

TIPS Development Dialogue: The retail sector - an opportunity for industrialisation?

The spread of supermarkets in the SADC region

Impact on competition and on suppliers

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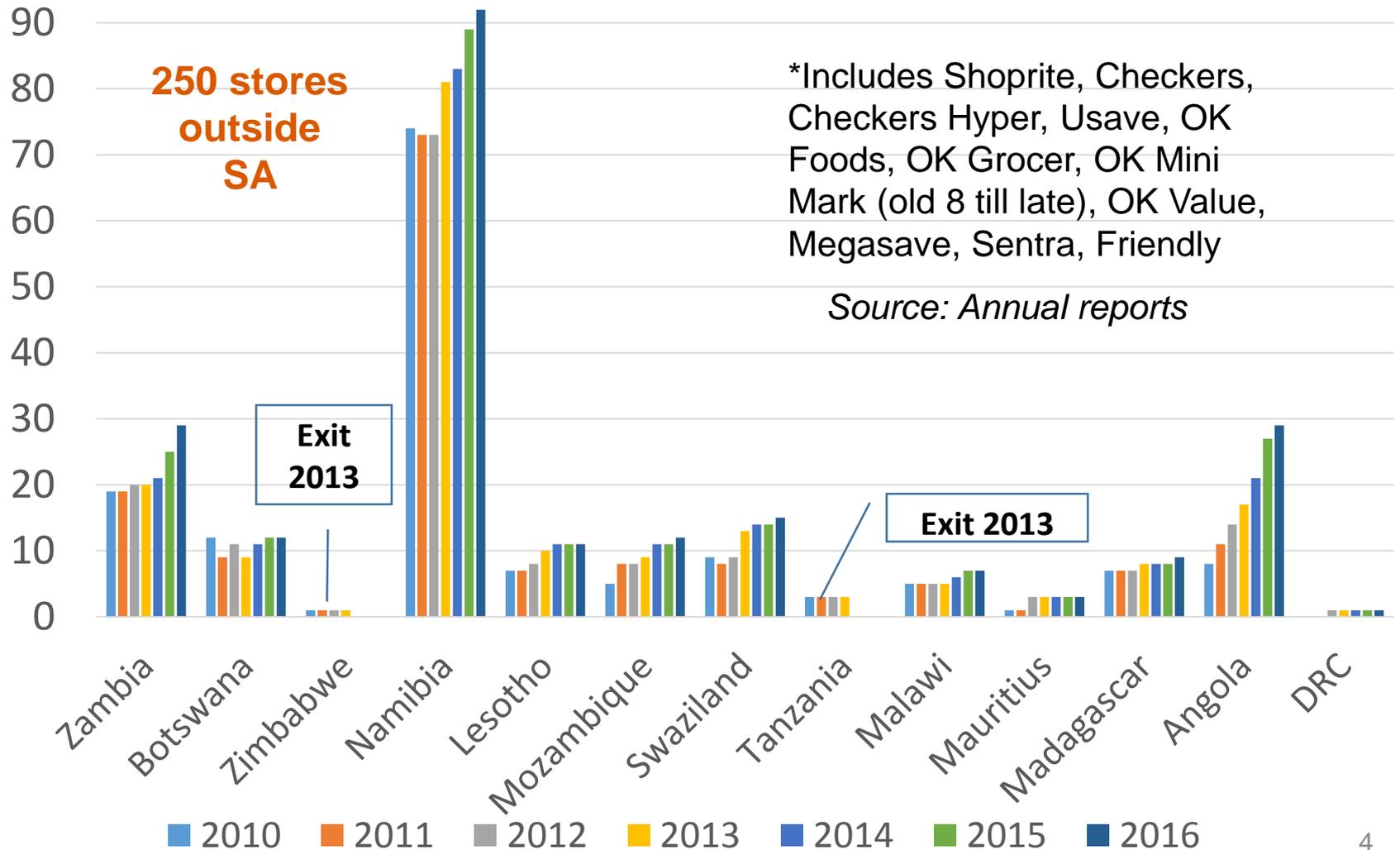
Importance of the spread of supermarkets for consumers and suppliers

