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The expansion of regional supermarket chains

Changing models of retailing and the implications for local supplier capabilities in South Africa, Botswana, Zambia, and Zimbabwe

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Abstract: Over the past two decades, southern African countries have experienced rapid growth in the number and spread of supermarkets. Several factors have been attributed to this growth, including increasing urbanization, increased per capita income, the rise of the middle class, economies of scale and scope, and transport economies. The format and location of supermarkets have also evolved over the years, moving away from serving the traditional high-end affluent consumers in urban areas to successfully penetrating new markets in low-income rural communities, including through more efficient procurement and distribution systems. This spread into rural areas and the rapid proliferation of supermarkets generally has given rise to some important consequences for competitive rivalry between grocery retail outlets, as well as for local suppliers who want to participate in supermarket value chains in the southern African region.

Keywords: supermarkets, southern Africa, regional development, strategy, suppliers, capabilities
JEL classification: L1, L2, L22, O1

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1 Introduction

Southern African countries have experienced strong growth in the number and spread of supermarkets over the past two decades, and specifically the spread of South African supermarkets into southern Africa as well as into the continent as a whole. This comes in the context of increased intra-regional investment, which is part of foreign direct investment (FDI), and follows trade and financial liberalization in many developing countries in the 1990s/early 2000s. There has been a shift in the focus of FDI in Africa, moving away from extractive industries to consumer-facing industries, including retail and consumer products. Intra-regional investments have also grown in Africa, with South Africa being the most active intra-African investor (Ernst and Young 2014). In effect, the nature of FDI has changed to be less ‘foreign’ and more ‘regional’.

The expansion of supermarkets in the region has important consequences for consumers, local supplier capabilities, and the competitive landscape.

Supermarkets offer a wider range of grocery retail products at relatively cheaper prices, given economies of scale and global sourcing strategies, compared to local, independent retailers in many countries. Over and above this, supermarkets have extended their offering to include a suite of financial and cellular products and services, as well as serving as payment and purchase points for utilities, amongst a range of other diverse services. Supermarkets therefore offer consumers the supplementary service of arranging a wide assortment of products selling concurrently in a convenient setting and location with a focus on quality, service, ‘one-stop’ shopping, and an overall shopping experience (Haese and Van Huylbroeck 2005; Basker and Noel 2013).

The format of supermarkets has also evolved over the years, moving away from serving just the traditional high-end affluent consumers in urban areas and successfully penetrating new markets in lower-income communities. Supermarkets have been able to adapt their offerings and invest in more efficient procurement and distribution systems, facilitating their spread into low-income rural areas in many countries (Weatherspoon and Reardon 2003).

In the view of producers and manufacturers (suppliers more generally), supermarkets are often a key source of demand and route to market. Supermarkets through their supply value chains and vertical linkages provide opportunities for suppliers to participate in the growth process.¹ While the growth of supermarkets in the region has improved competitive pricing and accessibility to a broader range of products and services, it has also imposed challenges on the ability of local suppliers to enter the supermarket value chain. Concerns have been raised that modern large supermarkets place stringent demands that small-scale local suppliers often find difficult to fulfil given lack of capabilities. This has the effect of excluding them from important, dynamic, and expanding supply chains of modern retailers (Humphrey 2007).²

Further, strategic behaviour of supermarkets with market power such as entering into exclusive supply agreements with large suppliers, and into exclusive leases with prime retail centres and

¹ See Emongor and Kirsten (2006, 2009), for the impact of supermarkets on farmers in southern Africa.

² As also highlighted by the United Kingdom’s (UK) Groceries Market investigation (Competition Commission UK 2008), grocery retailers were found to have transferred excessive risk and unexpected costs to their suppliers through certain supply chain practices, and this could have adverse effects on investment and innovation in the supply chain, ultimately negatively affecting consumers.

shopping malls, has competition implications on new entrants, independent retailers,³ and small suppliers. There have been competition concerns raised in several countries around the conduct of dominant supermarkets, including in Australia, the UK, and South Africa.

The ability of independent retailers to effectively compete in the grocery retail space alongside supermarkets has been an area of concern in many countries. Although there are similar concerns in South Africa, independent retailers who primarily serve low-income consumer segments, in fact, appear to be growing. While under pressure from supermarkets that are encroaching on the low-income markets which independent retailers traditionally serve, the changing models of independent retailers have allowed them to remain competitive and to grow in peri-urban, township, and central business district areas in South Africa.

This paper has been produced as part of a broader study that aims to undertake a regional review of the spread of South African supermarkets, the different retail models employed, the implications for local suppliers, and the impact on competition.⁴

This study maps the growth and spread of supermarkets in the region, including independent retailers, to understand the evolving retail strategies employed by the different supermarket chains. An evaluation of the barriers to entry and competitive strategies that South African supermarkets engage in reveals the constraints faced by new entrants in the industry as well as the competitive landscape. While the strategies evaluated in this paper are focused on South Africa, the assessment provides an indication of the likely patterns and conduct of South African supermarkets in the other selected countries in the region. The paper further assesses some of the difficulties that suppliers have faced in effectively participating in the supermarket value chain given limitations in capabilities. Evaluating recent trends in trade patterns, the paper highlights the opportunities that the rapidly growing supermarket industry has offered suppliers in the region. This has implications for greater regional industrialization, integration, and trade, as supermarkets and independent retailers are a key demand-driver for food and household consumable products in the region.

The paper is set out as follows. Section 2 reviews the literature on the spread of supermarkets globally and in Africa. It then maps out the key players, the evolution of South African supermarkets in the southern African region, as well as the growth and performance of a non-South African supermarket chain in the southern African region. This is followed by a review in Section 3 of the characteristics of supermarkets, and the types of investments that supermarkets in southern Africa have undertaken linked to these characteristics. Section 4 provides an evaluation of the development of independent food retailers in South Africa, which highlights an alternative model of retailing to traditional supermarkets. Section 5 provides an assessment of the barriers to entry and possible strategic behaviour of supermarkets with market power in South Africa. Section 6 evaluates the literature around supplier capabilities required to successfully participate in supermarket value chains, and provides examples of some of the concerns around capabilities of suppliers in southern Africa. Section 7 reviews recent trends in the trade of key retail food and household consumable products in South Africa, Botswana, Zambia, and Zimbabwe. Section 8 provides some conclusions.

³ Like ‘mom and pop’ stores, kiosks, or ‘spaza’ shops, etc.

⁴ The broader study covers four countries: South Africa, Botswana, Zambia, and Zimbabwe. The Centre for Competition, Regulation and Economic Development (CCRED) is undertaking the research for South Africa and Botswana. The Zambia Institute for Policy Analysis and Research (ZIPAR) and the Zimbabwe Economic Policy Analysis and Research Unit (ZEPARU) are undertaking the research in Zambia and Zimbabwe, respectively.

2 Spread of supermarkets, mapping of key players, and preliminary review of trends in the supermarket industry in southern Africa

2.1 Spread of supermarkets globally, including in Africa

The supermarket ‘revolution’ globally has happened in a number of waves. The first wave occurred in more affluent South American countries (Brazil, Argentina, Chile, etc.), northern central Europe, and East Asia (excluding Japan and China) in the early 1990s. In these regions, the food retail share of supermarkets increased sharply to 50–60 per cent in 2004 from 5–10 per cent in the early 1990s and as high as 80 per cent in some European countries. The second wave covered the spread in Mexico, Central America, South Africa, Southeast Asia, and south central Europe. The share of food retailing through supermarkets in these regions grew from 5–10 per cent in the 1990s to between 30 and 50 per cent in 2004. The third wave hit India, China, poorer Latin and Central American countries, and Eastern Europe only in the late 1990s and early 2000s with a share of food retailing through supermarkets only at around 5–10 per cent, although growing rapidly. The most recent, the fourth wave involved mainly eastern and southern African countries, but also other South Asian countries (Reardon et al. 2004; Reardon and Hopkins 2006).

The revolution has not only been in terms of countries, but also within countries with supermarkets spreading from large cities to small cities and finally to rural areas and villages, spanning a full range of income groups. Even in terms of products, supermarkets first sold processed food products and non-food products. Then they moved to selling semi-processed products such as dairy products and finally started selling fresh produce, meat, and fish. Reardon and Hopkins (2006) suggest that this is because the cost advantages from economies of scale and scope are captured earliest in processed food products, and also because changing consumer habits around locally produced fresh foods takes longer. In many countries in Africa, South Asia, and indeed even in Europe, wet markets still thrive.

Similar to patterns witnessed in Latin America, and East and South East Asia five to ten years earlier, the spread of supermarkets in Africa in the early 2000s has principally been through FDI emerging from larger and relatively richer African countries into other countries. The first countries to experience the rapid growth of supermarkets in Africa were South Africa, Kenya, and Nigeria, followed by a ‘second round’ in Zimbabwe, Zambia, Namibia, Botswana, and Swaziland, as well as other southern African countries like Mauritius, Mozambique, and Angola. More recently, Uganda and Tanzania have seen growth in supermarkets, and lastly, West African countries like Ghana are seeing an increase in supermarkets (Weatherspoon and Reardon 2003).

As previously stated, countries in the ‘second round’ of growth of supermarkets in Africa are largely recipients of FDI from South Africa. The increase in retail FDI is mainly due to the saturation of home markets and greater profitability opportunities in other developing countries. Weatherspoon and Reardon (2003) explained that the trend of giant waves of FDI by global multinationals such as Ahold, Walmart, and Carrefour that had hit Latin America had, at the time, not yet hit Africa, although they predicted that this was likely to happen by around 2008. Their predictions have been largely accurate, with American multinational Walmart entering the African market through a merger with South Africa’s Massmart in 2009, and France’s Carrefour allegedly planning to enter the Kenyan market.

Despite the success of South African supermarkets in southern Africa, their fortune in East Africa has been less prolific. Shoprite has not been able to successfully compete in Kenya, Tanzania, and Uganda, and eventually shut down its operations (between 2014 and 2015) having been taken over by Kenya’s largest local supermarket chain, Nakumatt (Mwanza 2015).

2.2 Mapping of key players and preliminary review of trends in the supermarket industry in southern Africa

In addition to increased FDI, several demand-side factors have been attributed to the increase in the number and spread of South African supermarkets in other African countries. These include increasing urbanization, the entry of women into the workforce, increased per capita income, rise of the middle class, lower unit costs due to economies of scale and scope resulting in lower prices, as well as transport economies. Improved and modern infrastructure is also a key factor that is driving the rapid expansion of supermarkets in southern Africa. The surge in construction of shopping malls and centres provides retailers with retail space to carry out their operations.

The South African supermarket industry is highly concentrated with four main retail supermarket chains. Shoprite and Pick n Pay dominate the industry, while SPAR and Woolworths hold most of the remaining share. Fruit and Veg City, the fifth main player, has, within a relatively short period of time, entered the market and grown rapidly. All five supermarket chains have operations in southern Africa. The spread into the region is facilitated by favourable trade conditions under South African Development Community (SADC) trade agreements making it easy for South African supermarkets to invest and trade in the region. Further, the proximity of Zambia, Zimbabwe, and Botswana to South Africa eases importing from South Africa.

