

**LABELLING TO PROMOTE BROAD-BASED BLACK ECONOMIC  
EMPOWERMENT IN SOUTH AFRICA: A CASE STUDY OF THE  
THANDI EMPOWERMENT LABEL**

By

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Submitted in partial fulfilment of the requirements for the degree of

**MASTER OF AGRICULTURAL MANAGEMENT**

In the

DISCIPLINE OF AGRICULTURAL ECONOMICS

SCHOOL OF AGRICULTURAL SCIENCES AND AGRIBUSINESS

FACULTY OF SCIENCE AND AGRICULTURE

UNIVERSITY OF KWAZULU-NATAL

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MARCH 2007

## DECLARATION

I hereby certify that, unless otherwise specifically indicated to the contrary in the text, the work reported in this dissertation is the result of my own original work, which has not already been accepted in substance for any degree, and is not being submitted in candidature for any other degree:

Signed



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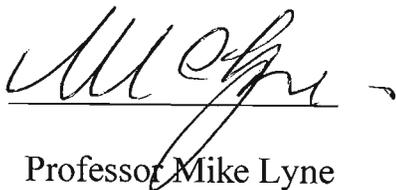
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We hereby certify that this statement is correct.

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## ABSTRACT

*Broad-based black economic empowerment (BBEE) is a policy objective in South Africa. Farm-worker equity-share schemes (FWES) satisfy several of the empowerment goals specified by the proposed AgriBEE Scorecard. Information about the costs and benefits of subscribing to an empowerment label will help managers to make more informed decisions about empowerment and could therefore promote BBEE. The Thandi label is an initiative to market fruit and wines originating from FWES and farms operated by previously disadvantaged farmers.*

*A case study of the Thandi label was undertaken to determine whether or not the accredited empowerment attribute adds value to Thandi products. An exploratory-explanatory case study was adopted basing questions largely on the theoretical propositions of asymmetric information, the benefits of product labelling and the preconditions for a successful label. Primary data were collected via in-depth interviews with managers of Capespan, The Company of Wine People and empowerment farms participating in the Thandi label. The study made use of in-depth interviews with key informants to investigate issues considered (on theoretical grounds) to be critical in establishing a successful label. Responses were subsequently tabulated and compared, where relevant, across respondents in order to check for consensus views.*

*Results indicate that the Thandi label had not succeeded in differentiating fruit, whereas the Thandi wine label had increased sales revenue and was covering accreditation costs incurred by farms as well as the recurring costs of maintaining and marketing the label. Thandi fruit had not grown its share of the domestic or export markets and did not command a price premium, Capespan*

*subsequently discontinued the Thandi fruit label. Thandi wine, on the other hand, had grown its export market and consumers were prepared to pay a premium for Thandi wine products.*

*The data indicate that empowerment attributes were useful in finding shelf space for products, but that quality is essential to grow market share and to earn price premiums. In short, accredited empowerment attributes can add value to quality products sold to discerning consumers who lack information about empowerment and quality attributes at the point of sale. Empowerment labels must include quality attributes. Government should at least absorb some of the transaction costs confronting producers and marketing agencies in negotiating standards for farms and firms participating in generic empowerment labels. It could also offer auditing services to local accreditation agencies to improve their credibility. Further research estimating consumers' willingness-to-pay for products branded with empowerment labels is necessary to estimate the size of premiums that different products may command.*

## ACKNOWLEDGEMENTS

I would like to thank the following persons and organisations who made this study possible:

- Professor Mike Lyne (supervisor), School of Agricultural Sciences and Agribusiness, University of KwaZulu-Natal, for his supervision, suggestions and guidance throughout this study.
- Dr. Stuart Ferrer (co-supervisor), for his support, direction and invaluable help throughout the study.
- The National Research Foundation (NRF), for their financial assistance under grant number GUN 2054254. Opinions expressed and conclusions arrived at in this dissertation are those of the author and do not necessarily reflect those of the NRF.
- To my girlfriend, Joy, for her constant support and help throughout the study. I couldn't have done it without her.
- To my mother, father, stepfather and brother, for their continual love, support and encouragement throughout my University career.
- To my entire family, for their love and support throughout my studies.
- To my friends, for their encouragement and different ways of motivation.
- Above all things, I thank God, for giving me every opportunity in life and the strength to carry on going through tough times.

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## **LIST OF ACRONYMS**

- ADA: American Dental Association**
- BBEE: Broad-based black economic empowerment**
- BEE: Black economic empowerment**
- BSE: Bovine Spongiform Encephalopathy**
- DEAT: Department of Environmental Affairs and Tourism**
- DTI: Department of Trade and Industry**
- FOB: Free-on-board**
- FWES: Farmworker equity-share schemes**
- GH: Good Housekeeping**
- ISO: International Labour Organisation**
- NGO: Non-governmental organisation**
- NIE: New Institutional Economics**
- NLEA: Nutrition Labelling and Education Act**
- PDI's: Previously disadvantaged individuals**
- SAFCOL: South African Forestry Company**
- SAI: Social Accountability International**
- SME's: Small and medium-sized enterprises**

## INTRODUCTION

Black economic empowerment (BEE) aims to promote business opportunities curtailed by apartheid in South Africa. Almost all South African firms were owned by white investors and controlled by white managers during the apartheid era (Jackson *et al*, 2005). In 1990, blacks<sup>1</sup> occupied less than three per cent of management positions even though they constituted the vast majority of the population (Gray & Karp, 1993; cited in Jackson *et al*, 2005). This study is concerned with broad-based black economic empowerment (BBEE) in agriculture, where previously disadvantaged individuals (PDI's) acquire equity in the agribusiness or farm enterprises in which they work. The Broad-Based Black Economic Empowerment Act, Act 53 of 2003, defines BBEE as the economic empowerment of black people through diverse but integrated socio-economic strategies. An integral part of the BBEE Act is the Balanced Scorecard and more specifically the AgriBEE charter which measures companies' empowerment progress, assigning significant weight to the transfer of ownership, control and skills to previously disadvantaged workers. In particular, this study deals with empowerment labels and their potential for promoting BBEE in South Africa.

The Thandi label is an initiative that aims to market and promote fruit and wine products from black empowerment farms. Participating farms must be owned and operated by an emerging black commercial farmer, or (as is more often the case) they must be firms in which black farm-workers own at least 25 per cent of the equity. Well structured farmworker equity-share schemes (FWES) can contribute significantly to BBEE. Knight *et*

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<sup>1</sup> Indians, coloureds and black people were collectively known as 'blacks'.

*al* (2003) found positive relationships between financial performance and the transfer of ownership (equity), control and skills to previously disadvantaged workers in nine FWES studied in the Western Cape. Empowerment labelling could add to the benefits of BBEE, making it a more attractive option for small and medium size firms in South Africa. According to Vaca (2003), the majority of white farmers are not interested in equity-sharing arrangements. A case study of the costs and benefits of the Thandi label is, therefore, relevant as this information will help local managers to make more informed decisions about the adoption of BBEE.

The main bodies of theory informing this study are those of asymmetric information (e.g., Akerlof, 1970; Chalfant *et al*, 1999) and transaction cost economics (e.g., Turner *et al*, 2000; Promar International, 1999) within the broader field of the New Institutional Economics (NIE). This theory, along with previous empirical studies on FWES (e.g., Knight *et al*, 2003; Gray *et al*, 2004) and studies on certification and labelling, (e.g., Jackson *et al*, 2005; Morris, 1997; Vaca, 2003), guide a case study of the Thandi empowerment label. In 2003, Thandi became the first wine brand in the world to achieve Fairtrade accreditation, in addition to receiving a gold medal at the International Wine challenge in London (WOSA SA, 2005). A qualitative study of the Thandi label was undertaken as it is one of just a few<sup>2</sup> empowerment labels in South Africa, is well established and displays elements of success (Thandi wine) and failure (Thandi fruit).

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<sup>2</sup> The author is aware of only six other empowerment labels in South Africa (Excluding Thandi). They are all wine labels. The labels are New Beginnings, Tukulu, Fair Valley Wines, Winds of Change, Tutuka and Reyneke (WOSA SA, 2005).

The presence of asymmetric information can significantly impinge on the efficient functioning of markets. Information asymmetry between buyers and sellers regarding the quality of a product can force all good quality products out of a market (Akerlof, 1970). Product accreditation or certification can provide missing market information about production processes and product attributes and may, therefore, reduce the problem of asymmetric information (Golan *et al*, 2001). However, producers must contend with the costs of certification and compliance (Promar International, 1999). Many of the costs involved with certification and hence labelling are fixed costs whereas the benefits vary with volume sold. A survey conducted by Turner *et al* (2000) on South African agribusiness firms found that the presence of size economies discouraged smaller firms in their sample from investing in ISO 9000 certification. The Thandi label presents an opportunity to study horizontal coordination between small and medium-sized enterprises (SME's) as a means of reducing participants' unit certification costs.

The main purpose of this study is to investigate whether niche marketing using empowerment labels improves the competitiveness of black empowered agribusiness firms. Data gathered in a detailed case study of the Thandi empowerment label are analysed to distinguish processes that launched the label, and to identify its costs and benefits. This information is relevant to current and prospective BBEE managers, and to a government that is seeking ways of making BBEE more attractive to small and medium size entrepreneurs. This study adds to the growing literature on black economic empowerment and labelling in South Africa, generating information about its costs and benefits, and examining institutions that hinder or promote the establishment of a label.

The first chapter of this dissertation reviews economic theory relevant to the study. Firstly, the paper sketches the policy environment for BBEE in South African agriculture, discussing the Balanced Scorecard and introducing FWES. Chapter 1 considers economic theory underpinning product labels and their potential benefits. The problem of asymmetric information is discussed illustrating how perceptions resulting from hidden information affect consumer purchasing patterns. Labelling is presented as a potential solution to the problem of asymmetric information, as well as a tool for product differentiation and increasing demand for a firm's product. The preconditions for a successful label are investigated, as are the transaction costs that this imposes. Various labels are examined, which like the Thandi empowerment label, are intended to help firms enter a niche market and hence improve their competitiveness. Comparisons are drawn between the market impacts and economic features of these labelling programmes. Chapter 2 presents the research methodology and data collection procedure for the study. The results for this study are presented in Chapter 3. Chapter 4 draws conclusions and offers recommendations to managers and policy-makers.

## CHAPTER ONE

### REVIEW OF RELEVANT LITERATURE

#### 1.1. Broad-based black economic empowerment in South African agriculture

BBEE has become a major driver of business activity in South Africa (Jackson *et al*, 2005). The Broad-Based Black Economic Empowerment Act No. 53 of 2003 defines BBEE as the economic empowerment of all black people through diverse but integrated socio-economic strategies. These strategies include increasing the number of black people that manage, own and control enterprises and productive assets; investment in enterprises that are owned or managed by black people; and human resource and skills development. Various objectives of Act 53 include facilitating BBEE by:

- achieving a substantial change in the racial composition of ownership and management structures;
- increasing the extent to which communities, workers, cooperatives and other collective enterprises own and manage existing and new enterprises, and increasing their access to economic activities, infrastructure and skills training;
- increasing the extent to which black women own and manage existing and new enterprises, and increasing their access to economic activities, infrastructure and skills training;
- promoting investment programmes that lead to broad-based and meaningful participation in the economy by black people in order to achieve sustainable development and general prosperity;

- empowering rural and local communities by enabling access to economic activities; land, infrastructure, ownership and skills; and
- promoting access to finance for black economic empowerment (Government Gazette, 2004).

An integral part of Act 53 is the Balanced Scorecard which measures companies' empowerment progress in four areas, the first of which is direct empowerment through ownership and control of enterprises and assets. The second and third areas are management at senior level and human resource development and employment equity respectively. The final area is indirect employment through preferential procurement, enterprise development and corporate social investment (Alexander, 2006). Act 53 requires industries to negotiate a charter with weights attached to each of these empowerment areas.

