

Enhancing the Competitiveness of the Rooibos Industry

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Assignment submitted in partial fulfilment of the requirements for the degree M. Phil in Agricultural Systems Management at the University of Stellenbosch

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Declaration

I the undersigned hereby declare that the work contained in this assignment is my own work and has not previously in its entirety or in part been submitted at any university for a degree.

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10 February 2000

Abstract

Enhancing the Competitiveness of the Rooibos Tea Industry

From 1954 to 1993 the Rooibos Control Board, a statutory one-channel marketing system, regulated the rooibos industry. In 1993 the industry was deregulated and competition between different role players in the industry emerged. In this study competitiveness is analysed from both a historical as well as a modern –day perspective.

Modern economic theory defines that competition is good for all industry and that it leads to economic development. In the case of the rooibos industry, one could be inclined to think that the unique character of the product and the fact that the Control Board had established a marketing mechanism would limit competition and rivalry in the post-Control Board era.

In this study it was determined that deregulation in this industry coincided with very intense price-driven rivalry in the export market whilst very little rivalry occurred in the domestic market.

The information for this thesis was obtained from published Annual Reports of the Rooibos Control Board and from personal interviews with the main role players in the industry.

Two strategies that could enhance the competitiveness of this industry are recommended:

1. Repositioning rooibos as a gourmet health tea.
2. Improving supply chain coordination within the industry.

Opsomming

Verbetering van die Mededinging van die Rooibos Industrie

Vanaf 1954 tot 1993 het die Rooibos Beheerraad, 'n statutêre enkelkanaal bemarkingsorganisasie, die rooibosindustrie gereguleer. In 1993 is die bedryf gedereguleer en kon mededinging tussen verskillende rolspelers plaasvind. In hierdie studie word mededinging uit beide 'n historiese sowel as moderne perspektief bestudeer.

Moderne ekonomiese teorie stel dit dat mededinging tot voordeel van alle industrieë is en dat dit lei tot ekonomiese ontwikkeling. In die geval van rooibos sou mens geneig wees om te dink dat die unieke karakter van die produk en die feit dat 'n bestaande bemarkingskanaal alreeds bestaan, mededinging sou beperk in die post-Beheerraad tydperk.

In hierdie studie is bevind dat deregulering gepaard gegaan het met intense prys-gedrewe mededinging in die uitvoermark, terwyl die binnelandse mark bykans geen mededinging ervaar nie.

Die inligting vir hierdie tesis is verkry uit gepubliseerde Jaarverslae van die Rooibos Beheerraad en deur persoonlike onderhoude wat gevoer is met rolspelers binne die bedryf.

Twee strategieë word voorgestel waarmee die bedryf meer mededingend gemaak kan word:

1. Produk herposisionering as 'n gourmet gesondheidstee.
2. Verbeterde koördinasie binne die voorsieningskettings.

Acknowledgements

I wish to express my gratitude to the following people without whose co-operation and inputs this study would not have been possible.

My study leader, Mr. Mohammad Karaan, for his time, valuable inputs and assistance.

The following people whom I could interview:

1. Mr. Steve du Preez of Rooibos Ltd.
2. Mr. Dawie de Villiers of Cape Natural Tea Products
3. Mr. Peter Schulke of Khoisan Tea
4. Dr. Frans van der Westhuizen of Kings Products
5. Mr. Johan Ferreira of Tolbos Boerdery
6. Mr. Henk Theron of Annique Rooibos Products
7. Mr. Niel Coetzee of Coetzee and Coetzee

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Chapter 1

Introduction

One of South Africa's oldest and most successful indigenous industries is that of rooibos tea, *Aspalathus linearis*. It is an herbal tea that is endemic to the Cedarberg region of the Western Cape, approximately 200 km. north of Cape Town. It is cultivated on a commercial basis on the wide Atlantic coastal belt from Piketberg in the south to Nieuwoudtville in the north.

Rooibos tea was initially harvested in the wild, prepared and consumed by local (indigenous) inhabitants of this region. Its beverage use was first reported by the botanist Carl Thunbergh in 1772 in volume 1 of his diary *Travels in Europe, Africa and Asia*, in which he wrote that the leaves of *borbonia cordata* is used by the country people to make tea.

Commercial cultivation of rooibos started in the 1930's. During the Second World War the industry flourished as a result of a shortage of black (Oriental) tea and prices soared. After the War, with black tea again being freely available, the industry collapsed. To counter the unfavourable trade situation the producers approached the government for help. The Rooibos Control Board, a statutory single channel marketing system, was established in 1954. In 1993 the Control Board was abolished and competition could take place between different role players in this industry.

The purpose of this study is to analyse and discuss the competitiveness of the rooibos tea industry. The initial part of this study consists of a broad overview regarding the theory of competitiveness. The theoretical basis is that of Michael Porter, *The Competitive Advantage of Nations* (1990) and *Competitive Strategy* (1980), who is considered a leading authority regarding this subject. Extensive use has also been made of the work of economist Sharon Oster, *Modern Competitive Analysis* (1994).

Methodology

Information regarding the history of the industry was obtained from published Annual Reports of the Rooibos Control Board for the period 1965 to 1992.

In order to establish the current competitiveness of the industry, interviews were conducted with the main role players within the industry. This method of gathering information has several advantages to collecting data via mailed questionnaires. Interviews were conducted in an informal, semi-structured fashion. The interview focussed on strategies employed to increase their own competitive position as well as issues that affect the competitive position of the industry at large. Apart from the personal communication and building rapport, personal visits also uncover valuable additional remarks and information which written questionnaires often fail to uncover.

During interviews, participants were assured that all information would be treated in a confidential and sensitive manner and business information would not be made public. Unfortunately, due to the nature of this type of research and the required information, the participants revealed only limited information.

Finally, some strategies are proposed that can be used to enhance the competitiveness of this industry.

Chapter 2

Background of the Rooibos Industry

The rooibos plant is a leguminous shrub and not related to black (Ceylon) tea. It is a bushy plant with long slender branches (approx. 600mm high) and needle-like leaves (10 - 35 mm long). There are four main types of rooibos tea viz. rooi-, vaal-, swart- and rooibruin tea. The rooi tea is subdivided into the Cedarberg and Nortier type, of which the latter is cultivated. Consumers preferred the taste and colour associated with rooi tea, thus the Control Board discouraged producers from cultivating tea other than rooitea. By 1965 all tea produced was rooi tea.

2.1 Cultivation

The soil required must be deep, sandy and well drained. The plant is well adapted to harsh conditions of drought and cold. On average, rainfall varies between 250 and 400 mm per annum in the areas where rooibos is cultivated. The rooibos is naturally found in the Cedarberg area at a height in excess of 450 meters above sea level.

Prevailing weather conditions as well as the soil type and the height above sea level largely influence the quality of tea that can be produced where tea is grown. Although cultivation is done at lower levels as well, the best quality tea is produced in higher lying areas, such as the Gifberg area, near Vanrhynsdorp.

Rooibos was initially only cultivated in the Western Cape, in the districts of Calvinia, Clanwilliam, Piketberg and Vanrhynsdorp. Of these districts, Clanwilliam is the most important, producing on average between 70% and 85% of the total rooibos crop. These districts were the first production areas to be proclaimed under the Rooibos Tea Control Scheme. The proclaimed area was extended in 1980 to include the districts of Ceres, Hopefield, Malmesbury, Paarl and Tulbagh following a shortage of rooibos as a result of severe droughts in 1978/79 and an increase in demand.

Farming is conducted on an extensive "dry land" basis. As a result, drought can impact very heavily on the establishment of plants. It is not uncommon during a dry year for farmers to have only a 50% success-rate at establishment. Due to the relatively low yield of rooibos, very little additional fertilising is undertaken.

Rooibos seeds are pre-treated before being sown either in situ or in seedbeds. Seedlings are transplanted into plantations at an age of 3 - 4 months, from June to August, depending on the rainfall and height above sea level. Between 8 000 and 10 000 plants (bushes) are planted per hectare. Six to eight months later, the small bushes are "topped" to promote branching. One year later the farmer can expect a first crop. By the next year the rooibos is in full production. A tea bush has a production life span of four to five years. A new crop is planted after a two-year fallowing-period. Depending on the area of cultivation, the yield of dry tea varies between 400kg and 1 ton per hectare. Of this yield, 60% to 70% is classified as tea and the rest as sticks.

In addition to the Rooibos Control Board's extension officer, which informed farmers on cultivation practices, farmers established their own study groups to share information and experiences.

2.2 Processing

The crop is harvested by hand during the summer months. The green tea is cut with sickles, tied in bundles and transported to processing/drying courts. At the processing yards the bundles of tea are fed into special cutting machines which cut the needle-like tea leaves and twigs into 2–4 mm lengths. The cut tea is now mechanically bruised to initiate the fermentation process.

The tea is placed on the cement floors of the processing/drying courts. Water is added to the bruised tea and heaps of 15-20 cm high are made where fermentation will take place. This varies according to certain factors and usually takes 8-24 hours. After fermentation, which is necessary for tea to develop its characteristic flavour and colour, the tea is left to dry on the cement drying yards. After drying it is screened and stored in large tea bags. The tea is now ready for further processing.

At a processing facility, the tea is again screened to remove sticks and dust. It is graded and mixed to ensure a uniform appearance and quality. The reason being that tea from different regions have different appearances and vary in quality. Finally, the tea is steam pasteurised to ensure that harmful bacteria are destroyed. The tea is now ready for distribution and packaging.

2.3 Grading of Tea

Tea is graded in order to evaluate quality. Producers are paid according to the class of tea that they produce and tea is marketed and resold according to these standards. In 1978 the tea grading system was changed from five different classes of tea to only three: Super, Choice and Standard. In 1991 the grading was once again changed and now comprises of Select, Super, Choice and Standard.

External factors such as the prevailing climatic conditions, the soil type and height above sea level impact on the quality of tea that can be produced. Because these factors vary from year to year, it is not possible for farmers to produce tea of consistent quality every season.

Application of technology during processing can also influence the tea grade. A finer cut of tea and/or better bruising of the green tea will lead to better fermentation, enhancing both flavour and colour. Finer screening of tea yields a higher grade of tea because more of the sticks (twigs) are removed, giving a "smoother" taste.

Chapter 3

The Theory of Competitiveness

In the following two chapters on competitiveness and rivalry, a general framework is described which can be used to analyse the competitiveness of an industry as a whole. This will enable a firm to understand its competitors as well as its own position, enabling it to translate this theory/analysis into a competitive strategy.

3.1 The Competitive Environment

Within any industry, there usually are no extraordinary profits to be made, if an efficient market is in place. An efficient market can be described as one that reflects information readily, allowing new entrants to dissipate any extraordinary profits that are present.

Porter (1996) suggests that in the following three situations it is accepted that companies can outperform the market, i.e. earn extraordinary profits:

Companies operate in protected environments, where entry is difficult.

Companies are able to anticipate market changes and exploit these changes.

Companies possess a sustainable competitive advantage over potential or actual rivals.

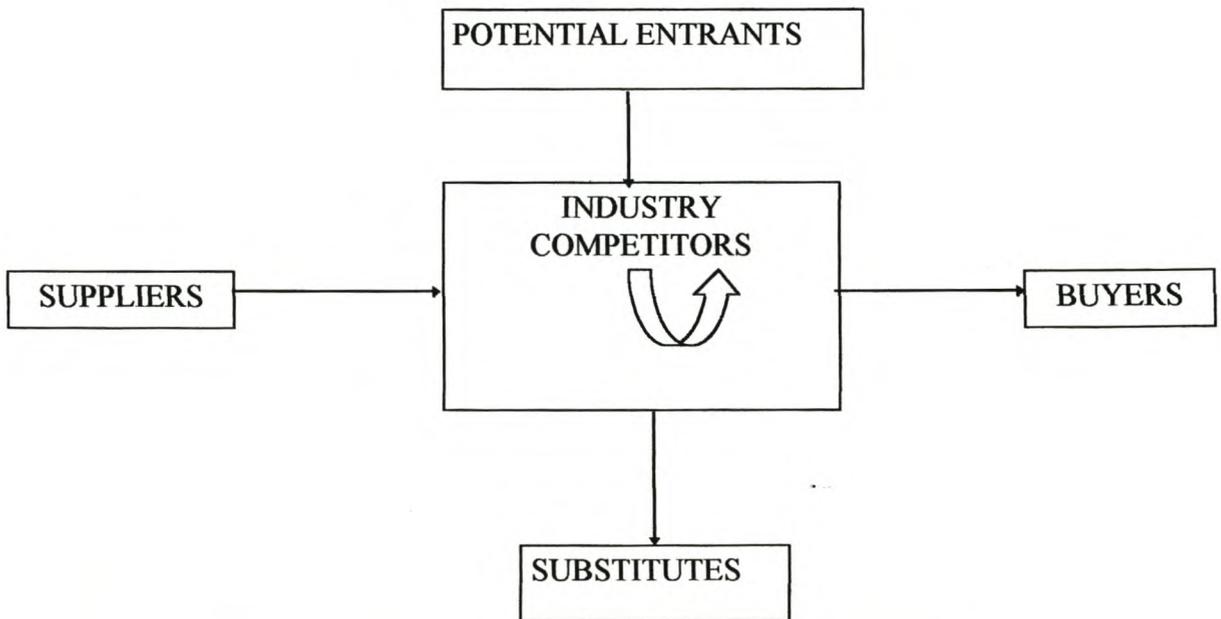
The work of Porter in the industrial organisation era (1970's) looked to industry forces and particularly entry conditions as the main source of excess returns. Work in the general management literature has traditionally looked at the other two sources of competitive advantage. Increasingly, firms too have focussed on competitive advantage and particularly speed as a way to outperform the market. But the struggle for profitability and growth, the power of new entry and the lure of excess profits serve as a constant backdrop.

Managers are constantly faced with choices with regard to alternative strategies that will offer them protection against encroaching entry and imitation by existing or potentially new rivals.

3.2 Industry Analysis

Michael Porter developed the *Five Forces Model* to explain the overall level of profitability that can be expected in a given industry. These forces are:

1. The Current Intensity of Competition.
2. The Presence of Substitute Products.
3. The Power of Buyers.
4. The Power of Suppliers.
5. New Entry.



(Source: Sharon M. Oster, 1994 *Modern Competitive Analysis*)

In addition to the forces identified by Porter (1980), Oster (1994) also identifies two other very important forces:

The Role of Government and
The Role of History.

3.2.1. Current Intensity of Competition

Intense levels of rivalry amongst firms, where price wars exist, lead to lower average profitability. However, if a certain amount of co-ordination amongst competitors is possible, as is the case in an oligopoly, all players can earn higher average profits. The problem with excess profits is that an incentive to cut (shade) prices is created. Because one firm can sell more for

marginally less, that firm's total profit will increase. As a result, co-ordination on a price level is extremely difficult.

The following characteristics are indicative of the level of rivalry within an industry:

The Number of Competitors

The higher the number of competitors, the higher the level of rivalry, because there is less chance of co-ordination.

The Size Distribution of Participants

The more uniform in size, the higher the level of rivalry. In a market with one very large participant, a certain level of "discipline" can be enforced on the market, which can lead to better co-ordination (and less rivalry).

Homogeneity of Firms

The more firms are alike; whether in products or management, the easier it is to co-ordinate, i.e. less rivalry.

Asset Specificity

The more specific and expensive the assets, the higher (more expensive) is it to exit and enter that industry, intensifying rivalry.

Changing Conditions of Demand and Supply

The more unstable the economic environment (especially demand) the more intense the level of rivalry. Industries heavily influenced by fads or cyclical demand experience increased rivalry.

3.2.2. Presence of Substitute Products

Firms and products are also influenced by competition from related markets. In times of rapidly increasing demand (and a possible shortage) or in industries with only a few role players, substitute products play an important role.

3.2.3. Buyer Power

The buyer of your product wields considerable power over your business. The factors that determine the buyer's power are the following:

The number of buyers (clients)

The larger number of buyers (and the smaller their individual purchase) the less power one will have.

Product characteristics

Standardised products increases buyer power; because a buyer would not face switching (transaction) costs when switching from one seller to another.

Integration

The possibility of a buyer to integrate backwards increases the buyer's power.

Information

If buyers are well acquainted with trade information, it increases their power.

3.2.4. Power of Suppliers

In much the same way as buyers can exert power, suppliers can influence the costs of raw materials to your firm.

The number of suppliers

The larger the number of suppliers the less power one will have.

