

# VININTELL

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## SCENARIOS FOR THE SOUTH AFRICAN WINE INDUSTRY

WILL SCRAPING THE BARREL CONTINUE?





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## INTRODUCTION

Much has happened and occurred since September 2013, the last time VinIntell reported on scenarios for the South African Wine Industry. Broadly using the Political, Economic, Social, Technology, Environment and Legal (PESTEL) analysis method various aspects are once again visited and analysed to present a picture of how each might play out over the next decade to around 2025. A literature review of previous futures studies was conducted including VinIntell editions of 2017 and 2018. From a South African Wine Industry perspective the desirable status for the future remains the following:

- To be globally competitive and highly profitable; To dominate select market niches;
- To produce products that are ‘distillates of nature’;
- To be innovation driven and market directed and ensure continuous renewal and sustainable customer and consumer satisfaction in all the products and services that it offers; and
- To be an ethical, socially responsible and sustainable industry that develops its people; builds relationships with its community and contributes towards creating a better society in South Africa through its behaviour, activities and engagement.<sup>1</sup>

These studies and previous VinIntell research point to the fact that certain drivers and other variables continue to impact on the future of wine in South Africa in both positive and challenging manners including climate change, regulatory change and technological advances [robotics, artificial intelligence (AI)].

The PESTEL series aimed to unpack prominent macro factors that impact on each category. For this edition of VinIntell, an update of the optimistic (Cup Runneth Over) and less optimistic scenario (Scraping the Barrel) presented in 2013 is provided using the PESTEL method.

## ABOUT SCENARIOS

Scenarios are mere roadmaps; they contain no predictions and are at best, constructed stories build around variables 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 2025. 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 2025 will be presented.

## DRIVERS AND VARIABLES THAT ARE SHAPING THE FUTURES

Several factors seem especially important when examining the drivers and each driver's variables:

### Politics

- Political and economic power groupings and how they shift and change e.g. BRICS, E7 and G20.



- Changes in the sources of conflict religious fundamentalism, land, water 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. The failed state dialogue is gaining ground.
- Recent political unrest which paint an uneasy picture for South Africa's future (ISS, 2018). Despite slowly declining support numbers, the ANC is still by far the dominant political party in the country, and thus much of the country's future will hinge on decisions made by the party in the years ahead. Traditionalists (rural, black nationalist, socially conservative, loyal to Jacob Zuma, dominated by Zulus, strong commitment to a centralised state, redistributive policies and not constitutionalists) and Reformers (social democrats, typically urban, include larger segment of born-free voters with jobs, multi-ethnic, believe in a mixed economy and the importance of inclusive economic growth) are the two main ANC streams.
- Political uncertainty which is bound to increase in the immediate future affecting business confidence and investment.

Restoring natural order and the fight against corruption are important drivers.

- Land restitution: The Land Expropriation Bill will affect job creation and income generated by the agriculture, mining and manufacturing industries, but also the banking sector, as these are capital-intensive industries.
- Power and party politics in South Africa.

### **Economic**

- Global economic development is characterised by uneven, divergent development paths and continued uncertainty in countries, in regional economic groupings and among countries. While some have succeeded in reshaping their economies and creating a new foundation for growth others continue to wrestle with volatility and disruption.
- Persistent economic turbulence that will cause global, regional and national recessions with highly indebted developed nations continuing to struggle to restructure their economies.
- Shifts in international power relationships partly reflect shifting economic power. China steaming towards being the world's largest economy and a less bureaucratic and corrupt India beginning to realise its true potential.
- The continued search for solutions to global problems and intervention mechanisms e.g. the interaction among power blocs on tackling mutual issues such as the War on Terror.
- South Africa's global competitiveness status remains under pressure: global



competitiveness – 53rd out of 63 – 2018) despite surprisingly strong growth in 2017 and a presidential shake-up that led to Cyril Ramaphosa taking over at the helm.

