is showing a growing interest in procuring produce from black farmers (as part of either AgriBEE initiatives or corporate social responsibility), thus providing a private sector–led model of linking farmers to markets. This case study showcases the Westfalia Avocado Project in Venda (Levubu) as an example of such linkage.

THE AVOCADO INDUSTRY IN SOUTH AFRICA

Avocados are subtropical fruits ideally suited to the climate in the northeast of South Africa. Avocado production thus is concentrated in the warm subtropical areas of Limpopo and Mpumalanga provinces between latitudes 22°S and 25°S. Annual rainfall in most of these areas is high, averaging more than 1000 millimetres, but there are some orchards in semi-arid regions with rainfall of around 400 millimetres a year. Approximately 8% of commercial avocado orchards are situated in KwaZulu-Natal province, where temperatures are cooler due to the more southerly latitude of $\pm 30^{\circ}\text{S}$ (Donkin, 2007).

Unlike the deciduous and citrus industries in South Africa, marketing of avocados has never been subject to statutory control. The South African Avocado Growers Association (SAAGA) was formed in the late 1960s. Its mission is to improve the economic viability of producing, packing, and marketing of avocados. SAAGA has a membership of about 500 growers, which account for approximately 85% of avocado production in South Africa. All major avocado export companies are also members of SAAGA. The activities of the association are fully funded by its members and its objectives are:

- to give technical support to avocado growers;
- to provide and maintain a quality assurance programme for the industry;
- to collect, collate, and disseminate information concerning the production and marketing of avocados;
- to co-ordinate research concerning production and market development for avocados;
- to make recommendations for quality requirements and application thereof in conjunction with relevant state bodies and other authorities; and
- to increase demand for avocados locally and overseas.

The avocado industry in South Africa expanded steadily from the early 1970s to 2003, with plantings of approximately 2 000 ha in 1970 increasing to about 12 000 ha in 2003. Growth in plantings, however, has slowed since 2003 with total area planted to commercial avocado orchards remaining stable at around 12 000 ha. Hass and Fuerte are the major cultivars, each accounting for 37% of the area under avocados. The South African avocado industry produces about 90 000 tonnes of fruit, about 40 000 tons (44,4%) of which is exported to Europe and the rest is marketed locally with about 10% being processed into oil and purée (SAAGA, 2005; Donkin, 2007). Figure 1 shows the production trends of South African avocado from 1992 to 2004 as well as the export trends from 1970 to 2002. As Figure 1 indicates, the export of South African avocado has been increasing almost consistently over the years, albeit with some troughs and busts.

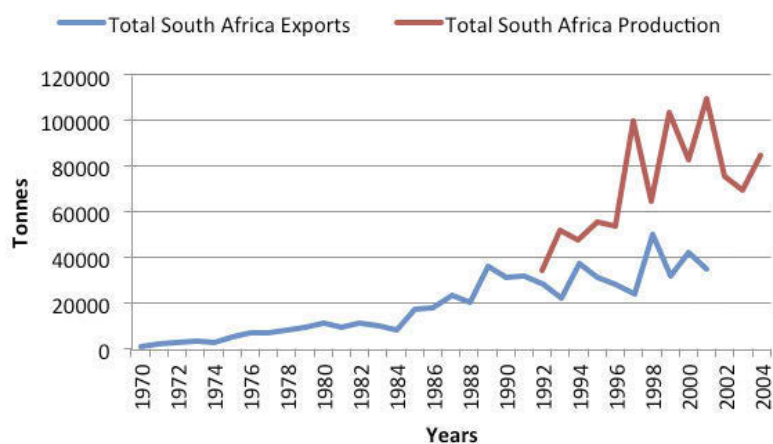


Figure 1. South African avocado production and exports, 1970-2004.

Data Sources: USDA (2010) and Vorster (2001).

Table 1: Seasonal availability of the major South African avocado cultivars.

| | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul |
|-----------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Fuerte | | | | | | | | • | • | • | • | • |
| Pinkerton | | | | | | | | | | | • | • |
| Hass | • | • | | | | | | | | • | • | • |
| Ryan | • | • | • | | | | | | | | | • |

Avocado production, just like any other agricultural product, is seasonal in nature. Table 1 shows the seasonality of the South African production according to the four commercial cultivars grown in the country, namely, Fuerte, Pinkerton, Hass and Ryan. The South African avocado season begins in mid-March and extends to September. Due to climatic variability among the growing

regions, most of the major cultivars are available over an extended period during the season. For example, Fuerte is harvested from mid-March to May in the northern regions and in July and August in KwaZulu-Natal. The earliest avocado fruit is harvested in the Venda/Levubu area.

The avocado is a “temperamental” fruit in that it is prone to alternate bearing. Alternate bearing is a condition whereby fruit trees bear fruits during alternate seasons. By implication this means that most avocado trees skip certain seasons, bearing only few fruits or none at all. Newly developed varieties, however, are less prone to this condition. The seasonal nature of avocado production generates seasonal shortages between October and February in South Africa as shown in Table 1. Fruit harvested during this period fetches higher prices, thus putting the majority of communal black avocado farmers in the Venda area at an advantage due to the out-of-season supply opportunity. But due to limited harvesting and storage facilities, farmers in the area wait for the fruit to mature on the tree before they pick it. This usually occurs in the last week of February, but sometimes the fruit matures in the first week of March, which coincides with the start of the season. As a result Venda farmers fail to realise the price premium as the country-wide production volume increases sharply and prices plummet, and they are unable to compete due to poor fruit quality.

Seasonal shortage of avocados has led to the undesirable practice of harvesting immature fruit in January (at this stage the fruit is physiologically immature) to cash in on the high prices. This fruit does not ripen but rots. The consequence of bad-quality fruit in the marketplace is decreased demand in the next season as consumers switch to substitutes. To curb this problem, SAAGA stamp fruit at the Johannesburg market to indicate to consumers that it is immature. Legislation does not, however, allow this poor-quality produce to be removed from the market floor altogether.

SMALLHOLDER FARMER DEVELOPMENT PROGRAMME

Westfalia has developed two initiatives to improve smallholder avocado production, namely, Blackspot Spray Project and Joint Venture Avocado Estate Development. The desire to have avocado to market early in order to capitalise on price premiums has been one of the motivating factors driving Westfalia to tap into the potential of smallholder communal avocado producers in Venda/Levubu. There is potential to develop about 200 ha, which could lead to the production and marketing of 1 000 tonnes of early Fuerte. Blackspot disease, however, was identified as a serious constraint that reduces the marketability of communally produced avocados in the area. Blackspot disease, sometimes called *Cercospora* spot, is caused by the fungus *Cercospora purpurea*. Individual spots on leaves are small, less than 2,5 mm in diameter, and brown to purple in color. The angular appearance of leaf spots is highly diagnostic. Many of these leaf spots are surrounded by yellow haloes. During the rainy season, grayish spore masses on the surface of the spots may be

seen with a hand lens. Individual leaf spots may coalesce to form irregular areas of brown tissue (Pernezny & Marlatt, undated). On the fruit, damage begins as small, irregular, brown spots that enlarge and coalesce. Fissures often appear in these spots and commonly become entry points for the anthracnose fungus. Wind and rain play an important role in dissemination of *C. purpurea* spores, but insects may also spread the pathogen. The most favorable time of year for fruit infection appears to be during the rainy season from May through September. The disease can be controlled to a great degree by timely fungicide applications.

Blackspot as a serious constraint to quality produce led Westfalia to setting up a blackspot spraying project on communal avocado farms. The pilot phase, initiated in February 2009, involved 10 growers who traditionally did not spray their orchards. Their supply chain at the start of the project was found to have a high cost structure, with many middlemen, and to be targeting the lower end of the market, mainly Fresh Produce Markets and makeshift farm stalls by the roadside. The project totalling 200 hectares in full development is being rolled out in three phases: phase 1, implemented in 2009, treated 64 ha; phase 2, of 2010, pertained to another 64 ha; and phase 3 will encompass 72 ha. In order to service smallholder avocado farmers in the area, a packhouse is envisaged to be built after phase 3, when there will be sufficient production to fully utilise such a facility. The objectives of the blackspot spraying project are:

- to improve fruit quality by chemical spraying to prevent blackspot and redirect produce to high-end supermarkets such as Woolworths.
- to transfer farming and entrepreneurial skills to emerging avocado growers in Venda;
- to establish an operating company and transfer the company to growers in four years; and
- to organise growers into a GlobalGap certified and export-ready cooperative.

PROJECT IMPLEMENTATION

From February and August 2009, 60 farmers were surveyed by Westfalia development staff under the leadership of Lusito Khumalo, and 15 were selected for the pilot project. A value chain analysis of the traditional supply chain was conducted to better understand how the smallholder avocado farmers conducted their business and to identify the best methods of intervention to improve the marketing of their produce. One of the most important findings of the analysis was surveyed farmers' low pack-out ratio of fruits of only 40 to 60%. Pack-out ratio is the proportion of fruits of good enough quality to be marketed through the formal marketing channels as opposed to fruit that cannot be marketed through these channels. Part of the programme was giving both theoretical

and practical training on production (with emphasis on preventing blackspot) and orchard management (such as pruning, harvesting etc). A typical theoretical training session involves one or more trainers with the necessary technical expertise transferring knowledge to recipient farmers in a classroom setting. Practical training sessions consists of on-site demonstrations of horticultural techniques such as spraying avocado fruits on the tree with copper solution to control blackspot. Funding for the project was received from Woolworths Enterprise Development Fund and the AgriSETA. The current business model is depicted in Figure 2.

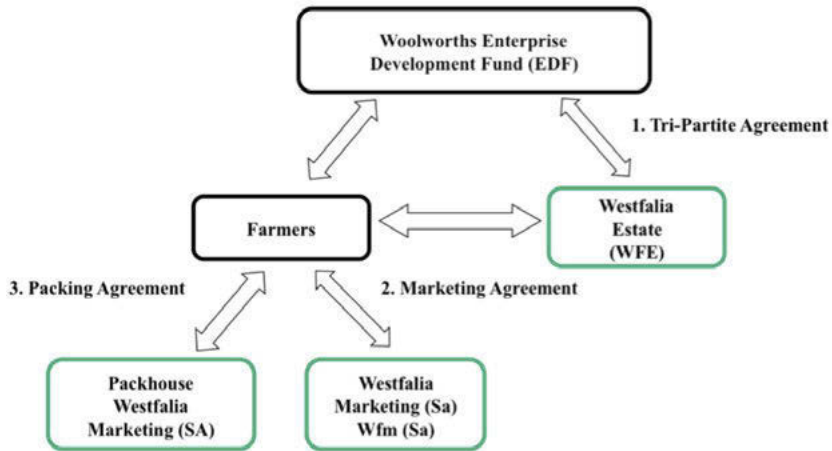


Figure 2. The business model.

The developmental methodology adopted in implementing the interventions was the sustainable livelihoods approach, or SLA (Caroline & Carney, 1999; Krantz, 2001). Briefly, the SLA does not aim to necessarily address all aspects of the livelihoods of targeted populations. Rather the intention is to employ a holistic perspective in the analysis of livelihoods to identify those issues of subject areas where an intervention could be *strategically important* for effective poverty reduction, at either the local or the policy level.

Furthermore, the project also started building a business model for the smallholder avocado farmers in Venda through what Westfalia calls the Build Operate Train and Transfer (BOTT) approach. At the heart of the BOTT model is training and mentorship whereby farmers gain skills and understanding of production techniques. The look-and-learn principle is applied since it is widely accepted that adults learn better through a combination of listening, observing, and experimentation (Kolb, 1984). Westfalia deemed the BOTT approach a useful developmental model, particularly given that South African government spending is stretched because a large portion of such spending is going towards the social welfare system. BOTT is a private participation scheme without demanding public money, an approach that is fast becoming a popular solution

for development that complements government-initiated interventions (Tam, 1999). Under the system, the franchisee or project sponsor—in this case Westfalia—is responsible for financing, constructing, and operating a facility (e.g. packhouse) and, in return, is granted the right to generate revenue from the facility for a specific period. After the concession period, the facility is to be transferred at no cost to the franchiser, which is usually the government but in this case it is the smallholder farmers. The major motivator for the BOT system is that the government need not spend any public funding but still can provide a public facility to the people. Meanwhile, the franchisees can enjoy a high potential profit from a successful venture.

ACHIEVEMENTS TO DATE AND A GLIMPSE OF THINGS TO COME

The project achieved its objective of preventing blackspot in its first year of implementation as the avocado fruits from smallholder farmers who were part of the spraying programme achieved 100% blackspot-free fruits. Their pack-out ratio ranged from 90 to 96% in the first week of picking as compared with a pack-out ratio of between 40 and 60% at the beginning of the project. The second picking had an 80% pack-out ratio, which was higher than expected. The yield of 360 tonnes was higher than the expected 200 tonnes, and the produce was of excellent quality as documented by the positive feedback received from the market with no rejection or quality complaints. Establishment of phase 1 to plant 60 ha of avocados including production costs amounts to R5,5m. The product flowchart or supply chain (from harvest to market) is depicted in Figure 3.

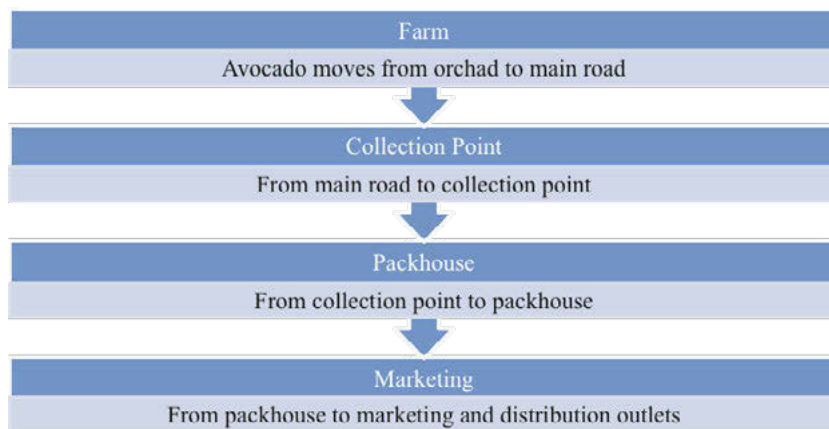


Figure 3. Product flowchart.

The prognosis is good for the project as a viable enterprise since the first objective of improving fruit quality by eliminating blackspot has been achieved. The achievement of better-quality fruit

has opened more lucrative marketing channels for smallholder avocado farmers in Venda as their produce can now be found gracing shelves of retailers such as Woolworths under the Westfalia banner. The success of the project is further buttressed by the views of beneficiaries. The following remarks from Ndivhuwo Nyambeni, a smallholder farmer, reflect this sentiment.

For me as a farmer, the most significant benefit from participating in the project was that I finally got to learn how to get rid of or control blackspots disease on my fruit. I had only heard from extension officers that you can control it by copper but they [extension officers] didn't know how to use it to get the good results. Before the project, I used to sell most of my fruit in bags and in lugs to the local hawkers and a few with fewer spots I would pack in boxes and send to the Joburg Fresh Produce Market. But after the project I now pack 90% of my fruit at the packhouse and the rest (lower quality) I pack in boxes and send to the Joburg Market, thereby making better returns than before.

Another farmer put it this way.

From my side I think the project has been successful in the sense that on my farm we were able to get the fruit to the right quality without blackspots disease and after harvesting the fruit we were able to send it to better markets with good returns. Also, we were able to pay for the production costs and still made a good profit. Furthermore, as an emerging farmer I was able to get my own spraying equipment and working capital by means of a soft loan from Woolworth—which means there is no going back!

There is the real possibility of scaling up the project in the immediate future by including 10 new growers in the list of beneficiaries and eventually extending the project to include 100 growers in the vicinity. Additionally, the smallholder farmers involved in the project now produce avocados of export quality and the only hurdle preventing them from exporting is the lack of GlobalGap certification for market access. Westfalia is currently assisting these growers to obtain this certification to diversify their market options during the 2011/12 season.

The success achieved thus far was not without its challenges, however. First, funding is the most limiting resource with an estimated budget requirement of R17 million for estate development and R3,5 million for the blackspot project, if both projects were to be successfully implemented. This amount of capital will be hard to raise. Another bottleneck is the poor road infrastructure in the area, which restricts access to the orchards and markets. The roads are often treacherous in the summer (wet) season, which increases transportation costs and post-harvest losses. These transaction costs are ultimately borne by the resource-poor farmers thereby reducing their profit

margin. The need for proper and functional rural infrastructure cannot be over-emphasised as a necessary precondition to the long-term success and sustainability of any effort to link farmers to global high-end markets.

Nyambeni notes, “The most pressing challenges that we still have are finance for infrastructure, like irrigation and fencing, and working capital since farming is risky; thus one cannot depend on loans. If we can get some assistance to at least meet us halfway, I think it would be much easier for us to develop.”

LWAMONDO AVOCADO ESTATE: THE ROAD AHEAD

The next step for this project is to formalise institutional arrangements by setting structures on the ground that will ensure the continuity of the gains made thus far. To this end, Lwamondo Avocado Estate has been established as a PPP among Westfalia (private), Lwamondo Traditional Council (public), and Lwamondo Community Development Trust (beneficiaries) as shown in Figure 4. Thus far Westfalia has been the main driver of the project in its quest to ensure continuous throughput in order to meet its customers’ demand for year-round supply of avocados and as a mutually beneficial corporate social investment.

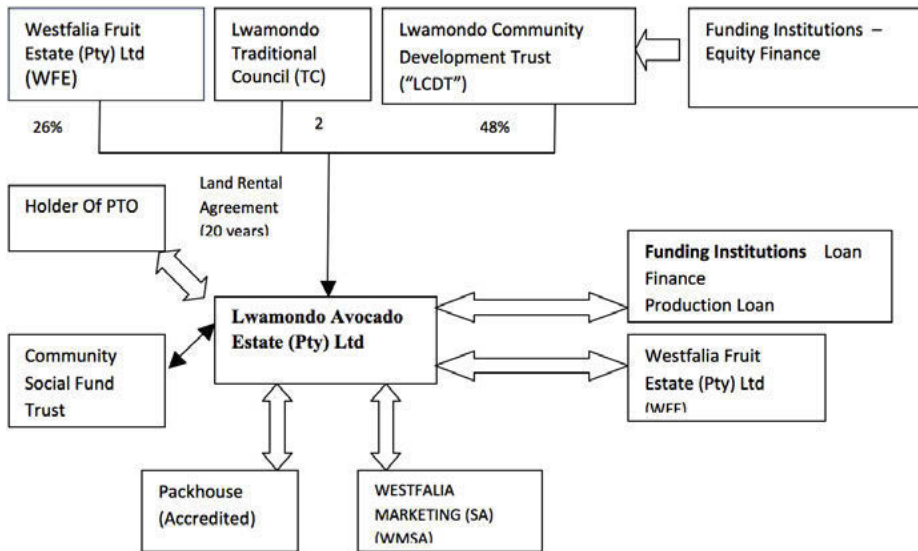


Figure 4. Proposed structure of Lwamondo Avocado Estate.

The objectives of Lwamondo Avocado Estate are as listed:

- To expand avocado production and packing capacity in the initial project area. This is envisaged to be achieved through sourcing more avocado from smallholder farmers in Venda.
- To support smallholder production in the area by serving as a 'centre of excellence' for linking smallholder farmers to more lucrative markets such as Woolworths and eventually the export market.
- To supply key local and overseas markets for 12 months of the year from own sources through the integration of smallholder farmers in the value chain.
- To bring into production high potential agricultural land that is currently lying idle and to create jobs and generate wealth in this rural, underdeveloped community through raising capital from both the private and public sectors and support of the land reform process in South Africa.