Product characteristics

Standardised products decrease supplier power.

Integration

If the buyer can integrate backwards, it increases the buyer's power.

Information

If buyers are well acquainted with trade information, suppliers lose their power.

3.2.5. New Entry

The most important factor that Porter identified is that of the ease of entry into an industry.

If excess profits were being earned in an industry, what factors would influence a firm's decision to enter that industry? What factors in particular, i.e. barriers of entry, exist which would discourage a firm from entering that industry?

Knowing the answer to this question is not only important for the firm considering entry, but also crucial for the incumbent (existing) firms wishing to defend their position.

The impediments to entry are the following:

1. Expectations about the reactions of incumbents, i.e. prices will fall.

The existence of specific assets and technology.

Not only specific assets, but also intangible assets such as experience and relationships with clients or suppliers.

The reputation of the industry incumbents

How intensely are incumbents likely to respond (or have they responded) to new competition.

Economies of scale

Incumbents enjoy economies of scale as a result of high production volumes that is produced and can afford on a relative basis to cut costs.

Excess capacity

If excess capacity already exists with incumbents, a new entrant can expect price-cutting, because the total excess capacity for the incumbents can only rise with a new entrant.

2. Does successful entry coincide with a (handsome) payoff for a new entrant?

Not always, because there are certain factors (advantages) that a new entrant has little control over, such as:

Precommitment Contracts

Contracts have the objectives of ensuring stable supply and/or markets as well as keeping competitors at bay. These contracts can be explicit or implicit or non-written, when based on mutual trust and an extended relationship.

Licenses, Trade Names or Exclusive Rights

All of these offer the firm that possesses any of these assets with a competitive edge against potential rivals.

Experience Curve

The first mover into a specific market gains invaluable information with regard to that market, especially if the information gained is difficult to obtain.

Pioneering-brand Advantages

Two types (classes) of products can be distinguished, "experience goods" and "search goods". In the case of "experience goods", consumers have had previous experience with that product and identifies it solely on its brand name. With "search goods", consumers are physically able to inspect those goods and choose on appearance. By presenting "experience goods" to the consumer, the focus is shifted to marketing or the demand side of the economic equation as opposed to the supply (production) side of the equation.

3. Substantial Exit Costs

Before entering any industry, the costs of exit are calculated. Exit costs are high when expensive capital investments are irreversible (sunk). If assets can be re-sold, entrants are more likely to enter and exit.

3.2.6. The Roles of Government and History

Most businesses are to some extent influenced by government and history. Modern government policies aim to increase competitiveness in general by ensuring a climate that is conducive to free and fair trade. However, in the case of the rooibos industry the government intervened directly to influence the competitiveness of this industry - sometimes to the detriment of other players and industries. In Chapter 5 the role and influence of the government is discussed in detail.

3.3 Groups Within Industries

Within an industry, there are different role players (groups of firms) each of which earns different returns because they occupy a certain substructure within that industry. The typical example is a production orientated vs. marketing orientated enterprise, where substantial differences exist between relative profitability levels/marketing margins.

The causes of strategic differences between organisations, which act as barriers to entry or mobility and which prevent firms from moving from a less profitable substructure to a more profitable one are the following:

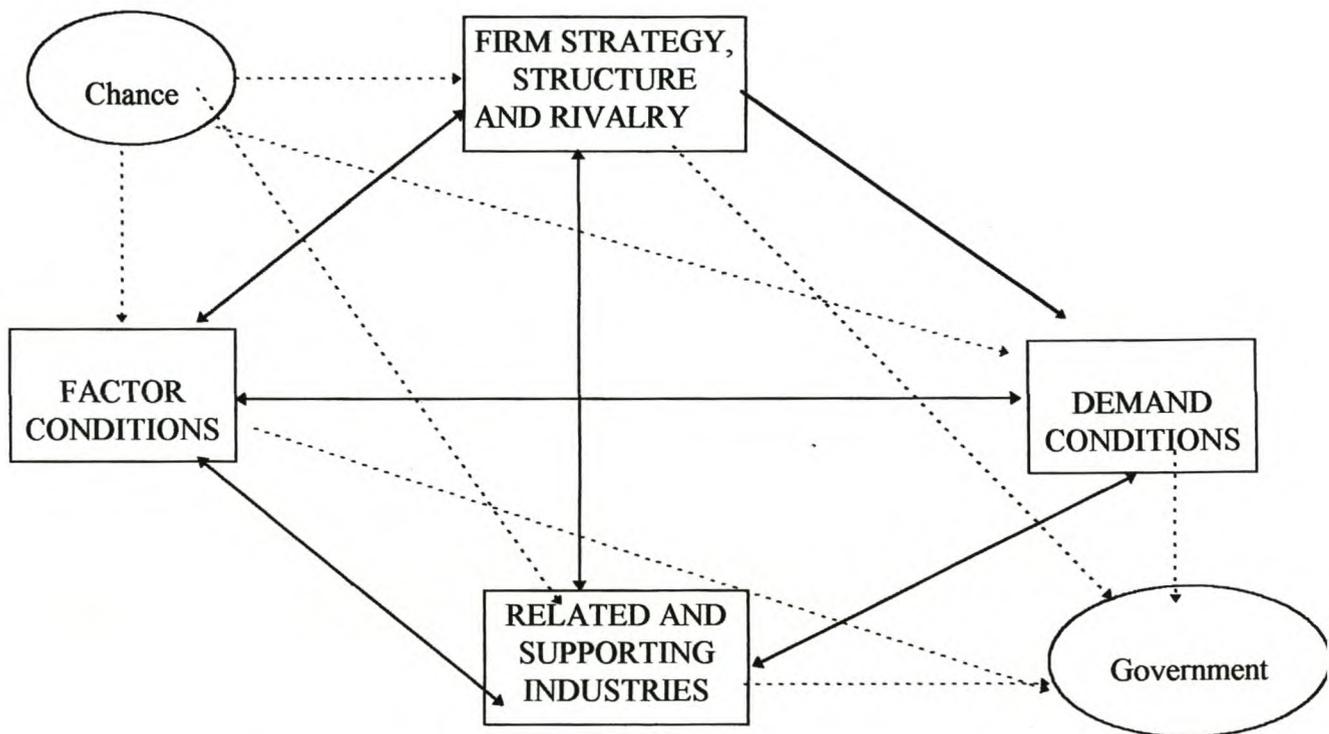
- (a) Historic reasons, i.e. initial (sunk) investments made in the industry's early period and which cannot be utilised in another substructure.
- (b) Pioneering-brand advantages where an enterprise is associated within a certain market segment for its brand names for its products.
- (c) Existence of a learning curve where costs are reduced as a result of cumulative experience in a certain process.
- (d) Legal implications, such as antitrust laws or changes in environment or barriers to entry.
- (e) Industry adversity forces changes, such as strategic investments in diversification. As a result of these (costly) investments, a firm's ability to move into another substructure is restricted.
- (f) Ideology, i.e. a certain culture within an organisation which influences the vision and leadership of that organisation, such as a "spirit of entrepreneurship".

Substructures (and different profit levels) will continue to exist if there are barriers to entry or mobility, such as investments into research and development, capital investments, lack of information, structure of clients etc.

3.4 Competing in Global Markets

The theory of comparative advantage forms the basis of the classic theory regarding trade. According to this theory a business or country initially produce only goods which can be produced, given the natural endowments. As a result, that business (or country) enjoys absolute cost- or production advantages, enabling it to trade with another, which do not enjoy these benefits.

Porter developed a framework, called the *National Diamond* to explain where industries would locate as a result of certain interactive forces.



(Source Sharon M. Oster, 1994 *Modern Competitive Analysis*)

One is inclined to think that the rooibos industry follows the classic theory regarding comparative advantage, because the location of the industry is closely linked to those factors that have the least mobility, i.e. natural endowments.

However, the following factors are also important and contribute to global competitiveness:

- (a) Local demand is not only important for establishing an industry, but a strong local demand contributes to the formation of economies of scale necessary for global expansion.

- (b) The existence of efficient and cost-effective related and supporting industries which includes skilled labour can supply the necessary infrastructure and services that are vital for survival in a globalised economy.
- (c) Firm strategy, structure and the level of rivalry within the local economy in many instances lead to the development of an international market because the local market might only be accessible for one or two players. Competition has the further benefit that only the strong tend to survive and usually able to compete internationally.
- (d) Chance or entrepreneurship is sometimes limited to a single firm as a result of the prevailing culture. Chance discoveries are usually made in the home base, but can be successfully implemented globally.
- (e) The impact of a government can be direct by offering special protection to a specific industry or role player, or by creating an environment conducive to trade.

3.5 Inside the Organisation

In the discussion so far, the focus has been on outside factors, which influence the competitive environment within which an organisation operates. However, the recent history of global economic development suggests that whereas comparative advantage may be an excellent yardstick for optimal trading relations in the short term, it is a poor indication of long-term contribution to wealth creation in a country or the global market. South Africa is often hailed as an excellent example of a country that possess all the natural (mineral) endowments, but lack the competitive advantages to gain from adding further value.

However, an organisation can also create a competitive edge by its own actions. These are:

- (a) Developing and protecting your relative advantage, i.e. taking advantage of market frictions that prevent competitors from imitating your successful strategies.
- (b) Entrepreneurship, i.e. speed and flexibility in exploring and implementing opportunities.

Relative Advantage

Central to a relative advantage is to make use of those assets that enable you to outperform your rivals for a sustained period. The fact that there are assets at stake implies that there is a transaction cost, which create friction between you and rivals.

A firm only has to do relatively well compared to competitors, because the economic law for establishing the price of a product states that the marginal producer sets prices. One can also take a game of poker as an example, where the player that wins a game is that one which wins by his/her relative performance during a specific game.

In order to keep and defend a (relative) competitive position to other players, it is vital to defend the firm against imitation. Successful strategies are bound to be noticed and will be imitated by competitors, equalising excess profits.

One way to defend your relative advantage is by keeping the processes confidential or concealed, such as patents, non-disclosure agreements, trademarks, or in-house knowledge.

Another way to gain a relative advantage is by gaining and maintaining the largest market share, hoping to dictate prices or creating (and enjoying) economies of scale.

A learning- or experience curve is beneficial if you can capitalise thereon, by reaping the rewards of research and development (R&D). If learning curve effects are not specific or past experience is not of value it can sometimes be to the leading firm's disadvantage, because other role players can focus their resources on exploiting opportunities you created.

An organisation's culture and ideology is perhaps the most defensible way to protect the relative advantage, because it is centred within a specific organisation and its people.

Businesses, which invest heavily in research and development, can gain an edge on rivals. Such organisations have a very definite culture associated with it and attract people who share these values, ensuring future survival.

To own certain assets, especially if they are very specialised, can offer a relative advantage. Assets include a unique product, process or even a contract.

Entrepreneurship

This is a very effective way to ensure survival within a highly competitive environment. The value thereof is not only limited to new technology or practices, but also in-firm management. In order to be successful, a firm has to:

- (a) Be sensitive to changes in the environment.
- (b) Constantly maintain such a vision.
- (c) Have the will power to see it through.

Unfortunately many organisations cannot act in an entrepreneurial way because they have restrictive management, top-down management systems, and in general do not foster such a spirit.

3.6 Organisational Goals and Structure

Every firm is potentially confronted by conflicts of interests between the firm on one hand and its employees on the other. The larger the firm, the greater that possibility becomes. All organisations are made up of individuals and each one has his/her own subgoals that are pursued to some extent.

A classic example of different goals being pursued is that of management and shareholders in a company. The shareholders might not have the necessary vision or expertise to run the company, but they control the company and set its goals. The managers on the other hand are bound to conform to the goals, for fear of losing their jobs.

The structure of a firm can directly influence its ability to be competitive, by the type of organisational and management structure. A noteworthy example is the amount of delegation that takes place within a firm. The more power and authority delegated, the more independent and accountable individuals become.

When boundaries are instituted between different departments in order to measure productivity or efficiency, it inevitably leads to opportunism and rivalry between those different departments, defeating the objective.

3.7 Diversification

Firms usually decide to diversify if they face increasingly competitive environment or they wish to expand their power within the market. The reasons for diversification can be any of the following:

Using existing economy of scope, i.e. adding another product to an existing range or process by making use of already established assets, such as R&D, distribution channels, production facilities etc.

Lowering transaction costs, i.e. acquiring control over a certain aspect of the business that has serious transaction cost implications, such as scarce raw materials.

By diversifying into different business spheres, specific risks can be diminished.

In a stagnant market, diversification for future growth is a good option. Instead of paying out dividends, these are invested in a growth sector.

3.8 Vertical Integration and Supply Chain Management

Another way in which a firm can change its scope and become more competitive is by lengthening its supply chain. This can be accomplished either by backward integration in order to obtain control over certain inputs (raw materials) or forward integration by adding further value, gaining control over marketing or accessing crucial information.

Before the decision is taken to integrate, the opportunity cost has to be determined; i.e. does the additional income from integration warrant the necessary investments?

In some instances integration can lead to a less favourable situation, because the bargaining power of the firm is lost. From the perspective of a buyer that buys products (especially raw materials) from fiercely competing rivals it is better not to integrate. Exactly the opposite would be true for the producers that wish to move away from that rivalry.

Integration does not necessarily imply that a producer and buyer should operate only in the captive market. By also selling to- or buying from the merchant (open) market the best deals can be struck.

Supply chain co-ordination is not vertical integration, but vertical and strategic co-ordination between two or more firms/business entities. It is a less rigid agreement than vertical integration that afford the members of such a chain the benefits associated with integration, such as

overcoming the weaknesses of market co-ordination (transaction costs) whilst still allowing individual enterprises to operate on their own (Zuurbier 1999).

Its focus is to reduce the risks associated with markets, quality, quantity, and availability of goods. Thus the essence of supply chain co-ordination is an orientation towards the customer – instead of products.

The motivations for vertical co-ordination are:

1. To ensure that high quality produce is delivered to the consumer.
2. To reducing costs – especially transaction costs.
3. Improved logistics.
4. Exchanging information efficiently.
5. The ability to adapt quickly to consumer/retailer specifications.

(Zuurbier 1999)

Before a supply chain is established, the objectives have to be identified, such as improving logistics, improving margins, improving processes, improving products, accessing markets etc. (Zuurbier 1999).

A prerequisite for successful supply chain co-ordination is trust.

In supply chain literature trust is made up of two elements:

The first hinges on the acceptance of relational risk, whilst the second is concerned with the expectation that the other party, aware of the relational risk exposure, will not behave in an opportunistic way when presented with an opportunity.

The different bases of trust are:

Institution-based trust, where trust is generated by the confidence in the formal structures of society and trade and their ability to impose sanctions when trust is breached. Examples of this type of trust are the legal system and trade associations.

Characteristic-based trust is where trust is based on the characteristics and reputations of the transacting parties. Group membership and reputation serves as an indication of trustworthiness.

Processed-based trust is trust that has been derived from experience of co-operative interaction. This form of trust is built incrementally over time as firms repeatedly interact. The protractedness of the interaction, its intensity and the level of risk determine to what extent this type of trust is an outcome.

(Tregurtha 1999)

These three levels of trust can be hierarchically conceived in that they represent varying levels of trust. Institution-based trust can also be referred to as minimal trust, which is necessary but not a sufficient condition for the formation of co-operative trust-based relationships. The basis, on which supply chains rest is processed-based trust, that can also be referred to as extended trust. Extended trust is not based on explicit contractual agreements, but on a long-term commitment to build a supply chain relationship (Tregurtha 1999).

Incentive to integrate or co-operate: Transaction-cost saving

By integrating (or co-operating) a firm opts to make its resource decisions internally using available management mechanisms, as opposed to using the market to direct resources.

Transaction costs arise when information is costly and induces activities such as information searches, bargaining, making contracts, monitoring, enforcement and protection of property rights. Thus a firm that is non-integrated would experience search and contracting (transaction) costs in dealing with buyers and sellers (Oster 1994).

According to Soler (1999) the following general rules apply which favour vertical co-ordination:

Rule 1:

The higher the level of specificity of the assets, the greater the interest to integrate.

The same holds true for information specificity.

Rule 2:

The higher the level of uncertainty, the greater the interest to vertically integrate.

If information is difficult to assimilate or obtain.

Rule 3:

The weaker the legal and commercial structure concerning contracts, the greater the interest to vertically integrate.

Rule 4:

The higher the level of vertical integration, the better the transmission of information and the lower the effect of individual incentive (opportunism).