Shoprite Holdings, the largest retailer in South Africa specializing in foodstuffs and household items, was the first supermarket to establish branches in the southern African region. Shoprite has a large network of 1,581 corporate stores across Africa (Shoprite Holdings Ltd 2014a) and almost 40 franchise stores in 14 African countries.⁵ Within South Africa, Shoprite had 1,324 stores as of financial year 2014. Its market share in South Africa has been estimated to be roughly 30 per cent, in what has been defined as a national mass grocery retail market (Gauteng Provincial Treasury 2012).⁶ While this is a national estimate of a market defined as the mass grocery retail market, it is likely that Shoprite commands higher market shares in narrower geographic markets which are more realistic given the maximum distance that shoppers are willing to travel to purchase their groceries and other supermarket needs.⁷

Shoprite Holdings has four core supermarket offerings: Shoprite, Checkers, Usave, and OK.⁸ It has managed to build a broad customer base catering for the different demographic profiles in South Africa and set up different store formats to meet the needs of the full spectrum of different income groups/living standard measures (LSM) categories.⁹ Checkers and Checkers Hyper stores target the high-end affluent consumers whereas Shoprite focuses on the broad middle- to lower-market segments. Shoprite is increasingly extending its offering to lower-

⁵ Angola, Botswana, Ghana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Swaziland, Uganda, Zambia, and Democratic Republic of the Congo (DRC) (Shoprite Holdings Ltd 2013).

⁶ Nevertheless, these market share estimates from Gauteng Provincial Treasury are dated 2012, and it is unclear what is included in the mass grocery retail market definition. Nonetheless, these estimates provide an indication of relative size, and a similar figure of around 34 per cent has been reported by PWC for 2012.

⁷ For instance, the UK Competition Commission (2008) in its inquiry into the grocery retail market, defined local geographic markets as being limited to within 5 to 15 minutes' drive time (depending on whether they were categorised as large, mid-sized, or convenience grocery stores).

⁸ With regards to grocery and supermarket offerings. It has a range of other outlets that offer furniture, liquor, fast food, and pharmacy services, amongst others.

⁹ LSMs have become the most widely used marketing research tool in southern Africa. It divides the population into ten LSM groups: 10 (highest) to 1 (lowest). LSMs segment the market according to their living standards using criteria such as degree of urbanization and ownership of cars and major appliances.

income segments by penetrating into economically disadvantaged communities through Shoprite Usave. Shoprite Usave is also used as a tool to spearhead expansion into the rest of Africa. Further, Shoprite's OK franchise caters for a diverse range of mainly smaller convenience-oriented markets (which includes Friendly Supermarkets amongst others) that are located in rural towns, suburbs, and neighbourhoods (Shoprite Holdings Ltd 2014a). Estimates are that 67 per cent of all South African customers shop in Shoprite stores and it provides employment opportunities to more than 100,000 people (Fastmoving 2015).

Pick n Pay Holdings, the second largest retailer in South Africa specializing in groceries, clothing, and general merchandise is also a prominent chain operating in the retail sector on the African continent. Pick n Pay supports 1,128 operations across Africa.¹⁰ The supermarket has 937 stores in South Africa and 104 stores in the region as of financial year 2013 (Pick n Pay 2013). It has an estimated 30 per cent market share in the (national) mass grocery retail market in South Africa.¹¹

Pick n Pay also operates across multiple store formats, both franchised and corporate-owned. The retail chain has four main store formats: Pick n Pay Hypermarkets, Pick n Pay Supermarkets, Pick n Pay Family Franchise stores, and Pick n Pay Butcheries. Pick n Pay Hypermarkets' business model is to offer a one-stop discount retailing outlet with a mix of foods and general merchandise. Pick n Pay's corporate-owned supermarkets specialize in convenience rather than price. They are smaller in nature which allows them to experiment with merchandising that serves customers whose priority is convenience shopping. Pick n Pay also recently opened Pick n Pay Express franchise stores in collaboration with BP Southern Africa. These are small-format convenient stores located at BP forecourts offering convenience meals, bakery products, groceries, as well as a selection of hot foods, in addition to usual forecourt shop products like cigarettes, magazines, and newspapers (Pick n Pay 2012).

Like Shoprite, Pick n Pay is increasingly targeting lower-income consumers, moving away from its traditional, upper-income customer segment (Cairns 2011). As part of this strategy, Pick n Pay acquired Boxer Superstores in 2002 (Boxer 2015). After Shoprite, most South African customers shop in Pick n Pay outlets (Supermarket & Retailer 2013). The retail chain has around 47,000 employees in South Africa.

The *SPAR Group*, the third largest mass grocery retailer specializing in foodstuffs and general merchandise in South Africa, operates in nine African countries as well as the Republic of Ireland and South West England.¹² Through primarily a franchise model, SPAR supports 1,711 stores in South Africa and 153 stores in the rest of sub-Saharan Africa (SSA) (as of year-end 2014). SPAR is said to hold an estimated 26 per cent market share in the mass grocery retail in South Africa (Gauteng Provincial Treasury 2012).¹³ Like Shoprite and Pick n Pay, SPAR expanded into four store formats designed to meet the needs of different customer groupings (SPAR International 2015). SPAR's traditional target consumer was typically the older population, but it is moving towards middle class and younger customers and also entering into more rural communities. The four SPAR Brands are Superspar, SPAR, Kwikspar, and SaveMor (SPAR Group Ltd 2014). SPAR is the core supermarket format focusing on neighbourhood retailing and supermarket shopping. This brand's emphasis is on locating as close to the consumers as possible, offering a comprehensive range of groceries in addition to fresh produce,

¹⁰ Including in Botswana, Mozambique, Namibia, Zambia, Zimbabwe, Lesotho, and Mauritius.

¹¹ Other estimates (PWC 2012; Naidoo 2011a) suggest it has between 19 per cent and 28 per cent share.

¹² South Africa, Mozambique, Zambia, Zimbabwe, Swaziland, Botswana, Lesotho, Namibia, and recently Angola.

¹³ Other estimates suggest around 28 per cent (Naidoo 2011b).

in-store bakeries, butcheries, delis, and home-meal replacement departments. Superspar is a larger supermarket format focusing on weekly family shoppers, offering aggressive pricing, and promoting SPAR's own-branded products (private labels). Kwikspar is a convenience offering with an emphasis on speedy purchases operating for longer hours. SaveMor is exclusively focused on rural and township markets. It gives the option to existing small-store owners to convert their store into a SaveMor store. It offers a limited range of basic products that are mainly targeted at rising single and two-person households. SPAR also opened a forecourt convenience store in 2013, SPAR Express, in collaboration with oil company Shell. However, it is unclear whether this concept has taken off. The retail chain has 4,025 permanent (non-franchisee) employees (SPAR Group Ltd 2014).

Woolworths Holdings, the fourth largest retail chain in South Africa specializing in food and clothing is one of the leading retailers targeting higher LSMs in the southern hemisphere. Woolworths has 1,162 store locations in a number of African countries¹⁴ with 82 store locations and 33 franchise stores in these countries. Woolworths' market share in South Africa is estimated at 8–11 per cent of the mass grocery retail (Naidoo 2011b; Gauteng Provincial Treasury 2012). The group only has a single-brand store, which emphasizes providing superior quality and product innovation and exclusively targets the high-end, affluent niche market. Woolworths, like the other supermarkets, ventured into convenience stores and fuel forecourts. Partnering with Engen, Woolworths has a number of Woolworths Foodstops stores (Moorad 2013). The retail chain employs approximately 38,000 people across all their operations in all the countries (Woolworths Holdings Ltd 2014).

The fifth largest grocery retailer in South Africa, *Fruit and Veg City* (FVC) entered South Africa in 1993 with a single store in Kenilworth, Cape Town. It expanded rapidly and by 2006/07 had around 80 stores nationally. In 2007, Pick n Pay sought to merge with FVC. The Competition Commission of South Africa recommended that the Competition Tribunal prohibit the large merger between the two on grounds that the merger would result in the removal of an effective competitor in the retail market for fresh food. The Commission found that FVC was a growing, effective competitor to Pick n Pay and would provide an even greater product offering in the future. Allowing the merger would therefore stifle both current and future competition.

It appears that the Commission was not far off in its prediction of FVC's future growth. FVC showed impressive growth particularly between 2006 and 2012. Turnover more than tripled from ZAR1.6 billion in 2006 to ZAR15 billion in 2015,¹⁵ with a growth rate well ahead of the major listed food retailers.¹⁶ There are now over 100 FVC stores throughout southern Africa including in Namibia, Zambia, Zimbabwe, Mauritius, and Reunion, as well as in Australia. FVC's owners credit its success, in addition to its core principles of high quality healthy foods at affordable prices, to its flexible business model which has allowed it to target customers across different LSM groups, including its more up-market Food Lover's Market format in affluent suburbs. FVC is planning to convert all its stores to corporate Food Lover's Market outlets in the future. While also in the grocery retail space, unlike the other major supermarkets, FVC's model is predominantly the sale of fresh fruit and vegetables, with only a smaller proportion of other grocery item lines. FVC has also expanded into franchised convenience stores (Fresh Stop

¹⁴ Zambia, Zimbabwe, Botswana, Namibia, Swaziland, Kenya, Ghana, Mauritius, and Mozambique. Recently Woolworths closed down its operations in Nigeria so that it could better focus on growing its operations in the southern African countries (Woolworths Holdings Ltd 2014).

¹⁵ Unpublished interview with FVC, conducted by the authors on 26 July 2015.

¹⁶ Growth rates of the major listed supermarket chains were reported at about 15 per cent per year between 2006 and 2012, while that of FVC was 20 per cent per year (Thomas 2012).

stores) through a joint venture with fuel company Caltex's fuel retail arm, offering fresh produce, meat, fish, delicatessens, etc. at Caltex forecourts. FVC further introduced an in-house fast food brand, Crispy Chicken, in the Eastern Cape in November 2014 (FreshStop 2014). Other branches of the company include a profitable import and export joint venture primarily of fresh fruit (FVC International). FVC's latest entry has been into the liquor market after it acquired a 50 per cent stake in Diamond's Discount Liquor in July 2012. FVC has rebranded these stores under the name 'Market Liquors', selling both retail and wholesale liquor and soft drinks (Food Lover's Market 2015).

More recently, Walmart-owned *Game* has branched into food products (retailer of non-perishable groceries and wholesaler of basic foods) (Game 2015). This is the typical Walmart format in other countries. Because its operations in food are still in the early stages, there is very little publically available information on it. There have, however, been competition concerns raised by Game to the Competition Commission, which is discussed in Section 5.