Stakeholders in the agricultural sector have proposed an AgriBEE charter that assigns weights to the empowerment areas in the form of scorecard pillars and weightings (Hofstatter, 2006). Skills transfer and land and equity transfers collectively account for 40 per cent of the proposed overall BEE rating. The rest of the scorecard comprises of employment equity (10 per cent), management control transfer (10 per cent), preferential procurement (20 per cent), providing mentoring, access to credit, equipment, inputs and markets (10 per cent), and corporate social investment and service delivery (10 per cent).

‘Small enterprises’<sup>3</sup> will only have to meet five out of the seven BEE scorecard pillars, with social investment counting 20 per cent, up from 10 per cent (Hofstatter, 2006).

Local evidence indicates that well structured FWES would attain favourable scores on the proposed AgriBEE Scorecard (Gray *et al*, 2005). Gray *et al* (2005) found that workers accounted for more than 40 per cent of the shareholding in three of seven FWES studied in the Western Cape, and for more than 30 per cent of Board members in five of these schemes. Four of these schemes scored 100 per cent on the variables used to measure skills transfer<sup>4</sup>. In addition, scores for the provision of basic services (e.g. electricity and medical aid) and improved housing ranged from 80 to 100 per cent for the study schemes.

FWES have been proposed as one means of dealing with the slow pace of land and wealth redistribution in South Africa (Gray *et al*, 2004). The arrangement involves changing the ownership structure of the enterprise rather than dividing the land into smaller units, leaving production levels unaffected and with potential for improvement because workers, as co-owners, have incentives to grow the business. Stated briefly, a successful equity-sharing scheme at farm or farm level should empower unskilled workers through the gradual transfer of ownership, skills and control of commercial farming enterprises to previously disadvantaged workers (Knight & Lyne, 2002; Knight *et al*, 2003). The FWES participating in the Thandi label comply with the key objectives of BBEE. This is a critical

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<sup>3</sup> Farms with a turnover of less than R2m/year and employing fewer than 50 people are defined as ‘small enterprises’ according to the general codes of good practice released by the Department of Trade and Industry in December 2005.

<sup>4</sup> The variables used to measure skills transfer include initial training through facilitation; ongoing training; certification of courses and all shareholders receiving training.

element of the study, as it may help to illustrate how government can extend BEE labels, making BBEE in agriculture and agribusiness more attractive.

## **1.2. Reasons for product labels**

### ***1.2.1. Asymmetric information***

There has been increased application of the principles of the NIE in agricultural economics research in South Africa (Kirsten, 2002). Under NIE, some of the unrealistic assumptions of neoclassical economics, such as perfect competition and zero transaction costs are relaxed. Kirsten (2002) cites increasing uncertainty about product quality as an example of increased transaction costs in the market place, which in turn increases the likelihood of moral hazard and adverse selection problems, as illustrated by Akerlof's (1970) analysis of the 'market for lemons'. These problems may have far-reaching effects on the efficient functioning of markets, ultimately resulting in market failure.

Asymmetric information arises where one party has private information (Akerlof, 1970). Akerlof (1970) explained the concept in terms of the market for second-hand cars. The price of a near new car is often significantly lower than the price of a brand new car. Akerlof (1970) attributed this to the fact that the seller and purchaser have different sets of information, and there is generally an asymmetry of information. The seller is far more informed about the quality of the car than any potential purchaser and is unlikely to disclose major defects. If placed in the seller's shoes, the purchaser would more than likely act in the same manner. The purchaser is well aware of this and hence forms expectations

about the quality of the car. In aggregate, purchasers may base their willingness to pay on the average quality of such cars. Owners who believe that their cars are of above-average quality, will tend to withdraw their cars from this market as they will not be willing to accept the going price. Previously average quality cars would now be perceived in the minds of the sellers to be above-average quality, and will consequently be taken off the market. This process could continue until it is realised by all and sundry that the only cars in this market are of the lowest possible quality (Morris, 1997). Such an extreme situation of information asymmetry could clearly pose a serious threat to the efficient functioning of any market.

There are, of course, a number of mechanisms (signals), in addition to product labelling, by which potential purchasers can receive better information. Morris (1997) describes a number of non-price 'market signals' that can indicate quality. These signals include reputation, expert advice, accreditation and warranties. This leads to the development of a 'new market' where initiatives like certification schemes are used to indicate the true value of a product. Product certification symbols are incorporated into labels, illustrating the fundamental role of labels in providing information. Labelling encompasses a producer displaying information regarding the product category, product-specific attributes, the brand of the product, or certification of the product by an independent authority (Morris, 1997). Morris (1997) asserts that consumers rely heavily on product labels both to distinguish between separate categories of products and to distinguish between products within categories, and that the more differentiable a product is made by its label, the easier the consumer's overall product selection task is made.

The result when good quality is driven out of the market by bad quality is an example of 'adverse selection' (The Economist, 2001). Adverse selection is a concern in many agricultural markets due to imperfect information about product quality (Chalfant *et al*, 1999; Holloway, 1999). Branded products such as Coca-Cola are the same everywhere in the world; consumers know the quality of the product by brand and this reduces the likelihood of one party knowing more than the other. Successful brands signal consistent quality, and therefore help to remedy the problem of asymmetric information. A brand label may not only help to address the problem of imperfect information about product quality, but may also serve to differentiate a product on other characteristics such as BBEE.

Labelling to address asymmetric information could be a voluntary or a compulsory process. Labelling offers advantages to producers whose products have positive attributes such as quality or BBEE. Independent verification of claims made on a label help to establish customer confidence and loyalty, securing greater market share and premium prices which are fed back up the food chain to the producer (Rose, 1999). Voluntary labelling imposes the cost of labelling on these producers with positive attributes, whereas compulsory labelling could shift the cost to those producers whose products lack the positive attribute (Fulton & Giannakas, 2004). While voluntary and compulsory labelling can yield the same economic benefits, they can produce different welfare outcomes for producers. This has policy implications as producers who participate in an empowerment label like Thandi may support a compulsory regime that shifts the burden of labelling to producers whose products are not BBEE compliant. On the other hand, they may prefer to pay for an empowerment label rather than rely on disincentivised producers labelling their own product as not BBEE compliant.

### ***1.2.2. Benefits of product labelling***

Apart from promoting market efficiency, labelling can also differentiate a product, creating opportunities for producers to earn premium prices in niche markets. It is hypothesised that there is a positive welfare impact when producers choose to label their product (Marette *et al*, 1999; Ward *et al*, 2002). Successful product differentiation reduces the number of substitutes, making demand for a firm's product less price elastic and allowing the firm to increase demand for the product through non-generic advertising (Crespi & Marette, 2002). Labelling can therefore increase a firm's revenue through a greater volume of sales and a higher product price (Hemenez, 2000).

Most agricultural products have characteristics that are classified as credence attributes (Ibanez & Stenger, 2000). Credence characteristics derive from the nature of the production process; these are quality-of-life issues including food ethics, the environment, health and empowerment (Van de Velde *et al*, 2005) about which consumers do not acquire information through use of the product, even after repeated purchases. Examples of these characteristics include BBEE in production enterprises, and harmful pesticide and heavy metal residues which are neither visible nor readily testable and their potential consequences on health are long term. Increasing health awareness has emphasised the importance of quality signals in food markets (Thompson *et al*, 2005; Herrmann & Roeder, 1998). Results of a study conducted by Agbola and Saini (2002) indicate that it would be inappropriate to ignore the diversity of consumption patterns within society when it comes to the labelling of a product. To be effective, a labelling programme requires that

consumers use the information on food packages when shopping. For example, a study by Nayga (1996) found that nutritional information received less attention from younger, less educated males. Increased demand depends not only on advertising outlays but on the number of messages received by individuals as well (Capps & Park, 2002).

According to Ibanez and Stenger (2000), a label has three major non-separable functions. The first function is to show that the product conforms to safety regulations. The second function is to differentiate the product by underlining its unique characteristics, and finally a label provides information about general characteristics such as nutritional composition. By labelling their product attributes, firms obtain a degree of market power and are therefore able to raise their product prices. A study conducted by Kim *et al* (2000) found that nutritional labels increased the consumption of the nutrients examined. Ibanez and Stenger (2000) found that a firm selling environmentally-friendly products could increase revenue by selling with an eco-label. However, their study ignored the costs of signalling this information. Information may be very costly in which case market failure will persist (Marette *et al*, 2000). The Thandi label may well increase producer revenue owing to the presence of BBEE credence attributes, but costs of using the label may be prohibitively high for small enterprises.

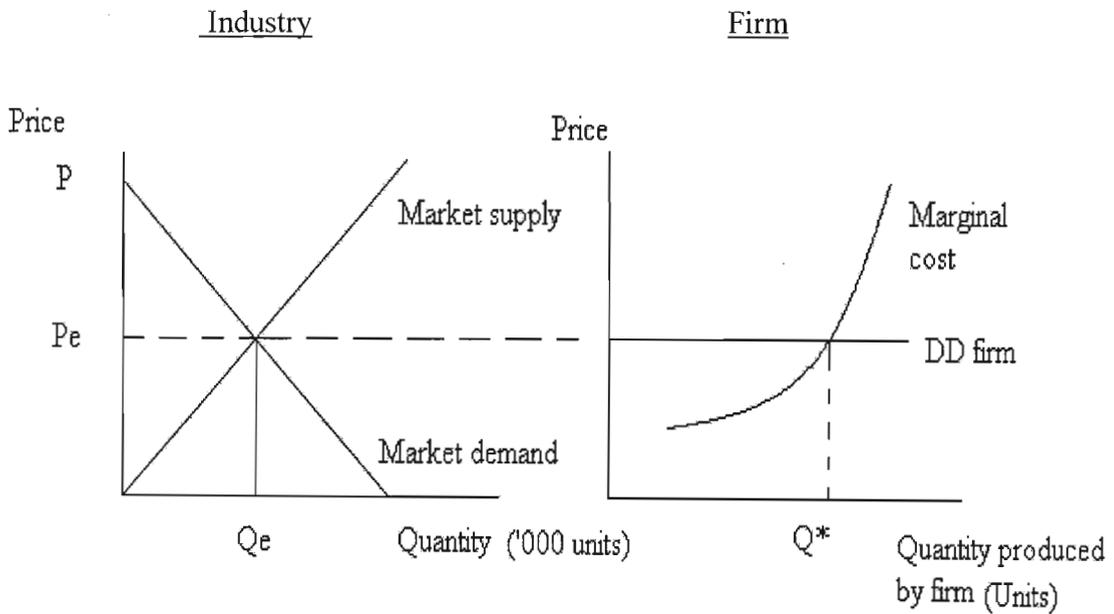
Products also embody search and experience characteristics. Search characteristics include the price and appearance of the good; they are attributes inspected before the purchase of the good. Experience characteristics are revealed post-purchase and include taste and storage time (Modjuszka & Caswell, 2000). The relative importance of credence characteristics has been elevated by international food scares such as Bovine Spongiforme

Encephalopathy (BSE) and dioxins (Van de Velde *et al*, 2005). These crises triggered several initiatives to restore consumer confidence in the food chain, including food quality and region-of-origin labelling.

Food labelling has been an important issue in the United States since the Nutrition Labelling and Education Act (NLEA) of 1990 replaced the voluntary labelling system (Harrison & McLennon, 2004). Government regulation of food labels can be justified when market failure occurs because of information asymmetry between consumers and food suppliers (Harrison & McLennon, 2004). Labelling provides information that can be used in complex ways by the consumer to maximise utility (Teisl *et al*, 2001). The costs and benefits of labelling depend on the product's search, experience and credence attributes (Lusk & Fox, 2002). Several conditions arise when a good possesses credence attributes. Firstly, a consumer never acquires information about these attributes, even after repeated purchases. This lack of information, illustrated by Akerlof (1970), produces market inefficiencies and high quality goods are driven out of the market. As a product attribute moves along the continuum from being a search to an experience to a credence attribute, so labelling becomes increasingly beneficial. Lusk and Fox (2002) found that labelling improved the efficiency of beef markets because beef has several credence attributes.

