An analysis of the potential for the marketing of ostrich meat in S.A.

BY

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Paper presented in partial fulfillment of the requirements for the Master’s Degree in Business Administration in the Faculty of Management at the Port Elizabeth Technikon

PROMOTER: Professor JJ Pieterse

DATE: November 2003
DECLARATION

This word has not been previously accepted in substance for any degree and is not being currently submitted in candidature for any degree.

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STATEMENT

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ACKNOWLEDGEMENTS

Grateful thanks are extended to all those individuals and organisations that contributed to the successful completion of this study. In particular, the assistance of the following is acknowledged:

• To our Heavenly Father who gave me the opportunity and inspiration to complete this study.

• My wife, Aretha and sons, Lodi and Dirk for their encouragement, sacrifice and patience.

• Prof JJ Pieterse for his coaching, encouragement and advisement.

• Our study group for constant support and motivation.
ABSTRACT

The research program addressed in this study was to do an analysis of the potentials of the marketing of ostrich meat in the South African market. Being the world leader in the ostrich industry, the research’s emphasis was to establish reasons why the meat industry does not explore the South African meat market.

To achieve this object, a literature study to determine the key components of the current situation was undertaken and used as a theoretical model to analyse the current situation in the market as well as in the ostrich industry.

In addition to the literature study, an empirical study was conducted to identify some critical issues that have an influence on the potential of the domestic market. The survey method used, based on the key components gained from the literature study, consisted of an in-depth scan of the macro-environment and thorough investigation of the target industry.

The investigation involved using the Internet and World Wide Web, print media, personal interviews and telephonic interviews.

The result of the literature study was finally combined with the results of the empirical study and some recommendations were made. The recommendations were applicable to the ostrich industry in so far that implementing some plans for the meat industry can have serious consequences for the other products of the ostrich industry.
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Chapter 1

Introduction, problem statement, definition of key terms and research design.

1.1 Introduction and problem statement.

Planning encourages thinking about the future, provides direction and purpose and can improve performance. Developing and implementing a marketing plan is an inherent part of growing a business.

According to Nigel Piercy (1997: 141) strategy is about “breaking free”. It is about breaking free in the following senses:

- Breaking free from an industry dogma. Customers do not care about industries, just about meeting their needs as shown by the entry of supermarkets into financial services (not their industry, but definitely their market).
- Breaking free from the industry “rule”. Gary Hamel (1994: 122-128) said there are three kinds of companies in all industries: rule makers, who built the industry; rule-takers, who follow and imitate and rule breakers, who implement revolution in the industry and re-event the business.
- Breaking free of the present to create the future and particularly from trying to preserve the past.
- Breaking free from hostility to change. Change is seen as unpleasant, not when it is about growth, new ways of doing things and new activities to choose from.

When a business fails, often a marketing plan or lack thereof is to blame. Most marketing plans include three distinct sections called situation analysis (realities of the moment), objectives and strategies and expected results. The elements can be posed as questions to help simplify the idea of a marketing plan (http://www.martzmarketing.com).

- Where are we now?
- Where do we want to go?
- How do we get there?

The question “Where are we now” will be analysed in the thesis. To answer this question it is necessary to understand the environment of the organization or industry. The external environment in which an organization is operating can influence its strategic development by creating both opportunities and threats. Therefore it is important that an organization’s strategies continue to fit the environment in which the organization is operating and the opportunities and threats that exist an understanding of the strategic capability of the organization is thus necessary (Johnson & Scholes, 2002:144).
Regarding the SA ostrich industry the question “where are we now” can be summarized as follow:

- The South African market currently absorbs only a small percentage of total RSA ostrich slaughtering. To survive, abattoirs are therefore forced to market their meat overseas (Ostrich Industry review, 2003). The South African ostrich industry is unique in this sense that it has the largest world ostrich population and it is the world leader in ostrich slaughtering –but it depends totally on exporting its products. According to Dr Francois Hanekom, Chairman of the Ostrich Business Chamber nearly 90% of all the ostrich meat being slaughtered in SA is exported (Personal interview).

This leads to the following problem which will be addressed in this research:

**What is the potential for the marketing of ostrich meat by the South African processors to penetrate the local meat market and gain a competitive market share?**

1.2 Sub problems

- What does a literature study reveal about marketing strategies regarding agricultural products?
- What are the current environmental conditions for the ostrich meat industry?
- What opportunities are available in the local market?
- What is the strategic capability of the processors to “service” the domestic meat demand?

1.3 Delimitation of the researcher

1.3.1 Size of role-player

Role-players in the ostrich industry that are dealing with ostrich meat will be questioned about their views. Other persons involved in the red meat industry will also be interviewed.

1.3.2 Geographic demarcation

The researched area falls within the national borders of the RSA. The empirical component of this study will be limited to role-players lying within the following geographical areas:

- Klein Karoo: This is the region between the Outeniqua and Swartberg Mountain rages in the Western Cape. This includes the areas surrounding Oudtshoorn, where the largest percentage of the world’s ostrich population is found.
• Garden Route: This is the region from Knysna to Riversdale in the Western Cape. At the centre of it lies Mosselbaai where the second largest abattoir in South Africa is found.

1.4 Definition of key terms.

1.4.1 Marketing Planning

Marketing planning involves designing activities relating to marketing objectives and the changing marketing environment. Marketing planning is the basis for all marketing strategies and decisions (Lamb, Hair and McDaniel 1998:24).

Marketing planning is a logistical sequence of activities leading to the setting of marketing objectives and the formulation of plans for achieving them. Conceptually the process is simple, calling for a situation review, the formulation of some basic assumptions, setting objectives for what is being sold and to whom, deciding on how the objectives are to be achieved, and scheduling and costing out the actions necessary for implementation (McDonald & Tideman, 1993:12).

1.4.2 Marketing strategies

Marketing strategy involves not only the coordination of the marketing mix but also the coordination of marketing as a whole with other organizational functions in order synergistically to pursue overarching objectives which are informed by a richer appreciation of a long term environmental and competitive dynamics (Littler & Wilson, 1995:5).

1.4.3 Competitive advantage

Kotler and Armstrong (1996:256) define competitive advantage as “an advantage over competitors gained by offering consumers greater value, either through lower prices or by providing more benefits that justify higher prices”. Porter (1990:19) adds that competitive advantage is created and sustained through differences in structure, values, culture institutions and histories that have significant impact on competitive success.

1.4.4 Market Environment

The marketing environment consists of external variables such as economics, technology, politics, legislation, demographics and the social aspect. An understanding of environmental dynamics is a requisite to sound market planning. Correct identification and analysis of the relevant factors in the external environment will lead to a correct assessment of the marketing opportunities in a marketing plan (Kelley, 1972:38).
The marketing environment consists of the task environment and the broad environment. The task environment includes the immediate actors involved in producing, distributing, and promoting the offering. The broad environment consists of six components: demographic; economic; natural; technological; political - legal and social cultural. These environments contain forces that can have a major impact on the actors in the task environment (Kotler, 2000:15).

1.4.5 Industry

It is a group of firms producing products that are close substitutes for each other. It is useful for managers in any organization to understand the competitive forces acting on and between organizations in the same industry or sector since this will determine the attractiveness of that industry and the way in which individual organizations might choose to complete. It may inform important decisions about product/market strategy and whether to leave or enter industries or sectors (Johnson & Scholes, 2002:110).

1.5 Significance of research.

Planning for the future is important for organizations striving to improve their performance in competitive, dynamic markets. “Yet for many it is a task that is ignored, related to the bottom of the priority list or considered unimportant in the context of daily operational crises” (Abratt, Brick and van Rensburg, 2001:3).

Abratt & Higgs (1994:30) conclude that sound marketing planning is essential for the survival of local companies. At present the South African market for ostrich meat is limited and abattoirs are therefore forced to market their meat overseas. During 2001, due to the mad cow disease (BSE) crisis in Europe, a tremendous demand for other meat than beef developed. Since January 2002, the demand has dropped as demand for beef increased again. Some observers said that because meat out-priced itself, demand declined when safe red meat was once again available. South African farmers however still survived, because of the low value of the Rand and the effect of the lower demand was out-priced by the “low rand value”. European ostrich producers bought large number of chickens in 2002 and when these chickens are slaughter birds there is no demand for meat. It is thus clear that because of lower demand, meat prices are declining (Cornelius, 2002:4).

The researcher’s opinion is that some research had to be done on the potential of local ostrich marketing. South Africa has a population of 40 million people and the potential long run opportunities should be identified to give the ostrich meat industry some exposure in the local market.

1.6 Research design

In this section the methodology to be followed in the research project is described.
1.6.1 Research methodology

In concluding the research project the following procedure will be adapted to solve the main and sub-problems.

1.6.2 Literature Survey

A literature study will be performed to identify key factors leading to successes in strategic decisions that could be benefited in reaching the goals of the thesis. These key factors will be compared to the current situation and be analysed to estimate whether there are any potential for local marketing strategies.

1.6.3 Empirical study

The empirical study will consist of:

Personal interviews with leading business man in the ostrich industry. These people will include the chairman of Mosstrich; chairman of the Business Chamber of the Ostrich Industry and the head of Meat Marketing and Sales of the Klein Karoo Group.

The survey method to be used, based on the key components gained from the literature study, will consist of an in-depth scan of the macro- environment, utilising the Internet and World Wide Web, print media, personal interviews, and telephonic interviews.

1.7 Outline of chapters

The research has been planned to include the following chapters.

Chapter 1: Introduction, problem statement and definition of key terms.

Chapter 2: Literature study.

Chapter 3: Background to the ostrich industry in South Africa.

Chapter 4: Actual study of the ostrich industry with the emphasis on meat.

Chapter 5: Summary, recommendations and conclusion.
1.8 Summary

Analysing market opportunities, researching and selecting target markets are some of the first steps of a marketing process (Kotler, 2001:86). The dynamic and competitive business environment cannot be ignored and quick market response and adaptability to the environment will differentiate the winners from the losers.

The aim of this chapter was to present the main problem to be addressed in this research and to outline how the researcher intends to solve the main and sub-problems. Core concepts and key terms were identified to ensure clarity throughout the paper. Chapter Two will present an overview of the relevant aspects that have an influence on a potential marketing plan.
Chapter 2

2.1 Introduction

In this chapter the aim is to extract the common elements of a marketing plan recommended by leading authors and used it as a theoretical base to analyse the potentials of the marketing of ostrich meat. Looking at the potentials, a situation analysis, internal analyses and market strategies will be dealt with.

2.2 Executive Summary

The aim of the executive summary is to help senior management understand the plan’s major thrust quickly and easily. The summary should be brief and to the point. In order for the executive summary to contain the main issues or aspects of the plan, Abratt et al, (2001:2) recommend it should written last and then inserted at the front of a marketing plan.

2.3 Situation Analysis

Martel (2001:29) defines a situation analysis as a triangulation of a company’s whereabouts in relation to the customer that are served, the trends of the market place in which the company is situated, as well as who the competition is.

According to McGovern G (http://www.Gerrymcgovern.com), the actual classification situation analysis should cover the following areas:

- Organizational objectives and strategy analysis: Analyze your organizational objectives, mission statement and other relevant material.
- Reader survey: Talk to the target reader of your content and find out about how to classify the content.
- Current content analysis: Look for important terms that are cropping up again in current content.
- Common search words analysis: Analyze how people use your website, what words and phrases are being entered.
- Author and specialist survey: Talk to people who create the content; how would they like to see it classified.
- Competitor content analysis: Examine how competitors approach classification.
- Industry publications analysis: Are there any relevant industry publications, how are they structured.
• General industry analysis: Look for groups that are seeking to establish common metadata standards.

The situation analysis will now be dealt with in more detail.

2.3.1 Macro – Environmental Analysis

Companies and their suppliers, marketing intermediaries, customers, competitors and publics all operate in a macro environment of forces and trends that shape opportunities and pose threats. These forces represent “non controlables” which the company must monitor and respond to (Kotler, 2000:138). The process, known as environmental scanning, is the collection and interpretation of information about forces, events and relationships in the external environment that may negatively affect the future of the organization or the implementation of the marketing plan (Lamb et al, 1998:30).

Johnson & Scholes (2002:98) consider it important to determine the key forces at work in the macro environment both in the present and in the future and how they affect the organization. It is important to identify these issues and particularly those that are likely to have a differentially large impact on a specific organization. As a guideline, they recommend that a PESTEL analysis to be used to determine these forces. The analyses look at ways in which future trends in the political, economic, social, technological, environmental and legal environments might impinge on organizations.

It is important that PESTEL is used to look at the future impact of environmental factors, which may be different from their past impact. Managers need to understand the differential impact of these external influences and drivers on particular industries, markets and individual organizations. For example, some industries may have more potential for global development than others. It could also be that the impact of globalization may be different in different parts of the business. A more detailed explanation of these macro – environmental influences, based on the PESTEL format, will now follow.

a) Socio cultural factors

The social environment is a complex of demographic (population, size, age structure, location) and cultural (social values, attitudes education) variables. The pace of change in the social environment may be slow, but its effects are inexorable. Demography is a prime component of demand and changes in the demographic structure can have lasting effects on marketing strategy.

A threat to many companies specializing in baby and infant products has been the general ageing of the population with the result that these companies had to search for new products or markets (Litter & Wilson, 1995:100).

Cultural variables, as they affect values and attitudes, although seemingly slow moving, can have profound effects on marketing strategy, providing both threats and opportunities. Social values regarding health have had a
threatening effect on tobacco companies. Manufactures have also been affected, as can be in the current debate about nuclear energy generation. Some of the effects of social change can result in rapid change, for example fashion but generally the strategist has time to evaluate the corporate response to such change.