While the past trend in southern Africa has been that South African supermarkets have aggressively spread in the region, this trend is now changing with supermarkets from other SADC countries entering the southern African region. The most successful example of such entry is by *Choppies Enterprises*. A grocery and general merchandise retailer from Botswana, Choppies has over the last 15 years grown from two stores in Botswana to over 125 stores in Botswana, Zimbabwe, and South Africa, with plans to enter Zambia and Tanzania in 2015 (Douglas 2015). Choppies plans to almost double its stores to close to 200 by the end of 2016,¹⁷ with its sights set on the African market which, according to it, is growing three times faster than the South African market. In this regard, Choppies recently announced a conditional agreement with Kenyan supermarket chain, Ukwala Supermarkets, to acquire ten outlets in Kenya (Hasenfuss 2015). On 27 May 2015, Choppies listed on the Johannesburg Stock Exchange. Choppies is already listed on the Botswana Stock Exchange (Reuters 2015).

Choppies' target market is low-to middle-income consumers (LSM 3–6), but it is attempting to attract middle- to upper-income consumers. It stocks branded international products as well as its own private label products. Choppies also stocks fresh fruit and vegetables and has a butchery, bakery, and takeaway. It targets value-conscious, high frequency, small basket-size, cash-paying shoppers. Like the South African supermarkets, it has recently introduced value-added offerings (ATMs, sim cards, mobile money, and money transfer, etc.). Its location is mainly in the semi-urban and rural areas, locating near transport nodes such as taxi ranks. Its format is mainly compact superstores, with only a few hyperstores and small value stores.

Table 1 and Figure 1 show that in the past four years, Choppies has seen rapid growth in number of stores and revenue growth, with significant growth in gross profit margins in Botswana and Zimbabwe. Revenue growth in South Africa, however, saw a dip in 2014, attributed to the platinum sector strike. Most of Choppies stores in South Africa presently are in the platinum mining areas in South Africa (Northwest province), although it recently has started locating in shopping malls, with its entry in the newly developed Carletonville shopping centre in late 2015.

¹⁷ According to CEO Ramachandran Ottapathu (Reuters 2015).

Table 1: Growth of revenue of Choppies in Botswana, South Africa, and Zimbabwe

Botswana Pula millions	FY12	FY13	FY14
Botswana			
Revenue	2,731	3,093	3,586
Revenue growth	12.1%	13.3%	15.9%
Gross profit margin	19.8%	20.7%	22.0%
EBITDA	202	251	319
EBITDA margin	7.4%	8.1%	8.9%
South Africa			
Revenue	571	936	1,003
Revenue growth	35.5%	63.9%	7.2%
Gross profit margin	17.8%	9.3%	20.2%
EBITDA	14	23	3
EBITDA margin	2.5%	2.5%	0.3%
Zimbabwe			
Revenue		424	395
Gross profit margin		20.5%	18.0%
EBITDA		30	15
EBITDA margin		7.1%	3.8%

Note: EBITDA—Earnings before Interest, Taxes, Depreciation, and Amortization. EBITDA is an indicator that can be used to analyse a company’s profitability.

Source: Authors’ illustration based on Choppies (2014, 2015).

Figure 1: Growth of Choppies store numbers and mode of entry



Source: Authors’ illustration based on Choppies (2014, 2015).

2.3 Some observations

Certain observations can be drawn from the above narrative on the spread of supermarkets in southern Africa. All the supermarket chains, except for Woolworths, have extended their offering to target customers across the full range of LSMs. There has been a particular focus on increasingly targeting low-income consumers, either by opening new stores (like Shoprite’s Usave) or by acquiring existing stores (like Pick n Pay’s Boxer and SPAR’s SaveMor).

Most of the supermarket chains have diversified their formats to include hypermarkets, convenience stores, express stores at fuel forecourts, fast food offerings, etc. There is no indication, however, at this stage that all the multiple formats are offered in countries other than South Africa and this would need to be investigated further.

The models of retailing differ between the supermarkets, where supermarket chains are expanding either through increasing the number of corporate stores or franchise stores, or a combination of both. At one extreme, Choppies only has corporate stores. At the other extreme, SPAR mainly operates through a franchise model. In-between, the other supermarkets operate both corporate and franchise models, although Woolworths and FVC are increasingly moving away from franchises to fully corporatized stores.

The entry and growth of Choppies in southern Africa provides an interesting counterfactual to the trend of South African supermarkets in the southern African region. Choppies has grown significantly in the past few years and the competitive reaction by the incumbent supermarkets to its growing presence in South Africa and the region will be interesting to observe, especially as it starts to locate in shopping malls, given the concerns described in Section 5.

3 Characteristics and linked investments of supermarket chains

The perishable nature of food requires supermarkets to make large investments in logistics, distribution, and inventory maintenance such as refrigeration, back-up generators, trucks, and distribution centres (DCs). Supermarkets in southern Africa are increasingly switching to own centralized DCS instead of store-to-store procurement (Reardon and Hopkins 2006). Such substantial investments in logistics and technologies have transformed the supermarket sector to become one of the most technologically advanced sectors, heightening barriers to entry for small-scale operators who cannot afford to make such large investments (Basker and Noel 2013).

In southern Africa, all the major supermarket chains with multiple stores have invested significantly in DCs. According to FVC, DCs are important for successful retailing because it is cheaper for corporate or franchise stores to procure their goods from DCs than individually negotiating and buying stock directly from main suppliers. This is because of the scale economies and associated discounts and rebates that can be secured from the suppliers when DCs buy in bulk.¹⁸

Also as highlighted by Choppies, DCs support the uninterrupted and timely supply of goods to stores. Stores place orders with the centralized warehouse periodically, based on each store's individual supply requirements. Typically, DCs are run as independent business units with profit targets within the supermarket group. Choppies has seven DCs, two of which are in Rustenberg, South Africa, and the rest of which are in Botswana and Zimbabwe (Choppies 2015).

SPAR also has a number of DCs which serve stores throughout the region. SPAR franchisees are free to source from independent suppliers, but given the cost savings from sourcing from DCs, the franchisees often opt to go down this route.¹⁹ Other major supermarket chains also have DCs and have invested significant amounts of capital in them. For instance, Table 2 shows that Shoprite has increased its capital expenditure considerably on DCs between December 2013 and December 2014. It further committed capital in December 2014 for future investments in DCs. Shoprite's DCs are in Centurion, Gauteng, Cape Town, and Durban. The Centurion DC has doubled in size from 80,000m² to 180,000m² and is the largest DC under one roof on the continent. The facility serves as the distribution point for about 90 per cent of ambient products delivered to stores in the Gauteng area and throughout southern Africa. More than 1,100

¹⁸ Unpublished interview with FVC, conducted by the authors on 26 July 2015.

¹⁹ Unpublished interview with SPAR, conducted by the authors on 11 August 2015.

suppliers deliver their products to the centre where they are stored, collated, and then distributed to retail stores on a high-frequency basis (Shoprite Holdings Ltd 2014a).

Table 2: Capital expenditure in DCs²⁰

	Capital expenditure		Contracted Capital Commitments
	Dec 2013 ZAR m	Dec 2014 ZAR m	Dec 2014 ZAR m
Distribution centre	137	228	241
Distribution centre-related equipment and vehicles	91	181	

Source: Authors' illustration based on Shoprite Holdings Ltd (2015).

Pick n Pay invested ZAR628 million in 2010 in its DC in Longmeadow, Gauteng. It has ten DCs around the country, in addition to a perishables inland distribution centre. The total investment in all the DCs was estimated to be over ZAR2 billion. According to Pick n Pay, these investments in 2010 were essential to maintain competitiveness:

Our decision to move to centralized distribution was motivated by changes in South Africa's retail landscape which had seen us fall behind our competitors, who were investing significantly in their supply chains and in improved service to their stores through centralised distribution systems. Throughout the world, the most successful retail groups have unlocked massive value from their supply chains, and most of them have moved away from direct-to-store delivery distribution (Moneyweb 2010).

DCs are also essential according to a representative of Woolworths.²¹

With regards to logistics, supermarkets either own their vehicle fleet (including refrigerated trucks) or outsource this function. Shoprite for instance has its own fleet under the Freshmark name. The fleet operates 24 hours a day, seven days a week. Choppies also has its own transport fleet of over 500 vehicles. Pick n Pay on the other hand outsources its logistics to Imperial Logistics (Imperial Logistics 2013) with dedicated trucks. It is unclear at this stage what benefits owning trucks as opposed to leasing them confers to new entrants. Choppies, however, suggested that owning its own fleet was a major competitive advantage to it.²²

Another feature of supermarkets is the extensive investment in advertising and promotions used to create loyalty and attract greater footfall with the aim of converting this into greater sales. Advertising costs can be a significant barrier to entry for new players in the market. Incumbents may make it even more difficult for new entrants strategically by spending excessively on advertising. To gain market share, new entrants have to match this spend out of a much smaller revenue base. This puts new entrants wishing to compete directly with large supermarkets at a huge cost disadvantage (Marion 1984). Supermarkets advertise, inter alia, through pamphlets, newspapers, TV, and radio. Supermarkets like FVC highlight that advertising costs are lowered with greater number of stores as the costs are spread out over a number of stores,²³ again putting new entrants with single stores or few stores at a disadvantage. Advertising costs are significant for franchise stores as well. According to a franchise store of Shoprite, OK Value Delarey,

²⁰ FVC does not publish its financial results and information on investments in DCs is confidential.

²¹ Unpublished interview with Woolworths, International Division, conducted by the authors on 26 August 2015.

²² Unpublished interview with Choppies, conducted by the authors on 5 May 2015.

²³ Unpublished interview with FVC, conducted by the authors on 26 July 2015.

advertising is crucial and a significant cost factor. Even though it uses Shoprite's internal radio station to advertise in its store, any additional advertising is paid for by itself, the franchisee.²⁴ SPAR similarly explains that a large proportion of the advertising budget comes from the SPAR head office, while a smaller proportion is paid for individually by the franchisee at its discretion.²⁵ New methods of advertising, however, such as social media, may be cheaper and supermarkets are increasingly engaging in such methods.

Large supermarket chains also have the advantage of significant economies of scale and scope by exploiting advances in logistics and operations technologies, as well as by procuring large volumes for multiple outlets through DCs. Economies of scale and scope can create natural barriers to entry for new entrants as they have to enter with sufficient scale and product range, including through numbers of outlets, to benefit from the cost savings that large incumbents have (Basker and Noel 2013). Even for established supermarkets, competition with large incumbents like Shoprite that have significant scale and scope economies is difficult. It is even more difficult for independent grocery retailers to attain scale and scope economies, although the developments in independent retailing highlighted in Section 4 suggest that alternative models of retailing which reduce scale and scope barriers, as well as advertising cost barriers, are gaining momentum in South Africa.

4 Development of independent food retailers in South Africa

Recent trends in the independent grocery retail industry in South Africa suggest that this alternative model of retailing to the traditional supermarket model is growing. Independent retailers have been defined as businesses that are privately owned and that do not belong to a larger chain or group (Syndicate One 2011). However, while each store is owned by separate individuals, the stores may be branded under a common name, for instance 'Foodzone' (of which there are around 127 retail supermarkets organized by buying group, the Buying Exchange Company (BEC) in South Africa),²⁶ or Food Town and Powertrade (with over 40 stores²⁷ organized by buying group, United Management Services). Independent retailers are typically small businesses, targeting lower LSM customers in peri-urban, township, industrial, and central business district areas of cities.