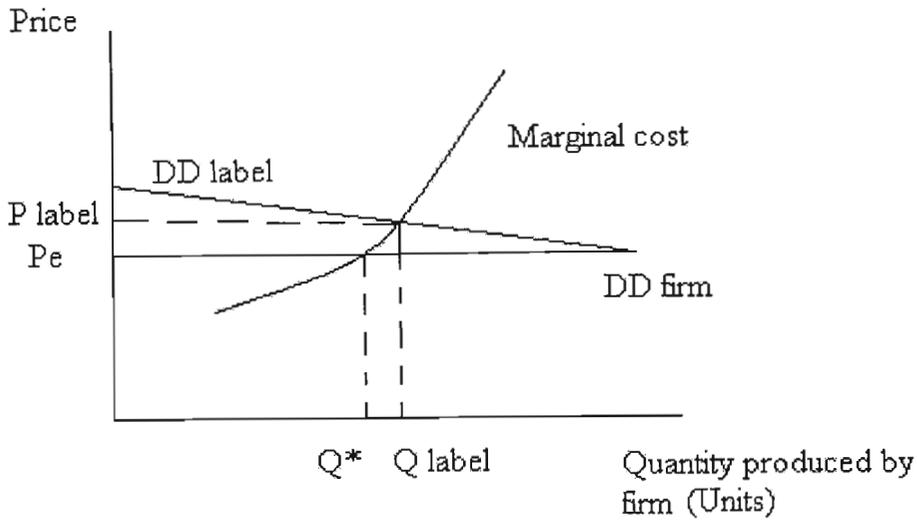
Labelling also allows a firm to differentiate its product, giving it a degree of market power. The price elasticity of demand is a measure of the responsiveness of the quantity demanded of a good to a change in its price, *ceteris paribus* (Petersen & Lewis, 1999). A good such as insulin is near perfectly price inelastic as it is of such importance to diabetics that if the price rises or falls, they do not change the quantity they purchase (Parkin *et al*, 2005). The

firm selling a homogeneous product faces a perfectly price elastic demand as illustrated in Figure 1. Successful product differentiation through labelling makes demand less than perfectly price elastic and so facilitates non-generic advertising that increases demand for the firm's product. The firm's revenue increases as a result of increased sales (Q label), and a price premium (P label) illustrated in figure 2, assuming that the marginal cost curve does not change.



**Figure 1: Relationship between demand curves facing the industry and the firm**

(Petersen & Lewis, 1999; Parkin *et al*, 2005)

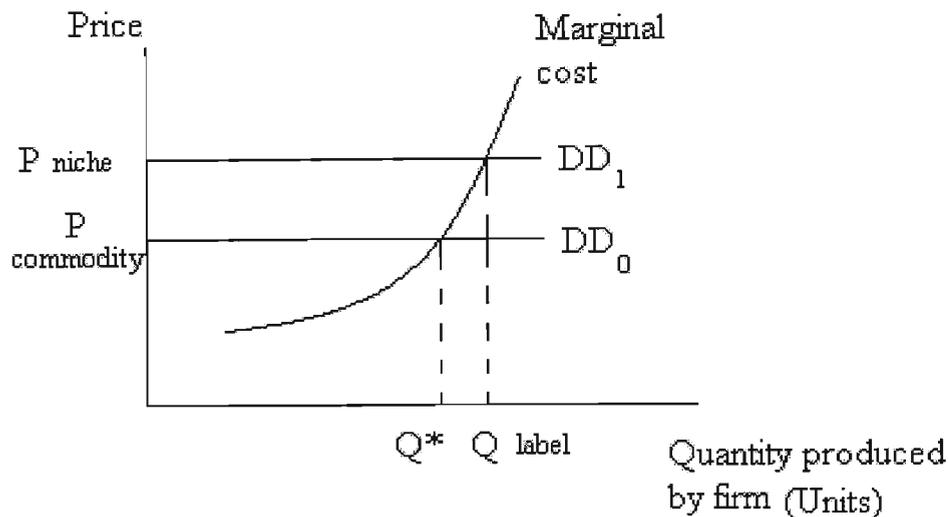


**Figure 2: Structural shift in the demand curve facing a firm with a differentiated product in the domestic market**

The obvious source of a structural change in demand is a change in individuals' tastes and preferences. Consumer education, product labelling and advertising can influence the types of foods purchased resulting in a structural change in the demand curve (Tomek & Robinson, 1990). In the domestic market, an empowerment label and non-generic advertising could well increase both price and quantity demanded as there may be relatively few substitutes for the labelled product.

In foreign markets, product labelling is less likely to result in a structural change in demand as there is a relative abundance of substitutes. However, foreign markets offer niche marketing opportunities where the same quantity of a labelled product can be sold at a higher price. In particular, these opportunities arise where there are relatively large numbers of affluent consumers sensitive to the credence attributes on the label. When a firm enters a

niche market, the result is an increase in demand and a consequent increase in total revenue as illustrated in Figure 3. Barriers to entry as in the Thandi label case limit further entrants into the market and help to maintain the price premium earned by participants.



**Figure 3: Shift in the demand curve facing a firm entering a niche market**

A brand is used to improve communication between sellers and consumers. Branding becomes important when a firm is too small to establish a reputation in the market. It is one of the only differentiation tactics for small producers (e.g. Thandi participants) competing in a competitive market against large producers (Mendes & Troskie, 2001). The Thandi label markets wine in the UK, Scandinavia, Continental Europe and Japan, with the wine label accessing significant premiums (Jeftha, 2006; Sulcas, 2004). With regards to the local market, the wine label aims to differentiate and increase demand for its products (Jeftha, 2006).

### ***1.2.3. Preconditions for a successful label***

A number of food quality labels were established to counter low levels of consumer confidence following the 2003 BSE crises in Europe (Barrena *et al*, 2005). These labels focused mainly on ecological and safety aspects of production methods, thus adding credence characteristics to products. Barrena *et al* (2005) found that reduced consumption of beef in Spain was directly related to worsening perceptions about the quality of beef. Alternatively, they found that labels certifying product quality helped to restore consumer confidence and represented the second most important determinant of changes in beef consumption. The consumer feels more comfortable knowing that the product has been declared safe by a third-party whose success hinges on reputational capital. Barrena *et al* (2005) concluded that a credible label conveying information about how meat is produced improved consumer confidence. Product certification (accreditation) by an impartial and reputable third-party lends credibility to a label. Consumers may have difficulty evaluating product characteristics in the absence of quality certification or testing (Crespi & Marette, 2001).

The third-party remedy for asymmetric information (accreditation) introduces a separate market for information about product attributes. Masters and Sanogo (2002) found that large premiums paid for heavily advertised infant food brands in Mali reflected a willingness to pay for information about product quality. Product accreditation can partially substitute for advertising and may be a more cost-effective way of commanding a price premium. Products accredited with meeting specific standards are entitled to display a quality brand or logo to inform consumers that those standards are met. If consumers

perceive that the information is truthful and the label differentiates the product from similar non-accredited products, they will be more willing to pay a premium for the label. In the two months following the award of the seal of approval by the American Dental Association (ADA) in 1960, the market share of Proctor and Gamble's 'Crest' toothpaste rose from ten to twelve per cent and after two years it had risen to thirty per cent (Morris, 1997). A 1988 survey carried out by Good Housekeeping (GH) found that 16 of the 18 brands carrying the GH seal for the first time showed an increase in sales. In addition, a 1975 study found that consumers ranked 'seals of approval' highest, above 'friends' and 'advertisements' in terms of their 'expertise', and second highest behind friends with regards to 'trustworthiness' (Parkinson, cited by Morris, 1997).

The good reputation of a seller obliges him to supply out relevant information to purchasers of his product. Reputation is however affected by two main factors according to Morris (1997). The first is the size of the company that the seller represents. The larger the company, the higher the cost of adverse publicity if misleading statements about the product are given out. Secondly, if it is expected that there will be frequent future interaction between the buyer and the seller, then the seller will have less incentive to lie about his product, since future sales could be jeopardised. Where these conditions do not hold, the buyer could seek expert advice, which would be far more valuable than information obtained from the seller. In essence, product accreditation provides the buyer with third-party expertise. Morris (1997) refers to the U.S. example of the Association of Used Car Dealers which allows members to carry a seal of approval that states that their cars have been tested and conform to required standards. Warranties are also very common among dealers, generally stipulating that if the product fails to meet specified standards, it

will be repaired or replaced free of charge. Of course, the effectiveness of the warranty depends heavily on the credibility of the agency offering it.

Accreditation agencies could be private firms or public organisations regardless of whether the labelling regime is voluntary or compulsory. One of the advantages of private certification organisations is that they are able to move quickly to respond to developments in the marketplace (Fagan, 2003). A private certifier with broad certification experience can use that experience as a basis upon which to build new certification programs in just a few months, thereby supporting the ability of first-movers within the industry to exploit new opportunities in the marketplace. On the other hand, implementation of a new government-sponsored certification program usually takes more than a year to implement (Fagan, 2003). Government certifiers are viewed by some as having a vested interest in certifying products as the core mission of organisations such as the USDA is to expand agricultural export sales. Consumers, especially in the EU and Japan, are consequently often distrusting of government assurances (Fagan, 2003). Thandi participants may perceive lower certification costs using a subsidised accreditation agency, but recommending public accreditation would hardly be advisable as the service does not satisfy the non-excludability requirement of a public good (Fagan, 2003), and private agencies (e.g. Fairtrade) already provide this service.

A private accreditation agency must have reputational capital at stake to ensure the preservation of its integrity (Rousseau, 2005). The value of the agent's reputational capital must be greater than the gains to be made from false certification. Continued prosperity of an independent, private certifier's enterprise depends solely on recognition in the

marketplace that they can deliver accurate and impartial information regarding product attributes (Fagan, 2003). If a certifier favours either the buyer's or seller's interests, this would jeopardise the foundation of the business, namely market recognition of their credibility (Fagan, 2003). The larger the accreditation agency, the higher is the cost of unfavourable publicity following biased or incorrect product certification. Size therefore adds to the reputational capital of a private accreditation agency, helping to maintain its credibility and hence the value of its service to consumers and producers.

According to Maclaren (2004), the various elements in a credible accreditation system include:

- Adequate, appropriate standards developed and accepted by all affected parties,
- trained assessors with standards defining qualifications,
- professional and ethical operations at all levels with no bias or conflicts of interest,
- consistent and fair certification and accreditation,
- transparency,
- defined procedures, and
- recognition by relevant agencies and customers.

In addition to these elements, Maclaren (2004) contends that successful certification schemes are demand driven and characterised by low transaction costs.

The cost of providing a credible certification service can be high as product inspection and testing often requires highly skilled staff and expensive laboratory equipment (Crespi & Marette, 2001). As a result, producers often face high costs in gearing up to meet

certification requirements and in using certification services. Much has been written about high costs associated with country-of-origin labelling requirements (Loureiro & Umberger, 2005) and the costs of detecting genetically modified material in food sold in the European Union (Promar International, 1999). Certification programs must be economically feasible if they are to succeed. The production and marketing practices in certified growing or manufacturing must either be cost competitive with uncertified methods, or consumers must be willing to pay a premium for certified products. Many of the costs (including transaction cost) associated with certification and hence labelling are fixed costs that do not vary with the volume of product certified, whereas benefits derived from a price premium are directly proportional to volume sold. Consequently, the producer's incentive to adopt a certified label increases with size. A survey conducted by Turner *et al* (2000) on South African agribusiness firms found that the presence of size economies discourage small firms from investing in ISO 9000 certification. Small firms (such as the Thandi participants) have an incentive to collaborate and share a label in order to benefit from bulk discounts on the cost of certification services made possible by spreading fixed monitoring and enforcement costs borne by the accreditation agency. Such horizontal coordination may suggest policy options other than cash subsidies to promote the access of small and medium-sized enterprises (SME's) to certification services.

