

# VININTELL

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## Future scenarios for the South African wine industry

The Cup Runneth Over or Scraping the Barrell?





Welcome to this edition of VinIntell as a value-added service to members of the S A Wine Industry. The purpose is to provide you, the decision-maker, with meaningful insight into events, trends, opportunities and threats through the analysis of the ever-changing competitive environment. The analytical approach is a multifaceted, multidisciplinary combination of scientific and non-scientific processes.

We trust that this publication will become part of your strategic thinking, strategic planning and decision-making process. You are welcome to send comments and suggestions to the publisher.

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## INTRODUCTION

### The times they are a-changin' at the pointy end of the wine world

Since 2012, several editions of VinIntell were published that built towards the presentation of two possible scenarios for the South African Wine Industry. Broadly using the Political, Economic, Social, Technology, Environment and Legal (PESTEL) analysis method various aspects were visited and analysed to present a picture of how each might play out over the next decade. A literature review of previous futures studies was conducted including the South Africa Wine Industry strategy Pan (WIP) of 2003, the South African Wine Industry Vision 2020 strategic study (1999). In the document "*Strategic outline for the South African wine industry: a road map for future competitiveness*" the status of the South African wine industry in the year 2020 is envisioned and a desirable status for the South African wine industry in the year 2020 (Vision 2020) would be that South African wine industry:

- is globally competitive and highly profitable;
- dominates its selected market niches;
- products are 'distillates of nature', which reflect respect for the creativeness of nature, and the great possibilities presented by the diversity of ecologies in the South African wine producing regions;
- is innovation driven and market directed to ensure its continuous renewal and its ability to provide sustainable customer and consumer satisfaction in all the products and services that it offers; and
- is a good citizen (ethical, socially responsible, sustainable) develops its people; builds relationships with its community and contributes towards creating a better society in South Africa through its behaviour, activities and engagement.

These studies and previous VinIntell research point to the fact that several drivers and variables will impact on the future of the wine industry in South Africa in a positive or more challenging manner, including climate change, regulatory change, non-tariff barriers (NTBs), ethics and the future wine consumer. The PESTEL series aimed to unpack prominent macro factors that impact on each category. For this edition of VinIntell, a consolidated future picture featuring an optimistic (Cup Runneth Over) and a less optimistic scenario (Scraping the Barrel) is presented.



## SCENARIOS

Scenarios are not predictions, nor are they roadmaps; they are at best, constructed stories about a particular point in the future and some informed speculation about the crosscutting paths that might get us there based on currently known facts. There will not be one scenario



for the wine industry in 2021. Rather, it will be an increasingly confused set of extremes. Such a conclusion is hardly surprising. Rather than simply provide simple optimistic and less optimistic outcomes, this edition of VinIntell focuses first on drivers and variables that are likely to propel change in the wine industry where after two pictures of what the world and South Africa is likely to look like in 2021 will be presented.

## DRIVERS AND VARIABLES THAT SHAPE SA'S FUTURE

Several factors seem especially important. The following drivers and each driver's variables were identified:



### Politics

- Shifts in international power relationships partly reflecting shifting economic power.
- Evolving approaches to global problems and intervention mechanisms e.g. the interaction among power blocs on tackling mutual issues such as the War on Terror.
- Political and economic power groupings and how they shift and change e.g. BRICS, E7 and G20.
- Changes in the sources of conflict ideology, water food, land and energy.
- The evolving role and impact of China as a global political player, strengthened by its economic and military power is an important variable especially as it is expected to eclipse the US as the global leader.
- Government inefficiencies and how it impacts on business and future voting patterns e.g. the trend in which in South Africa, the growing and economically empowered middle class is seemingly privatising key elements of their relations with the state, by embracing private schools, private security, private retirement provision and private health care.

### Economic

- South Africa's economic performance including how fast and along what paths it will grow and how wealth is shared and are jobs created; South Africa's relationship with Africa and in the BRICS grouping.

- The role and implementation of trade barriers and specific non-tariff barriers including sanctions, quotas, levies and restrictions that are used by countries for a variety of reasons of which protectionist considerations are the most frequent.
- How the shifting from a resource base to a more diversified, knowledge-based economy impacts on skills shortages, an uncompetitive and volatile exchange rate, complicated trade tariffs, barriers to entry of new investment, and structural capacity and infrastructural constraints.
- Will the control over the economy mirror the demography of South Africa in 2021 and if not, what it will mean if an economic imbalance still exists in 2021 and no meaningful transformation has taken place?
- A perceived decline in oil reserves might continue pushing up prices to unexpectedly high levels.
- Ethics and responsible business in the global wine industry with the sentiment against alcohol increasingly negative: Variables also include environmentally friendly practices, labour-issues, health and consumption and transparency e.g. in labelling, will grow in prominence in future.