Independent retailers include sellers of food and non-food items such as cash and carry retailers that have both wholesale and retail offerings (hybrid format) as well as numerous informal spaza shops, spazettes, and superettes.²⁸ It is estimated that there are around 100,000 informal stores in South Africa, of which the majority (70 per cent) are foreign-owned/run (Alcock 2015). These stores are frequented by both hawkers and customers who are looking for top-up, daily purchases, or even weekly purchases. While these consumers may shop at a supermarket chain store at the beginning of the month or when there are promotions, they frequent independent retailers towards month-end. These independent retailers typically stock fast-moving items and operate at very low profit margins.

²⁴ Unpublished interview with OK Value Delarey, conducted by the authors on 29 July 2015.

²⁵ Unpublished interview with SPAR, conducted by the authors on 11 August 2015.

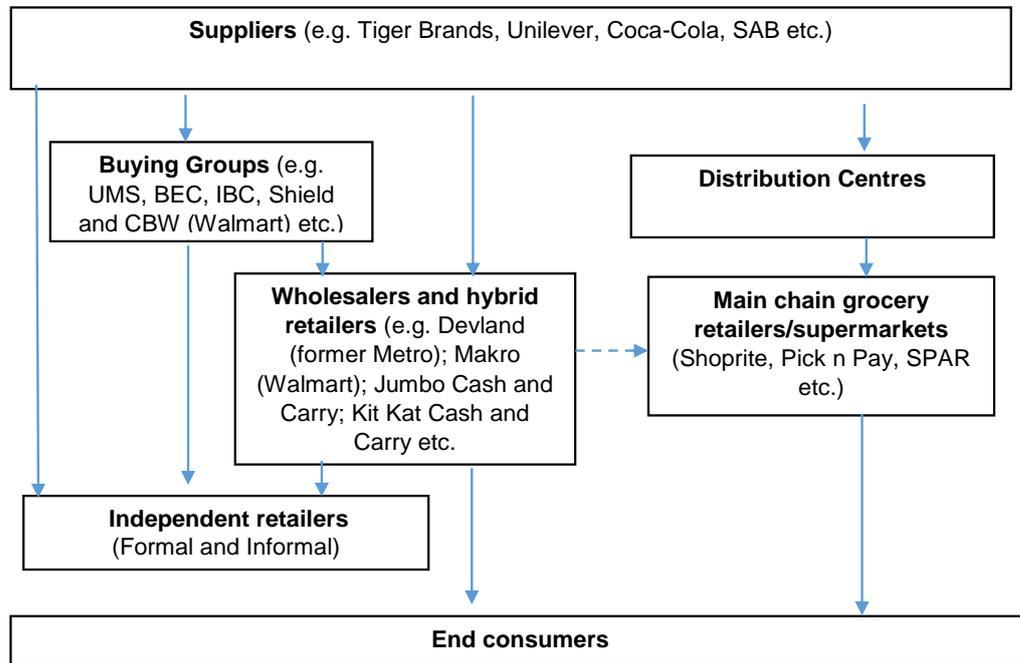
²⁶ Unpublished interview with the BEC, conducted by the authors on 22 September 2015

²⁷ Powertrade stores are hybrid wholesale and retail stores.

²⁸ It is estimated in 2012 that 30 per cent of the country's food expenditure went through informal outlets (PWC 2012).

Figure 2 illustrates the different routes through which consumers can buy grocery retail products, including the traditional supermarket route discussed above.

Figure 2: Supply chain of grocery products



Source: Authors' illustration adapted from Ravhugoni and Ngobese (2010) and Competition Tribunal of South Africa (2010).

As can be seen, buying groups occupy a similar space for independent retailers in the supply chain as DCs do for the major supermarkets.²⁹ Buying groups are a way for a new entrant to derive some although not necessarily all of the benefits of DCs (including scale and scope) without the costly investment.

There have been concerns that independent retailers are declining in South Africa. Around 2009/10, the Competition Commission evaluated a number of mergers in the independent wholesalers space, reflecting the degree of consolidation (Competition Tribunal of South Africa 2010; Trade Intelligence 2013). A concern raised through these mergers was that the independent food sector (both independent wholesale and retail) was under immense pressure from large chain retailers/supermarkets, leading to the closure of several such outlets. The Competition Tribunal found that it was essential for independent wholesalers to procure products from suppliers at competitive prices if they wanted to remain competitive against supermarkets who were increasingly encroaching lower LSM consumer segments. As reflected in Section 2, major supermarkets are indeed moving into the townships and rural areas. Shoprite is doing so with its lower LSM targeting Usave stores, while Pick n Pay has done so with its Boxer acquisition and Pick n Pay Family franchise model. SPAR is buying independent retailers and giving them the option to convert their store into SaveMor store formats.

There is very little past research on the independent retailer market in South Africa. However, new trends are emerging which hint at a 'rebirth' of profitable and sustainable independent

²⁹ This was also highlighted by the Competition Tribunal in the Masscash/Finro merger (Competition Tribunal of South Africa 2010).

outlets in South Africa (Shopping and Retail 2014). As described below, buying groups appear to be growing, indicating that the independent retailers they supply to are also growing. Past sector research suggests that the ‘share of basket’ for independent retailers is also growing as is their turnover (Shopping and Retail 2014). Recognized to be driven by foreign owners and younger South African business owners, independent retailers are allegedly becoming more profitable and sustainable (Trade Intelligence 2013). Rough estimates are that independent retailers account for around 40 per cent of the total food retail market, while formal chain supermarkets account for the balance in South Africa. The outlook is that the segment is fast-growing given the large collective base of lower LSM consumers.³⁰ The Competition Commission of South Africa appears to still have concerns around this market segment nonetheless, and its recently announced retail market inquiry looks into issues of foreign ownership amongst other concerns of competition and participation (Hartley and Moorad 2015).

In South Africa, the main independent buying groups are Unitrade Management Services (UMS), the BEC, the Independent Buying Consortium, the Independent Cash & Carry Group (ICC), and Elite Star Trading. As Figure 2 shows, buying groups can sell to both independent retailers and wholesalers.

UMS Limited operates³¹ in South Africa and in neighbouring southern African countries such as Botswana and Namibia.³² UMS is looking to expand into Zimbabwe, Zambia, and Mozambique via the same model. It buys on behalf of independent wholesalers and retailers, offering a broad range of products and professional services. Operating out of Gauteng (Northern division), Cape Town (Southern division), and Kwa-Zulu Natal (Coastal division), UMS supports independent stores that are ‘housed’ under one of three brands: Powertrade, Food Town, and BestBuy. Members are store owners, independent wholesalers, and independent retailers. According to UMS, many of their members are foreign (mainly Indian, Chinese, and Pakistani-owned) and are largely run as family businesses. All three brands cater for the lower-income consumers mainly LSM 2-6, and on-sell to retailers who also target lower-income-end consumers. Independent retailers, like those under UMS member stores, offer a wide range of food and non-food products (although not as wide a range as traditional supermarkets). There are 42 stores under the Northern division, 22 stores in the Southern division and 26 stores in the Coastal division for the three brands collectively. They are therefore not insignificant and their growth is reflective of the growth of independent retailers.

UMS negotiates with big suppliers on behalf of all its members in order to secure better pricing deals through buying in bulk. As a buying group, UMS makes its money from rebates from the large suppliers. Rebates are linked to the amount of stock/volume of sales. Large suppliers often do not deal directly with small, independent retailers. UMS therefore performs the role of a large buying intermediary which facilitates more favourable deals for independent retailers. UMS estimates that it accounts for a significant volume of sales from large suppliers.³³

³⁰ Unpublished interviews with the BEC, conducted by the authors on 22 September 2015, and with UMS, conducted on 24 July 2015. This is also known as the ‘base of the pyramid’ in developing countries.

³¹ Unpublished interview with UMS, conducted by the authors on 24 July 2015.

³² In Botswana, there are two groups: TransAfrica with 10 stores and Sefalana with 56 stores and still growing. In Namibia, there are 13 Metro stores under Sefalana, 21 stores under Independent Traders Namibia (ITN), and 18 stores under Ran Brothers who are independent wholesalers. UMS is the buying group for all of these players.

³³ It estimates that it is often the third or fourth largest buyer in terms of volumes from many key suppliers. This has not been verified with the suppliers.

Given that UMS's business is a volume-driven business, it has an incentive to upskill and enhance capabilities of independent retailers so that they in turn sell greater volumes. This is precisely what UMS does. UMS provides marketing assistance to the independent retailers, integrated information technology, human resources assistance and training, merchandising and branding, knock and drop advertising, direct marketing, and credit support. UMS also advertises on behalf of the retailers, including through printing leaflets and pamphlets. UMS further organizes and promotes store competitions for retailers which increases footfall and sales. As highlighted above, advertising and marketing are major barriers for new entrants and assistance from buying groups in this regard greatly benefits retailers. UMS also provides training at little/no cost to the independent retailer.

Similar to the role that UMS plays, the BEC Limited was established in 1999 by a group of independent traders as a buying support group for both independent retailers and wholesalers (Foodzone 2015). The BEC trades under two separate trading divisions: Food Zone, catering for the retail market, and Trade Zone, catering for the wholesale market, (although the latter is no longer operational).³⁴ These operate in all the main hubs in South Africa as well as in Namibia and Botswana. The company aims to increase numbers 'rapidly in all provinces of South Africa' (Foodzone 2015).

Individual owners own the Food Zone-branded store after paying a one-off fee of ZAR120,000 to the BEC, essentially a form of franchising.³⁵ In return, the BEC provides a range of services to the store such as: centralized buying and access to all major suppliers; centralized accounts; assistance with store layouts; and radio and television advertising, monthly promotions, and ongoing point of sale material, etc. Continuous and in-house training is organized, contracted, or provided directly by BEC. Training is also provided for new owners without any retail experience.

Elite Star Trading, like the above buying groups offer a range of services to their franchised independent retailers. They have around 149 stores in South Africa, as well as stores in Botswana and Namibia. Their bigger stores have their own warehousing facilities.³⁶

Offering similar support to independent retailers is the ICC Buying Group, a division of the Independent Cash & Carry Group. ICC is estimated to be one of the biggest buying groups in South Africa. ICC supports independent retailers under the Lifestyle brand, with stores including Lifestyle Supermarket, Lifestyle Express, Lifestyle Liquor, and Lifestyle Hardware & Building Supplies. However, unlike the other buying groups, ICC does not merely just provide an intermediary or brokerage role between the supplier and the independent retailer, it actually has its own warehouses and a DC, in addition to its own transport fleet.³⁷

Another emerging trend is the move into retail by established wholesalers through the development of hybrid formats. This enables wholesalers to compete for lower LSM customers with supermarkets and independent retailers (Trade Intelligence 2013). As shown in Figure 2, wholesalers can sell directly to the end consumer through a hybrid offering or through independent retailers. In recent years, wholesalers have been re-positioning their businesses to target end customers directly.³⁸ They have added offerings that were typically only seen in

³⁴ Unpublished interview with the BEC, conducted by the authors on 22 September 2015.