Marketing strategy has a two fold response to social change: first to monitor and evaluate it’s impact in terms of product offerings and marketing methods, but, secondly a more proactive role of building company image within society via what has been termed the company’s publics. Social attitudes to companies can translate themselves into competitive advantage or disadvantage in a number of social domains or publics. Social acceptance is for many companies in hostile environments a key area of marketing strategy.

b) Economical factors

The economic environmental consists of the current and future state of key economic variables used to describe wealth, purchasing power, savings and consumption, together with government economic policy deployed to affect these variables. For many products, economic variables, such as GNP or disposable income, are key determines of demand, particularly in capital goods or industrial products. The distribution of income in society provides opportunities for firms to differentiate product or service offerings in terms of level of disposable income. The rate of inflation and government policy towards it can greatly affect consumer’s attitude to credit.

Identification, monitoring and forecasting of these economic variables to which the company’s market effort is most sensitive is of prime importance. In most cases, this involves forecast of market size rather than market share as well as exogenous variables such as GNP. Economic forecast are readily available in the financial press.

Measurements like the Human Development Index (HDI) give indications of a country’s economic development. This index is based upon three measures: life expectancy, literacy rates and whether average incomes are sufficient to meet the basic needs of life in a country (Hill, 2002:50). High unemployment levels are an indication of slow or poor economic development in a country and can distracts investments. The reserve may also be true. A high unemployment level may result in lower employment costs due to the abundance of people willing to work for low wages.

Price controls can have both a negative and positive effect on industry. The negative effect is due to the capping of prices that could curtail businesses from making maximum profit from their goods and services. The positive side of price controls is that it prevents greed in the market place and makes goods affordable to the consumer.
c) Technological factors

The technological environment is compounded on the impact of science and technology in process and product innovation. In terms of marketing strategy, technological change offers the opportunity to purchase cheaper / better raw materials; improve product quality through process improvements, and the potential to alter the marketing of products and services in order to gain competitive advantage. Major threats are to product obsolescence, a general shortening of product and service life cycles and the ability of technology to alter methods of marketing such that the individual firm cannot afford to compete.

According to Kotler (2002:150) to ensure that organizations keep abreast of technology, it is important to be alert to the following factors:

- The competitor’s level of research and development and their focus on technological changes.
- The effect of intellectual property on the industry (patents, copyright, and trademarks).
- The effect of product and productivity improvements on the industry in which the organization operates. The time lag between innovation and market introduction is shortening as modern day technology feeds upon itself (Kotler, 2000:150).
- The speed of technological transfer.

The major “taste” for marketing management is to monitor the effects of technological change as it affects competitive advantage, but, as can be seen the effects are not limited to the final goods market or simply new product innovation, but can affect processes and marketing methods (Littler & Wilson et al, 1995:101).

d) Political / legal factors

Governments of both national and local levels can affect companies not only on a day-to-day basis through law; policies and its authority, but also at a strategic level by creating opportunities and threats. Organisations should be aware of the following political and legal factors.

Different political ideologies can greatly affect the moved of enterprise by privatization and nationalization. Organisations must assess whether a country follows a democratic or totalitarian governance in order to strategically plan their operations.

Special incentives can be offered by government to either divert investment to industries that it wants to develop or in order to promote growth in existing industries. Examples are the following:
• Foreign trade regulations and attitudes towards FDI. Protection of infant industries and indigenous companies can render market penetration, difficult, particular overseas.

• Employment laws. Countries that are pro labor can burden business with labor rules and regulations that can costly to sustain.

• The stability of government. Hill (2002:67) maintains that political risks are influenced to a great extent by social unrest and disorder expressed in the form of mass strikes, demonstrations, terrorism and violent conflict. Countries experiencing social unrest and disorder usually do not have a good future economy.

• Tax laws organizations should be aware of the effect taxation can have an business profitability and of the many ways taxation can be reduced or deferred. It is essential for organizations to ensure that all taxation issues in all countries are taken into account for long-term strategies.

The effect on marketing goes well beyond the effects of the government’s role as protector of consumers through consumer law. The whole “nature” of competition can be affected by government.

e) Environmental factors

Slack, Chambers and Johnston (2001:713) indicate that mounting pressure from legislators, regulators, consumers and communities worldwide for environmentally friendly products and services have placed pressure on businesses to find environmental sensitive solutions in their operations. The following factors are constantly highlighted:

• Environmental protection: Global pressure forces foreign governments to put environmental protection laws in place to control the environment against abuse and pollution. Organisations should recognize that they have to take responsibility for the impact of their activities on the ecosystems of the areas where they operate. Therefore environmental considerations should be a part of a company’s strategic action competency (Hellriegel, Jackson, Slocum, Staude and associates, 2001:100).

• Energy availability and cost. The availability and cost of energy for current and future protection must be taken into account. This may necessitate major investments in different technologies, equipment and infrastructure.

2.3.2 Market situation

The market situation is a detailed analysis of the market that the product or service is to be marketed in and can be divided into market segmentation, market needs, market trends, market & share and market size.
a) Market segmentation

A market segment consists of a large identifiable group within a market with similar wants, purchasing power, geographical location, buying attitudes or buying habits (Kotler, 2000:256). Segmentation is an approach midway between mass marketing and individual marketing. Each segment's buyers are assumed to be quite similar in wants and needs, yet no two buyers are really alike (Kotler, 2000:256).

Analysing the market from this perspective is useful and helpful because it can identify as much as possible about clients and can lead to identifying and confirmation opportunities the market presents. The following aspects can play the major parts of the segmentation of a market:

• Market geographics: This refers to the physical location of potential customers. Customers can be divided into different geographical units such as cities, regions and neighborhoods. The company then can choose where it wants to focus.

• Market demographics: Demographics consider information about customers' market age, sex, race, religion, nationality, income etc.

• Market psychographics: Kotler (2000:266) said that people within the same demographic group could exhibit different psychographic profiles. People may differ through their lifestyle, personalities and values. The different profiles can have a major effect on market performance in the target market.

• Market behaviors: This refers to customer analysis based on their knowledge, attitudes use of or response to a product. Behavioral variables like occasions, benefits, user status, usage rate, loyalty status, buyer-readiness stage and attitude can be used as starting points for constructing market segments.

b) Market needs

Understanding customer needs is not always simple. It can be stated that need recognition arises when the customer’s perception of the actual state of affairs diverges sufficiently from his ideal state to motivate action. Action is therefore triggered either by changing concepts of what is ideal or by dissatisfaction with actual circumstances (Murray & O'Driscoll, 1996:94).

Understanding how customers recognize consumption needs and wants allow the marketing team to identify:

• The critical difference between the underlying need which is likely to create a demand for economic goods and services over the long run and the want which may be no more than a temporary expression of that need.
• When, where and how the need arises.

• Who recognizes the need?

Knowledge of these factors is fundamental to marketing because of its implications for segmentation and the choice of target markets, the position of the product or service relative to competition and for the design and management of all subsequent marketing activity (Murray & O'Driscoll, 1996: 94).

c) Market Trends

Market trend tells whether a market is growing, declining, stable or cyclical. It tells us about the stage in the lifecycle of the product market and therefore about the kind of competitive conditions and customer behavior that might be expected. Kotler (2000:137) reveals that a trend reveals the shape of the future. The plan must recognize and respond to both the latest and future trends in order to ensure profitability of the product or service. Market trends could involve changes in demographics, changes in customer needs, a new sense of style or fashion, or other factors that may influence purchase behavior of the market. (Burger, 2001:4).

d) Market Share

This provides one of the most vital indicators of marketing effectiveness: “Am I outperforming the competition or losing to them? How many customers prefer my product to my competitors?” Market share has additional significance because, in many markets, share and profitability are directly linked: the bigger a company’s share; the greater it’s return on investment.

Determining the target market growth is important as it can influence the market share in the future. Therefore the plan must indicate whether the target market is growing static or shrinking and what strategy will be used to take advantage of the stage the market is in.

Market share and potential is vital to strategic direction and the settling of objectives because it will focus on the cost advantages of large scale and greater experience compared to rival companies and on the market power that larger share often confers.

e) Market size

The size of the market in value and volume terms in which the product or service is to be marketed will give an indication of the total market potential. Determination of the size and its potentials of the market must be accurate as possible. Estimating an unreasonable size will have an effect on measuring growth rates that can create unrealistic expectations or missed opportunities. Both will affect the marketing plan and ultimately the profitability of the product.
2.3.3 **SWOT Analysis**

A SWOT analysis is an acronym for the analysis of internal strength and weaknesses and external opportunities and threats. When all the information and options have been collected during the marketing audit, the information has to be analysed and presented in a way that will help to make the best decisions. This can be done by selecting the key information and carrying out a SWOT analysis.

According to Slocum & McGill (1994:33) a SWOT analysis is to help a firm identify its critical strategic factors and then built a vital strengths, correct glaring weaknesses, exploit significant opportunities and avoid disaster-laden threats. It will allow management to take an objective look at the business and break free of traditional modes of thinking and planning.

Johnson & Scholes (2002:183) describes a SWOT analysis as an analysis that summarise the key issues from the business environment and the strategic capability of an organization that are most likely to impact on strategy development.

**a) Strengths**

A strength is any resource, capability or positive aspects internal to a business that allows management to achieve their stated goals and give a company an edge over competition.

Strength describes the positive intangible and tangible assets of the company. Intangible assets consist of the attitudes of the personnel of the company including their knowledge skills, education, credentials, capabilities and reputations in the market place. Tangible assets refer to the availability of capital, equipment, established customers, copyrights, patents the level of computer technology and other valuable resources within the business.

Core competencies are the strengths that make an organization distinctive and more competitive by providing goods and services that have unique value to its customers.

**b) Weaknesses**

Weaknesses are negative internal factors that detract the company from the ability to have a competitive edge. Weaknesses are often blamed on specific managers and employees. As a result, statements of organizational weaknesses may be perceived as personal threats to their positions, influence or self esteem. But, weaknesses are not “self correcting” and are likely to become worse if not openly dealt with in the strategic planning process. Kotler (2000; 79) cites that a common weakness is the inability of different departments in an organization to work together as a team. It is therefore critically important to assess interdepartmental working relationships as part of the internal environmental audit.
c) Opportunities

Kotler (2000:76) stated that a marketing opportunity is an area of buyer need in which a company can perform profitability.

Opportunities can be classified according to their attractiveness and their success probability. The company’s success profitability depends on whether its business strength not only matches the key success requirements for operating in the target market but also exceed those of its competitors.

Opportunities may be the result of market growth or positive market perceptions, customer lifestyle changes, failure of the competition to capture market share or the ability to offer superior products or services in the market.

d) Threats

Kotler (2000:77) refers to an environmental threat as a “challenge posed by an unfavorable trend or development that would lead in the absence of defensive marketing action, to deterioration in sales or profit”.

Threats may include the threats of new competitors, customer bargaining power, supplier bargaining power, among existing firms in the same industry and the entrance of substitute goods or services. The PESTEL analysis can be used to scan the external environment to look for threats.

Strategic planning helps managers to identify the threats and to take them into account in developing the organisation’s mission, goals, plans and strategies.

2.3.4 Competition

Aside from customers, competitors are the single most important day-to-day force facing organizations. The founder and chairman of the Boston Consulting Group, Bruce Henderson, comments: “For virtually all organizations the critical environment constant is their actions in relation to competitors. Therefore any change in the environment that affects any competitor will have consequences that require some degree of adoption. This requires continual change and adoption by all competitors merely to maintain relative position” (Hellriegel et al, 2001:112).

Peter & Donnelly (1998:265) advocate that a complete industry analysis be undertaken in order to fully assess the competition.

They recommend that Michael Porter’s five forces framework be used to identify the sources of competition (Figure 2.1). This framework helps identify the sources of competition in an industry or sector.
The following is a brief description of the five forces:

a) *Threat of new entrants.*

New entrants to an industry bring new capacity, the desire to gain market share and often, substantial resources.

The seriousness of the threat of entry depends on the barriers present and on the reaction from existing competitors that the entrant can expect. If barriers to entry are high and a newcomer can expect sharp retaliation from the entrenched competitors, obviously he will not pose a serious threat of entering.

There are six major sources of barriers to entry:

- Economic of scale. These economies deter entry by forcing the aspirant either to come in on a large scale or to accept a disadvantage.

- Product differentiation. Brand identification creates a barrier by forcing entrant to spend heavily to overcome loyalty.

- Capital requirements. Huge capital requirement in certain fields, limit the pool of likely entrants.
• Cost disadvantages independent of size.
  Entrenched companies may have cost advantages not available to
  potential rivals, no matter what their size and attainable economics of
  scale for example favorable locations, effects of the learning curve etc.

• Access to distribution channel.
  The new boy on the block must, of course secure distribution of his
  product or service.

• Government policy.
  Government can control entry with such controls as license requirements
  safety regulations and water pollution standards.

b) Threat of substitutes

Substitute products are products that are similar in nature that provide a
higher perceived benefit or value to the customer.

Such products can reduce the demand for a product as customers switch to
alternative substitutes (Johnson & Scholes, 2002:115).

Substitute may take different forms:

• There could be a product-for-product substitution.

• There may be a substitution of need by a new product or service.

• Generic substitution occurs where products or services compete for
disposable income.

c) Bargaining power of buyers and suppliers

Suppliers can exert bargaining power on participants in an industry by raising
prices or reducing the quality of purchased goods & services. Customers
(Buyers) can force down prices, demand higher quality or more service and
play competitors against each other.

A supplier group is powerful if:

• It is dominated by a few companies and more concentrated than the
  industry it sells to.

• Its product is unique or if it has built up switching costs.
  (Fixed costs buyers face in changing suppliers)

• It is not obliged to content with other products for sale to the industry.

• It poses a threat of integrating forward into the industry’s business.
• The industry is not an important customer of the supplier group.

A buyer group is powerful if:

• It is concentrated or purchased in large volumes.

• The products it purchases from the industry are standard or undifferentiated.

• The supplying industry companies a large number of operators.

• The component or material cost is a high percentage of total cost.

• The cost of switching a supplier is low or involves little risk.

• There is a threat of backward integration by the buyer.

d) Rivalry among existing competitors.

