

Wholesale&Retail **LEADERSHIP CHAIR**

Collaboration opens the window to a world of opportunities

Expansion of South African retailers' activities into Africa A SUMMARY

What makes this market difficult is the very basic fact that Africa is not a single market. It is a continent with a considerable diversity, which means there are no one-size-fits-all solutions.

INTRODUCTION

This study seeks to explore the pertinent issues (including challenges, opportunities, historical patterns and future trends) involved in the expansion of South African retailers into the rest of Africa.

Among its findings is that South African retailers face numerous challenges, among them political unrest in Africa and the many disjointed regional and economic blocs within the continent. Another major factor is around language and culture, with only 41% of countries making use of English as a major business language.

The study suggests that for South African retailers to better realise their potential, they need to better understand the African middle class (the consumer), and to develop flexible strategies to deal with country-specific issues. They also need to do more than simply ensuring the supply of quality products and services and need to be more transparent in their dealings and engage with the local economies of the host countries.

METHODOLOGY

The study reviewed relevant literature and documents. In addition, a team of five interviewers conducted semi-structured interviews with 29 respondents, originating from other African countries but residing in South Africa, over a period of 15 days, using the snowball sampling technique. This technique involves a researcher approaching one subject who, in turn, refers them to another suitable subject. In-depth interviews were also conducted with people with experience relating to the expansion of South African retailers into the rest of Africa.

BACKGROUND

One of the highlights of Africa's economic potential has been its retail revolution, driven largely by the continent's growing middle class, consumer spending, urbanisation, poverty reduction, and consumer connectivity. This has prompted massive retail investments from South African and other global retailers.

But beyond the borders of South Africa, the continent is seen as a difficult, albeit lucrative, market. After almost two decades of South African retailers' engagement with the rest of Africa, tapping into the true potential of the African markets outside the borders of South Africa still remains a managerial challenge.



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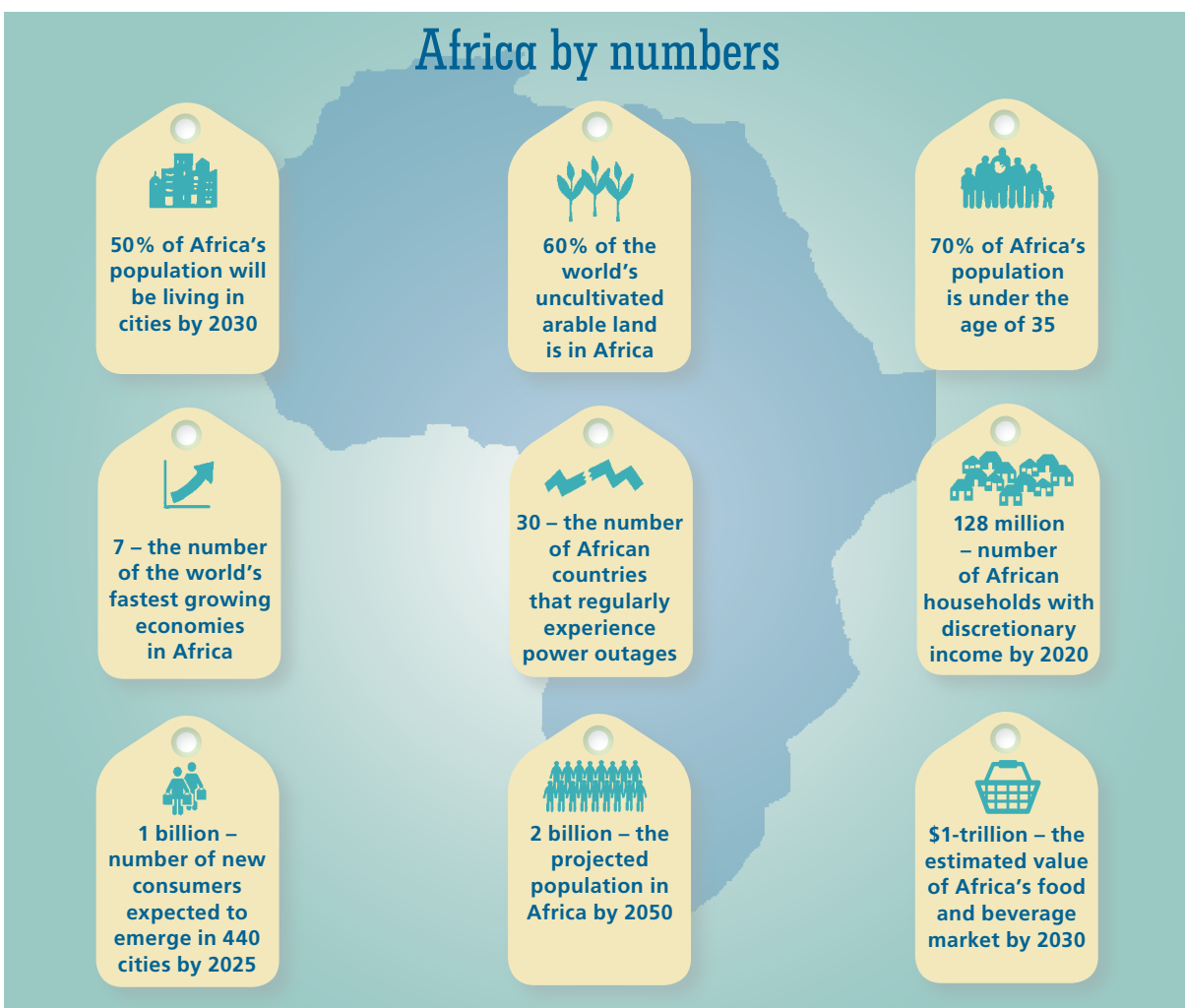
Retail activity in Africa