³⁵ This is unlike most franchising agreements where there is a monthly or percentage payment.

³⁶ Unpublished interview with Elite Star Trading, conducted by the authors on 6 October 2015.

³⁷ Unpublished interview with ICC, conducted by the authors on 6 October 2015.

³⁸ Unpublished interview with Devland Cash and Carry, conducted by the authors on 24 July 2015.

supermarkets, such as butcheries, bakeries, delis, and fresh produce sections. This is a move away from their traditional focus on independent retailers as their main customers. This means that wholesalers are now in direct competition with independent retailers, causing a degree of conflict.

Cash and Carrys like Devland comprise hybrid stores and wholesale stores selling mainly to independent retailers. Devland also has operations in the southern African region, including in Zimbabwe, Zambia, Mozambique, and the DRC. Although not yet on a par with the incumbent supermarkets in terms of its retail offering, Devland has been able to penetrate the retail market using its strong wholesale background which allows it to leverage its buyer power from its wholesale operations to provide better prices in its retail offerings.

Notwithstanding the buying power benefits of buyer groups for independent retailing, the lack of sufficient centralized warehousing and logistics systems still appears to place buying-group run independent retailers at a disadvantage compared to buying for wholesale operations and buying through DCs. This is because of the additional allowances/rebates given to wholesalers that have warehouse facilities or DCs, which independent retailers do not have. Further, large suppliers tend to favour large, formal supermarkets, and often give them better terms and prices than they give buying groups, even for the same volume of product.³⁹

Independent retailers, who appear to be growing in South Africa, offer an important alternative route to market for local suppliers. The standards, quality, and consistency requirements to supply independent retailers are likely to be lower than to supply multiple supermarket chain stores. This would allow local suppliers to get a foothold in the grocery retail industry, and to expand and build capabilities on the back of a core supply to independent retailers. Buying groups confirmed that it was easier to get products on the shelves of independent retailers than on chain supermarket shelves.

5 Competition concerns and barriers to entry faced by new entrants

The food supply chain is a complex network of inter-related markets. Competition issues at different stages of the supply chain are important for the overall functioning and participation opportunities in the food sector (OECD 2013) and, by implication, are an important part of understanding these issues at the regional level in southern Africa. The inherent characteristics of supermarkets, described above, mean high levels of concentration may also be a natural outcome at the food retail level. Competition may instead occur along a range of dimensions related to other supermarket characteristics such as overall product selection available, location decisions, additional products and services offered, etc., as opposed to pricing. Competition between supermarkets may also be based on the format of the supermarket—whether it is a hypermarket, supermarket, convenience store, cash and carry, etc. Furthermore, the type and size of shopping centre can also influence competitive dynamics.⁴⁰ A supermarket in a super-regional shopping centre may not see a supermarket in a community shopping centre as a direct competitor and

³⁹ Unpublished interview with ICC, conducted by the authors on 6 October 2015.

⁴⁰ In South Africa this refers to whether it is ‘Super-regional’ (>100,000m²), ‘Regional’ (50,000–100,000m²), ‘Small regional’ (25,000–50,000m²), ‘Community’ (12,000–25,000m²) or ‘Neighbourhood’ (5,000–12,000m²). Note that the term ‘regional’ refers to the size of the shopping centre rather than the location (South African Property Owners Association 2014).

vice versa. Similarly, a supermarket may not see an independent retailer as a direct competitor, despite both offering similar products.

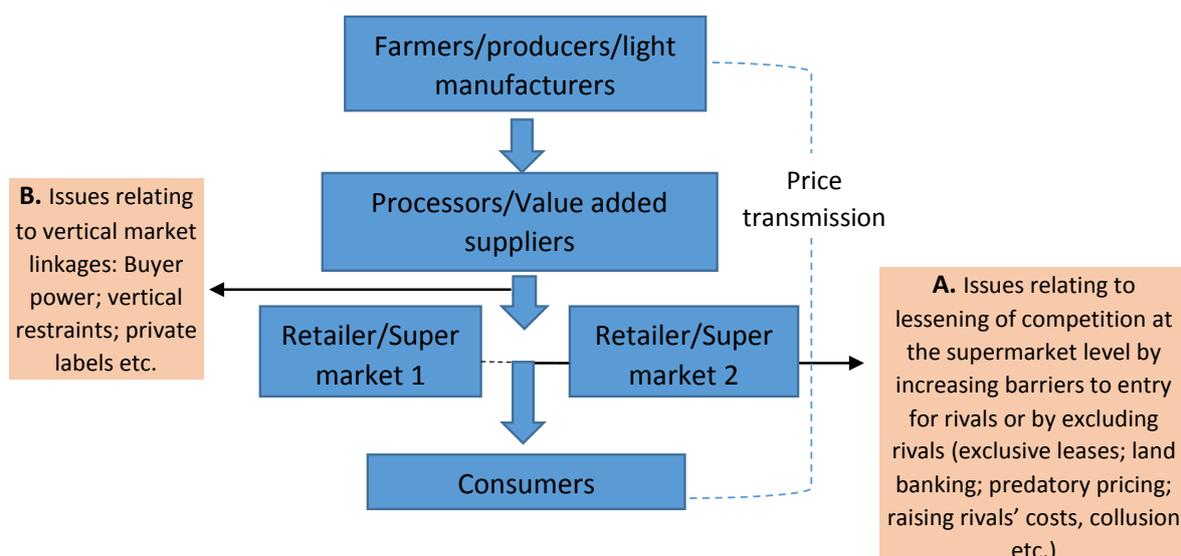
Competition-related entry barriers could exist for local supermarkets in the region trying to compete with large South African supermarkets as well as for local suppliers trying to enter the supply value chain of supermarkets in their respective countries. Reardon et al. (2004) suggest that in developing countries, initial barriers to entry are low for the first multinational supermarket chains investing as existing levels of local competition were generally weak. There are also significant first mover advantages to occupation of key retail locations. This appears to be the case for Shoprite, which was the first South African retailer to seriously enter the African market. Subsequent locking-in of such advantages by supermarket chains could dampen competition in lucrative locations.

There have been numerous competition concerns in the supermarket industry internationally, with large-scale market inquiries undertaken by the UK and Australian competition authorities. The South African Competition Commission has also received a number of complaints regarding the conduct of large supermarket chains. The competition concerns that typically arise in supermarket value chains are two-fold:

- supermarkets abusing their market power in terms of creating barriers to entry and engaging in conduct that excludes rival supermarkets and independent retailers; and
- supermarkets exerting market power on the buyer side with regards to their vertical relationships with suppliers (OECD 2013).

Figure 3 illustrates the potential competition concerns in the retail value chain with respect to supermarkets:

Figure 3: Competition concerns in supermarket value chains



Source: Adapted and modified from OECD (2013).

Supermarkets and suppliers to supermarkets also face a number of regulatory barriers. In South Africa, aside from the standard regulations that affect all industries, such as labour regulation, the main regulations affecting supermarkets with regards to food products include the Foodstuffs, Cosmetics and Disinfectants Act 1972 (Act No 54 of 1972); the Health Act 1977 (Act No 63 of 1977), which deals with issues of hygiene; general consumer protection legislation through the Consumer Protection Act as well as various pieces of legislation pertaining to standards. This legislation deals with the conditions under which food is produced, packaged, labelled, stored, transported, maintained, and consumed.⁴¹

Retail premises and suppliers to retailers need regular audits to ensure that such legislation is complied with. Particularly in South Africa, the inspection and audit function to ensure compliance with some of these standards is not undertaken by government, but by private parties. For instance, one company, Prokon, is said to be the only official assignee of the Department of Agriculture, Forestry and Fisheries to enforce the regulations applicable to the grading, packing, and marking of potatoes for sale in South Africa in accordance with the Agricultural Products Standards Act (Product Control for Agriculture 2015). Similarly, with regards to meat, the South African Meat Industry Company (SAMIC) is the only quality assurance company which was created by the Red Meat Industry of South Africa to ensure the quality and safety of meat. The Department of Agriculture has appointed SAMIC for the classification and marking of meat intended for sale in South Africa.⁴² There have been concerns raised around the fees that such companies charge given that there are few or no other alternatives to undertake the services they provide which is necessitated by legislation.⁴³ Other companies like Q-Pro South Africa appear to also offer food safety assessments. The alternatives available, and the practices in the other countries as part of this research would have to be investigated further. Nonetheless, from the interviews conducted with supermarkets, it appears that the regulatory barriers are not prohibitively high in South Africa.⁴⁴

Zoning regulations by local authorities impose restrictions on the size and the location of retail developments. Zoning restrictions are meant to reduce negative externalities, such as congestion, that come with developments. According to the UK Competition Commission, zoning restrictions can also lessen competition in the grocery retail sector and increase barriers to entry (Competition Commission UK 2000). This was more pronounced for supermarkets setting up one-stop stores requiring large sites in out-of-town locations. The Australian Productivity Commission (2011) concurs that local planning laws act as a barrier not only to the expansion of independent supermarkets by making it difficult to secure sites, but also by limiting opportunities for new supermarkets to establish within the same areas. These do not appear to be a major concern to the supermarkets in South Africa. From the property developer's perspective, however, there are a number of regulatory hurdles to overcome with regards to council approvals when it comes to construction of a shopping centre.

⁴¹ Similar legislation applies in Botswana, although there is a greater focus on standards of imported food products given that a large proportion of food is imported. See Section 7.

⁴² In accordance with the Agricultural Product Standards Act (no 119 of 1990) (SAMIC 2015).

⁴³ Unpublished interview with Department of Agricultural Economics, University of Pretoria, conducted by the authors on 26 May 2015.

⁴⁴ Unpublished interviews with: FVC, conducted on 26 July 2015; Woolworths, 26 August 2015; and Pick n Pay, 3 September 2015. For supermarkets that have delis (where cooked food is served), the regulations are more stringent. Other safety requirements that need to be adhered to include standard fire and first aid training. Health inspectors from the Department of Health check whether a particular store meets the various health and safety standards.

5.1 Strategic barriers to entry and exclusionary strategies

This sub-section assesses forms of strategic conduct by incumbents that dampen competitive rivalry in the supermarket industry in South Africa. The first set of concerns involve dominant supermarkets engaging in conduct that creates or increases barriers to entry for new entrants or excludes current rivals. Such conduct reduces competition at a horizontal level ('A.' in Figure 3).

A common competition concern in the supermarket industry is that of incumbents entering into leases with property owners that contain exclusivity clauses in prime shopping locations (referred to as exclusive leases henceforth). This prevents new entrants from locating in lucrative retail spaces, limiting their ability to enter or expand. Exclusivity can either be 'blanket' exclusion on all grocery retail offerings or on particular product lines (butchery, bakery, pharmacy, etc.). Exclusivity clauses can also mandate that product lines cannot be greater than a stipulated size, for instance, a specialist butchery in a shopping mall cannot be in excess of 300–400m².⁴⁵ With fewer competing supermarkets in a given location, customers are ultimately left with reduced choice in terms of product range, pricing, and quality.