### Social

- Changing consumer patterns are an important variable and especially the influence on Generation Y by the year 2021 on the depth of buying power and how this changes in various markets.
- Changing generations and how they live and buy and consume: importance of understanding what motivates buying choice for products including beverages will open the door to significant business opportunities.
- The importance and value of brands in relation to quality, prices, fashion and health considerations.
- By 2025, there will be 1.5 billion extra global inhabitants: 97% in developing countries and 95% in cities.

### Technology

- Billions of people will have access to always-on, high bandwidth communication devices, which will allow users to network and connect in dynamic new ways.
- Effect of such access on the way and where people work, how much they travel to and from work, how they make and market their goods and even how they form and foster relationships.
- Technology's role in fuelling democracy and openness, increase human lifespan and allow for both greater productivity and more leisure time.



- Impact of the unequal access to technology but does this mean that the poor everywhere are not embracing technology as fast as they can afford to, exploiting it as a key avenue out of disconnectedness?
- The role and impact of social media as social networks become more mainstream and their penetration within all age groups deepens.
- Social media has changed the dynamics of online interaction and is impacting on offline activities. The likely impact of creating and sharing content from a handheld device becoming incredibly simple and real-time.
- Shift from personal contact to innovative social communication: Relationships that customers have with both people and brands are overwhelmingly shifting to social media, and this goes for wine as well.

### Environment

- Rising global temperatures and the impact of human-activities.
- Alternative energy sources and the continued energy gap between the age of fossil fuels and the development and maturing of alternative fuel sources.
- Ways to ensure energy security and access to electricity.
- Managing the impact of climate change particularly at the regional and micro level.

### Legal

- Impact of regulatory change in the global alcohol industry and discussions around issues such as health, legal age, advertising, sustainability and pricing among a range of stakeholders. Impact of excises on wine producers going into the future.
- Can the dialogue be directed away from blanket bans by organisations, such as the WHO, to solutions that better manage the social development needs of South Africa with the need for economic sustainability and growth: the impact of a ban on liquor advertising?

## TWO POSSIBLE SCENARIOS

Having considered and discussed these aspects in previous VinIntell issues and how they are expected to play out within the next decade or so, how are they expected to impact on the South Africa wine industry? Considering the drivers and variables, it is clear that the South African Wine Industry within the global context will likely be a radically different industry to the one that existed in 2013.

### 1. Scraping the Barrel

It is the year 2021. The ANC is still governing South Africa albeit with a declining majority since the 2012 and 2014 national elections having been weakened by internal and external factors.

The fall-out of the prolonged economic recession of the first decade of 2000 continues to impact in various ways. In South Africa inequality grows and so does anger on the streets. This is impacting on voting patterns and the ANC. Despite a left split from government in 2014, this section failed to secure significant votes even in the 2019 elections. The factionalism and growing opposition has, however, been a wake-up call to the ANC and more practical means are being implemented to meet employment and poverty targets by 2025. As it stands now, South Africa will miss its target of creating five million jobs by 2025, given labour strife and strained relations between the government and private firms. The ANC and Labour Unions have split enabling a focussed agenda on related issues. The unemployment rate continues above 20% and fears and frustration along the poorer segments of the population are exploited for political gain leading to significant social unrest. Other tools that are exploited are poor service delivery and access to food, housing and education. Service delivery on all levels of government, especially on municipal level, have not improved due to lack of political will or funding, bad policies, lack of skills or just due to the large number of immigrants continuously putting pressure on scarce means. Urbanisation has exacerbated the problem.

South Africa's inflation has remained below 6% pa and interest rates remains at 7% pa. The Rand's performance against the US\$, the British £ and the euro € remains volatile leading to challenging import and export business environments. Job creation efforts in both the public and private sector have failed to significantly improve South Africa's unemployment scourge. The government, agricultural role-players and labour have been for several years in agreement re conditions of employment, land reform and job creation paving the way for more stable working relationships.

