



Developing local suppliers to South African supermarkets – a policy proposal

TIPS Development Dialogue Colloquium.

The retail sector – an opportunity for industrialisation

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Interviewees



Senior buyers from:

- Pick n Pay (PnP)
- Spar
- Food Lovers Market
- Woolworths
- Shoprite-Checkers
- Choppies

Supermarket differentiation



Highlight the impact of different characteristics on the propensity to buy local product

- PnP and Shoprite- Checkers
- Woolworths
- Spar
- Food Lover's Market
- Choppies

Market trend 1: Move to Fresh



- % Share of local suppliers in fresh
- Effecting all economic groups – but far less the lower income
- Overall local content of supermarkets rising
- Technological advances reduce need for seasonal importation
- Barriers to importing fresh produce from the region

This very strong trend toward fresh, which is almost entirely locally produced, has resulted in the overall local content of supermarket sales probably rising. Furthermore, growing demand for fresh creates significant opportunities for new local entrants

Market trend 2: Private Label



Growing share of private label

The strong trend towards private label/house brands does allow for entry of new producers. There are more opportunities for new entrants in private label for the smaller supermarkets

However, there are limitations/constraints:

- Vulnerable to the supermarket
- Vulnerable to being bought out by larger suppliers
- Competition from imports
- Volume is still required – particularly if successful

Artisanal products



Best opportunities:

Higher end supermarkets, notably Woolworths, and more locally based supermarkets, notably Spar.

Constraints:

- Financial
- Regulations - health and packaging
- Supermarket standards

Entry of new firms: some examples



- Woolworths - wine, eggs, dog food
- Shoprite - dairy products
- PnP - mushrooms
- Spar - home bakes
- Food Lover's Market - dried fruit & nuts, sauces & spices
- Choppies - dairy, fire lighters
- bottled water, olives, briquettes, macadamia nuts, biltong

However...



While all supermarkets seek to enhance local suppliers,
overall success rates are low

PnP success rate said to be 3% for risky projects

Where are the opportunities?



- A few specific products – eggs, cocktail biscuits, olive oil & olive oil products
- As a general category, local production of artisanal niche products has some potential for expansion
- Quality of South African fruit and meat products is high, partly a consequence of extensive export orientation. By contrast, the standards of South African vegetables was said to be far lower and the variety of vegetable products is limited
- *The most significant opportunities for the entry of new producers lie in quality and the expansion of variety of fresh vegetables*

Role of the supermarkets



- Cooperation as between supermarkets and new suppliers a *sine qua non* for success in any area – fresh, processed foods or artisanal products
- However, while the supermarkets specify what they want, the capacity of supermarkets to intervene in the actual production process to secure what is needed is very limited
- Important role for specialist technical service providers to ensure the quality and variety of supply. Any policy support should explicitly address this need

The policy proposal



- A fund is initiated by the dti
- The fund can be accessed by one or more potential new supplier/s of fresh products together with one or more supermarket group/s. A joint application
- The fund is specifically geared to the improvement of the quality of the product or the process of production or introduction of new product variety - new being defined as new to the supplier/s
- The grant can be utilised to meet the costs of contracting specialist support services – from public research institutions such as universities, colleges or arms-length private sector firms
- The grant covers only a portion of the costs. This is a matching grant

The policy proposal (cont.)



- The precise degree of matching can be determined as can adjusting the grant to favour certain categories of suppliers: black, women or from particular regions
- However the primary emphasis should be on enhancing local supply capacities in general
- Applicants would have to demonstrate that sustainable value chain linkages can be established and maintained
- The fund a limited amount and operating for a limited duration
- The impact of the fund evaluated before deciding on any larger scale commitment.

Potential gains



Since most fresh products are already produced locally and exports are unlikely, the net gain in output will not be significant

Principal Gains:

- Consumer welfare – better product, quality and variety
- Entry of new suppliers/producers
- Gains in employment as new suppliers are likely to be more labour intensive

Additional gains:

- Enhance public research institutions engagement with business
- Increase expenditure on R&D

These gains are consonant with government's declared objectives for the National System of Innovation

Likely problems



- There are no price distortions
- There are no subsidies to investment or capital that might limit employment intensity
- Subsidy is confined to expenditures related to improvement of product quality, process and variety
- A small fund would allow for experimentation and for any loss to be limited

Additionality



- A number of the supermarket groups already have programmes to encourage and support new entrants in place
- However, the existence of the proposed fund would allow supermarkets to adopt suppliers where more risk is entailed than would currently be acceptable to the supermarkets in terms of their existent programmes
- Smaller producers, less well-capitalised producers are those who are most risky and who are therefore most likely to benefit from the existence of such a fund. This is exactly the “constituency” that government is seeking to encourage

The proposed process



- A round-table be organised with the supermarket groupings
- The objective of the round-table proposal would be put to present the proposal for the fund and to gauge support
- If support is forthcoming the discussion should move on to discuss the modalities of the fund – issues such as qualification criteria; degree of support; monitoring and evaluation etc.
- Outlines of this proposal were already presented during interviews with a number of the large supermarket groups
- Those consulted were very supportive, and were enthusiastic about participating in a meeting which would make proposals for the modalities of the fund



Thank you

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