- The drive toward improving government efficiency.
- The effect of Brexit on the UK wine sales and on South Africa's exports.<sup>2</sup>
- 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.
- The impact of 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.
- Ethics and responsible business in the global wine industry with the sentiment against alcohol remaining negative: Variables also include environmentally friendly practices, land issues, labour-issues, health and consumption and transparency e.g. in labelling, will grow in prominence in future.
- The surge in popularity of cryptocurrencies which has contributed to the opening of at least 15 new trading venues in South Africa within the past year alone.
- The increasing use of mobiles and other computing technology in Africa that has helped its population become comfortable with cryptocurrency technology.

- The growth of the informal economy as an accepted and 'measured' part of the real economy in many parts of the world.
- Alternative energy sources and the continued energy gap between the age of fossil fuels and the development and maturing of alternative fuel sources.

## Social

- The world's population growth which will increase to 8.1 billion in 2025, with most growth in developing countries and more than half in Africa. By 2050, it will reach 9.6 billion (United Nations). India's population is expected to surpass China's around 2028 when both countries will have populations of around 1.45 billion. Among the fastest-growing countries is Nigeria, whose population is expected to start to rival China as the second-most populous country in the world. By 2050, Nigeria's population is expected to reach more than 440 million people and nearly 914 million by 2100. South Africa's population will be more than 60 million by 2020.
- The growth of the middle class globally particularly in Asia and Latin America with life being revised upwards almost everywhere. Super-centenarians are active part of society - with many now seeking work well into their 80's and 90's. Advances in targeted drugs, gene therapies, bio-artificial and 3D printed organs have contributed to the increasing health and longevity of Western populations in particular.
- Change in roles and lifestyles as well as education, learning and working patterns with new generations entering the work-



place with different expectations, individuals trying to take greater control of their destiny and social media continuing to change the way we interact, plan, transact and share.

- Technology change transforming the nature of work and jobs, driven by an emphasis on learning how to learn, life-long learning and adapting ourselves to the notion of having multiple careers in a working life that could span from 16 to 90.
- The importance of the new skills agenda to equip society with the skills and capabilities required to survive and thrive in an era of constant change. The educated workforce in developing countries in particular is expanding rapidly as literally millions now have university degrees gained through participation in massively open online courses (MOOCs).
- The future learning platform in which classrooms have increasingly become a forum for helping students make sense of and apply content accessed via the web with formal teaching styles far less prevalent. Science has yielded a deepening understanding of human biological and cognitive functions e.g. how to stimulate different emotions, how we learn and how to enhance our performance.
- The shopper of the future and the shop of the future are changing.
- 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;

- Growth in the online channel to grow vastly – e.g. the growing success of click and collect, or “le drive” in France, being used by super- and hypermarkets at an increasing rate.
- Customer empowerment and even greater influence; customers will be more empowered than ever to drive the change they want, as they get more control over their shopping experience.
- Land reform in South African Society: Currently, more than 3 029 farmers cultivate some 94 545 hectares of land under vines (SAWIS).
- Types of job and task definition are being redefined and automated to a degree range from low-skilled jobs to financial managers, lawyers and CEOs and the impact of AI will increase on business in terms of labour savings, skills requirements, improved reliability, higher quality and the ability of managers to lead increasingly automated organisations.<sup>3</sup>

## Technology

- The blurring boundaries between magic and reality and the rapid pace of advancement and convergence of nanotechnology, biotechnology, information technology, while the cognitive sciences and new bio-industries are maturing fast in fields such as bio-materials, bio-energy, biological engineering and manufacture, biomimicry and DNA data storage.
- Science led sectors such as autonomous vehicles, vertical farming, green transport, 3D printing, robotics and commercial space travel and tourism are part of the commercial landscape.