- Findings from CCRED research, inc. with regional partners in Zambia (ZIPAR) and Zimbabwe (ZEPARU)
- Rapid spread of supermarkets in s. Africa in the past 2 decades
- A growing retail sector can:
 - Benefit **consumers**: potentially lower prices, better quality, wider range, more offerings, one-stop-shop, convenience, etc.
 - Benefit **suppliers**: growing route to market (RTM) for farmers, agro-processors and light manufacturers:
 - Opens up opportunities to access wider regional markets
 - Supports entry and growth into regional value chains and creates **upgrading opportunities**, and for **industrialisation**
- BUT anticompetitive and exclusionary conduct of supermarkets with market power can limit these benefits

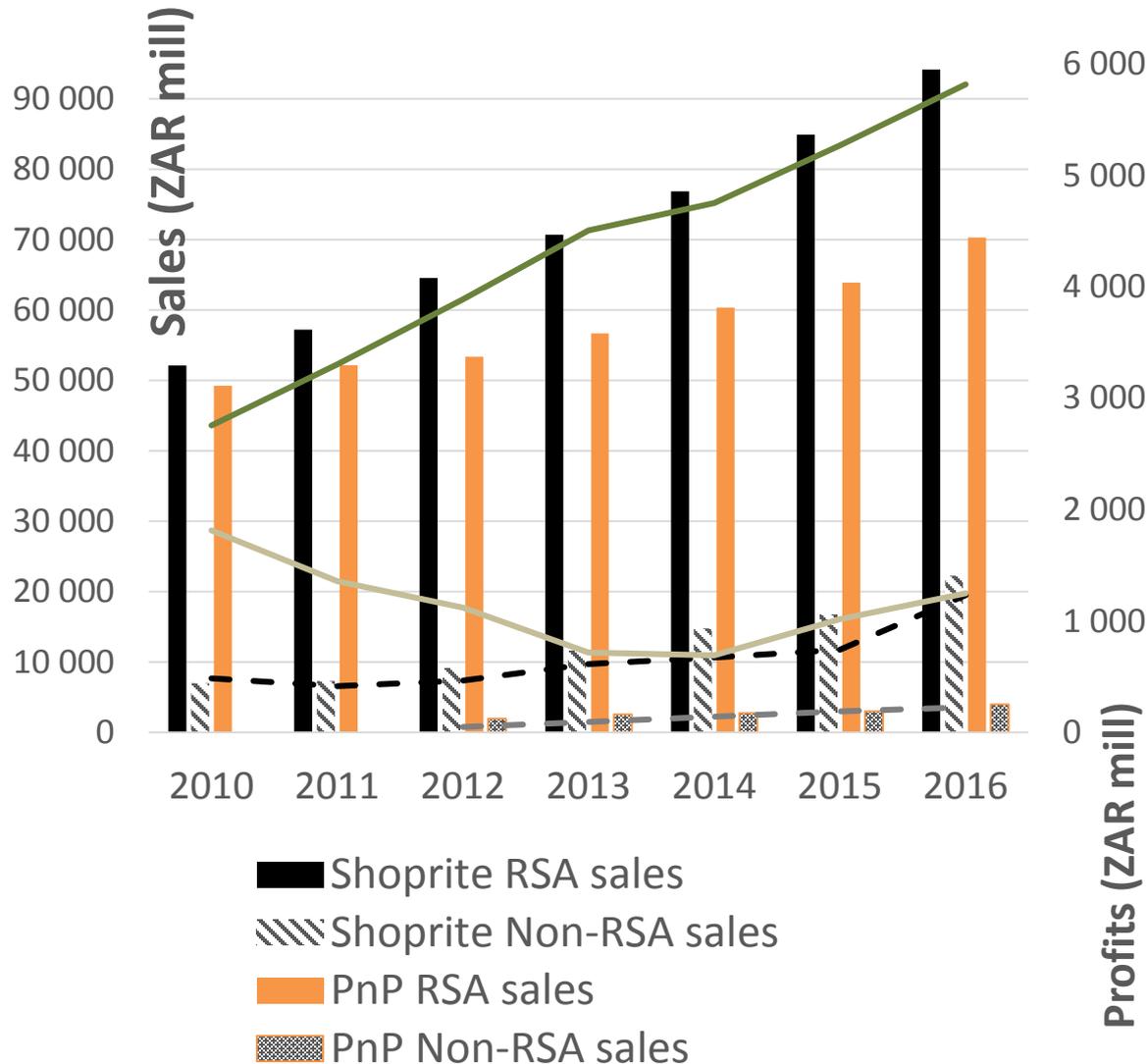
What has driven supermarket internationalisation in s. Africa?