The credibility of a certified label can be undermined by a proliferation of competing accreditation agencies and deceptive advertising (Jensen *et al*, 2004). Lyke (cited by Teisl *et al*, 1999) notes that at least seven independent programs have been certifying forests across the world. The sheer number of certification organisations and the complexity of their certification serves to confuse consumers and limits the desired effect of the

certification (Teisl, 1999). Kangun, Carlson and Grove (cited by Teisl *et al*, 1999) found that approximately 50 per cent of environmental advertising was misleading or deceptive. A 1990 survey of 1400 British shoppers found that 56 per cent of those surveyed were suspicious of environmentally-friendly claims (Morris, 1997). In the same year, a survey carried out for Tesco, found that about 50 per cent of consumers said they would be willing to pay extra for environmentally-friendly products, yet only about ten per cent of purchases were spent on green goods.

Mazzocchi *et al* (2004) state that negative events are more visible than positive ones and have a larger impact because of their low frequency-high consequence nature. Many South African companies are fronting as broad-based black empowerment businesses and this has brought empowerment deals into question (SABC news, 2006). In response, the Department of Trade and Industry (DTI) is setting up compulsory accreditation programmes to end fronting and restore credibility in BBEE (SABC news, 2006).

### **1.3. Voluntary labelling programmes**

Labels are primarily aimed at differentiating a firm's product to enter a niche market or to facilitate advertising that increases demand for the differentiated product. Examples of labels include environmental, social, organic, country-of-origin, BEE and eco-labels. These labels all strive to differentiate their product making the consumer's overall product selection task easier (Morris, 1997). The label promises a particular spin-off or attribute and the consumer is therefore willing to pay more for the product. The ensuing sections review voluntary labels for credence attributes. Companies will voluntarily label their product for

credence attributes if the private benefits of doing so exceed the costs. The net effect is that the labelling policy will transform such a credence characteristic into a search attribute that consumers can evaluate pre-purchase by inspecting the product's package.

### ***1.3.1. Eco-labels***

The public's increasing awareness of environmental issues since the 1970's has led to an increase in demand for environmentally friendly products (Loureiro *et al*, 2001). Eco-labels are potentially attractive instruments for informing consumers about the environmental impact of their purchasing decisions, while simultaneously providing producers with a tool for increasing market share (Hanks *et al*, 2002). A common marketing practice used by manufacturers to emphasise a product's environmental attributes is to display an environmental seal of approval (ecoseal) endorsed by an independent organisation. The widespread implementation of ecoseals suggests that they are perceived as an effective method of altering consumer behaviour (Teisl *et al*, 1999, Sedjo & Swallow, 2002). Such labels offer a solution to missing markets as well as pressing environmental problems. The effect of an ecoseal varies across individuals and is dependent on the type of other information available to the individual. Teisl *et al* (1999) found that ecoseals did not affect products that were already marketed as using high levels of renewable resources, whereas it did affect rankings of low price products. This illustrates that consumers view the use of renewable resources as synonymous with 'environmentally friendly' thus the addition of an ecoseal added no new information. The German eco-label, Blue Angel, introduced in 1978, has become a successful instrument in environmental protection with nearly 4000 certified

products (Hanks *et al*, 2002). In the United States, eco-labels are thriving, with programs such as Green Seal and Scientific Certification Systems (Loureiro *et al*, 2001).

Nordic Swan is a successful eco-label developed in Sweden. The label's credibility as both a quality and environmental label has enhanced the overall image of products. Consumers have expressed a high level of confidence in the label, and a number of products have gained significant market share over a short period of time, including Unilever's Omo detergent (Hanks *et al*, 2002). Approximately 50 per cent of the funding for the scheme comes from member governments, with the balance coming from fees paid by applicants. There appears to be significant government assistance internationally with regards to eco-labels. The EU Eco-Label Award Scheme, Nordic Swan, Stichting Milieukeur in the Netherlands, and Singapore's Greenlabel all receive substantial government funding (Hanks *et al*, 2002).

Blue Flag is an international label that rewards local authorities for providing safe and clean beaches and marinas. The label has become progressively more environmentally focused since its launch in 1985 (UNEP, 1996). The Blue Flag is awarded annually to beaches that meet standards in water quality, amenity and safety criteria, and environmental information and education. Beaches are measured against strict criteria which span 14 aspects, indicating that compliance may well be very costly. In South Africa, the Department of Environmental Affairs and Tourism (DEAT) committed an initial R1.2 million to the programme to subsidise the certification fee (Ministry of Environmental Affairs and Tourism, 2001). The outcomes of a Blue Flag beach include increased tourism, lower levels of crime, standardisation of facilities to international and national standards, and cleaner

water and beaches (Brown, 2004; S.A., 2005). However, it may not be financially sustainable without subsidies.

### ***1.3.2. Geographic labels***

Voluntary geographic labels exist because consumers value attributes linked to specific locations. For example, Thompson *et al* (2005) found that consumers preferred products from their own region. In South Africa, Karoo Lamb commands premium prices for perceptions of high quality and organic attributes (Mendes & Troskie, 2001; McAinsh, 2006).

According to Roosen *et al* (cited in Loureiro & Umberger, 2005), consumers in France and Germany indicated that the origin of their beef was more important than other product attributes such as brand, price, or fat content. In addition, it was found that consumers in the United Kingdom ranked origin labelling more important than brand labelling. Loureiro and Umberger (2003) found that consumers in the United States were very concerned about source verification and labelling issues, and were willing to pay an average of 38 to 58 per cent more for 'US Certified Steak' and 'USA Grown' fresh apples and tomatoes. Most US consumers view US produce as safe and of superior quality (Mabiso *et al*, 2005).

Santos and Ribeiro (2005) found that wine, cheese and olive oil products from particular regions in Portugal were able to command a significant price premium. The study concluded that if the region of origin has a positive image or reputation on the market, producers from that region can gain significantly by emphasising it on the label. French

wines, differentiated by geographic labels, grew their share of the British wine market for several decades (Steiner, 2004). However, their market share began to decline in the early 1990's. Steiner (2004) speculated that this could be attributed to the emergence of a confusing array of geographical labels under which French wines were being sold, arguing that a more transparent, flexible and simplified approach to labelling might improve the French wine position.

Proudly South African is a campaign to promote South African companies, products and services that are helping to create jobs and economic growth within the country. The campaign is supported by labour unions, organised business, government and community organisations. Companies that meet the standards set by Proudly South African can use the logo to identify themselves, their products and services. An annual membership fee, towards the cost of compliance and administration, is levied on each member according to their annual budgeted sales turnover for those goods identified on the member's product list (Hanks *et al*, 2002). In addition, the campaign secured financial and media sponsorship to the value of almost R80 million from both the private and public sectors. In Australia, a similar initiative has been operating since 1996. It is estimated that 93 per cent of Australian consumers seek out Australia-made products knowing they will be supporting local companies (Proudly South African, 2006). Proudly South African has over 2000 member companies, and more than 5000 consumer products and services have been accredited. Rapid growth in membership has made it the largest campaign of its kind anywhere in the world. A 2003 survey involving 3500 consumers conducted by Markinor, a market research company, found that 85 per cent of respondents would support the campaign in the future, and the majority of respondents associated Proudly South African

companies with good quality products and services (Proudly South African, 2006). The Proudly South African logo is well known and consumer confidence in the brand is growing both locally and internationally (Proudly South African Homegrown Awards Ceremony, 2005). The following criteria must be met to be a member of Proudly South African (Proudly South African, 2006):

- The company's products or services must incur at least 50 per cent of their production costs, including labour, in South Africa,
- the company and its products or services must meet high quality standards,
- the company must be committed to fair labour and employment practices, and
- the company must be committed to sound environmental standards.

The campaign was launched in 2001, so it may be too early to assess whether it is financially sustainable without government subsidy.

### ***1.3.3. Social accountability labels***

Social standards in agriculture are essentially process standards (Dankers, 2003). Process standards are criteria indicating the way products should be made. Social accountability labels distinguish firms that respect the basic rights of workers established by the International Labour Organisation (ILO) (Social Accountability International, 2006). In the agricultural sector, one of the most important initiatives verifying labour standards is the SA8000 standard (Dankers, 2003). This initiative was developed by Social Accountability

International (SAI) in 1998. The standard promotes safe and healthy working environments as well as social justice worldwide (Dankers, 2003).

SAI accredits certification bodies to audit production facilities. Accreditation requirements include information on how the applicant determines fair wages (Dankers, 2003). There has, however, been slow uptake of SA8000 in agriculture. Dankers (2003) attributes this to problems complying with stringent provisions for maximum working hours, particularly when they are applied to seasonal crops. The cost of compliance can also be prohibitively high depending on what minimum wages and housing conditions are specified.

#### **1.4. The Thandi label**

According to Sulcas (2004), the Thandi project is one of South Africa's most successful BEE initiatives. The project started as a profit-sharing farming venture between the Lebanon Community in Elgin, De Rust Estate, their workers and the South African Forestry Company (SAFCOL) - a South African government parastatal (Petersen, 2006; WOSA SA, 2005; VinPro Task Team, 2004). Each participating farm must establish a Farm-workers' Trust. The Trust warehouses workers' shares in the enterprise. Dividends accruing to the Trust are paid out to the workers according to their individual investment in the Trust. In 2004, SAFCOL sold its shares to the Lebanon community, effectively privatising the Thandi project (WOSA SA, 2005).

The Capespan Foundation owns the Thandi fruit brand with no equity ownership by participating farms. Thandi Wines (Pty) Ltd owns the Thandi wine brand with participating farms holding shares in Thandi Wines. These brand names are registered with the Department of Trade and Industry (Jeftha, 2006; Petersen, 2006). Lebanon farm currently holds 45 per cent of the shares in Thandi Wines, but will purchase seven per cent held by Lutouw, which is leaving the Thandi initiative. Paardenkloof (about to join the label having recently purchased a seven per cent shareholding), Lutouw and Nietbegin equity-share farms currently own a joint 21 per cent, and the remaining 34 per cent is held by The Company of Wine People (formally Vinfruco). Thandi Wines is a holding company and has a marketing agreement with The Company of Wine People to manage the brand's daily business and to market its wines. The costs of licensing and promoting the Thandi labels, and marketing Thandi products, have been carried by their respective marketing agents, Capespan and The Company of Wine People. Tesco's, a UK-based global retailer, has given Thandi fruit and wine access to markets in the UK, Continental Europe, Scandinavia and Japan (Jeftha, 2006; Petersen, 2006).

To be considered a Capespan Foundation empowerment farm, participating fruit farms must utilise Capespan as the exporter of first choice, they must export fruit using the empowerment brand (Thandi), be commercially viable, and they must be legitimate empowerment projects (Capespan Foundation and Capespan Group, 2003). The Capespan Foundation identifies possible projects, helps to structure and finance empowerment deals, and facilitates Fairtrade accreditation. The Company of Wine People, one of South Africa's leading wine exporters, provides marketing services, expertise and mentorship to participating wine farms (Jeftha, 2006).

To qualify for the Thandi label, participating farms must (Capespan Foundation and Capespan Group, 2003):

- be an emerging black commercial farmer in the fruit or wine industry, or be an equity share scheme with at least 25 per cent black ownership,
- meet export quality criteria,
- practice integrated crop management,
- be commercially viable and sustainable in the longer term, and
- use supply chain rebates to grow the wealth of black stakeholders, increase their shareholding, and further the development of the project.