The Competition Commission initiated an investigation in June 2009 against the major supermarket chains, Shoprite, Pick n Pay, Woolworths, and SPAR as well as wholesalers and hybrid stores—former Massmart and Metcash. In addition to allegations of abuse of buyer power, engaging in category management practices, and information sharing, the Commission looked into the practice of supermarkets entering into long-term exclusive leases.⁴⁶ Subsequent allegations around exclusive lease agreements between the major retailers and property developers were made by FVC, the A&M Hirsch Family Trust, and Mr Ismail Ganchi of Aquarella Investments 437 (Pty) Limited.

The Commission's investigations revealed the widespread existence of long-term exclusive lease agreements between food retailers and landlords. The Commission found that these had the potential for dampening competition because the anchor tenant was unlikely to approve entry of a competing supermarket or specialist stores like bakeries and butcheries. This leaves the anchor tenant as the only grocery retailer in the premises free from effective competition.

Nevertheless, after investigating the complaint, the Commission concluded that there was insufficient evidence to prove that exclusive leases had the effect of substantially lessening competition. The Commission non-referred the allegations. This reflects the high threshold or burden of proof required in the South African competition regime. Conduct that clearly has an exclusionary effect on competitors, and potentially a distortionary effect on competition, is not sufficient to make a finding given the high standard of proof of anti-competitive effects that is required by the Competition Act (or the prevailing interpretation of the Act).

The Commission instead engaged in softer, ongoing advocacy measures to deal with exclusive leases. The Commission took part in discussions with supermarkets, property developers, and banks, recommending the use of long-term exclusive lease agreements only in cases where the supermarkets can prove that they undertook substantial investments in certain shopping centres. The Commission also made recommendations on the duration of exclusivity granted. The Banks' Association made a step towards addressing the issue by agreeing that the major banks no longer

⁴⁵ Unpublished interview with Fontis Developments, conducted by the authors on 21 September 2015.

⁴⁶ Competition Commission Media Release: Competition Commission findings of the supermarket industry probe, 27 January 2011. A number of similar allegations were made by relatively new entrant, FVC, the A&M Hirsch Family Trust, and Mr Ismail Ganchi of Aquarella Investments 437 (Pty) Limited (Mandiriza 2015).

required exclusivity clauses in agreements between developers and anchor tenants before accessing funding. However, as discussed later, it appears that the banks do not insist on exclusivity clauses in anchor tenant leases in any case.

Notwithstanding these passive undertakings, new complaints were lodged at the Commission from October 2013 onwards. These led to the Commission announcing that it would be re-opening investigations into such practices. In October 2013, Masstores (now Walmart) lodged a complaint against the exclusive lease agreement between Shoprite Checkers and Hyprop Investments for the Cape Gate Regional Centre in Cape Town. In September 2014, the South African Property Owners Association (SAPOA), filed complaints against Pick n Pay, Shoprite, and SPAR for exclusive lease agreements in a number of shopping malls. The main concern was that as anchor tenants, Pick n Pay, Shoprite, and SPAR were granted exclusive rights to trade as the only supermarkets in the premises and restricted entry of competing smaller and independent firms into the shopping malls. In October 2014, Massmart made the same complaint against the major retailers Pick n Pay, Shoprite, and SPAR, following the difficulties that one of Massmart's subsidiaries, Game, is facing in locating in certain centres.⁴⁷

Given these extensive complaints and other concerns in the grocery retail industry, following authorization by the Economic Development Department Minister, the Commission on 13 May 2015 announced that it would undertake a market inquiry into the retail sector. Minister Patel announced that the inquiry would examine the tenancy arrangements in shopping malls and the growth of township enterprises such as spaza shops in order to ascertain whether the retail sector was competitive and inclusive. The inquiry would involve big supermarket chains, grocery stores, and small retail outlets (Hartley and Moorad 2015).

Internationally, the Australian Competition and Consumer Commission's (ACCC) grocery inquiry has found exclusive leases to be an impediment to competition. It found that the major supermarket chains in Australia entered into leases with restrictive provisions to ensure that they maintained exclusive access to prime sites. Particularly, restrictive leases hindered entry of new and small supermarkets into local areas. The major supermarket chains argued that exclusivity was necessary to foster investment in densely populated urban areas but the ACCC found that it was in fact still possible to enter and invest in metropolitan areas without exclusive leases. Given the possible pro-competitive benefits of exclusive leases in terms of encouraging investments, the ACCC, through advocacy efforts, set out certain conditions under which exclusive leases could be entered into, included allowing exclusive leases in areas where there was still room for future growth and not in larger urban areas (Mandiriza 2015). After the ACCC's intervention, some of the major supermarkets voluntarily undertook to phase out these provisions over a few years, and these undertakings were enforceable by law (OECD 2013). Furthermore, all future lease agreements entered into would no longer have exclusivity clauses (Mandiriza 2015). The advocacy measures put in place in Australia appear to have had more positive results compared to South Africa's advocacy efforts, given greater enforceability of such undertakings by law.

Similarly, the UK authorities investigated the potential anti-competitive impacts of exclusive leases. Out of 384 stores operating in highly concentrated markets, the Commission found that 30 existing exclusivity arrangements created barriers to entry. The Commission proposed a five-

⁴⁷ In the same period, Mr SA Mahwiliri, a franchisee of Pick n Pay, laid a complaint against the manager of Kwa-Mhlanga Shopping Complex after he was refused retail space, allegedly following an order from Shoprite, the anchor tenant. Similarly in December 2014, Mr Hlope, a businessman operating a liquor store, filed a complaint against the major retailers after he was also denied lettable space in malls.

year exclusivity limit for new shopping centres and the annulment of existing exclusivity arrangements after five years of their report being published (Mandiriza 2015).

According to SAPOA in a survey undertaken in 2012,⁴⁸ 94 per cent of the respondents (property owners) were of the view that they would prefer not to have exclusivity clauses in their leases for a range of reasons, including that: it prevents the landlord from placing free-standing bakeries, butcheries, or greengrocers; it prevents the landlord from optimizing the best tenant mix suited for the shopper coming to the centre and for the growth of the centre; it reduces the option of having specialist retailers that offer greater product ranges; and it limits competition and opportunity to expand, etc. Fifty-six per cent of the respondents agreed that exclusivity clauses had no benefit (presumably to property owners) and were actually detrimental to the management of their assets. Also according to SAPOA, the bargaining power rests with the large supermarkets, who often demand exclusivity.⁴⁹

Property developers separately interviewed⁵⁰ have confirmed that it is not the banks that insist on exclusivity clauses in leases, but the supermarkets. Banks only really care about the number and types of lessees (for instance, they check how many key national retailers are present in a centre, and whether the anchor tenant can draw in the required footfall).

A range of factors appear to affect whether exclusive clauses in leases are insisted upon. These include shopping centre size, whether the centre is a new or existing centre, whether the centre is in a rural or urban area, or whether it is a corporate or franchise store, amongst others.

With regards to shopping centre size, in larger malls, there is usually space for more than one anchor tenant at different ends of the mall. Shopping centres of 12,000m² can usually only support one anchor tenant; centres of >25,000m² can support two; and centres of >40,000m² can support up to three supermarkets. Exclusive leases are more likely to be insisted upon when the size of the centre is between 12,000 and 12,500m² (Twin City 2015).⁵¹ Other estimates are that shopping centres between 14,000 and 20,000m² are where there are typically still fights around exclusivity.⁵²

Negotiating leases is difficult in new centres as the dominant anchor tenant is often critical in obtaining finance from banks. Property developers may end up allowing or giving in to demands of exclusivity by major supermarkets just to kick-start the development process. Subsequently, property developers struggle to re-negotiate the terms of the leases. Exclusive leases therefore may be more prevalent in new centres where there is risk and uncertainty and where the anchor tenant seeks to protect his investment from competition. However, property owners and supermarkets interviewed also suggest that exclusivity clauses in leases were more prevalent historically, and that it was common practice in the grocery retail industry in South Africa for many years. Potentially, given the increased attention by the Competition Commission of South Africa around this practice recently, there is greater sensitivity around exclusive leases in new centres, while in existing centres the problem persists given that the leases were signed many years ago. In practice, exclusive leases usually span for ten years, but many leases can have up to

⁴⁸ Fifteen respondents were surveyed. SAPOA members control the bulk of South Africa's private sector commercial land and building stock, as well as managing the majority of property funds listed on the JSE.

⁴⁹ Unpublished interview with SAPOA, conducted by the authors on 4 August 2015.

⁵⁰ Unpublished interviews with Bakos Properties, conducted by the authors on 12 June 2015, and with Twin City on 20 July 2015.

⁵¹ Unpublished interview with Twin City, conducted by the authors on 20 July 2015.

⁵² Unpublished interview with Bakos Properties, conducted by the authors on 12 June 2015.

five options for renewal for large supermarkets. This means that exclusivity for large supermarkets can span for over 30 years.⁵³ While exclusive leases might arguably be justified in the initial phases of the investment to allow the anchor supermarket to recoup its investment, gain footfall, and establish a market, it is hard to see how such justifications can be reasonable for clauses that span several decades. This is especially the case if supermarkets are able to recoup their investments within a few years of establishment, which appears to be the case typically.⁵⁴

It also appears that small property developers, particularly for developments in rural areas, who do not have bargaining power against major supermarkets are more inclined to succumb to entering into leases with exclusivity clauses to kick-start developments. Lack of competition has far-reaching consequences in rural areas where pricing is a key factor for low-income consumers.⁵⁵ Further, small specialized businesses in rural areas like grocers, bakers, butchers, delicatessens, etc. are prevented from locating in centres if there is exclusivity.⁵⁶

Models of retailing, whether franchise or corporate, also appear to impact on whether the supermarket insists on exclusive leases. It appears that in the case of franchise stores, individual store owners typically insist on exclusivity clauses in leases to protect their individual investment.⁵⁷ SPAR has existing exclusive lease agreements in place for some of its stores. According to SPAR, individual owners typically invest around ZAR5-10 million to set up the store and these owners often insist on exclusivity clauses in leases.

A range of other strategic behaviour under ‘A.’ in Figure 3, such as predatory pricing (or zone pricing⁵⁸ in the supermarket industry), land banking practices, and collusive conduct, has been investigated by competition authorities in the UK and in Australia, although there have been no concluded cases in the selected southern African countries.

The second set of concerns involves vertical restraints and other practices by supermarkets such as introducing private labels which could result in the foreclosure of independent suppliers (‘B.’ in Figure 3). Such practices can affect competition at the various upstream levels (producers, manufacturers, processors—suppliers in general).

Supermarkets in both developed and developing countries are increasingly producing their own brands of food and household products (see OECD 2013 for an account of the growth of private labels in European supermarkets). These private label brands are proving to be highly successful and fast sellers for supermarkets as they compete aggressively on price, value, and quality, particularly for cost-conscious customers. Given the lack of significant branding and advertising for many of these products, their costs of sales are often lower than other well-known branded products. This has raised concerns for suppliers of branded products in instances where supermarkets favour their own private labels at the expense of theirs. It has also

⁵³ Unpublished interview with Retail Network Services, conducted by the authors on 11 June 2015.