Rivalry among existing competitors takes the familiar form of jockeying for position—using tactics like price competition, product introduction and advertising slugfest (Littler & Wilson, 1995:119).

The following factors presence cause intense rivalry:

• Numerous competitors equal in size and power.

• Slow growth in an industry.

• The product or service lacks differentiation or switching cost.

• High fixed cost or a perishable product.

• Capacity is augmented in large increments.

• Exit barriers are high.

• Different ideas about competition and diversity in strategies, origins and “personalities”.

While a company must live with many of these factors it may try to improve matters through strategic shifts for example increase product differentiation, avoid confrontation with competitors having high exit barriers and try to raise buyers switching cost.
2.3.5 Product Offering

The most important aspect of marketing a product is the product itself. Products are created to satisfy the needs of customers. A company’s product offerings are vitally important to the company’s profitability and existence.

Product offerings should constantly be re-evaluated due to changes in the environment. These changes include customer preferences, technology, styles etc. As these things change so should a product or service offering.

Issues involved with product offering strategy are lifestyle consideration and branding.

a) Life-Cycle consideration

Most products move through four life cycles stages: introduction, growth, maturity and decline. Profits are negative and low in the introduction stage because there are heavy promotion costs and low initial sales. As the product moves into the growth stage, profit increase and sales increase rapidly. When the product gets to the maturity stage, sales growth has slowed down and there is usually over-capacity in the industry. To compensate, companies make improvements to products, or modify them in some way to recapture the sales growth seen in the growth stage. Finally a product may reach the decline stage, where sales decline significantly (Kotler, 2000: 203-315).

The table below shows the stages of the product life cycle and the correlating sales, profit and competition factors at each stage.

Table 1: Stages of product life cycle Source: Article of product offering strategy (Katie Waltermeyer UMF).

<table>
<thead>
<tr>
<th></th>
<th>Introduction</th>
<th>Growth</th>
<th>Maturity</th>
<th>Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>Low</td>
<td>Rapid growth</td>
<td>Slow growth</td>
<td>Declining</td>
</tr>
<tr>
<td>Profits</td>
<td>Losses</td>
<td>Increasing</td>
<td>Decreasing</td>
<td>Low</td>
</tr>
<tr>
<td>Competition</td>
<td>Little</td>
<td>Increasing</td>
<td>Fierce</td>
<td>Changing</td>
</tr>
</tbody>
</table>

b) Branding

Branding is a tool used to increase the strength of a product’s image. Branding is a way for a firm to distinguish their products from similar products of competitors. The brand name is an important element on the package; it serves as a unique identifier. A brand can be a name term symbol design or any other feature that identify the product as distinct from other products. It is important to establish a strong brand image initially, so that customers will recognize the brand and become loyal to it.

Factors that increase the strength of brand image include:

- Product quality.
- Consistent marketing and advertising communications.
• Distribution intensity whereby customers see the brand wherever they shop.
• Brand personality where the brand stands for something.

Brand awareness is the first step towards building a strong brand image. Brand awareness is achieved when target customers know about a brand and call it to mind when they are thinking about the product category. The next step is brand image or the impression customers have of a brand. Firms should strive to ensure their product has a positive brand image because brand image leads to brand loyalty. The final step is brand equity or the value the brand has in the marketplace. The most important factors leading to brand equity are advertising, promotion and favorable experiences the customer has with the product (Peter & Donnelly, 1998: 92-95).

Brand building process can be tabled as shown below.

Table 2: Brand building process

| Brand Awareness | Brand Image | Brand Loyalty | Brand Equity |

2.3.6 Keys to Success

In order to conduct the external analysis in a formal strategy-making process, external factors revolving about customers, competitors, industry structure, market definition, trends and channels are scrutinized to insolate the opportunities and threats facing the company and to specify the key success factors (KSF’s) dictated by the industry.

According to Murray & O’Driscoll (1996:227) these KSF’s essentially imply and determine the minimum level of expertise or competence that the firm requires if it is to compete with an expectation of success in particular competitive circumstances. The marketing manager is in position to use the key success factors dedicated by the environment as an acid test for any strategy proposal.

2.3.7 Critical Issues

Completing a relevant and concise SWOT analysis should result in a clear understanding of the main thrust of the business. By bringing the four areas of the SWOT analysis together, the critical issues affecting the marketing plan can be formulated. Several matrix methods can be used to this. Irrespective of which method is used, they have the same overall objective namely, that of leveraging the strength of the business to take advantage of the available opportunities, offset or improve the stated weaknesses and minimize the risk of potential threats (Burger, 2001:8).
a) Kotler's Opportunity and Threat Matrix

Kotler (2000:77) used an opportunity and threat analysis in a matrix to determine various possibilities in which a company can find itself. Four outcomes are possible, namely:

- Ideal situation – High in major opportunities and low in major threats (good prospects with minimum risk).
- Speculative situation – High in both major opportunities and threats (good prospects with high risks).
- Mature situation – Low in major opportunities and low threats (limited growth potential with low risk).
- Troubled situation – Low in opportunities and high threats (no prospects).

Kotler explains both the opportunity and threat matrix with an example of a TV-Lighting equipment company faced with opportunities and threats.

These are illustrated in figure 2.2 and figure 2.3

Figure 2.2: Opportunity matrix (Kotler (2000:77).

\[
\begin{array}{c|c|c|c}
\text{Attractiveness} & \text{HIGH} & \text{LOW} \\
\hline
\text{HIGH} & 1 & 2 \\
\text{LOW} & 3 & 4 \\
\end{array}
\]

Success probability

Opportunity matrix explanation:

1. The company develops a more powerful lighting system.
2. The company develops a device for measuring the energy efficiency of any lighting system.
3. The company develops a device for measuring illumination level.
4. The company develops a software program to teach lighting fundamentals to TV studio personnel.
Figure 2.3 Threat matrix (Kotler 2000:77).

<table>
<thead>
<tr>
<th>Occurrence probability</th>
<th>HIGH</th>
<th>LOW</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIGH</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>LOW</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

Threat matrix explanation:

1. A close competitor develops a superior lightening system.
2. The advent of a major prolonged economic depression.
3. Higher costs.
4. Legislation that reduces the number of TV studio licenses.

b) External factor analysis

An analysis of opportunities and threats can be also be analysed by using the following figure:
Figure 2.4 External factor Analysis Summary (EFAS) Source: Wheelen T & Hunger J (Strategic Management and Business Policy, 7/e).

<table>
<thead>
<tr>
<th>External Strategic factor (Opportunities/Threats)</th>
<th>Weight</th>
<th>Rating</th>
<th>Weighted Score</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Threats:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5    4     3     2   1
Outstanding    Above average        Average               Below Average    Poor

c) Proctor’s TOWS Matrix

This matrix allows for the external and internal factors to be entered on the grid and different combinations to be studied. An example of a TOWS matrix is illustrated in figure 2.5.

Figure 2.5 Proctor’s TOWS matrix Source: Wheelen T & Hunger J (Strategic Management and Business Policy, 7/e).

T- Threat
O- Opportunities
W- Weaknesses
S- Strength
More than one strategy can be formulated in the matrix quadrants and different strategy combinations can be drawn up until the most suitable is obtained. A company’s marketing plan should be geared around these strategies in order to maximize a company’s strengths and opportunities and minimize the threats and weaknesses facing it.

### 2.3.8 Historical Results

Any marketing activities employed previously should be analysed to determine the success of such strategies. A brief summary of the pro’s and con’s, weaknesses, strengths and lessons learned should be made. Such an analysis should be helpful in the development of future marketing strategies.

### 2.4 Internal Analysis

#### 2.4.1 Introduction

According to Miller (1998:117) managers perform internal analysis to identify strengths to build on and weaknesses to overcome as the formulate strategies for competitive advantages. Research and experience have shown that a firm’s overall strength and weaknesses and its ability to execute may even be more important to its performance than environmental factors. Results indicate that a firm’s actions and it’s ability to execute are much more important in determining it’s financial performance than are conditions in the surrounding industry. Even if the industry itself was quite unattractive and generally unprofitable, firms that produced superior products enjoyed good levels of profitability (Hall, 1980: 75-85).
Internal Analysis has become so fundamental to good strategic management that a perspective on understanding a firm’s overall success as based on its internal resources has emerged. This perspective is called the resources – based view, or a resource analysis.

2.4.2 Resource analysis

Resource analysis takes place at two levels of aggregation. The basic units of analysis are the individual resources of the firm: items of capital equipment, the skills of individual employees, patents, brands and so on. The second level of analysis is relationship amongst resources, capabilities and competitor advantage to create capabilities and thus a competitive advantage (Grant, 1998:111).

Figure 2.6 shows the relationship among resources, capabilities and competitive advantage.

*Figure 2.6: Relationship among resources, capabilities and competitiveness.*
*Source: Grant 1998:113.*

![Diagram showing the relationship among resources, capabilities, and competitive advantage.](attachment:resource_analysis_diagram.png)
a) **Tangible Resources**

Tangible resources are easy to find and evaluate – financial resources and physical assets are identified and valued in the firm’s financial statements.

A strategic assessment of tangible resources is directed toward answering two key questions:

- What opportunities exist for economizing on the use of finance, inventors and fixed assets?
- What are the possibilities for employing existing assets more profitable? (Grant, 1998:113).

b) **Intangible Resources**

Technological resources are in the form of proprietary technology (patents, copyright, trade secrets) and expertise in the application of technology (know how).

Brand names and other trademarks are a form of reputational assets - their value is in the confidence they instill in customers.

Reputation may be attached to the company as well as to its brands. The term culture relates to the values, traditions and social names of an organization. Jay Barney (1986:656-665) identifies organizational culture as a firm resource that is potentially very valuable and of great strategic importance.

c) **Human Resources**

Grant (1998:116) said that human resources are the productive services human beings offer the firm in terms of their skills, knowledge, reasoning and decision-making abilities. Economists refer to these resources as “human capital” which emphasizes the fact that they are durable and created through investment in education and training.

**2.4.3 Organizational Capabilities**

The capability of a firm refers to a firm’s capacity for undertaking a particular productive activity. Johnson & Scholes (2002:146) stated that an understanding of the strategic capability of a firm is important because it has an influence on whether an organization’s strategies continue to fit the environment in which the organization is operating and the opportunities and threats that exist.

Literature uses the term “capability” and “competence” interchangeably. Thus Selznick (1957) used “distinctive competence” to describe those things that an organization does particularly well relative to competitors. Hamel and Prahalad (1990: 79-91) used the term “core competencies” to distinguish those capabilities fundamental to a firm’s performance and strategy. Core competences are, according to Hamel and Prahalad, those that:
• Make a major contribution to ultimate customer value, or to the efficiency with which that value is delivered, and

• Provide a basis for entering new markets.

Johnson & Schools (2002:18) stated that the resources and competences of a organisation make up its strategic capability. The aim is to form a view of the internal influences and constraints-on strategic choices for the future. On occasions, specific resources – for example the particular location of an organization – could provide it with a competitive advantage. However competences, which provide real advantage - so called core competences-, are more likely to be activities, know-how and skills which in combination provide advantages for that organization which others find difficult to imitate (Johnson & Scholes, 2002:18).

a) Identifying capabilities

To examine the firm’s capabilities, Michael Porter has proposed the value chain as a tool for identifying ways to create more customer value. The value chain identifies nine strategically relevant activities that create value and cost in a specific business. These nine value-creating activities consist of five primary activities and four support activities (Kotler, 2000:44).

The primary activities are involved with the transformation of inputs and interface with the customer while support activities are procurement, technology development, human resource management and firm infrastructure.

The firm’s task is to examine its costs and performance in each value-creating activity and to look for ways to improve it. Benchmarking has emerged as an important tool to compare a firm’s costs and performance with other firms and organizations. Benchmarking involves five stages: (Grant, 2002:124).

• Identifying an activity within the firm where there seems to be a potential for improvement.

• Identifying a firm that is a world leader in this activity.

• Undertake performance comparisons with the benchmarked company through exchange of performance data.

• Analysis the reasons for the performance differentials.

• Use the new learning to redefine goals, redesign processes, and change expectations regarding one’s own functions and activities.
b) Appraising the profit-earning potential of resources and capabilities.

The profits that a firm obtains from its resources and capabilities depend on three factors: the ability to establish a competitive advantage, to sustain that competitive advantage, and to appropriate the returns to that competitive advantage.

1. Establishing competitive advantage.

For a resource or capability to establish a competitive advantage two conditions must be present (Grant, 2002:129). First it must be scarce and second it must be relevant.

2. Sustaining competitive advantage.

The profits earned from resources and capabilities depend not just on their ability to establish competitive advantage, but also on how long that advantage can be sustained. This depends on the durability of the resources and capabilities and the ability of the rivals to imitate the strategy of the company through acquiring the resources and capabilities needed to build the competitive advantage.

3. Appropriating the returns to competitive advantage.

Who gains the returns generated by a resource or capability? Human beings normally own their own skills and knowledge, yet there is still a vague boundary between the knowledge and skills of the employee and the trade secrets of the employer. Not only is the distinction between the knowledge of the firm and that of the individual unclear but employment contracts only partially specify what services the firm is buying from the employee.

2.4.4 Industry key success factors

To survive in an industry a firm must meet two criteria: First, it must supply what customers want to buy and second it must survive competition. Two questions can be “asked” by the firm:

- What do our customers want?
- What does the firm need to do to survive competition?

To answer the first question the firm must identify who its customers are, identify their needs, and establish the basis on which they select the offerings of one supplier in preference to those of another.

The second question requires that the firm examine the basis of competition in the industry. How intense is competition and what are its key dimensions? If competition in an industry is intense, then, even though the product may be highly differentiated and customers may choose on the basis of design and quality rather than price, low cost may be essential for survival.
Key success factors can also be identified through the direct modeling of profitability. By desegregating a firm return on capital employed into individual operating factors, it is possible to pinpoint the most important determinant of firm success. In many industries, these primary drivers of firm-level profitability are well known and widely used as performance targets.