Although progress of this PPP appears to be good with the imminent signing of a memorandum of understanding between Westfalia and the community to form a joint venture company, funding still remains a problem. The total funding requirements for this project are estimated at R17 million. The envisioned contribution of each of the partners is as follows: long-term debt, R4,6 million; Lwamondo Community Trust, R6,0 million; and Lwamondo Traditional Council, R6,4 million.

The overall success of the project is premised on the goodwill that exists among all the stakeholders and their mutual interests. Over and above the goodwill, a key enabler is the support of the district office of the Department of Agriculture, Forestry and Fisheries and the municipality (local government structures). While the long-term success and sustainability of Lwamondo Avocado Estate is uncertain, several issues may present opportunities and threats to the survival of this project. Will there be increased interest from the neighbouring smallholder farmers in order to provide a critical mass of avocado suppliers? Will the prospect of the avocado industry, both domestically and internationally, improve or at least remain as is? Will the existing goodwill among partners continue into the future?

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Chapter 13

TIMBALI TECHNOLOGY INCUBATOR

GROWING FLOWERS, PEOPLE, AND LIVELIHOODS

Danie Jordaan

INTRODUCTION

Timbali means “flowers” in the Siswatti language and it is also the word used to translate “lilies” in the Siswatti bible. This name also belongs to a not-for-profit enterprise established to support start-up floriculture entrepreneurs to overcome the barriers they face. The Timbali Technology Incubator was established in 2003 as a collaborative initiative of the South African Department of Trade and Industry (DTI) through its Small Enterprise Development Agency (SEDA) and the participating entrepreneurs. “The specific aim of the initiative was to springboard start-up entrepreneurs into the mainstream economy by addressing some of their key constraints through an innovative incubation model,” says Louise de Klerk, Timbali’s executive officer.

The first 10 entrepreneurs started production on the premises of the Agricultural Research Council’s Institute of Tropical and Subtropical Crops (ARC-ITSC) in Nelspruit, Mpumalanga in 2004 and by 2005 their numbers had grown to 30. In 2007 the incubation model was restructured to accommodate offsite entrepreneurs and the first 24 farmers graduated from the incubator. At the onset the incubator focussed on the growing of flowers but has since diversified to include all horticulture products including foliage, fruit trees, ornamental crops, and vegetables. The incubator currently supports 160 entrepreneurs. Louise summarises the success of the incubator model as follows:

The foundation of the incubator is that it tips the balance in favour of the start-up small and medium enterprises by way of a cluster-model to increase economies

of scale for these businesses collectively. In addition, through a system-dependent business format, the enterprises consistently deliver a predictable, quality product/service resulting in significant economic benefits. The success of the incubator lies in fostering an enabling environment that provides the start-up businesses with the opportunity to grow into independent competitive enterprises. Through training, mentorship, technology packaging, business skills and technical development, financing and marketing this is achieved.

Timbali's innovation and success have also brought acclaim to the incubator. Since its inception Timbali has won a number of national awards for innovation, transformation, and empowerment. The Timbali Technology Incubator has proven to be a powerful vehicle to bring about economic change in communities in need of growth and development. A case in point is Alucia Ngobeni, the mother of two teenagers, who approached Timbali for employment. Over a three-year period Alucia was transformed, through the Timbali Incubator, from a farm worker earning a meagre salary to a full-fledged entrepreneur earning 34 times her farm worker salary. Despite these accolades, Timbali faces a number of internal and external challenges that threaten some of the successes already achieved.

Box 1: Alucia's story

Alucia was born in 1970 and grew up in the Bushbuckridge area of Mpumalanga. She left school at the age of 17 and started to work as labourer on a tobacco farm. In 2003, at the age of 33, she was still working as a farm labourer earning a meagre wage barely enough to support her two children. She had heard of Timbali and approached the company for a job. She started as a casual labourer, and two months later she was made an assistant farmer in one of Timbali's 30 flower-growing tunnels. In February 2004 the tunnel's "unit holder" left, and based on her performance, Alucia was given the responsibility for the tunnel. Thus she began her three-year incubation period with Timbali. The incubation period ended in 2007, when Alucia graduated and obtained a production loan to finance her own cut-flower business.

Through her incubation at Timbali, Alucia increased her monthly income from a minimum wage of R875,00 per month in 2003 to her current income derived from an average monthly turnover of R42 130. She grows a variety of top-quality gerbera cultivars and sells her flowers to various market segments to spread her risk. A born entrepreneur, Alucia is constantly on the lookout for new opportunities. She has taken advantage of Timbali's florist courses, where she learnt how to bunch for direct customers; today Alucia also runs a small cut-flower business that offers flowers to local clients at reasonable prices, straight from the farm.

Alucia is proud of her business success, which, according to Timbali’s manager, “can be attributed to the benefits associated with the Timbali Cluster Model and franchise principles, as well as technology packaging and transfer by Timbali in collaboration with private sector companies including Syngenta, Omnia and Netafim. Skills required are obtained through informal daily interaction and formal training sessions. Alucia has demonstrated that with the will to perform and consistent hard work not even the obstacle of incomplete schooling can stand in the way of becoming a successful high-tech agri-entrepreneur through the Timbali Incubation system.”

INDUSTRY OVERVIEW

Introduction

The cut-flower industry has a long history and has its origins in the Netherlands some three centuries ago (Van Liemt, 2000). Many of the techniques and technologies that make it possible to grow large quantities of flowers for sale today were pioneered in the Netherlands and spread to other countries. As a consequence the Dutch produce nearly half of all cut flowers and are the leading exporters of cut flowers in the world today (Van Liemt, 2000; Sid, 2003).

Due to a shortage of domestic consumption and production data for all countries, the sizes of the global and national markets for cut flowers are difficult to estimate. Broadly speaking, however, four types of producer and consumer countries can be identified. The first type are countries largely self-sufficient in producing flowers for their own consumption such as China, India, and Japan. Producers in these countries mainly, if not exclusively, produce for their own market (Van Liemt, 2000). The second type of countries are those that have sizeable domestic markets but rely on imports to satisfy part or all of the demand. Most prominent in this category are Germany and the United States, where imports supply up to 70% of total demand. The third group includes countries such as Colombia and Kenya, which have small domestic markets but a large volume of exports. Colombia is typical of this group with exports accounting for 95% of production in recent years. The final group of countries have large domestic markets combined with large exports. The Netherlands is the best example in this group, which also includes South Africa (Van Liemt, 2000).

Production

Across the globe, the total land area devoted to flower cultivation is 546 540 ha (75% in Asia Pacific) on 160 128 holdings (57% in Asia Pacific). The value of production is estimated at R241,4 billion (46% in Europe). Table 1 summarises production statistics across the regions of the world. Of note

is that Europe is the most prominent producer in terms of value, while Asia Pacific (mainly China and India) have the most land and the largest number of holdings devoted to floriculture.

Table 1: Cut flower production for regions of the world, 2008.

| Region | Area of Land (ha) | Value (R million) | Holdings (#) | Prominent Countries (by value) |
|-----------------------|--------------------------|--------------------------|---------------------|---------------------------------------|
| Europe | 55 813 | 112 189,05 | 47 340 | Netherlands, Germany, Italy |
| Middle East | 3 973 | 2 177,10 | 6 100 | Israel |
| Africa | 6 201 | 5 878,13 | 1 420 | Kenya, Ethiopia, South Africa |
| Asia Pacific | 411 990 | 67 934,93 | 91 409 | China, India |
| North America | 20 333 | 39 563,55 | 9 718 | United States |
| Central/South America | 48 230 | 13 676,03 | 4 141 | Columbia |
| TOTAL | 546 540 | 241 418,78 | 160 128 | |

Source: International Association of Horticultural Producers, 2010.

International trade

The international trade in cut flowers has grown dramatically in the last three decades. In 1980, the world import market for cut flowers was R5,8 billion (calculated at 2010 values). By 2002, the market had grown almost fivefold to over R27,3 billion (calculated at 2010 values), and it has since grown almost ninefold to R241,4 billion (International Association of Horticultural Producers, 2010; Van Liemt, 2010).

The world cut-flower trade is characterised by a high degree of concentration of both product and region of origin and consumption. Roses are the main traded product (30% of all flowers sold at auction in the Netherlands are roses), whereas Germany and the United States are the main markets for imports (together accounting for 30% of all imports), while the Netherlands is the world's leading exporter (51% of all exports) of cut flowers. Table 2 summarises the role of the most prominent importer and exporter countries of cut flowers.

Table 2: Prominent importing and exporting countries of cut flowers, 2009.

| Global imports | | Global exports | |
|--------------------------|------------|----------------|------------|
| Germany | 15% | Netherlands | 51% |
| United States of America | 15% | Colombia | 16% |
| United Kingdom | 13% | Kenya | 8% |
| Netherlands | 12% | Ecuador | 7% |
| Russian Federation | 8% | Belgium | 2% |
| France | 8% | Ethiopia | 2% |
| Japan | 4% | Zimbabwe | 2% |
| TOTAL | 73% | TOTAL | 87% |

Source: International Trade Centre, 2010.

Consumption

The world market for cut flowers has been growing steadily, and between 2000 and 2009 the value of global exports has risen by 44% (International Trade Centre, 2010; SADC-Trade, 2010). Consumption of cut flowers is expected to continue to rise rapidly, with global consumption predicted to be 30% greater than today by 2014 (SADC-Trade, 2010). At present, global exports in cut flowers stand at roughly R55,5 billion, the majority of which is to European countries (International Trade Centre, 2010).

A study by SADC-Trade (2010) emphasises that the consumption of flowers is not necessarily correlated to the level of per capita income in a country. Per capita the Swiss consume nearly four times the amount of flowers that Americans do (Table 3).

Table 3: Annual per capita cut-flower consumption for selected countries, 2009.

| Country | Value (R) | Country | Value (R) | Country | Value (R) |
|----------------|-----------|-------------|-----------|----------------|-----------|
| Austria | 352 | Ireland | 380 | Spain | 181 |
| Belgium | 361 | Italy | 238 | Sweden | 361 |
| Croatia | 67 | Netherlands | 532 | Switzerland | 732 |
| Czech Republic | 133 | Norway | 599 | Ukraine | 38 |
| Denmark | 456 | Poland | 95 | United Kingdom | 86 |
| Finland | 352 | Portugal | 143 | Europe | 219 |
| France | 295 | Romania | 57 | Japan | 532 |
| Germany | 333 | Russia | 48 | United States | 190 |
| Greece | 200 | Slovakia | 95 | | |
| Hungary | 133 | Slovenia | 200 | | |

Source: International Association of Horticultural Producers, 2010.

The demand for cut flowers is driven by a variety of factors including cultural traditions and norms associated with buying flowers, amount of disposable income, and availability of flowers. The level of expenditure on flowers depends on market penetration (number of buyers), frequency of transaction among buyers, and prevailing prices (Girapunthong and Ward, 2003). In the United States the cut-flower market is considered to be largely an impulse market, with almost one quarter of all flowers being sold as gifts and only a small portion consumed for personal use. Conversely, in European countries there is significant emphasis on purchasing flowers for personal use. A case in point is the Netherlands, where more than half of cut flowers are sold for personal use (e.g. to brighten a home) (Reid, 2010).

Special occasions or “flower days” are another important determinant of the demand for cut flowers and they have peaks around specific dates (St Valentine’s, Mother’s Day, Easter, Christmas, etc) or seasons (wedding season around spring). Occasions of sympathy account for 22%, Mother’s Day and St Valentine’s Day, jointly, for 18%, and weddings and birthdays each for 10% of all retail sales of cut flowers in the United States (SADC-Trade, 2010).

Marketing channels

Van Liemt (2000) notes that at the retail level, cut flowers are sold through a variety of outlets including traditional florists, garden centres, supermarkets, and market and street vendors. These channels are universal, although the share of each channel varies by country. Importantly, the share of supermarkets is increasing in all markets. Illustrative of this trend is that in Switzerland, the two major supermarket chains account for 60-70% of all cut flower sales, while in the United Kingdom the market share of supermarkets is approaching 40%. Super Floral Retailing reports that 79% of supermarket chains in the United States have at least one plant or floral department. In short, globally supermarkets are targeting their flower departments as an area for expansion (Van Liemt, 2000; Bauer, 2006).

Along with the increased interest in flowers by supermarkets, the quality of flowers in the market has also improved. Van Liemt (2000) notes that traditionally the selection of flowers available in supermarkets was limited, and price was the deciding factor in consumers’ decision to purchase flowers. Because of their increasing role, however, supermarkets are currently setting the standard for the quality of flowers produced. In addition, due to their power in the market, supermarkets exert significant influence on the growing and trading practices of flowers (Van Liemt, 2000). Specifically, as with many other products on their shelves, supermarkets are interested in buying large quantities of products through long-term contracts, directly from producers (Liemt, 2000). Buying direct is the shortest route from the grower to the supermarket, which is critical in the case of a fresh product like flowers.

The demand in Europe and the United States for flowers from Africa and South America is also affected by concerns over the environmental (and, increasingly, the social) impacts of the production and transport of these flowers to the markets in the developed world. Advocacy organisations have attempted to raise consumer awareness about the serious environmental impact and the “hidden costs” of cut flowers (Sid, 2003; Smith, 2010). Concerns include the carbon footprint of cut flowers produced in distant markets, the use of unhealthy chemicals (for both workers and the environment) in countries with lax environmental legislation and the exploitation and poor working conditions of workers in countries with underdeveloped workers’ rights. As a result, advocates across many flower consuming countries have managed to develop a strong “locally grown” organic movement that does not carry the heavy environmental and social impacts (and stigma) associated with production in developing nations (Sid, 2003; Smith, 2010).

These movements have had an impact on the demand for flowers produced in developing regions; for instance, in the United Kingdom large supermarket groups have significantly reduced their reliance on imported flowers from developing nations (Human Flower Project, 2005). Developing nations have launched their own campaigns to counter the negative messages by focussing on their more “natural” growing practices with flowers grown under the natural sunlight unlike those from Europe that are cultivated in greenhouses whose emissions may be just as destructive to the environment as the carbon footprint of flowers from developing countries (Market News Service, 2009).

THE SOUTH AFRICAN FLORICULTURE INDUSTRY

Introduction

South Africa boasts a rich and diverse floral heritage. South Africa’s bio-climatic diversity contributes to this floral variety and is the source of many unique plant species. The South Western Cape, for example, is a floral kingdom in itself and unique in the world. In the stretch of coastline between Saldanha Bay on the west coast and Mossel Bay on the south coast, there are more plant species than in the whole of the North and South American continents combined (South African Flower Growers Association, 2010). Moreover, South Africa’s location in the “high tropics” results in a relatively mild climate throughout the year, which is generally favourable for floriculture production, both indigenous and exotic (Matthee, Naudé and Viviers, 2006).

Aside from South Africa’s favourable climate, a number of other advantages including good infrastructure and cost-effective inputs are conducive for floriculture. Conversely, several disadvantages including high labour costs, expensive plant material, poor market information,

poor knowledge base, and secrecy in the industry discourage growth within the sector (Van Rooyen and Van Rooyen, 1998).

History of the South African floriculture industry

South Africa's floriculture industry dates back to the 1920s and 1930s when the country's first horticultural projects started. Dutch immigrants established themselves amongst South Africa's indigenous growers. The local flower industry developed around the establishment of the local flower auction, known as Multiflora, in 1945, and the initial few large producers have been dominating the South African market ever since. During the period of growth, flower exports were confined to indigenous products such as the protea, unavailable elsewhere in the world. After the lifting of economic sanctions against South Africa in the 1990s, however, export-oriented growers emerged to take advantage of the advantages of liberalised trade and globalisation (Matthee, Naudé and Viviers, 2006).

The new economic and political climate, post-Apartheid, led to rapid growth in the industry, which has grown tenfold since 1995, when its estimated value was R95 million, to the current R950 million. Of this, R532 million are exports, R314 million are sold on the local flower auction, and R105 million are direct sales to consumers. These figures include cut flowers (60%), decorative plants (20%), foliage (10%), and bulbs (10%). Over and above being an exporter of flowers, South Africa also imports cut flowers, notably from Zimbabwe, Kenya, and Zambia to offer varieties that cannot be grown in South Africa. During 2009 South Africa imported R12,4 million worth of cut flowers (SAFGA, 2010).

Floriculture products, including ornamental plants and cut flowers, are produced across South Africa in various local markets, but the main growing areas for export are located in the central parts of Limpopo, Mpumalanga, and Gauteng provinces, where farms produce exports products including nursery plants, cut flowers, and potted plants. South Africa's most important floriculture exports are gladioli, proteas, bulbs, chrysanthemum cuttings, and roses. The country's indigenous flora is also being domesticated with the fynbos industry being transformed from wild harvesting to cultivation. A variety of fynbos species (e.g. proteas, ericas, pelargoniums) are already well established in the marketplace (South Africa Info, 2010).

The structure of the South African floriculture industry

South Africa's floriculture industry is loosely and informally organised with only a few producer associations to represent the sector. Some producers belong to the four most prominent growers associations, while the majority of producers are not affiliated to any particular organisation. Producer associations include the South African Flower Growers Association (SAFGA), the KwaZulu Natal

Flower Growers Association, South African Protea Exporters and Producers, and Protea Producer of South Africa. Illustrative of the informal and fragmented nature of the floriculture sector in South Africa are the 600 producers that reportedly deliver flowers for sale at the Multiflora auction *vis-à-vis* the estimated 56 commercial growers that belong to the organised producer organisations. Notwithstanding the informal nature of the sector, the South African floriculture industry was estimated to employ more than 17 500 people (permanent and casual) in 2000 and provides more opportunities for rural employment than any other sector (Kaiser Associates, 2001).

A recent SAFGA survey of 56 commercial flower growers in South Africa found that these growers jointly planted flowers on 110 ha of open land, 76 ha under shade netting, and 126 ha under plastic tunnels. Most farmers do not use all three methods of production depending on the crop and the infrastructure available. The 56 farmers surveyed employed 143 managers, 232 supervisors, and 3 460 workers, which amounts to nearly 12 employees per hectare. Both the relatively small tracts of land and the high number of employees per hectare illustrate the very intensive nature of flower farming.

The overarching body for the structured component of the South African floriculture sector is the South African Flower Export Council. The export council is a Section 21, non-profit company, supported by the four main producer organisations in South Africa. The council's main objective is to promote the floriculture and horticulture sectors in South Africa through exports, while building export capacity through investment into the industry. The council also focuses on facilitating greater synergy amongst growers, building capacity, and securing more and better coordinated freight space for exports.

South Africa's domestic and international markets

As noted earlier, 56% of the current R950 million of production is exported, while the rest is consumed locally either through the formal Multiflora auction or through private sales directly to retailers. In terms of the local market, South African growers have two primary marketing channels. The first is to market their products via brokers or agents at the Multiflora flower auction or to supply their produce directly to florists on order. Multiflora is the marketplace for South African flowers and takes the form of a flower auction. Located in Johannesburg, this is the most important marketing channel for locally consumed flowers. In fact, 80% of all flowers marketed through Multiflora are grown within a 300 km radius of Johannesburg. The remaining 20% originate from other regions in South Africa or other African countries. There are daily auctions from Monday to Saturday where up to 400 major agents, wholesalers, and retailers buy flowers. Following the auction, flower wholesalers distribute the flowers across South Africa. The Multiflora complex also accommodates 16 wholesalers, who sell directly to florists and consumers in the

Multiflora Flower Mall. Bouquet making and supermarket packing also occur on the premises. There is also a small flower market in Tshwane, similar to Multiflora, known as the Pretoria Flower Auction (Multiflora, 2010).