In addition, all Thandi farms must be Fairtrade accredited. Fairtrade is a non-governmental organisation (NGO) based in Europe that certifies products from farms that empower unskilled workers. Premiums are negotiated (between Fairtrade and the marketing agents) and minimum prices are estimated for target markets. The Fairtrade organisation takes two per cent of the negotiated premium and the balance is paid into the Farm-workers' Trust. Farms receive the premiums negotiated on Fairtrade output sold, even if market prices fall below the estimated minimum level with the marketing agents making up the shortfalls. Once a farm has been accredited, a training programme<sup>5</sup> is tailored to its needs and delivered by the Fairtrade organisation (Capespan Foundation and Capespan Group, 2003). The Fairtrade standards for South African farms require that (Paulsen, 2004):

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<sup>5</sup> Training support is given by Fairtrade and deals with training on budgets, balance sheets, income statements, and understanding of worker roles in an empowerment structure (Capespan Foundation and Capespan Group, 2003).

- producers can demonstrate that Fairtrade revenues will promote social and economic development of PDI's,
- a monitored plan to share the Fairtrade premium is developed and accepted by democratic decision of the workers,
- a workplace skills development programme has been submitted to the Department of Labour, and is regularly updated and internally audited,
- employees participate in approval of budgets, and
- an Employment Equity Plan has been filed with the Department of Labour, and is regularly updated and internally audited.

Participating farms bear the cost of meeting these criteria (chapter 3.3). Farms that meet pre-inspection criteria complete a Fairtrade application form and submit it directly to Fairtrade. Fairtrade sends an inspector to assess the farm, and a report is submitted to the Fairtrade Board for approval. Once the farm has been accredited, Fairtrade and Capespan/The Company of Wine People facilitate registration of a Farm-workers' Trust and any other organisational structures required to manage Fairtrade premium funds (Capespan Foundation and Capespan Group, 2003).

#### ***1.4.1. Thandi wine***

There are currently three wine farms (Lebanon, Nietbegin and Lutouw, all in the Western Cape) participating in the Thandi project. Until 2007, Thandi wine was sold only on foreign markets with no local distribution. However, Smollan Liquor Division was recently appointed as its national distributor. Thandi's Pinot Noir is ranked among South Africa's

top red wines and its Chardonnay and Cabernet are sold all over the world (Sulcas, 2004). In 2003, Thandi became the first wine brand in the world to receive Fairtrade accreditation in addition to receiving a gold medal at the International Wine Challenge in London. Thandi entered the American wine market in 2005 and is focused on growing its share within the USA. The wines are aimed at the higher end of the market earning significant premiums and are well known for their good quality (Jeftha, 2006; Sulcas, 2004). The model has been so successful that several other empowerment wine farms have applied to join the Thandi initiative (WOSA SA, 2005).

Erfdeel farm, one of the early participants in Thandi wine, was excluded due to poor quality grapes being produced. The Lutouw farm is also set to withdraw having found a buyer willing to pay a higher price than that offered by the Company of Wine people for its medal winning grapes. In addition, it is risky for The Company of Wine People to transport Lutouw's grapes as their cellar is some distance from the farm and road conditions are poor. The Company of Wine People prefers to recruit farms located close to its cellars as it assumes full risk for the grapes once they leave the farm. The Paardenkloof farm (situated just outside Stellenbosch) will replace Lutouw. The Company of Wine People is responsible for labelling and distributing Thandi wine to target markets, generating its income from Thandi wine sales. The Company of Wine People bears full responsibility for producing, storing and shipping Thandi wine, shielding participating farms from risk in these processing and marketing activities.

#### ***1.4.2. Thandi fruit***

In 2004, there were five fruit farms (Lebanon and Erfdeel in the Western Cape, Keboes in Upington, and Misgund and Sun Orange in the Eastern Cape) participating in Thandi fruit (Thandi, 2004). Fruit farming was identified as a viable addition to the Thandi stable after the success of Thandi wine (Thandi, 2004). The vast majority of Thandi fruit was exported (Petersen, 2006). The marketing agent, Capespan, charges a commission (generally in the region of six to eight per cent) on the free-on-board (FOB) price received for the Thandi fruit. The pricing arrangement for Thandi fruit differs from that adopted by Thandi wine. Participating farms are paid the market price plus the Fairtrade premium only once Fairtrade has sold the produce in the target markets. Farms do not get their premium if produce is rejected by the target retailer and sold on the wholesale market. In addition, if produce is accepted and sold at a retail price below the estimated minimum price, then Capespan has to make up the shortfall in the premium so that farms receive their full premium. Capespan and the Thandi farms consequently share the risk of unfavourable price movements (Petersen, 2006). Thandi fruit has, however, not been successful due to a number of issues discussed later (section 3.1.). Thandi fruit has not earned premiums, and perceptions about future growth and financial viability of the label are negative.

#### ***1.4.3. Comparison of label types***

The following subsections draw comparisons between the environmental, geographic, social accountability and Thandi empowerment labels, focusing on their financial and market impacts. Hanks *et al* (2002) compare various eco-labels in terms of these criteria. They define the market impact of a labelling initiative as the success of the product in

increasing market share, as well as the ability to sell the product at a higher price. Social benefits (e.g. cleaner environment) are largely ignored, hence comparison of the label types under the financial aspects sub-heading. Financial aspects relate to the cost and sustainability of the label. This includes the extent to which financial support is provided by government. Hanks *et al* (2002) compares eco-labels in terms of economic aspects, but for the purpose of the study, it is worth noting that it is private costs and benefits that determine adoption. Government subsidy may be justified in the case of eco-labels if there is a positive externality. However, BEE labels do not satisfy the condition of non-excludability so it cannot be argued that they produce positive externalities.

#### 1.4.3.1. Market impacts

Eco-labels, in general, appear to have a significant level of visibility in the market. Most Nordic Swan, Blue Angel, and Greenlabel products have shown dramatic increases in market share and consumers pay a premium for their products (Hanks *et al*, 2002). The Blue Flag initiative has 30 country subscribers worldwide, and is highly visible in the market. The City of Cape Town has established an internal task team to undertake an extensive process aimed at identifying possible beaches as Blue Flag candidates (Brown, 2004). Increased tourism resulting from Blue Flag accreditation suggests a significant impact on markets (S.A., 2005). However, a proliferation of ecolabelling and deceptive advertising has increased consumer confusion and eroded consumer confidence in some environmental labelling (Teisl *et al*, 1999).

Studies conducted by Loureiro and Umberger (2003), Mabiso *et al* (2005), and Santos and Ribeiro (2005) all suggest that consumers are willing to pay a premium for products differentiated with respect to geographic location. The Proudly South African campaign has established media partnerships and an increasing demand for its products has resulted in increased market share and consumers' willingness to pay a premium for assured quality (Proudly South African Homegrown Awards Ceremony, 2005). Loureiro and Umberger (2003) found that consumers in the United States were willing to pay significant premiums for 'US Certified Steak' and 'USA Grown' fresh apples and tomatoes. French wines were, however, undermined by the emergence of a confusing array of geographical labels that may have contributed to recent losses in their share of foreign markets.

The SA8000 label is not applied to products and there is no evidence of a differentiated market for goods produced by SA8000 certified firms. Not surprisingly, uptake of the SA8000 initiative has been slow. Dankers (2003) cites a study conducted by Nelson *et al* (2002) comparing five SA8000-adopting companies with five non-adopting firms. The study revealed that adopting companies averaged higher revenues than non-adopting firms. SA8000 adoption also facilitated access to some markets and offered public relations benefits.

Thandi wine is aimed at the higher end of the market (earning significant premiums) and is well known for its good quality (Jeftha, 2006; Sulcas, 2004). Thandi has penetrated a number of European markets and the Japanese market, resulting in a high level of visibility in the market. Information from the case study introduced in the next chapter was used to

gauge Thandi's market impact in terms of new participants, changes in volumes sold and the price of Thandi products, including the ability to command a premium in the market.

#### 1.4.3.2. Financial aspects

Fixed application and annual fees are paid by participants in the majority of eco-labelling programs despite government subsidisation. To be financially sustainable, fees earned by the accreditation agency must be sufficient to retain the resources needed to provide a credible service. Hence, ongoing government sponsorship suggests non-sustainability.

An operating fee is paid by local authorities in the Blue Flag initiative, but DEAT committed a substantial amount of seed finance to the programme and the increased tourism revenue may offset the operating costs borne by participants (Ministry of Environmental Affairs and Tourism, 2001). Eco-labelling accreditation does involve high monitoring and compliance costs as in the Blue Flag case. Qualified assessors and expensive laboratory equipment are required to evaluate whether products meet environmental standards (Hanks *et al*, 2002). Research undertaken in Denmark between 1997 and 2001 indicated that consumers were willing to pay premiums of between 10 and 17 per cent for Nordic Swan labelled detergents (Hanks *et al*, 2002), but premiums of this size may not even cover annual certification costs, let alone costs incurred by the producer in meeting annual certification requirements. Financial failure has encouraged producers to take unethical routes to certify their products and to make vague, unverifiable environmental claims which have brought the credibility of eco-labels into question (Teisl *et al*, 1999).

An annual fee is levied on each Proudly South African member according to their annual budgeted sales turnover to cover marketing, monitoring and administration costs (Hanks *et al*, 2002). The campaign secured financial and media support for the next three years (2006-2008) to the value of almost R80 million. This includes sponsorships, free advertising time, print and outdoor media exposure and government funding (Proudly South African, 2006). There is ongoing government sponsorship in the case of Proudly South African, 'USA Grown' and 'Australia-made' products (Proudly South African, 2006; Mabiso *et al*, 2005), which may suggest non-sustainability. However, 'USA Grown' fresh apples and tomatoes, for example, do command a significant premium.

Dankers (2003) notes that adjusting minimum wages or housing conditions may be very costly with SA8000 adoption. The producer or facility being certified is responsible for compliance and certification. Private costs are high relative to private benefits in the absence of government subsidy, and uptake of SA8000 accreditation has been low in South Africa. Dankers (2003) concluded that workers on adopting farms were better off, but this was largely due to a policy of social responsibility existing before accreditation.

The majority of the costs of the Thandi project have been met by The Company of Wine People and Capespan. SAFCOL was an active member in the establishment of the project, and ensured that government played an active role with regards to development and participation of workers (WOSA SA, 2005). One of the objectives of the case-study is to elicit information about the financial costs and benefits of the Thandi label and who is covering its costs.

## CHAPTER TWO

### RESEARCH METHODOLOGY AND DATA COLLECTION

The purpose of this chapter is to explain the approach taken to collect and analyse evidence of the role that empowerment labels can play in promoting BBEE enterprises by improving the competitiveness of their products. A qualitative study of the Thandi label was undertaken as it is one of the longest established empowerment labels in South Africa, and was the first wine brand in the world to achieve Fairtrade accreditation.

#### 2.1. Research methodology

A case study of the Thandi empowerment label used by FWES in the Western Cape was undertaken to record the processes that launched the label and to identify costs and benefits of creating and maintaining it. Case study is a research method involving empirical investigation of a particular contemporary phenomenon within its real-life context, using multiple sources for evidence (Robson, 1993; cited in Pinto da Silva, 2002; Yin, 2002). The technique facilitates an holistic and in-depth understanding of many mutually dependent and interrelated institutional arrangements (Tellis, 1997). Case study satisfies the three tenets (describing, understanding and explaining) of qualitative research, and can cover both process and outcomes as it can include both qualitative and quantitative data (Tellis, 1997). The use of a qualitative research design is often motivated by a focus on processes and not only outcomes (Creswell, 1994; cited in Pinto da Silva, 2002). Yin (2002) identified three specific case study designs: Exploratory, Explanatory, and Descriptive. He

suggested that the nature of the research posed (i.e., 'what', 'how' or 'why' questions) determines the type of research design to be adopted. This study posed 'what' and 'how' questions indicating an exploratory-explanatory case study. The questions were based largely on the theoretical propositions of asymmetric information, the benefits of product labelling and the preconditions for a successful label discussed in section 1.2.