- Personal technologies have continued their evolution from desktop to portable to mobile to wearable and are now increasingly embedded in our bodies. Humans are learning to live and work alongside robots – intelligent mobile robots are now common in workplaces, factories, homes, and various city settings.
  - The intelligent, open access, multi-sensory and immersive internet accessed mainly through conversational and gesture interfaces on mobile devices. These developments, combined with over 100 billion devices connected via the Internet of Things, are reshaping the world as we know it.
  - Disruptive innovations, radical thinking, new business models and resource scarcity are impacting every sector and have forced a radical rethink of entire industry structures and value chains e.g. the adoption of driverless vehicles.
  - Resource scarcity and new thinking about efficient asset usage is driving growth of the ‘sharing economy’. From business use of cloud computing to individuals participating in car sharing schemes such as Uber, Zipcar and RelayRides, the preference for user ship over ownership is increasing.
  - Automation, AI and robotics have replaced unskilled labour, skilled workers and professionals across a range of industries.
  - Block chain technology is here to stay as the technology behind cryptocurrencies such as Bitcoin (BTC). It can certainly be anticipated that this evolutionary technology is set to spark a huge revolution in the business world.
  - Rapid advances in Information and Communication Technology (ICT) see millions of people gain access to always-on, high bandwidth communication devices, which will allow users to network and connect in dynamic new ways.
  - The need for capable talent and knowledge of AI (deep learning technology and analytics skills) as a challenge for businesses.
- ### Environment
- Demand for energy, food, water, rare earth minerals and other key resources continue to rise faster than supply over the last decade – driving up prices globally.
  - Progress of tackling climate change and biodiversity loss continues to lag global targets.
  - The growing focus on the role of science and technology and in particular bio-engineered solutions to tackle these climatic challenges and create new levels of abundance.
  - Rising global temperatures and the impact of human-activities.
  - The drought in South Africa as both a challenge and an opportunity. Water scarcity countrywide is exacerbated by failed state evidence. Improved water management is a priority.
- ### Legal
- Impact of regulatory change in the global alcohol industry and discussions around issues such as National Health Insurance, legal age, advertising, sustainability and pricing among a range of stakeholders.



Impact of excises on wine producers going into the future.

- The continued industry consolidation in the form of takeovers, mergers, partnerships, and investments in both the traditional and new world wine producing areas.

## REVISITING THE TWO POSSIBLE SCENARIOS

Having considered and discussed these drivers and variables in 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? There are two basic scenarios that both include challenges.

### Scraping the Barrel

Global economic development is characterised by uneven, divergent development paths and continued uncertainty in countries, in regional economic groupings and among countries. While some have succeeded in reshaping their economies and creating a new foundation for growth others continue to wrestle with volatility and disruption. Persistent economic turbulence will cause global, regional and national recessions with highly indebted developed nations continuing to struggle to restructure their economies.

Looking ahead to 2025, with the current political landscape as a backdrop, South Africa faces broadly two future scenarios. The first scenario is the less desirable low road. This







outcome will be reached if South Africa stays on its current path with it looking at an uninspiring and business-as-usual scenario, with downward trend in which reformists triumph and begin to address some of the country's most pressing challenges. The South African economy remains stuck in a middle-income trap, accentuated by policy uncertainty and inaction, investor uncertainty, poor political management and bad implementation – essentially a failed state (ISS, 2017). Traditionalists and Reformers continue the debilitating fight for control over state resources although ANC is a compromise slate of traditionalists and Reformers at least for the foreseeable time. The ANC will remain the majority by far with the DA the main opposition although it teeters on self-destruction due to in fighting and lack of policy. The EFF the third largest political party, but holds much power in mobilising the population to meet certain aims e.g. the land issue.

The fall-out of the prolonged economic recession of the first decade of 2000 continues to impact in various ways. Inequality grows and so does anger on the streets. This is impacting on voting patterns and the ANC. The 2019 election failed to secure significant votes for the ANC. Although the factionalism and growing opposition has however been a wake-up call to the ANC and more practical means were being implemented to meet employment and poverty targets by 2025 this has been a bumpy road with mixed success. 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, as well as external factors that impact

on mining and agriculture (commodity prices, drought etc.). Levels of violence continue as they have, with more civil protests and political killings around elections while we could even see violence between parties, especially the ANC and EFF, escalate as both vie for power. The key issue determining the future of the ANC (and the country) is the outcome of the factional battle between the reformists and traditionalists within the party.<sup>4</sup>