Grant (2002:79) stated that each market is different in terms of what motivates customers and how competition works. He said that “understanding these aspects of the industry environment” is vital for an effective business strategy. This does not imply that firms within an industry adopt common strategies. Since every firm comprises a unique set of resources and capabilities, every firm must pursue unique key success factors.

2.5 Marketing Strategy

Greenley, G (1993:45-58) described marketing strategy in an article as a process involving three different levels of treatment. The first two levels arise out of the overall strategic planning of the company and provide the framework out of which marketing strategy should be developed. However, as these two levels provide the framework for developing the actual marketing strategy, they are not considered to be part of it. The third level of the process is the actual marketing strategy, which is composed of five component parts.

2.5.1 Level one - mission statement

A mission statement defines the direction in which the organization is heading and how it will succeed in reaching its desired goal (Peter & Donnelly, 1998:11). It is the long term vision of what the organization strives to be.

Greening stated in an article (1993:45-48) that the mission provided the broad scope of the business in terms of customers, products and business areas, which is the starting point for making decisions on marketing strategy, in that the central issues of the total marketing operation must follow the company’s central theme.

McDonald (1989:36) feels that the mission statement is the most difficult aspect of the marketing plan for managers to managers to master. This is largely owing to the statement being philosophical and qualitative in nature. However, once mastered, the mission statement would provide future vision and direction for all managers and employees to follow.

2.5.2 Level two - Understanding corporate strategy

This product-market scope component of corporate strategy is itself an extension of the corporate mission as it gives more detail in specifying the scope of the business.

Johnson & Scholes (2002:11) said that corporate level strategy is concerned with the overall purpose and scope of an organization and how value will be added to the different parts (business units) of the organization. The corporate
center needed to play a crucial role in determining how the organization should be structured, how resources should be allocated in setting targets and reviewing performance. The corporate center should be asking whether there are other ways in which they can add value to the separate business units within the company.

Johnson & Scholes (2002: 11) emphasize that corporate strategy is the basis of other strategic decisions.

Grant (1998: 19) stated that corporate strategy defines the scope of the firms in terms of the industries and markets in which it competes. Corporate strategy decisions include investments in diversification, vertical integration, acquisitions, and new ventures; the allocation of resources between the different businesses of the firm; and divestments.

2.5.3 Level three – understanding marketing strategy.

As previously mentioned, Greening specify marketing strategy as being composed of five component parts. These components relate to market positioning, product positioning, marketing mix, market entry and timing.

a) Market positioning

This part of the strategy is concerned with deciding which approach to adopt relative to the segmentation of the market and the selection of the segments in which the company is to participate.

These market segment opportunities, identified in the current situation analysis, must be evaluated in order to determine the target market the company wishes to enter.

Lamb et al, (1994:181) and Proctor (1996:216) identify three general strategies for selecting target markets – undifferentiated, concentrated and multi segment targeting. Kotler (2000:275) identified two more strategies that can be followed namely product and market specialization strategies. The following is a brief description of each:

- **Undifferentiated**

  This strategy ignores market – segment differences and goes after the whole market with one market offer. It designs a product and marketing program that is focused on the mass market. It relies on mass distribution and mass advertising

- **Concentrated**

  This strategy concentrates on a single market or segment. Through concentrated marketing, the firm gains a strong knowledge of the segment’s needs and achieves a strong market presence. A firm’s also
enjoys operating economics through specialization its production, distribution and promotion.

- **Multi- segment**

  Here the firm follows a strategy where it selects a number of segments, each objectively attractive and appropriate. There may be little or no synergy among the segments, but each segment promises to be a moneymaker. This multisegment coverage strategy has the advantage of diversifying the firm’s risk, but it can also be extremely resource demanding.

- **Product Specialization**

  This strategy is used by businesses that specialize in making a certain product that it sells to several segments. Through this strategy a firm can builds itself a strong reputation in a specific product area. The downside risk is that the product may be supplanted by an entire new technology.

- **Market Specialization**

  This strategy is used by businesses which concentrate’s on serving the needs of a particular customer group.

**b) Product positioning**

Having selected the market segment for each product-market scope, the number of products which the firms is to offer to each segment must be determined and their overall nature must be specified.

According to Kotler & Armstrong (1996:225) there are different ways or strategies to position a product.

- Products can be positioned for different product classes for example butler positioned against margarine.

- A product can be positioned directly against a competitor’s using the strength or weakness of the competitor’s product to promote the company’s own product.

- Products can be positioned according to usage occasions for example suntan location for summer time.

- Products can be positioned on the needs they fill or the benefits they offer.

- A company can position its products on specific attributes, such as quality, low-cost or superior performance or service.
The “strategy clock” (figure 2.7) is used to describe different competitive strategy options for a company using attributes like price and perceived added value by the customer.

Figure 2.7 Strategic clock: (Johnson & Scholes 2002:320).

Strategic clock (explanation)

The strategic clock represents different strategic options for a company to achieve a competitive advantage. These options are based on price or service of the product and the perceived added value to the customer. The following is a brief description of each option: (Johnson & Scholes, 2002:320).

- No frills strategy (1) – It combines a low price, low perceived value and a focus on a price- sensitive market segment.

- Low price strategy (2) – This strategy seeks to achieve a lower price than competitors whilst trying to maintain similar value of product or service to that offered by competitors.

- Hybrid strategy (3) – This strategy seeks simultaneously to achieve differentiation and a price lower than that of competitors.
- Differentiation strategy (4) – This strategy seeks to provide products or services unique or different from those of competitors in terms of dimensions widely valued by buyers.

- A focused strategy (5) – This strategy seeks to provide a high-perceived value justifying a substantial price premium, usually to a selected market segment.

- Failed strategies (6; 7;8) – These strategies are doomed to failure because they attract a high product or service value that has little or low perceived customer value.

c) Marketing Mix

Having determined the range of segments in which they will participate, plus the nature and number of products to be offered, the next decision in formulating the marketing strategy is to determine the utilization of the individual elements of the mix, plus the relative degree of reliance to be placed upon each.

Kotler (2000:15) described the marketing mix as a set of marketing tools that the firm uses to pursue its marketing objectives in the target market. These tools are classified into four broad groups that he called the four Ps of marketing: product, price, place and promotion.

1) Product

Each product has a life cycle. To say that a product has a life cycle is to assert the following four things (Kotler, 2000:303).

- Products have a limited life.

- Product sales pass through distinct stages, each posing different challenges, opportunities, and problems to the seller.

- Profits rise and fall at different stages of the product life cycle.

- Products require different marketing, financial, manufacturing, purchasing and human resource strategies in each stage of their life cycle.
Most product life-cycle curves are portrayed as bell shaped as seen in Figure 2.8.

Figure 2.8 Sales and profit Life Cycles (Kotler, 2000:304).

Explanation of stages:

• **Introduction**
  A period of slow sales growth as the product is introduced in the market. Profits are nonexistent in this stage because of the heavy expenses incurred with product introduction.

• **Growth**
  The period of rapid market acceptance and substantial profit improvement.

• **Maturity**
  A period of a slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits stabilize or decline because of increased competition.

• **Decline**
  The period when sales show a downward drift and profits erode.

Each stage in the life cycle of a product poses a different challenge that must be taken into account when determining the marketing mix.
2) Price

This is the most flexible element of the marketing mix. The price structure of the product, including discount and rebates, if any, should be stated in detail and justified.

Price is the marketing-mix element that produces revenue; the others produce costs. Price competition is the number one problem facing companies. One of the mistakes often made by companies is that the price of a product is set independent of the rest of the marketing-mix rather than an intrinsic element of market-positioning strategy and that the price is not varied enough for different product items, market segments, and purchase occasions.

3) Promotion

Promotion relates to the activities that communicate the merits of the product with the express aim of persuading target customers to buy it (Kotler & Armstrong, 1996:49).

To determine what promotion is required for the company’s products a promotional mix must be established. This mix can be influenced by the funds available, the nature of the market (type of customers, concentration of market) and the nature of the product.

Companies must allocate the promotion budget over the five promotional tools which are advertising, sales promotion, public relations and publicity, sales force and direct marketing.

To gain efficiency in the company the tools can be substituting each other for example field sales activities can be replaced by telemarketing, direct –mail or online marketing.

Kotler (2000:551) lists the five promotional tools by using a communication platform, which involves the tools. This is detailed in table 3.
Table 3: Promotional tools and its platforms (Kotler, 2000:551).

<table>
<thead>
<tr>
<th>Advertising</th>
<th>Public Relations</th>
<th>Personal selling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Video tapes</td>
<td>Speeches</td>
<td>Sales meetings</td>
</tr>
<tr>
<td>Bill Boards</td>
<td>Annual reports</td>
<td>Samples</td>
</tr>
<tr>
<td>Display signs</td>
<td>Lobbying</td>
<td>Incentive programs</td>
</tr>
<tr>
<td>Print &amp; broadcast ads.</td>
<td>Company magazine</td>
<td>Sales presentations</td>
</tr>
<tr>
<td>Sales promotion</td>
<td>Direct Marketing</td>
<td></td>
</tr>
<tr>
<td>Trade shows &amp; exhibits</td>
<td>Catalogs</td>
<td></td>
</tr>
<tr>
<td>Demonstration</td>
<td>Mailings</td>
<td></td>
</tr>
<tr>
<td>Coupons</td>
<td>E-mail</td>
<td></td>
</tr>
<tr>
<td>Low- interest financing</td>
<td>Telemarketing</td>
<td></td>
</tr>
</tbody>
</table>

Each promotional tool has its own unique characteristic and costs. Measuring the effectiveness of this tools involves asking members of the target audience whether the company’s communication mix is reaching them for example do they recognize the advertising, how many times they saw it end what is their current attitude towards the product and the company.

4) Place/Service

Most producers do not sell their goods directly to the final users. Between them stands a set of intermediaries performing a variety of functions. These intermediaries constitute a marketing channel or a distribution channel.

Kotler (2000:490) describe marketing channels as sets of interdependent organizations involved in the process of “making” products or service available for use or consumption.

Marketing channel decisions are critical decisions facing management. The channels chosen affect all the marketing decisions and thus the whole marketing mix.

Marketing channels are characterized by continuous change. The growth of vertical marketing systems, horizontal marketing systems and multi channel marketing systems are current trends. These trends have an influence on the promotional mix of the company and will thus influence the entire marketing process.
Irrespective the type of channel chosen, the end result must be a distribution system that gets the product to the customer in an efficient and effective manner.

d) Market entry

This component is concerned with how the company intends to enter, re-enter, position itself, or re-position itself within each of the selected market segments.

Kotler (2000:110) gave the alternatives of acquisition, collaboration and internal development. The selection of the strategy the company went to follow would be affected by the overall direction of the company as specified within the corporate mission. In exploiting an overseas market opportunity, a firm has a range of options with regard to the mode of entry. The basic distinction is between market entry by means of transactions and market entry by means of direct investment.

Collaboration with another company that can provide expertise in marketing, or indeed any business area, will be affected by corporate strategy. The purpose element of the corporate mission would provide the guideline for such a strategy, but the overall level of synergy within the company would give a major indication of the need to adopt a collaboration strategy.

Internal development means that the company does not need to involve other companies, but that the marketing operations are developed by the company through its own resources. Adaptation to such a strategy would also be affected by the mission of the company, the level of synergy and the stipulated rates of growth (Littler & Wilson, 1995:50).

e) Market timing

“Timing,” relates to the point in time when the other components of the marketing strategy are to be implemented, plus the points in time when the “tactics” within the marketing mix are to be implemented.

Kotler (2000:350) stated that a company faces three choices regarding “market entry timing”. The first choice is first entry. The first firm entering a market usually enjoys the “first mover advantages” of locking up key distributors and customers gaining reputational leadership. However, first movers have a high degree of risk usually because they can either ”rush” a product in the market or simply because they underestimate the marketing situation.

The second choice is parallel entry. The company might time its entry to coincide with the competitor’s entry. The market may pay more attention when two companies advertised the new product. The element of risk is also been shared.
The third choice is late entry. The firm might delay its launch until after the competitor has entered. The competitor will then have “paid” the cost of educating the market, the competitors’ product may reveal faults that the late entrant can avoid. More about the size of the market can also be learned.

2.5.4 Implications

In defining it’s marketing strategy, a company needs firstly to establish the two levels from the strategic planning framework, then from this define each of the marketing strategy component parts. Failure to follow this process will lead to ineffective definition, implementation and effectiveness of marketing strategies as supported by the nature of the presented process.

2.6 Summary

This chapter covered an overview of some aspects, which relate to the planning of marketing activities within an organization.

A situation analysis which involved an analysis of the external environment as well as an in depth investigation in a company’s current market situation, the competition, product offerings and other critical internal issues of a company was done. This was followed by an internal analysis of a company looking at its resource and organizational capabilities. Finally an analysis of a marketing strategy was done.

The actual analysis of a company will be dealt within the following chapter using the principles of the literatures subscribe which has been dealt with in this chapter.
Chapter 3

Background to the ostrich industry in South Africa

3.1 Executive Summary

The South African ostrich industry is one of the few agricultural industries where South Africa is the undisputed world leader in terms of farming as well as the first level of value adding. The latter refers to slaughtering, meat processing and the tanning of skins. According to the Report (2003: 3) during the past 10 years, however, South African market share in the world of these exclusive products declined from ±85% in 1993 to ±60% in 2002. In the South African context regarding agricultural production the ostrich industry is placed in 25th position, as based on gross Rand value. The 25th position is not negotiable when one recognizes the size of the first 40 sectors. The first 14 within the ranking are real giants – maize (in value of production) is 30 times larger than ostrich.

S.A has about 588 registered ostrich export farms (of which 453 farms are in the Western Cape, 102 in the Eastern Cape and 33 farms in the rest of the country) and produced approximately 340 000 slaughter birds in 2002 (Report, 2003:3).