Direct sales to florists or retailers are the second local marketing channel available to South African producers. In terms of value this marketing channel constitutes 11% of flowers produced in South Africa, and 25% of the local market in South Africa. The local market is dominated by roses (40%), chrysanthemums (25%), lilies (10%), gerberas (10%), and carnations (5%). All others make up the remaining 10%.

The most significant export market for South African flowers is Europe. The key drivers are counter seasonality, unique products, and lower cost. The export market is a significant market for South African cut flowers with flowers worth R532 million (56% of the value of production) being exported. As a consequence a number of South African companies specialise in the sourcing and exporting of South African flowers to various international markets and clients. Despite the importance of the export market for the South African sector, South Africa is not a major global exporter. It constitutes only 0,36% of global cut-flowers exports and ranks 21st globally in terms of the value of cut flowers exported. Figure 1 illustrates the historical value of South African floriculture exports and the general growth trend since 2001.

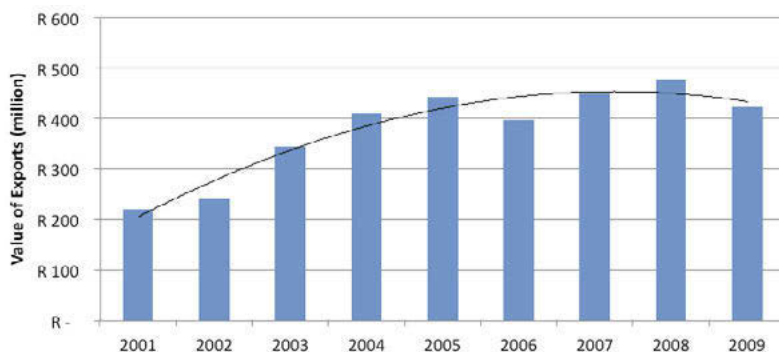


Figure 1. Value of South African floriculture exports (bulbs, cuttings, cut flowers, and foliage), 2001-09.
Source: International Trade Centre, 2010.

On the international market, South Africa cannot compete with other emerging producing countries like Kenya or Columbia, especially when it comes to costs. Rather, South Africa's export advantage lies in exporting specialty products, such as the country's indigenous flowers, to specialist markets (Kaiser Associates, 2001). The South African Flower Export Council has actively promoted and developed the export of South African cut flowers and ancillary products to the rest of the world through exhibitions and trade missions to major markets (SAFGA, 2010).

During 2009 South Africa exported cut flowers in the value of R190 million to R285 million. This figure excludes foliage, bulbs, and decorative plants, which make up the balance of the R532 million of floriculture products exported from South Africa in 2009. South Africa's major export markets for cut flowers are the United Kingdom and the Netherlands, which collectively imported 60%, or R118 million of South African cut-flower exports. Table 4 summarises the prominent importing and exporting countries for South African cut flowers and the value of these imports and exports.

As noted earlier South Africa exports are dominated by gladioli, proteas, bulbs, chrysanthemum cuttings and roses (Matthee, Naude & Viviers, 2005). Up to 50% of South Africa's exports are indigenous flowers including proteas and other fynbos. The remaining 50% are other cuttings and cut flowers like chrysanthemums, roses, lilies and foliage (Schoenmaker, 2010).

Table 4: Prominent importing and exporting countries of South African cut flowers, 2009.

| Exports | | Imports | |
|----------------------|--------------|----------------|--------------|
| United Kingdom | 36,1% | Zimbabwe | 44,6% |
| Netherlands | 23,9% | Kenya | 21,0% |
| Germany | 7,3% | Zambia | 15,8% |
| Japan | 5,9% | India | 8,8% |
| Angola | 3,2% | Malawi | 2,2% |
| Switzerland | 2,7% | | |
| United Arab Emirates | 2,3% | | |
| Saudi Arabia | 2,2% | | |
| United States | 2,0% | | |
| Australia | 1,7% | | |
| TOTAL | 87,3% | TOTAL | 92,4% |

Source: International Trade Centre, 2010.

COMPANY PROFILE: THE TIMBALI TECHNOLOGY INCUBATOR

What is Timbali?

The Timbali Technology Incubator was established in 2003 as an initiative of the employees of ARC-ITSC in Nelspruit, Mpumalanga and the DTI with funding from SEDA. A non-profit, Section 21 organisation, the specific aim of the incubator was to help start-up agribusinesses in Mpumalanga enter the mainstream economy by addressing their key challenges through an innovative incubation model.

The rationale for establishing an incubator as the model to drive economic and social reform in poverty-stricken rural, agricultural households in Mpumalanga is based on the advantages the model offers in overcoming many of the challenges faced by small growers who are new entrants to the market and usually lack the skills and access to markets to successfully launch and grow their enterprises. Louise, Timbali's CEO, comments: "Most small scale farmers in South Africa are entrenched in a cycle of inertia resulting in poverty due to out-dated technologies, lack of skills and limited access to formal markets. As a result most of these farmers are never able to join the mainstream economy or acquire the skills which would contribute to their social and economic empowerment over time."

The Timbali Technology Incubator has sought to address the challenges that many small farmers face through an innovative "mezzanine" platform between small growers and the market with the necessary support to sustain and grow their enterprises. The Incubator platform borrowed principles from franchising to give growers technical expertise, financial administration skills, and access to markets, with the idea that these reduce the skills deficit of small-scale or new farmers. The "cluster effect", brought about by managing growers from the Timbali platform, would lend sufficient economies of scale to gain access to mainstream markets at competitive levels. Using the Timbali platform to coordinate a number of growers also formalises the businesses and cultivates confidence in these new companies and their products.

Timbali's products: focus on high quality and a marketable product range

Timbali's marketing strategy leans strongly on the bouquet of products it offers and on differentiating this offering to gain an advantage in the market. In terms of product Timbali's marketing strategy specifically focuses on two key areas: quality aspects and the range of products.

The floriculture market is known to be highly competitive and the quality of products is non-negotiable for buyers and the end consumer. With this in mind Timbali places a specific emphasis on the quality and consistency of its products. To achieve high standards, during growers' apprenticeship with Timbali trainers work hard to emphasise to growers the non-negotiable aspects of quality and consistency of products. The goal is for growers to embrace and carry on this philosophy even as independent farmers.

Achieving the targeted quality is possible through a quality management system developed and implemented by Timbali. The system spans the entire process from growing and harvesting to packing and transport and is tailor-made for each product to ensure optimal quality. Before harvesting, all flowers are assessed for the correct maturity and quality. They are then picked fresh and treated according to a product-specific protocol to ensure maximum vase life. Before

packing and transport, all flowers also pass through a quality check, which ensures that all flowers produced in the incubator are of uniform quality regardless of the grower.

This significant investment in quality has brought Timbali a strong reputation on the domestic market; it also enabled several growers to meet the even more stringent requirements for export. Their consistent quality has also meant happy clients, such as Tjaart Killian from Multiflora, who said of Timbali's quality:

We regularly receive compliments from buyers about the good quality of your flowers. In general we have very few problems with your flowers and we hardly ever receive complaints. Even during periods of adverse weather conditions, when other producers have battled diseases, the quality of Timbali product has been excellent throughout. Timbali's exemplary reputation will also be the reason why your producers will continue to achieve top prices on the market. Timbali's ability to consistently meet delivery quotas when other producers struggle to do so from time to time is another feather in Timbali's cap which will build buyers' loyalty towards Timbali. Buyer's also buy Timbali's varieties with confidence because the products are accurately and precisely specified.

With regard to product range, Timbali has carefully selected products to position itself in the market with some strategic advantages and to play to its strengths. The products that Timbali is focussing on have been chosen on the basis of the intersection of one or more criteria including the relative market value, adaptation to the growing environment, and the relative difficulty to grow the products successfully. The combination of these factors helped identify products that best fit Timbali's goals and business model while at the same time lend an advantage to Timbali in the market.

Relative market value was considered an important factor since much of the production would occur in high-cost infrastructure like greenhouses and it was necessary that the type of product suited the production system and that the economics thereof was sensible. Gerberas, Timbali's flagship product, were chosen on the basis of being a relatively high-value product. The specific product's adaptation to the environment, the second element, was considered an important criterion in the choice of products. Gerberas, which are endemic to the Lowveld area, were once again an obvious choice. The relative difficulty of growing the product was adopted as the final element to select products. This would be a natural way to ensure that growers focussed on products unlikely to be oversupplied. The difficult-to-grow lisianthus was the product chosen on this basis. The remaining products grown by growers are chosen on the practical and economical merits for each individual grower.

Lastly, in terms of the product, perishability is an ever-present challenge for any floriculturist to manage, including Timbali's growers. Consequently, notwithstanding the portfolio of products a company has, pre- and post-harvest handling, storage, and transport to market play equally important roles in ensuring the quality and performance of the end product. In this regard the structuring of Timbali's logistics system, to ensure economies of scale for its many small growers, whilst maintaining quality, is a key achievement for Timbali and an important link in delivering the desired product to the market.

A floricultural entrepreneur's passage

Louise describes the challenges Timbali faced when it was established: "The initial challenge was how [do] you start novice growers with very little skill, in a highly competitive industry that demands quality, quantity, and consistency?" The answer was that Timbali would provide hands-on, ongoing support to these apprentice growers through business training services accompanied by a mentorship programme to grow their skills and business network. This entailed facilitating market access for growers, assistance with financial administration, sharing of technical know-how, and the adoption of the latest growing technology, in return for a levy payment as per franchising principles. This model would allow apprentice growers to "be in business for themselves, but not by themselves".

The cluster development on the Timbali platform would allow all the small-scale growers to benefit from the advantages that clusters offer. These include:

- shared infrastructure and services;
- bulk buying of inputs;
- assistance with developing a business plan and obtaining production loan finance;
- collective marketing, branding, and advertisement under a single brand;
- advantages of shared risk; and
- economies of scale in both inputs, operations, and output.

The Timbali platform allows 20 trainee small-scale farmers to work in 3,3 ha of tunnels at a time. These trainees are supported and nurtured until they become self-sustaining businesses and can graduate from the incubator to become independent growers. Once the franchisees graduate, they move off Timbali's premises to set up their own independent businesses with the help of funding from the DTI. The vision of Timbali is that within the next five years 220 direct and

660 indirect employment opportunities could be created using its particular training and business set-up approach.

The Timbali business model

Timbali's initial core functions were to build capacity in producing flowers and to support growers in production through shared resources and the supply of inputs. However, it quickly became obvious that the complete value chain needed to be developed if Timbali would produce the margins to sustain both the growers and the Timbali platform. Since Timbali did not have the capacity to offer marketing and sales and service functions, a marketing arm, AmaBlom, was established.

AmaBlom, which also means "flowers" in the Siswati language, is Timbali's marketing arm for all the floriculture products from growers on the Timbali platform. Flowers produced by Timbali's growers are marketed under the AmaBlom brand (Figure 2), which offers growers the opportunity to participate in collective marketing, branding, and bulk selling of their products. The separate structure minimises the financial risk for both growers and financial institutions that may be financing growers.

AmaBlom currently markets over 5,5 million flowers annually, sold mainly in the South African market. AmaBlom's flagship product is the gerbera, a high-value product well suited to growing in the Lowveld which currently constitutes almost 40% of sales. In fact, Timbali growers possibly represent the largest gerbera cut-flower project in Africa with estimated sales of over 2 million flowers per annum. Other cut flowers offered are lisianthus, asters, sunflowers, snapdragons, dianthus, celosia, gypsophila, and strelitzia.



Figure 2. The AmaBlom brand.

Source: www.AmaBlom.co.za.

In return for the marketing service, growers pay a levy on the flowers they produce and agree to grow flowers in accordance with Timbali's guidelines and standards. These principles were borrowed from the franchising industry and allow the grower to operate independently but not alone. Figure 3 illustrates the Timbali/AmaBlom value chain. In particular it shows the relationship between growers and market through the Timbali/AmaBlom platform and the pivotal role this platform plays in linking growers to the market who otherwise would have had limited access to it.

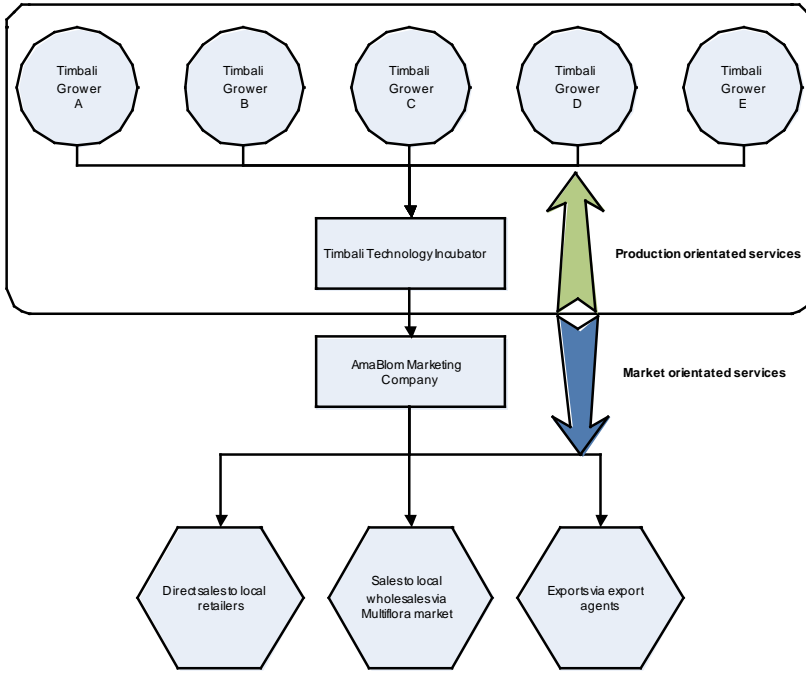


Figure 3. The Timbali/AmaBlom value chain.

The innovation to overcome the challenges faced by both farmers and Timbali as a concept is the unique interaction and relationship between a cluster of growers and a support platform that offers business support and development services to the cluster based on the principles of a franchise.

Support through partnerships

The development of Timbali as a platform and tool for empowerment, economic development, and poverty alleviation in the Mpumalanga agricultural sector has not been achieved through the sole efforts of the DTI, the custodian of the initiative. Much of the success of the initiative is due to Timbali’s partnerships with a variety of public, parastatal, and private sector collaborators, which have helped bring together all the necessary elements needed for success. In essence these types of partnerships are central to addressing many of the social and economic challenges that many rural communities in South Africa face (Figure 4).

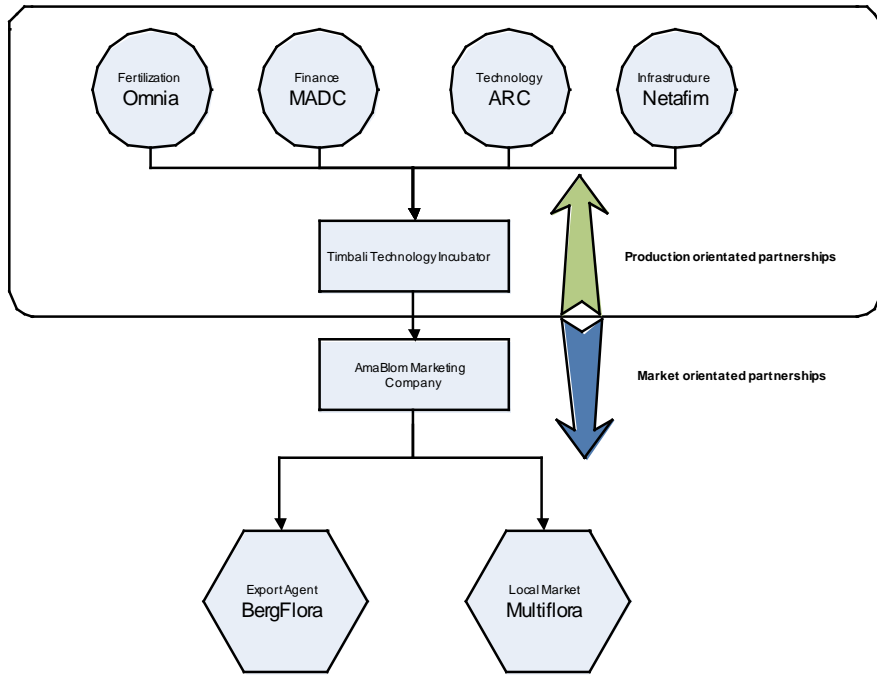


Figure 4. The Timbali/AmaBlom partnership map.

Timbali’s founding partners are three entrepreneurs and SEDA, which provided the initial funding through its Technology Programme to establish the Incubator and which continues to support the initiative as main funding partner. Mpumalanga’s Economic Growth Agency is another parastatal that has been an important partner to Timbali and the growers in the Incubator. The agency’s motto is “people development” and it funds viable agricultural enterprises and develops people’s capacity. In terms of capacity building the agency provides entrepreneurs with business advice, counselling, facilitation of training, and access to markets. The agency’s particular contribution is providing loan finance to Timbali farmers through its agricultural division, the Mpumalanga Agricultural Development Corporation. Timbali’s chairman comments: “The partnership between the agency and Timbali is powerful and mutually beneficial for both organisations and the growers that they empower in the process.”

GROWTH

A growing success

Timbali started off with 1,2 ha of gerbera grown by 10 apprentices in 2003. By 2005 their numbers had grown to 30. In 2007 the incubation model was restructured to accommodate offsite entrepreneurs and the first 24 farmers graduated from the incubator. By 2010 the Timbali Technology Incubator had grown to include 160 farmers (68 men and 98 women), 98% of whom were black. At the onset the incubator focussed on growing flowers but has since diversified to include other horticultural products including foliage, fruit trees, ornamental crops, vegetables, etc. The strength of the model is that it is replicable across products and regions. Since inception 446 jobs (2010 data) have been created and previously disadvantaged people, especially women, in the Mbombela region have been empowered.

Timbali's contribution has also been recognised through a number of other awards or nominations. These include Business Women's Association: Regional Business Achiever Award (2005); Top Technology 100 Awards: Winner Social Innovation Category (2005) and Finalist in Leader Empowerment Category (2006); DTI Technology Awards: Winner Most Noticeable Impact on the Local Economy Category (2007), Winner Best Incubator Category (2008), and Finalist Best Incubator and Most Noticeable Impact on the Local Economy Categories (2009).

The franchisees and independent flower growers have extended their product range to include lisianthus, asters, sunflowers, snapdragons, dianthus, celosia, gypsophila, and strelitzia. Timbali has shown a growth of up to 30% per annum for the off-site farmers' turnover. This figure is subject to various factors such as growth in production area, increased access to loan financing etc. Another testimony of Timbali's growth is the performance of graduate farmers in 2010 who increased their income by 200% over the past two years. Timbali is also proud of its recent record of 100% of the businesses surviving their most critical first and second years of operation.

Growing pains

Timbali's success has not come easy, however, and the business has experienced significant growing pains. One of the primary challenges Timbali faced initially was the fair and consistent implementation of the Timbali Unit-holder Agreement, which regulates the terms and conditions for clients/trainee farmers' participation in the Timbali system. In many instances clients/trainee farmers were in breach of contract (e.g. full-time commitment to their businesses, compliance to quality standards, etc) and when Timbali implemented disciplinary measures as per agreement, the clients would report Timbali to the local government offices and incriminate Timbali. Lousie de Klerk, accounts that "the board of directors and stakeholders were very supportive and did

not allow various attempts to interfere with the disciplinary measures and implementation of the agreement to be successful”.