Oster (1994) also indicate the following instances when integration would generally apply:

1. Low levels of competition in supplying industries encourage vertical integration.
2. The more frequent the transactions, the greater the need for integration.
3. Mutual investments (infrastructure or market development) within the chain necessitate co-ordination and integration.
4. If there is uncertainty or volatility in the market.

Horizontal Integration

In certain industries there is one undisputed market leader which dominates the market. Smaller firms are unable to compete with the market leader, mostly because of a lack of market power because they lack a critical size.

In order for these smaller firms to increase their general competitive positions they sometimes choose to integrate horizontally. Such agreements can be either formal or informal.

Chapter 4: Rivalry

The purpose of this chapter is to offer further theoretical background on the subject of competitiveness, but focussing specifically on *rivalry*, which is sometimes also referred to as economic warfare.

In most industries a central characteristic of competition is that firms are mutually dependent. Firms feel the effects of each other's moves and are prone to react to them. Economists generally refer to this situation as an oligopoly. In an oligopoly, a firm is often faced with a dilemma. It can pursue the profitability of the industry as a whole and thereby not incite competitive reaction of rivals or it can act in its own narrow self-interest with the risk of starting an industry-wide battle. The dilemma is that a strategy that avoids the risk of warfare (to the benefit of the industry as a whole) and which can be seen as co-operative, may mean that the firm gives up potential profits and market share (Porter 1980).

4.1 Understanding Rivalry: Game Theory

In order to make the right decisions a business needs to anticipate what other role players are going to do and how that will influence the business. The Game Theory is a method to predict and understand why competitors react in certain ways by choosing strategies that interdependently affect each participant. One of this theory's biggest attributes is that it induces a decision-maker to ask the "what if" questions.

Game theory rests on the assumption that decision-makers act either simultaneously or sequentially.

Simultaneous Decisions:

To explain this concept, use is made of the problem called "prisoners' dilemma" in which each player chooses a (dominant) strategy that on face value appears to be beneficial for him, but eventually it is to the detriment of both players.

Two prisoners are kept separately without any communication. Each one is told that if he confesses to the crime (for which both are held) he would get a very lenient sentence in

comparison to the non-confessor. Because each one is only concerned with his own well being, they each confess - none receiving a lenient sentence. However, had they both not confessed, their eventual sentence would have been more lenient. Translating this problem into the setting of an oligopoly, if firms are co-operative they can all make a reasonable profit. If one firm in self-interest makes a strategic move to which others do not retaliate effectively, that firm will earn even higher profits. However, if competitors retaliate vigorously against such a move, everyone can be worse off than if all were co-operative (Oster 1994 and Porter 1980).

The dynamics of price-cutting where two firms are fiercely competing against one another in an attempt to continuously offer lower prices than the other, would eventually lead to a situation where zero profits are made. In general, if the myopic rule applies of "I will always offer a lower price or better quality than anyone else" instabilities in the marketplace are created (Samuelson 1985).

Above scenario takes place in one-time prisoners' dilemma. If repeated games take place and there exists a possibility for retaliation, the scenario changes completely. A tit-for-tat strategy will probably follow, forcing each player to be disciplined and co-operate out of fear of possible reprisals.

Sequential Decisions

Most decisions are not simultaneous, but sequential. The rule followed for sequential decisions is to "look ahead, and reason back". By anticipating what your competitor might do in the future, you can plan your strategy accordingly. (As done in a game of chess.)

This sounds easy, but for every decision I make, there are numerous possible options that a rival can make down the line. This gives rise to strategy planning in business and an effective way to formulate business strategy is by way of a decision (game) tree.

The Core

When one firm engages in trade with another party, that trade must not only benefit the firm, but also the other party. If that's not the case, the trade is not in the core; i.e. the other party is better off not trading with the firm.

What is of crucial importance in co-operative behaviour (even with many role players) is that no single party must be worse off when co-operating, than had it operated by itself. It must therefore be mutually beneficial to all involved and at such a level that the agreement is at an optimal (core) level.

If an agreement is not in the core or there is no core present (the core is empty) there will be no gains from co-operation. This is typically what happens in pure conflict situations or head-on competition.

The concept of a core value raises three implications for competitive rivalry:

1. Firms should seek to identify such a value as early as possible.
The faster it is reached the less the cost of jockeying around.
2. Industry prices (or other decision variables) should be simplified, to identify the core value.
3. A firm must set up a value that is best for it to achieve.

(Porter 1980)

Within a potentially rivalrous industry, several strategic options (competitive moves) exist that could avoid destabilising and costly warfare. Such moves or strategies can be either offensive- or defensive in action.

Offensive strategies:

The first approach is the *brute force approach* where superior resources and capabilities are used to force a desired outcome.

This option could be extremely costly and even self-destructive to the “victor” especially if rivalry is long and protracted.

The second approach is *co-operative or non-threatening*.

By making a thorough analysis of competitors’ goals and assumptions, a firm can improve its own position. This is usually attained when competitors co-ordinate, but in certain instances that is not even necessary. It is necessary that all firms understand that the moves are non-threatening.

The third approach is *threatening*.

If one firm in an oligopoly decides to cut prices, improving its position, competitors are threatened too. If the other firms are able to retaliate swiftly, effectively, and rapidly, such a

move could be disastrous for the mover. If however there are long time lags or the moves are difficult to pinpoint; a firm might be tempted to cut prices.

Defensive strategy:

Defence is the opposite of offence where a firm is persuaded to not adopt a strategy of price-cutting. The potential battle is prevented altogether. To prevent competitive moves, competitors must expect very effective and decisive retaliation with a very degree of certainty. If competitive moves do occur, the following defensive approaches can be taken:

Disciplining the initiator by swift and decisive action.

However, if the action cannot be focussed and thus generalised (e.g. by an industry-wide price cut) it could lead to a full-scale price war.

Denying a base

If a competitor (mover) is denied his base (targets) of growth, market share or return on investment, such a competitor may withdraw. This can be accomplished by strong price competition, special deals offered to customers or loading customers with inventory. Another way to deny base is to fiercely attack new products in the test-market phase.

The single most important concept in planning and executing both offensive and defensive strategies, is the concept of *commitment*.

Commitment influences the way that competitors perceive their positions and those of their rivals. In essence, commitment is a binding and irreversible communication of a firm's resources and intentions that it will

- stick to a move it is making, thus deter retaliation
- retaliate and continue to do so if a competitor makes a certain move, thus be preventative
- will take no action, thus creating trust.

(Porter 1980)

Within any industry the likelihood of competitive warfare is decided by the instability of the industry. In the following section strategies are discussed that are used to counter instabilities:

4.2 Product Positioning and Strategic Marketing

4.2.1 Product Planning

Whenever there is a class of products that are similar, but not identical, it is referred to as product differentiation. Because all consumers differ to some extent in their wants and needs, they choose those products which best fulfil their individual needs.

The producer that wishes to offer a range of differentiated products to the market is faced with a difficult problem. Consumers on the one hand want variety, but within the firm there is only limited resources to market or produce a broader range of products.

If products are very similar to one another in the consumer's field of perception, those products will compete very fiercely. However, if firms focus on offering different bands within the product spectrum, price competition within the industry as a whole is reduced.

4.2.2 Advertising Strategy

How do consumers decide which product they want to buy when faced with a dozen similar products?

As stated earlier, products that can be accurately judged on "face value" are called search goods. Products with qualities that only become apparent with use are called experience goods.

In a market where largely similar products are offered, the only way to inform potential customers of your product is to make use of advertising.

Advertising's role differs over the lifetime of a product. Initially, it informs people and substantial spillover effects may occur from one brand of product to the next. Thus advertising serves as a public good - all producers of this product gain from advertising.

In the mature phase of the product, advertising serves as a private good, because a specific brand is advertised.

How does advertising increase the competitiveness of a product?

Advertising differentiates the product by giving it a new image, which reduces price competition between rival products.

4.2.3 Distribution Strategy

Producers cannot carry out all of the activities associated with distribution of their products. They have to rely on a channel system of intermediaries. The amount of power that producers have varies from industry to industry. Their greatest power is the ability to withhold a product from the buyer. Likewise, distributors or retailers possess power over producers by refusal to buy their products. It therefore follows that there is considerable interdependence within the distribution chain.

As mentioned in vertical integration, suppliers and buyers are afforded some protection by integrating or concluding long-term contracts. The amount of interdependence and the goal of members of the distribution chain are usually manifested by the extent that investments are made in the system. The more specific the investments are, the greater the need for protecting those investment. Some goals can be in conflict too, e.g. the distributor wishes to carry the largest number of products, whilst a producer wants only its product in that chain.

When products are quite similar and competition is strong at the production level, distributors tend to gain power. Under such circumstances producers can use distributors to help stimulate demand via a push strategy. This type of strategy is especially important if the distributor has a big influence on retailers and can tie one product along with his/her existing range of products - a strategy called tying. For the producer it is very important to find the right distributor.

4.3 Competitive Pricing

It should be kept in mind that the market for all products is limited. In general, there exists an inverse relationship between price and quantity. Even if the price drops to a very low level, at some stage the market becomes saturated.

Competitive pricing is central in the strategic management of organisations. It is a complex subject that covers many components, one of which is *How pricing can be used as a competitive weapon*. Not only is it important to existing firms in the market, but also to new firms those wants to enter the market. In order to use pricing as a strategy against rivals, a firm must accurately forecast the reactions of existing or potential competitors.

Existing firms respond in the following ways to an entrant:

The first way is to cut prices and/or give rebates to distributors/dealers.

In determining the effectiveness of price cuts as a strategy, the elasticity of demand for the product is crucial. Elasticity is a measure that quantifies the degree to which a price change impacts on the quantity demanded. A price cutting strategy is usually effective only for those products that are highly elastic, such as luxury items.

The role of pricing strategy is usually closely associated with the life cycle of a product.

The more mature the market, the greater the importance of price strategy.

The efficiency of price cuts as a strategy to a large extent depends on whether your price cut is recognised by rivals. If information flow is good within the industry, the probability that rivals will follow suit is increased, reducing the effectiveness of this strategy.

Excess capacity or large inventories favour price-cutting strategies, because stock on hand is "uncashed money".

If it is easy to cut or increase capacity within an industry, price competition will decrease.

Firm size is an important indicator of price-cutting strategies, favouring smaller firms, because:

- (a) A small firm's gain in total turnover (market share) is much more than that lost by the market leader.
- (b) Sometimes it goes unnoticed, thus unmatched.
- (c) Smaller firms are more flexible with lower overhead costs.
- (d) Large firms prefer not to enter into price wars, because the losses suffered as a result of price cuts are directly proportional to the volume of the firm.

Firms that compete in more than one market with one another will shy away from price-cutting as a weapon, because of potential cross parry (cross product retaliation).

Price cutting is a good weapon for new entrants if they want to induce trial use of their product by consumers - especially in the case of experience goods.

The Effect of Pricing on Entry

High profits within an industry inevitably lure new entrants. There are three different types of pricing strategy that incumbent firms can use to protect themselves against new entrants:

Limit Pricing

In order to discourage entry, an incumbent wishes to convince potential entrants that future prices will be low. One way for the incumbent to act is by pretending to have a cost advantage.

The way to convince competitors is to charge low prices, thus camouflaging higher returns.

Potential entrants will most likely refrain from entering if profits are low.

Of critical importance in a limit pricing strategy is secrecy regarding costs (and profits). If information is widely known within the market, this strategy cannot be implemented.

Reputation of price-cutting

A potential entrant must assess existing incumbents' reaction to a new entry. Would prices be cut drastically or would incumbents accommodate the new entrant? In this respect the reputation of incumbents are critical.

The potential to cut prices is especially effective if the exit costs for the entrant is very high or if incumbents possess excess capacity and/or excess inventory.

Incumbent firms lose profits on the short term as a result of cut prices, but these are viewed as investments in reputation.

Incumbents can manipulate circumstances within the market and effectively jam market signals received by potential entrants. Because new entrants are not already operating in the market it is difficult to ascertain the exact market situation.

The third way is to maximise profits on the short term and deal with new entrants as they emerge.

4.4 Competitive Research and Development and Innovation

One of the very few areas in which firms can truly gain a competitive advantage is in innovation. To gain and maintain such an advantage implies those substantial funds needs to be invested in research and development (R&D). A fundamental goal of management must be the fostering of

an environment conducive for innovation. Technological opportunities arise in part from research in basic scientific arenas, which will depend on activities in academic institutions. Firms must ascertain to what extent academic research can benefit them or initiate beneficial research.

Depending on the funds and human resources available within a firm, the aggressiveness of its R&D strategy should be determined. Three factors influence a firm's decision to invest in R&D:

- a) **Technical uncertainty:** Is it possible to produce the product in a reasonable time with existing resources.
- b) **Market uncertainty.** Will consumers want the product and pay the necessary price?
- c) **Competitive uncertainty.** Is it possible for other firms to make it cheaper and better.

Factors influencing a Favourable Environment

Speed of Diffusion:

If ideas are profitable and investments needed to copy those ideas low, profits will diminish.

Complex ideas are difficult to imitate.

A trademark or patented process usually favours first-movers, but can sometimes reveal important information to rivals.

Value of a Head Start:

First movers (innovator) always enjoy a head start. The value of that head start depends on factors such as the time period before imitators enter the market, the underlying structure of the market, the presence of learning curve effects or a pioneering brand that coincides with the innovation.

To some extent innovators may be able to shape a market according to their strategic assets or by setting a standard within an industry.

To capitalise on first mover advantages, a firm needs to be able to grow rapidly, implying access to either internal- or external capital.

Management Factors and Innovation Success

Few companies succeed by virtue of one single idea. In order to "stay ahead of the pack", management must invest in research and create the environment within which innovation and entrepreneurship is encouraged.

Innovation is risky and management should not shy away from failure, but accept joint responsibility of projects. In most organisations, managerial and other reward structures do not offer the right the incentives for innovation, usually punishing the failures.

Another approach to competitiveness, as described by Kennedy et al. (1997), that summarises the essence of competitiveness is that of the *Strategic Management School*. They define competitiveness *as the ability to profitably create and deliver value through cost leadership and/or product differentiation*.

An integral part of their approach is to focus on competitiveness through customer benefits. This implies that competitiveness is directly related to the factors that influence a firm's cost and demand structure.

Following this logic, the sources of competitiveness can be examined from two perspectives: Superior value results from *offering either lower prices* than competitors for the same product, or by *providing unique benefits* that more than offset a higher price.

This relationship can be written as an equation:

Customer Value Perception = Perceived Benefits/Price.

It follows from this equation that if the price remains static; competitiveness can only be increased if changing the bundle of benefits already offered to consumers creates additional customer value.

If the perceived benefits cannot be changed, competitiveness can only be price (cost) driven - as is the case in commodity trading. In a world of commodities, customers' wants and needs are irrelevant and cannot be changed. The only variable is quantity demanded.

However, in a differentiated market, customer benefits can be changed and any firm able to change those benefits has a competitive edge. One way of changing benefits is by adding value. Value-added is not only limited to further processing, but also to capturing profits further down the market(ing) chain. Value-added competitiveness is built on complete knowledge of and response to the multifaceted nature of customer demands.

Value-added competitiveness does not imply that cost and price are ignored, but that increasing the bundle of benefits is the departure point from which different strategies can be implemented. Different strategies exist, such as classic differentiation, where the focus is on increasing the benefits to a broad band of consumers. Another strategy is niche marketing where a firm becomes knowledgeable to a very particular market segment and products are tailor-made for that specific niche.

The following market forces favours value-added competitiveness:

1. Consumers are very selective about benefits.
They seek to meet individual wants and needs by products offered in the market place. Income levels, cultural diversity and lifestyle issues have all worked together to create a turbulent and diverse world of consumer demand.
2. Technology has allowed agriculture to respond to this diversity in new ways.
Product attributes can be engineered and established in accordance to consumer benefits (wants and needs).
3. Strengthened co-ordination throughout the food system.
(Kennedy 1997)

Collectively, these three forces suggest that value-added competitiveness, as opposed to commodity competitiveness, is the only alternative for every firm in the food chain.

Summary

In this and the previous chapter the theory of competitiveness has been introduced. It is evident that a firm's competitiveness and the competitive landscape of an industry are subject to a variety of factors that interact with one another. With this conceptual framework the Rooibos Tea Industry can now be analysed.