While the state was a significant investor in the economy, the inefficiency of national and provincial investment agencies, from developmental funding institutions to youth development funds has hampered impact. Capital is hard to come by for small farmers and entrepreneurs and therefore transformation efforts have been slow in realising. Whites still owned the majority of all equity: senior management in state service are majority black, while it is still 60% white in the private sector. With the inefficient state, outsourcing is now the trend. Pension payments, hospital provision, prisons, housing, schools and even universities are run by the private sector drawn to services of decent quality. More than 15 million South Africans are accommodated in the private healthcare system (double that of 2008), while 20% of learners are in private schools, up from 2,8% in 2008. Private security guards outnumber the police four to one, compared with the two to one ratio of 2008. Private contractors are running prisons in South Africa.

In terms of changing patterns of globalisation, the US has taken a back-set to conflict resolution and different initiatives are taken within new power blocs such as the BRICS and the E7. China economy has slowed down significantly and now only grows at between 5 and 7% per year. With China, Turkey and India now the new powerhouses in Africa having unseated the



US, the new drivers for expansionism are local markets, resources and food security. The BRICS has failed to open economic doors for South Africa with the domination of the much larger other economies dictating the course of business most often for own national advantages.

South Africa's exporters have failed to realise the impact on these power shifts and are adrift between traditional and emerging markets without clear growth strategies. Six major emerging economies – Brazil, China, India, Indonesia, South Korea, and Russia – account for more than half of all global growth, and the international monetary system is no longer dominated by a single currency. As economic power shifts, these successful economies help drive growth in lower income countries through cross-border commercial and financial transactions. In the near term, the euro remains the biggest challenger to the dollar and will expand its status as a currency of choice, though the appetite for the euro will depend in large part on whether officials can successfully navigate the sovereign debt and banking crises the region currently faces. After 2021, China's Yuan could take on an ever-increasing role in the international monetary system. China is fast becoming the world's leading economic power doing what it wants. Various challenges including an aging population, overly cheap capital, over developed exports, pollution, class divisions and repressive government policies and social unrest has led to China's growth having slowed to under 6% per year as ageing kicks in affecting South Africa's wine exports negatively. Furthermore, China's exchange-rate policy is affecting economies throughout the world. By keeping its currency cheap, China has managed to keep its exports more competitive than those from countries such as Bangladesh, India, Mexico, and Vietnam. Although many countries balk at seeing their competitiveness undermined by an undervalued yuan, they remain silent, either for fear of China's political muscle or because China offers them financial assistance or trading opportunities. China is the leading single exporter in the world accounting for 14% of world exports. Europe and the US continue to post growth below 2% per annum affecting South Africa's exports. South Africa wine exporters are fervently searching for new markets, but our distance from buoyant markets is a deterrent to growth.

The 18 year-olds of 2013 are now in their mid-twenties entering the job market high on ambition. This Generation Y holds the key to consumer patterns for the next few years. However, marketing intelligence has been insufficient in determining their needs and how this would impact on products and brands. A one-size fits all approach is still followed instead of analysing the core values that drive the various relevant generations (Baby Boomers and Generations X and Y).

Continued technology regulation failures on government side have to a certain degree hampered broadband growth in South Africa as it remains too expensive and slow. It slightly inhibits the use of social media. Internet access remains a problem. However the growth in apps and social media continues unabated and new apps appear continuously opening a wealth of channels for sales and marketing. It seems that despite government and regulatory constraints, technology users are finding ways to communicate.

South Africa's government and industries have not invested sufficiently in climate change mitigation strategies. Foreign interests dominate policy-making. Despite the effects of climatic change, the local wine industry has been loath to adapt vineyards and cultivars and vineyard hectares remain the same as in 2013 following the global trend. This has impacted on the size and quality of harvests. Smaller wine producer numbers have further dwindled and forfeited market share to producer wineries and boutique / brand driven wineries while South Africa's wine exporters face headwinds in the competitive global wine industry. This heightened competition in the international wine industry is driven by the continued weak global economy that is weighing on global wine consumption growth, the fact that other new-world wine producers have also adopted aggressive export oriented growth strategies, while old-world wine producers have themselves become aggressive exporters because of the ongoing reduction in domestic wine consumption. Adding to the local producers' woes, due to the range of power shifts, changing pockets of economic growth and increasing protectionism (and by extension NTBs), the South African wine industry has failed to grow export significantly and is finding it challenging to expand into the new markets like China where new and old world competitors like New Zealand, Australia and France have an established presence and profit from competitive advantages like first entry and geographical proximity. The traditional markets' growth has stalled and the local market remains under pressure. High oil prices have furthermore raise input costs and climate considerations are negatively weighing on the effect of emissions on transport and packaging. Sporadic pockets of opportunities like poor crops in other markets fail to lift the spirits of the local industry.

