Collaboration opens the window to a world of opportunities

The nature of existing and emerging cooperatives in the wholesale and retail sector
A SUMMARY
“A viable, autonomous, self-reliant and self-sustaining cooperative movement can play a major role in the economic and social development of the Republic of South Africa, in particular by creating employment, generating income, facilitating broad-based black economic empowerment and eradicating poverty.”
– The Cooperatives Act of 2005

INTRODUCTION
While South Africa has a rich history of cooperatives, particularly in the agricultural sector, there is a paucity of information about existing and emerging cooperatives with much of the available official registration figures and categories being out of date. The main purpose of the study was to:

• Trace the development of cooperatives in the wholesale and retail sector in South Africa;
• Identify existing and emerging cooperatives in this sector;
• Identify and explain their geographical distribution in South Africa;
• Develop a management capacity building assessment framework;
• Explore possible support and skills interventions, and
• Provide a framework for integrating such cooperatives into bigger wholesale and retail markets.

METHODOLOGY
This research was based on a qualitative study consisting of a combination of a literature review and questionnaire-based interviews and a focus group. The literature review looked at successful cooperative models as well as limiting or constraining factors. These provided the basis for the questionnaires, administered to W&RSETA and Small Enterprise Development Agency (SEDA) co-op specialists (‘expert’ group) and owners/shareholders of co-ops (‘member’ group). Using international best practice (around the themes of legislative arrangements, management and infrastructure arrangements, training and skills, and marketing issues) possible interventions were identified and tested in three study groups.

WHY COOPERATIVES?
Cooperatives are able to enhance economic development through poverty alleviation by promoting self-employment and enabling members to harness and combine their resources with subsequent benefits of synergy.

These include:

- Economies of scale and scope
- Bargaining power
- Access to markets
- The ability to capitalise on new opportunities
- Risk management
BACKGROUND

It is well recognised that pre-1994 cooperatives established a viable, stable and wealthy agricultural sector, albeit only amongst white people. Historically in South Africa, cooperatives were significant role players in the agricultural industry, inter alia wool, citrus, wine, dairy, grain and, significantly, retail as farm supply co-ops.

This suggests that, with the appropriate environment, cooperatives could make a significant and substantial contribution to development and could uplift the economy in post-apartheid South Africa. Indeed, there is evidence that cooperatives have played a role in the economic development of regions around the world, notably India, Kenya, Malawi and others.

The new Cooperatives Act of 2005, subsequently amended (Amendment Act 6 of 2013) has seen up to 80% of “older” or “existing” cooperatives changing their business form to that of “company”.

Nevertheless, indications are that there has been rapid growth in the registration of cooperatives between 2009 and 2014 as the Act also provided new imperatives for the development of the cooperative movement.

However, not all of these cooperatives are thriving. It was also established that in excess of 80% of registered cooperatives neglected to submit their financial returns and are considered therefore to be ‘failed cooperatives’.

In South Africa today, there are various national and provincial bodies and policies that support the formation of cooperatives. These include government, financial and development agencies and support initiatives. Some consolidation is taking place with the establishment of the Department of Small Business Development in 2014.

The legislative environment post 1994 is well defined and conducive to the development of cooperatives. What is not well defined is the distinction and accuracy of the type and number of cooperatives. The majority of cooperatives are in the agricultural sector but the status of cooperatives in the wholesale and retail sector specifically is inconclusive.

Cooperatives in the 1980s

- 250 – estimated number of cooperatives
- R12.7 billion total assets
- R500 million pre-tax profits
- 90% – fertilizer supplied and financed by cooperatives
- 85% – fuel supplied and financed by cooperatives
- 65% – chemicals and a significant amount of machinery and implements

Cooperatives after 1994

- 43 062 cooperatives registered in 2009
- 20 396 number of cooperatives registered in 2015
Provincial spread of cooperatives

In KwaZulu-Natal, the provincial government has put in place significant support infrastructure to help establish and finance cooperatives. In fact, 62% of cooperatives can be found in the three most populous provinces of the country, namely KwaZulu-Natal, Gauteng and Eastern Cape (2012).

Sector spread

The Company and Intellectual Property Commission (CIPC) does not distinguish wholesale and retail cooperatives from other sectors. However, it is likely that many co-ops in other sectors, especially the smaller co-ops, are also involved in retailing the products or services that they produce.

**SPREAD OF CO-OPS BY SECTOR**

- **Trading**: 12%
- **Multi-purpose**: 14%
- **Services**: 17%
- **Agriculture**: 25%
- **Transport**: 4%
- **Clothing & Textile**: 6%
- **Construction**: 6%
- **Manufacturing**: 5%

**Smaller sectors:**
- Agroprocessing (369) 2%
- Arts & Culture (340) 2%
- Bakery (334) 1%
- Burial (65) 0%
- Environmental (85) 0%
- Financial (233) 1%
- Fishing (46) 0%
- Food & Beverage (91) 0%
- Housing (78) 0%
- ICT (193) 1%
- Marketing & Supply (177) 1%
- Medical (77) 0%
- Mining (78) 0%
- Retail (117) 1%
- Social (311) 1%
- Tourism (211) 1%
- Consumer (128) 1%

CHALLENGES

Government:
Lack of statistics; poor co-ordination; lack of focus of development agencies, recognition as a unique business form, access to registration, lack of finance and limited access to business infrastructure

Management
Poor management and technical skills (sector specific; business; financial management; ICT, and marketing)
Also limited trust and social cohesion; low democratic decision making; limited co-operation amongst cooperatives; putting individual interest above collective interest; lack of compliance with cooperative legislation

Markets
Limited access to markets, undeveloped value chains

Organisational structure
Lack of secondary and tertiary cooperative associations and organisations

NEXT STEPS
The legislative environment conducive to a successful cooperative movement is in place and the factors hindering development are well understood. The path to success lies in favourable legislation, intergovernmental coordination, financial support, education and training.