In the next two chapters, the competitiveness of the industry will be examined for the period when the industry was regulated by the Rooibos Control Board, and the competitive dimensions of the industry since deregulation of the industry.

Chapter 5

Historic Competitiveness: The Rooibos Control Board

The Rooibos Control Board administered this industry for nearly 40 years, from 1954 to 1993. During this period rooibos tea and the industry evolved from a precarious existence to a beverage that currently enjoys a market share of approximately 16% of the total South African tea market as well as a growing overseas market.

The Control Board influenced the competitiveness of the industry in several ways. The Board was directly accountable to the Minister of Agriculture and had to balance the interests of the government, producers and other role players - such as distributors and packers. For the purposes of my discussion the history of the industry is divided into several time periods. From these descriptions, underlying events and/or reasons for specific actions will be evident.

The purpose of this chapter is to indicate, from a historical point of view, how the rooibos industry was influenced by the Rooibos Control Board, because this directly impacted on the competitive position of rooibos tea, on both the domestic and international markets.

5.1 Pre-Rooibos Tea Control Board Era

Benjamin Ginsberg, a Russian immigrant, was the first person to realise the economic potential of rooibos. In 1904 he started to market rooibos tea bought from the local inhabitants.

Commercial cultivation and active trade in Rooibos started in the 1930's. The pioneers in the agricultural development of the industry were Dr. P. le Fras Nortier, a physician who was impressed by the wholesomeness of the product, Olof Bergh and William Riordan. Initially the industry was hampered by a shortage of seeds and the price of seeds at that stage was R168 per pound. The firm B Ginsberg handled the marketing of rooibos.

The lower income groups, who, because of financial reasons, could not afford black (Ceylon) tea, mainly consumed rooibos. During the Second World War, black tea became a very scarce commodity and consumers substituted black tea with rooibos. As a result, the rooibos industry

flourished. After the war, with black tea again being freely available, the market for rooibos collapsed.

5.2 Establishment of the Rooibos Control Board

To counter the unfavourable trade situation, the Clanwilliam Tea Co-operation was founded in 1948 with 77 members. The Co-op entered into a marketing agreement with the firm B. Ginsberg. However, finding a market for rooibos proved to be very difficult and stocks kept increasing. By 1952 the producers decided that the only way to create order within the industry, would be the establishment of a Control Board. The Minister of Agriculture, S. le Roux instituted the Rooibos Tea Control Scheme, a statutory one-channel marketing system on the 5th November 1954 under the Marketing Act of 1937.

By law, this Board was authorised to regulate the production and marketing of rooibos tea by acting as the sole buyer from producers and as sole seller to approved (registered) exporters and packers/processors of tea. The Board had the authority to prohibit producers from selling rooibos to any party without its approval. Prices of tea sold to the packers were set by the Board and approved by the Minister of Agriculture. Packers or exporters set their own retail prices.

To achieve its objectives, the Control Board was constituted to include producers as well as persons involved in the tea trade. Initially it was constituted as follows:

- (a) Five persons representing producers.
- (b) Two persons representing traders in rooibos.
- (c) One person co-opted in an advisory capacity.

Reasons for establishing the Control Board

- (a) To counter fluctuating producer's prices

The main reason for establishment of the Board was to counter the fluctuating producer (farmer) prices. Prior to its establishment in 1954, there was a total collapse in the producers' prices and an apparent overproduction. The estimated yearly production at that time was 680 tons. The producers received 5,5 to 6 cents per kg. According to early Control Board Annual Reports, producers received 44 to 55 cents per kg during the Second World War.

(b) Setting quality standards

There were no standards set within the rooibos industry with regard to quality of tea. Producers felt that a one-channel marketing system would ensure that a product of consistent quality was marketed.

(c) Grading rooibos tea

Producers as well as packers wanted uniform standards according to which they would produce and sell tea. A central organisation could implement the necessary standards for producers as well as packers.

(d) Orderly marketing

Due to the fact that rooibos is harvested once a year and demand is throughout the year, producers wanted a one-channel marketing system that could distribute tea throughout the year. Storage facilities could house stocks and reserves.

(e) Creation of funds for the stabilisation of producers' prices

Imposing levies, thus creating a mechanism for stabilising producer prices could create funds.

(f) Establishment of an export market

Imposed levies could be utilised to create export markets.

(g) Market research

The Control Board would be able to co-ordinate both local- and international market research in order to develop the product's full potential.

(h) Information and extension

A central organisation could undertake research in cultivation practices and could offer the necessary extension services to producers.

(i) Government support

The rooibos industry would be assured of direct government protection and support.

From these goals it is evident that socio-political reasons for establishing the Control Board weighed heavier than reasons that would increase the competitive position of the industry.

There was one vital difference between the Rooibos Control Board and other control boards, in that rooibos is a unique product that is only found in South Africa, whilst other regulatory boards could import products in times of underproduction. Therefore, if sufficient stocks are not kept to make provision for unfavourable and unforeseen production situations, it will seriously effect the ability of the Control Board to stabilise the industry.

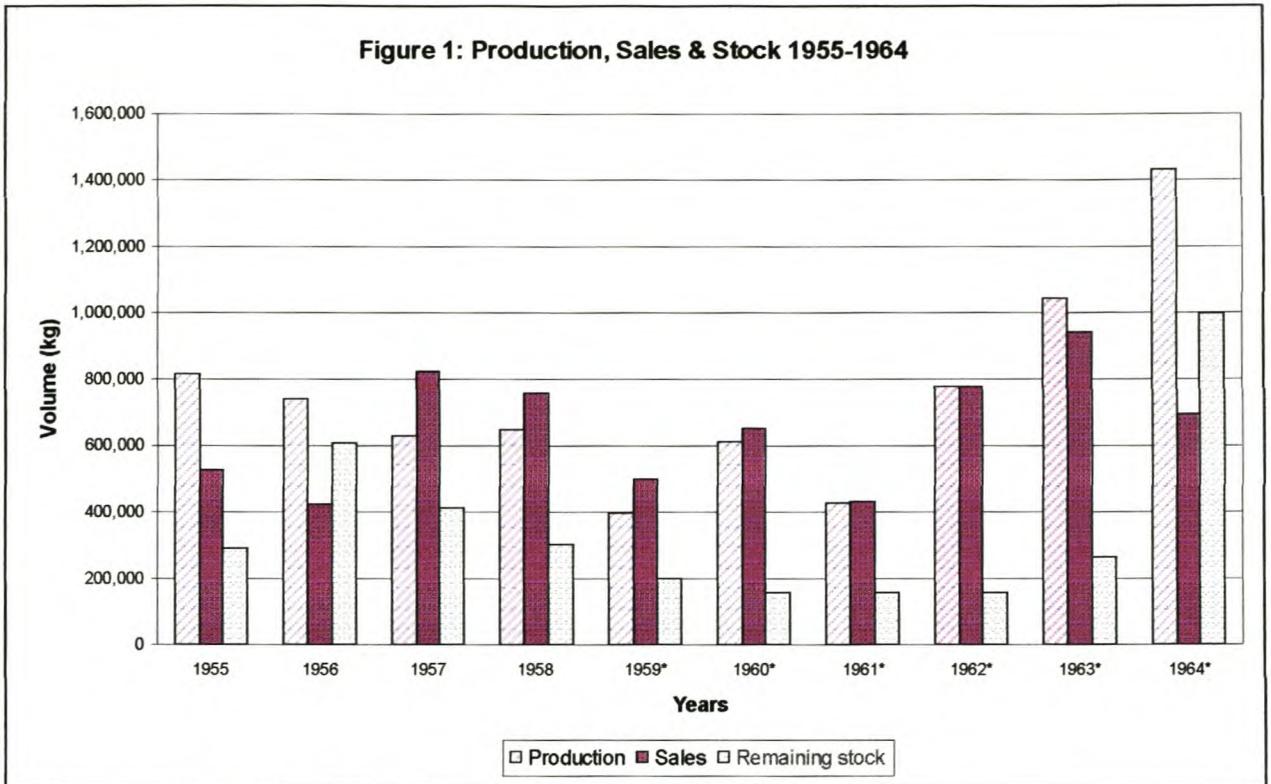
5.3 The Period 1955 - 1967

In the two years preceding 1955, the industry was characterised by increased stockpiling as producers stored tea on their farms. Producers planted less tea and neglected existing plantations, concentrating on the delivery of their stockpiled tea. Sales in this period rose at a slow rate.

In 1955 the Board paid 7,7 cents/kg to producers for their highest quality tea. By 1957 the Board realised that a shortage of tea was imminent and adjusted the price upward to 10,6 cents/kg in order to stimulate cultivation.

1958, 1959 and 1960 were dry years and production was severely hampered. As is the case with all agricultural products, producing a crop necessitates a lead-time (gestation period). In the case of rooibos three years before full production is attained. Thus the necessary production volumes could not materialise.

In 1959, for the first time, the Board implemented sales quotas on packers and marketers of rooibos. A further price increase of 4,6 cents/kg was given to producers to stimulate cultivation and production.



Source: Annual Reports Rooibos Control Board

Note: Years marked (*) when marketing quotas were enforced

By 1963, as a result of encouraged cultivation, rooibos production surpassed demand and in 1965 the packers' quotas were revoked. However, the previous shortage of tea, coupled with the implemented quotas, had severely damaged consumer confidence in rooibos as a product and demand continued to slump, as consumers substituted rooibos with black tea.

To further distinguish and lend a more sophisticated character to rooibos, the different grades of tea were distinguished by name changes: *Rooi Tea* was the premium packed tea, consisting of only "A" grade tea. *Rooibos Tea* consisted of "B1" or Standard grade tea. *Bush Tea (Bossietee)* consisted of lower grades and "Swart Tea".

Prices were left unchanged for the period 1963 to 1965 to discourage additional production. In 1966 the producer price was increased by 1 cent per kilogram.

According to the 10th Annual Report of the Control Board, *The accumulated stocks of the Board are now an inducement as well as a challenge to the Board to start advertising the tea to the public, here as well as in foreign countries. The Board will not only have to advertise the*

tea, but to exterminate the inferiority image of Rooibos Tea and to replace it with a feeling of prestige...to overcome the stigma attached to Rooi Tea among a large section of the public due to the rather wild and unattractive product which was sold to the consumers of this country during the early years of the industry....

To promote rooibos, the following methods were used:

Shows

Since 1963 the Board participated at the Rand Easter Show as well as different Cape shows. The main object was to introduce rooibos to visitors.

Market Survey

A market survey by Market Research Africa was conducted in 1965 for eight of the control boards to gain market information with regard to different food products.

Press Advertising Campaign

In 1965 to 1967 the Board launched both publicity- and advertising campaigns to stimulate local demand. The main goal was to educate consumers. The advertising was conducted on a national basis.

Recipe Booklets

A total of 428 000 recipe books were printed and distributed in magazines, by mail, via women's' associations and other means.

Conclusion: Marketing and Promotion

The efficacy of the promotional and marketing campaign was reported as follows in the 12th Annual Report for year 1967.

In the first place we have to report that the Press advertisement campaign, although it was very difficult to determine its effectivity, did not reach the expectations, especially when considering the sales increases. According to public opinion obtained through inquiries made by means of surveys launched . . .and the visitors at the shows, it appeared that while this type of promotion did not provoke any noteworthy need for the product, it gave the product some status.

Foreign Market Promotion

The failure to increase the demand for rooibos by advertising locally, prompted the Board to find new markets and the Export Market Development Services, a subsidiary to SAFTO was

instructed to determine the marketing potential of rooibos in the USA and Canada. Due to different cultures, especially the "instant" American way of preparing foods and beverages, rooibos in its traditional form was unacceptable. To counter this, an instant tea was developed, but never launched in the USA. The total cost of the foreign market research and development of instant rooibos in 1967 was R17 000.

In this period attempts by the Control Board to stimulate demand were very costly and appeared to have very little impact. In total, in excess of R107 000 was spent on promotion, advertising, market research and product development.

[To put these amounts in perspective, these figures have to be deflated.

R1000 in 1967 was approximately R25 000 in 1998 (SA Reserve Bank Deflator Index).

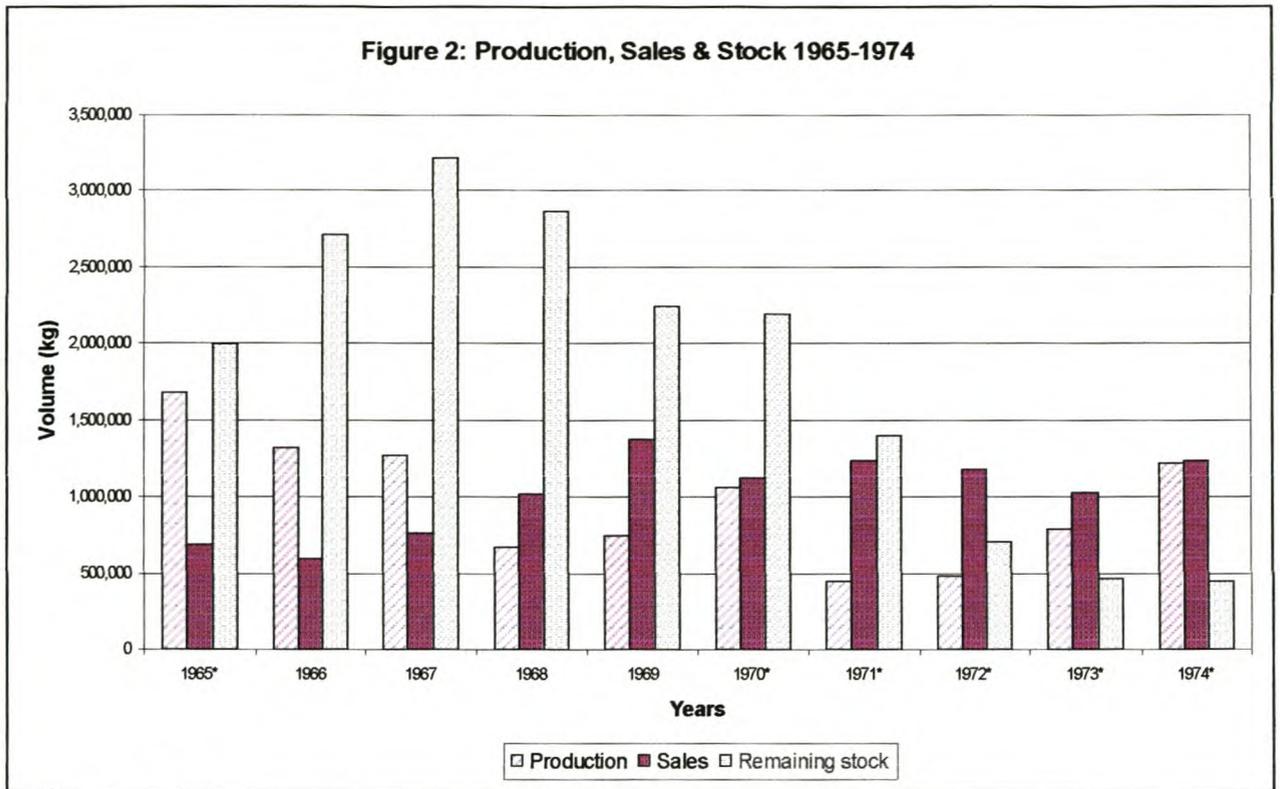
Thus the total amount spent on advertising in 1968 would be approximately R2, 9 million today.]

Producers were very pessimistic about the situation and the outlook for the industry at large was bleak. The cumulative stock level by the end of 1967 was 2 700 tons, equal to nearly three years' demand.

5.4 The Period 1968 - 1969

Two enormous problems were facing the Control Board - marketing and financing the mountain of stockpiled rooibos. The Board decided that if it was not possible to stimulate demand, production should be controlled. From 1 January 1968 production quotas were implemented. The quotas were set at a level of 80% of the 1967 consumption, which at that time amounted to approximately 45% of production volumes. The institution of quotas was only seen as a temporary measure to overcome the Board's storage and financing problems.

The implementation of production quotas, combined with a severe drought and the general negative sentiment within the industry once again led to a situation where production declined significantly. Another factor that contributed to the negative sentiment within the rooibos industry was the decrease in producers' prices from 13,23 cents/kg in 1967 to 12,28 cents/kg in 1968.



Source: Annual Reports Rooibos Control Board

Note: Years marked (*) when marketing quotas were enforced

In April 1968 the rooibos industry and the product status of rooibos would change forever. The person responsible for this was Mrs. Annetjie Theron, who accidentally discovered that rooibos had a soothing effect on her hyper-allergic baby.