On occasion Timbali also experienced the effects of over-supply of a specific product in the market. This resulted in unexpectedly low product prices and a “loss of income” for producers which were a huge challenge to overcome—as in any farming endeavour. Louise remarks that “farmers learnt that farming is not an instant way of becoming financially independent, but takes endurance and staying power to become financially successful in the medium to long term”.

The entrenchment of, and “buy-in” into, the Timbali business model and system with the Timbali staff was another challenge that took some time and commitment from management to achieve. In this regard the specific goal was that new trainee farmers should receive a consistent message, approach, and methods from Timbali management and staff. More particularly Timbali’s management wanted everyone in the company, from chairman to “doorman”, to communicate the same message regarding development policies, systems, methods, and values. Louise relates that Timbali had to avoid “rewarding” and “punishing” producers for behaviour that resulted from “mixed messages” from management and staff. Though it took some time to implement this uniformity, Timbali’s staff has become committed to and trained to “deliver” a uniform approach and methods when dealing with the expectations of new farmers.

Finally, Louise accounts that “one of the constant challenges for Timbali is to create a place of impeccable order”. Louise’s philosophy is grounded in the belief that “in the world of chaos most people crave order. A business that looks orderly says you know what you’re doing and the customer can trust in the result delivered. In the beginning the orderly environment was lacking and it took time, energy and political will-power to create this environment of impeccable order that is system-driven, but people friendly.”

Box 2. The faces of success behind the Timbali brand

In many ways Timbali has been taking a “small wins” approach to growing growers by getting easily achievable goals to motivate growers for continuous improvement. Francois Badenhorst, a Timbali grower, has been able to export strelitzia stems to the United Kingdom through the Timbali Technology Incubator’s value chain, sales network, and technology support. Open market prices for strelitzias vary between R2,00 and R2,50 per stem, the price fluctuating throughout the year. Timbali secured a price of R5,00 per stem for Francois’s flowers in the export market. Timbali, with research assistance from ARC-ITSC, also developed cost-effective export packaging specifically for strelitzias. Francois and his business benefited enormously from his association with Timbali, which assisted him in developing export guidelines for harvesting, post-harvest handling, and packaging of strelitzia with the buyer. Of significance is that through the support of Timbali he has been able to secure an export market for his produce, something he had been unable to achieve as a result of stringent export requirements.

Another example of a small win resulting in big victories is Johan Selby Khoza. He is a 26-year-old Timbali graduate grower and the only breadwinner for his family. He started as a flower growing apprentice in 2006 and later graduated to become a small enterprise associated with Timbali. Timbali assisted Johan’s business in acquiring a production loan through Mpumalanga Agricultural Development Corporation, which enabled him to start his business after “graduating” from the Incubator with 1 000 m² of covered production area. Johan’s business has been growing and in 2009 he expanded the production by another 1 000 m². Timbali’s support of Johan has also extended to training in business management, to better interpret and analyse the finances of his business, and technical training, which resulted in the quality of his produce improving significantly. Timbali’s capacity building support to Johan has resulted in his productivity and profit steadily increasing to levels that he had not attained before.

Nonhlanhla Mgwenya is another success story and a prized example of how the “small wins” achieved by Timbali are making a significant difference in many people’s lives. Nonhlanhla started her working life as a domestic worker in Nelspruit. Through her interaction with fellow commuters she met a production supervisor at Timbali who introduced her to Timbali and in 2008 she became a Timbali apprentice. Nonhlanhla has benefited from the incubation services by learning how to manage her business, which has helped her to reduce costs by 21% over a period of three months. Nonhlanhla aspires to be an established businesswoman in five years’ time. The knowledge and skills gained at Timbali coupled with funding from Timbali’s financing partners will allow her to expand her business and realise her dream.

TIMBALI'S MARKETING STRATEGY

Timbali's principal goal is to support emerging flower farmers to consistently produce flowers of exceptional quality and to support these producers in marketing their products in mainstream markets. This is achieved through the Timbali structure as discussed in preceding sections. Timbali's marketing strategy, through the marketing platform AmaBlom, is well developed and executed.

Pricing

Multiflora is the biggest public market for flowers in Africa and is the barometer for prices of products grown and sold in South Africa. The auction is market driven and prices for products are determined by supply and demand. This includes prices for Timbali's products and all flowers sold through the direct sales channel to wholesalers, exporters, florists, or consumers. In this regard the Multiflora market price for a particular product is significant since it is used as a point for price discovery.

Prices on the Multiflora auction are determined by way of a "Dutch clock" auction. This type of auction begins with a high asking price, which is lowered until some participant is willing to accept the auctioneer's price or until a predetermined reserve price (the seller's minimum acceptable price) is reached. The winning participant pays the last announced price. This type of auction is convenient when it is important to auction goods quickly, since a sale never requires more than one bid. Many flower auctions are conducted with this method of sale.

Table 5: The Timbali product range, including prices.

| Product | Low price (R) | Average price (R) | High price (R) |
|--------------|---------------|-------------------|----------------|
| Strelitzia's | 0,50 | 2,30 | 3,00 |
| Maxi gerbera | 0,51 | 2,06 | 5,94 |
| Mini gerbera | 0,39 | 0,77 | 1,34 |
| Lisianthus | 0,58 | 3,63 | 9,28 |
| Dianthus | 0,31 | 0,81 | 1,31 |
| Statice | 0,30 | 0,79 | 0,99 |

Timbali's producers are "price takers", but loyalty or preference to a specific grower, based on the quality of their produce, also plays a small role. Direct sales of flowers to florists, wholesalers, or the public offer Timbali some room to set the prices for its products, although the Multiflora price remains the reference point from which these prices are derived. In terms of exports, prices are set based on the basic principles of supply and demand globally.

Place—Timbali’s marketing channels

Timbali has followed a diversified strategy in positioning its products in the market. AmaBlom has established three primary marketing channels. The first is primarily focussed on direct sales to South Africa consumers (local weddings, functions, etc), florists, and wholesalers. This includes sales of products from AmaBlom’s distribution premises in Nelspruit and direct sales to florists or wholesalers across South Africa through AmaBlom’s supply chain without any intermediary. The advantages of this channel are that Timbali can interact directly with its clients and the marketing costs are relatively low (in turn increasing profits). The disadvantage is that only a limited amount of Timbali’s products can be sold through this channel. An estimated 30-40% of Timbali’s sales are achieved through this channel, depending on the time in the season.

The second channel is through Multiflora, where up to 1 million flowers stems are sold daily. Timbali’s products are sent to this market and sold on its behalf to up to 400 different buyers by a market agent. This is AmaBlom’s primary market channel, and 60-70% of Timbali products are marketed through it. Its advantage is that, given its size, it is able to accommodate the bulk of Timbali’s production at market prices. This channel also exposes Timbali products to most wholesale buyers in South Africa effectively and efficiently. Though the marketing costs are higher than direct sales, they are usually offset by the advantages of this channel.

The third, and most recent, channel that AmaBlom has developed is an export channel. Timbali’s exports are handled via dedicated exporters like BergFlora (www.bergflora.co.za), which connects growers to international buyers. Currently 12 of Timbali’s 160 producers are able to export. At present, this channel constitutes a minute percentage of AmaBlom’s sales, but it has the greatest potential for growth.

While at present the Multiflora channel dominates, the three channels in combination provide excellent exposure to local, national, and international markets for Timbali and its growers. This diversification also offers the opportunity to spread some of the price and market risk for Timbali’s products.

Promotion

A promotional strategy for Timbali’s products has also been an important component of its marketing strategy. In this regard Timbali has implemented both primary and supporting promotional strategies. At the primary level the AmaBlom brand spearheads the company’s promotional strategy.

The AmaBlom brand has reached a point in its reputation at which it is associated with unwavering and exceptional quality and consistency. This “brand promise” was a pivotal goal for Timbali from

the outset, specifically because Timabali knew that the quality and consistency of its product were key to building a successful business. The AmaBlom brand is supported by Timbali's quality management system, which permeates the entire value chain and allows buyers to choose AmaBlom products with confidence. Feedback from the market, especially from buyers at Multiflora, is testament to the brand loyalty Timbali has managed to build. The brand has ultimately become Timbali's strongest promotional tool.

In support of the primary promotional thrust Timbali has implemented an Internet presence, in line with trends in direct sales for floriculture products, with websites for Timbali (www.timbali.co.za) and AmaBlom (www.amablom.co.za). These websites describe each of the companies, background, their activities, an overview of the products, contact details, etc. This is a fairly cost effective way to promote the companies and their products globally and to communicate the background of the initiative. Direct sales, one of the marketing channels for Timbali and AmaBlom, can also be initiated from these websites, which underlines their value as promotional tool.

Timbali's role in empowering emergent growers and providing a platform for these growers to enter mainstream economy is also used as a promotional message although it is subservient to the primary focus of Timbali's promotional strategy to avoid a "mixed promotional" message to consumers. This message may appeal to those consumers that, from a social point of view, associate with this message and would like to support the business based on these merits.

LOOKING AHEAD: OPPORTUNITIES FOR GROWTH

Following a period of growth and success Timbali is positioned to pursue a number of opportunities for growth. With its collaborators Timbali is considering several strategies to maintain growth and to increase product diversity. Amongst others these include expanding its product range, developing new markets for its existing products and to support growth by rolling out the model in other parts of South Africa.

Develop product range

As Timbali graduates more growers from the incubator the need to expand its product range has emerged. Expanding the product range as a strategy will spread the risk for the company and allow it to pursue opportunities in new markets. Timbali is considering a two-pronged approach for product range expansion. The first element is to expand the range of flowers produced by Timbali's growers. This will diversify its offering and improve its position as an important role-player in the flower market. The Incubator model lends itself to diversification of the product range because of

the modular nature of production employed in the system. Furthermore, Timbali's partnership with the ARC, which provides contracted advisory services, means that Timbali has relatively easy access to a wealth of knowledge and know-how for a range of products.

The second avenue for product expansion includes diversifying to other products such as vegetables, fruits, and livestock. Mpumalanga is agro-ecologically diverse and suitable for producing a variety of crops and livestock. Favourable growing conditions, coupled with the large number of emerging farmers and the state mandate to develop and transform the agricultural sector, present a great opportunity for expansion for Timbali. In turn, Timbali's successful expansion would also mean an increase in the number of successful emerging farmers with market linkages.

Develop markets

Besides expanding its product range, Timbali plans to develop the market for its current products. Development of existing markets is therefore another strategy for the future. As noted, an estimated 30-40% of Timbali's sales are direct sales, and 60-70% through Multiflora. Exports are currently an occasional and minute proportion of Timbali's business and an area that can be developed. The attractiveness of the export market is significant and with 12 of Timbali's growers already able to export this presents a unique opportunity for growth for Timbali.

Development of an export market also augurs well for any future products and growers that may enter the Timbali fold. Both products and growers would benefit from relationships already established with agents and clients in the export market. Timbali's close association and partnerships with a variety of private-sector and public enterprises would help garner the necessary support to achieve export status for a variety of products.

Roll-out of model

The third strategy Timbali is considering for the immediate future is to develop a scheme to roll out the Timbali model as a template for rural development throughout South Africa, for linking farmers to markets, for capacity building, for economic transformation, and to mainstream marginalised and resource-poor groups. The success of the Timbali model, the steady growth in the number of beneficiaries, and Timbali's market penetration indicate that the model can concurrently address several development dilemmas facing rural communities in the country whose members have not been able to enter the mainstream economy.

CONCLUSION: TIMBALI CONTINUES TO BLOOM

Louise's story started in October 2002 with a dream of creating agri-enterprises that use technology to empower individuals and communities in need of economic growth. Her dream was realised when the Timbali Technology Incubator was born through the support of the DTI and SEDA and established in Nelspruit, Mpumalanga. Timbali has humble beginnings and when the first full-time employees were appointed, there was only one office, a telephone, and one computer which everyone had to share. To top it all Louise had not received a salary for more than five months.

Today, eight years later, Louise is the CEO of the Timbali Technology Incubator. The award-winning Timbali platform to empower agribusiness entrepreneurs has been widely acclaimed and has grown to 24 successful agri-enterprises with more entering each year. Timbali has also grown the number of products that it offers, it is currently the largest single grower of gerberas in South Africa and the company successfully competes against commercial farmers. This success is mirrored by Alucia Ngobeni's emergence as a floriculture entrepreneur with a rewarding business, through the Incubator, from a point of destitution to one of relative prosperity.

In conclusion, through the support of Timbali, some of Mpumalanga's emerging farmers have been equipped with knowledge, know-how, and the market linkages to enter the mainstream economy—an unknown territory for most—and move towards economic and social empowerment and transformation. In the South African agribusiness environment this is a groundbreaking initiative that has created a stage for the development of small-scale floriculture enterprises in Mpumalanga while at the same time addressing some of the most pressing socio-economic discrepancies prevalent in these communities. Ultimately the small seed sown in the minds of Timbali's entrepreneurs at its inception is budding today and will bloom as Timbali continues to grow flowers, people, and livelihoods.

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SECTION E

*Case studies of established agribusinesses
working with emerging enterprises*

Chapter 14

MGK OPERATING COMPANY (TEMO AGRISERVICES)

Johan van Rooyen and Johann Kirsten¹

INTRODUCTION AND COMPANY OVERVIEW

MGK was established in 1930 and has since grown into an influential agricultural role-player in South Africa. MGK was formerly known as Magaliesbergse Koring Koöperatiewe Maatskappy Beperk and in 1949 changed its name to Magaliesbergse Koringkoöperasie Beperk. In 1969 the organisation was renamed Magaliesbergse Graankoöperasie Beperk. In 1998 the cooperative converted to a company and was renamed MGK Operating Company (Pty) Ltd. MGK has become a prominent role player in Northwest, Limpopo, Mpumalanga, and Gauteng provinces and recently expanded to the Vaalharts irrigation area in the Northern Cape. MGK's main focus is irrigation farming and it offers a wide spectrum of agricultural services through its various operating units. Agricultural equipment and input products can be sourced at MGK's retail division trading under the Obaro name. Prodsure offers services relating to grain marketing, sales and storage of grain as well as oilseed processing. Prodsure owns and operates five grain silos, which are located in Brits, Northam, Pretoria West, Randfontein (Battery), and Rustenburg, respectively. Prodsure's fleet was recently expanded to 10 trucks in order to facilitate transport of grain directly from the farm immediately after the crop has been harvested. Prodsure's fleet provides transport to other industries during the off-season months.

All-Gro Seed is a household name in the grain seed industry and has the sole right to distribute the successful Duzi and Krokodil wheat seed cultivars. All-Gro Brands sells pet food, organic fertilisers, and organic pest control products. Statusfin offers farmers various financing products as

¹ Permission obtained from the Agricultural Business Chamber for using materials from a recent study supported by them (See Van Rooyen, Kirsten and Hobson, 2010).

well as crop and short-term insurance. MGK's Temo Agri Services division has an exceptional track record with regard to empowering and supporting emerging farmers since 2004. MGK also invests in technology and innovation through its information technology subsidiary Info-Gro, which offers IT solutions to small and medium-sized enterprises especially in Brits and surrounding areas, and provides IT support to MGK's various business divisions.

THE MGK PROGRAMME TO SUPPORT BLACK FARMERS

MGK through its venture with Temo BEE Farmers Share Trust established Temo AgriServices, which has a development programme through which it mentors and develops emerging grain and oilseed farmers to become commercial farmers (Agricultural Business Chambers, 2007). Temo Agri Services operates as one of MGK's business divisions and is owned to 100% by MGK Business Investments Ltd. All farmers that join the programme are beneficiaries of Temo Farmers Share Trust, which owns 2,2% of indirect shares of MGK Business Investments. Temo Agri Services provides the following services: production loans, crop insurance, production inputs, marketing and logistics, and mentorship (Van Rooyen, Kirsten and Hobson, 2010).

The central activity of the programme implemented by Temo AgriServices, and perhaps the strength of the company, lies in its mentorship program, which is designed to train and develop emerging farmers. These mentors are all full-time employees of MGK. Key to the success and achievements of the programme are the mentors. The objectives of this programme are the following:

- To ensure that farmers acquire the technical skills required to succeed in grain and oilseed farming
- To train farmers on farm management
- To train farmers in finance planning and budgeting
- To train farmers on human resource management
- To provide administrative assistance regarding procurement
- To provide assistance in obtaining credit.

Mentorship and training are two of the main activities in the programme. Farmers are assisted in the making of key and important decisions on the farm, which in practical terms implies that farmer and mentor jointly agree on decisions related to, for example, land preparation, planting and harvesting (especially the timing of these activities), crops to be planted and cultivars, and

appointment of contractors. An account is opened for the farmer at the beginning of the contract. This account is used to buy all the inputs and rent needed farm implements. At the time of harvest the difference between the value of the crop and the account will be paid to the farmer. The farmer is not charged for the technical assistance.

According to MGK databases, between 2004 and 2008 there have been significant increases in the number of farmers involved in the project (22 to 175 farmers), together with an increase in the number of hectares (2 500 to 17 226 hectares) and the number of jobs created (167 to 1 320 jobs). However, for further expansion Temo needs additional mentors, as well as partners willing to share the financing risk.

At present interest rates on these production loans are very competitive. Although no collateral or security is offered, the interest rate on loans made from Mafisa funds is even lower than that prevailing in commercial financial markets, which is contrary to the normal “pricing according to risk” models. Established farmers’ operations are financed with Industrial Development Corporation of South Africa Ltd (IDC) funds priced at the prime interest rate if the farmers have no carry-over debt. Pricing of production loans financed with IDC funds is more comparable with risk pricing models and hence interest rates charged are more comparable with rates prevailing in the commercial financial environment. Extended loans on outstanding balances are priced at higher interest rates.

Most farmers are located on communal land, so the sizes of their fields may vary. If they are on communal land, they need a letter from the tribal authority to certify that they are farmers and that they have permanent access to the land. Some farmers enter into rental agreements with households not using their allocated land and this happens at a rather low price (Lombard, 2010). If the harvest fails, there is a compensation system and MGK gives the farmer additional time for loan repayment.

Farmers who are selected to participate in the programme are organised into study groups, each group appointing a leader and a secretary. The study groups hold regular meetings during which issues related to farm and production planning, problem solving, communication with MGK, and theoretical aspects of training are discussed. The average yield of grain grown by farmers in the programme is between 600 and 700 kg/ha. The price for grain paid to farmers is determined by the prevailing South African Futures Exchange price or, in the case of sorghum, by the price negotiated with sorghum buyers.

The major partners in the MGK programme include Micro Agricultural Financial Institutional Scheme of South Africa (MAFISA), MGK Operating Company, IDC, which also requires guarantee, and Santam. As of the 2010 production season, MAFISA provides the major share of funds needed for production finance. The MGK programme also benefits from sponsorship by the Oilseeds Trust, Maize Trust, Agriseta, and MGK Operating Company. These entities act as sponsors of training and development of farmers and also sponsor certain running expenses. MGK recently learned that in future only formal academic training courses would be sponsored as government incentive schemes offered to businesses to get involved in development have changed. These incentives now aim at stimulating direct involvement rather than just offering financing to involved entities.

RESPONSIBILITY AND MANAGEMENT OF THE PROGRAMME

Ben Visser is the person responsible for the day-to-day rollout, Reino van Schalkwyk being assistant manager. Barend Erasmus, senior technical mentor, leads the team of mentors on agronomic matters. Barend has two deputy technical mentors, Nico Prinsloo and Ockert Koorzen, and the team also includes a financial mentor, Chaela Bonakele, whose responsibility it is to assist with explaining financial statements and all other financial matters. Patrick Sekwatlakwatla from the Obaro division is the livestock mentor and the only black livestock carcass judge in South Africa.

