

Submission to the Competition Commission inquiry on grocery retailing in South Africa

15 August 2016

Private Citizen

1. Introduction

- 1.1) The competition commission has called upon the public to comment on the ongoing inquiry into the distortion of the grocery retailing stores.
- 1.2) As a private citizen with much interest in economic transformation, retail and merchandising, it is my pleasure to contribute towards the inquiry. It is my knowledge that the inquiry is done in terms of the competition Commission Act, 89 of 1998.
- 1.3) The submission notes that the big retailers has developed into oligarchs that prevent the penetration of small and new players in the market.
- 1.4) The submission emanates from the fact the oligarchs operating in the grocery retail sector have increased their market share post the liberalisation of Markets through GEAR, our macro-economic framework adopted in 1996.
- 1.5) The submission also argues that there appears to be coalition also among small retailers especially operating in Townships and rural areas

2. Value-Chain

- 1) Long term contracts are being established by retailers to maintain consistent supply. The small retailers sometimes get themselves caught wanting in circle of failing to procure quality products at lower prices since the contracts qualitative products are being monopolised by certain companies.
- 2) lack of Transport and storage facilities have also made life very difficult for small retailers. They are unable to get into long term contracts because of the shortage of such facilities.

3) Storage, warehouses and Wholesalers

In attempting to cut down on the cost and still maintain profit, big retailers own warehouses for storage as well as wholesalers. In some cases local retailers in various towns have been able to compete with big retailers because the very company that owns a retail store owns a wholesaler, thus stocking the retail store through the wholesalers.

In this case the smaller retailers without wholesalers are compelled to buy from the nearest wholesaler and attempt a competition with the same retailer owned by the same owner of the retailer.

4. Social grants and Grocery Retail

The grocery retail is highly reliant on social grants in smaller towns with less economic activities. Huge supermarkets have been able to get contracts to dispense the grants from their till points. This has inevitably given them a leverage over sales of groceries since they provide convenience to the customer.

It must be noted that because the Huge stores get the contract to disperse the grants centrally, they possess capacity to disperse those grants everywhere they open a new store. This has had a

detrimental effect on the emerging and smaller retailers. In most cases smaller retailers are unable to get access to the contract of dispersing the grants, thus loss on a valuable and consistent market for their products.

5.Coalitions and township retailing

Another prominent feature of the grocery retail sector has been coalition over buying of stock, pricing etc by mainly new emerging retailers owning spaza shops in townships and rural areas. Some forms of co-operatives have been formed mainly by people of foreign nationalities so as to cushion each other against profit loss.

These has resulted in the dying of local retailers in the townships since the environment created is uncompetitive.

6.Malls, shopping complexes and retail

Big retailers have also been able to monopolise the market since they are targeted by owners of the property companies and more often than not get contracts to occupy the space before the complex advertise available space or even before the building of the mall. This has led to unfair competition on smaller retailers.

Concluding remarks

Grocery Retailing has a huge value-chain that should ordinarily (under fair competition) be having many players.

The big five retailers are having their own warehouses for storage and supply to their immediate supermarkets. This enables them to directly buy from the producers and sell at lower retail prices at no loss, the opposite is true with small retailers operating one or two stores.

large retailers have stores specialising in serving the needs of various income groups, thus leaving no market for other retailers.

The shrinking and getting of market of some retail companies that used to back-up local stores such as Lucky 7 has also adversely affected the Grocery retailing sector in the country because local retailers where no longer able to have competitive prices.

The dwindling township Grocery retail market is in part because of the lack of the collective bargain of small enterprises over pricing at the level of the producer, something the previous back-up companies provided.