



Exploring the linkages Between Manufacturing and The Retail Sector in the South African Market

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Introduction

- Today's world is a very rapidly changing world: opportunities today may not be opportunity tomorrow ~ Rapid actions are needed for every opportunity
- The world today is an open and accessible global market,
- On the global market, there is increasing demanding needs of the consumers and,
- The technology advancement (mostly the availability of information) makes that the local business environment should continuously revamp itself to keep up with the pace of change..

Introduction

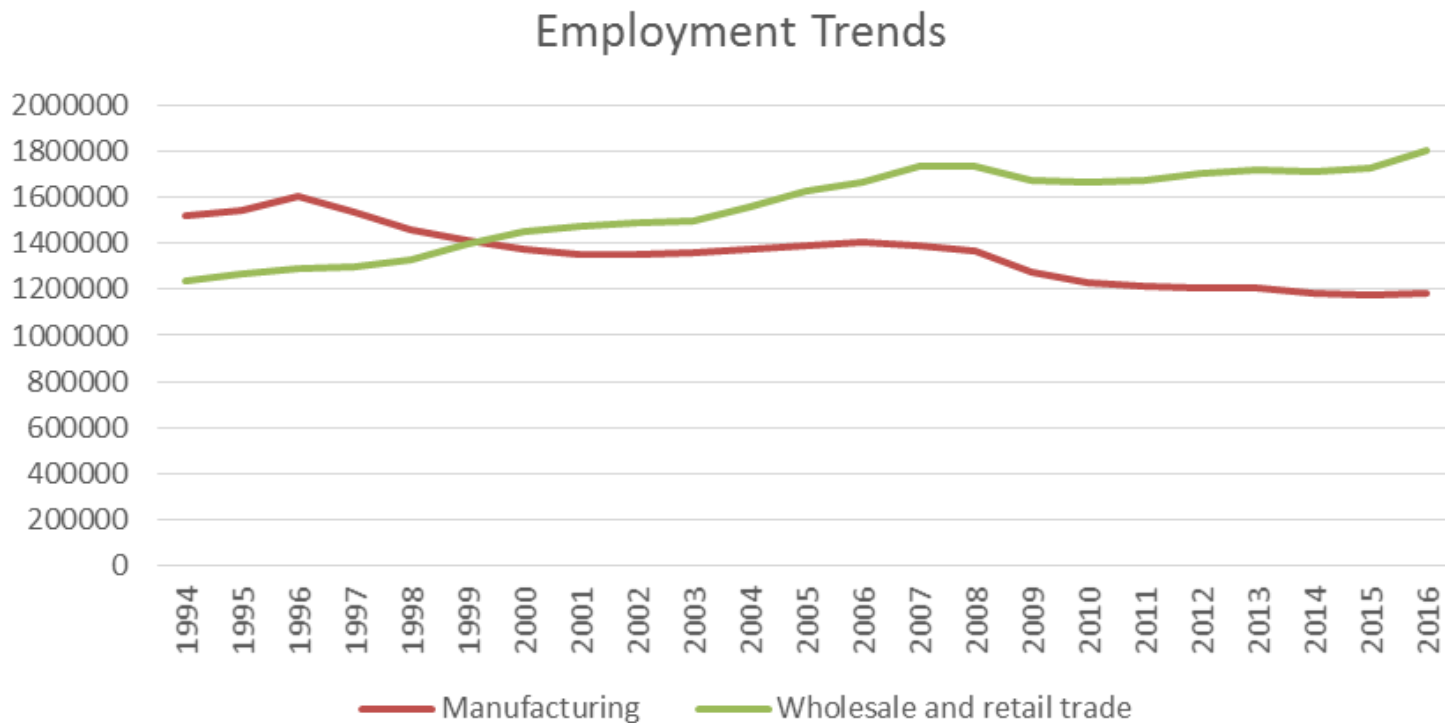
- Thus there is a need for LOCAL manufacturing and LOCAL retail sectors' interface to be considerably developed and carefully managed in order to take advantage of opportunities that new developments offer.
- The aim of the study is to explore, discuss and evaluate different ways of developing an interface that support growth in the local economy and jointly design activities that results into products at the consumer's satisfaction and benefit of both the supplier and distributor ~ Win – Win situation.