SWOT ANALYSIS OF MGK/TEMO

The strengths, weaknesses, opportunities, and threats (SWOT) analysis, provided to unpack micro-level problems related to the delivery of support services by MGK/Temo, is presented in Table 1. Notice that the programme is managed as a 'strategic business unit', so it helps to clearly understand the direct allocated costs and income of the programme. The direct engagement with farmers through the mentorship process and the hands-on management of production activities of farmers in the programme has important cost implications that cannot be ignored. MGK hoped that this activity would break even after a few years, but that did not happen and the programme is costing the company more than R3 million annually. The many partners in the programme as well as the element of public-private partnerships also provide important strengths of the programme. It is, however, a concern that the Department of Agriculture is not involved and does not channel Comprehensive Agricultural Support Programme and other grants via the MGK programme.

Table 1: SWOT analysis of MGK/Temo Agriservices projects.

| | |
|---|---|
| <p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> Innovative approach More than one stakeholder Shared risks BEE initiated Longer term view Mentorship program Public-private partnership | <p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> Exposure to agri-risks Land ownership Dependency on mentorships Building equity Price volatility Loan arrears |
| <p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> Expansion of program Government involvement Risk sharing programmes More black mentors – credibility Safety nets | <p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> Trust: buy-in Agri-risks Long-term sustainability of program Potential of side-selling of commodities |

One of the weak points of the programme is its exposure to volatile prices. The current low maize prices are putting farm profits under pressure and could influence the trust relationships between farmers and the company (MGK, 2009). Already the company has to deal with loan arrears, which in themselves are a weakness of the programme. The question of loan arrears is especially problematic since farmers could not offer land as collateral because they farm on communal land. This is a major problem for MGK and a potential weakness of the programme.

PERFORMANCE MEASURES

Table 2 shows the performance indicators of MGK's engagement in trying to mainstream black farmers through its mentoring and support services programme. MGK noted that in addition to these numbers, about 12 black farmers are now part of the mainstream since they are regular clients, purchase inputs, and deliver grain and other commodities to the depots of MGK, but make use of own financial resources or obtain financing elsewhere.

Table 2: Production history and financial position of farmers supported by MGK/Temo.

| Year | Number of farmers in project | Temporary jobs created | Commodity (ha) | | | Production capital employed (R) | Source of finance | Loans not repaid (R) | Government assistance (R) | Profits paid to farmers (R) |
|--------------|------------------------------|------------------------|----------------|---------|-------|---------------------------------|-------------------|----------------------|---------------------------|-----------------------------|
| | | | Sunflower | Sorghum | Other | | | | | |
| 2004 | 22 | 167 | 2 500 | | | 412 580 | MGK | | | 414 587 |
| 2005 | 39 | 231 | 3 927 | | | 2 569 000 | MGK | 280 000 | | 468 520 |
| 2006 | 76 | 590 | 8 820 | | | 5 420 000 | MGK | 573 000 | 2 800 000 | 1 970 164 |
| 2007 | 99 | 1 018 | 16 300 | | | 7 350 000 | MGK | 1 106 000 | 5 800 000 | 1 472 713 |
| 2008 | 175 | 1 320 | 15 000 | 709 | 1 517 | 25 134 000 | MGK | 2 150 000 | 6 000 000 | 21 809 275 |
| 2009 | 165 | 1 250 | 15 100 | 477 | 1 665 | 42 500 000 | MGK/JDC | 11 650 000 | | 5 272 530 |
| 2010* | 116 | 490 | 6 591 | 969 | 240 | 38 100 000 | MGK/Mafisa | | | |
| Total | | | | | | 121 485 580 | | 15 759 000 | 14 600 000 | 31 407 789 |

Source: Temo database.

* Budgeted figures.

As with any other business that requires human expertise to be remunerated, operating costs are quite high. The difference is, however, that the income-generating capacity of Temo is restricted to interest charges and fees allowed in terms of the National Credit Act. Interest charges make up the major share of Temo's income. Temo, however, pays interest on the loan funds it borrowed to lend out to farmers. The spread between the borrowing and lending interest rates varies around only 3%. The outstanding debt at the end of the harvesting season, however, varies anywhere from 10% and 20% of production capital advanced. At the end of the production season, this outstanding debt is not backed by any form of tangible collateral or security. As a result of the low income-generating capacity of the business and the high default rate, Temo is dependent on subsidies from other entities to cover its running expenses.

Due to sparse geographical distribution of farms in some areas, mentors often travel more than 500 km in one day just to reach all visiting points. A higher mentor-to-farmer ratio would vastly improve the quality of mentorship offered.

LESSONS FOR UP-SCALING OF ACTIVITIES AND REPLICATION

The MGK/Temo experience has key lessons for other AgriBEEE initiatives in terms of: (1) trust, (2) quality of products, (3) consistency of delivery, (4) repayment of loans, (5) impact of training, and (6) transparency of transactions and risk management.

In relation to the trust relationship between participants and the company, the quality of products, and the consistency of delivery the same principles that applies to the commercial business environment also applies here. Certain differences do, however, exist with normal commercial operations in terms of loan repayments and the impact of training.

The lack of knowledge, skills, experience, and production equipment amongst farmers in the programme inevitably translates into higher default rates and hence higher outstanding debt levels relative to commercial agriculture. The additional difference relates to the fact that these outstanding debts or defaulted loans cannot be reduced through foreclosing on assets held as security due to the complete absence of any form of tangible collateral or security. A positive correlation seems to exist between performance measured in terms of yield and secondary and tertiary education especially where the education is agriculture oriented. This on the job training through experience bears a stronger relationship to performance than theoretical training.

The average age of farmers in the programme is around 54. Many people of this age were exposed only to primary education. As a direct result transparency of transactions and simplicity are highly important to maintaining the trust relationship (Lombard, 2010). Any transaction and/or detailed

technical aspect beyond easily comprehensible or simple practice require in-depth discussions and explanations, which are often very time consuming. Cost scheduling of contract farming particularly complicates things as it entails costing calculations and negotiations per cultivation to be agreed upon, which in turn yet again requires in-depth explanation.

The single most important challenge to overcome in the MGK/Temo programme is the establishment of a 'security and risk fund' that would address the absence of collateral or security. Emerging farmers on communal land lack access to financial resources. Commercial financial institutions refrain from lending out money to emerging farmers due to the high probability of default and the lack of security and/or collateral to cover the losses in case of default.

SUCCESS OR FAILURE

The general perception of the programme was that it started with great spirits with good relationships and very positive results. It focused on the basics, and the relatively low input costs experienced initially contributed to profitability. Input cost subsidies from the Department of Agriculture also significantly enhanced the bottom line. The input cost subsidy scheme worked on a sliding scale basis of 40%, 30%, 20%, and 10% of input costs in the last year. Unfortunately the agreement was terminated by government prematurely. MGK was positive that its engagement would bring farmers into the commercial mainstream and allow them to exit from this venture. Transfer of knowledge and skills through experience is, however, a lengthy process. The business cycle of grain production is also lengthy, hence everything from which the farmer can learn by being exposed to practical experience happens only once a year.

Evaluated in terms of self-sustainability, it is unfortunate that the programme cannot be sustained independently because costs exceed income. In terms of financial viability the project is currently not self-sustainable or at least not independent. MGK can sustain the programme only because of the full spectrum of products and services MGK can make available to participating farmers. Profits made in other divisions of MGK enable the company to cross subsidise the operations of Temo to sustain the programme.

The MGK/Temo initiative should, however, not be evaluated purely on the basis of income and expenses related to the project. An alternate way to evaluate the programme would be to charge all costs to Temo only (inputs 100% financed) while benefits are derived or income is earned by the community (wages for temporary jobs and profits to farmers). It therefore bears characteristics closely similar to public goods, and hence the realistic expectation is that society or government should contribute to the costs. Benefits to society should also not only be measured in terms

of financial benefits. Skills and knowledge transfer through practical experience is a process of building human capital, the benefits of which cannot be easily measured. As far as success is concerned the best way of evaluating the project is to compare the benefits and/or financial successes achieved with those of other projects similar to the Temo project.

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NWK LIMITED

Johann Kirsten and Johan van Rooyen¹

INTRODUCTION AND COMPANY OVERVIEW

NWK Limited, originally known as Noordwes-Köoperasie, was one of the largest cooperatives in South Africa before it was transformed in a private company. It is a leading provider of agricultural services and inputs, primarily in North West Province. The annual turnover of NWK Limited is R6,6 billion with after-tax profits of R169 million in the 2008/09 financial year. The company generates its turnover from a wide spectrum of activities in the following fields: grain industry, agricultural management services, commodity trade, financial services and industries.

In the grain industry NWK provides services related to storage and handling of grain as well as grain cleaning, bagging, drying, weighing, and processing. The company operates 37 silos, to which producers of all sizes deliver grain. In addition it also provides marketing and price risk management services to producers, millers, and other buyers of grain. The department responsible for agricultural management services renders agronomic, livestock- and agri-economic advisory services, as well as precision farming services. The aim of such decision-making information and farm management aids is to minimise farming risk and to ensure sustainability in agriculture. The primary focus is to support individuals, study groups, and emerging farmers in North West Province. Through its network of 22 trade branches and depots and three specialist shops NWK offers its clients a range of high-quality input and consumer goods at competitive prices. The company operates six centres where mechanisation services are provided. This involves the marketing and servicing of a range of agricultural gear such as tractors, harvesting equipment, and a complete range of implements and haymaking equipment.

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The financial services division of NWK provides access to credit and insurance to farmers. Custom-designed financing solutions for farmers' production costs as well as finance for farm implements, vehicles, insurance, and other requirements are provided by this division of NWK. NWK Insurance Brokers supply insurance products such as short-term insurance, crop and input insurance, and retirement planning.

NWK presents a comprehensive network of support services and systems to farmers in North West Province, which includes a large part of agricultural regions of the former Bophuthatswana (roughly about 180 000 ha arable land), a region previously serviced by Agricor and Agri-Bank in the pre-1994 dispensation. Currently only 10 000 to 15 000 ha are cultivated in these areas governed under traditional tenure. An unknown number of farms in this region were transferred to black beneficiaries under the Land Reform scheme, while 104 962,36 hectares were handed to beneficiaries under the PLAS scheme (Department of Rural Development and Land Affairs, 2009). All the depots, silos, trade and mechanisation branches are available to all farmers in the region and all these depots are within 20-30 km or within one hour's drive from every farmer in the service area of NWK (NWK, 2009). NWK employs 24 staff in its agricultural management services division who provide advice on soil analyses, farm management and economic analyses, irrigation scheduling, fertilisation and spraying programmes. These services are provided at a fee mainly to registered farmer members of the company, but any farmer can approach NWK for these services. Farmers in the Developing Farmer programme receive this support free of charge.

Given the extent of the agricultural support network available it is therefore expected that all farmers of all races and sizes are in a position to make use of these services. There is thus no specific need for NWK to develop dedicated support systems for black farmers in the mainstream of the agricultural economy, i.e. privately owning farmland and farming on relatively large scale. They are treated as any member and have access to all services mentioned above. Having said this it is rather disturbing that NWK are unable to effectively tell how many black farmers are making use of their services in the same way commercial white farmers are doing it. The company's own estimates suggest that not more than 0,25-0,5% of total turnover is related to black farmers. The only dedicated programme for black farmers is the programme focused on those farmers farming in the former homeland areas, where traditional tenure arrangements apply. The fact that these farmers are not in a position to produce without access to credit justifies the need for a dedicated programme to support these farmers. This case study explains the nature and extent of NWK's development and mentorship programme for these farmers.

NWK PROGRAMMES TO SUPPORT BLACK FARMERS

The target for NWK's farmer development programme is the arable dryland areas of Ditsobotla district in North West Province. It is here that agricultural development programmes were initiated by the Department of Agriculture of the former Bophuthatswana and specifically by its parastatal Agricor. Agricor was established in 1978 with the specific purpose of developing large-scale capital-intensive projects in the dryland farming regions of the former homeland (NWK, 2009). Through the provision of infrastructure, mechanisation services, credit, fertiliser, and modern seeds Agricor assisted farmers in these areas to produce crops such as maize and sunflower. One of the first projects was the Sheila-Mooifontein project, which was later expanded to include more areas and eventually reached 2 500 farmers and 50 000 hectares in 1984. In 1981 Agribank was established, and between 1981 and 1990 Agribank advanced R322 million to farmers (all through loans from the Development Bank of Southern Africa) and wrote off in excess of R96 million in bad debt by the time it was disbanded in the early 1990s.

With the new dispensation after 1994 a gap in agricultural support services for these farmers emerged. Attempts by the Land Bank and several commercial banks have provided temporary solutions, but bad debt and a lack of a comprehensive support services resulted in continued failure and limited productive farming activity. It is only since 2005 that NWK stepped in to provide support services to these farmers. As is evident from the situation in the traditional tenure areas of North West Province it was necessary to provide farmers with finance, managerial skills, technical skills, and knowledge. Finance seems to be the critical aspect since the efforts of commercial financiers and the Land Bank proved to be unsustainable due to the tenure situation as well as the volatility of climate and price risk. The provision of finance seems to be the most important element of the support framework needed for full-on commercial farming activity. All farmers have access to inputs (through NWK depots and trading stores within easy range) and markets (silos and grain traders close by) but the lack of credit to finance farm inputs and mechanisation services clearly prevents these farmers from engaging in crop production. NWK therefore introduced its first comprehensive support programme (finance, training, mentoring, input provision) in the 2005/06 crop year. A total of 10 farmers on 1 152 hectares benefited from this programme and credit in the value of R1 163 503 was provided to these 10 farmers. Monsanto, Omnia, and Absa Bank also played a role in this programme initially.

The involvement of NWK was largely on a project basis and since 2005 the number of projects (and thus the number of farmers) expanded as illustrated in Table 1. By 2008/09 NWK was involved in the following projects: Batswa ko Pele (maize and sunflower production by 23 farmers), Agri-start project (maize and sunflower production by 62 framers), and Brooksby project (community-based mentorship project through which individuals are identified and empowered to become independent farmers). Farmers participating in these three projects cultivated 15 000 ha in the 2008/09 season.

Statistics reflected in Table 1 refer to only the first two projects—thus a total 9 451 hectares. These numbers represent the biggest share of active black farmers in North West Province.

Table 1: Performance indicators of NWK direct support to black farmers.

| Season | Number of farmers supported with production finance | Hectares | NWK loan | Loan Arrears | Crop sales by farmers financed through NWK loan |
|---------|---|----------|-------------|--------------|---|
| 2005/6 | 10 | 1 152 | R1 163 503 | 0 | ? |
| 2006/7 | 35 | 3 238 | R6 741 631 | 0 | ? |
| 2007/8 | 23 | 2 228 | R6 181 595 | R621 667 | R5 559 927 |
| 2008/9 | 85 | 9 451 | R32 345 258 | R13 449 020 | R16 876 459 |
| 2009/10 | 38 | 6 587 | R14 066 065 | n/a | |

The volume of grain delivered to NWK by farmers in the programme showed a significant increase over years. In the 2006/7 marketing year a total of 5 112 t of grain was delivered. In 2007/8 this increased to 20 397 t, in 2008/9 to 32 465 t and in 2009/10 it was 90 233 t. The financial impact on farmers and their families is of great value.

The services rendered by NWK Ltd to these farmers comprise the following: support on all aspects of farm management, grain handling and marketing, financing of production inputs, input cost insurance, supply and procurement of production inputs, and technology transfer and training. The aim is to provide emerging farmers with skills and financial resources in order to let them grow to commercial farmers in their own right. Technical assistance in terms of production practices is available to the farmer on the farm without cost. NWK finances these farmers' production input needs and supplies them with the services needed for optimal crop production and marketing of their products. Funding from other sources such as Maize Trust, Oilseeds Trust, and Foskor is used to cover some of NWK's costs, but some of the funding made available could also be utilised to cover insurance premiums and liming costs to some extent. In the 2008/9 season a loan from the North West provincial government to NWK was also utilised to finance half of the input cost of the farmers in the programme. NWK repaid the loan but it could not be renewed and funding for the 2009/10 season was taken up through the normal channels. In all instances farmers are provided with a production loan under the requirements of the Credit Act. At the time of writing this case study, other sources of financing were also being investigated.

Despite NWK's commitment and provision of production finance to 85 farmers, the 2008/09 season provided many challenges to NWK's programme and unfortunately many of the farmers were not in a position to repay their loans. The main reason for the shortfall was the high input

cost and the low producer price during that season. Furthermore some farmers delivered grain by using the membership numbers of other farmers, which resulted in NWK being unable to recover outstanding debt. By the end of the season a total of R13,5 million was in arrears. NWK was therefore not in a position to finance the farmers that were in arrears for the 2009/2010 season. The farmers' lack of collateral to secure loans and the implications of the Credit Act prevented NWK from extending any further production finance to these farmers. The biggest challenge thus relates to the provision of production finance to farmers on traditional land tenure arrangements in a sustainable fashion. Other problems related to aspects such as training, appointment of supporting personnel, and visits to the farms are being addressed. The problems highlighted here resulted in NWK providing production finance and subsequent delivery of inputs to only 38 farmers in the 2009/10 production season. The other 50 farmers are still receiving attention within the programme but at a much lower intensity.

PROGRAMME MANAGEMENT

The programme as described above is the direct responsibility of its manager, Agricultural Management Services. This division employs 24 staff members providing various forms of support to all farmers in the NWK service area. Three staff members from this unit are dedicated to the programme on a full-time basis and are directly responsible for the operational part of the three projects mentioned earlier. These staff members are all black graduates, and one agriculturalist is responsible for all the activities of the unit taking care of the developing farmer portfolio. He is supported by two agriculturalists and one staff member from the credit department who deals with production accounts and administrative and financial matters. In addition, two full-time employees from Santam-Agri and Omnia are involved in NWK's project to assist with crop insurance and plant nutrition matters, respectively. NWK has also formed strategic partnerships with companies like Acua, Agricol, Monsanto, Novon, Pannar, and Technichem to support the project.

COST OF THE FARMER DEVELOPMENT ACTIVITY

In order to provide the dedicated support outlined above to the farmers in the three projects NWK had to create three additional positions within the Agricultural Management Services Department. NWK now employs three black agricultural experts, namely Phillip Duitwileng, Benedict Modise, and Ronnie Tshabalala. These three people operate from a multi-disciplinary team of agricultural experts and are deployed on a full-time basis to assist black farmers in NWK's service area. In addition a fourth staff member in the credit control department has been assigned

full-time to deal with the accounts of the farmers in the three projects. Agricol, Monsanto, Omnia, Pannar, and Santam-Agri have each also deployed a full-time agriculturist for these projects.

NWK's engagement with emerging farmers required additional infrastructure such as vehicles, computers, telephones, and office space. The infrastructure regarding input supply and grain storage is sufficient and within range of all farmers concerned. The provisional cost to NWK attributed to the project activity amounted to R378 213 for the 2009/10 financial year. The project budget for the 2010/11 financial year amounts to R1 169 000 before taking into account financial support provided by Foskor, Maize Trust, and Oilseeds Trust. OTI-Focus does the formal training and Agriseta finances this activity in part. A total of 50 farmers received NQF level 2 training in 2009 and another 20 were being trained in 2010.

SWOT ANALYSIS OF THE PROGRAMME

The nature, extent, and impact of the support programme to black farmers by NWK can be assessed by a strengths, weaknesses, opportunities, and threats (SWOT) analysis. By considering the opportunities and threats the sustainability and replicability of the programme can also be considered.