The unemployment rate continues way too high and fears and frustration along the poorer segments of the population are exploited for political gain leading to significant social unrest. Service delivery on all levels of government, especially on municipal level, have declined even more and is impacting on stability, health and investment. This is 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. Inflation is expected to continue staying below 6% pa (5.26% in 2018 and 5.5% in 2025). The lowest inflation rate of 4.58% in 2015 will not be seen in the foreseeable future.<sup>5</sup> Interest rates remain 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. Also South Africa is failing to reducing the size of its 'shadow economy' - the production of and trade in legal goods and services that are deliberately and often illegally concealed from public authorities - by 2025 (Association of Chartered Certified Accountants, 2018). The shadow economy is forecast to rise to



24.19% of GDP by the time 2025 dawns. This is much higher than the global average of 21% and presents a significant challenge for society but also opportunity to assist sectors to transition from informal to formal.<sup>6</sup>

South Africa has however failed in its bid to accelerate its economic growth rapidly enough to absorb its huge unemployed pool and reduce poverty<sup>7</sup>. Capital is even harder to secure for small farmers and entrepreneurs and therefore transformation efforts have been not realised. Whites still own 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 the trend. Pension payments, hospital provision, prisons, housing, schools and even universities are run by the private sector drawn to services of decent quality; a double economy so to speak. The National Health Insurance plan has failed to provide access to decent medical care and the majority of South Africans are accommodated in the private healthcare system. Also there will be growth in private schools and online universities, while private security guards outnumber the police and private contractors are running prisons in South Africa.

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 and Brexit has had a devastating effect on wine exports to the UK. 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 and

are still fervently searching for new markets. The deterrent to growth remains our distance from buoyant markets which is impacting to margins.

The 18 year-olds of 2015 are the young professionals of 2025. High on ambition and but insufficiently skilled for the world of automation, ICT, robotics, bitcoin and block chain frustration is growing. Education programmes have remained insufficient and out of date with the needs of the Fourth Industrial Revolution. High skilled jobs are open, but there is no one to fill them. Also continued technology regulation failures on government side have hampered broadband growth in South Africa as it remains too expensive and slow. It inhibits the use of social media. Internet access remains a problem.

South Africa's government and industries have not invested sufficiently in climate change mitigation strategies. Crippling outcomes are droughts in part of economically important parts of South Africa. 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 2015 following the global trend. This has impacted on the size and quality of harvests and less wine for bulk exports (and of course prices have risen sharply). 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. We have seen numerous takeovers and mergers. 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 continues the competitor battle with rivals that are in volume and geographically at an advantage. In China new and old world competitors like New Zealand and 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. 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 2025

Drivers	Picture in 2025
Political	<ul style="list-style-type: none"> <li>• China continues its drive 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 but their geographic proximity remains a competitive advantage.</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> <li>• National politics remain tense.</li> <li>• Agri-transformation is very slow as result of infighting between Reformers and Traditionalists, government department and remains an emotional political ball.</li> </ul>





Drivers	Picture in 2025
<p><b>Economy</b></p>	<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>• Brexit leads to new agreements and impacts on South Africa's wine export figures. Pressure in wine competing countries to grow exports has 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> <li>• The economic indicators show poor figures: Inflation, economic growth and unemployment.</li> <li>• Sporadic trade wars upset trading and economies, enhancing protectionism and threaten the livelihood of workers along the value chain.</li> </ul>
<p><b>Social</b></p>	<ul style="list-style-type: none"> <li>• The shopper of the future dictates how goods are sold and Gen Y'ers as the emergent market colossus of 2025.</li> <li>• Failure to embrace the new shopper (wine styles, online, growth, etc.) with retailers still focused on the familiar 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>• Economic polarisation feeds the shadow economy.</li> <li>• Lack of long term government planning and implementation.</li> <li>• Social ills growth and with that social unrest has become the norm with significant damage.</li> </ul>