The findings supports that the interface is mutual beneficial for both Manufacturing and Retail sector

Background Context

Retail sector is growing in its performance in regard to its contribution to GDP and employment while the manufacturing sector is on a declining trend



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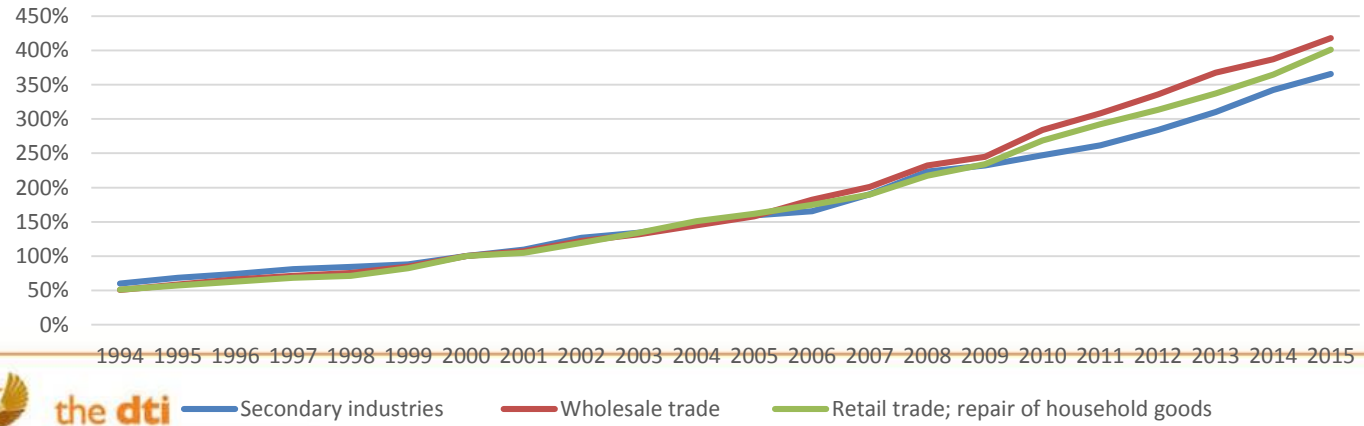


Background Context

Value Added & GDP



Value Added & GDP
2000=100%



Background Context

Gross Fixed Capital Formation
1990=100%



An intervention in support of a bridge between the Retail and local Manufacturing sectors is needed to ensure that local manufactured products are the main items in the shelves of the retail companies. The expected outcome of such an intervention over the medium- to long-term, is that the Retail sector could source more products from the local Manufacturing sector.

Exploration of the linkage between the Retail and the Manufacturing sectors: To entangle Manufacturing in the Retail growth momentum

Rational of the Study

- The study identifies the backward linkages between the South African retail and the domestic manufacturing sectors, as strategy to the development of local value chains.
- The rational of the study is based on the fact that the Retail and Manufacturing sectors have considerable economic linkages.
- An intervention in support of a bridge between the Retail and local Manufacturing sectors is needed to ensure that local manufactured products are the main items in the shelves of the retail companies.