An ostrich produces feathers, leather and meat. Originally ostriches were known for its feathers but since 1970 ostrich skins became a major source of income. Since the mid nineties, ostrich meat started to make a bigger contribution towards the gross income per bird. Currently the income from these three products is leather 50%-70%, ostrich meat 30%-45% and feathers 5%-15%(Report, 2003:3).

3.2 History of the S.A ostrich industry

The birth of the ostrich industry dates back to the 1860’s when South Africans first started to farm ostriches. Until then, ostriches were being hunted, solely for their highly prized feathers. Ostrich feathers were a highly fashionable trimming for ladies hats and clothing in Europe.

Thus in order to ensure a continued feather supply, South Africans started farming ostriches. The growers in the Oudtshoorn area became known as the feather barons. By 1913, ostrich feathers ranked fourth in value after gold, diamonds and wool on the list of exports from South Africa. At that stage there were about 750 000 ostriches in the Klein Karoo region (Deswaef, 2002:2).

However the feather market collapsed as a result of the outbreak of World War I in Europe. Many birds were released into the wild and the ostrich industry declined rapidly and remained insignificant for another 30 years. The advent of the motorcar meant the end for the big hats ladies used to wear and this change in fashion greatly affected the demand for ostrich feathers.
In 1945 the Klein Karoo Co-operative (KKC) was established. Its head office was stationed at Oudtshoorn, which once again became the centre of the ostrich industry. By law the KKC became the only organization allowed to market ostrich products and so in effect monopolized the industry.

In 1965 the first ostrich abattoir was established in Oudtshoorn, with its own tannery and feather plant. The meat from the slaughtered birds was often given away to the local people because the animal was not regarded as a meat-producing animal.

In 1993 the “one channel marketing system” was deregulated and the monopoly of the KKC came to an end. The KKC lost control over the ostrich industry -- many new South African producers rushed into the industry with the effect that the farmed bird numbers quickly doubled to exceed the growth in demand for leather. The huge increase in ostrich skins offered in the world disrupted the structured distribution channels of the pre regulated era to the extent that leather prices dropped from USD 40/ square foot in 1993 to below USD 22/square foot during the mid nineties and an all time low of USD 10/square foot in 2002.

Meanwhile the industry discovered that the meat of the ostrich was becoming important to the economics of production. Further more the health issue started making the meat popular. There was an increasing demand in the beginning of the 90’s due to the low fat, low cholesterol and high protein characteristics of the meat.

In 1993 ruling on deregulation encouraged the establishment of secondary facilities for slaughter for local and overseas markets. At present (2003) there are 10 EU approved export abattoirs and 15 tanneries (Report, 2003:27). The ostrich industry is the leading South African meat exporter (of all meat, including beef and poultry) in volume and value (Report, 2003:27).

According to the Report (2003:27) the total investment in ostrich activities (production and processing, excluding value adding manufacturing and businesses, and tourism) exceeds R2.1 billion. Export income is responsible for R1.2 billion annually with 90% of leather, prime cuts of ostrich meat and feather products being exported.

### 3.3. Ostrich products

#### 3.3.1 Ostrich meat

For many years meat was a by-product of ostrich processing in South Africa. According to Mr. Dempsey – Manager: Meat Marketing KKC - currently between 30% and 45% of the income from a slaughter bird can be accounted for ostrich meat compared to 1993 when the percentage was between 10 and 15% (Personal interview).

Mr. Dempsey stated that the current average weight of a South African produced ostrich is 43kg (live weight approximately 95kg) at 12 –14 months.
An average carcass yields 24kg of meat (16kg of prime steak and fillet cuts and 8kg of trimmings). Ostrich meat resembles very tender fillet steak in color flavor and texture.

Ostrich steak and fillet are exported in bulk packaging as well as portioned packs for supermarket and restaurants. The main export markets are Europe (90% of product) and the Far East, including Hong Kong, Malaysia, and Singapore (10%). Domestic consumption has increased significantly since 2002, although this market consumes only approximately 10% of the prime cuts produced in South Africa (Report, 2003:29).

According to Cornelius (November 2002:8) the average produce price of ostrich meat on a year-to-year basis, from May 2002 to May 2003 declined from an average of 1809 cent per kilogram to 1802 cent per kilogram – a total decline of 0.4%. He expected that meat prices are going to move sideways from May 2003 and onwards and may even tend to decline in the second half of 2003.

Regarding ostrich meat - the committee who investigates the ostrich industry agreed on the following (Report, 2003:29).

- The ostrich industry cannot survive without ostrich meat being exported to Europe and other markets.
- The high volume of meat exported to Europe leaves the industry vulnerable against the stringent EU regulations.
- Export markets outside Europe as well as the local market should be developed.

### 3.3.2 Ostrich leather

Ostrich leather is regarded as one of the exotic leathers amongst others like crocodile, lizard and snake. Ostrich leather articles have the same prestige value than diamonds and other luxury items.

For many years handbags and cowboy boots were the only real market for ostrich leather. One of the main problems for the ostrich industry is that the main market for ostrich leather products, namely Japan, has been in recession since 1993. This resulted in a negative growth for ostrich leather products while the world ostrich slaughter bird production grew from 180 000 in 1993 to an estimated 560 000 in 2002 (Report, 2003:3).

The leather income from ostriches cannot be interpreted in isolation from the other products (mainly meat and to a small extent feathers). At an exchange rate of R7.30/USD and R8.20/Euro in April 2003 the net realization of ostrich farmers and processors turned into losses which will have an effect on production as well as job losses in the industry (Report, 2003:31).
Cornelius stated in the ostrich industry review (November 2002:7) that the international skin market is still quiet and that supply exceeds the demand. He therefore expected that prices might move sideways or even decline in 2003. The average producer price of grade 1 skins declined with 10.5% from May 2002 to May 2003. (R1033 to R925 per skin). During the same period the average price of grade 2 declined by 16.7%, and the price of grade 3 skins declined by 20.4%.

3.3.3 Feathers

In the early days of ostrich production feathers were the main source of income for ostrich producers (before 1964). Today feathers contribute less than 6% of gross production value per bird (Report, 2003:31).

Table 4: Average South African producer prices of leather, meat (R/kg per carcass on the hook – approximately 42kg per bird) and feathers for the past 10 years (Report of Ostrich Committee, 2003:31).

<table>
<thead>
<tr>
<th>Year</th>
<th>Leather R/ Raw skin</th>
<th>Meat R/kg</th>
<th>Feathers R/bird</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>729</td>
<td>3.23</td>
<td>20</td>
</tr>
<tr>
<td>1994</td>
<td>1106</td>
<td>5.95</td>
<td>25</td>
</tr>
<tr>
<td>1995</td>
<td>1241</td>
<td>8.80</td>
<td>30</td>
</tr>
<tr>
<td>1996</td>
<td>1200</td>
<td>9.02</td>
<td>35</td>
</tr>
<tr>
<td>1997</td>
<td>775</td>
<td>8.50</td>
<td>35</td>
</tr>
<tr>
<td>1998</td>
<td>560</td>
<td>8.00</td>
<td>40</td>
</tr>
<tr>
<td>1999</td>
<td>725</td>
<td>10.50</td>
<td>40</td>
</tr>
<tr>
<td>2000</td>
<td>968</td>
<td>11.50</td>
<td>45</td>
</tr>
<tr>
<td>2001</td>
<td>999</td>
<td>13.00</td>
<td>47</td>
</tr>
<tr>
<td>2002</td>
<td>960</td>
<td>19.00</td>
<td>96</td>
</tr>
</tbody>
</table>

Explanation of table:

- The production price of leather has increased by 31% from 1993 to 2002.
- The production price of meat has increased by 488% in the same period.
- For a slaughtered ostrich (42kg) the producer will receive ±R960 for the skin; R456 for the meat (24kg meat) and R96 for the feathers (producer prices of 2002).
CHAPTER 4

Actual study of the ostrich industry

4.1 Executive Summary

South African farmers and agriculture businesses are to prepare for more and increasing pressure in times to come. The message is SINK or SWIM. Various issues are:

- The global market is becoming increasingly sensitive in the food sector. Competitiveness is the buzzword. In the past with a regulated economy, South African agriculture businesses were exposed only to limited competition.

- Improved knowledge of the international market is required, and in particular, consumer preferences and marketing alliances.

- Some governments strongly support their agricultural industries to be competitive internationally. In the South African context, proposals should be designed to influence government to help improve the industries’ competitiveness.

Until 1993 the ostrich industry were exposed to very limited competition. Since deregulation they had to compete as never before in a very limited market.

The aim of this research is to analyse whether it is possible to broaden that limited market and look for the potentials of the domestic meat market. Therefore a macro-environmental analysis had to be done of the meat market, the current market situation and the current competitors had to be analysed and a SWOT analysis had to be done. The critical issues of the industry and an internal analysis looking at the capabilities of the role-players were also been dealt with.

4.2 Situation Analysis

4.2.1 Macro environmental analysis

The Pestle format as recommended by Johnson and Scholes (2002:98) has been used to identify the macro environmental issues that are relevant to the domestic ostrich meat industry. The issues, which will have a direct and / or indirect effect on the potential of a co-ordinated marketing strategy for the industry, have been listed in order of importance according to negative and positive issues.
a) Negative current environmental issues.

i) Market size

According to S.A Statistics (2002) the total production of beef and veal was 578 000 ton; mutton, lamb and goat’s meat was 114 000 ton; pork was 118 000 ton and poultry was 933 000 ton.

In contrast with the figures above the export of ostrich meat, which exists of about 90% of total production, was around 5400 ton in 2002 (Cornelius, November 2002:5). That meant that total production for 2002 was around 6000 ton. It is thus clear that ostrich meat production is small compared to the other meat “producers” in S.A and serves only a very limited market.

For many years meat was a by-product of ostrich processing in South Africa. It is only in recent years that domestic consumption of ostrich meat became the priority of the ostrich producer.

ii) Culture of South African consumer

The majority of the population of South Africa consists of Africans. In the 1996 population census 31 million out of a population of 40.6 million were Africans; 3.6 million were coloured; 1.1 million were Indian/Asian and 4.4 million were white.

According to Mr Danie Snyman, South Cape Manager of the Roelcor Group (meat wholesale company) the culture of the African regarding meat consumption does not favour the ostrich meat industry. He is very much a beef and veal consumer but in recent years has adapted to poultry meat. In general the African likes his meat to be fat and they usually occupy the market for A3, A4 and “over” fat meat. Traditionally they are not in the market for ostrich meat (personal interview).

Mr Snyman also stated that the culture of the Coloured and White person in S.A regarding meat consumption is very much one of “braaivleis”. They like their chops and sausage and only in recent years have started to braai chicken/poultry meat. Statistics have shown that the production of poultry meat has risen from 354 000 ton in 1980 to 944 000 ton in 2001- an increase of 163% (SA Statistics, 2002).

The culture of the Indian / Asian group does not favour ostrich meat consumption either.

This goes to prove that there is not a culture of ostrich meat consumption in the South African market. Even in the Oudtshoorn region – the heart of the ostrich industry- ostrich meat was until very recently regarded as a by-product of the industry.
iii) Input costs

High input costs for the ostrich producer the last two or three years made it difficult for most of the ostrich producers to be profitable. In the beginning of 2001 an average production cost of R155.00 (feed, labour, and diverse costs) was recognised for bringing a chick to the age of three months. A few months later this had gone up to above R180.00. The price of maize for example increased in 12 months from R690/ton to R2000/ton (Report, 2003:32).

This pressure on the input costs resulted in the production price of ostrich meat not being able to “beat” that of its competitors. For 2002/2003 the average slaughter stock price of beef was 1227.6 c/kg; mutton 1812.8 c/kg; pork was 1302.0 c/kg; poultry was 1140.2 c/kg and ostrich meat was 1802 c/kg (Agricultural Statistics – Meat producer prices, 2002/03).

This goes to show that ostrich meat is competitive against other meat species, but is not in a position that the consumer price will increase its market share.

b) Negative long-term environmental issues.

i) Foreign trade regulations

One of the conclusions of the Report of the Ostrich section 7 committee were that the high volume of meat exported to Europe leaves the industry vulnerable against the strongest EU regulations. They however admitted that the ostrich industry couldn’t survive without ostrich meat being exported to Europe and other markets. The net income difference between exported and locally sold meat was at that stage significant because of the “weak” rand. As the rand became stronger against the overseas currencies (mainly the euro and the dollar) that difference became less and the profitability of exporting came under pressure.

Overseas markets have been developed over a period of time and the bigger role players in the industry like Mosstrich and KKC had to adhere to the export regulations. This led to an increase in production costs and raises the barriers of entrance into the industry for new farmers especially in a time during which the South African market has a lot to offer for producers.

The role players in the meat industry find themselves in a situation where they do not want to lose their overseas contracts and markets, because of competition from other markets. On the other hand the regulations being placed on the industry by the overseas countries, made it less profitable to export. The current strengthening of the rand even made the situation worse and the industry is almost caught in a “catch-22” situation.
ii) Interaction with leather industry/world economic situation.

One of the main problems for the South African ostrich industry is that the main market for ostrich leather products, namely Japan, has been in recession since 1993. This resulted in a negative growth for ostrich leather products while the world ostrich slaughter bird production grew from 180 000 in 1993 to an estimated 560 000 in 2002 (Report, 2003:3).

Due to the weakening of the Japan economy several handbag manufacturers closed their doors with the result that Japan imported only approximately 80 000 tanned skins. In recent years the demand for ostrich leather shifted from Japan to Korea and China. The latter two countries are known for the manufacturing of cheaper bags (made from cheaper leather). The luxury status of ostrich handbags has therefore been lost and the industry now has to take the initiative to restore the status of ostrich handbags or to find alternative usage for ostrich leather.