Drivers	Picture in 2025
Technology	<ul style="list-style-type: none"> <li>• Broadband in South Africa has failed to provide broadband access to South Africa's citizens and business - regulatory bodies cannot seem to implement policies and access to broadband is limited.</li> <li>• Over regulation means increasing problems in accessing information.</li> <li>• While social networks are mainstream, limited growth in smartphone use is an inhibitor and their penetration within all age groups deepens;</li> <li>• Cost of access inhibits the development of social communication.</li> <li>• Globally Artificial Intelligence, robotics, machine learning and ICT developments have developed rapidly, but South Africans' skills set have not developed adequately you reap the gains of the Fourth Industrial Revolution with dire direct and indirect consequences. South Africa is dangerously lagging and the cost of catching up is inhibitive high.</li> </ul>
Environment	<ul style="list-style-type: none"> <li>• Global temperatures are rising rapidly and consistently and in South Africa pockets of drought-ridden areas negatively impact on economic growth and jobs.</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.</li> <li>• Climate change has led to 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 remains 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 is failing to develop effective policies esp. 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 while the industry at large, has not devised a proper climate plan and fails to provide appropriate information.</li> <li>• On a positive note, independent power producers are allowed to operate and Eskom has gotten its house in order.</li> </ul>



Drivers	Picture in 2025
Legal	<ul style="list-style-type: none"><li>• With the Liquor Laws of the earlier 2000, branded liquor consumption has declined substantially and the advertising industry lost revenue, including sponsorship, sports development leveraging and events and below-the-line activities.</li><li>• Job losses to low-earners continue but this is also in line with the changing skills set required in the high technology future.</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. These are rampant in 2025.</li></ul>

### Cup Runneth Over

Politically, in the best case scenario, Reformers are able to mediate, and a more unified government will lead to prosperity by 2025, mitigating the occurrence for violence. The political landscape sees some maturity. While the Reformers emerged victorious from the December 2017 ANC National Conference, they adopted policies that allow for a restructuring of the economy to unleash pent-up growth potential. However, there has been the formation of a new party of interesting alliances (particularly in Gauteng) that sharply change the political landscape. This was the result of a rapid transition to a new leadership dominated by a reformist grouping – it has the greatest potential economic and developmental benefits for the country, and the most positive election results for the ANC. The EFF eventually dropped off on the understanding that many EFF supporters' votes were actually a protest vote against the leadership of the ANC.





The ANC is still governing, but its 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 earlier elections. The opposition fails to garner sufficient voters and strong unifying leader has yet to emerge. 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 and are now more pragmatic and less emotive albeit still in place: they are less numbers driven and more competencies driven. Targets such as black land and stock exchange ownership and transformation of the economy are being pursued and met. New leadership in government has abolished the cadre deployment policies of the early 2000s and integrity in appointments has returned. Service delivery on all levels of government, especially on municipal level, has improved due to better skill programmes and competent management. State owned enterprises are not bleeding the economy dry and the war on corruption is bearing fruit. There has been strengthening of the law enforcement bodies.

The government and private sector have effectively addressed the skills challenge at a 'Skills for the Future: The Fourth Industrial Revolution' Conference in 2020 that included a wide range of stakeholders. Together, stakeholders successfully implemented skills pro-

grammes that led to job creation initiatives in the services and manufacturing industry and in agriculture resulting in a more stable labour situation with less union actions and productive forums. Economically South Africa targets a 10% compound annual growth rate (CAGR) in order to achieve growth of the economy from the current R4.12-trillion to R8.83-trillion by 2025, South Africa is. This rate is in line with other leading emerging economies like India where the Maharashtra state achieved its vision to grow its economy by 15% CAGR up until the present year, 2025. Approximately 30% of South Africa's GDP is estimated from industry, in line with the average 30-35% in most large emerging markets. Its industry grew at a 12% CAGR; slightly higher than the estimated GDP growth. Only 2% of South Africa's GDP is from agriculture, which is far less than the 7-10% share seen in most large emerging markets. Farm exports to the African continent and beyond are a key driver of growth. Around 69% of South Africa's GDP is estimated to come from services; mainly tourism and banking, financial services and insurance (BFSI). This is on the higher side, in comparison to the average 60-70% seen in most large emerging markets. Services cannot grow in isolation beyond a point; since most services are centred on manufacturing or infrastructure development. Tourism and financial inclusion remain priorities and deepening the services sector through the digital economy brought in efficiencies in public-services delivery to the broad base of the population.