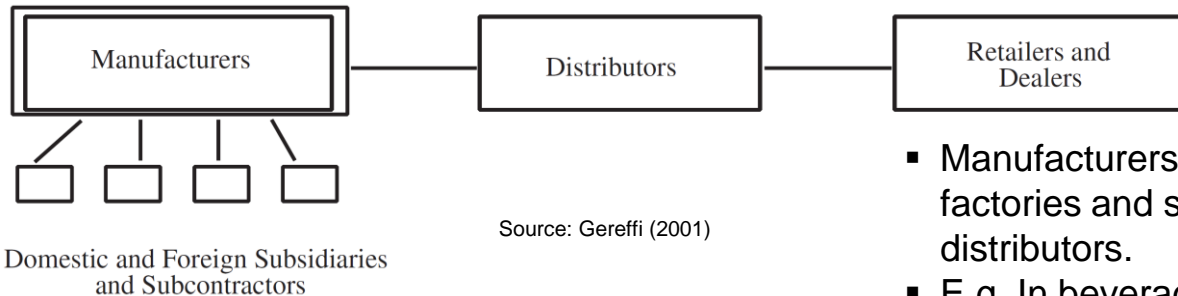


- The key thing with value chain development is the market

Value Chain Development

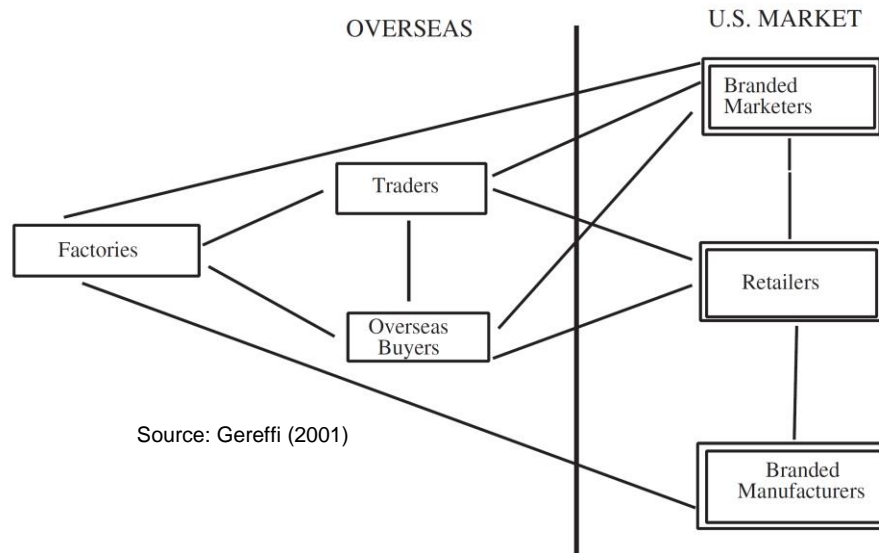
A conventional difference, Depends on nature of lead firm

Producer-driven value chain: Innovation and Technology development is the driver behind the VC



- Manufacturers of products own their own factories and supply the retail market through distributors.
- E.g. In beverage: Cola-Cola company innovates and supply to supermarkets.

Buyer-driven value chain: Users' preferences drive the chain



- Brand firms do not own their own manufacturing facility.
- They are also referred to as “manufacturers without factories”



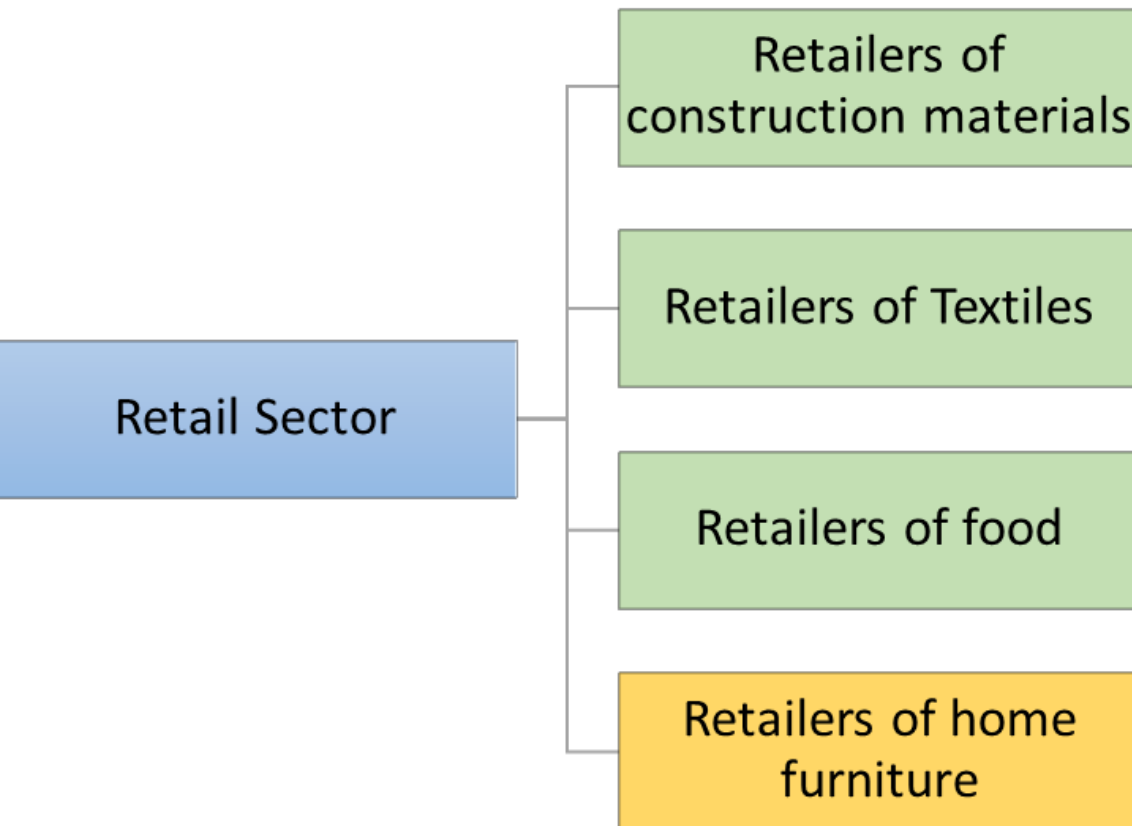
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A focus on specific sub-sector of the Retail?