The international spread of retail activity is now a global phenomenon, and major retail chains around the world are spreading their wings to the most obscure parts of the world. This phenomenon is fuelled by three main energies: rapid growth of developing markets, shrinking domestic markets in the developed world (notably the west) and the emergence of new economic groupings like BRICS.

Nevertheless, the internationalisation of retailing in Africa has largely been a one-sided experience, having been pioneered and dominated by South African retail chains. Among these are Shoprite, Pick n Pay, Woolworths, Mr Price, Pep and others, already operating in over 16 other African countries. Shoprite, the pioneer in this process, has made some serious inroads into the continent to the point where it has become the industry benchmark.

As the scramble for retail space in the rest of Africa increases, there are concerns that some retailers may focus on the opportunities and overlook the challenges in attendance, and this could be detrimental.

Challenges 	Opportunities 
differences among 54 African countries dilutes market opportunities	increasing urbanisation
heterogeneous middle class and the misunderstood African consumer	rise in youthful population and middle class
underdeveloped formal retail and Internet infrastructure	economic growth and increasing disposable income
limited partnership opportunities	mobile technology and Internet connectivity
lack of local knowledge	educated and hardworking labour force
competition	demand for quality products
logistics, product range and other operational issues	commitment from governments



What's in it for South African retailers?

- Strong economic growth of African countries, with increasing populations
- Increasing middle class with disposable income and a taste for quality products offered in a modern retail environment
- Increasing urbanisation and technological advancement
- A saturated retail market at home (South Africa) with heightened competition
- Initiatives to attract investors, and the long term return on investment potential of South African retailers.

CHALLENGES AND OPPORTUNITIES

1 Understanding the African consumer



Studies focus on the sustained increase in Africa's urban population, which is largely youthful, and the rise of an urban middle class associated with increased consumption and varied tastes.

While such studies give a broad picture of what to expect with the African consumer, there is still a persisting challenge of tailoring retail to the specific consumer needs in each country.

This report argues that while the middle income consumer group is a reality, their spending patterns and the factors that influence their spending decisions are not clearly understood.

2 Mobile technology and connectivity

Though underdeveloped, the Internet and rise of mobile telephony leverages some traditional retail barriers. But formal banking still lacks depth in access and thus the use of digital and mobile payments are largely lacking. Internet infrastructure is now being developed across most countries, but penetration, especially in online retail, remains under 1% for most African countries.