As a result of Mrs. Theron's discovery and extensive coverage thereof in both the printed media and on radio, rooibos was popularised and demand rose rapidly. In 1968 sales by the Control Board increased by 32,6%. In 1969 sales increased by a further 28%.

The preface of the 14th Annual Report of the Control Board for 1969 stated the following:

Rooitea Overnight becomes a Wonder Tea

We will do injustice to this report... ..if no tribute is paid in honour and gratitude to Mrs. Annetjie Theron of Verwoerdburg, Pretoria's accidental discovery. All the honour and thanks should be credited to her who unveiled this still dormant product. Her discovery overnight changed Rooitea from its still dodgy existence to the most popular Wonder-health drink.

As a token of their appreciation, the Control Board awarded a luxury car to Mrs. Theron.

The sudden increase in consumption, coupled with a decrease in production as a result of the instituted production quotas and the general deterioration of tea plantations due to the extensive drought, indicated that a future shortage of rooibos could be expected. In light hereof, the Board revoked production quotas at the end of 1969.

5.5 The Period 1970 - 1975

Suddenly the Board was faced with shortages and decided to re-introduce packaging quotas on 1 April 1970. The quotas were based on the previous 12 months' sales by packers. Surpluses which producers stored on their farms had to be delivered to the Control Board; thus a "bumper" crop was recorded in this year. The actual production for that period was probably less than 50% of the total sales.

The low production volumes of 1971 and 1972 were a reflection of the negative environment that prevailed since the late 1960's. In order to further reduce the demand for tea, the Board curtailed promotion and marketing.

During 1973 and 1974 the level of production rose significantly (in relation to previous years) and equaled sales. However, these sales figures were recorded whilst strict quotas were enforced, skewing the demand. Technically there was a shortage of tea. To stimulate production, the producer price for the top grade tea rose from 14,33 cents/kg in 1970 to 27 cents/kg in 1973, an increase of nearly 100%. The Board was convinced that rooibos as a health beverage had come of age and that it no longer needed to compete with black tea - previously its main competitor. By 1975 the producer price had reached a level of 38 cents/kg for the top grade.

The price that the Control Board charged the packers for the top grade tea rose from 37,48 cents/kg in 1970 to 52 cents/kg in 1973. By 1975 the price to packers was 66,75 cents/kg.

In 1975 the total crop delivered to the Control Board amounted 2 004 tons, an increase of 65% compared to the previous year's production and more than four times the production of the 1971 (445 ton) and 1972 (475 ton) seasons.

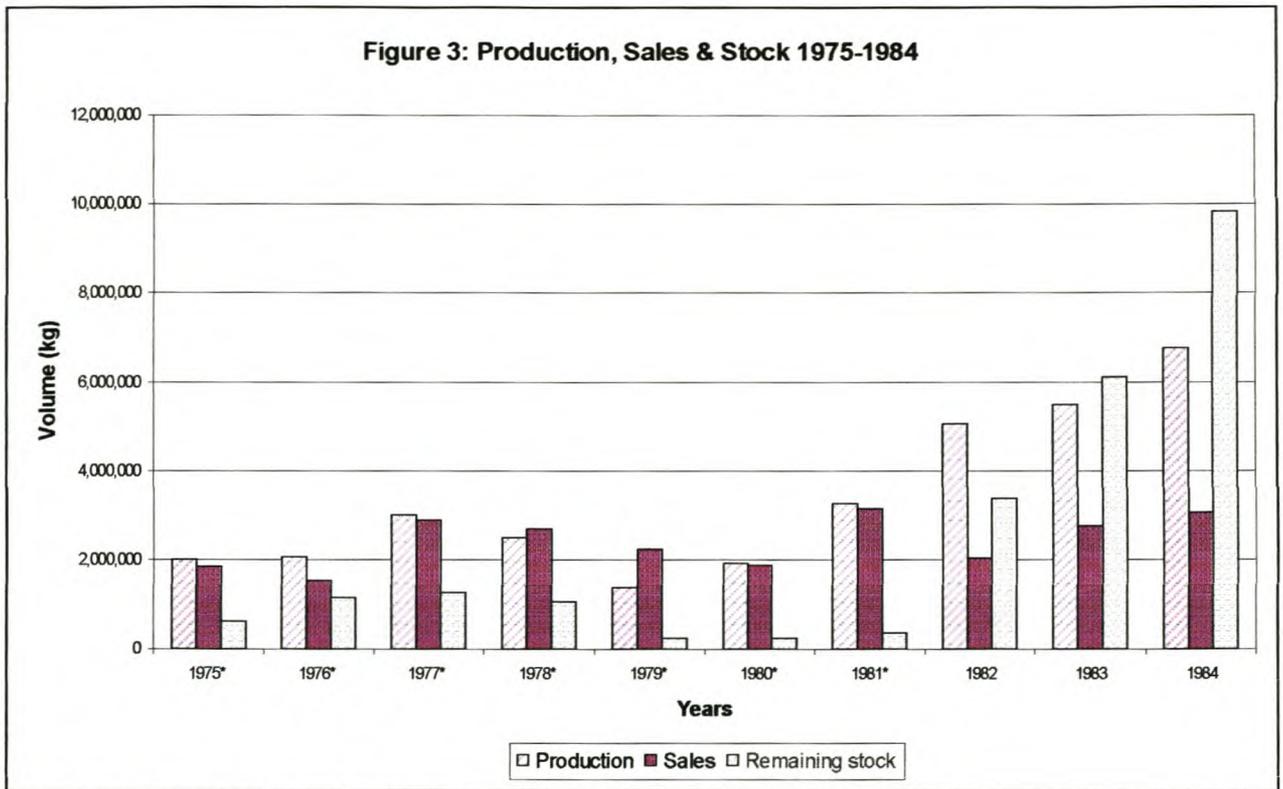
The impact of the negative production conditions, which prevailed since the late 60's and early 70's, are best reflected in the accumulated stock figures of the Board. The stock level by the end of 1967 was 2 700 tons, which at that time equalled nearly three years' demand. During 1973 and 1974 the accumulated stock levels dropped to zero, even with the sales quotas imposed. By years' end in 1975, the Board's strict quota measures allowed it to have stock on hand of 150 tons, approximately 10% of that year's tea sales.

5.6 The Period 1976 - 1981

During 1977 the packers' quotas were temporarily revoked due to increased production in the 1976/77 seasons. Severe drought conditions set in during 1978, hampering that year's production, but especially that of 1979. In 1978 packers' quotas, at 77,5% of 1977 sales, were re-instated to due to a sharp increase in demand for rooibos.

According to Annual reports of the Control Board the increase in demand was fuelled by drastic increases in the prices of imported black tea and coffee. Thus rooibos can still be considered a substitute for black tea.

The packers had some rooibos in reserve and were able to meet market demand by supplementing from their own stocks. In 1978 the rooibos consumption reached 3 400 tons, its highest level since the inception of the Control Board.



Source: Annual Reports Rooibos Control Board

Note: Years marked (*) when marketing quotas were enforced

During 1979 packers' quotas were further reduced to 49% of 1977 sales. To overcome the shortage in production, additional production areas were proclaimed and plantings made in the districts of Hopefield, Ceres and Malmesbury.

By 1980 the rooibos stocks were at such a critically low level that packers' quotas were set at 31% of the 1977 sales level. According to Annual Reports, *the shortage of rooibos was so severe that tea was hardly available in certain provinces during the year.*

By 1981 the impact of the drought of 1978 had diminished and new plantations came into production. The number of farmers that started to produce rooibos also increased from 243 in 1980 to 343 in 1981. The marketable stock exceeded 4000 tons that year and packers' quotas were eased.

The prices paid to producers and the price, at which tea was sold to packers, to some extent reflected the shortage situation. From 1976 to 1981 the packers' price was increased from 70 cents/kg to R1, 41/kg for the highest quality. During this period the advance payments made

to producers rose from 40 cents/kg in 1976 to 79 cents/kg in 1981. Advertising was kept at a minimum to curtail additional demand.

Exports

The attitude of the Control Board towards exports is reflected in a quote from annual reports from this period: *With the present rise in local consumption, the Board does not dispose over sufficient reserves to supply additional export requirements. With a product considerably cheaper than its imported concurrents on the local markets, it is possible for the Rooibos Tea industry to save the Republic much more foreign currency in comparison with what it might earn on the foreign markets.*

5.7 The Period 1982 - 1984

This period was characterised by record harvests. The traditional areas of production yielded high volumes, but the new production areas contributed to excessive volumes. On average, more than twice the yearly consumption was produced. The number of producers rose from 350 in 1982 to 410 in 1984. (In 1980 the number was only 243.) The volumes produced and delivered to the Board were 5 050 tons and 6 860 tons respectively.

During this period producer prices remained static and packers' prices rose marginally.

In contrast to the time period of 1976 to 1981, the Control Board changed its view on exports considerably. Not only did they plan extensive promotional campaigns and overseas market research, but came to the conclusion that *Exports could earn South Africa substantial amounts of foreign currency and at the same time stimulate the industry.* However, export prices remained on the same level as domestic prices.

As a result of the overproduction during this period, the Board launched extensive promotional and advertising campaigns, including radio and television commercials. In 1982 the new official rooibos symbol was accepted. This symbol would be used to identify rooibos as product.

From the failure of the Control Board to influence consumption notwithstanding their promotional efforts, we can deduce the following:

The Control Board's main function was to serve the interests of producers. The focus of the Board was product and producer orientated instead of consumer orientated.

Prices of rooibos were centrally fixed, thus rendering the market forces of supply and demand, which determine the price of a product, useless.

The main function of a marketer's promotional strategy is to convince target customers that the goods offered by the firm provide a differential advantage over the competition. A differential advantage is a set of unique features that are perceived by the target market as significant and superior to the competition (Lamb et al 1996).

The cycles of overproduction and shortages of rooibos seriously hampered the ability of rooibos as a product to establish itself as a sustainable product in (especially) the health beverage market – at that stage the market that showed the largest growth.

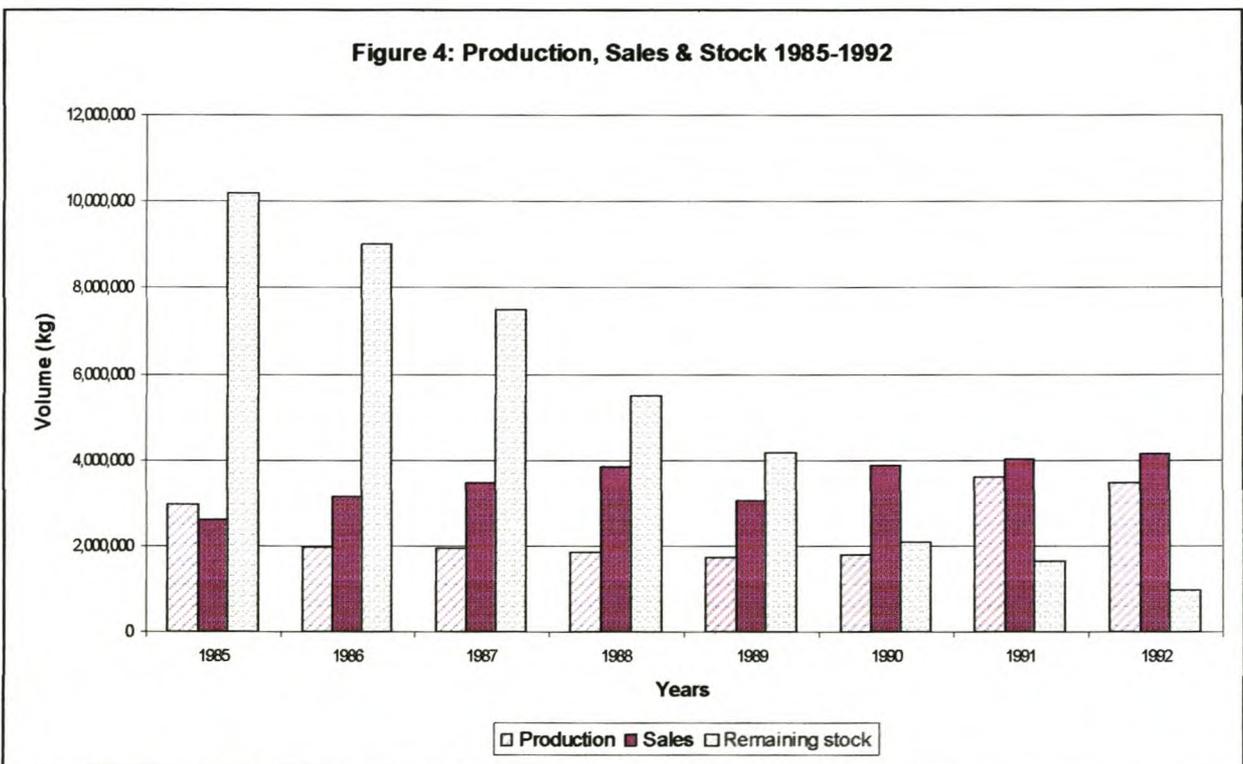
Another factor that undermined the marketing and promotion of rooibos was the fact that during periods of surplus emphasis was placed on promotion, but during shortages, it was curtailed. The success of the marketing campaign was further severely hampered by the salmonella contamination debacle at the end of 1984. The bad publicity over the contamination impacted heavily on the industry and tea sales plummeted to an all-time low.

According to Dr. Van der Westhuizen, who was at that time employed by the Control Board, this disaster could have been avoided altogether, because they had on several occasions been warned that unacceptable levels of bacteriological contamination was present in tea samples, but no cognisance was taken.

5.8 The period 1985 to 1992

In 1985 the Control Board faced enormous problems. Reserve stocks accumulated as a result of the previous years' very high production volumes and consumer confidence was shattered as a result of the salmonella contamination.

To overcome the problem of contamination, different methods of sterilisation of the tea were researched. A steam sterilisation plant was constructed; a process still applied today.



Source: Annual Reports Rooibos Control Board

Note: Years marked (*) when marketing quotas were enforced

To counter increased stockpiling and associated storage problems the Board enforced producer quotas. Initially it was decided to limit the total intake of the 1985 season to 4 000 tons, which was 69% of the average harvest for the period 1982-1985. Due to the contamination crisis, this average was lowered further to 3 000 tons. During 1986 the intake-quota was further decreased to 2 000 tons, and kept at that level until 1990.

By the end of 1985 and 1986 the total accumulated stocks (with imposed quotas in place) reached its highest level in history. The Control Board embarked on extensive local and

international marketing and promotional campaigns. Local sales in 1985 fell by approximately 18% from 1984 levels (as a result of the contamination). With the exception of 1989, sales steadily increased from 1986 (approx. 3 000 tons) to 1992 (4 138 tons).

In 1985 advance payments paid to producers were cut from 79,5 cent/kg to 69 cents/kg. No final payments were made during that year.

The drastic impact of the price cuts, coupled with the imposed production quotas can be seen in Figure 5. For the 1984-season, producers received R6 043 249 in total. In 1985 they received only R1 849 296, a 70% decline in producer income. Please note that in Figure 5 the income figures have been deflated with 1995 as the basis year.

From 1986 to 1990 total producers income (revenue) rose only marginally as a result of producer price increases that were set by the Board. These price increases were inflation adjustments. During this period the quotas imposed on producers were kept under 2 000 tons/year.

In 1991 the imposed production quotas were revoked. Total producer income nearly doubled from 1990 (R3 368 898) to 1991 (R6 293 048). In this period advance payments to producers increased from R1, 40/kg to R1, 60/kg respectively for the highest-grade tea. The total volume of rooibos delivered to the Board increased from 1 784 tons to 3 600 tons.

In 1992 total producer income rose to a level of R9 719 325 when advance payments reached a level of R2, 03/kg (for the highest-grade tea) and a total of 3 462 tons of rooibos was delivered to the board.