Sub-sectors of the Retail for Analysis



Engagement Plan: status

Sub-Sector of the Retail	Required Number of Engagement	
	Retail Sector	Product Manufacturers
Retailers of construction materials	5	3
Retailers of Textiles	5	3
Retailers of food (HH Consumables)	5	3
Retailers of home furniture	5	3



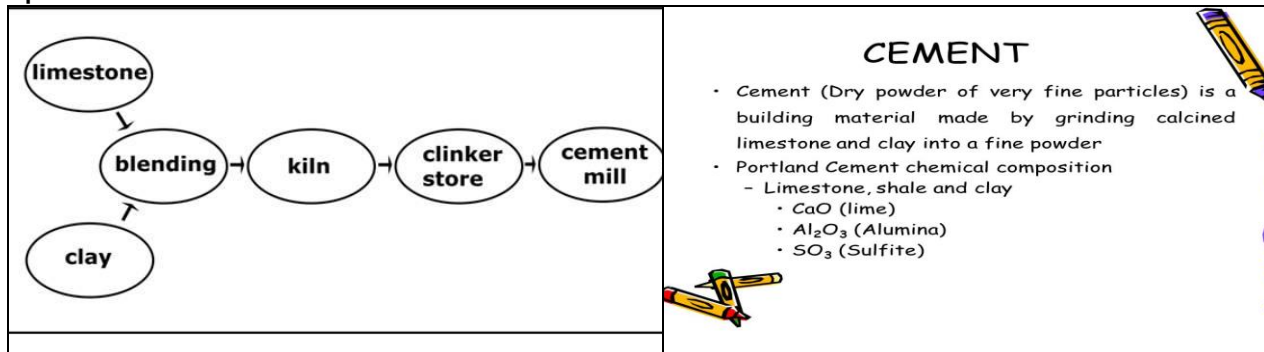
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Retail of Construction Materials

- Focus: cement industry and its retails downstream arm
- In simple terms, the cement product is a dry powder used as building material derived from grinding process of calcined limestone and clay. The 3 main added components in the cost structure of cement are:
- Gypsum represents 5% of the cement volume and 5% of its value. It is a mineral in chemical form of hydrated calcium sulphate.
- Paper Bags: Closer to 90% of papers or more are sourced locally and the rest is imported for evaluation in the technology innovation and dynamics for further research on environmental friendly packaging.
- Plastic: 90% of plastics are imported in consideration on dust containment capability between local and imported products.



source: <http://www.engineeringcivil.com/what-is-the-purpose-of-adding-gypsum-in-cement.html>

Retail of Construction Materials

- Focus: cement industry and its retails downstream arm
- Retail companies visited include Chamberlains, Cashbuild and Bathroom Bizarre while cement production companies include Pretoria Portland Cement (PPC) and Natal Portland Cement (NPC).