3 Forming strategic partnerships



Navigating the fragmented and often unpredictable African markets requires knowledge of local conditions making partnerships important. These can take the form of franchising, alliances or mergers. Examples of challenges in this respect are the lack of understanding of the concept of branding and franchising, a shortage of suitable local partners, or the lack of reliable local business knowledge and information.

4 Competition from local and international retailers

Formal and international retailers still face heightened competition from the informal retailing system in many African countries, notably open-air markets, hawkers, corner shops, and to some extent Chinese shops. These pose a challenge because many evade taxes and do not carry the same overheads as formal retailers and therefore can afford to sell products at marginal prices.

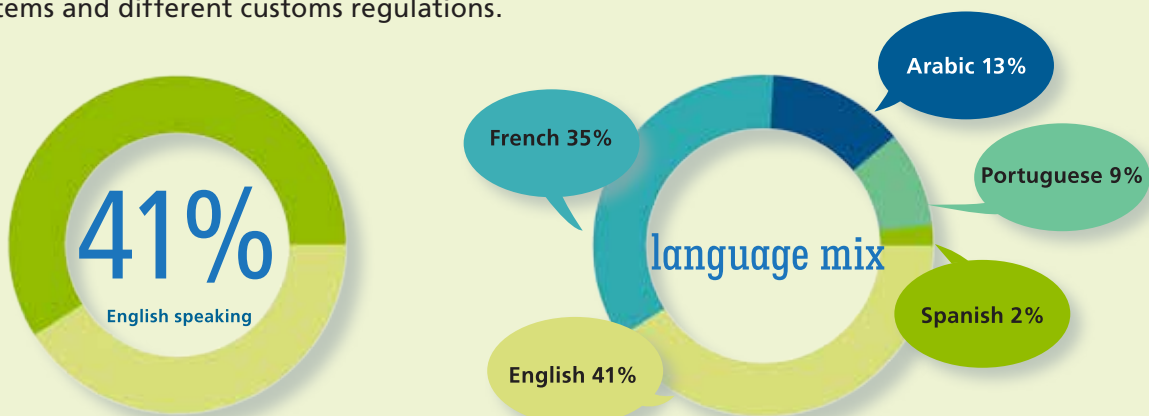


OTHER BARRIERS TO EXPANSION

- Inadequate roads, railways, ports, airports and utilities like electricity.
- Non-uniformity in regulations and market structures for freight and cargo make it difficult to manage the movement of goods.
- Ports that are logistically incompetent or ill equipped to track and trace shipments, resulting in bureaucracy, delays and corruption by custom officials.
- Energy poverty, which not only increases costs for retailers but also affects the economic growth, inflation rates and consumer demand.
- A volatile geo-political climate with nominal democracy and dictatorships. Some countries (notably Nigeria and Kenya) are increasingly being held to ransom by extremist groups such as Boko Haram and Al-shabab.
- Land reform and ownership issues make it hard for formal retailers to secure retail and business spaces.
- Increasingly protectionist approaches and policies in regional blocs, such as Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC) and Economic Community of West African States (ECOWAS)
- Language and cultural differences.

Lost in translation

Only 41% of the continent speaks English, and this has serious implications for the retailer from South Africa. For example West Africa is seen as one of the most profitable retail destinations, but in a region of 16 countries including Africa's most populous country and largest market (Nigeria), only five out of the 16 countries speak English. Therefore, they have different cultures, different legal systems and different customs regulations.



What happened to Walmart could happen to you...

Different country governments are putting stricter measures in place to safeguard local economies and also enhance production. A case in point is Walmart's entry into South Africa. The world's largest retailer had to go to the competition tribunal for trying to invest in South Africa. Although Walmart won the case, it was subjected to several conditions of operating. The same is likely to happen across Africa with regional giants like Shoprite.

GOLDEN RULES

1. Understand the African consumer;
2. Form strategic partnerships;
3. Be aware of the international and local competition.