An objective of this project was to propose a framework for integrating cooperatives into bigger wholesale and retail markets.

The primary cooperatives, on the one hand, are characterised by talented craftsmen or farmers who possess fundamental skills and capabilities to produce a range of goods or foodstuffs. But they are remote from potential markets, often rural; their marketing skills are weak if not non-existent; financial and business management skills are something to be desired. Marketing issues of pricing, quality and quantity are poorly applied.

On the other hand, the bigger retail and wholesale sector are located in and around towns and cities, have sophisticated buying processes and stringent demands in terms of quality and quantity.

This research has confirmed the significant need for training and development in the cooperative sector. It is doubtful, though, to what extent this approach will assist in mainstreaming cooperatives into the formal business sector or for integrating cooperatives into bigger wholesale and retail markets.

It is possible that an active and vibrant apex cooperative could energise the sector by coordinating, organising and lobbying for the productive efforts of the primary cooperatives. The existing apex organisation, SANACO, appears, however, to be relatively inactive.

PRIMARY CO-OP: formed to purchase and supply goods and services at competitive conditions in the interest of members (retailers). A retailer-owned cooperative sells to final consumers.
SECONDARY CO-OP: two or more primary cooperatives form to provide services to their members.
TERTIARY OR APEX CO-OP: formed by secondary cooperatives, to engage with organs of state, private enterprise and stakeholders on behalf of its members.
Definitions according to Cooperative Financial Institute of South Africa
As a second alternative, the W&RSETA could facilitate the establishment of intermediary bodies (which may later become secondary cooperatives). These intermediaries would be established on a local basis according to the nature of the produce.

These intermediaries would be regionally based and act initially as wholesalers but later also as retailers. Their role would be to provide facilitation between the primary producers and the formal wholesale and retail sector by

- determining price, quality and quantity data from the market;
- converting that data into production guidelines;
- consolidating quantities;
- and providing packaging, labelling and distribution/delivery services.

Of necessity, the intermediary would develop relationships with mainstream retailers and wholesalers in the region and include them in developmental and planning processes. The intermediaries could be staffed by retail graduates under the guidance of an experienced facilitator sourced from W&RSETA resources.

In the longer term, and after the capacity has been developed at a secondary cooperative level, these cooperatives should provide the marketing related function, with the W&RSETA providing a coordinating role.
### SUMMARY OF FINDINGS/OPINIONS ABOUT CO-OPS

<table>
<thead>
<tr>
<th>Area</th>
<th>Weighted Average</th>
<th>EXPERT</th>
<th>MEMBER</th>
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<tbody>
<tr>
<td><strong>Legislative Arrangements</strong></td>
<td></td>
<td></td>
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<tr>
<td>Act is sound, but application in terms of governmental support, registration and financing are problematic</td>
<td>52,5%</td>
<td>47%</td>
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<tr>
<td><strong>Management &amp; Infrastructural Arrangements</strong></td>
<td></td>
<td></td>
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<tr>
<td>Availability of technology, premises and expert guidance is poor. Understanding of, and operating as, co-ops not good</td>
<td>40,2%</td>
<td>52,1%</td>
<td></td>
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<tr>
<td><strong>Training &amp; Skill Issues</strong></td>
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<tr>
<td>Although training is available, co-op specific training is still felt to be needed for members and staff</td>
<td>70,7%</td>
<td>70,2%</td>
<td></td>
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<tr>
<td><strong>Marketing Issues</strong></td>
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<td></td>
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<tr>
<td>Market knowledge, access to markets, selling and distribution/transport are problematic</td>
<td>32,4%</td>
<td>50,6%</td>
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It is interesting to note that training and skills are perceived, by both experts and members as being satisfactory. But legislative/regulatory, management/infrastructure and marketing issues all seem to be less than satisfactory. It is also interesting to note that the experts are much more negative about the co-ops management and marketing abilities than the co-op members themselves are.

### FUTURE RESEARCH

Further research is needed into the alternative ways for small-scale farmers and crafters to reach their markets. From formal mainstream supermarkets to alternative food markets to direct distribution, the alternatives present interesting and exciting possibilities. This opens several possibilities for further research in order to try to identify the most appropriate route to follow.
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/

This publication is based on research into the role of cooperatives in the retail sector. The lead researcher was Mr P J Raap, supported by Professor Mason.


APPLIED RESEARCH • LEADERSHIP DEVELOPMENT • SERVICE TO RETAIL COMMUNITY

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