⁵⁴ This was the view of most of the property developers interviewed.

⁵⁵ Unpublished interview, conducted by the authors on 21 September 2015 with Fontis Developments, a property developer who predominantly develops shopping centres in rural areas. This was also confirmed by SAPOA.

⁵⁶ Unpublished interview with Fontis Developments, conducted by the authors on 21 September 2015.

⁵⁷ Unpublished interview with SPAR, conducted by the authors on 11 August 2015.

⁵⁸ This is a practice by multi-store chain retail stores where prices are cut only in the geographic regions where the new entrant is located.

raised concerns around the bargaining power of retailers against branded manufacturers/suppliers, and concerns around increased store loyalty for consumers.

Further, there are concerns that private labels could potentially also lead to lower levels of innovation when brands are just copied. There is a horizontal element to private labels too as they are seen as a method by which retailers can differentiate themselves from other retailers. However the competitive impact of private labels is ambiguous. Mills (1995) suggests that private labels are welfare-enhancing as double mark-ups are eliminated and that the additional competition created between the brand and private label could lead to lower prices. But other studies suggest that private labels actually result in an increase in price of the branded product given a core base of loyal customers for the branded product (OECD 2013).

There has indeed been growth in private label products in supermarket shelves in southern Africa. Every major supermarket chain has their own brand/label product. Shoprite has its 'Ritebrand' and 'Housebrand' in Checkers, which covers around 300 products (Enslin-Payne 2011). Pick n Pay has its 'No Name' brand and they are looking to further expand their own label range. Food Lover's Market produces its own house brands 'Freshers' and 'Food Lover's Signature' for products such as toilet paper, tomato sauce, etc. SPAR also has its own branded products. SPAR does not allow major suppliers like Tiger Brands to manufacture its own private label products, thus allowing smaller players to enter the supply chain. New entrant Choppies has 50 of its own branded products, including food, beverages, household cleaning products, and cosmetics. Private labels are therefore a way in which supermarkets can differentiate themselves as well as a means of supporting small local suppliers.

Private or own label brands tend to perform better in that they have higher profit margins (given lower costs due to no advertising and marketing margins added on by suppliers). However, new entrants may not be vertically integrated with manufacturers, or may not be able to launch their own label brand without first establishing a market presence and reputation. In this sense, private labels of large incumbents may act as a barrier to entry.

This development in the business model of supermarkets in southern Africa confers some bargaining power to supermarkets over large suppliers. In some instances, brands are developed explicitly by the supermarket to provide it with leverage against dominant suppliers.⁵⁹

Irrespective of development of private labels, South African supermarket chains both in South Africa and in the region still have considerable market power. Market power refers to a situation where firms are able to act independently of their suppliers, customers, and competitors in a market. Acting independently of suppliers can take the form of buyer power. This has led to concerns over the impact of the exertion of buyer power on upstream suppliers to supermarkets.

Buyer power has been defined as:

... the situation which exists when a firm or a group of firms, either because it has a dominant position as a purchaser of a product or a service or because it has strategic or leverage advantages as a result of its size or other characteristics, is able to obtain from a supplier more favourable terms than those available to other buyers (OECD 2013:23); and

⁵⁹ Unpublished interview, conducted by the authors on 22 July 2015, with a coffee supplier to supermarkets who has requested confidentiality.

A firm or group of firms obtain from suppliers more favourable terms than those available to other buyers or would otherwise be expected under normal competitive conditions (Dobson et al. 1998: 5).

Dominant supermarkets can exert buyer power by suppressing the price they pay to suppliers of products, imposing contract terms that suit them, requiring payments from suppliers in return for shelf space, etc. At first glance, it may appear that buyer power serves to reduce the price paid by supermarkets to suppliers, thereby reducing costs. If such cost reductions are passed on to consumers, then consumer welfare is increased. Therefore buyer power may not be considered harmful to the end consumer.

Nevertheless, buyer power can be harmful to the competition process if the intention of the dominant supermarket is to exclude its rivals from the industry. Several jurisdictions, such as Canada, UK, and Germany, view buyer power as a competition concern only if this is the intention (OECD 2013).⁶⁰ This could occur if the dominant supermarket uses its buyer power to enter into exclusive agreements with key suppliers, preventing them from supplying ‘must-have’ products to rival supermarkets. Specific to the supermarket industry, abuse of buyer power can result in what is called the ‘waterbed effect’, where large retailers negotiate price reductions with suppliers that are not cost-related, and then the suppliers increase prices to smaller grocery retailers and wholesalers to compensate for this (Davis and Reilly 2009). The buyer power of supermarkets will be investigated further in the broader study.

Further, abuse of buyer power can create onerous conditions for suppliers to adhere to, which limits the ability of small-scale local suppliers to enter and compete in the supermarket value chain. Requirements such as slotting allowances/fees that suppliers have to pay for to access shelf space or specific placements; and category management practices (which refers to a relationship between a supplier and retailer in managing an entire product category) could make it difficult for smaller suppliers to get their products on supermarket shelves.

6 Capabilities required by suppliers to participate in supermarket value chains

The procurement and sourcing strategies of key retail chains like Shoprite and Pick n Pay have a significant impact on domestic suppliers in the host countries with regards to participation in the value chain and capabilities development (Reardon et al. 2004; Humphrey 2007). Supermarkets have moved away from spot purchases to adopting specialized procurement agents or procuring directly from growers, giving them direct influence over quantities, terms of delivery, and product quality. This can have the adverse effect of shrinking the supply base by using only preferred suppliers. Also as explained, modern supermarket chains are shifting towards using own centralized DCs supplying a broad range of stores and away from the traditional store-by-store procurement models.

Large supermarkets are also imposing escalating private quality standards on suppliers (Boselie et al. 2003; Humphrey 2005). The capabilities of local producers and suppliers, particularly small-scale farmers, small food processors, and producers of household consumable goods, to reach the required scale, quality, and standards to enter into the supply chains and compete with imports is of importance. Marketing fresh food produce to supermarkets in particular has been

⁶⁰ The UK Competition Commission implemented the Groceries Supply Code of Practice (GSCOP), based on the existing Supermarkets Code of Practice (SCOP) to counter concerns of buyer power (Competition Commission UK 2008).

difficult in SSA as often the institutional, as well as public and private physical and financial infrastructure support systems are weak (including packing houses, cold chains, shipping equipment, credit facilities, standards, certification processes, etc.). Local producers are usually responsible for all post-harvest activities up until the product is delivered to a DC or a supermarket. Particularly for fresh fruits and vegetables, Sanitary and Phytosanitary protocols are important (Tshirley 2010).

The modernization of procurement systems has placed considerable pressure on local suppliers with regards to their costs, the volumes they are able to supply, and the consistency and quality of their products (Dakora 2012). Reardon and Hopkins (2006) find that supermarkets tend to source from medium and large suppliers of meat, dairy, and processed food companies. Fresh produce also tends to be sourced from medium- to large-scale farmers, which presents difficulties for small-scale farmers in developing countries especially if they do not supply export markets. Supermarkets only tend to source indirectly from smaller-scale farmers through wholesalers and processors, but even these smaller-scale farmers are those that have better capital assets, equipment, infrastructure, and inputs access as well as training advantages. If supply from small-scale farmers is critical, often the intermediaries between supermarkets and the small-scale farmers have to assist with training and credit facilities. Farmers and food processors need to implement improvements in technological, managerial, organizational, and financial operations to successfully compete in supermarket supply chains. Eighty per cent of small-scale farmers in southern African countries are subsistence farmers and depend on traditional wet markets instead of supermarkets to sell their produce, even though the latter is more lucrative.

Existing reviews suggest that such investments in developing supplier capabilities are not happening at the pace required to maintain competitiveness (Emongor and Kirsten 2006). There are, however, small groups of farmers with strong capabilities in Zambia and Zimbabwe supplying UK supermarkets. UK supermarkets, such as Tesco and Marks & Spencer are increasingly imposing tighter standards throughout the value chain and in an effort to meet the new requirements, local suppliers have responded by restructuring their operations, upgrading infrastructure, facilities, processes, and logistics' handling (Kaplinsky and Morris 2014). The local upgrading processes were made possible through the effective co-operation between government and the local suppliers which was key in designing and implementing appropriate policies targeting local upgrading processes.

In South Africa, it appears that small suppliers face numerous costs just to participate in supermarket value chains, even before a single unit of their product is sold. For instance, if a new product is to be launched, suppliers may need to pay the supermarket a marketing budget. In addition, suppliers might pay listing fees or slotting allowances to get shelf space. Further, if the supplier's product goes through the DC of the retailer, the supplier may be charged a distribution allowance (a notional charge that proxies what they would pay if they actually delivered to stores). Suppliers in many cases also have to pay a swell allowance. This is a payment that compensates for damaged or spoiled products that would be too cumbersome to physically be returned to the supplier (or in the case of perishable products, not practical to be returned at all).⁶¹ Further, all costs relating to promotions have to be paid by suppliers, over and above negotiated trading terms.⁶² Whether similar costs apply in the region will be further investigated.

⁶¹ Unpublished interview with Massbuild, conducted by the authors on 9 June 2015.

⁶² Unpublished interviews with Astral Poultry 2015, conducted by the authors on 22 October 2015, and with Botselo Mills on 30 October 2015.

Nevertheless, as mentioned in Section 4, supplying independent retailers potentially is less costly and offers an important alternative route to market for local suppliers.

In recent years, local content policies have emerged in certain SADC countries. This also affects development of the local supplier base and their participation in the supermarket value chain. For instance, Zambia embarked on a local content initiative (although not yet a formal policy) about three/four years ago. While the implementation has been sluggish, it appears that certain South African supermarket chains in Zambia, such as Pick n Pay and Shoprite, have taken this initiative on board and increased their local procurement proportions as well as invested in developing local capabilities. Pick n Pay Zambia committed to targeting 50 per cent local content within five years (from 2011) and had already achieved 50 per cent local procurement of fruit and vegetable content within one year (Pick n Pay 2014). Pick n Pay has also replaced certain imported brands of household cleaners with locally manufactured products. While only 25 per cent is currently imported directly, this share accounts for 80 per cent of the range of products, suggesting that value addition is still limited in Zambia. Shoprite claims that 70 per cent of their stock is sourced and produced in Zambia. However, it is unclear what level of value addition these are at (Fessehaie et al. 2015). In general, such initiatives and opportunities for developing local capabilities although in existence remain underdeveloped and appear to be small in scale, and the majority of food products are still imported mainly from South Africa (see Section 7). Botswana also appears to promote local content requirements, especially as part of government procurement policy (Zizhou 2009). It is unclear at this stage how aggressively this is pursued and how it affects supermarkets, if at all.

7 Growth of supermarkets and effect on regional trade flows

One of the objectives of the broader project is to identify the impact of the spread of supermarkets on regional exports and imports. This section assesses how the growth and expansion of supermarkets in the region has affected trade patterns between the selected countries in the region. The expansion of supermarkets appears to be driving important changes in imports and exports of food and household products within the region.