Remarks

- Highly competition on the market
- Procurement strategy seems solely determined by price and demand vis-à-vis competition
- The propensity in this segment of retail is to adopt imported product to face competition and ensure demand
- The source of product is not really the concern in the retail sector
- Most of retailers do not import directly but source from wholesalers who decide on sourcing strategy whether local or global (an advantage to new products ~ negotiate exposure)

In the production segment of cement,

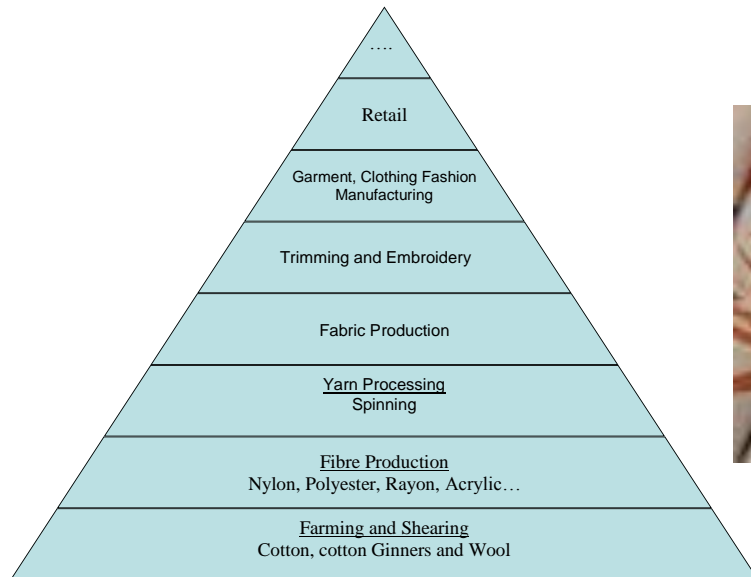
- Four major players dominate the scene, namely PPC, AfriSA, Lafarge and NPC.
- A new payer in the industry is Sephaku Cement, with plants located in Lichtenburg producing 6000 tonnes per day flagship clinker, and in Delmas, Mpumalanga, and Sephaku Ash that produces close to 1.3 million tons of ash annually.

Challenges and Opportunities of the Industry

- The industry experienced a strong competition from imported cements from Pakistan's companies ~ 14% less than it costs in the country of origin
- Anti-dumping duty on all cements from Pakistan: sifted their production plants to China
- Imported cements are not subjected to the same safety and health standard requirements as locally produced cements (regular audits) ~ Thus the competition ground in the local market is not levelled for local and imported products
- The local industry is threat on the local market ~ Imported cements are increasingly displacing local produced
- The industry offers a good opportunity for growth and investment attraction mostly that cement weight does not incentivise for long distance delivery.
- Any venture in that industry requires considerable investment in a plant with location in the proximity of the consumption centres.
- **Opportunity to explore the disjunction with the retail for new entrants market opportunities**
- Thus safety and health requirements by SABS on imported cement should be geared toward regular audit with same cost of verification as for local producers of cement.

Retail of Textiles

The value chain includes from bottom (upstream) up (downstream):



The major challenge in the retail of textile is the availability of “quality needed local fabrics”.

- The local fabrics industry does not provide “the quality and quantity” of fabrics needed for the competitiveness of the fashion industry
 - ~ the protection of the industry does not yield results
 - ~ the protection makes it difficult for the textile segment of the retail sector to compete on the local and global market

- The lead-time in fabrics supply is crucial to respond to the fast changing style and fashion

Retail of Textiles

How to create Local Capability

Retail suggestions

- The retail of textile agrees to the need of creating the right capability in the local fabrics industry in terms of qualities and quantities,
- To lift up the protectionism as fabrics is an inputs into production of the final output. The suggestion included
 - A consideration be given for import without or with a lower duty for the value of local fabrics procured by retail companies
 - Involvement of the retail in the manufacturing of textile industry.