Strengths: NWK has a well-functioning network of service centres and is well positioned within North West Province to be of service to any farmer in the province. Most service centres and trade centres are within a short distance to most farming areas. With substantial expertise and a variety of services as well as dedicated staff available this programme is more than equipped to support the farmers of North West Province. Black farmers within the dedicated support programme have thus access to expertise and services that should enrich their farming enterprise substantially. The dedicated staff and the commitment by NWK to this endeavour have also resulted in other stakeholders and companies joining the effort through financial support, availing personnel, or supporting the well-structured training programmes.

Weaknesses: A high frequency of engagement with farmers in the programme is necessary due to the low literacy and cognitive levels of the farmers involved. Repeat visits, individual attention, and advice need to be provided. Farmers report that officials from the Department of Agriculture are not assisting them when requested. Further, the infrastructure for training programmes is rather insufficient for the expressed needs.

Opportunities: The small farmer development programme of NWK provides a useful opportunity for NWK to expand its client base especially given the reality of land reform and the large number of black farmers with access to land in areas with traditional tenure systems. There are large areas

of cultivatable land that can be brought into production, which should be valuable to NWK in terms of increasing the business turnover and the volume of commodities that are handled.

Threats: The biggest threat is the tenuous financial sustainability of the programme following from the constrained financial viability of the farming enterprises of farmers in the programme. The huge amount of loans in arrears makes it difficult for NWK to consider financing grain production in areas of traditional tenure in the future and with the current low grain prices and thus low margins farmers might want to find various ways of not delivering grain to NWK's depots. Side selling of grain is a major problem, as is the problem of grain theft (in the fields and during transport). The programme's success is further hampered by the inability of the Provincial Department of Agriculture to provide any form of support or to partner with NWK in the delivery of the programme or to share in the risk.

KEY LESSONS AND CONCLUDING REMARKS

There are some key lessons to be learnt from NWK's experience and attempts to assist emerging black farmers. First is the problem with trust: Farmers do not automatically trust NWK (a historically white-owned agribusiness). Given that margins on grain production are very small, there is the incentive to do side-selling. Second is product quality: There has been no problem regarding quality of products from emerging black farmers. The quality is very similar to commercial farmers', although their yields and volumes are lower than that of established commercial farmers. Third is the issue of training. While training has been of great value to emerging farmers, the learning curve is steep. In many instances, farmers inquire about a problem that they have been instructed on previously.

Agribusinesses such as NWK Ltd do have the agricultural expertise as well as the support network and infrastructure to support a large number of farmers. The ability to support farmers not farming on freehold land and in groups is compromised by the lack of collateral, default on loans, theft of grain, insufficient farming equipment, and the institutional problems related to groups of farmers. Over the last five years NWK has experienced most of these difficulties and challenges and had to report large financial losses on its support programmes to black farmers. Unless government and the Land Bank join forces with NWK in sharing the risk through some guarantee system and ensure that all Comprehensive Agricultural Support Programme and other forms of grants are channelled through companies such as NWK, NWK is unlikely to upscale its programme to support more farmers directly.

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THE SUNDAYS RIVER CITRUS COMPANY

Johan van Rooyen and Johann Kirsten¹

INTRODUCTION

The citrus industry in South Africa is largely export focussed. Although South Africa is only the 10th largest producer of citrus products, it is the country with the most exports. In 2007, the industry exported close to 100 million 15 kg cartons, resulting in foreign earnings of approximately R5 billion. It is estimated that less than 5% of total production is from black farms (CGASA, 2009).

Sundays River Valley is situated north-west of Port Elizabeth, and is part of the Orange-Fish irrigation scheme. The SRV has approximately 300 farmers, which own approximately 12 000-13 000 ha of land. There are approximately 200 citrus farmers, with approximately 8 000-9 000 ha currently planted with citrus. In 2007, the SRV exported approximately 15 million 15 kg cartons—this represents about 15% of the total South African citrus industry—and earned approximately R800 million in foreign exchange. Approximately 5% of total production is from black owned farms (Cacadu IDP, 2009). The subject of this case study, Sundays River Citrus Company (SRCC), is situated in the SRV.

PROFILE OF SRCC

SRCC Group is the largest secondary agricultural business active within the citrus industry of South Africa. It had its roots as an agricultural co-operative, and has been in existence since 1924. SRCC started off as a packaging co-operative, through which members jointly packed and

¹ Permission obtained from the Agribusiness Chamber for the use of materials from a recent study supported by them (Van Rooyen, Kirsten and Hobson, 2010).

exported their fruit. Today SRCC is active in the full supply chain, from growing citrus, right through to exporting the fruit. Although SRCC converted to a company structure in 2000, it is still fully owned by growers, with the ultimate aim of maximising grower wealth. It is probably the most important difference between SRCC and any of its competitors that SRCC does not have a profit-maximising objective, but rather aims to maximise on-farm profits for its members, i.e. the growers.

SRCC sources, packs, and exports between 8 million and 9 million cartons of citrus fruit annually. This is approximately 10% of the total citrus crop in South Africa, and 60% of the citrus crop grown in the SRV (SRCC, 2009). SRCC is therefore a major player, both nationally and within the Eastern Cape. Annual company turnover exceeds R200 million, and cash turnover exceeds R500 million. Total replacement value of assets is in the order of R400 million.

As SRCC is grower owned (106 farmers) and intends to remain a grower owned organisation, it therefore cannot sell or issue 30% of its shares to a black (investment) company that is not a grower member. In order to achieve Level 4 BEE status, SRCC had to oversee the establishment of successful black farms that can take up shareholding in SRCC. In 2005, when SRCC embarked on its BEE project, there were very few black farms in SRV, resulting in SRCC adopting a strategy focussed on land reform. The establishment of successful black farmers, who can take up shareholding in SRCC, will result in SRCC becoming a company that has transformed shareholding. SRCC, unlike most other companies active in this arena, does not have a profit motive with land reform, but rather desires an alignment with government requirements, i.e. successful sustainable land reform. At the time of writing this case study, 13% of SRCC production came from black producers, which equates to the export of around 1 million cartons. The SRCC shareholders consist of producers who also own pack rights, which gives them access to SRCC's services and assets. Black shareholding amounts to 6,25% and Luthando farm holds 3%.

The operations of SRCC are executed in three fully owned subsidiaries. SRCC also has an investment in APL Cartons (Pty) Ltd, the third largest corrugating manufacturer in South Africa. As carton production makes up a substantial part of the supply chain, SRCC vertically integrated backwards, by buying a 20% share in this company. This move also ensured that cartons are sourced at the most competitive price in the industry.

THE SRCC BUSINESS MODEL, ROLES AND CORE FUNCTIONS

SRCC offers services and is active throughout the entire citrus supply chain. As citrus is primarily an export product, this supply chain is longer than for most agricultural products. The roles and functions being fulfilled by SRCC are as follows.

Sourcing of inputs and purchasing of implements: Main inputs for citrus are fertiliser, pest control chemicals, and diesel and general supplies. SRCC operates a trading division, where inputs are procured and stocked for use by the growers. Annual turnover of this division is R150 million. As a result of the large consolidated base of procurement, prices to growers are the best in the country. Growers also have access to a financing facility, where fertiliser and pest control chemicals can be financed for up to 14 months. SRCC has also started a compost manufacturing plant, which makes it less dependent on fertiliser.

Citrus farming and technical support: Although SRCC does not own any citrus farms, it is active in the functional area of farming and farm management. As part of its existing BEE project, SRCC is currently directly responsible for farming 500 ha of citrus under the Pro-active Land Acquisition Scheme (PLAS). SRCC also has the largest group of technical advisers in South Africa, all accredited by the Association of Veterinary and Crop Associations of South Africa, which assists SRCC's grower base with day-to-day decisions on optimising and improving production on the farms.

Fruit packing: This is SRCC's longest running service, and is backed up by its extensive capital investment in packing plant and equipment. SRCC has three pack houses with nine packing lines installed, which makes it by far the most efficient packer of fruit, as it can pack many different varieties and specifications at the same time.

Fruit marketing and supply chain management: SRCC also established its own marketing and supply chain management capability. This entails management of service providers in the supply chain, from the pack house right through to the retailer. It includes transporters, cold stores, shipping companies, etc. As part of this effort, SRCC also negotiates market access into the best markets, as well pricing of fruit, and even fully owns an exporting entity which focusses on direct export of fruit to the United Kingdom and Far East market segments. It is envisaged that this function will grow in the future and that more than half of SRCC's crop will be handled in this way.

BLACK ECONOMIC EMPOWERMENT INITIATIVES

The empowerment business model

Historically, commercial farmers accumulated assets such as those embodied in the SRCC as part of their productive process. They also benefited from the collective use of these assets as well as collective buying and selling practices in order to create skill advantages and cost reduction practices (Doyer, 2002; Cook and Lliopoulos, 2000). This collective buying and use of assets is not unique to South Africa and owing to overproduction and shrinking profit margins, there is a worldwide trend towards such “new generation” co-operative models linking primary to secondary agriculture with producer members supplying primary product to the processing infrastructure, of which they are the collective owners (Cook, 1995).

By definition, SRCC is a nonprofit model, the benefit of ownership being transferred to the owners (growers) by way of reduced costs and hence improved returns to the membership/shareholders (the production unit). SRCC does not pay a dividend, but rather ensures that the benefits of ownership return to the primary producer (the risk taker) in the form of improved cash flow returns on fruit packed and marketed through the SRCC structure.

BEE shareholding at farm production level: As a consequence of this ownership model, it is problematic to have direct/outside BEE investment into SRCC, investment that is independent of the ownership of production units/farms. SRCC’s BEE plan recognises this difficulty and therefore employs an empowerment model in which BEE shareholding is accomplished at primary agricultural level, i.e. fruit production. This approach will result in direct shared ownership of SRCC and its value adding structures, giving BEE participants as owners access to a viable business model that spans the full value chain from primary producer to consumer.

Post-settlement support: Although citrus farming is highly sophisticated and technical, this should not prevent the industry from contributing towards the achievement of the 30% land reform target stated by government policy (Department of Agriculture and Land Affairs, 2001). Should the right farm properties be targeted (i.e. properties already in full production, with further opportunity for expansion and development), relative limited additional financial support will be required as sufficient cash is already being generated. Post-settlement support will thus be mostly focussed on development of black farmers and some infrastructure development as well as the development of successful farm business models.

Needs analysis: The needs to be addressed in such BEE developments are summarised in Table 1. The table indicates importance and the main barriers in achieving solutions with regard to this specific need.

Table 1: Needs analysis of SRCC empowerment initiative.

| Criteria | Guidelines and Criteria Application | Weight/100 |
|--|---|-------------------|
| Ability and capability | <ul style="list-style-type: none"> • Project team to be utilised in execution of project. Company infrastructure/resources. | 12 |
| Beneficiary support | <ul style="list-style-type: none"> • Value added services to land reform beneficiaries and Department of Rural Development and Land Reform staff | 9 |
| Experience, knowledge, and area of expertise | <ul style="list-style-type: none"> • Proven experience in a given selected professional service in line with scope of services <ul style="list-style-type: none"> – Experience in land reform programme and implementation – Ability to transfer skills to beneficiaries and work with project officers – Understanding of government policy prescripts – Level of involvement with specific commodity/crop/livestock. – Provision and/or facilitation of market access • Registration with professional bodies | 17 |
| Methodology | <ul style="list-style-type: none"> • Broad proposed methodologies in line with the following commodity support model <ul style="list-style-type: none"> – Financial support services – General land reform support – Co-operative model | 24 |
| Project and programme management | <ul style="list-style-type: none"> • Project management in line with government's financial management prescripts | 10 |
| Shareholdings | <ul style="list-style-type: none"> • Composition of the shareholdings teams in terms of black economic empowerment, historically disadvantaged individual and reconstruction development goals <ul style="list-style-type: none"> – No franchise – Women – Disability • Reconstruction development programme • Promotion of emerging companies | 5 |
| Total points on functionality | | 77/100 |

Start-up process

Within the business model and needs analysis, SRCC embarked on an extensive BEE initiative three years ago (Du Plessis, 2010). From the start, the initiative was established as broad-based and all inclusive, and in essence it constitutes a partnership among SRCC, government, and all relevant

stakeholders. Stakeholders were invited to a stakeholder meeting on 7 July 2005, where a steering committee for the project was chosen. Representatives included the following:

- MEC of Agriculture Mr Gugile Nkwinti
- MP Mr John Gomomo
- HOD of Agriculture Adv Amon Nyondo
- Managing Director of SRCC Johan Stumpf
- SRCC commercial farmers
- Representatives from SRCC pack house workers
- Representatives from SRCC producers' farm workers
- Representatives from broad community
- Department of Land Affairs (now Department of Rural Development and Land Reform)
- Department of Agriculture
- Representatives of local government

The steering committee, which includes representatives from all of the above constituents, was responsible for the initiative as a whole. It acts as a governance entity, and all decisions have to be passed through the steering committee. The steering committee initially met once a month, but now meets bi-monthly. It also appointed two sub-committees, one responsible for business planning of land reform and BEE, and the other responsible for training and development linked to land reform and BEE.

The project has as its ultimate aim the transfer of at least 30% of SRCC's supply hectares to black ownership. It furthermore desires that this redistribution should result in viable and long-term commercially sustainable black farming operations. Four types of land acquisitions have been perused:

- *Type 1:* PLAS for individual beneficiaries
- *Type 2:* Creating shareholding/position for already established emerging farmers

- *Type 3:* SRCC pack house workers acquisition through Land Redistribution for Agricultural Development (LRAD) (unitised scheme)
- *Type 4:* SRCC commercial farmers' workers' acquisition through LRAD (unitised scheme)

Projects

Sundays River Farming Trust (SRFT)—the PLAS project: The focus of this project is to identify and develop a group of commercial black farmers that can operate as “mainstream” shareholders/members of SRCC. Four citrus farms (Eendracht, Lengrove, Siyatemba, Willowtree) were bought by Department of Land Affairs(DLA) through PLAS. These farms are delivering approximately 6% (450 000 cartons) of SRCC's supply and have a turnover potential of R12 million to R15 million, with profits of R2 million plus. SRFT was created to rent the land from DLA. The trust currently owns almost 6% of SRCC's shares. SRCC, in conjunction with DLA and Department of Agriculture (DOA) is responsible for the following:

1. *Financial contributions:* DLA, R26 million to purchase farms; SRCC, R500 000 for legal and consulting fees and working capital of R4 million; Department of Agriculture, Forestry and Fisheries (DAFF), awaiting Comprehensive Agricultural Support Program (CASP) funding.
2. *Land identification and valuation:* SRCC's valuation approach ensures that only farms that have long-term sustainable earnings potential qualify for acquisition.
3. *Planning and acquisition of land:* SRCC is responsible for all negotiations with the three sellers, and offers were not necessarily made based on the valuator's value, but rather on the economic value as determined through detailed business plans done by SRCC.
4. *Identification of beneficiaries:* The existing permanent farm workers were identified as beneficiaries, but the trust deed makes provision for additional beneficiaries, as the ultimate aim is to settle commercial black farmers on the land. This will be in joint ownership with the workers. At present, processes are in place to identify possible candidates for becoming beneficiaries. Existing farm workers get preference in this process, but it can include other candidates. These processes have been developed with the assistance of the Department of Labour, and include various tests to determine which of the workers have the ability to take responsibility as, initially, farm manager, but eventually owner(s) of the farm.
5. *Support services:* SRCC currently takes responsibility for farm management and is responsible for all operations, administration, and reporting. It is also responsible for the training and development of workers as well as potential farm manager and owners. Although these farms

are in a cash positive situation, and at present do not require any financing, SRCC provides working capital of up to R5 million at a discount of one percentage point compared with other SRCC commercial farmers. SRCC provides technical support to the farm business operations, legal agreements, and export support to ensure reliability in supply and quality and the necessary accreditations (GlobalG.A.P., Nature's Choice, Fair Trade, etc.)

6. *Exit arrangements:* All agreements have been drawn up to facilitate the long-term sustainable transfer of properties to beneficiaries, once the following criteria have been met. First, the identified beneficiary should have acquired the skills to be fully fledged commercial farmer. Second, the farm should have sufficient working capital to ensure continued operations. Third and last, the farm must have sufficient reserves to ensure that after acquisition from the DLA it will have a healthy balance sheet, i.e. debt to equity ratio of less than 20%.

Luthando Farm Pty (Ltd): The beneficiaries of Luthando Farm received access to the farm in 2003 through the LRAD programme. The beneficiaries gained ownership of 75% of Luthando through a workers trust, while the previous owner of Luthando retained the remaining 25%. In 2008, SRCC bought the 25% shares in Luthando and concluded a management agreement for a period of five years with a planned exit in 2013. The goal of the project is for the beneficiaries to attain 100% ownership. SRCC is involved in the day-to-day management of Luthando, the provision of technical and specialised farming services, and the training and mentorship of beneficiaries and assistant farm managers. The goal is not just limited to farm ownership, but also to ensure that beneficiaries are trained and skilled to take over farm management.

Mbuyiselo Farming Trust: This project constitutes a broad-based BEE trust ownership structure, with a commercial farmer owning one quarter of shares. SRCC is managing the project with an exit arrangement for 2011.

Wagenaar & Hobbs Farm: This farm is a commercial venture and SRCC is farming on behalf of the black owners. This provides access to SRCC membership and or shareholding.

Other initiatives and services

In addition to the general services rendered by SRCC to its shareholders, described above, the following services support the BEE initiative:

- Identification and selection of beneficiaries;
- Land identification, planning and acquisition, and development;
- Financial support and bridging financing;

- Technical and management support services;
- Mentorship, coaching, and training; and
- BEE management services: SRCC is currently assisting Bhiza Finnis, on his farm Eendrag, with day-to-day management, picking, pruning, fertilisation, and pest and disease control. This service can be expanded on demand.

SRCC is in the process of establishing the SRCC Foundation to assist with training, skills development, and social uplifting of farm workers and new black farmers and their families.

TOWARDS THE FUTURE

The SRCC initiative provides scope for expansion and up-scaling. Some valuable lessons emerge from this experience and these mainly focus on aspects of human development and relationship management. The importance of a viable business model is, however, of equal importance. The following requirements are relevant for the further development and roll-out of the SRCC black economic empowerment initiatives. The first requirement is to manage the “trusts structures” as coherent business entities. This may require a governance and management structure/model different from that of a trust, to ensure that farm business is directed along company governance principles. Second, there is the need to ensure that the funding of farm development and reinvestment is fairly balanced with the immediate financial gains expectations of members, i.e. farm investment vs. cash dividend payments. Third is the need to secure adequate production funding from DAFF or Landbank to improve farm productivity and acquire additional farming properties to further extend the project. Fourth, directed and “user friendly” government policy and support mechanisms should be put in place to extend the PLAS and to support “joint ownership” ventures in farming. Last but not least, there is great need to implement appropriate coaching and mentorship activities to assist with the capacity development of new farmers.

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THE ROLE OF BIG AGRIBUSINESS IN ECONOMIC TRANSFORMATION

A COMMENTARY

Johan van Rooyen, Johann Kirsten, Stephen Hobson¹

BROAD BASED BLACK ECONOMIC EMPOWERMENT

The three case studies covered in this section must be viewed in context of current policy and thinking in South Africa on economic transformation, land reform, and black economic empowerment (BEE). These three factors are major imperatives driving government policy in South Africa, and agriculture is one of the important sectors targeted in this context. In addition employment creation, food security, and rural development and settlement are major features currently scoping the future of farming and agribusiness in the country.