Case study is a triangulated research strategy, meaning that it uses multiple sources of data. This attribute constitutes its key strength when compared to other research methods. The rationale for triangulation is to increase the validity and reliability of data by corroborating it with data gathered from other sources (Pinto da Silva, 2002). In this study, documentation and interviews with key informants at different levels of the marketing chain were the primary sources of information.

A frequent criticism of case study methodology is that replication is not possible and that this renders it incapable of providing generalised conclusions. However, in analytic generalisation (case study), theory is used as a guideline against which results from the case study are compared. In other words, evidence from a case study is generalised to theory whereas statistical analysis of a representative sample yields estimates that are generalised to a target population (Yin, 2002).

Interviewing is among some of the most commonly used research techniques to obtain qualitative information. The flexibility and participatory nature of interviews make them a very popular choice among researchers (Kuter & Yilmaz, 2001). The interviewer is not restricted in terms of the order in which questions are asked and can alter questions

depending on circumstances within the interview. The interviewer also works directly with the respondent allowing for opportunities to monitor the interviewee and ask follow-up or leading questions (Kuter & Yilmaz, 2001). The respondent needs to be involved and engaged in the interview as soon as possible, questions need to be worded clearly and responses should be encouraged throughout the duration of the interview (McNamara, 1999).

This study made use of in-depth interviewing with key informants to investigate issues considered (on theoretical grounds) to be critical in establishing a successful label. In-depth interviewing is meant to encourage respondents to express views and gain an understanding of the issues under investigation (The World Bank Group, 2006). With regards to this study, key informants (senior managers) were selected due to their valuable access to information and the interviews consequently centred on clarifying and gaining information directly related to the functioning and success of the label.

## **2.2. Data collection**

Primary data were gathered during August 2006 using personal in-depth interviews with key informants at the Capespan Foundation, The Company of Wine People, and FWES projects participating in the Thandi label. The interviews were conducted in and around Stellenbosch on participating farms and at the offices of Capespan and The Company of Wine People.

Structured but open-ended questions addressed the history, costs, benefits and challenges of the Thandi fruit and Thandi wine labels viewed from the perspective of participating farms and the marketing agents. Information elicited from the CEO of Capespan and the senior manager of The Company of Wine People centred on the processes and problems encountered in establishing and maintaining the Thandi label, as well as empowerment issues, benefits and future prospects. Although similar information was gathered from participating farms for the purpose of triangulation, interviews conducted at the farm level focused mainly on the costs and benefits of using the Thandi label. Appendix 1 presents the questionnaires addressed to respondents.

Managers of two participating wine farms (Nietbegin and Lebanon) and fruit farms (Erfdeel and Lebanon) were interviewed. The Lutouw wine farm, some 300 km from Stellenbosch, was excluded due to budgetary constraints. The remaining three participating farms, Misgund, Sun Orange and Keboes were excluded for the same reason as they are situated in the Eastern and Northern Cape provinces. Questions relating to farm-retail price spreads were not answered for reasons of confidentiality.

Responses to structured questions were captured on the questionnaire. Additional information pertinent to the study was recorded separately. The data were subsequently collated and compared, where possible, across respondents in order to check for consensus views. Chapter 3 presents and analyses the results to inform conclusions about the sustainability of the Thandi label and its potential contribution to BBEE enterprises.

## CHAPTER THREE

### RESULTS

Capespan CEO, Angelo Petersen, indicated that the Thandi fruit brand had been discontinued. Petersen (2006) pointed out that Thandi fruit had not grown its share of the domestic or export markets and did not command a price premium. His perceptions regarding the future prospects for growth and financial viability of the Thandi fruit label were also negative. Capespan is currently (2006) South Africa's largest fruit exporter accounting for 22.4 per cent of the market, followed by Dole SA (7 per cent market share), and Colors Fruit SA (5.8 per cent market share) (Marais, 2006). Capespan consequently provided Thandi fruit with an ideal marketing platform as it was able to market through the global Capespan marketing footprint and had access to world-class infrastructure.

The Thandi wine label, on the other hand, is increasing grower revenue. Thandi wines are of high quality and very competitive in foreign and local markets. They are exported to Holland, Austria, Japan, Canada, the UK and, most recently, the US. Patrick Kraukamp, formerly a forklift operator, is now a world-class wine-maker at the Lebanon farm. His numerous awards not only attest to the quality of Thandi wines but also to the empowerment of workers at Lebanon farm. In Australia, four companies sell 80 per cent of its export wine, whereas in South Africa 17 companies sell 75 per cent of its export wine (Jeftha, 2006). The Company of Wine People is consequently attempting to get small producers to join the label, rather than compete against each other.

### **3.1. Thandi fruit**

Capespan decided to discontinue the Thandi fruit label at the time of the interviews. The brand failed to secure additional sales volume and neither foreign nor domestic consumers were prepared to pay a premium for BBEE produced fruit. This outcome highlights essential differences in the demand for fruit and bottled wine. The demand for bottled wine is relatively price inelastic, and generally lower than that of fruit, both domestically and abroad, as it is bought by mostly high-income earners who are less sensitive to price changes (Ntege, 2005; Hemenez, 2000). The wine consumer is more willing to pay for credence attributes and, therefore, less sensitive to price premiums than the average fruit consumer.

A study conducted by Joseph (2003) revealed that American wine consumers earn higher incomes than the average consumer, and are 28 per cent more likely to have a college degree or more. The results reported in section 3.2 are consistent with the popular belief that wine consumers are more affluent and more educated than the average consumer, including fruit consumers. Demand for quality wine is therefore expected to be relatively price inelastic, with consumers more likely to accept premiums charged for credence attributes.

Foreign retailers have ordered Fairtrade accredited fruit from Capespan only to reject it on arrival (Petersen, 2006). This apparent lack of commitment from retailers indicates problems with the consistent supply of quality fruit. Rejected deliveries have to be repacked and sold on wholesale commodity markets because the fruit is perishable. This hold-up

problem has resulted in a portion of Thandi fruit being sold at relatively low wholesale prices. As a result, the label did not earn a positive premium overall. Capespan had to subsidise Thandi fruit, making up premium shortfalls when fruit was retailed at prices below the estimated minimum price. This helps to explain why it was Capespan that withdrew from the label, rather than the participating farms. Quality rather than empowerment is required to earn a premium when selling to fruit consumers abroad.

The fundamental reason for the failure of Thandi's fruit label was that Capespan was unable to build a brand identity. Fruit is not easy to differentiate, even if quality is consistently high, because fruit consumers tend to buy on look, feel and price; they do not seek out a specific brand such as Outspan oranges (Petersen, 2006). Consumers trust themselves to identify good quality fruit. This is less easily achieved with bottles of wine that are not labelled owing to the absence of touch and smell for example. With less asymmetric information in fruit markets, quality labels are less likely to command premiums than in the case of wine markets. Petersen (2006) contends that fruit brands are better known to the trade than to the end consumer, and the vast majority of foreign and even local fruit consumers are not influenced by ethical issues like BBEE in South Africa when making their purchasing decisions. Fairtrade accredited products are typically bought by more affluent and well informed consumers who account for a small minority of fruit consumers. Social and ethical attributes create a niche market opportunity that can handle only small volumes of fruit, and other large sellers compete in this niche market. Under these conditions, quality becomes important and Thandi fruit was unable to defend its shelf space. In addition, Edmonds (2006) notes that Fairtrade does not have a large enough advertising budget to compete with the major brands overseas, and foreign retailers are

trying to promote their own labels. With Capespan unable to differentiate Thandi fruit successfully, the brand could not reap the benefits of product labelling outlined in section 1.2.2.

The Fairtrade value chain increases the cost of producing a good making it more expensive and less competitive. Capespan had to cross-subsidise operating costs it incurred maintaining the label, and ended up subsidising Thandi fruit to ensure the promised premiums would be realised by farms. According to Cluver (2006), managing director at Lebanon farm, Capespan abandoned the label because it made more sense financially to pack the fruit for foreign retailers like Sainsbury or Tesco using their labels rather than the Thandi fruit label. Capespan got no meaningful advantage from packing fruit under the Thandi label as any premiums earned were paid directly to the participating fruit farms as Fairtrade premiums. The small volumes of Lebanon and Erfdeel fruit meant that Capespan had to make very small runs in its packhouse if it packed their fruit under the Thandi label, and this created inefficiencies that reduced the net earnings of all parties. Capespan had to bear on-going advertising and other marketing costs without receiving any financial benefit. Discontinuation of the Thandi fruit label means that fruit from Thandi farms will, in future, carry the Capespan label or the labels of Capespan's retailers. Some of these fruit products will still be marketed through Fairtrade programmes aimed at promoting market opportunities for empowerment farms. There was consensus among all respondents that discontinuation of the Thandi fruit label was in the best interests of both Capespan and the participating farms. Petersen (2006) pointed out that no other BEE exporters had attempted to build a successful empowerment brand in fruit.

### 3.2. Thandi wine

Thandi wine has achieved much larger sales value than Thandi fruit, and Fairtrade premiums have been earned on foreign and, to a lesser extent, domestic markets. The brand is sales driven not production driven (Jeftha, 2006). It achieves economies of scale by using the same facilities<sup>6</sup> to process grapes produced at several empowerment farms. Volumes are much larger than in the case of Thandi fruit, which does result in scale economies in Thandi Wine processing. Volumes of Thandi wine exported have increased steadily, reaching 14000 cases (12 × 750 ml bottles per case) in 2006. Thandi sells in the UK in the 5 - 7 GBP price range which is very competitive with other similar products on the market (Petersen, 2006). Unlike most other wine empowerment labels (e.g. New Beginnings and Tukulu), Thandi wine is aimed at the higher end of the market (WOSA SA, 2005), and the owners of the brand have invested substantially in brand development and quality improvement to capture market share and favourable prices (Jeftha, 2006; WOSA SA, 2005). The exclusion of Erfdeel Farm shows that the owners of the Thandi wine brand are seriously committed to maintaining its reputation for high quality wines.

According to Rydal Jeftha (2006), senior manager of The Company of Wine People, Thandi wine is selling well overseas thanks to its quality and not to 'political correctness'. The brand was positioned with Fairtrade as a premium product of high quality and good value for the consumer's dollar. However, these views do not mean that empowerment is

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<sup>6</sup> All the wine is produced, bottled and stored in The Company of Wine People's facilities on their property just outside Stellenbosch

unimportant. Petersen (2006) qualifies Jeftha's views by noting "the fact that producers are part of an empowerment project might get the product on the shelves but it won't necessarily get them off the shelves". In other words, while quality is selling the product at a premium price, the empowerment attribute was instrumental in accessing niche markets.

The implication is that the Thandi wine label succeeded in gaining market share and raising product prices because it combined Fairtrade accreditation with good quality. Fairtrade accreditation is based on social and ethical issues and does not incorporate quality as a criterion for successful certification. Both the Thandi wine and fruit experiences are consistent with the view that BBEE attributes alone are not sufficient to increase grower revenue. When combined with consistently good quality, BBEE attributes did help Thandi farms to access and then exploit favourable markets for products that were purchased by affluent consumers and for which quality could not be inspected by consumers at the point of sale.

Wine consumers tend to be well informed about brands. There are ongoing wine reviews that give quality brands good exposure. Once recognised as a signal of excellence, a brand name can spread rapidly via word-of-mouth, wine reviews, wine tastings, etc., and facilitate advertising. According to Petersen (2006), the Thandi wine brand received better publicity than Thandi fruit, and was able to command significant premiums in reliable markets. Demand for Thandi's products has become less price elastic through differentiation and this has facilitated non-generic advertising to increase demand for Thandi wines (Jeftha, 2006). Wine is less perishable than fruit, which alleviates hold-up problems that might arise if

Thandi delivered inferior wine. Consistently high quality and the absence of severe hold-up problems have contributed to a positive overall premium for Thandi wine growers.