- Rising urbanisation, income, population growth, commodity prices
- Greater sales & profits outside SA: new market-seeking theories of internationalisation (Narula and Dunning, 2000)
- Maintaining competitive advantage; first mover advantage – asset augmenting motives (Dunning, 1993, 2000)
- Trade and FDI liberalisation in the region:
 - Growth in regional trade of products, esp. food exports from SA
- Modernisation of procurement systems & investments in centralised distribution (DCs)
- Country-specific political, social and economic context has a major impact on rate and extent of internationalisation in different countries
- Routes to market differ in the different countries

Shoprite group grocery store numbers in SADC, 2010 - 2016



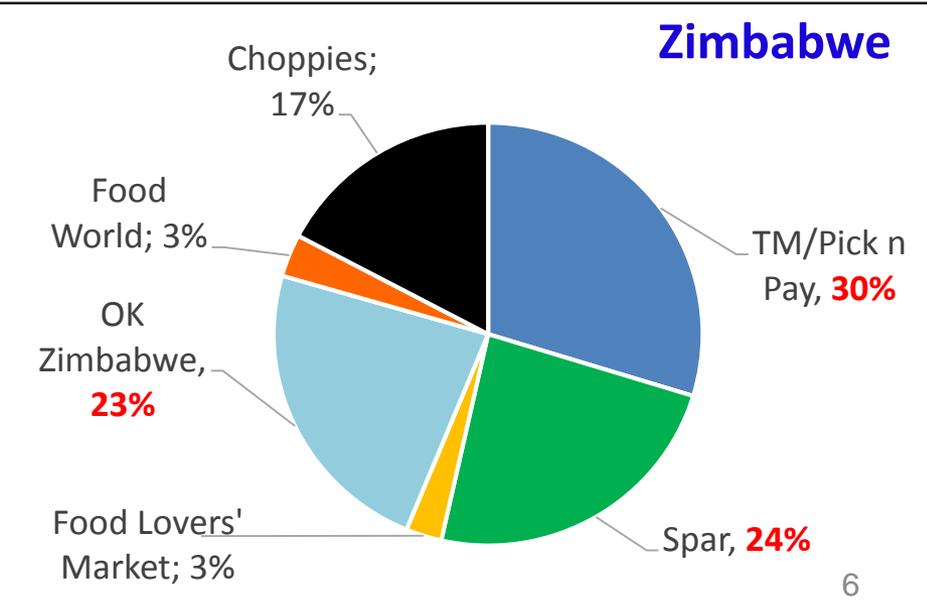
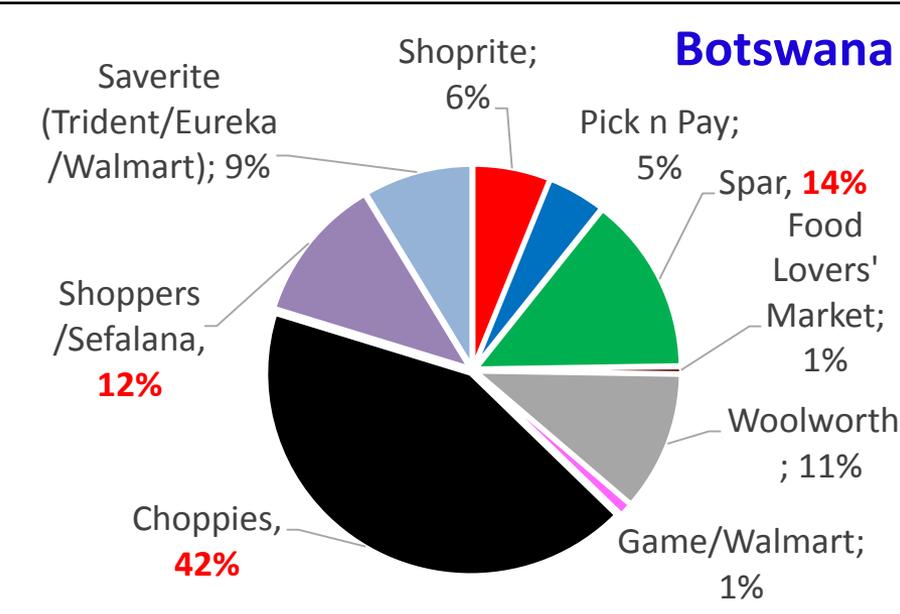
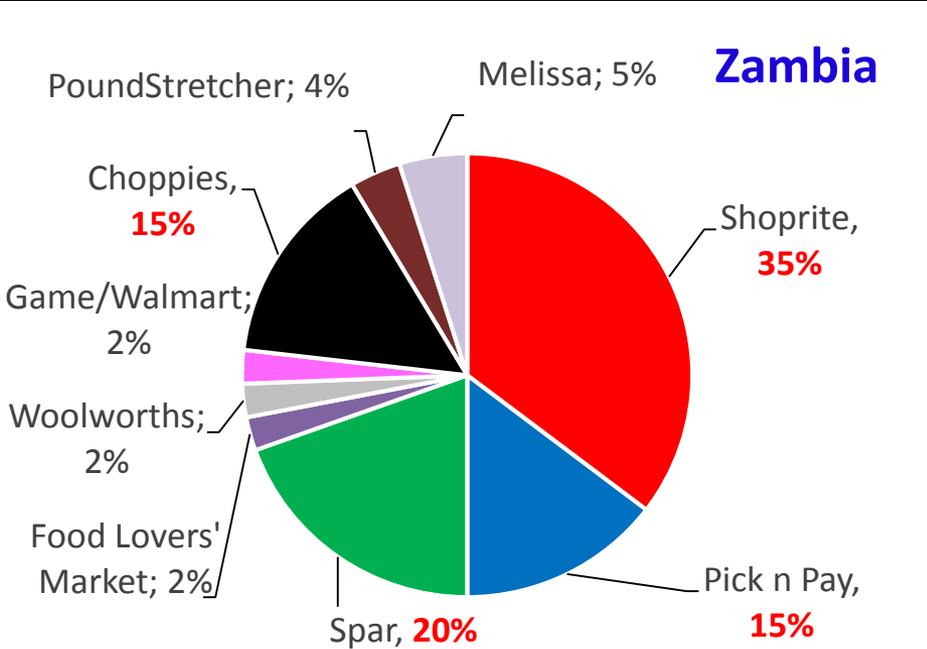
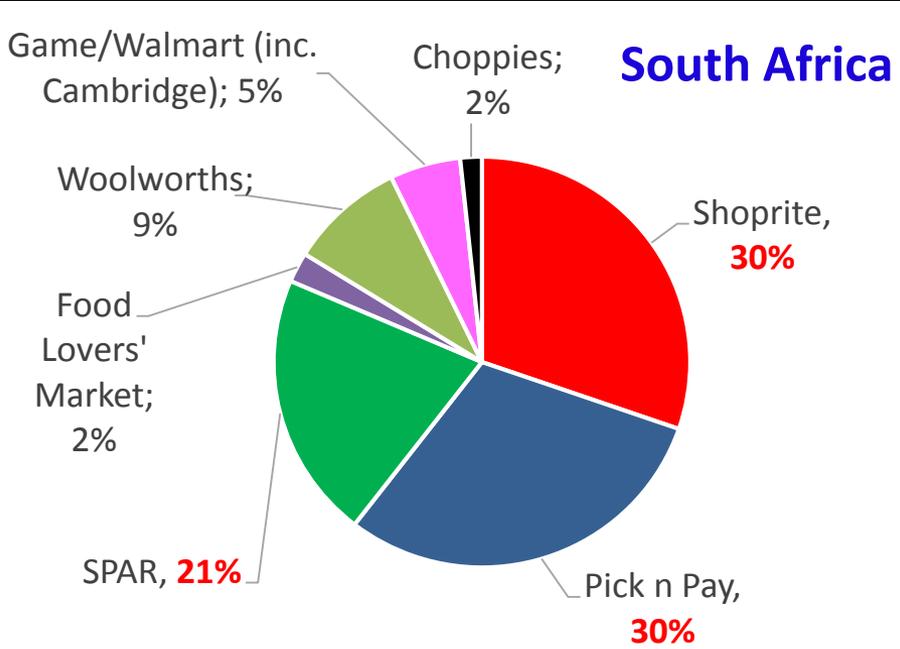
Growing sales and profits outside SA – Higher CAGR