In South Africa, the effects of new liquor laws have made themselves felt with the local beverage industry being in the process of finding new ways to market and to build brand loyalty. Plans have been slow in the offing, but the use of social media in this regard is starting to show positive effects. Unfortunately, the job losses in the advertising industry especially have been significant further eroding the buying power of the South African consumer.



TABLE 1: SUMMARY OF DRIVERS AND THEIR STATUS IN 2021

Drivers	Picture in 2021
<b>Political</b>	<ul style="list-style-type: none"> <li>China on its way to become the leading economy albeit despite national constraints.</li> <li>Shifting global powers mean new markets need to be explored: the traditional powers are slowly waning.</li> <li>In South Africa no meaningful plans are being implemented to address social ills and high unemployment leading to unacceptably high levels of social unrest, corruption, fraud and crime.</li> </ul>
<b>Economy</b>	<ul style="list-style-type: none"> <li>Weakened position of South Africa in the global market and also within BRICS as the effect of its proximity to buoyant markets becomes increasingly detrimental to competitive trade.</li> <li>Shifting global economic powers, declining economic growth in key markets and pressure in wine competing countries to grow exports have intensified competition in new and traditional markets. This competition is price driven and South Africa is at a disadvantage.</li> <li>Trade barriers and specific non-tariff barriers including sanctions, quotas, levies and restrictions are used more frequent and the WTO a slow to act against offenders.</li> <li>Exports from South Africa are particularly vulnerable to NTBs and especially to the so-called new generation of technical barriers (TBTs) and phytosanitary barriers (SPSs).</li> </ul>
<b>Social</b>	<ul style="list-style-type: none"> <li>Ignored Gen Y'ers as the emergent market colossus of 2015.</li> <li>Still a focus on traditional consumers (older, drink less, more expensive wines, mature market, little growth, lose market share).</li> <li>Corrupt state of affairs, ego driven business practices to make a quick buck, win-lose relationships.</li> <li>Have &amp; have not's gap widened with an increase in social ills.</li> <li>Lack of long term vision.</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>Broadband in South Africa remains a challenge – regulatory bodies cannot seem to implement policies and access to broadband is limited.</li> <li>Over regulation means less access to information.</li> <li>Social networks have become main stream and their penetration within all age groups deepens.</li> <li>Limited growth in smartphone use is an inhibitor.</li> <li>Cost of access inhibits the development of social communication.</li> </ul>
<b>Environment</b>	<ul style="list-style-type: none"> <li>Global temperatures are rising rapidly and consistently.</li> <li>Extreme events are increasing in frequency and intensity, and atmospheric Greenhouse Gas (GHG) levels are increasing due to human-activities.</li> <li>The most prominent biophysical impacts of climate change are beginning to be felt by the South African agricultural sector: A decrease in water availability, deterioration in water and soil quality, a shift in seasonal temperatures and climatic patterns, and an increase in the prevalence of pests and diseases. The indirect impacts of climate change are equally threatening and include an increase in energy and fuel costs, an increase in market pressure and retail demands, and the likelihood of carbon pricing in the near future. Southern Africa is one of the most vulnerable regions in the world due to a relatively low capacity to respond to climate change.</li> <li>Government is a supporter of global climatic initiatives but fails to develop effective policies especially in alternative energy – electricity supply is haphazard severely affecting input and insurance cost.</li> <li>Wine producers have been slow in changing / adapting varieties to new climates.</li> <li>The wine industry has not devised a proper climate plan and fails to provide appropriate information.</li> </ul>