The South African Rand exchange rate against the US \$, the British £ and the euro is



less volatile but still favours exporters. Rather than domestic news, the Rand is driven by the strength of the US\$ and global trade developments. The US\$ strength largely depends on how the US and Chinese trade relations. The Rand strengthens when trade developments take another optimistic turn.

Rising input costs in agriculture have continued to lead to smaller players failing but this is an opportunity for the maturing wine industry and strengthens the South African brand and industry on the global playing field. 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 Mauritius, Nigeria and Egypt as a leading continental economy. Geopolitically, 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 however 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 remains 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 2018 following the global trend, as well as crop sizes.

China is advancing on the US as the largest economy in the world, and India has emerged as China's largest contender. 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 countries. The Chinese have also 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.

The wine industry has successfully developed the domestic market further leading to annual growth rates of between 4% and 5% since





2015. The trend of larger bulk wine exports than packaged continued since 2012, but has been hit by higher prices due to the decline in production. SA remains a global preferred supplier of bulk white wine in both traditional and new markets although as said earlier, wine supply to the bulk players remains under threat and continue to impact on price. The export sector has to grow at a 10% CAGR till 2025 from 27% in 2017 in line with estimated GDP growth if it has to meet the forex demand for imports and keep trade balance positive. The issue is that the trend in the ZAR vs the US\$ may have reduced the competitiveness of South African export in the international market, but this makes it imperative to draw up further Free Trade Agreements and export-promotion schemes with the continent and beyond to open more export opportunities.<sup>8</sup>

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.

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 spirits, ciders, beers and RTDs. A whole new order of highly collectible wines has emerged and a younger

generation of passionate winemakers is busily challenging both the establishment and consumers' expectations of wine quality. The new generations have also significantly changes how wine is retailed: The future shopper and the future shopping experience have changed the wine retail scene significantly. Online wine sales are now the preferred channel. The online channels now accounts for 15% of food and beverage sales, up from 2.5% in 2018 (wine <1%). Brands are carving out a space in e-commerce for fear of losing share to more online-advanced competitors.

Block chain technology is here to stay as the technology behind cryptocurrencies such as Bitcoin (BTC). This evolutionary technology has led to a revolution in the business world and at governmental level, from the Sweden Land Registry, to the Big Four accountancy firm such as E&Y – who accept Bitcoin as payment for its consultancy services. All we are looking at now is simply the next cycle in evolution – from electronic money to cryptocurrencies.<sup>9 10</sup>

The impending effects of climate change on the agricultural sector have led to innovative solutions ranging from energy to water conservation and pruning methods. Summer temperatures are increasing during the growing season while winter temperatures are increasing during dormant season. Rainfall patterns have changed changing and rainfall has decreased at crucial times e.g. during flowering. 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 e.g. it has taken mitigation actions that resulted in a 40% decrease in emissions in accordance with the Cancun Agreements. 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 alcoholic 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. 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 but the challenge to find the right skills and retain them remains.

**Table 2: Summary of drivers and their status in 2025**

Drivers	Picture in 2025
Political	<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 the majority party but its dominance has diminished.</li> <li>• There are faint signs of 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> <li>• Agri-transformation is implemented on a win-win basis and is less a political issue.</li> </ul>