A number of policy instruments have been created since 1994 to drive these processes. Of these the Broad Based Black Economic Empowerment (BBBEE) legislation, Codes, and Score Card impact most directly on South African agribusiness. In the wake of the publication of the AgriBee Transformation Charter, derived from BBBEE, in 2007, a large responsibility has been given to the agribusiness sector in South Africa.

Since its publication government agencies and private-sector firms increasingly require “BBBEE Codes and Score Card” compliance from agribusinesses to secure contracts and procurement. This creates a reaction right through the value chain, including farm production models, since scope and provisions of the charter include any enterprise that derives the majority of its turnover from any of the following:

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- Primary production of agricultural products;
- Provision of inputs and services to enterprises engaged in the production of agricultural products;
- Beneficiation of agricultural products whether of a primary or semi-beneficiated form; and
- Storage, distribution, and/or trading and allied activities related to non-beneficiated agricultural products.

The contribution of agribusiness to transformation and BBBEE in South African agriculture was recently analysed by Van Rooyen et al. (2010). The study focussed on internal and external initiatives by members of the South African Agribusiness Chamber (ABC), representing more than 70 of those business firms dealing directly with farm producers and representing strategic players in the agri-food value chain. The main findings of the ABC study are summarised below as they provide the broader “agribusiness” context for the three BBBEE case studies dealt with in this section. Some general findings from the case studies are also listed.

AGRIBUSINESS AND BEE

The BBBEE Codes and Score Card was used in the 2010 ABC study to measure performance and progress as per the seven elements of BEE viz ownership, control, employment equity, human resources development, preferential procurement, enterprise development, and corporate social responsibility. This measurement was contrasted to a similar 2007 investigation (Van Rooyen et al., 2008). The following trends and findings can be summarised from these studies:

General orientation and attitudes: There has been relative good progress since the 2007 survey and a much improved understanding of the BBBEE Codes and Score Card and broad based empowerment. The overwhelming majority of ABC members have gained understanding of BEE and support transformation as a specific strategic programme in their business plans. Almost half the respondents would consider selling an ownership stake to BEE partners and two thirds would be prepared to go into joint ventures. Over 90% are prepared to mentor and assist emerging BEE businesses, 63% having already implemented specific BEE “outreach” initiatives, a number of which will be examined via the case studies.

BBBEE Score Card performance: Almost 30% of respondents have completed a valid BBBEE scorecard and a further 50% of respondents are still in the process of doing so. A large majority (77%) of the official scorecards had a score of Level 8 or 7, the highest-ranking being a Level 5.

The following is apparent from an analysis of the seven elements of these scorecards:

- Half the entities had black Ownership, the average ownership being 14,1% and the highest 34,7%. These figures are substantially higher than expected and are due mainly to indirect black ownership via “institutional” investors.
- In the case of “producer owned business structures” (co-operatives and producer companies) ownership scoring creates problems as only active black farm producers qualify for ownership, often based on volume of throughput. It is therefore self-evident that such entities are not in a position to achieve a meaningful ownership score in the medium term. This change will take time and a more flexible system may be required in this regard.
- The scores for Management Control are low and reflect the difficulty of transforming top management.
- The scores for Employment Equity are extremely low. This is due to a combination of very strict measurement criteria and a lack of transformation.
- The scoring for Skills Development is average to low. This due to both the high targets and the poor employment equity profile of employees.
- The scoring for Preferential Procurement is average. This element is complex with a heavy administrative burden which is exacerbated by the Department of Trade and Industry (DTI) not making a comprehensive central database of scorecards freely (and easily) available.
- The scores for Enterprise Development are uniformly high. High scores indicate a positive move to broad based empowerment, but they also are a reflection of the fact that these points could be “purchased” in the short term through opportunistic actions by agribusiness.
- The scoring for Socio Economic Development is generally good as companies have historically focused on this type of corporate social investment.

Priorities and constraints: Skills Development, Preferential Procurement, Socio Economic and Enterprise Development are currently seen as priority elements. This valuation represents a dramatic shift from the 2007 survey, in which Skills Development, Ownership, Management Control, and Employment Equity were priorities. This change also reflects the generally positive shift from narrow based to broad based BEE. The top-five constraints identified in the 2009 survey are, however, identical to those listed in 2007. These are, in order of importance:

- Lack of qualified and experienced BEE management

- Lack of BEE partners with access to funding and BEE funding in general
- Difficulty in obtaining the BEE status of suppliers
- Lack of support and guidance from government and regulatory bodies
- Finding BEE partners who can add value to the business

Managing the BBEE Score Card: Implementation of the BBEE Score Card seems to have a positive and measurable impact on business prospects in the agricultural sector. The active implementation of the scorecard as a strategic management focus area has resulted in innovation and support for BEE activities such as Enterprise Development, especially where it can be linked to the business model and supply chain of the company. It has given firms incentive to identify and support emerging farmers and farmer groups through structured support systems and joint ventures with selected black owned businesses. It should, however, be highlighted that we expected a much greater engagement by the selected agribusinesses in these types of initiatives and interventions. The engagement is in most cases limited to a few individual farmers and small groups of farmers in the former homeland areas, and in some cases there are already signs that the support programmes and interventions are not going to be sustained. Agribusiness firms have clearly tried to limit their exposure to these risky endeavours and have in the process learned a lot of expensive lessons.

Strategic interventions and innovations: Interventions include financial support, skills development, mentoring and coaching, the provision of discounted supplies and services, and the offering of assured market access. The KALF funding programme of Kaap Agri is one example of a public/private partnership model “[with My Anonymous Foundation in South Africa (MAFISA)] being activated to provide access to development capital. In some cases conventional social/corporate responsibility situations were transformed to sustainable Enterprise Development initiatives. An example is the Klein Karoo Cooperative’s initiative to create new farm businesses and entrepreneurs to provide farm produce for feeding programmes of the Oudtshoorn Food Bank. Charity organisations were also mobilised to partner with small industry such as ostrich feather sorting enterprises. Another example is GWK, which supported more than 50 schools with over 32 000 learners with food gardens, considerably reducing the food bill of the participating schools. Kaap Agri runs a *lente skool* in collaboration with Stellenbosch University to expose children of farm workers to the scientific and business prospects of a career in agriculture and to create a sense of pride and belonging in what is being strived for through agriculture.

The emergence of new farm models for agribusiness driven BEE initiatives: Agribusinesses are currently called upon to feature prominently and pro-actively in land reform initiatives to ensure that commercial production capacity on transferred lands is maintained, together with

features such as employment and income generation. The PLAS of the state and restitution programmes to speed up land reform create interesting opportunities with agribusiness operating as “strategic partners” together with land reform beneficiaries and public sector agencies. The provision of “free land” and a foreseeable “incubator” period to prepare beneficiaries for eventual mainstreaming into commercialised agriculture provide scope for innovation and the maintenance and expansion of business opportunities. This model can also be very important in restitution cases on highly productive land with large capital investments (such as in KwaZulu-Natal, Limpopo, and Mpumalanga). Such cases present ideal opportunities for agribusiness to become engaged to ensure that the farming enterprise is sustained and expanded and at the same time protect current job opportunities. Farm business models to facilitate such opportunities should accommodate particular situations: individual farmer development where land transfers are not required to be community based, as well as group based models where large communities are the beneficiaries as members of communal property associations that own large tracts of land transferred under the land restitution programme.

The need to reposition Land Bank as a land development bank: Buying land at market prices, generally through borrowed capital, seriously affects start-up farming operations due to cash flow constraints. It is clear that the cost of land must be externalised or structured as a non-cost-carrying asset at least until sufficient income is generated to allow for land repayment through a long-term grant or a no-interest-cost period. Even then, favourable long term funding provisions are required for the new entrant to have any chance of success. Agricultural land in South Africa generally trades in a robust market and regular land transfers through market based transactions are recorded in agricultural areas. Agricultural land is thus still considered an important collateral by finance institutions. In this regard the repositioning of Land Bank may be required to function as a land development funding agency with the responsibility of land acquisition (instead of the government holding the land rights) for land reform purposes and gaining the right to use such land as collateral. Such land can then also be sold or rented through Land Bank to beneficiaries after an initial incubation period during which commercial farming skills and know-how are cultivated through appropriated development support. The taking of equity by Land Bank to facilitate land development and land transfers could also be added. This new role of Land Bank would facilitate the funding of land reform and new farmer settlement ventures by commercial finance institutions.

Public-private partnerships: The business focus of agribusiness can be extended by linking into viable government/private partnerships, such as the MAFISA loan scheme. This experience provides a sound basis to position agribusinesses as strategic partners within the PLAS programme to support land reform while sustaining the production capacity on land transferred under the land reform programme.

Mainstreaming transformation: Transformation and BEE programmes are often not managed as part of the mainstream activities of agribusinesses. In some cases these efforts are undertaken in the Social Corporate Responsibility or Communications sections of the corporative structure. In some cases (for example, Sundays River Citrus Company), the success and scope of such programmes, however, justified the repositioning of this strategic initiative to occupy a mainstream position in the structure with an executive mandate and responsibility.

GENERAL FINDINGS FROM THE AGRIBUSINESS CASE STUDIES

The case studies of MGK Operating Company, NWK Limited, and Sundays River Citrus Company documented in this book were all undertaken by members of the Agricultural Business Chamber included in the 2007 and 2010 studies. They must therefore first be viewed in context of the above main findings. In addition, the following general findings from the analysis of these case studies can also be listed. Particular findings for each case are included in the relevant chapter.

Large agricultural infrastructure and support structures/institutions available to “new” farmers: South African agribusiness in general, and the business firms studied—MGK, NWK, and Sundays River Citrus Company—in particular, despite all its dualistic dimensions, provides a large commercial network of agricultural infrastructure, depots, trading stores, input supplies, and financial and advisory services, all of which is available to all farmers. Many commercially oriented black farmers already buy their inputs at the trading stores of agribusiness firms and deliver their commodities to the depots, packing sheds, and silos operated by these businesses. The exact scope of this business, however, is complex to measure, as “colour of business” per se is not formally registered anymore and also usually not so obvious due to many joint ventures and shareholding particulars.

From this observation it can be argued that there is clearly no need for the state to establish parallel institutions, input supply mechanisms, and funding schemes that bypass the current systems of commercial agribusiness. The state (and for that matter all its agencies, such as Land Bank and Agricultural Research Council) could rather improve the efficiency of delivery to targeted farmers by utilising the advisory services, financial systems, and monitoring process of agribusiness to ensure the appropriate, timely utilisation of state funds. A situation was quoted where new farmers, receiving a production loan from an agribusiness firm, also received a Comprehensive Agricultural Support Programme (CASP) grant from government—and then defaulted on the commercial loan. This example of “double dipping” could have been prevented by channelling funds through one institution, i.e. the well-positioned agribusiness, already serving such farmers.

Rationale exists for participation of agribusiness in BEE programmes: It can generally be concluded from all the cases that there are strong positive agribusiness and social factors related to BBBEE initiatives that reinforce each other and create a business rationale for such interventions. These include the need for BEE scorecard compliance, creating new business opportunities, and establishing a sustainable social environment.

Scale-up of farm size and expansion of successful land reform ventures are problematical and constrained: Emerging black farmers are initially supported via government grants and other support. Those who succeed in entering the mainstream of commercial agriculture often find themselves landed in a vacuum, however. Land holdings and operations are generally of a scale that is too small to sustain an acceptable living standard through the full-time involvement required by commercial farming. The need to provide expanded land units or to relocate to bigger farms is apparent.

The companies interviewed (especially those dealing with grain and livestock production—MGK and NWK) try to minimise risk by limiting production loans to farmers in groups and to those farming on land owned under traditional tenure. The accountability to shareholders and to financiers prevents businesses from passing loans on without proper guarantees in place. As a result many black farmers are unable to access production loans and other credit facilities.

One major constraint is the inability of farmers to use land made available under the land reform programme as collateral in the effort to access sufficient capital to expand and become commercially viable and sustainable operations. This land mostly still belongs to the state and such arrangement constrains the funding model of farm development and production programmes under the land reform programme.

Insurance schemes, combined with business driven coaching, mentoring, and business counselling are implemented at MGK and NWK. These activities, however, represent an additional overhead to the company plus there is the risk of loan defaults by these farmers. Without more assistance from the state and its agencies in terms of state guarantees on production finance provided to these farmers, as well as support for mentorship programmes, it is unlikely that any agribusiness firm will scale up its farmer empowerment initiatives to such a level that it can make a meaningful difference in the big challenge to unite and integrate South African agriculture. The current support programmes such as CASP and MAFISA should ideally be channelled via the systems in operation with agribusiness, as illustrated by the Kalf Funding Scheme of KaapAgri, since this will ensure better monitoring as well as prevent double dipping by beneficiaries.

Individual farm business models are preferred over group/communal land holding schemes: Agribusinesses in general, and also the three cases analysed, have had negative experiences in

providing development support to farming models accommodating large groups/communities of land reform beneficiaries, especially those on restitution lands. These include negative group dynamics, unclear property rights, and accountability regimes and political interference. The preference of agribusiness therefore is rather to support individual farmer models that accommodate committed participants and are based on business motives.

Individually operated farm business models are, however, not always possible, in particular in cases of land restitution that benefits a large group or in cases of high unemployment and big land expectations. Group-based land transfer and farm models are then required to enable scale of impact. In such cases the following can be considered:

- Creation of jobs at farm and agribusiness levels
- Sustainable production and food security
- Profitability and sustained cash flow to beneficiaries
- Incubation period for black farm managers/entrepreneurs/owners to include mentoring, coaching, and counselling
- Broad based skills development
- Youth development programmes
- Residential and health care provision.

Currently these group models are typically based on the strategic partnership model, with an operating company leasing land from the beneficiary communities or the state. These initiatives, however, require complex governance systems such as trusts/cooperatives that complicate flexible entrance and exit arrangements required by business driven initiatives and also particular funding mechanisms to sustain performance.

The fallacy of quick and “opportunistic gains”: All cases clearly noted the fallacy of efforts to score quick points (business, BEE, etc) through opportunistic activities under BEE directed projects. Poorly implemented schemes that shift debt burdens, the transfer of worthless shares, mentorship programmes not linked to value creation, ‘window dressing’ and the meaningless co-option of black partners created mistrust and ill feeling. A long-term vision, realistic and adoptable business plans, sound and transparent governance practise, and human capacity development to sustain BEE initiatives are required as basic building blocks—these are not quick fixes.

The need for improved coordination and partnerships: What was evident from the various case study interviews, and probably not that well captured in the case study reports, is the significant lack of coordination among agribusiness, the various government departments, and the different state agencies in the agricultural development effort in South Africa. There exists great potential within the agribusiness structure in South Africa to uplift previously disadvantaged farmers and catapult them into the mainstream of the agricultural economy, if there is a coordinated and ensured partnership between the state and the private sector, i.e. proper private–public sector partnerships.

CONCLUDING REMARKS

There has been some progress in big agribusiness driven BBBEE as indicated in the scorecards of firms and through a number of project interventions. Recent developments provide ample opportunities for agricultural business development through land reform initiatives; agribusiness, however, must be positioned as a leading partner in this effort. There is clearly an important task, and opportunity, for South African agribusiness to drive the agenda for greater coherence and better coordination of agricultural transformation and development in South Africa. While infrastructure and services are generally available from established agribusiness, finances remain problematical. There should be active lobbying of government (probably through the ABC) to propose that grant funding for the benefit of targeted farmers be channelled directly through agribusiness structures. This practice would avoid double dipping and would, through good governance practice, strict agreements, and clearly identified key performance indicators, prevent funds from being diverted to ‘other purposes’.

Limited collateral on land reform projects also constrains progress. More production finance can be made available to new farmers on BEE projects, if the state re-introduces the principle of guarantees to firms that provide funding to these types of farmers. The bottom-line is that if the state currently does not effectively partner with the private agribusiness sector to deal with these types of market failures, then the development efforts of agribusiness may remain only tokens, a tinkering on the margins of BBBEE and transformation.

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SECTION F

Conclusions

Chapter 18

EMERGING FARMERS AND AGRIBUSINESS IN SOUTH AFRICA

COMMON THEMES

Edward Mabaya and Mohammad Kaaran

A QUALIFICATION

This book showcases 15 case studies of emerging farmers and agribusinesses in South Africa. As pointed out in the first chapter, the purpose of case studies is not to give a general picture or overview of a group of people or institutions. Rather it is to give an unfiltered perspective from within an enterprise to examine how the functional areas of the business (i.e. production, finance, human resource management, marketing) operate. From this perspective case studies look outwards at the supply chains, industry dynamics, and the broader macro-economic environment. To recap, the explicit objectives of this book are:

1. To showcase the human stories behind the emerging farmers and agribusinesses in South Africa in a way that brings to light the rich diversity, historical backgrounds, current context, and future directions.
2. To highlight the best practices, opportunities, and challenges facing South Africa's emerging farmers and agribusinesses.
3. To create a new set of instruction and learning materials for academics and development practitioners interested in South Africa's agriculture.

In this concluding chapter a qualification is warranted to remind the reader of some limitations of the case study approach before any generalisations can be made. Painting the emerging farmers and agribusinesses with a broad brush was not the purpose of this book. As pointed out in the

introduction to the case study approach, “the very value of the case study, the contextual and interpenetrating nature of forces, is lost when one tries to sum up in large and mutually exclusive concepts” (Peattie cited in Flyvbjerg, 2006: 238). Similarly, the main orientation of the book is descriptive and not prescriptive. In this regard, this and the preceding chapter (Chapter 17) represent a slight departure from the general composition of this volume. For the big picture perspective, readers are encouraged to look at numerous papers, reports, and books that have been written on South Africa’s agriculture, black/emerging farmers and agribusinesses, most of which take an aggregated and macro orientation. Official websites of South Africa’s Department of Agriculture, Forestry and Fisheries, National Agricultural Marketing Council, Department of Trade and Industry, Agricultural Research Council provide links to numerous such reports and other strategy documents. For the academically inclined, the conference proceedings of the Agricultural Economics Association of South Africa (last five annual conference proceeding are available online on the association website) and the related journal, *Agrekon*, provide plentiful research papers on South Africa’s agricultural economy with comprehensive details on sub-sectors and issue-specific analysis. Such broad perspectives on issues and sub-sectors are not the main contribution of this book.

TOP EIGHT THEMES

What follows in this chapter is an attempt to identify common threads that seem to weave through several of the case studies. Any general issues raised in this concluding chapter have to be contextualised within the particular case studies explored in previous chapters. Not surprising, however, is that these common themes are consistent with findings from other diagnostic reports focussing on emerging farmers and agribusinesses in South Africa. In this closing chapter we pull out eight common themes arising from the case studies and draw some possible implications for both private sector strategies and public policy dialogues. These common themes are first listed below and then discussed in more detail in the rest of the chapter. Note that these issues are above and beyond the common challenges of working in the agricultural sector such as weather-related risk, input and output price volatility, or global competitiveness, which, to some extent, similarly affect all players in South Africa’s farming and agribusinesses. A strong disclaimer to subsequent recommendations is that they would have to be based on further inquiry or at least a larger sample size of farmers and agribusinesses before major investments or strategic shifts in policy direction can be implemented. As such, the issues raised herein should be taken more as a guide for further inquiry than uncompromising findings. The top eight themes are as follows:

1. Serendipity: Rather than by carefully planned engagement, it is mostly by chance that most of the emerging agribusinesses are in their current line of business.