Drivers	Picture in 2021
<b>Legal</b>	<p><i>Outright banning of alcohol advertising is in place:</i></p> <ul style="list-style-type: none"> <li>The advertising industry lost revenue, including sponsorship, sports development leveraging and events and Below-the-Line activities.</li> <li>Broadcasting and agriculture were the secondary casualties in addition to the advertising industry, which lost an estimated R4.4 billion.</li> <li>Low-earner employees / breadwinners were made redundant and dependents are suffering.</li> <li>Branded liquor consumption has declined substantially.</li> <li>Products are no longer displayed in shop windows, drink sponsorships have dried up affecting industries such as the printed media, sport and music and fast-food.</li> <li>Industry stakeholders (retailers, multinational beverage companies, producers, advertising companies and others) failed to engage governments and regulatory authorities to find ways of curbing alcohol abuse and prevent social ills that are associated with alcohol abuse.</li> <li>In total, more than 12,000 jobs (various skills levels) are lost.</li> <li>Exports decreased by R225 million and imports by R304 million.</li> </ul>

## 2. Cup Runneth Over

The ANC is still governing South Africa but the ruling party's traditional electorate has started to move away on the grounds of failed services delivery and unfulfilled promises. Democratic maturity, access to information, social media and other factors have given rise to a more informed and critical electorate that is voting along different lines than the lines during the 2014 elections. The opposition is emerging stronger than ever, but fails to garner sufficient voters and no strong unifying leader has emerged. A small breakaway faction split from the ANC in time for the 2019 elections, but the ANC still won more than half of the votes. The internal strife has led to a period of radical introspection to start the process of nation-building afresh having realised that it is losing support.

- A rethink is taking place around BEE charters and affirmative action and BEE policies have been revised – although they are still in place: they are less numbers driven and more competency driven. Targets such as black land and stock exchange ownership and transformation of the economy have been met.
- Service delivery on all levels of government, especially on municipal level, has improved due to better skill programmes and competent management.
- New leadership in government has abolished the cadre deployment policies of the early 2000s and integrity in appointments has returned.
- The war on crime continues although numbers are down.
- The government and private sector successfully implemented job creation initiatives in the manufacturing industry and in agriculture resulting in a more stable labour situation with less union actions and productive forums. The Economic Development Minister Ebrahim Patel's New Growth Path of December 2010 and the Industrial Policy Plan (IPAP), succeeded at reducing unemployment by 10 percentage points, down from the 2010 rate of 25% largely thanks to the Expanded Public Works Programme (EPWP).





South Africa is now the seventh fastest-growing economy between 2010 and 2050, with an average annual real growth rate of 5%. The South African Rand exchange rate against the US\$, the British £ and the euro € is less volatile, but still favours exporters. Rising input costs in agriculture have continued to lead to smaller players failing. The government, agricultural role-players and labour have been for several years in agreement re conditions of employment, land reform and job creation paving the way for stable working relationships. The ANC and Labour Unions have split enabling a focussed agenda on related issues. Competition from emerging market multinationals will increase steadily over time and the latter will move up the value chain in manufacturing and some services, including financial services given the weakness of the Western banking system after the crisis.

In Africa, however, South Africa has been eclipsed by Nigeria and Egypt as a leading continental economy. The E7 group of emerging countries (China, India, Brazil, Russia, Mexico, Indonesia and Turkey) overtook the G7 economies (US, Japan, Germany, UK, France, Italy and Canada) meaning that the global financial crisis further accelerated the shift in global economic power to the emerging economies. The prolonged economic recession globally and in South Africa has significantly eased. Economic growth forecasts globally and also in South Africa's primary export markets are reaching the 4% mark while in new markets, growth rates are in the region of 7%. Inflation is still in the single digits in South Africa and the Rand's sustained performance against the large currencies remains a positive aspect for exporters. South Africa has an average annual population growth rate of 0.3% expected to continue this way until 2050. In South Africa, vineyard hectares remain the same since 2013 following the global trend, as well as crop sizes. The EU experienced two poor crops since 2012 creating opportunities of local exporters, especially to Russia, the US, China and African countries. Regarding the latter, packaged exports increased.

The BRICS countries are doing well in the global sphere taking advantage of global political and economic stability. South Africa's membership has answered all expectations. China is advancing on the US as the largest economy in the world, and India has emerged as a Top 5 economy. The growth in the local and African markets, as well as, in new markets like China and other South East Asian countries has significantly softened the impact of the declining traditional markets like the UK. Growth in eastern European markets has meant that Germany is now the leading logistics hub in the EU to the detriment of Antwerp and Rotterdam. Wine is imported in bulk, bottled and packaged and is distributed to various EU and adjacent countries.