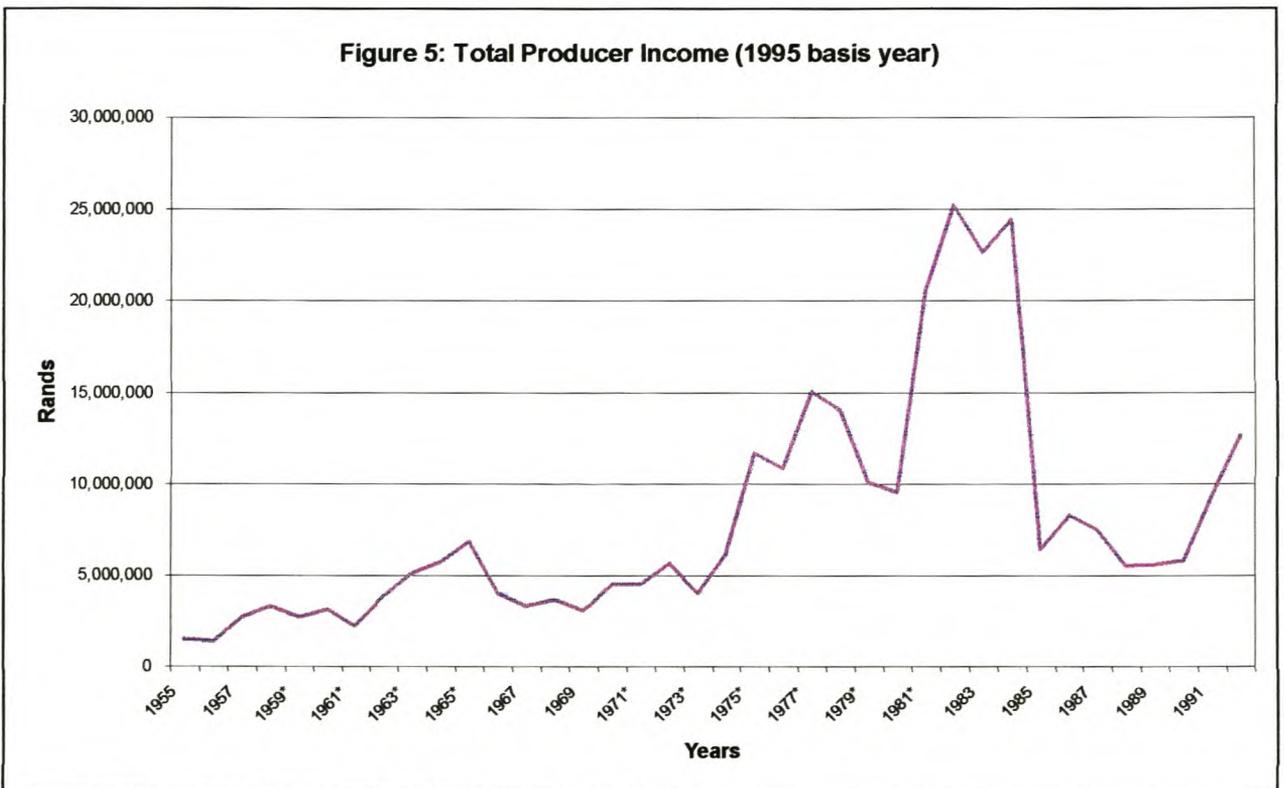
On 1 October 1993 the Rooibos Tea Scheme was abolished and all functions of the Control Board taken over by Rooibos Natural Tea Products Limited. A new period dawned on the rooibos industry, where competition between local role players could take place.

5.9 Conclusion: The rooibos industry under the Control Board

The extent to which the Control Board succeeded in realising the very goals that led to its establishment in 1954 and the actions of the Board to influence the competitive position of rooibos is of particular concern.

Countering fluctuating producers' prices

Initially, this was the main reason for establishing the Board. Prior to its establishment, there was a total collapse in the producers' prices and an apparent overproduction. In the years since inception, the price for the highest grade of rooibos rose from 7,7 cents/kg in 1954 to R2, 03/kg in 1992. When deflated, the prices are R2, 14/kg and R2, 63/kg respectively. Figure 6 illustrates that in terms of the *real price*, the price of rooibos in fact never stabilised, but fluctuated. It can be concluded that the Board was unable to stabilise the price.

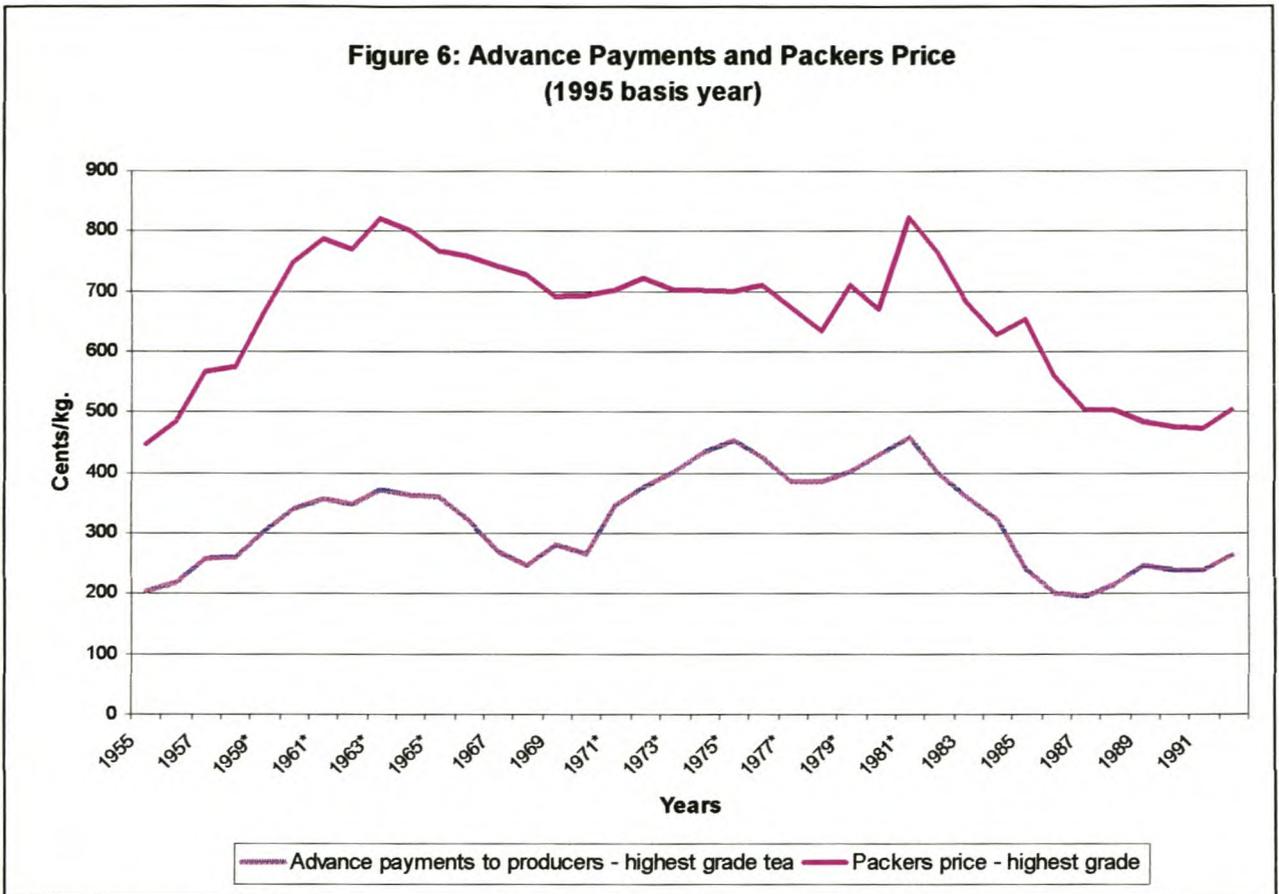


Source: Annual Reports Rooibos Control Board

Note: Years marked (*) when marketing quotas were enforced

Quality standards and grading rooibos tea

The producers, marketers and consumers needed quality and grading standards according to which rooibos could be evaluated. Since the Board's inception, the producers were especially critical of grading techniques. The Control Board instituted impartial means for grading and throughout this period tried to improve thereon. Not only did this benefit the producers, but it also led to consumer confidence in rooibos as a product.



Source: Annual Reports Rooibos Control Board

Note: Years marked (*) when marketing quotas were enforced

Marketing of Rooibos

The Control Board created the infrastructure within which marketing could take place.

Producers could store their produce at a central location and distribution could be managed in an orderly manner.

Until 1968, the mainstay of the rooibos market was people of low income. In this market segment, rooibos and (cheaper) black tea competed fiercely for market share. During these years, nearly 20% of the total (approx. 21 000 tons) black tea imports, was classified as "lower quality" according to annual reports of the Control Board. Rooibos competed head-on with these imports solely on a cost basis. During 1967 the Board requested the Minister of Commerce and Industries to exert his influence to promote the consumption of Rooibos, by means of imposing a levy on the lower quality imported tea. During 1969 the SA Tea, Coffee and Chicory Association agreed to increase the price of cheaper imported black tea. The Minister of Trade and Industry assured the Board that *the industries' interests would be considered at all times*.

Notwithstanding well-orchestrated (and expensive) marketing attempts, the Control Board was unable to change the perception of rooibos tea as a beverage. The person responsible for the breakthrough in marketing rooibos, was Mrs. Annetjie Theron. From a historical perspective, her contribution to the rooibos industry is very important because it elevated rooibos from a cheap and inferior product to one that the middle class South African consumer could relate to.

In 1967 the total black tea consumption was 21 000 tons. At that stage the total rooibos consumption was 765 tons, accounting for only 3,5% of total tea consumption.

In 1991 black tea consumption was still at this level, but rooibos had increased to 3 344 tons, comprising nearly 16% of total tea consumption (Joubert 1991).

Not only does the increase in consumption indicate that rooibos as a beverage grew in acceptance with the general public, but rooibos managed to grow by 440% whilst black tea's market share remained static.

Regular inspections were undertaken by the Board at both producers' and packers' storage facilities to ensure that producers did not bypass the one-channel marketing scheme. According to the Board only a one-channel system could ensure that a product of consistent quality was delivered to the market. Limited black market trading did occur and in some instances the Board acted against transgressors.

Establishment of an Export Market and Market Research

During 1958, three years after the Control Board was established, the export of rooibos without a permit was prohibited. Exports could only be made on recommendation of the Board and under permit from the Dept. of Agricultural Economics and Marketing. This enabled the Board to monitor both quality and quantity of exports.

In the years prior to 1968, with the industry struggling, the Board specifically focused on the development of an export market. Marketing research as well as product adaptation, by way of formulation an instant rooibos tea were undertaken by the Board, but with limited success.

According to the 20th Annual Report of the Control Board (1975) *Annetjie Theron's discovery led to an unprecedented interest and increment in the volumes exported.*

Of particular interest to the development of a sustainable export market was the attitude of the Control Board in the period 1976 to 1981. In this period, characterised by shortages, the Board decided that it was of greater importance to follow a strategy of import substitution of black tea (thus saving foreign currency) and cutting down on exports, than to develop a sustainable export market. In the period following that, characterised by overproduction, this Board changed their focus to further development of an export market.

According to Annual Reports, exported *rooibos* was *mainly consumed for its medicinal values and not as a tea, thus the overseas marketing potential is rather limited*. Though this might be true in part, the growth of the overseas market over the years was very encouraging when it was compared to the relatively stagnant domestic market.

The export price of rooibos did not correspond to a strategy that should have been followed for a product that was being sold in a niche market segment. The overseas market was completely different from the local market and a different pricing and marketing strategy should have been adopted altogether. When considering the fact that rooibos was only produced in South Africa and a statutory one-channel marketing system ensured an effective monopoly, rooibos should have been sold for a substantial premium. Only by 1991 and 1992 was some price differentiation introduced by the Board.

The Board's lack of a dedicated export development policy is illustrated in the Board's attitude towards import substitution as expressed earlier. Only when confronted with surplus production did the Board decide to investigate export opportunities. Exports were also subject to rigorous control measures, which effectively restricted market development, putting rooibos at a competitive disadvantage with competing products.

Creation of funds for the stabilisation of producers' prices

Such funds were created by levies that were imposed on tea delivered to the Board. In itself this did not contribute to the competitive position of the product, but these funds were also utilised for market development in order to further the product's potential, which increased rooibos' competitiveness.

Information and extension service

The Control Board researched the technical aspects concerning cultivation and processing and offered information and extension services to producers. By instituting quality control and grading, the Board was able to deliver a uniform product to consumers and paid producers in accordance. The Board also appointed a Professional Officer to conduct research and experiments on behalf of the producers. All of these actions contributed to rooibos' position as an acceptable beverage.

Government support and influence

The Control Board was instituted with the objective of regulating the industry. Unfortunately such a system cannot foster efficiency. Apart from being autocratic, as is evident from the fact that legal measures were implemented to squash any attempts of bypassing the single channel marketing system, the very forces that should govern *any* industry, i.e. supply and demand, are ignored.

The rooibos industry received direct government protection and support by various means, such as the Research Institute for Fruit and Fruit Technology, which undertook research. In addition, government institutions consumed a significant portion of the yearly production. Only by 1985 had yearly export volumes overtaken "institutional" consumption.

A very significant way in which the government supported the industry was by way of subsidising the interest on the cash credit loans from the Land and Agricultural Bank that were used to make advance payments to producers.

Another way in which the government significantly influenced this industry was the way that prices were fixed. From Annual Reports it is evident that the most basic economic rule of supply and demand never featured in establishing prices. Instead, a price policy was adopted to coincide with the Government's inflation control policy. Such a policy, however noble it may sound, was doomed for failure because the Board had no control over the price at which rooibos was sold on a retail basis. Under such a policy rooibos was forced into an image as prescribed by the Board, which was definitely to the detriment of the industry.

Chapter 6

Competitiveness since the Abolition of the Control Board

The theoretical background given in chapters 3 and 4 will serve as the basis for analysing the current competitiveness of the rooibos industry. In order to establish the current competitiveness of the industry, interviews were conducted with the main role players. Every firm's competitive strategy is by its very nature confidential and cannot be disclosed or published. The aim of this chapter is therefore not to analyse the position of the different role players within the industry, but to give a general analysis of the industry.

6.1 Current Role Players within the Rooibos Industry

Rooibos Ltd.

In 1993 the Control Board was abolished and a public company, Rooibos Tea Natural Products, established. They retained the existing processing and packaging facilities at Clanwilliam. In 1995 the name was changed to Rooibos Ltd. This company took over the responsibility for production, marketing and quality control. The producers (farmers) were the only shareholders of the company. Shares were allocated to producers in accordance to their previous three years' production and supply of rooibos. At the time of deregulation (1995), the first group of farmers broke away from Rooibos Tea Natural Products to establish their own organisation. Today, producers hold approximately 96% of shares in Rooibos Ltd.

Rooibos Ltd. was and remains the most important role player within the rooibos industry. Their focus and main market is the fast moving consumer groups (FMCGs) within South Africa such as National Brands and Unifoods to whom they supply tea in bulk. They therefore do not have a brand name. The FMCGs have their own packaging facilities. As a service to certain clients, Rooibos Ltd. renders a packaging service. Rooibos Ltd. supplies in excess of 90% of the total South African rooibos tea market. They also have an approximate market share of 50% of the global market (Pers. comm: Du Preez).

Cape Natural Tea Products

The initial group of farmers, which broke away from Rooibos at the time of deregulation in 1995, is now part of Cape Natural Tea Products (CNTP). This company was started in 1997 and

is part of the Ashwood group of companies, which focuses on exporting South African wine, fruit and indigenous teas. Currently there are a total of thirty rooibos farmers that hold a 50% share in CNTP.

CNTP has their own cutting and fermenting facilities at Graafwater and further processing is done at their plant in Bellville-South. They designed a new cutting machine for cutting rooibos, which breaks and cuts the tea finer. This new process, which has a registered trademark "Flavour Burst", is claimed to both enhance the flavour of the rooibos and offer producers (farmers) an increased return.

In South Africa CNTP has their own brand of *Cedarberg* tea which is sold in retail trade in the SPAR-supermarket group in the Western Cape. Most of their tea is still sold in bulk, but they are increasingly moving into the market for pre-packaged tea, where rooibos is also sold under the Cedarberg brand. They have diversified their product range by offering flavoured tea and are actively involved in production and marketing of Honeybush tea. According to Dawie de Villiers (managing director) they sell approximately 600 tons of rooibos per year which represents 10% of total current rooibos. Recently they concluded a R1 million export contract in Japan.

Kings Products

Dr. Frans van der Westhuizen was production manager at the Rooibos Control Board for many years. He resigned in 1995 and shortly thereafter established the first independent rooibos processing facility, Kings Products. Most of the independent rooibos processors and/or marketers made use of his facilities at some stage.