Drivers	Picture in 2025
<b>Economy</b>	<ul style="list-style-type: none"> <li>• Economic growth rates range from 2.6% to 3.8% per annum. These growth differentials are largely explained by levels of productivity growth and the Industrial Policy Action Plan (IPAP) has had positive results for the past five years.</li> <li>• Trade barriers are evolving and the launch of the Agreement on the African Continental Free Trade Area (AfCFTA) in 2018 (which means that no or much lower tariffs are levied on exports and imports between most countries on the continent) sees South Africa as one of the biggest beneficiaries.</li> <li>• In Africa national barriers however continue to undermine collaborative research efforts across borders and impede the wider distribution of technological innovations.</li> <li>• Although the skills for the future challenge remains, significant steps have been taken to ensure the workforce is aligned for the Fourth Industrial Revolution.</li> </ul>
<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. Larger agencies developed and expanded their social media offering.</li> <li>• Gen Y has come of age and is now the largest consumer of alcoholic beverages and is shaping the manner in which retail is conducted.</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> <li>• There is a more inclusive and integrated drive to curb social ills related to alcohol abuse.</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>• Access to broadband is effective and cheap and there is continued investment in the ICT infrastructure.</li> <li>• Social media is maturing as a marketing channel.</li> <li>• Robotics and Artificial Intelligence (the Internet of Things, Automation, and Machine Learning) are being embraced as necessities for growth and profits and are no longer viewed as unknown threatening forces. On the contrary, there is evidence that new technologies are beneficial to the whole value chain from production to sales.</li> </ul>



Drivers	Picture in 2025
Environment	<ul style="list-style-type: none"><li>• The effects of climate change on the agricultural sector have not been ignored and the sector and government have ensured that negative impacts are being managed: infrastructure is upgraded and water security restored.</li><li>• The industry took a while to recover from the droughts the previous years.</li><li>• Producers have become more self-sufficient in water storage and also in installing alternative energy sources.</li></ul>
Legal	<ul style="list-style-type: none"><li>• The proposed outright banning of alcohol advertising was softened, but traditional job creation falters.</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 land ownership and social problems in South Africa.</li></ul>

## CONCLUSION

In this edition of VinIntell, several drivers and variables continue impacting on the different futures that are likely to impact on the future of the wine industry were revisited 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. They 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 we cannot 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 or negative in order not to be caught unprepared for change. There are faint optimistic signs that elements of the Scraping the Barrel scenario will ease in intensity and that more political and economic stability and maturity will lead to the more positive Cup Runneth Over scenario elements to dominate. Hope springs in the new Ramaphosa period that post the 2019 elections social stability will return.



## ENDNOTES

- 1 "Strategic outline for the South African wine industry: a road map for future competitiveness"
- 2 <https://news.wine.co.za/News.aspx?NEWSID=32596&CLIENTID=&SPOTLIGHTID=>
- 3 For the full MGI report, see "Disruptive technologies: Advances that will transform life, business, and the global economy," May 2013, on [mckinsey.com](http://mckinsey.com). This research has examined the economic potential of disruptive technologies that can automate physical work (for example, advanced robotics, 3-D printing, and autonomous vehicles) as well as those that can automate knowledge work requiring intellectual effort and the ability to interact with others (for example, various types of artificial intelligence, machine learning, and deep learning).
- 4 <https://businesstech.co.za/news/government/128025/this-is-what-south-africa-could-look-like-in-2024/>
- 5 [www.statista.com/statistics/370515/inflation-rate-in-south-africa/](http://www.statista.com/statistics/370515/inflation-rate-in-south-africa/)
- 6 [www.accaglobal.com/gb/en/professional-insights/global-economics/Emerging-from-the-shadows.html](http://www.accaglobal.com/gb/en/professional-insights/global-economics/Emerging-from-the-shadows.html) and [www.sabusinessintegrator.co.za/news/569/industry-news/south-africa-s-shadow-economy-set-to-rise-by-2025](http://www.sabusinessintegrator.co.za/news/569/industry-news/south-africa-s-shadow-economy-set-to-rise-by-2025)
- 7 <http://m.polity.org.za/article/leapfrogging-wont-solve-africas-economic-woes-2018-05-25>
- 8 [www.huffingtonpost.co.za/sourajit-aiyer/heres-how-south-africa-can-become-an-r8-8-trillion-economy-by-2025\\_a\\_23381175/](http://www.huffingtonpost.co.za/sourajit-aiyer/heres-how-south-africa-can-become-an-r8-8-trillion-economy-by-2025_a_23381175/)
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- 10 <https://cryptocurrencynews.com/daily-news/crypto-news/south-africa-self-regulate-crypto/>



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