| | |
|-------------------------------------|-----|
| Shoprite RSA profit (2010-2016) | 13% |
| Shoprite Non-RSA profit (2010-2016) | 17% |
| Shoprite RSA sales (2010-2016) | 10% |
| Shoprite Non-RSA sales (2010-2016) | 21% |
| PnP RSA sales (2010-2016) | 7% |
| PnP Non-RSA sales (2012-2016) | 20% |
| PnP RSA profit (2010-2016) | 3% |
| PnP Non-RSA profit (2012-2016) | 46% |

Source: Annual reports

Formal markets are concentrated (chain store numbers)



Barriers to entry maintain high levels of concentration

- Large investments in logistics, DCs, inventory maintenance (structural)
- Incumbent behaviour can also raise barriers (strategic):
 - Incumbent supermarkets are often anchor tenants in shopping malls/centre
 - Insist on exclusivity clauses in leases with property developers which can span decades
 - Anchors are ‘must-have’ for property developers
 - Prevents rivals, free-standing bakeries, butcheries etc. locating in same centre
 - Excludes independent retailers, esp. a concern in rural areas
 - Several complaints to the Comp Comm.
 - Being considered in the Commission's **Grocery Retail Sector Market Inquiry**



New entry and alternative business models illustrate benefits of competition

Fruit and Veg City/Food Lover's Market



- Identified gap for fresh produce
 - Direct procurement from municipal markets – alternative RTM for farmers
 - Efficient and lean operations
 - Lower prices for consumers
- ... *but has taken a long time*

Choppies Enterprises



- Regional chain from Botswana
- Targets low-income consumers in rural areas & along taxi routes
- Cheaper products (house brands); long opening hours
- Alternative RTM for suppliers

Independent retailers



- Choice and convenience for low-income consumers, esp. in townships; foreign owned
- Spurred by social grants
- Successful ones supported by **buying groups**
- Alternative business model for new entrants
- Alternative RTM for suppliers – less onerous requirements



Importance of municipal markets for farmers

- Important route to market for farmers, especially if they can't sell directly to supermarkets
- Independent retailers, spaza shops, vendors buy from municipal markets
- 24 fresh produce markets in South Africa (19 owned by municipalities)
- Joburg market the largest nationally (48% share); Tshwane market (20-22%)
- Joburg market – approx. 6,000 farmers supply around 100,000t of fresh produce/annum
- Produce is sold to agents in markets; prices set daily
- Farmers still face costs: **agent fees, transportation and packaging – recent allegations of collusion**