The leather income from ostriches cannot be interpreted isolated from the other products (mainly meat). At an exchange rate of R7.30/USD and R8.20/Euro in April 2003 the net realization of ostrich farmers and processors turned into losses which will result in job losses as well. These depressed leather market can lead to a drop in production of ostriches and will have an effect on the availability of meat in the South African market (Report, 2003:31).

One can reach the conclusion that it is not possible to separate the meat and leather market from each other. Seeing that the main driver in the industry is still the leather market the meat market cannot “escape” what happens in the leather market.

iii) Diseases

After the outbreak of BSE and foot and mouth disease in Europe at the end of 2000, the European demand for ostrich meat exceeded supply by far, resulting in an increase of nearly 40% in ostrich meat prices between December 2000 and September 2001. The high demand continued through 2001 and with the extremely weak rand from December 2001 up to October 2002, ostrich meat contributed better than ever to the total realization of a slaughter bird.

However, as beef and lamb consumers in Europe turned back to their traditional cuisine, the high demand for ostrich meat melted down and European ostrich meat prices dropped by 30% between January 2002 and January 2003. The weak rand also recovered steadily against the Euro and USD since October 2002. Both these factors have a negative impact on net meat realization (Cornelius, November 2002:4).

To retain its export status it is necessary for the ostrich industry to maintain a healthy ostrich flock in South Africa. Strategic diseases like Newcastle disease; Foot and Mouth Disease and Avian Influenza are an ever-present
threat to the meat industry. Importing countries could stop all imports from South Africa if it appears that there is no control over these diseases. Therefore effective control measures should be put in place to ensure a healthy ostrich flock (Report, 2003:51).

iv) “Cost-price-squeeze”

This concept refers to the fact that the price of farm inputs has, for most of the latter half of the 20th century, increased faster than the prices of farm products. This phenomenon places a squeeze on farm products. In the past government responded with a range of subsidies, for example, a subsidy on fertilizer prices, transport rebate etc. Most of these subsidies were phased out in the nineties.

Currently South Africa has one of the most unsubsidised agricultural sectors in the world. New Zealand is known as the country with the lowest agricultural subsidies in the world. Their PSE (producer subsidy equivalent) is 0.9%, that of S.A 4.2%, Australia 6.8%, USA 21.6% and the EU 45.3% (Report, 2003:39).

v) Chick mortality

Chick mortality is a serious destroyer with devastating and varied financial implications. For the last two decades in all surveys and opinion polls, the vagaries of chick mortality have been listed as enemy number one. Due to this, chick rearing has become a specialized branch within production.

vi) Climate

As in all agricultural products, ostrich farming is being influenced by the climatic conditions. Droughts, floods and other extreme climatic conditions can influence the numbers of ostriches offered for slaughtering. Usually a bad breeding season or unusual weather will have an effect on the following year’s slaughters (12 to 18 months).

c) Positive current environmental issues.


A recent article by Vic de Klerk (Finansies en Tegniek, 17/09/2003) revealed the following about the current economic situation in SA. He wrote that the prices of consumer goods in urban areas this year (2003) in July, amounted to only 5.2% more than July of the previous year and were exactly the same as in June this year. As a matter of fact, for the three months leading up to July, it was actually 0.1% less than for the three months up to April.

By December this year (2003) consumers will perhaps find the basket of goods bought in December last year for R120.40 and cost them R122.40 in July this year, could be bought for slightly more than R120 (according to indexes with 2000 as 100).
It would appear as though food prices amounting to 25.44% of the average consumer basket are still decreasing. The price of meat, some wheat products and imported luxury food products are actually lower than a year ago.

Housing amounts to 18.6% of monthly expenditure. Instalments on mortgage loans account here for the greater part and after the July statistics had been formulated, the interest rates had already substantially been reduced and a further reduction may be realized in December.

In December last year (2002) the exchange rate was still 17%; at present it is 13.5% and in December this year it could probably be 12.5%. This could lead towards helping to suppress inflation.

The price of fuel forms an integral part of transport costs, which in turn accounts for 13.2% of the consumer’s total expenditure. The present exchange rate of approximately R7.00/$1 compares favourably to R9.65/$1 in November last year. Even though the price of crude oil is much higher at present than a year ago, it is estimated that South Africans will pay less than last years’ petrol price in December 2003.

De Klerk said that these mentioned factors of which the prices in the following months may be even further reduced, make up 57% of consumers’ expenditure. Add to these electrical appliances and maybe even furniture of which prices –thanks to the upsurge in the value of the rand – have decreased considerably, De Klerk sees no reason why the inflation rate could not be almost down to zero by December 2003 (Finansies en Tegniek, 17/09/2003).

d) Positive long term environmental issues

i) Health benefits of ostrich meat.

In recent years, ostrich meat has gained popularity as a healthy red meat due to its low fat (<2%) and cholesterol levels. It is a juicy meat when cooked rare to medium-rare and resembles the taste of beef. Many health conscious consumers, who are warned about the risk of heart attacks, high blood pressure and heart disease, have switched to the purchasing of ostrich meat (http://www.Ostrichmeats.com)

Table 5 reflects the favourable position ostrich meat has, when compared to other meat products. Ostrich is naturally low in fat, extremely low in saturated fat, contains no marbled fat and provides an exceptional source of dietary iron and protein.

Table 5: Comparison between ostrich meat and other meat products.

Source: USDA Agriculture handbook nr/#8 and Hill Nutrition Associates of Florida for all except ostrich.
Golden Dreams Ostrich Farm describes the health benefits of ostrich meat as follows. “For a diet to be successful it’s important that you stick to it. Ostrich meat allows you to make little or no changes in your eating habits (other than substituting ostrich for beef) and still enables you to lose weight. You can enjoy the meals and tasks you’ve grown accustomed to without the excess fat. Losing weight doesn’t have to be a goal to consider adding ostrich to your diet. The health benefits for your heart and cardiovascular system are obvious if you compare the fat and cholesterol levels in the table above. Ostrich meat is obviously the best choice!! (http://www.ostrichmeats.com).

**ii) Technological levels in abattoirs**

According to the Report the technological levels in ostrich abattoirs are the same or even higher than those for high quality beef and mutton. S.A was one of the first countries that were granted approval to export ostrich meat to Europe.

Export approved ostrich abattoirs are subject to inspection by the importing countries. One of the requirements of an export abattoir is that it should have a full time veterinarian in its service.

Local consumers also benefit from these high levels of hygiene that are required by the EU-countries. It means that a healthy ostrich flock in South Africa must be maintained.

According to Swiss meat importer Warn Tschanen, Europeans like to know that their meat contains no growth hormones or antibiotics. Therefore Klein Karoo Cooperative (KKC) has introduced a system whereby with the help of the internet and microchip, consumers can track down all facts on a bird’s ancestry, date of birth, diet, health, inoculations, dates of slaughter and deboning and names of the farmer and farm of origin. Each bird gets its own serial number, which stays with its meat from packaging right down to the supermarket shelf. By calling up the number on a web site, consumers can get the facts. Klein Karoo CEO Willem Barnard said that all claims about the
production process are verified by laboratory tests and an analysis. The idea is to improve quality (Business Day, Sept 12:2000).

**iii) Social Mobility**

Affirmative action policies have resulted in more underprivileged people gaining education and employment. This upward swing in social mobility for black people has a positive impact on the consumption of health food and creates more disposable income in households.

According to SA Statistics 2002 the final consumption expenditure by households in SA for food beverages and tobacco has risen from R105 704 million in 1995 to R179 694 million in 2001. The consumer has more money to spend on food and other products and the increase in “lifestyle” of the South African citizen is to the benefit of the food industry.

4.2.2 Market situation

*a) Market segmentation*

South Africa has a large number of independent role-players in its ostrich industry. Fierce competition prevails amongst them in order to market their products. Due to the fact that ostrich products are regarded as niche products, the industry as a whole and the different role-players individually has an approach to protect the industry in different ways. According to the Report (2003:33) this inter-alia led to an “each for himself”-approach. Therefore no co-ordinated approach to work together to identify certain target groups or to identify information about market geographic, market demographics and market behaviours exists. Neither is there any co-ordinated approach by the different role-players to work together regarding product development or generic marketing.

*b) Market needs*

Any market needs a constant supply and that of ostrich meat is no exception. According to the owner of an ostrich meat shop in George one of the biggest problems in the meat market is the availability of fresh meat in the months between March and November (Personal interview).

Due to the seasonal slaughtering of birds, most abattoirs operate at full capacity between November and March. Fresh meat for the domestic distribution is then available. However during the other months, overseas contracts have to be fulfilled and no regular supply of meat can be guaranteed for the local wholesalers/ supermarkets.
c) **Market trends**

Worldwide there is a growing interest in diets and eating habits that concern a person’s physical health. Health and diets are serious concerns. Harry Balzer, author of the annual Eating Patterns in America, and a leading commentator on diets particularly “fat” diets, believes that the primary factor of obesity of America is habit. He said that people have grown accustomed to eating certain foods prepared in certain ways and that the consumer/ordinary citizen wants a “diet” that allows one to continue not changing a person’s eating habits (http://www.msnbc.com/).

Everyone likes beef, but wants a “more healthier” choice. A person’s heart, blood pressure, the entire cardiovascular system and his weight and waist line are all affected by his diet.

The trend towards consuming healthy red meat is to ostrich meat’s advantage. Ostrich meat has 66% less fat than beef; 50% less fat than chicken; less cholesterol than beef, chicken, pork, or lamb, fewer calories than beef, chicken, pork, turkey or lamb and more iron than beef, chicken, pork, turkey or lamb. It is possible for a person not to change his eating habits, still to lose weight by only substitute beef with ostrich meat.

An example of how a diet can transform the whole economy of an industry has recently been found in America. When Unilever PLC, the British food giant that owns Slim-Fast Foods announced a 23% drop in their US profits, it blamed the Atkins diet. It has been introduced after a book written by Dr Atkins had been released in 1997. Known as the Atkins diet this diet restricted processed /refined carbohydrates, such as high- sugar foods, breads, pasta, cereal and starchy vegetables. As a result of the popularity of this diet, wheat consumption by the American consumer has dropped from 147 pounds per person to 139 pounds in the past six years. The U.S beef market has grown by $3 billion in 3 years, beef jerky sales are up more than 40% in the past 2 years and pork-finds have tripled their market share to 496 million per year (http://www.msnbc.com).

Another major driver of consumer trends is convenience. Dr. Wayne Purcell, a professor of agricultural and applied economics at Virginia University stated the following: “Today’s family has two working parents. They want something easy to prepare, and the meat industry is finally providing that”. Meat is suddenly convenient. The Beef Magazine reported that in 2002 more than 500 new “beef convenience” products were launched, and sales of frozen and heat- and – serve beef have hit $5 billion, up from virtually nothing a decade ago. For the first time beef is transitioning from a commodity to a branded product, with quality improving as a result (Dehigg- The Washington Post, 15/09/2003).
d) Market share and size

I) Current situations

The following graph shows the contribution of the major ostrich producing countries to total world slaughtering of ostriches. Southern Africa still remains the major ostrich-producing region followed by the Middle & Far East (Cornelius, November 2002:2).

Figure 2.9: World Ostrich Population for slaughtering 2001.

Southern Africa – South Africa, Namibia and Zimbabwe

Source: Imex Marketing (Cornelius, November 2002: 2)
The following graph shows the domestic versus world slaughtering of ostrich.

Figure 2.10: Domestic versus world slaughtering of ostriches

Fig. 2.10 Domestic versus world slaughtering of ostrich

2003 = Preliminary

Source: Imex Marketing (Cornelius, November 2002: 4)

Explanation of graph:

The Report (2003:4) reveals that world production of slaughter birds reaches a high of ±560 000 birds in 2002 with the South African contribution of ±340 000 birds. The high volumes being slaughtered in 1997 resulted in a world over supply of ostrich leather, followed by a tumbling of leather prices. Leather prices have never recovered since then – it has tumbled by 38% in dollar terms from an average of USD 16 per square foot in January 2001 to around USD 10 per square foot at the beginning of 2003 (Report, 2003:4).
The next figure will show the exports of South African ostrich meat.

Fig 2.11: South African ostrich meat exports.

2003 = Preliminary

Source: Imex Marketing (Cornelius, November 2002:5)

Explanation:

Approximately 90% of ostrich meat is exported mainly to the E.U. The price of ostrich meat in the export market increased slowly from 1993 to 2000. The outbreak of BSE and FMD in Europe at the end of 2000 resulted in the demand for ostrich meat exceeding the supply by far, resulting in an increase of nearly 40% in ostrich meat prices between December 2000 and September 2001. This combined with the weak Rand from December 2001 up to October 2002 resulted in ostrich meat contributing better than ever to the total realization of a slaughtered bird.
4.2.3 SWOT Analysis

An analysis of the ostrich meat industry’s internal strengths and weaknesses and external opportunities and threats reveal the following:

a) **Strengths**

- SA is the world leader in the ostrich industry. It contains 60% of the ostrich population and 83% of slaughters.
- Awareness of health – related food by consumers. Ostrich meat is recognized world wide as the “healthy red meat”.
- Well-established niche-market for a certain consumer.
- High technological levels in abattoirs.
- Well-established industry.
- Industry can benefit if world economic situation goes in upswing phase (as anticipated).

b) **Weaknesses**

- Competition within industry leads to undercutting in prices resulting in lower producer prices.
- No co-ordinated approach regarding promotion, research and generic marketing by bigger role-players.
- Small and unstable market.
- Dependability on export markets especially Europe.
- Industry is vulnerable against EU regulations.
- Dependability on fluctuations of rand against dollar and euro.
- Incomes of different products of ostriches cannot be interpreted isolated from each other. If there is for example a dramatic drop in leather prices in the ostrich industry it will have an effect on the availability of meat in the market.
- High input costs during production process.
- Seasonal fluctuation in availability of ostrich meat in supermarkets.
• Which is the driver of the industry- hides or meat?

• No real domestic marketing strategy by bigger role-players.