Rapid growth in consumer markets in the major emerging economies, associated with a fast-growing middle class, will provide new opportunities for companies that can establish themselves in these markets. These will be highly competitive, so this is not an easy option – it requires long-term investment – but without it, Western companies will increasingly be playing in the slow lane of history if they continue to focus on markets in North America and Western Europe. The wine industry has successfully developed the domestic market further leading to annual growth rates of between 4% and 5% since 2016. The trend of larger bulk wine exports than packaged con-

tinued since 2012. SA has become a global preferred supplier of bulk white wine in both traditional and new markets. The total wine export average increase per annum is 20%. The export performance, coupled with the domestic successes resulted in wine grape producers becoming more profitable over the years enabling them to replant old vineyards. The wine stock is currently less than 50 million litres, a record low. Larger (e.g. bulk wine producers) and niche producers have growth steadily and have driven economic progress.

Globally, the war on terrorism has significantly had a positive impact – there is less uncertainty. The focus has shifted back to economic growth and addressing climate problems. China's economic boom has continued albeit at a slower pace, but it is now a significant growth market for South Africa bulk wine exports. Chinese have been investing in and buying up wine estates in South Africa reinvigorating the local industry. Mandarin is spoken increasingly among wine exporters and there is also a growing tourist aspect from China to South Africa. With the growing presence of China in Africa, South Africa is a temporary springboard from where Chinese companies operate – this has created marketing opportunities for South African products including wine.

Generation Y represents about 32% of the total population. This generation is a significantly sized economically empowered population age segment in South Africa, dominating every industry. The wine industry has in a timely fashion implemented plans to capitalise on the significant buying potential and to use their propensity for social connections to advertise and market. A strong wine culture has been cultivated to get Gen Y'ers to change to drinking wine rather than other alcoholic beverages such as ciders, beers and RTDs. This is leading to satisfactory growth in wine sales. Globally, the most sought-after and exclusive wines are not just well-known luxury brands such as Grange and Krug. A whole new order of highly collectible wines emerged and a younger generation of passionate winemakers is busily challenging both the establishment and consumers' expectations of wine quality. A new cohort of importers is heading overseas, bypassing the familiar names and returning with some exquisite new classics. Some of South Africa's most established winemakers are taking their best wines to extraordinary new levels, especially Chenin blanc. Industries that were negatively affected by these changing liquor laws, have found new innovative marketing means and have successfully assisted civil society and government in starting to address social ills in South Africa. Filling the gap in advertising, video games promoting liquor beverages have become an innovative marketing tool notwithstanding anti-lobbying by various pressure groups. The WHO has yet to develop a guideline policy. Social networking remains an important communication tool influencing attitudes and opinions. Robotics are well established in beer bottling lines and gaining ground in wine bottling after a slow start to embrace this technology.

The impending effects of climate change on the agricultural sector are not ignored. Summer temperatures are increasing during the growing season, while winter temperatures are increasing during dormant season. Rainfall patterns are changing and rainfall is decreasing at crucial times e.g. during flowering. In-land winters in continental regions are colder than near the coast.



Producers have recognised this and are managing and anticipating the effects of climate change albeit not felt to such a significant degree yet. Special focus is on water management and producers have been experimenting with other cultivars that might be better adaptable to the changing temperatures and rainfall. Starting to feel the effects of climate change, producers are highly mindful of the effect their activities have on climatic issues such as GHG: Packaging, cellar practices, transport and other factors are top of mind. Government is in turn honouring its commitment to global climate initiatives and continues to make positive contribution to the ongoing global climate debate. The South African government has undertaken mitigation actions that resulted in a 40% decrease in emissions in accordance with the Cancun Agreements at the end of COP 16 in 2010 and COP 17 in 2011. South Africa is slowing its growth in greenhouse gas emissions by 40% and wind, solar and hydropower proposals are being approved to help boost clean energy. The South African Fruit and Wine industry's Confronting Climate Change Initiative to develop an industry-wide response to climate change has borne fruit and has been providing an information resource for the industry to better understand the relevant direct (physical) and indirect (market-related) climate change impacts, and a carbon footprint measurement tool to help equip and empower the industry to better respond to these impacts.

Through positive engagement with government, the WHO and NGOs and with other role-players in the South African society, the proposed outright banning of alcohol advertising was amended and the envisaged negative effects were softened. The beverage industry has realised its responsibility in being a socially responsibly player and has taken decisive steps to improve the social ills of South Africa by partnering with government and investing in social programmes including education. Regulations regarding packaging and advertising have amended and market forces have been allowed to rule.