According to Jeftha (2006), the successful establishment of a brand label has helped improve communication between Thandi wine and consumers, which is evidently missing in the case of Thandi fruit. Jeftha (2006) claims that they have been able to successfully build a distinctive brand conveying information that is valued by their (discerning) consumers. This may be the essential difference explaining Thandi wine's success over Thandi fruit. Respondents constantly emphasised the importance of quality in order to derive benefit from the empowerment attribute. Examples of the Thandi wine label and Thandi fruit packaging are displayed in Appendix 2 and 3 respectively.

### **3.3. Thandi farms**

Table 1 provides a summary of the main findings from the interviews with participating Thandi farms. With regards to the fruit farms, Fairtrade sells the produce and then pays the farms. Unlike the Thandi wine farms, the participating fruit farms carry substantial price risk. If retailers reject the produce it may be sold wholesale, or it may not be sold at all if it perishes. The Erfdeel farm received a 30 per cent Fairtrade premium, but only for produce accepted and sold by retailers contracted to Fairtrade. Overall, the premium may not be positive if a significant share of the farm's produce was rejected and not sold, or sold at relatively low wholesale prices. It appears that farms were receiving no meaningful advantage from packing their fruit under the Thandi label. At the same time, Capespan was making losses on marketing Thandi fruit. The net result is that neither party was benefiting

from the empowerment label, making it more advantageous to both parties to use Capespan's regular retail labels (together with Fairtrade accreditation if empowerment attributes showed promise).

**Table 1: Summary of findings elicited from participating Thandi farms**

Lebanon	<ul style="list-style-type: none"> <li>• Fruit and wine farm</li> <li>• Only small share of fruit sold via Fairtrade &amp; Thandi</li> <li>• All wine grapes are sold to The Company of Wine People</li> <li>• Cost R28000 per year for Fairtrade accreditation, in addition to time taken from management to ensure compliance</li> <li>• Received R130000 during 2004 &amp; 2005 from Fairtrade premium for wine, but are unsure about Fairtrade premium for fruit</li> </ul>
Erfdeel	<ul style="list-style-type: none"> <li>• Fruit farm</li> <li>• Approximately half of fruit is sold via Fairtrade &amp; Thandi</li> <li>• Forced to leave Thandi wine as grapes were not of required quality</li> <li>• Cost R15000 per year for Fairtrade accreditation and about the same value in time spent preparing and maintaining standards</li> <li>• Received a 30% Fairtrade premium from 2003-2005 on output accepted and sold by retailers contracted to Fairtrade</li> </ul>
Nietbegin	<ul style="list-style-type: none"> <li>• Wine farm</li> <li>• Only produce wine grapes and all output is sold with Thandi label</li> <li>• There has been an increase in absolute quantity of output sold</li> <li>• Main costs of subscribing to the label is Fairtrade accreditation, approximately R10000 per year plus time costs</li> <li>• Received R33000 in 2005 for Fairtrade premium</li> </ul>

Sources (Allen, 2006; Cluver, 2006; Wenn 2006)

Wine farms are paid for their grapes by The Company of Wine People which takes ownership of, and responsibility for, the crop when it leaves the farm. The Company transports the grapes, produces wine and ships it to the contracted retailers. There are consequently two transactions; the farms are paid market prices for the grapes and once the wine is sold then the Fairtrade premium is paid directly to the Farmworkers' Trust. Fairtrade pays a premium of €0.05 per kilogram of wine equivalent. The Company of Wine People obtains its income by selling Thandi wine at premium prices allowing it to cover its various costs and remain sustainable (Jeftha, 2006). To ensure quality wine, The Company of Wine People only accepts a yield of 6-8 tons of grapes per hectare. This poses a problem for farms in the Stellenbosch region where yields tend to be higher than eight tons, and creates a trade-off between quantity and the quality price premium offered by Thandi. Nevertheless, the farms<sup>7</sup> interviewed displayed an interest in marketing future wine product lines with Thandi as the general consensus was that it is a profitable initiative and workers are proud of the label.

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<sup>7</sup> Including Erfdeel, even though it was excluded from Thandi wine.

## **CHAPTER FOUR**

### **CONCLUSIONS**

Results of this study provide information about empowerment labelling and its potential to promote BBEE in South Africa. The findings may prove beneficial to current and prospective BBEE managers, and more importantly to a government which is actively promoting SME's and attempting to make BBEE more attractive to white entrepreneurs.

A case study of the Thandi empowerment label revealed that the Thandi fruit brand had been discontinued because its marketing agent, Capespan, had been unable to build an empowerment brand identity for fruit. The Thandi wine brand, on the other hand, has been a success. Thandi wines command significant premiums and have established a solid customer base worldwide. Unlike fruit, wine is not highly perishable, consumers cannot assess its quality through sight, touch or smell at the point of sale, and quality wine is purchased by affluent consumers.

Capespan were unable to successfully differentiate Thandi fruit products and fruit consumers were not willing to pay a premium for Thandi fruit. While the empowerment label gave Thandi products access to favourable markets it did not keep them there. The label succeeded where it was applied to quality products sold to discerning consumers who lacked information about empowerment and quality attributes at the point of sale. These findings support the hypothesis that product labelling can promote BBEE at farm level by

improving market access for accredited farms. Thandi wine farms have benefited from increased revenue and farmworkers have received significant premiums from Fairtrade.

There are a number of other empowerment farms in the region wishing to join the Thandi label, and this is attributable to the label's success in gaining preferred access to markets and then exploiting those markets. The evidence presented in this study also support the view that participating farms, mostly farmworker equity-share projects, have a good record of broad-based black economic empowerment. In addition, the Thandi wine label has extended BBEE into downstream marketing activities in the value chain. Overall, farmworkers are proud of the label and farm managers had little hesitation in stipulating that they would market future wine product lines with Thandi.

The success of Thandi wine highlights a role for government in promoting BEE amongst small and medium sized firms. The substantial cost and size economies associated with certification requires smaller firms to collaborate in a generic BEE label. Such horizontal coordination suggests policy options other than direct subsidies. For example, government could absorb some of the transaction costs confronting producers and marketing agencies in negotiating standards for farms and firms participating in generic empowerment labels. It could also co-fund market research for empowerment products and offer auditing services to accreditation agencies to improve their credibility of empowerment labels. At present these costs tend to be borne by industry organisations.

It is recommended that empowerment labels should include quality attributes and should focus on non-perishable products purchased predominantly by affluent consumers. A

product like coffee may be well suited to empowerment labelling as its quality cannot be easily assessed by consumers at the point of sale. Ideally these recommendations should have been supported with evidence of changing prices and farm-retail price spreads following accreditation. Such information would add value to future studies of BEE labels, as would estimates of consumers' willingness-to-pay a premium for empowerment attributes.

## SUMMARY

BEE aims to promote business opportunities curtailed by apartheid in South Africa. Almost all South African firms were owned by white investors and controlled by white managers during the apartheid era. BBEE involves PDI's acquiring equity in the agribusiness or farm enterprises in which they work. Empowerment labels, if successful have the potential to promote BBEE, leading to skills development and an increase in the number of black people that manage, own and control enterprises and productive assets.

Stakeholders in the agricultural sector have proposed an AgriBEE charter that assigns weights to the empowerment areas in the form of scorecard pillars and weightings. There is evidence to suggest that FWES would attain favourable scores on the AgriBEE Scorecard and consequently stay entirely consistent with the key objectives of BBEE.

Asymmetric information can pose a serious threat to the efficient functioning of a market as it can drive all good quality products out of that market. Labelling can provide missing market information about product attributes and may therefore remedy the problem of asymmetric information. In addition, successful brands signal consistent quality and not only help to address the problem of imperfect information about product quality, but also serve to differentiate a product on other characteristics such as BBEE.

Labelling can lead to successful product differentiation which reduces the number of substitutes, making demand for a firm's product less price elastic and allowing the firm to

increase demand for the product through non-generic advertising. Credence characteristics arise when quality is not revealed even after a consumer purchases a product, and includes the environment, and empowerment. As a product attribute moves along the continuum from being a search to an experience to a credence attribute, so labelling becomes increasingly beneficial, emphasising the importance of labelling with regards to BBEE products.

Product accreditation by an impartial and reputable third-party lends credibility to a label and may be a more cost-effective way of commanding a price premium. Successful certification schemes should be demand driven and characterised by low transaction costs, and can be a very effective measure to counter low consumer confidence.

The Thandi label is an initiative that aims to market and promote fruit and wine products from black empowerment farms under a separate label (Thandi). All Thandi farms must be Fairtrade accredited, and receive a negotiated premium on all Fairtrade output sold. Thandi wine have gained a reputation for high quality and are aimed at the higher end of the market earning significant premiums. Thandi fruit, on the other hand, has not earned premiums and failed to secure additional sales volume.

An exploratory-explanatory case study was used in this study. In-depth interviews with key informants at different levels of the marketing chain were the primary sources of information. Interviewing is among some of the most commonly used research techniques to obtain qualitative information. The interviewer is not restricted by rigid processes and can change the questions depending on circumstances within the interview.

The main finding from the interviews was that the Thandi fruit label has been discontinued. It was found that Capespan were experiencing difficulty in differentiating the Thandi fruit products and substantiating the premium that was charged on the fruit. The label is less likely to add value to fruit products as they would in the case of wine. Wine consumers are, in general, more affluent than the average fruit consumer, and have more scope to seek out products with BBEE attributes.

Analysis of the results indicate that the accredited empowerment attribute adds value to the Thandi products. When combined with good quality, BBEE attributes did help Thandi farms to access and then exploit favourable markets. An empowerment label will consequently only be effective (as in the case of Thandi wine) if it is applied to quality goods and for products that are purchased by affluent consumers and for which quality can not be inspected by consumers at the point of sale. The study results highlight the positive contribution made by the Thandi wine label with regards to empowerment promotion. The Thandi wine label has gone beyond empowerment of farmworkers and integration of emerging black farmers into niche markets; it has also transformed the supply chain. The participating farms are majority owners in Thandi Wines and therefore influence the contractual arrangements with the marketing agent, The Company of Wine People. BBEE farms have integrated vertically into the value chain.

The success of Thandi wine, and failure of Thandi fruit, suggest a possible role for government in extending BEE labels and prove critical to small and medium sized firms in South Africa as they attempt to make informed decisions about the adoption of BBEE. The

substantial cost and size economies associated with certification incentivise small firms to collaborate and benefit from bulk discounts on the cost of certification services. Such horizontal coordination may suggest policy options other than direct subsidies. Government could, for example, absorb or reduce the transaction costs faced by producers and marketing agencies in negotiating standards for farms and firms participating in generic empowerment labels.

To enhance the role that labelling plays in promoting BBEE in South Africa, it is recommended that an empowerment label include quality attributes, and focus on the more wealthy niche market where products are purchased by predominately affluent or discerning consumers. A product such as coffee could be a potential source for an empowerment label as it is storable, easier differentiated than fruit, and still retains an element of asymmetric information. Empowerment labels do add value but have to be complemented by quality to maintain shelf space and to earn a premium. Empowerment labelling, if successful, will add to the benefits of BBEE making it a more attractive option for small and medium size firms in South Africa. Government assistance is, however, imperative in making it more accessible and feasible for agribusiness or farm enterprises to participate in a generic empowerment label. Further research estimating consumers' willingness-to-pay for products branded with empowerment labels is necessary to illustrate whether these products are able to command a premium in the market and can be sustainable in the long-run.

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## APPENDICES

### APPENDIX 1: Questionnaire addressed to key informants



**University of KwaZulu-Natal**  
**School of Agricultural Sciences and Agribusiness**  
**Discipline of Agricultural Economics**

#### **Questionnaire: Case-study of the Thandi empowerment label**

#### **SECTION A: CAPESPAN / THE COMPANY OF WINE PEOPLE**

##### **1 CONTEXT**

- 1.1 Which were the first fruit/wine projects and in what years were they accredited? What projects have since come aboard and when? How long does it take to bring a project on board?