Approaches and Strategies for Africa

Supply chain

- Research on transport costs
- Control distribution

Research and Development

- Investors should first understand the market, the consumers and the products and services needed
- You must do homework before investing

Cultural difference

- Pay attention to diversity and cultural difference of consumers
- Investors should pay attention to cultural difference between North, East, West Africa

Investment

- Be flexible and customize investment structures
- Beware of Pan-African business models
- Understand the "big" picture like GDP growth

Marketing

- Different approaches and strategies in marketing and distribution
- Build and leverage brands
- Balance between local consumer preference, protecting brands and achieving growth
- Pay attention to attitudes of consumers
- Understand street-corner competition
- Use local brand promoters, and control pricing

Labour Relations and Local knowledge

- Engage with local knowledge, local partners and stakeholders
- Investors should be prepared to offer training and develop necessary skills

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ACTIVE REGIONAL ECONOMIC COMMUNITIES



- Economic Community of West African States (ECOWAS)
- Economic Community of Central African States (ECCAS)
- Southern African Development Community (SADC)
- Common Market for Eastern and Southern Africa (COMESA)
- East African Community (EAC)
- Arab Maghreb Union (UMA)



CONCLUSION

Africa is a potentially lucrative market for retailers but there are also significant challenges, barriers and threats on the ground. South African retailers should take note of these and measure the potential threat they pose before committing to any long-term investment.

Africa is also home to about 17 different regional economic blocs, and these economic blocs appear not to engage much in facilitating intra-Africa trade. In fact their existence poses a potential impediment to the flow of trade across the continent. Coupled with the issue of economic blocs, is that of language and cultural differences within the continent.

This study found a need for South African retailers of all kinds to understand the African consumer, and build relationships with other stakeholders including local producers. The approach to Africa thus requires much more than the ability to provide quality products.

Indeed, it requires:



A positive attitude and respect



Building and managing long-term relationships



Flexible strategies adaptable to different country requirements



A meticulous understanding of the African consumer



Appreciation for cultural differences

FUTURE RESEARCH

Future research should focus on in-country studies to determine the reason behind failures and successes of South African retailers.

More specifically:

- The contribution South Africa retailers are making in selected African countries' economies.
- The price differences of particular product categories between selected countries
- The efficacy of strategies used by South Africa retailers in different Africa countries
- Relationships between regional economic blocs and their impact on retail expansion
- Country-specific studies in Uganda, Rwanda, Ethiopia, Gabon and Cameroon.



THE W&R SECTOR

W&R is the fourth largest contributor to GDP and the 30 000 tax-registered retail enterprises employ about 20% of the total economically active workforce according to Stats SA.

The recent update of the W&R Sector Education and Training Authority Sector Skills Plan: 2011-2016 says data shows that about 86% of registered enterprises in this sector are small and micro enterprises, 9.5% medium size and 4.5% large companies. Only 66% of operational retail traders are formally registered and contributing to the fiscus, suggesting there are over 100 000 informal (unregistered) traders in the sector accounting for 10% of national retail turnover.

The main employment increase has been in the informal /SMME sub-sector.

Wholesale&Retail

LEADERSHIP CHAIR

Cape Peninsula University of Technology Cape Town

THE WRLC

The Wholesale and Retail Leadership Chair (WRLC) at the Cape Peninsula University of Technology (CPUT) was established in 2013, based on an initiative by the Wholesale & Retail Sector Education and Training Authority (W&RSETA) to contribute towards sector research and professional qualifications development at Higher Education levels.

A national survey report entitled Priority Research Needs of the South African Wholesale and Retail Sector marked the first step taken by the WRLC towards the creation of a basis for relevant research in this dynamic business sector.

The WRLC has now completed many research projects in the sector and reports on these studies are available at <http://wrlc.org.za/research-2-2/completed-research/>



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This publication is based on research into the expansion of South African retailers into Africa. The lead researcher is Dr Edward Dakora, Programme Head: Retail Business Management, Sol Plaatje University, Kimberley and Prof Roger Mason, the Wholesale and Retail Leadership Chair, Cape Peninsula University of Technology, Cape Town.

The full report is available at <http://wrlc.org.za/research-2-2/completed-research/>

APPLIED RESEARCH • LEADERSHIP DEVELOPMENT • SERVICE TO RETAIL COMMUNITY

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