Further evaluation

- There is a great need to further engage the textile fabrics industry to evaluate challenges faced to match the required quality and quantities of the textile industry to match the need of the retail sector.
- Further engagement will determine the section of the value chain that needs support to get the local retail sector to source local textile products.
- Identify the section of the value chain that constitute the weak linking to quality production.

Description

- **The top categories include:** Fresh Produce; Edible Groceries; Non Edible Groceries; Perishable Groceries; Health and beauty; General Merchandise; Liquor; Clothing; and Pharmaceutical products.
- **Others:** Butchery; Toiletries; Fresh Produce; Liquor; Bakery; and Deli Prepared Foods.



Opportunities

- Low hanging fruits
- Opportunity for easy and low entrance
- SMEs can make their way into the market

Retail Supply Development Programme

- Offers a Supplier Development Programme (SDP).
- Opportunity for young companies to supply reliable products on volume required to fill store demands.
- The major challenge on of the SDP is related to the quality and standard as required by policies of companies in the retail
- Retail companies policies make the investment cost for entrants most of the time out of reach of small companies.
- Access to investment fund by small suppliers is a requisite if they have to be considered

Conclusion: New entrant case or an SME making inroad to the market

Producer-driven value chain: Established Relations Vs New entrance



MoFaya Energy Drink

- Quality and standard: alternative exposure ~ “sympathy from consumers”
- How does make an inroad into retail sector? What type of policies to create a conducive environment

Remarks

- New products which breakthrough to the market
- Back up by existing companies (Monster by Coca-Cola)
- Requires available resource to absorb the loses for a sustainable period ~ maturity for the market

Buyer-driven value chain: Access to the shelves

- General rules by retailer are in favour of new entrants ??????? (
- Supply across all stores, cost, shelves access...)
- Pricing by established players to destroy competition



Conclusion: Value Chain

Value Chain Development

Producer-driven value chain: **Financing (loan format)????**

- SDP: Who Finance?
- Retailer Financing investment in quality and quantity of its supply
- Loan or Special Arrangement
- What type of policies will govern and encourage such arrangement?

Buyer-driven value chain: **Retail Branded Product ~ Retail Companies Investing in its own production plants**

- How will the retail company traits its competitors in manufacturing side ~ space in the shelves
- How will the retail company traits its competitors in retail side ~ supply with the products



Conclusion

What are the tools available to the state to drive a retail strategy in support of the local manufacturing sector?

Positive Factors

- Possible access to finance (Investment & working capital) through retail sector
- Importing is very stressing for the retail sector thus they pass the risk to an intermediary person
- Reduced uncertainty for the retail in terms of shipping errors & representation at expedition,, shipping lead time and cost

Threatening Factors

- The sourcing strategy of the retail sector is becoming more and more a global sourcing strategy as opposed to local.
- Price is a big factor in the sourcing strategy: no economy of scale in many cases
- Local Products are not given opportunity to develop to maturity:~efficiency to reduce the cost and improve quality

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An intervention in support of a bridge between the Retail and local Manufacturing sectors is needed to ensure that local manufactured products are the main items in the shelves of the retail companies.

Conclusion

Construction Materials: Retailers do not mind the source of the product, but market and cost. Opportunity for new entrants to engage directly retailers, the interface between the consumer and the product on the market.

Textile: Many activities are taking place including informal sector Easy entrance for new entrants ~ Low hanging fruits



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Furniture: Linked to rural development

Household Consumable (Food): Easy entrance for new entrants, Black owned companies, BBBEE.

Conclusion

It becomes important for policy makers to develop a retail strategy in order to enhance the economic development potential and contribution of the retail sector to the industrialisation efforts. In other words, a good strategy for the Retail Sector in support of local manufacturing depends on:

- The identification and management of drivers behind procurement decision in the retail sector, and
- The understanding of the market power in the value chain.



For any policy to influence local retail sector to source locally manufactured products, the development of such strategy will require that policy makers bear in mind the common interests including availability, lead time, cost and quality in relation to competition, and access to funding.

Thank you