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- 1.2 What did it take to establish the Thandi label? What organisations were involved; what were the costs and how were they financed; who drove the initiative, what processes were involved, and what motivated the drivers?



- 1.8 Does accreditation apply to a project/farm, or to a particular product? If an accredited project produces multiple products, do they all qualify for the Thandi label? Is the Thandi product range limited to wine and fruit? Does the respondent know of any efforts to extend the product range? If yes, who would manage and administer the new product labels?

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- 1.9 What are the eligibility criteria, and who sets them?

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- 1.10 Explain the process and requirements of product/project/farm accreditation.

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## **2 CURRENT COSTS**

- 2.1 Are Capespan/The Company of Wine People financing any ongoing costs associated with the label and what risks are involved?

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- 2.2 What other organisations are financing any ongoing costs of the label?

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- 2.3 Is the label being promoted in domestic/international markets? If yes, how are advertising and promotional costs financed?

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**3 CURRENT SITUATION**

**3.1 FARMS**

3.1.1 Were any applications for participation in the Thandi label rejected? If yes, who rejected them and for what reasons?

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3.1.2 Did any projects/farms fail while they were participating in the Thandi label, and are the reasons for failure known?

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3.1.3 Did any projects/farms voluntarily withdraw from the Thandi label, and for what reasons?

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3.1.4 Are there any farms/projects in the process of registering with the label? Who are they and what products will they label?

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3.1.5 How many farms are currently registered for the Thandi label? Do they use the Thandi label on all of their products and on all of the accredited output?

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**3.2 VIEWS**

3.2.1 Should government take responsibility for financing and/or administering empowerment labels, or should the private sector take full responsibility?

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3.2.2 What are your views on voluntary versus compulsory labelling that requires non-empowered sellers to declare their status?

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3.2.3 What are your perceptions of the quality of Thandi products?

Poor	Below average	Average	Above average	High
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3.3 PREMIUMS AND PRODUCT ATTRIBUTES

3.3.1 What products carry the Thandi label?

3.3.2 Does Thandi earn a premium on the domestic market/on the export market? How do Thandi prices compare with prices of similar products?

Product	Is there a premium? <b>Yes</b> or <b>No</b>	Current (2006) price (R/unit)			
		Domestic market		Export market	
		Thandi product	Similar product	Thandi product	Similar product
1 =					
2 =					
3 =					
4 =					
5 =					

3.3.3 Is Thandi growing its share of the domestic market/or the export market?

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3.3.4 What attributes are being exploited on each of these markets? Is it only Black economic empowerment or are other characteristics (e.g. quality, safety or geographic region) attracting market share or price premiums?

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3.3.5 Are there differences between products, where say apples are certified more on quality attributes, and pears more on geographic attributes?

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#### 3.4 FARM-RETAIL PRICE SPREADS

3.4.1 For each product, what attributes are certified and monitored?

3.4.2 For each product, what was the farm-retail spread in each year of operation?

Thandi products	Certified Attributes	Year	Prices (R/unit)			
			Domestic market		Export market	
			Price paid to farmer	Price received	Price paid to farmer	Price received
1=		2001				
		2002				
		2003				
		2004				
		2005				
2=		2001				
		2002				
		2003				
		2004				
		2005				
3=		2001				
		2002				
		2003				
		2004				
		2005				
4=		2001				
		2002				
		2003				
		2004				
		2005				
5 =		2001				
		2002				
		2003				
		2004				
		2005				

3.4.3 For comparable products marketed by Capespan/The Company of Wine People, what was the farm-retail spread in each of these years?

Comparable products	Certified Attributes	Year	Prices (R/unit)			
			Domestic market		Export market	
			Price paid to farmer	Price received	Price paid to farmer	Price received
1=		2001				
		2002				
		2003				
		2004				
		2005				
2=		2001				
		2002				
		2003				
		2004				
		2005				
3=		2001				
		2002				
		2003				
		2004				
		2005				
4=		2001				
		2002				
		2003				
		2004				
		2005				
5 =		2001				
		2002				
		2003				
		2004				
		2005				

3.5 LABEL

3.5.1 What benefits (economic and political) are organisations that finance the costs of the Thandi label receiving?

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3.5.2 What are your perceptions about the future growth of the Thandi label?

Poor	Below average	Average	Above average	Good
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3.5.3 What are your perceptions about the financial viability of the Thandi label?

Poor	Below average	Average	Above average	Good
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## SECTION B: PARTICIPATING FARMS

### 4 CONTEXT

- 4.1 What products are produced on this farm?
- 4.2 What products are currently sold with a Thandi label?
- 4.3 For each of the Thandi products, in what year did you start selling with a Thandi label?

Products currently grown	Sold with a Thandi label (Yes or No)	Year in which Thandi sales commenced

### 5 COSTS

- 5.1 What are the monetary and time costs (description of different types of costs) of subscribing to the label and is it affordable (given current levels of subsidisation by government/industry) for your enterprise?

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- 5.2 Are there any risks involved in using the Thandi label, and if so, what are there sources?

Source of risk	Yes or No
Labour legislation	
Price variability	
Financial risk	
Changes in political environment	
Other(s)	

5.3 Do you market products that are eligible for the Thandi label through non-Thandi channels? If yes, why and what alternative channels are used?

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**6 BENEFITS**

6.1 What, if any, price premium is currently attracted by the Thandi label for each of the products that you sell on domestic and export markets? Have these premiums grown or contracted over time? Do prices of Thandi products show the same, more or less annual variation than do prices of similar products marketed without the Thandi label?

Thandi products	Price Premium (%)	Growth or contraction of premium	Annual price variation compared to non-Thandi products (Same, More or Less)

6.2 Is there a limit on volumes of any product accepted by Thandi?

6.3 For any particular Thandi product grown on this farm, is all of the output sold with a Thandi label, or is some output of similar quality also sold on other markets?

6.4 For any particular Thandi product grown on this farm, has the absolute quantity of output sold with the label increased or decreased over time?

6.5 For any particular Thandi product grown on this farm, has the relative share of output sold with the label increased or decreased over time?

Thandi products	Limit on volumes (Yes or No)	All output sold with Thandi label (Yes or No)	Increase or Decrease in absolute quantity of output sold	Increase or Decrease in relative share of output sold

6.6 Are there any tax advantages associated with the label?

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6.7 Do you think that the workers are proud of the Thandi label?

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6.8 If you introduced a new product line, would you like to market it with a Thandi label?

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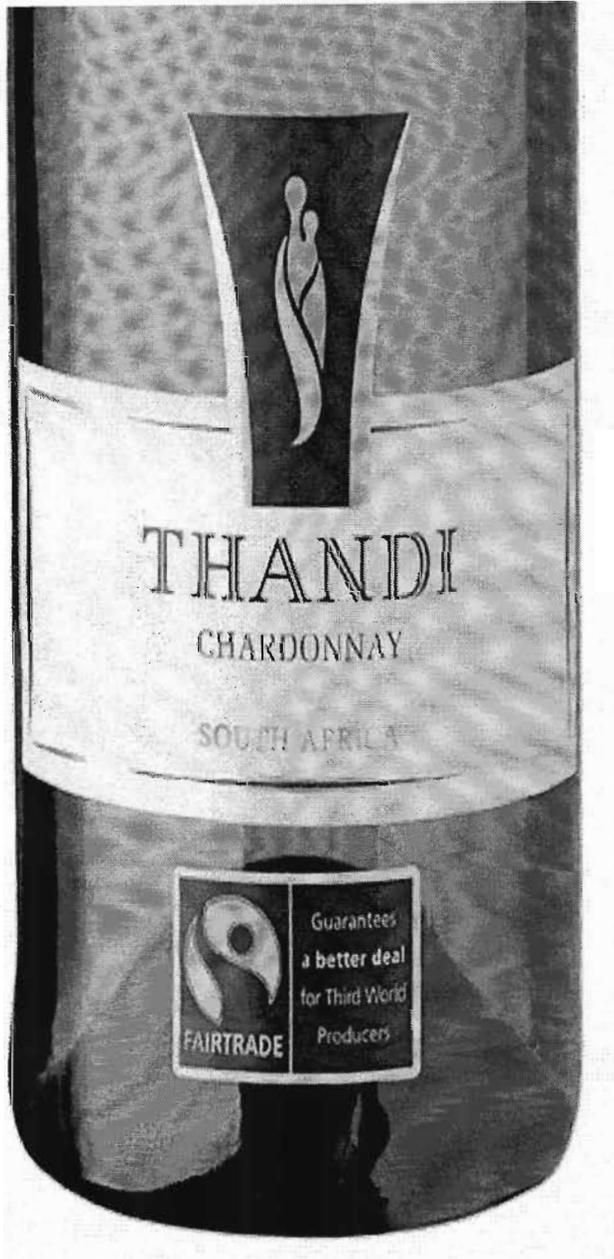


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**APPENDIX 2: Examples of the Thandi wine label**



**Figure 4: Front of Thandi wine bottle**



**Figure 5: Rear of Thandi wine bottle**

### APPENDIX 3: Examples of Thandi fruit packaging



Figure 6: Thandi grape packaging

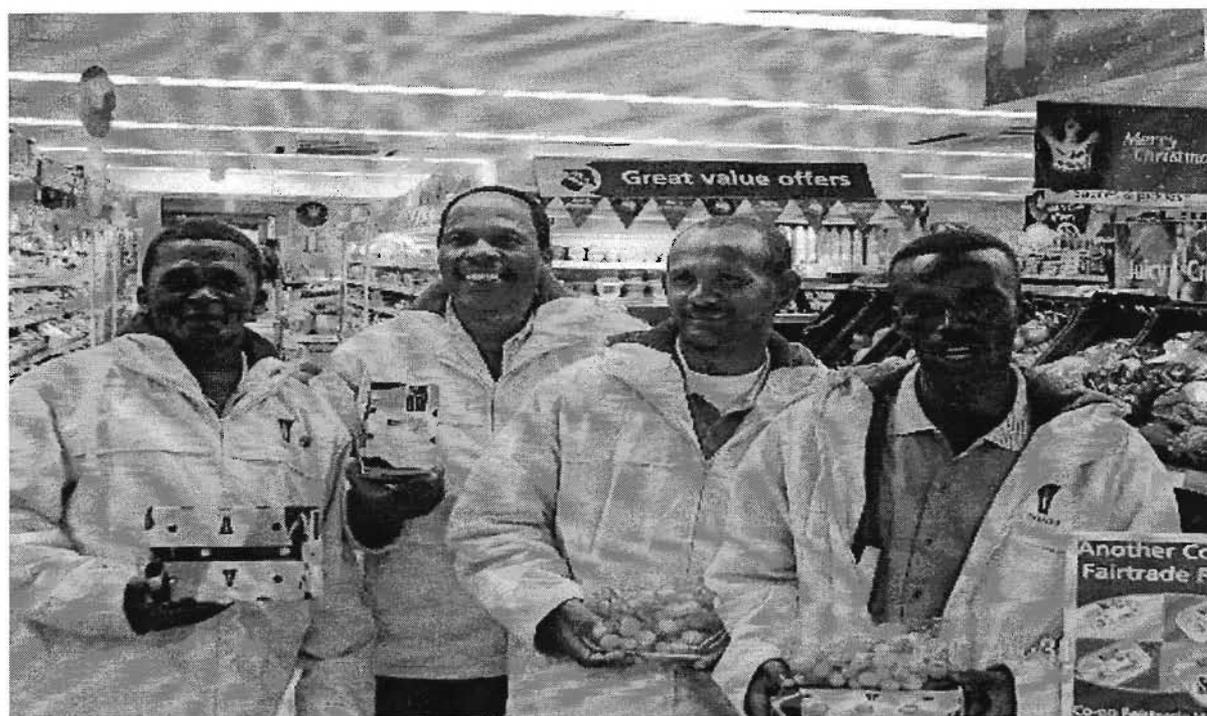


Figure 7: Black growers at a Tesco's supermarket in London