Supermarket buyer power can exclude suppliers and stifle industrialisation

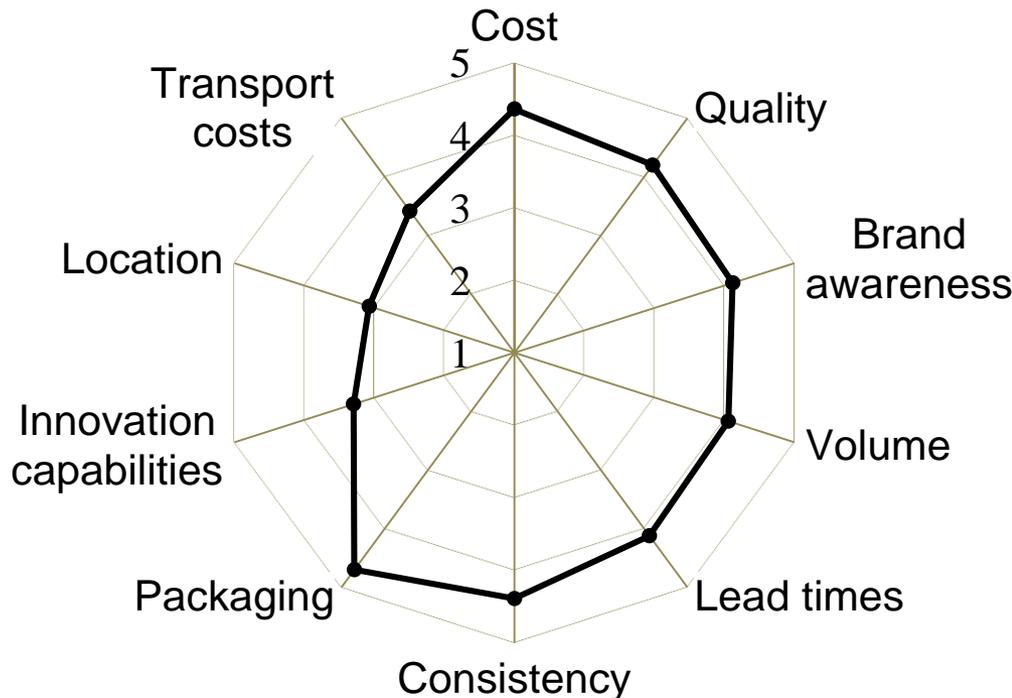
- High concentration limits supplier options; exposes them to potential abuse of buyer power
- Seen in negotiation of trading terms:
 - High listing/support fees: e.g. +R250,000 for till positions for sweets
 - Volume, advertising & promotional rebates/discounts
 - Long payment periods, onerous requirements, private standards, packaging requirements etc.
 - Access to good shelf space
- Growing private label trend : + ve and –ve for suppliers
- Conduct sometimes ‘exported’ to the region by SA supermarkets

Can the Competition Act fix this?

- Current wording and interpretation of the Act - difficult to prosecute abuses of buyer power:
 - Lower prices are, after all, a desirable outcome?
 - However, can result in exclusion of suppliers in the long run; impacts industrialisation
 - Evidentiary requirement to show *substantial lessening of competition* can be prohibitive
 - Being looked into in the retail inquiry
 - May result in recommendations, including code of conduct
 - Wording may be re-considered in amendment to the Act?

Critical Success Factors to supply supermarkets – perspectives of suppliers

Average across SA, Zambia, Botswana, Zimbabwe



Source: 80 supplier interviews

- Suppliers need to develop capabilities to meet supermarket requirements
- Can be difficult, especially for SMEs, who don't have scale and can't access capital
- Mismatched standards e.g. ZABS not well accepted in SA; International standards expensive (HACCP, FSSC etc.)

Build capabilities through Supplier Development Programmes

- All supermarkets have supplier development initiatives: but *ad-hoc*, short-term, not commercially oriented, more CSR
- Some through intervention: SDF ordered by the Competition Appeal Court in **Walmart/Massmart**
- Upskill and train farmers to supply fresh produce to stores
 - relatively unsuccessful; discontinued
- But some positive stories on the agro-processing side, e.g. *Lethabo Milling*
 - included financial support, offtake agreements, access to good shelf space, waived listing fees, fast-tracking payments etc.
 - current Walmart: moved away from food, focus on established business that can be up-scaled quickly in FMCG, General Merchandise, DIY and Building
- Partnerships in the region: Zambia– Shoprite/Zambeef; PnP/Amatheon; MoUs entered into by Shoprite to support SMEs

Some recommendations

- Foster a competitive environment for a diversity of retail models
 - Develop municipal markets and lower barriers to entry for farmers into these
- Open up retail spaces and supermarket shelves
 - Role for competition authorities, urban planners & supermarkets
- Encourage codes of conduct between suppliers and supermarkets (incl. 'regional' codes/retail charter; e.g. Namibian charter)
- Open up shelf space to regionally produced product/offtake commitments: 'Regional content policy'
- Harmonise basic standards across region and supermarket private standards
- Enter commercially sustainable and mutually beneficial, long-term, SDPs – can be part of code of conduct