TABLE 2: SUMMARY OF DRIVERS AND THEIR STATUS IN 2021

Drivers	Picture in 2021
<b>Political</b>	<ul style="list-style-type: none"> <li>Politics in South Africa is maturing and the electorate has become more discerning.</li> <li>The ANC remains majority party but its dominance has diminished.</li> <li>There are faint signs of a gradual transition in South Africa from the nation state to a market state i.e. a redefinition of the state's fundamental promises, towards maximisation of opportunities for companies, investors, civil society and citizens rather than of the nation's welfare.</li> </ul>
<b>Economy</b>	<ul style="list-style-type: none"> <li>Economic growth rates range globally and in South Africa from 2.6% to 3.8% per annum. These growth differentials are largely explained by levels of productivity growth and border discontinuities and for South Africa, the Industrial Policy Action Plan (IPAP) has had positive results for the past five years.</li> <li>Trade barriers are progressively dismantled.</li> <li>The WTO acts as a decisive player against countries that are over protectionist and institute non-tariff barriers.</li> <li>In Africa national barriers continue to undermine collaborative research efforts across borders and impede the wider distribution of technological innovations.</li> </ul>

Drivers	Picture in 2021
<b>Social</b>	<ul style="list-style-type: none"> <li>Rise in South African companies using social network; large companies expect their traditional agencies to provide greater strategic input and support. More big agencies will develop and expand their social media offering.</li> <li>Gen Y has come of age and is now the largest consumer of alcoholic beverages totalling 5.16 million split equally between male and female. In South Africa, Gen Y grew over the period to 2021 at twice the rate of the overall population and now represents about 32% of the total population.</li> <li>Gen Y grew up with the internet and therefore expect everyday-life activities to be easy and fast; and they want personalised products and services and a wide range of different options.               <ul style="list-style-type: none"> <li>They are globally connected and interactive and communicate with everybody everywhere.</li> <li>They embrace diversity more than any previous generation.</li> <li>They are committed to their work and some work more than 30 hours a week.</li> <li>They pursue a life filled with challenges, novelty and changes.</li> <li>They are self-confident, optimistic, hopeful and independent and lifestyle means a great deal to them.</li> </ul> </li> <li>Marketing to them it is important to understand what the techno-wise Gen Y'ers think about most traditional marketing and sales pitches: Quality and price are more important than brand; causes are important as is delivering mobile messages and content; they are visual and share experiences with other social media users.</li> <li>The South African wine industry complies with international acceptable business (ethics) practices and policies especially in terms of good governance, labour practices, health and climate.</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>Access to broadband is effective and cheap.</li> <li>Social media continues to grow as a marketing channel.</li> <li>The impact of social media as social networks has become mainstream and their penetration within all age groups has deepened.</li> <li>Social media has changed the dynamics of online interaction forever: Relationships that customers have with both people and brands have overwhelmingly shifted to social media.</li> </ul>
<b>Environment</b>	<ul style="list-style-type: none"> <li>The impending effects of climate change on the agricultural sector are not ignored.</li> <li>Timely action has been taken to manage climatic change.</li> </ul>
<b>Legal</b>	<ul style="list-style-type: none"> <li>The proposed outright banning of alcohol advertising was amended.</li> <li>The fall-out of the changed legislation has been less problematic.</li> <li>Government, the wine industry and civil society are jointly initiating programmes that are effectively addressing social problems in South Africa.</li> <li>Regulations regarding packaging and advertising have amended and market forces have been allowed to rule.</li> </ul>

## CONCLUSION

In this edition of VinIntell, several drivers and variables that are likely to impact on the future of the wine industry were unpacked and reconstituted into two possible scenarios sketching two extremes. Of course, prediction is fraught with risk and a more likely future is probably one that contains elements from both Scraping the Barrel and Cup Runneth Over. The power of scenarios lies in provoking a sense of what might be possible and in combining probabilities in ways we might not have thought of previously. They often allow the detection of faint signals that may put question marks after the most thorough plans. Scenarios, however, never accurately describe how the world or a country or an industry will proceed and there will always be economic, political, and technological surprises that cannot be account for. The key message is really to thoroughly think about and research the future impact of events that are currently unfolding whether they are positive of negative in order not to be caught unprepared for change.

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