2. Great scope for capacity building and training: Most of the emerging farmers and entrepreneurs lack the requisite skills to compete effectively with established businesses.
3. Business and social issues are often intertwined: As with most micro and small enterprises, the family and social context cannot be separated from the business.
4. Market access is critical: The success or failure of most farms and agribusinesses can be traced to access to formal markets.
5. Rallying behind a few champions: A disproportionate amount of support from government and non-governmental organisations seems to go to few beneficiaries who are viewed as success stories.
6. Limited access to finance: While finance is identified as a key constraint by emerging enterprises and farmers, only few of them are 'ready for investment'.
7. Connections with white business partners still matter: The agriculture sector and most agribusiness supply chains are still white dominated and successful engagement into the network requires the 'right' partners.
8. Hope and resilience amidst challenges: Most emerging farmers and agribusinesses have strong feelings of optimism about their future prospects despite the formidable challenges they face.

Serendipity

The life stories of most of the entrepreneurs and farmers covered in this book have humble origins either in professional fields outside of agriculture or in unemployment. With the possible exceptions of Ezuluwini Chocolat (Chapter 2) and DeFynne Nursery (Chapter 3), most owners and managers profiled in these case studies would not have seen themselves in their current line of work a few years before going into business. In most cases, farming or agribusiness opportunities came as an opportunity that presented better prospects (or at least lower risk) than their existing source of income. In essence, most of the farmers and agribusiness enterprises could just as well be in other industries such as construction, tourism, or hospitality, had circumstances been slightly different. That they ended up in farming or agribusiness ventures is in most cases a coincidence.

The implications of this observation are two-fold. First is the rather steep learning curve that emerging farmers and agribusinesses have to climb. Their white and/or more established counterparts often come from generations of farming and agribusiness wherein both the soft and hard skills are ingrained from early childhood. The second implication is the questionable commitment to farming and agribusiness from the new entrants. If the farming or agribusiness enterprise fails or better opportunities arise, these entrepreneurs are perhaps more likely to leave agriculture for

another business venture. Depending on the circumstances, this rather opportunistic behaviour can be a source of either strength or weakness for the entrepreneur, but it can certainly present challenges for policy makers. In years when agriculture and agribusiness underperforms, black farmers are more likely to leave the sector. In the near term, safety nets may be required to keep black people in agriculture.

Great scope for capacity building and training

Perhaps related to the preceding point, there is great need for capacity building and training among emerging farmers and agribusinesses in South Africa. The skills shortage among historically disadvantaged individuals is especially highlighted in the case studies of Intaba Jam (Chapter 7), Fort Hare Dairy (Chapter 8), Communal Wool Growers Project (Chapter 11), Timbali Technology Incubator (Chapter 13), and NWK Limited (Chapter 15). Fortunately, in these cases, something is being done to bridge the skills gap. If emerging farmers and agribusiness entrepreneurs are to effectively compete with established operations, they will need extensive capacity building and training in the technical areas of production and business management. A multi-pronged and well-coordinated approach by government, development agencies, academic institutions, non-governmental organisations (NGOs), big agribusiness, and established farmers will be required to meet this demand. Capacity building and training programmes must be flexible enough to address immediate needs and long-term issues while offer training that matches the beneficiaries' existing skills and experience. Although numerous training programmes exist already, their impact to date has been limited, and not enough resources have been devoted to meet the ever-growing needs.

Business and social issues are intertwined

As with most micro and small enterprises, the family and social context of emerging farmers and agribusiness owners cannot be separated from the business venture. Most of the business operations are family run and additional labour is only hired when no family member or relative is available to fill the position. The profile of employees given in the M'hudi Wines (Chapter 4) and Mrs Nofoto's *bakkie* milling business (Chapter 6) best illustrate this phenomenon. These are 'family businesses' in a very narrow definition of the term. Given the high rate of unemployment especially among South Africans of colour (estimated at around 40% for black South Africans), this finding is to be expected. Given a choice, priority is often placed on creating and maintaining jobs for family members or relatives instead of finding the most qualified person who can do the job. This orientation further exacerbates the skills shortage highlighted earlier. The interconnectedness of family and business also implies that social issues that bedevil families and society in South Africa such as the HIV/AIDS pandemic and high crime levels are more likely to adversely affect the management of emerging farmers and businesses. For example, an unfortunate event such as death

or illness in the family can have serious adverse effects on the agribusiness or farming operations and resulting profitability. At the minimum, government interventions should acknowledge this connection and work with other relevant arms of government to mitigate any resultant risks.

Market access is critical

Access to lucrative formal markets is perhaps the single largest predictor of success among the case studies covered herein. The case studies that show the highest chance of sustained growth, such as Ezuluwini Chocolate (Chapter 2), DeFynne Nursery (Chapter 3), Mhudi Wines (Chapter 4), Suid Bokkeveld (Chapter 10), and Timbali Technology Incubator (Chapter 13), all have established links to highly lucrative markets in the form of retail outlets or exports. To the contrary, the case studies in which market access is identified as a major constraint such as Mrs Nofoto's *bakkie* milling (Chapter 6) are unlikely to prosper. Linkage to formal markets should be a key priority for any initiative that seeks to develop emerging farmers and agribusinesses in South Africa. Both pull and push strategies can be employed in linking farmers to markets.

Rallying behind a few champions

This book covers some success stories of emerging black-owned pioneering agribusinesses such as M'hudi Wines (Chapter 4) and Nieuwborn Ostrich Farm (Chapter 5). In reading these success stories, one gets the sense that a disproportionate amount of support from government, NGOs, commodity associations, and other private-sector players seems to go to a few beneficiaries perhaps at the expense of others. These success stories are covered widely in the media and their growth is accelerated compared with their counterparts (both black and white). It appears that once a few winners have been selected, too much of the support and attention is focussed on them in terms of media exposure, capacity building, access to finance, and appointment to special industry committees. They become the poster children and may become too important to fail. This positional externality has two shortcomings (Frank, 2005). First is the disproportionate use of public resources in supporting companies that probably need them the least. Most government agencies like to be identified with the winners and after a while it becomes impossible to disentangle the causal relationship between success and support. That is, are these businesses successful because of all the support they are receiving or are they getting too much support because they are seen as successful? Perhaps the methods used to evaluate performance of government and donor initiatives should be revised so as not to unintentionally lead to cherry picking of targeted beneficiaries. The second implication could be framed as a word of caution to the success stories. Despite the many business opportunities presented, being placed in the limelight can be distracting to entrepreneurs as it can take away valuable time from the day-to-day operation of the business.

Limited access to finance

As with most start-ups and early growth businesses, access to finance is always identified by the owners and managers as a key constraint. Indeed access to finance is often framed as if an injection of additional funds would solve all of the problems confronting a business. Managers in all of the case studies in Section B (Chapters 2 to 6) and Section E (Chapters 14 to 16) are all in some pursuit of additional financing either to expand or to sustain their operations. While there is some truth to this “money as a solution to all business ills” perspective, it often masks the inherent causes of the current need for capital. Often, a shortage of finance is the symptom of an underlying problem such as poor cash flow management, over-capitalisation, and lack of planning. Given the other issues discussed in this chapter, more effort should be placed on getting emerging farmers and agribusinesses “ready for investment”. Investment readiness, e.g. comprehensive capacity building, would in turn increase deal flows for financing institutions while ensuring higher repayment rates and minimising misappropriation of funds. That said, we cannot overlook a real need for financial investment in some of these start-ups to spur their growth into the mainstream economy.

Connections to white business still matter

The farming sector and most agribusiness supply chains in South Africa are still white dominated and are only now starting to transform. Personal relationships among white players have been built over many years of working together in a supply network. For outsiders and newcomers to the scene, these social and business networks can be hard to penetrate. Putting it mildly, the supply chains in agriculture are not always colour blind. In cases such as M’hudi Wines (Chapter 4), Neiuwborn Ostrich Farm (Chapter 6), and Intaba Fruit Processing (Chapter 7) having a white partner or neighbour certainly seems to have opened many doors to opportunity. Successful engagement in the networks often requires the ‘right’ partners. Research on social capital supports the notion that companies or individuals that have conducted business for mutual gain over a long time will cooperate in ways that enhance mutual competitiveness (Fountain, 1998; Maskell, 2000). Examples of such cooperation commonly occurring among both horizontal and vertical supply chains include information sharing and capacity utilisation. With the possible exception of Mrs Nofoto’s *bakkie* milling (Chapter 6), all the case studies profiled herein involve strategic partnerships or alliances with white owned businesses. The implication for policy makers and development practitioners is to engage white owned businesses in the mainstreaming of emerging farmers and agribusinesses. Further, some effort has to be put in developing networks of black owned businesses and farms so that they can start to develop their own social capital to minimise transaction costs.

Hope and resilience amidst challenges

Despite the numerous challenges confronting emerging farmers and agribusinesses, most owners and managers profiled in this book share a sense of hope and optimism about their future. This is perhaps a fitting note on which to end this book. Emerging farmers and agribusinesses in South Africa have come a long way in the last decade thanks to their determination and the support services offered by government, NGOs, and the private sector. None of the case studies profiled in this book are more than seven years old. Indeed most of these stories would simply not have been possible before majority rule in South Africa. Certainly there was no black family owned winery or a black woman chocolatier in all of South Africa until a few years ago. In the words of the great Nelson Mandela, “It always seems impossible until it’s done” (Mandela, n.d.). This generation of black farmers and agribusinesses is to some extent pioneering. We hope that through the struggles of the pioneers and the efforts from both government and private sector, the next generation will face a more level playing field with even greater chances to live up to their potential.

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AUTHOR BIOS

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Edward Mabaya is an academic and a development practitioner. As a development practitioner, Ed is involved in several programs that seek to improve the lives of African farmers by through private enterprises. Ed established and coordinates the Seeds of Development Program, a business development services and networking program for emerging seed companies in East and Southern Africa. As a Research Associate in the Department of Applied Economics and Management at Cornell University, he conducts research on food marketing and distribution, seed systems, spatial market equilibrium, and the role of efficient agricultural markets in Africa's economic development. He is Assistant Director at the Cornell International Institute for Food, Agriculture, and Development. Ed earned his MS and Ph.D. degrees in Agricultural Economics at Cornell University and his B.Sc. from the University of Zimbabwe. In 2007, Ed was an Archbishop Desmond Tutu Leadership Fellow, a training program offered by the African Leadership Institute at Oxford University. During 2010-2011, he was a Visiting Researcher and Lecturer the Department of Agricultural Economics at Stellenbosch University in South Africa.

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Michelle Manket has focused her studies and career on social entrepreneurship and Sustainable and Responsible Investment (SRI) practices. She is currently an associate at Calvert Investments, an investment firm which manages one of the largest families of socially focused equity funds. Formerly, Michelle has participated in a range social entrepreneurial activities, including her work with Grameen America, a nonprofit microfinance organization that provides loans and other financial services to entrepreneurs living below the poverty line in the United States. She has also taught and managed a women's organization in Cusco, Peru, leading them to develop a business

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Noel Oettlé is based in the village of Nieuwoudtville in the Northern Cape. He attended school and university in Cape Town before farming fruit in the Western Cape for 13 years, followed by 3 years of rural development work in Lesotho. Noel served as Director of the Farmer Support Group at the University of KwaZulu Natal between 1990 and 1998, and while with FSG received a Post Graduate Diploma in Agricultural Development from the University of London. In 1998 he joined his current employer, the Environmental Monitoring Group as Rural Programme Manager. His work focuses on enabling rural people who are geographically, socially and/or economically

marginalised to enhance their livelihoods by the sustainable use of natural resources, and by improving market access. Practically this has included providing support to small scale producers to conserve biodiversity in their production systems, adapt their land use practices to current and anticipated climate variability, establish co-operatives and enter global markets with organic and Fairtrade certified products. Applying a participatory action research approach, Noel works in close collaboration with land users as well as colleagues from EMG, other NGOs and academic institutions. Significant aspects of this approach have involved promoting peer learning and creating synergies between science and local knowledge. Noel serves on the Regional Council of ICCO, and as a member of the Board of Fairtrade Labelling International as the representative of African producers.

Kristin O'Planick is an international development professional with experience in Africa, Asia, and the Middle East. Kristin believes in the ability of business to serve as a driver of economic growth to reduce poverty and create inclusive opportunities. She has worked at various levels of development and has a focus on private sector development approaches to grow small and medium enterprises and strengthen value chains. Kristin is currently an Enterprise Development Specialist for the U.S. Agency for International Development (USAID). Her career in development started as a Peace Corps Volunteer in Guinea. Then Kristin spent a few years at a USAID contractor, managing multi-million dollar economic growth projects from headquarters and finally running operations for a livelihoods development project in Egypt. She earned her MBA from the Johnson School at Cornell University and her BA from the University of Maryland.

Perla Parra holds a B.A. degree in Anthropology with a minor in Italian Studies from the University of California, Berkeley. She also holds a Professional Certificate in Business Administration from the same institution. She earned a master's degree in Public Administration from Cornell University. She has worked for Fair Isaac Corporation as an analyst and a bilingual case manager at Marin Child Care Council.

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Tamara Struk is a program manager and event coordinator. While pursuing an M.P.A. at Cornell University, she has stayed involved as president of Women in Public Policy, winner of the

Acara Challenge 2011, an international food security competition and the start up of U Impact, Cornell's Social Venture Fund. She is also a Human Capital Development Fellow at Cornell's ILR School where she assists with program management for the National Project for Leaders in Development, a Cornell Project Executive Program with the government of Kuwait. She earned a B.Sc. in public health education and international development at Brigham Young University (BYU). As a Research Assistant at BYU, she helped conduct the first international research on media literacy and smoking in adolescents in both Hungary and Chile. She also served as a board member of Daxton Wilde Foundation and Koins for Kenya and was heavily involved in operations of Student Alumni and Student Service Associations at BYU. From 2005-2007 she lived abroad in El Salvador working on humanitarian projects and community welfare education.

Krisztina Tihanyi is Chief Operating Officer of Market Matters, Inc. Her diverse educational background includes degrees in Psychology, International Peace Studies, and Anthropology. A graduate of Cornell University, Kriszta has a keen interest in developing educational programs that lead to social and economic transformation. Her book entitled "Blending in the Rainbow Nation" focuses on post-Apartheid reconciliation and the racial integration of schools in South Africa. In her current position at MM, Inc., she coordinates the Making Markets Matter workshop series, as well as other activities such as public relations, financial management, and fundraising. During 2010-2011 she was a Visiting Researcher at Department of Agricultural Economics at Stellenbosch University in South Africa.

Phuong T. Tran is a student at Cornell University majoring in Applied Economics and Management with specializations in International Trade and Development, and Finance. Her involvement at Cornell includes the Student Multi-disciplinary Applied Research Team (SMART), Finance Club, Alpha Phi Omega Service Fraternity and she is currently a Research Assistant for Cornell International Institute of Food, Agriculture and Development (CIIFAD). At the time of this writing, she was an intern at the Cornell Financial Affairs office and acted as a Student Administrative Assistant.

Lulama Traub is lecturer in the Department of Agricultural Economics at Stellenbosch University. A dual citizen of the USA and South Africa, she has a passion for both countries she considers home. Her involvement at Michigan State University (MSU) led to her pursuing her master's degree in Agricultural Economics during which time she developed an econometric model to test the effect of maize market reform on milling margins within South Africa. From there the process led to a case study on maize marketing in the Eastern Cape Province of South Africa as well as a country level assessment of trade and domestic policies as they pertain to staple food commodities in South Africa. Lulama's current research interests include; outreach and capacity building programs in collaboration with Southern African universities

and government agencies, mainly focusing on staple food marketing and trade policies and their effects on sustainable and equitable development. She currently resides in South Africa and in addition to lecturing at the University of Stellenbosch she conducts research with the Bureau of Food and Agricultural Policy (BFAP).

Johann van Rooyen is the director of The Standard Bank Centre for Agri-Leadership & Mentorship Development and Professor of Agricultural Economics at Stellenbosch University and teaches agri-business strategy, agricultural and rural development and business cases at the Universities of Stellenbosch, Free State, Pretoria and the University of Ghent, Belgium. He has published more than 120 peer group refereed scientific papers, five academic books on agri-business & agri-development and presented over 100 papers at local and international events. He has served on numerous boards and ministerial committees. He has held appointments with The Development Bank of Southern Africa, the University of Pretoria, the Business Chamber of South Africa, and the South African Wine Industry Council. He holds a doctoral degree in Agricultural Economics from the University of Pretoria.

Jipei Zhang is currently a Master of Public Administration candidate at Cornell University. With interests in marketing, entrepreneurship, and international development, Jipei has worked as a consultant and entrepreneur in the U.S., Southeast Asia, and Africa. From 2007-2009, Jipei was a consultant for Chinese investments for a large Lao-German bilateral development programme, building Public-Private Partnerships between the Chinese investors, local government, and the development partners. She is also a co-founder of an innovative social business that was featured at the 2009 Harvard International Bridge Builder Conference. A native of Changsha, China, Jipei earned her BA in International Relations from Carleton College (Northfield, Minnesota, USA).

Khalid Salie is a lecturer and researcher at the Division of Aquaculture, Stellenbosch University, South Africa. He is also a sustainable aquaculture practitioner and is involved in a number of projects aiming at growing participation in the industry. Khalid teaches aquaculture to under- and postgraduate students and conducts short courses for emerging farmers. His research includes monitoring and evaluating the environmental impact of aquaculture and proposing management practices to increase productivity and sustainability of fish culture in Africa through training, education and collaboration. Presently, he serves on the Promotion and Affiliation Committee of the World Aquaculture Society and is an executive member of the Aquaculture Association of Southern Africa and of Hands-On Fish Farmers' Cooperative Limited. Khalid received his BSc, BSc (Hon) and MSc from the Department of Botany at Stellenbosch University. At the time of writing, he was completing his Ph.D. on Sustainable Aquaculture in the Department of Animal Sciences.

“Emerging” (or “black”) farmers are often considered a homogenous group. While individual emerging farmers and agribusinesses in South Africa share a common history, the case studies in this book show that in fact significant differences exist among them that are often hidden beneath the averaging and aggregation typical of most analytical research. Presenting fifteen case studies of emerging agribusinesses in South Africa, this book has three main objectives: (1) to capture the human stories behind the emerging farms and agribusinesses in South Africa in order to showcase their rich diversity, historical backgrounds, current context, and future directions; (2) to highlight the best practices, opportunities, and challenges facing South Africa’s emerging farmers and agribusinesses; and (3) to create a new set of instructional materials for academics and development practitioners, or as a point of reference for other entrepreneurs, members of government, and other practitioners engaged in agriculture and agribusiness. The case study format, a relatively new tool in the field of agribusiness management, allows for a close-up view of the entrepreneurs at the heart of the businesses, providing an ideal lens through which to take a snapshot of the agribusiness landscape of South Africa today.

The authors did a great job providing such a detailed profile of the various case studies showcasing emerging farmers, agribusinesses, entrepreneurship skills and endeavours, etc. Not only does the book provide diverse and rich information pertaining to the “sample” emerging farmers, but in general point to important policy lessons and inadequacies that characterize BBBEE and AgriBEE as the main drivers of government policy in South Africa.

Dr Ephias Makaudze – Department of Economics, University of Western Cape

It is impossible to understand the current state of South Africa’s agricultural sector without looking at the country’s history. Similarly, one cannot fully understand the opportunities and challenges facing emerging farmers and agribusinesses in South Africa without first walking in their shoes. This book is an excellent effort in giving the unfiltered perspectives of emerging farmers from an enterprise level. It is a ‘must read’ for anyone working with agriculture and agribusiness transformation in South Africa.

Mr Langa Zita – Director-General of the Department of Agriculture, Forestry and Fisheries



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