Dr. van der Westhuizen was one of the pioneers in developing the processing and pasteurisation machinery. Kings Products' processing facilities are located on-farm near Graafwater. Not all of Kings' produce is grown on the estate and rooibos is also sourced from other producers. These farmers do not have any share in Kings Products. Within the rooibos industry, Kings is known for its high quality "organically grown" rooibos, which is exported (in bulk) to Europe. Apart from processing its own tea, Kings also process tea for independent producers or agents. As a result of Dr. van der Westhuizen's extensive (other) farming interests, he does not wish to pursue expanding his current markets.

Khoisan Tea

Mr. Peter Schulke established Khoisan Tea in 1997. Previously he exported rooibos as an agent. He also farms with rooibos and together with his business partner, operates a processing facility near Clanwilliam. Khoisan also process tea for outside clients.

In the local market Khoisan focuses on the tourism and the catering industry. The packaging of Khoisan is of a very high standard and recognised as such within the industry. Most of Khoisan's tea is exported to Europe (Germany) in bulk. Khoisan has diversified its product range by further value adding. It has developed a cosmetics range with a rooibos basis, which will be launched in the very near future.

Maskam Redbush

Maskam Redbush has its own processing facility in Vanrhynsdorp. They specialise in supplying "estate and vintage" rooibos that has been produced in the Maskam/Gifberg area. This area is reputed for its high quality rooibos and produces approximately 20%-25% of the annual crop. Unfortunately only a short telephone interview could be conducted with this role player and information with regard to this company was mostly obtained from industry sources.

Tolbos

Tolbos Boerdery is situated near Clanwilliam. It does not compete directly with other firms in marketing, because it focuses only on processing and packaging rooibos to the specifications of clients.

Mr. Johan Ferreira who is part owner of the plant is also a rooibos farmer, processes his total crop. The processing plant is modern and was put in production in 1998. Tolbos also process tea for other (smaller) clients on a commission basis. Nearly all of the tea that Tolbos packages is destined for the European market.

Coetzee and Coetzee

Mr. Niel Coetzee of Coetzee and Coetzee started trading as a rooibos tea agent in 1996. Their focus is on supplying bulk tea to international tea merchants, most of which are situated in Europe. They sell a very small portion of tea on the local market.

Coetzee and Coetzee do not own any processing facilities and make use of existing independent processors to process tea which is sourced from different farmers.

6.2 The Competitive Environment

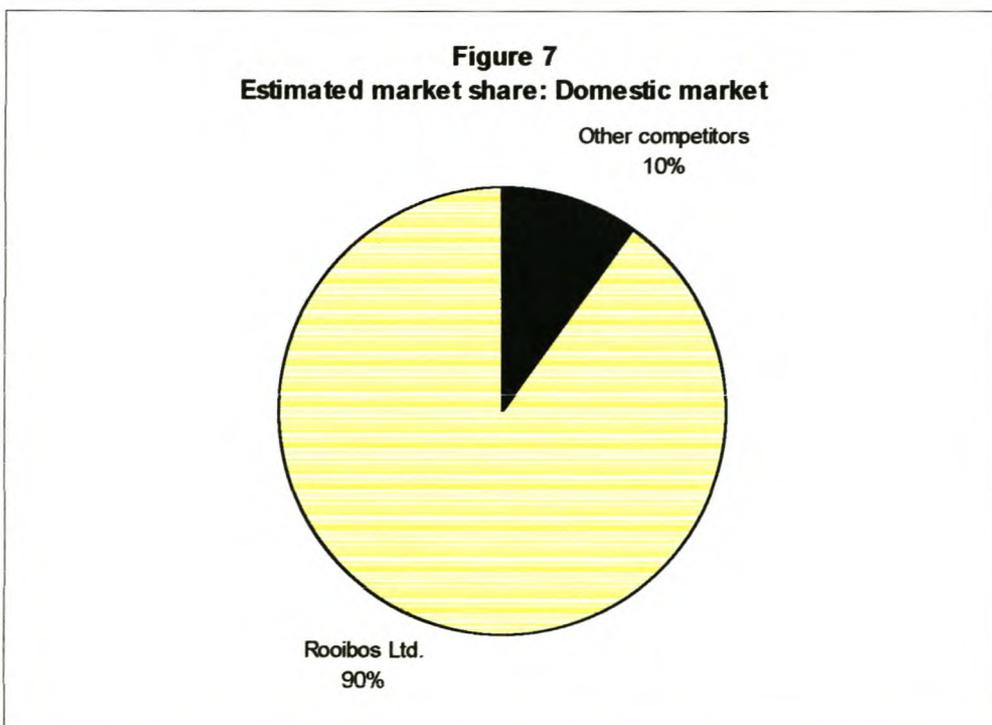
According to AC Nielsen-consumer figures, approximately 18 800 tons of black tea are consumed per year in South Africa. Rooibos tea has a market share of 16% of total tea sales, which is equal to approximately 3 500 tons per year (Food Review September 1999). In the South African market, rooibos competes more fiercely with black tea than other health drinks.

On a global basis, rooibos is proverbially a drop in a teacup. There it competes directly with other herbal teas and health drinks. In the United Kingdom alone, 150 000 tons of black tea is consumed yearly. The British are traditional (black) tea drinkers, and tea enjoys a 60% share of their total beverage market (Food Review September 1999).

The rooibos industry can be divided into two distinct groups:

The first (and most prominent role player) is Rooibos Ltd., the former Rooibos Control Board, which enjoys a market share in excess of 90% of the local market. Local sales exceed 3 100 tons annually.

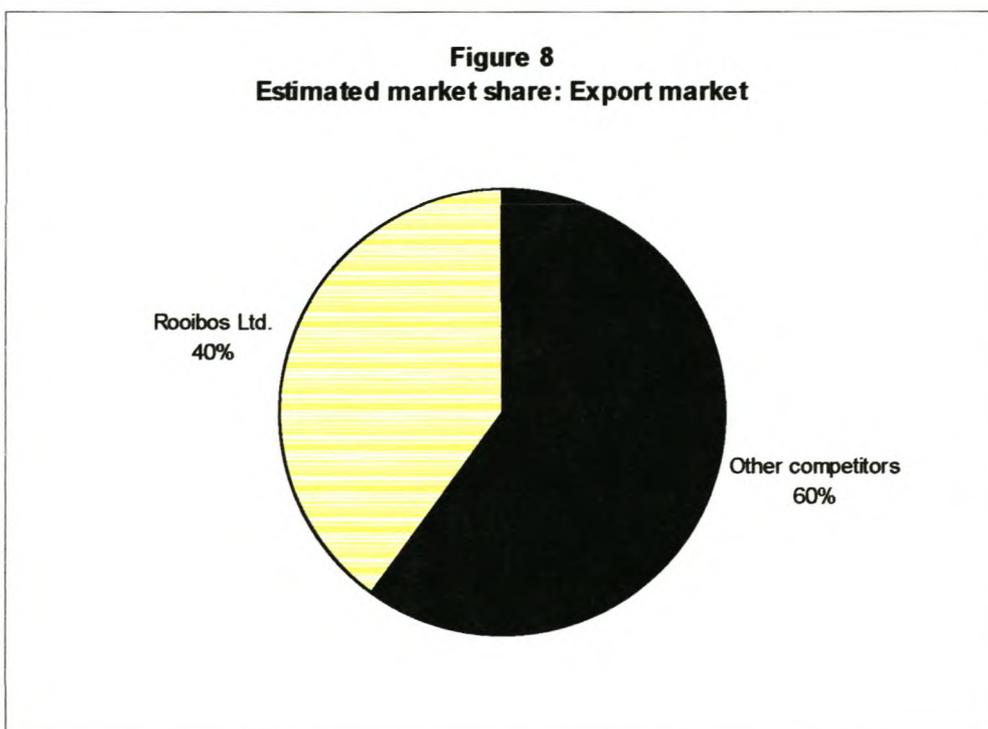
All the "other" role players' total contribution to the domestic market is estimated at between 300 and 350 tons per annum, an approximate market share of 10%.



Rooibos Ltd. is able to dominate the local market from its historical association with packers and the fact that the quantities that fast moving consumer groups (FMCG's) need, can realistically only be supplied by them.

The export market is dominated by the "other" role players.

They contribute an estimated annual volume of between 1 300 and 1 450 tons of tea. In this market, Rooibos Ltd's market share is less than 50% and estimated at between 800 and 1 000 tons annually.



Competition within the South African market is very limited. Given the history of the industry, it does not really come as a surprise. Since the days of the Control Board, co-operation with packers (and retailers) was essential for the survival of the industry. The fact that the same distribution channel (Rooibos Ltd.) supplies the large retailing companies (Unifoods and National Brands) helps to avoid a situation where retailers could face a prisoners' dilemma problem.

Rooibos Ltd. also benefits from this co-operative agreement. Even if the inland price of tea is increased, the packers are not affected in any way. In fact, packers would earn more in absolute terms because their margins are determined irrespective of the cost price of tea.

Mr. De Villiers of CNTP confirmed that when they launched their Cedarberg-brand of tea (which has a very small market share in South Africa) the well-known brands did not react in any way to their entry.

Mr. Du Preez from Rooibos Ltd. gave the following ratings of the most prominent rooibos tea brands. These ratings indicate the relative position of these brands in the market regarding consumer preference.

The three most prominent brands are Freshpak, 11 o' Clock and Laager.

Freshpak sets the competitive standard in price and quality, and can be rated as 100.

11 o' Clock and Laager each has a competitive rating of 95.

Southalls, a smaller brand, which focuses on the lower end of the market, has a rating of 85.

Lipton recently introduced their "Top 10%" brand. This product sells at a premium and has a competitive rating of 145, which equals or marginally surpasses the top black tea brands.

Black tea brands such as Joko or Five Roses have a competitive rating of 115 to 125.

Notwithstanding the fact that Freshpak, 11 o'Clock and Laager use exactly the same quality of tea for their brands, Freshpak enjoys a competitive advantage. This difference can be ascribed to advertising. To some extent Lipton's higher competitive rating can be attributed to its exclusivity as well as advertising.

From these competitive ratings it is evident that a very important factor that contributes to the competitive position of rooibos, is the way that consumers perceive it. This is true not only in the domestic market, but also in the international market.

One would expect that a tea with unique features, such as rooibos, would be able to sell at a premium in the export market, but at the moment this is not the case. In order to understand why, one has to analyse the markets within which rooibos are sold.

Rooibos is sold as three distinctly different products:

1. As Rooibos Tea, a gourmet herbal/health tea.
2. As a medicinal tea.
3. As an ingredient or basis/filler in (other) herbal teas.

The fiercest competition/rivalry is found in the market where rooibos is sold unprocessed, i.e. bulk. This is the largest export market and clients are mostly situated in Germany. In this market there are 15 to 20 tea agents who buy rooibos and redistribute the tea to blenders/packers.

Nearly all of the competitors interviewed are active in this market.

Almost all of the exported rooibos is used as filler for herbal teas, unbeknown to consumers who do not know the composition of the (final) herbal tea. A limited amount is packaged in tea bags and sold as Rooibos tea. Rooibos is also sold as a gourmet tea in loose form in delicatessen- and specialist teashops, but this market remains small.

According to interviewees the most popular way to compete in the bulk tea market is by cutting their price to tea agents. One of the interviewed role players said that a German tea agent remarked that he has never seen the "senseless rivalry" characterising this industry. Allegedly, the tea agent was in a position where he phoned South African rooibos exporters and each one was willing to undercut the previous exporter's quotation. Within one week the tea agent managed to negotiate a price cut of more than 20% of the initial price.

The extent of rivalry in the bulk tea market is best illustrated in the way that prices dropped from the level of DM4, 50/kg in 1997 to as low as DM2, 40/kg during 1999. Prices have improved marginally, but according to one of the interviewees there now appears to exist some price stickiness at the DM3, 00/kg level.

During this period of intense rivalry the tea agents kept their re-sell prices to clients constant, which one role player estimated at between DM16, 00/kg and DM20, 00/kg.

It should be noted however that during this period of intense rivalry, export sales increased substantially, from less than 1000 tons in 1996 to in excess of 2000 tons during 1999.

(Unfortunately role players declined to furnish exact sales figures.)

In the market where rooibos is sold as a gourmet tea, either in loose form or pre-packaged in tea bags, the level of competition is considerably less. This is in line with the theory regarding competitiveness, which states that a product is positioned differently if further value is added to that product. One firm, which sells pre-packaged tea in the European market, has indicated that competition within that market segment has recently started to increase.

In the Eastern market, especially Japan, where rooibos has traditionally been consumed as a medicinal tea, competition and rivalry used to be non-existent. Here rooibos is priced at a substantial premium in comparison to European markets. With the emergence of competitors, this traditional export market of Rooibos Ltd. has increasingly come under attack. One role player that has successfully entered this market, without infringing on Rooibos Ltd's market share, is Cape Natural Tea Products who recently concluded a R1 million contract in exporting pre-packaged tea.

Since the earliest days of cultivation, rooibos was widely propagated as a healthy beverage. The fact that it contained no caffeine and had a very low level of tannin when compared to black tea justified this claim. However, the market segments to which rooibos initially appealed was not one for whom health considerations were important. Those consumers were only price sensitive and (cheap) black tea directly competed with rooibos in that market. As a result of Annetjie Theron's discovery in 1968, rooibos was repositioned as a health beverage.

In keeping with the health trend, research with regard to other potential health benefits of rooibos took place both in South Africa and Japan. The most important discovery concerns antioxidants. Interest in natural antioxidants is growing as medical science indicates that antioxidants could have a "preservative" effect on human life. Rooibos' antioxidant activity is attributed to its complex phenolic and polyphenolic flavonoid constituents. In Japan, Rooibos is actively promoted as an excellent source of antioxidants and is also used in natural medicine products. The efficiency of antioxidants as defence mechanism against disease depends greatly on the diet, especially the intake of foods flavonoids, such as fruits, vegetables, grains, tea and red wine (Von Gadow 1996).

The research that is currently taking place regarding the effects that natural occurring substances have on disease prevention is increasingly effecting consumer behaviour. These research activities and findings have contributed to a new nutritional paradigm, in which food constituents go beyond their role as dietary essentials which sustains life and growth, to one of preventing, managing, or delaying the premature onset of chronic disease later in life. This concept has captured the imagination of food and pharmaceutical companies throughout the world and is a multibillion-dollar global industry. The promise of a better lifestyle being offered by supplementing your diet has led to the situation where taste (i.e. food flavour and texture) has been sacrificed in favour of real or perceived benefits being derived. Increasingly, the general public is informed of the potential health benefits that consumption of these products has, especially in preventing diseases such as cancer (Sloan 1996).

To undertake the necessary research that might enable rooibos to be classified as a functional food (in the American market) or as an herbal health supplement, would be expensive. Instead of focussing on the cost of undertaking such research, the industry should consider the possible gains that this would have for them. If rooibos has health-promoting properties, this should be established, i.e. scientifically proved and published by an independent, credible authority.

The fact that rooibos is devoid of caffeine can also be used to promote rooibos.

Health-conscious consumers prefer caffeine-free drinks. However, there exists consumer resistance against the organic solvents used to de-caffeinate black tea (and coffee). Offering a caffeine-free herbal tea, that tastes good, is a unique selling point. Some tea merchants in the USA reported that the third fastest growing tea market is that of decaffeinated tea (Sturdivant 1996).

Notwithstanding the negative price-impact of the rivalry within the industry, competition paved the way for increased sales of rooibos. One of the main reasons why competitors emerged within the industry was the very unfavourable trade situation during 1997/98 when Rooibos Ltd. cut their producer prices by nearly 50% and quotas by 26%. At that stage Rooibos Ltd. enjoyed the dominant position in the export market, but export volumes were (allegedly) less than 1000 tons a year.

By 1999 the total export volume increased to approximately 2000 tons of tea. The increase in export volumes can be directly attributed to the new entrants and they have been so successful in extending the market that a shortage of tea is forecast for the years 2000 and 2001.

To some extent the role players realised the impact of their rivalry on the industry and established a *Rooibos Forum* under the auspices of Rooibos Ltd. The aim of the forum was better co-ordination and communication within the industry to counter the price-cannibalism taking place. However, due to a total lack of trust between role players, the forum's goals were undermined. All the role players interviewed blamed each other for the failure of the forum.

6.3 Competitive Dimensions of Firms

Since its inception, the Control Board instituted a system whereby registered producers received advance payments when they delivered their tea to the Board. Rooibos Ltd. still uses this method of payment to compensate producers. No other competitor follows this practice and producers interviewed are of the opinion that this is Rooibos Ltd's biggest competitive advantage.