• Vulnerability against extreme climatic conditions can have an effect on availability of products in market.

c) Opportunities

• The view that ostrich production can exceed the beef cattle market in years to come. One of the reasons is that ostrich farming needs relatively small areas (not necessary to have a huge farm). One female can produce between 30-60 chicks each year for up to 40 years. For farmers with small hectares of land available, ostrich farming could prove to be an attractive and profitable venture. Another reason is that ostriches breed earlier and more regularly than beef cattle. For example, the female ostrich may begin to produce eggs at the age of two and can produce anywhere from 30 to 90 eggs per year.

• Untapped domestic market.

• The generic promotion of ostrich meat. Currently it is almost non – existent.

• Implementing of measures to enhance better liaison/cooperation between role-players in the ostrich- industry in SA.

• Today’s health conscious society makes ostrich meat ideal alternative for beef, lamb, pork and chicken.

• In South Africa the recent erection of a new abattoir of export quality near Swellendam creates new opportunities for farmers in that region. Ostrich production can increase, because of the availability of an abattoir within their reach.

• Growth in meat demand by far outstrips supply. This situation requires an important decision from the ostrich industry: “Will it continue to be skin-drivers or will it become meat driven? To focus on meat as the primary product will provide the greatest opportunity to bring stability to the industry as skins are more susceptible to the whims of the fashion market”(remark by Fiona Benson of Blue Mountain Ostrich Farm in South Africa).

d) Threats

• Constant pressure from international pressure groups like Compassion for World Farming. Many shops refuse to take in fresh or processed animal products if it does not adhere strictly to the requirements laid down for production, practices, transport and “humane” handling prior to slaughtering. Another requirement is a proven record of responsible
resource management. Especially the sizes of camps, birds density, water, feeding, housing and “humane” handling and transport of slaughter birds are important.

- Losing its status as “healthy red meat”. There is a tendency to produce more birds, which fall into the Utility Grade class. Producers can use feed programs, which include Animal Protein Products, growth stimulants and antibiotics. The end user does not want these things fed to the animals and since ostrich meat’s main marketing tool is “The Healthy Red Meat”, the wrong feeding programme can destroy the ostrich meat industry.

- Overproduction of products.

- Closure of international markets due to non-compliance of import regulations (imposed by importing countries).

- Strengthening of the exchange rate can have consequences that can put profitability of ostrich farming under pressure.

- A product substituting for ostrich meat, which could exploit the potentials of the domestic market.

4.2.4 Competition

Although the industry likes to portray ostrich meat as exotic meat, serving a different market – more a type of exclusive niche market - it still has to compete against beef, mutton and poultry.

a) Competitive rivalry


<table>
<thead>
<tr>
<th>Year</th>
<th>Production (1000 ton)</th>
<th>Net consumption (1000 ton)</th>
<th>human consumption</th>
<th>Kg/year per ca</th>
<th>Gr/day per ca</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980/81</td>
<td>173</td>
<td>179 (9000 imported)</td>
<td>5.99</td>
<td>16.42</td>
<td></td>
</tr>
<tr>
<td>1990/91</td>
<td>191</td>
<td>206 (18 000 imported)</td>
<td>5.50</td>
<td>15.08</td>
<td></td>
</tr>
<tr>
<td>1995/96</td>
<td>106</td>
<td>167 (62 000 imported)</td>
<td>4.14</td>
<td>11.33</td>
<td></td>
</tr>
<tr>
<td>2000/01</td>
<td>107</td>
<td>154 (49 800 imported)</td>
<td>3.47</td>
<td>9.51</td>
<td></td>
</tr>
<tr>
<td>2001/02</td>
<td>110</td>
<td>163 (55 000 imported)</td>
<td>3.59</td>
<td>9.85</td>
<td></td>
</tr>
</tbody>
</table>
Table 7 summarises the production and per capita consumption of beef and veal for the periods 1980/81; 1990/91; 1995/96; 2000/01 and 2001/02 (S.A. Statistics: 2002).

<table>
<thead>
<tr>
<th>Year</th>
<th>Production (1000 ton)</th>
<th>Net consumption (1000 ton)</th>
<th>human Kg/year per ca</th>
<th>human Gr/day per ca</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980/81</td>
<td>545</td>
<td>624 (109 imported)</td>
<td>57.2</td>
<td>659</td>
</tr>
<tr>
<td>1990/91</td>
<td>665</td>
<td>702 (68 imported)</td>
<td>51.2</td>
<td>589.6</td>
</tr>
<tr>
<td>1995/96</td>
<td>508</td>
<td>619 (137 imported)</td>
<td>41.9</td>
<td>483.2</td>
</tr>
<tr>
<td>2000/01</td>
<td>532</td>
<td>566 (58 imported)</td>
<td>34.5</td>
<td>397</td>
</tr>
<tr>
<td>2001/02</td>
<td>576</td>
<td>617 (65 imported)</td>
<td>37.2</td>
<td>428.6</td>
</tr>
</tbody>
</table>

Table 8 summarises the production and per capita consumption of poultry for the periods 1980/81; 1990/91; 1995/96; 2000/01 and 2001/02 (S.A. Statistics: 2002).

<table>
<thead>
<tr>
<th>Year</th>
<th>Production (1000 ton)</th>
<th>Net consumption (1000 ton)</th>
<th>human Kg/year per ca</th>
<th>human Gr/day per ca</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980/81</td>
<td>364</td>
<td>338.58</td>
<td>11.9</td>
<td>32.6</td>
</tr>
<tr>
<td>1990/91</td>
<td>630</td>
<td>622.71</td>
<td>17.17</td>
<td>47.05</td>
</tr>
<tr>
<td>1995/96</td>
<td>826</td>
<td>826.08</td>
<td>21.08</td>
<td>57.74</td>
</tr>
<tr>
<td>2000/01</td>
<td>934</td>
<td>992.99</td>
<td>23.06</td>
<td>63.19</td>
</tr>
<tr>
<td>2001/02</td>
<td>944</td>
<td>981.11</td>
<td>22.46</td>
<td>61.53</td>
</tr>
</tbody>
</table>

It is interesting to note that the per capita consumption of the “traditional” red meat like beef and mutton has declined throughout the years. On the other hand the consumption of poultry has nearly doubled in the last 20 years.

The South African ostrich industry is not known for the availability of coordinated and structured (meaningful) information. In the past some of the important role-players in the South African ostrich industry did not share the same opinion about ostrich information. Certain role-players did not even want to reveal ostrich slaughtering figures as they reason that higher slaughter figures could give an indication of the number of skins available and a large number of skins could have a negative effect on world ostrich leather prices.

Therefore no information is available of per capita consumption of ostrich meat. As seen in Figure 2.11, 5400 ton ostrich meat was exported in 2001/02. If that represent 90% of total meat production the meat production for the mentioned year was 6044 ton.
b) Threat of new entrants

The chances of entrants entering the industry is rather slim due to the following factors:

- Serve only a niche market.
- Complexity of industry (high input/capital requirements).
- Well-established role-players like Mosstrich and KKC who “control” the industry.

c) Threat of substitutes

Due to uniqueness of ostrich meat no real substitutes are available. To a small degree venison can be called a substitute, but it serves a different market.

d) Bargaining power of buyers and suppliers

Currently the biggest role- player in the ostrich industry is the Klein Karoo Cooperative. The Klein Karoo Cooperative (KKC) enjoyed the benefits of the one channel delivery system for ostrich products until 1993 when the industry was deregulated. Only one KKC abattoir was in operation before 1993. At that stage the ostrich industry was a single channel monopoly with all the bargaining power in the hands of one organization. After 1993 a further 9 more export abattoirs were built and other role- players like Mosstrich abattoir and Camdeboo Meat Processors came into operation. However at this stage Klein Karoo Cooperative (KKC) still dominates the ostrich industry. Because of its historical advantages, it has gained the competitive edge in the industry. Its actions regarding the marketing of any ostrich product has a huge influence on the products of all the producers as well as other parties involved.

Due to the history of the South African ostrich industry, producers were responsible to build their own slaughter facilities. Producers, in other words, themselves provided funds to build these facilities. Pro rata to the funds they paid, producers received shares to slaughter their ostriches in the relevant abattoirs. These quota systems were started by KKC in 1997. Currently new entrants must also buy slaughter space (or market access/quotas) in order to slaughter their ostriches in most of the export approved abattoirs, for example 100 shares give the owner of the shares the right to slaughter 100 ostriches per year with a specific abattoir (Report, 2003:39).

The prices of shares vary from R200 to R400 per bird, but it is determined by supply and demand factors. The cost of the shares is a once off expense. Producers who are not shareholders may also slaughter their bird as long as the specific abattoir is not operating at full capacity. Once full capacity is
reached, the non-shareholders should make alternative arrangements (Report, 2003:40).

In other words non-shareholders are not assured of slaughter facilities at times of full capacity slaughtering which is between November and March.

The supplier group in the ostrich industry “controls” the industry through the system of quotas. To a degree it affords stability and order in the industry, because the prices of shares are determined by the demand and supply in the open markets for ostrich products.

The interaction between leather and meat in the ostrich industry result in suppliers always looking at the different products and not a specific product. For example, if there is a shortage of meat but the skin prices are low, it is not a solution to flood the market with ostrich meat, because it will only be to the other component of the industry’s disadvantage. At the end the producer will be the losing party.

Ostrich meat serves a unique market and its main customers are health conscience people. It can be said that this buyer group can be powerful, because it is a very concentrated group of people. Any “bad publicity” will lead to a sharp reaction by the buyer group. They will simply switch to the usage of poultry or other meat.

e) Rivalry within industry amongst existing competitors

South Africa has a large number of independent role-players in the ostrich industry. Fierce competition prevails amongst them in order to market their products. On the international market each processor sells its ostrich products independently of other processors. This led to the undercutting of prices in order to sell larger volumes. It has also a negative effect on monitoring of quality standards, which resulted in the fact that optimum income levels could not be realized for ostrich products.

4.2.5 Product offering

The most important aspect of marketing a product is the product itself. Products are created to satisfy the needs of customers. Simply put, if a product is successful in satisfying the needs of customers, then the customer will make a profit and the customer will be happy. However if the product is not able to satisfy a customer’s needs, then it will not sell, and the company will not profit from having the product on the market. Therefore, a company’s product offerings are essentially important to the company’s profitability and existence.

Ostrich meat has a wide selection of cuts. The prime cuts of the meat are obtained from the drumstick, which is that part of the leg nearest the body. The neck and the rump also provide meat cuts. At Mosstrich every month approximately 90 ton of fillet and steak are produced, 98% of which is
vacuum-packed and exported fresh and frozen. These cuts consist of the following: (Mosstrich brochure).

- Triangle fillet ± 1.5 kg
- Eye fillet ± 0.4 kg
- Tournedos ± 0.2 kg
- Oyster fillet ± 0.45 kg
- Long fillet ± 0.3 kg
- Triangle steak ± 0.45 kg
- Small steak ± 0.15 kg
- Rump steak ± 1.15 kg
- Tender loin ± 0.6 kg
- Tender steak ± 0.3 kg
- Moon steak ± 0.7 kg
- Minute steak ± 0.15 kg
- Long steak ± 0.3 kg
- Drum steak ± 0.55 kg
- Small drum steak ± 0.3 kg
- Flat drum steak ± 0.3 kg
- Big drum steak ± 1.0 kg

Other forms of fresh meat consist of neck-meat, mince; meatballs, various sausages and pieces of meat used as stroganoff.

De-boned cuts are used for cold meats such as polonies, russians, ham, ham rolls, stir fry, kebabs and carpaccive.

Various forms of trimmings are also available. It consists mainly of the lower – quality meat and serves a certain market group, mainly the lower- income group.

Biltong and dried sausages are also very popular especially because of their low fat content.
Marketing ostrich meat as exotic meat, the bigger role-players like KKC and Mosstrich concentrate on the marketing of the prime cuts. According to the owner of an ostrich meat shop in George the demand for the de-boned cuts; sausages and trimmings exceed the supply. The biggest problem seemed to be in his situation the availability of fresh meat. He said that he sometimes gets the impression that the ostrich industry does not “want to enter the market of the ordinary consumer” “They rather want to serve the exotic market and a certain customer” (personal interview).

### 4.2.6 Keys to success

The following key factors are paramount to success:

- Quality of products.
- Affordability of products.
- Products must satisfy the need of customers.
- Create brand awareness.

### 4.2.7 Critical Issues

Two methods will be used to formulate the critical issues of the SWOT analysis, namely Kotler’s Opportunity and Threat Matrix and Proctors TOWS Matrix.

a) Kotler’s Opportunity and Threat Matrix

Both the opportunities and threats facing the meat industry have been listed according to a low or high probability of occurrence.
### Table 9: Opportunity matrix

**Opportunity matrix**

<table>
<thead>
<tr>
<th>ATTRACTION</th>
<th>SUCCESS PROBABILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIGH</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Better cooperation between roleplayers.</td>
</tr>
<tr>
<td></td>
<td>4. Promotion of ostrich meat</td>
</tr>
<tr>
<td></td>
<td>6. Erection new abattoir</td>
</tr>
<tr>
<td>LOW</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. Possibility of exceeding beef cattle market</td>
</tr>
<tr>
<td></td>
<td>2. Untapping domestic market</td>
</tr>
<tr>
<td></td>
<td>5. Alternative for other meat products</td>
</tr>
<tr>
<td></td>
<td>7. Skin-driven or meat driven industry</td>
</tr>
</tbody>
</table>

### Table 10: Threat Matrix

**Threat matrix**

<table>
<thead>
<tr>
<th>SERIOUSNESS</th>
<th>PROBABILITY OF OCCURRENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIGH</td>
<td>1. Pressure from pressure groups</td>
</tr>
<tr>
<td></td>
<td>4. Closure of international markets.</td>
</tr>
<tr>
<td></td>
<td>5. Strengthening of exchange rate</td>
</tr>
<tr>
<td>LOW</td>
<td>2. Losing its status as “healthy red meat”</td>
</tr>
<tr>
<td></td>
<td>3. Overproduction</td>
</tr>
<tr>
<td></td>
<td>6. Substitute</td>
</tr>
</tbody>
</table>
b) Proctor’s TOWS Matrix

The Proctor’s TOWS Matrix reflects the results of the SWOT analysis and includes different strategies that can be used in order to maximize the strengths and opportunities and minimize the threats and weaknesses facing it.