This fact was however not enough to persuade producers to be loyal only to this distribution channel. Producers indicated that given the opportunity they would also sell their tea via other channels. The main reason for this opportunistic behaviour is economic/financial; they would rather sell produce than keep it in stock.

Role players interviewed were questioned regarding the practices that they believed contributed to their competitive position.

All of the participants indicated that the *cost of the product* is probably the strongest competitive weapon in the bulk (overseas) tea market. Within the industry, tea prices (and other standards) are set by Rooibos Ltd. All things equal, a competitor only needs to be relatively cheaper than its competitor to effectively compete. In order to be the price setter, a firm has to have the lowest operating costs. All of the smaller firms interviewed focus extensively on ways to cut costs or be more productive with their inputs.

All competitors emphasised *quality* of tea as an important competitive weapon. In the delicatessen market or where rooibos is sold in loose form, quality and physical appearance of tea is very important. However, the largest portion of bulk tea finds its way into tea bags as herbal mixes and consumers do not tear open the bags to inspect tea. This does not imply that inferior grades of tea should be sold, but rather that relying on quality to increase your relative competitive position is rather limited in its application.

Another aspect that role players agreed on, was that *customer service* is of the utmost importance and that with the advent of competition, service levels increased. This factor is important, not so much when complying with a high standard, but especially if your service levels lag behind those of your competitors.

Due to the fact that a very basic commodity is being processed, *technological practices* are rather limited. One firm, Cape Natural Tea Products has introduced a new cutting machine, which is claimed to benefit fermentation and also increase the yield for producers. They have secured a trademark (Flavour Burst) for this process, a helpful instrument that offers protection to their relative position. All firms have introduced methods to improve productivity, such as making use of computer hard- and software.

Participants were questioned regarding their willingness to *diversify* their product range, such as adding a cosmetics range if higher returns could be earned in such a market.

Not all firms are keen on such a move. Likewise, certain firms indicated that they are not interested in copying other role players' successful strategies or product development. Reasons furnished were that this did not fall into their organisation's strategic view or that they prefer to "innovate and not imitate". Other reasons included that they have sunk costs in infrastructure and do not have the necessary expertise for diversifying.

One threat, which all the new entrants are exposed to, is the *concentration rate* of their customers, i.e. their dependence on a few customers who buy the largest portion of their tea. Interviewees expressed their concern with regard to this vulnerability and some are actively pursuing ways to expand their customer base.

Another important aspect of competitiveness that almost all firms agree has not received enough attention, is *human resource development*.

In a very competitive world, this might be the only way to gain a sustainable competitive edge on rivals. Human resource development starts at the top of the organisation where management instils such a culture. The level of human resource development is usually reflected in a firm's ability to efficiently deal with changes within an industry, i.e. in innovation and entrepreneurship.

By its very nature the development of human resources is costly. However, the alternative is price driven rivalry where human resource development focuses only on productivity, leading to improved cost competitiveness, a practice that creates further rivalry.

6.4 Factors Favouring Entry in the Rooibos Industry

There are several factors that influenced and favoured new entrants into the rooibos industry. The following are viewed as the most important.

Abolition of Legal Restrictions

Prior to abolition of the Rooibos Tea Scheme in October 1993, all trade undertaken in rooibos was subject to approval by the Control Board. Any new firm wishing to engage in trade first had to get permission from the Board. This was no easy feat, because within the Board there were vested interests by way of packers (marketers) who would not willingly allow any new rivals.

Perception of Profits

Historically, the price of rooibos was set regardless of the free market. Thus the perception arose that rooibos as a product was earning extraordinary profits in a protective environment. Such a perception is bound to entice entrants.

Industry Structure

It is very improbable that one organisation, either the Control Board or Rooibos Ltd. (or any other for that matter) could perform at such a level as to satisfy all of the participants in the rooibos industry. However, a one-channel marketing system excludes an alternative for unsatisfied producers or marketers. Such a system, by its very nature cannot foster efficiency - because there is no need for it.

Lack of Trust

Given the history of the Control Board, characterised by chronic surpluses or shortages, many producers and marketers had very little faith in the management ability of the Control Board. When Rooibos Ltd. took over from the Control Board without any visible changes in management, their discontentment continued.

During the establishment of Rooibos Ltd. in 1995, production quotas and shares in the company were allocated to producers. The basis for allocation was in accordance to farmers' preceding three seasons' production volumes. Producers who for whatever reasons were unable to produce, received very modest quotas - or none at all. A substantial number of producers felt that this basis was not only unfair, but also envisaged to favour the larger producers.

Emotional or Nonsensical Reasons

During interviews it became apparent that certain producers and competitors as a matter of principle refused to co-operate or even speak to one another and that they would willingly engage in a type of *scorched earth* trade policy. Even though such a policy would be to their own detriment or to the industry at large, as long as it had a worse impact on competitors (especially Rooibos Ltd.), it was justified.

Surplus Tea

During 1995/6 packers and distributors, under the impression that future tea shortages could be expected, decided to stockpile tea. Rooibos Ltd. misinterpreted this as a massive surge in sales, from an average local consumption of 4 000 tons/yr. to 5 500tons, and encouraged producers to plant additional tea.

On account of this advice producers, who were limited by production quotas, planted extensively. During 1995/6 there wasn't a shortage of tea, and packers and retailers started to sell their reserves. As a result, sales declined dramatically to approximately 2 000 tons (approximately 50% of the annual local consumption).

In 1998, as a result of the surplus tea Rooibos Ltd. reacted by slashing the producer price of rooibos from R6, 50/kg to R3, 50/kg. At the same time the production quotas were cut by 26%.

The producers were faced with a very precarious situation. Some had invested in additional crops, but the marketing channel (Rooibos Ltd.) refused their product. Other producers, who had not increased their production volumes, had an additional 26% stock on hand as a result of the reduced production quotas.

Access to Information

New entrants were able to obtain trade information with relative ease. Government organisations, such as embassies and the Dept. of Trade and Industry supplied the names of clients of Rooibos Ltd. (the former Control Board). Competitors offered tea at substantially lower prices to these overseas clients. As a result Rooibos Ltd lost a substantial amount of market share to entrants.

Contracts, Exclusive Rights and Brands

Although one of the Control Board's goals was to establish an export market, this was of secondary importance to the stability of the South African market - as is evident from the history of the industry. The Control Board managed and controlled the industry for such a long time that there wasn't any need to engage in formal, long term contracts within- or outside South Africa. Likewise, there was no need to award exclusive rights for distribution or to develop any trademarks or brands.

Vertical Integration and Supply Chains

Historically, there was no need for integration between supplier (Rooibos Ltd.) and final customers. This situation has not changed and almost all of the tea exported is in bulk form to tea agents, who redistribute the tea to customers. Competitors in many instances know the final customers, but do not want to "jump the chain", i.e. skip the agent, for fear that they might lose their future market.

Cost to Enter and Exit Industry

One popular way to measure the potential of competition in a given market is to determine the cost to exit that market (Oster 1994).

To process rooibos into bulk tea, i.e. fermenting the green tea, cutting the tea leaves and final pasteurisation, is not a difficult process but requires some capital investment. A number of independent processing facilities are in operation and they are more than willing to process tea for independent producers, at very competitive rates, which is a reflection of the level of competition in this market.

However, in the case of pre-packaged tea bags, the cost to enter and exit the industry is substantially higher as a result of the more specific assets that are employed. This corresponds to the decreased level of competition that exists in this market. As is the case with bulk tea processing, further processing, i.e. packaging into tea bags can also be undertaken on a subcontracted basis by making use of existing plants.

6.5 Conclusion

The following can be concluded with regard to the way that the rooibos industry has evolved since the abolition of the Control Board.

Rooibos is sold as different products in different markets (medicinal tea, herbal filler etc.) and in each of these markets different returns are earned. By positioning and selling rooibos as a gourmet herbal/health tea it is possible to earn substantially more than in the case of the bulk tea market.

The manner in which rooibos is sold is also important. Pre-packaged tea bags earn substantially higher returns than bulk tea and interviewees also indicated that the level of rivalry is also substantially less in that market. A precondition for increasing the market for pre-packaged rooibos is that the product must be positioned correctly, as a gourmet herbal tea.

From a historic perspective, competition and a high level of rivalry were unavoidable. The most important factor that favoured such a situation was the fact that the monopolistic nature of the industry came to an end in 1993, allowing competition. There was no history of competition between different firms; thus no discipline or trust could have developed within the industry. This situation gave rise to prisoners' dilemma problem, where each firm made self-interested strategic moves and producers acted in the same opportunistic ways by bypassing existing marketing structures, creating instabilities in the market.

It is also evident from a transaction cost approach that rivalry was unavoidable. Transaction cost factors are present in pre-production, production and marketing.

Pre-production

1. Informational constraints (asymmetry) between buyers (FMCG's) and processor/marketer (Rooibos Ltd.) and producers lead to a situation where producers who had been encouraged to plant additional tea were unable to sell their crop via the established channel, thus causing a hold-up problem to the producers.

Production

2. Although specific production and processing assets are needed, the technology was accessible to new entrants; thus no information asymmetry existed.
3. New entrants were able to bypass the substantial entry and exist costs associated with the industry because they could access processing facilities with relative ease and affordability.

Marketing

4. The product was not differentiated but sold as a commodity, thus buyers (overseas tea agents) did not face any switching costs when changing to new suppliers.
5. Excess volumes of tea existed within the industry, creating market instability that lead to the formation of new distribution channels.
6. Pre-commitment contracts between buyers and Rooibos Ltd. were not in place, mainly due to historic reasons.
7. New entrants obtained trade information with regard to potential buyers with relative ease, no information asymmetry existed.
8. There was no "pioneering brand" advantage with regard to a trade name that could keep competitors out of the market.
9. With the abolition of the Control Board it was impossible to monitor production and producers used this information asymmetry to bypass the existing marketing channel. It is also a prisoner's dilemma problem.
10. As a result of discontentment within the ranks of the industry, some producers and marketers adopted a "scorched earth" policy where the industry at large is not taken into account at all. This represents a moral hazard

One of the ways used to increase agricultural products' competitiveness is by better supply chain co-ordination. Under the Control Board, there was no need for such co-ordination because the

industry was regulated. With the abolition of the Rooibos Tea Scheme the playing field has changed and many competitors now compete for the same customers.

In the South African market some form of involuntary supply chain co-ordination took place as a result of historic practices where the marketers/packers of rooibos were members of the Control Board. In the international market, nearly all bulk tea was marketed via tea agents/brokers and even though relationships evolved, there was no need for more formal relationships.

Currently, only Rooibos Ltd. and Cape Natural Tea Products have supply chain relationships with their producers. Some competitors are contemplating this strategy, but some also indicated that they do not view them as necessary – especially with the current level of opportunism by producers.

Producers that were interviewed and part of these supply chains indicated that given the opportunity, they would also make use of other marketing channels. The reason was that they did not consider such actions as damaging to the industry and from a historic point of view they have grown accustomed to a situation where either surpluses or shortages occur, thus they lost their faith in the (especially Rooibos Ltd.) marketing channel.

Chapter 7

Conclusion: Developing a Competitive Strategy for the Rooibos Industry

The purpose of this chapter is to make some recommendations on how the competitive position of the rooibos industry (at large) can be improved. A competitive strategy for the whole industry is very difficult to develop and there are no easy “quick fixes” that will resolve the problems. However, a precondition to resolving the current rivalry is that all players adopt a long-term shared vision with regard to the industry and show commitment not to act in opportunistic ways. Two different strategies are proposed. The first strategy focuses on repositioning rooibos as a health tea, whilst the second focuses on the creation of supply chain partnerships between producers, processors/marketers and customers.

The first and most fundamental principle in business is that *if everyone can do it, you can't make money from it*. This principle is very simple and forms the root of competing successfully. It also forms the basis of strategic planning and product development (Cohen 1995).

An intrinsic part of this principle, is whether I am *competing in the right market*. According to interviewees, bulk rooibos is mostly sold in herbal tea mixes, thus without an identity of its own. By effectively positioning rooibos as a gourmet herbal health tea, the product is identifiable and can be marketed accordingly. There is sufficient medical evidence to warrant the necessary research to establish whether rooibos can be sold as a health-promoting product, such as a functional food.

In following such a strategy, it is not necessary that the whole industry initially support this view or even the research. Although that is the preferred way the largest role players should take the incentive to do so, because they have potentially the most to gain from such a move and have a moral responsibility towards their members/producers.

The second proposed strategy is increasing value via better supply chain co-ordination. Competition within the rooibos industry is a new phenomenon and from the preceding chapters it is obvious that competition manifested itself in very intense price-driven rivalry. This was to be expected, given the history of the industry. To some extent this was necessary to increase the

efficiency of the industry, and also to force competitors to devise strategies that would improve their relative competitive positions. The advent of competition and high levels of rivalry also paved the way for increased sales and market expansion at a time when the industry was confronted with excess volumes of tea.

In the long run however, the high level of rivalry is not to anyone's advantage, least of all the producers. Unfortunately, producers are to a large extent directly responsible for the increased rivalry in the industry as a result of their opportunistic behaviour. One of the biggest challenges facing firms that have supply chain relationships with their producers, is the need to inform and especially educate those producers of the consequences that (their) opportunistic behaviour is having on the industry and on their own chain.

Producers who are forced to market their own tea via non-preferred channels because an established channel is unwilling (or unable) to accommodate them would continue to create market instabilities, leading to increased levels of rivalry.

From this discussion and with the background supplied in chapters 3 and 4 on the theory of competitiveness, it is evident that supply chain co-ordination would lead to increased competitiveness, by cutting transaction costs.

According to Oster (1994), Soler (1999) and Zuurbier (1999) the following factors necessitates vertical co-ordination:

1. Uncertainty

The rooibos industry has historically been particularly vulnerable to periods of surpluses and shortages. This impacted not only on market development or growth, but also on the credibility of the product and producers' confidence in the marketing mechanism. An efficient supply chain will ensure that producers can supply the market in accordance with demand patterns.

2. Transmission of information

The higher the level of integration, the better the communication within the supply chain. As a result, producers will not be inclined to act in opportunistic ways – trust will exist.

3. Accessing a particular market and improving margins

Better co-ordination between all role players in the supply chain, especially processors, marketers and retailers can ensure that a target market can be reached, which in the long term would lead to higher profit margins.

4. Improving products

Product development whether packaging or further processing of tea into other products, especially if mutual investment are made, will ensure discipline within the co-operative chain.

A prerequisite for establishing successful supply chain relations is developing trust between the different members in the chain. As discussed in Chapter 2, trust is made up of two elements: The first hinges on the acceptance of relational risk, whilst the second is concerned with the expectation that the other party, aware of the relational risk exposure, will not behave in an opportunistic way when presented with an opportunity (Tregurtha 1999).

These two strategies are line with the theory on competitiveness as defined by the *Strategic Management School*. They define competitiveness as *the ability to profitably create and deliver value through cost leadership and/or product differentiation*.

Their focus is on improving competitiveness through customer benefits. This implies that competitiveness is directly related to the factors that influence a firm's cost and demand structure.

Following this logic, the sources of competitiveness can be examined from two perspectives: Superior value results from *offering either lower prices* than competitors for the same product, or by *providing unique benefits* that more than offset a higher price.

This relationship can be written as an equation:

Customer Value Perception = Perceived Benefits/Price.

It follows from this equation that if the price remains static; competitiveness can only be increased if additional customer value is created.

If competitors within the rooibos industry are unable to increase the benefits offered to consumers, competitiveness will be price-driven, as is the case with commodities.

By changing the bundle of benefits already offered to consumers, such as repositioning the product (the first proposed strategy) and/or adding additional value by lengthening the supply chain, i.e. vertical co-ordination (the second proposed strategy), the competitive position of a firm/supply chain is increased.

By repositioning rooibos as a gourmet health tea a *core value* is established. (Refer to Game Theory.) The incentive to cut prices will disappear, because producers will no longer want to sell their produce via a marketing chain that does not offer them the best possible price or that does not add value (lengthen the value chain) of their product.

In order for competitors (supply chains) to compete with one another they will have to focus on extending their market share and offering the best possible service to their producers as opposed to price-driven rivalry. Producers, realising that a premium can be earned for their product will choose to deliver their produce to the supply chain/marketer that offers them the best deal.

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