**Table 11: Proctor’s TOWS Matrix**

<table>
<thead>
<tr>
<th>Strengths (S)</th>
<th>Weaknesses (W)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Word leader in industry</td>
<td>1. Undercutting of prices</td>
</tr>
<tr>
<td>2. Recognized as “healthy red meat”</td>
<td>2. No coordinated approach</td>
</tr>
<tr>
<td>3. Upswing in economic situation</td>
<td>3. Small unstable market</td>
</tr>
<tr>
<td>4. Well established niche market</td>
<td>4. Vulnerability against EU regulation</td>
</tr>
<tr>
<td>5. Technological levels</td>
<td>5. Input costs</td>
</tr>
<tr>
<td>6. Influence of other ostrich products</td>
<td>6. Influence of other ostrich products</td>
</tr>
<tr>
<td>7. Fluctuation of availability of meat</td>
<td>7. Fluctuation of availability of meat</td>
</tr>
</tbody>
</table>

**Opportunities (O)**

1. Exceed cattle market
2. Untapped domestic market
3. Promotion
4. Better cooperation
5. Alternative for other meat products
6. Will industry become meat driven?

Utilize leadership position to exploit domestic market. (S1; S2; S4; S5)
Use brand image of health promote products. (S2; O3; O5)
Investigate model for cooperation between role-players. (W1; W2; O2; O3; O4)
Investigate potentials of domestic market as alternative for vulnerability against EU-regulations. (W3; W4; T3; O2)

**Threats (T)**

1. International pressure
2. Losing status as “healthy red meat”
3. Closing international markets strategies
4. Overproduction
5. Strengthening exchange rate

Use leadership position to influence pressure groups. (S1; S4; T2)
Use upswing in international market to minimize effect of exchange rate. (S3; O3; O5)
Implement plan to be more independent of export markets. (T3; W3; W4)
4.3 INTERNAL ANALYSIS

4.3.1 Introduction

According to Miller (1998:117) managers perform internal analysis to identify strengths to build on and weaknesses to overcome and to formulate strategies for competitive advantages. Research and experience have shown that a firm’s or industry’s overall strength and weaknesses and its ability to execute may even be more important to its performance than environmental factors.

An internal analysis of the ostrich industry, which will have an influence or the availability of its products, will determine whether the processors can supply the domestic meat market with ostrich meat. These internal analyses will concentrate on a resource analysis, the capabilities of the organization/industry and then finally the industry key success factors.

4.3.2 Resource analysis

a) Tangible resources

i) Production

The various activities of ostrich production refer to breeding, rearing chicks, raising birds and producing for slaughter. Chick mortality has been listed as enemy number one for the ostrich industry. High chick mortality has an influence on the whole value chain and has huge financial implications for both the producer and the processor.

Ostrich production seems to be very attractive because of the following reasons:

- Birds do not require an enormous amount of land to graze on- it is not necessary to have huge farms.

- Ostriches breed from the age at two. They can easily produce 40 offspring per year for about 30 years. It is thus possible for one ostrich to “produce” 1200 chicks in its lifetime.

- When the ostrich is slaughtered very little is wasted in the slaughtering process. It is not commonly known that even its feet are ground into a fine dust and sold to the Far East as an aphrodisiac and that its eyes are sold to research facilities to perform studies to gain more knowledge on human cataracts ([www.valuables.co.za](http://www.valuables.co.za)).

- Ostrich meat has been branded as the “healthy red meat” because of its health advantages.

- Ostrich feathers have still a variety of applications, ranging from feather dusters to Las Vegas showgirls wearing ostrich plumed headpieces.
• Ostrich leather is still very much in demand by boot makers, shoe manufacturers and makers of wallets, briefcases and other accessories. Dr Majorie Mahler, president of the John Mahler Company, a $10 million hides import-export business in Texas, told reporters recently that ostrich is one of the toughest, yet most pliable, skins available (www.agonline.com).

ii) Abattoirs

Currently 10 export abattoirs are in operation and approximately 95% of all the birds are marketed through them. The technological levels in ostrich abattoirs had to comply with EU-standards and are at a very high level. Export approved ostrich abattoirs are subject to inspection by the importing countries. One of the requirements of an export abattoir is that it should have a full time veterinarian in its service (personal interview – state veterinarian).

iii) Tanneries

Currently 15 tanneries are in operation in S.A. The technological levels of South African ostrich tanneries compare well to that of other tanneries. Establishment costs for an ostrich tannery are exceptionally high, mainly due to expensive equipment being imported. Therefore a number of developing ostrich producing countries are sending their unprocessed ostrich skins to S.A. to be tanned. According to the Report (2002:33) the reason for this is:

• Their numbers of skins are too little to justify own tanneries.
• It is too expensive to build an own tannery.
• They lack the technology and know-how in order to tan the skins.

4.3.3 Organizational Capabilities

Johnson & Scholes (2002:146) stated that an understanding of the strategic capability of a firm is important because it has an influence on whether an organisation’s strategies continue to fit the environment in which the organisation is operating and the opportunities and threats that exist.

Since the deregulation of the South African ostrich industry in 1993 ostrich production extended to a large number of other countries in the world. The Committee who investigated the effects of deregulation on the South African ostrich industry, defines an ostrich producing country as a country that carries out all stages of the production chain - from breeders through to slaughter plants and tanneries (Report, 2003:35). Only South Africa, Namibia, Zimbabwe and Israel fitted currently into this category.

As world production is increasing, ostriches are losing their novelty and are currently being reclassified from feathered game to that of poultry. Exporters of ostrich meat will therefore have to comply with higher
standards, which could lead to higher costs. In spite of an initial decline in market share just after the deregulation of the industry, South Africa is by far the world leader in terms of commercial production.

Although ostrich slaughtering increased from 180 000 in 1993 to approximately 560 000 in 2002 (produced in 29 countries) only one export abattoir exists in the USA and two tanneries in Europe. Most countries are exporting their ostrich skins to South Africa to be tanned.

South Africa is considered to be the world leader in terms of production as well as having the infrastructure to support the ostrich industries. Other companies in the world use the bigger role-players in the industry as benchmarks.

The committee raised its concern that under NEPAD it could be expected from the South African ostrich industry to assist other African countries to develop their own ostrich industries. The South African ostrich industry has therefore to clarify what information should be freely available and what information should be regarded as internal industry specific information (and therefore not sharing with the rest of the world) (Report, 2003: 10).

In terms of industrial capabilities it can be said that the South African ostrich industry has established a competitive advantage over the rest of the world and is in position to sustain that advantage.

4.3.4 Industry key success factors

Ostrich products could be regarded as niche products, with especially in the case of meat, few competitors. Regarding the meat market the following question can be asked:

- Does the industry know what their customers want?
- Do they know who their customers are what are their needs and how do they value the current products?

In South Africa virtually no generic promotion of ostrich meat exists. A recent survey in the United States has revealed that Pork: The Other White Meat Campaign has changed the way consumers think about pork. One survey shows that 93% of consumers perceive pork products featuring the slogan as “high quality”. This campaign influenced the consumers’ quality perceptions of pork products in supermarkets across the country. The same results could be achieved with ostrich meat if funds could be raised for generic promotion campaigns (Report, 2003:41).

According to Mr. Manie Booysen, head of the SA Meat Industry Company (SAMIC) there is a move of consumers towards other protein sources. According to the instant load supplier, Steers, their chicken and beef purchases already reached the 50/50 level with an annual growth of 20% towards chicken (www.agriafrika). Mr. Booysen said that the red meat
industry has to keep up with continual stimulation of the market. The main tools to achieve this would be constant generic advertising, supported by an objective and conversant information system.

This trend in the red meat industry favours the ostrich meat industry and it will be to the industry’s long-term advantage to capitalize on it.
5.1 Summary

The main problem identified to be resolved in this research was: What is the potential for the marketing of ostrich meat by a South African processor to penetrate the local meat market?

The motivation behind this study was answering the following questions:

“Why is it that a South African industry, which is the undisputed world leader in terms of farming as well as value adding to its products, exports nearly 90% of its products?”

“Why is that one of its products namely ostrich meat is relatively unknown to the South African consumer?”

It is known that since the deregulation of the industry in 1993, the major competitors around the world introduced their products to the existing markets without developing new markets or developing new products. This resulted in the industry operating in a relatively small and unstable market.

In the light of the above, it was felt that the research would be useful to see whether there are potentials for the marketing of ostrich meat domestically and if any, why the role-players in the industry do not grab the opportunities.

The basis for the research was a literature study to identify the key components of a marketing plan followed by an empirical survey of the key issues critical to the development of such a plan. The empirical survey method used consisted of an in-depth scan of the macro-environment and thorough market investigation of the target industry, utilizing the Internet, print media, personal interviews and telephonic conversations.

In answering the main problem, the sub-problems listed in section 1.2 were answered. The literature research revealed the required components necessary to create a marketing plan. The in-depth environmental scan, a detailed SWOT and competitive analysis revealed the current and future environmental conditions affecting the ostrich meat industry. It also identifies available opportunities for the industry and revealed the capabilities of the meat industry to meet the demands of the consumers.

5.2 Recommendations

The following recommendations are suggested by the author (not necessarily in sequence of importance):
**Recommendation 1**

Meat can bring stability to the ostrich industry.

- To focus on meat as the primary product will provide an opportunity to stability to the industry, as skins are more susceptible to the whims of the fashion market.

The ostrich industry is in this unique situation that it delivers three main products. Originally ostriches were known for its feathers, but since 1970 ostrich skins have become the major source of income. Since the middle nineties, ostrich meat started to make a bigger contribution towards the gross income per bird. One could argue that ostrich meat’s contribution will increase in the future, according to the trends in the consumer’s attitude towards meat consumption. At present the main driver in the industry is still leather. As indicated in the Report (2003:31) the depressed leather market has currently an influence on the production of ostriches by farmers. It is possible that farmers as well as the bigger role-players remember what happened when the feather market collapsed and are therefore uncertain about the leather market. The fact that the South African industry is totally dependent to the whims and unpredictability of the overseas fashion market make this a “high-risk” industry. More emphasis on meat as a product for the twentieth century with all its health benefits can stabilize the industry.

**Recommendation 2**

The meat industry must be less dependent on overseas markets.

- The ostrich industry exercises the opinion that the current “status” of export markets for ostrich products is the result of development and hard work done by South African ostrich producers, processors and manufactures over a long period. However the fact that competitors around the world introduced their products to the existing market without developing new markets made this a very unstable market for South African ostrich products. Our location, far from the main markets, made this situation even worse.

Also being part of Africa and exporting the meat to mostly First World countries (European Union) made it difficult for SA to comply with EU standards and regulations. The high levels of technology needed to fulfill the requirements of the EU also have an influence on our production costs. Being less dependent on the EU could reduce the risk of the meat industry and could make it possible for new farmers to enter the industry.
Currently there is a net income difference between exported and locally sold meat, but it depends on a marked degree on the exchange rate. The South African market cannot currently be supplied with sustainable stock from the processors because the emphasis is on exporting. In the long term, because of the positive potential in the local market, it would be to the industry’s advantage to develop the local market.

**Recommendation 3**

Extensive market research to be done.

- Historically the industry wants to be known as an industry whose products operate in the “exotic” market. Maybe it is time for the industry to concentrate, especially in the meat market, on promoting its products for the average consumer. The average South African consumers’ knowledge about ostrich meat is very limited, because of little generic promotion. Extensive marketing should be done on consumer’s attitude towards ostrich meat as well as their knowledge about its health benefits. The upward swing in the social mobility of especially the black people in SA should be exploited and the research should concentrate on the black market’s preferences towards healthy meat.

**Recommendation 4**

Creating a culture of ostrich meat as a traditional product own to South Africa.

- The ideal situation would be to create a culture of South Africans consuming ostrich meat. A culture similar to that of the West Coast where crayfish is synonymous with the region could be created. To do that, the bigger role-players in the industry, KKK and Mosstrich would have to co-ordinate their promotion activities. Innovative thinking towards stimulating the industry is necessary.

According to a prominent ostrich farmer the production of an ostrich where all the emphasis is on the meat factor is possible. It will then be possible to slaughter an ostrich at a young age purely for its meat. A situation similar to the red meat industry, where veal and lamb meat has a specific place in the market, can be developed. Consulting with producers will be important and mutual trust between all the role players in the ostrich industry should exist.

**To summarize** – There is a huge potential for the marketing of ostrich meat on the South African market. However, the world supply and demand for slaughter birds is delicately balanced. Developing this “new” meat market in South Africa without developing a market for the “additional” skins that will be “flooded” in the market will have serious consequences for the industry.
To exploit this potential an implementing plan, which should exist of the following, can be implemented by the industry:

- Extensive market research on the South African knowledge of ostrich meat.
- Inform all the role-players about the research “outcome”.
- Implementing a marketing campaign with the promotion of ostrich meat as the “healthy red meat”.
- Developing markets for the “extra” skins that will enter the market.

5.3 Conclusion

Organizations should be concerned with improving their performance, otherwise they are likely to lose their competitive advantage or even drop out of the market as customer expectations and the performance of competitors rise. Therefore improving over time is essential for any organization.

The South African ostrich industry is currently in the position where they have to improve their performance in order to stay the world leader in the global ostrich industry.

Grabbing new opportunities, developing new markets, and having a co-ordinated approach should be the key elements of all the role-players in the ostrich industry for the future.
REFERENCES