7.1 South Africa

The majority of South African food imports likely to be on supermarket shelves are deep-sea imports and not from SADC countries (Table 3). However, the same is not true when South African food exports are examined, the majority of which are progressively going to the region. The growth in food exports to the region can be attributed to the spread of supermarkets, given that they are an increasingly important route to market. Poultry and preparations of cereal, flour, starch, milk, pasta, and biscuits show the highest average annual growth rate in exports with an average annual growth rate of 23.6 per cent and 20 per cent respectively over an 11-year period during 2003–14. Cereals (wheat, rice, rye, barley, oats, maize, corn), sugar and confectionery, and miscellaneous edible preparations (yeast, baking powders, soya sauce, tomato ketchup, soups) record the highest growth in absolute terms. The above trends concur with past studies that the growth of supermarkets in food retailing is associated with increased sales of processed, dry, and packaged foods such as noodles, milk products, and grains. A key reason for this is that supermarkets have the advantage of economies of scale and such dry products have a longer shelf life (Weatherspoon and Reardon 2003).

The rapid growth of South African exports into the region is closely linked to the supermarket take-off which started in the early 2000s. The trade patterns reinforce the trend of South African supermarkets operating within the region using centralized procurement systems, where

supermarkets in the region directly source most of their products from DCs in South Africa. Lower costs through investments in DCs and logistics by supermarkets appear to have facilitated greater regional trade.

Table 3: Imports and exports by South Africa (USD)

Product Description		2003	2008	2014	CAGR % (2003–14)	Top sources and markets (2014)
Poultry	Imports	73,394,507	189,645,147	374,581,688	15.97	Brazil, Netherlands, UK, Germany
	Exports	9,852,894	7,238,741	101,640,443	23.63	Mozambique, Lesotho, Namibia, Botswana
Beef (fresh and frozen)	Imports	9,637,729	12,825,980	65,114,875	18.97	Botswana, Namibia
	Exports	14,075,723	16,569,468	102,867,315	19.82	Mozambique, Swaziland, Lesotho
Dairy products, eggs, honey*	Imports	42,158,372	97,522,456	152,888,949	12.43	France, Germany, New Zealand
	Exports	44,579,156	55,211,469	296,104,734	18.78	Mozambique, Botswana, Namibia
Preparations of cereal, flour, starch, milk preparations	Imports	39,397,258	115,590,691	138,768,341	12.13	UK, Germany, Italy
	Exports	32,069,361	55,882,514	240,215,159	20.09	Botswana, Namibia, Zambia
Preparations of meat, fish, crustacean**	Imports	34,076,747	129,822,083	199,051,855	17.4	Thailand, Namibia, China
	Exports	17,826,661	40,747,309	131,132,212	19.89	Lesotho, Namibia, Hong Kong
Miscellaneous edible preparations	Imports	78,154,745	212,843,050	318,215,443	13.61	USA, Germany, Netherlands
	Exports	74,546,554	167,069,64	449,925,510	17.75	Mozambique, Namibia, Zimbabwe
Sugars and sugar confectionery	Imports	45,437,506	148,999,454	412,121,023	22.2	Swaziland, Brazil, China
	Exports	251,608,454	249,477,825	526,583,004	6.94	Namibia, Botswana, Mozambique
Products of the milling industry	Imports	36,261,793	88,990,254	126,001,049	11.99	Belgium, Australia, Lesotho
	Exports	43,063,798	92,216,632	219,971,275	15.98	Zimbabwe, Angola, Lesotho
Cereals	Imports	361,856,665	953,714,328	994,253,896	9.62	Russia, Thailand, India
	Exports	156,487,787	678,365,052	804,438,784	16.05	Taipei, Zimbabwe, Botswana
Soaps, organic surface-active agents, polishes and creams	Imports	60,476,452	137,104,934	261,595,475	14.24	USA, UK, Germany
	Exports	62,154,886	117,391,849	388,545,268	18.13	Zimbabwe, Mozambique, Zambia, Botswana

Notes: *Dairy products, eggs, honey (powdered milk, yogurt, cream, butter, and cheese); **Preparations of meat, fish, crustacean (sausages, swine hams, tuna, shrimps, and prawns).

Source: Authors' illustration based on Trademap Database (2015) and UN Comtrade Database (2015).

The increase of South Africa's exports to Lesotho, Namibia, Swaziland, and Botswana can be attributed to developments in the Southern African Customs Union, which saw the increase in

the value of recorded traded exports. Growing exports to Mozambique are largely driven by urbanization and higher incomes, the main factors driving the spread of supermarkets into the region

7.2 Zambia

Zambia's food imports are likely to be driven by the significant entry of South African supermarkets into the country. Past studies have shown that over 80 per cent of all processed food products in supermarkets in Zambia are imported from South Africa (Emongor and Kirsten 2009).⁶³ As can be seen in Table 4, most categories of imports are from South Africa. Poultry and beef imports from South Africa have the highest annual growth rate of around 65 per cent and 47 per cent respectively, over an 11-year period from 2003–14. However the biggest growth in absolute terms is recorded in miscellaneous edible preparations of cereals, flour, starch, milk and dairy products, eggs, and honey.

In terms of exports, Zambia's key export markets are DRC, Zimbabwe, and Malawi. The significant average annual growth rate of 44.7 per cent in exports of soaps, organic surface-active agents, polishes, and creams to Zimbabwe, Namibia, and Botswana shows signs of industrialization in Zambia, although it is still at early stages of development. This might be explained by the growth of Trade Kings Limited, a Zambian firm, operating in the region. Trade Kings specializes both in the production of detergents, washing powders, and soaps, and in candle manufacturing (through its subsidiary, Sparlite Candle Limited) for industrial and domestic use. Trade Kings is a key exporter of soaps in the Southern African region (Sutton and Langmead 2013). Cereals and preparations of cereals, flour, starch, and milk have also shown high growth rates of 25 and 42 per cent respectively.

Zambian exports to DRC are likely to be through Katanga due to its proximity to the Copperbelt province in Zambia. Katanga is located close to the Zambian border which makes DRC more of a home market allowing for easy exports from Zambia. Zambian exports to the DRC are unlikely to face competition from South African supermarkets already operating in the region. Zambia's exports to DRC are largely driven by the growth of local supermarkets and independent retailers in Katanga given that it is a rich mining province where the local people have access to incomes, creating demand for products through supermarkets.

⁶³ Following a survey carried out in Botswana, Namibia, and Zambia in 2004, 2005, and 2007 respectively.

Table 4: Imports and exports by Zambia (USD)

Product Description		2003	2008	2014	CAGR (%) (2003–14)	Top sources and markets (2014)
Poultry	Imports	15,934	95,237	4,027,346	65.36	SA, Brazil, Ireland
	Exports	170,514	97,902	87,648	-5.87	DRC
Beef (fresh and frozen)	Imports	7,258	4,927	497,527	46.86	SA, Namibia, Botswana
	Exports	22,706	269,398	240,829	23.95	DRC
Dairy products, eggs, honey	Imports	3,162,763	12,980,533	29,071,598	22.34	SA
	Exports	1,144,571	3,295,089	6,965,987	17.84	Malawi, Kenya, Zimbabwe
Preparations of cereals, flour, starch, milk preparations	Imports	4,695,426	14,245,545	31,639,140	18.94	SA
	Exports	311,687	2,453,978	14,247,585	41.55	Zimbabwe, DRC, Malawi
Preparations of meat, fish, crustacean	Imports	562,106	1,249,422	2,847,561	15.89	SA, Thailand
	Exports	251,478	304,599	302,601	1.70	Zimbabwe, DRC
Miscellaneous edible preparations	Imports	7,188,726	10,454,996	34,463,803	17.57	SA, Kenya
	Exports	2,184,709	1,791,582	10,096,934	14.93	DRC, Zimbabwe, Malawi
Sugars and sugar confectionery	Imports	3,429,020	8,472,073	9,217,714	9.41	SA, China
	Exports	33,289,720	64,276,191	221,561,348	18.81	SA, DRC, Europe
Products of the milling industry	Imports	19,461,415	9,343,137	8,235,680	-7.52	Belgium, France, Zimbabwe, SA
	Exports	5,261,078	33,267,897	47,586,385	22.16	DRC, Tanzania, Zimbabwe
Cereals	Imports	74,923,787	31,313,245	10,794,808	-16.15	SA, Vietnam
	Exports	6,678,480	51,411,026	78,155,049	25.06	Zimbabwe, Tanzania, Malawi
Soaps, organic surface-active agents, polishes and creams	Imports	16,954,619	24,619,175	55,012,426	11.29	USA, UK, Germany
	Exports	626,173	9,792,391	36,580,772	44.74	Zimbabwe, Namibia, Botswana

Source: Authors' illustrations based on Fessehaie et al. (2015) and UN Comtrade Database (2015).

7.3 Botswana

The large supermarkets (both South African supermarkets and Choppies, the latter of which holds a significant market share in Botswana) drives imports into Botswana of food and household products from South Africa. The demand for imports is exacerbated by the fact that Botswana does not grow or produce many food products, specializing in exports of mainly diamonds and beef. Poultry, sugar and confectionery, and cereals imports show the highest average annual growth rate of 16 per cent, 7 per cent, and 8 per cent respectively, over the 11-year period during 2003–13 as shown in Table 5. In terms of absolute values, cereals, sugars and sugar confectionery, dairy products, eggs, and honey show the highest growth.

Table 5: Imports and exports by Botswana (USD)

Product Description		2003	2008	2014	CAGR % (2003–14)	Top sources and markets (2014)
Poultry	Imports	932,169	4,647,540	4,924,174	16.33	SA
	Exports	3,796	215,383	8,135	7.18	Namibia
Beef (fresh and frozen)	Imports	354,863	149,242	1,996,836	17	SA
	Exports	64,330,823	90,341,139	114,645,287	5.39	UK, SA, Netherlands
Dairy products, eggs, honey	Imports	56,171,269	59,019,830	58,481,054	0.4	SA
	Exports	179,571	503,951	368,854	7.46	Zimbabwe, SA
Cereal, flour, starch, milk preparations	Imports	24,699,496	28,838,104	42,221,705	5.51	SA, Namibia
	Exports	7,234,889	7,376,680	2,295,443	-10.85	Zimbabwe, SA
Preparations of meat, fish, crustacean	Imports	8,897,708	9,829,751	13,582,514	4.32	SA, Namibia
	Exports	347,213	1,224,699	913,584	10.16	SA, Zimbabwe
Miscellaneous edible preparations	Imports	56,573,170	42,222,231	51,854,817	-0.87	SA
	Exports	744,683	662,339	358,049	-7.06	SA, Zimbabwe
Sugars and sugar confectionery	Imports	33,815,259	48,935,354	68,125,438	7.26	SA, Zambia, Zimbabwe
	Exports	11,269,929	12,113,814	15,413,842	3.18	SA
Products of the milling industry	Imports	29,011,013	39,606,355	20,217,877	-3.55	SA, Mauritius, Namibia
	Exports	1,101,336	536,698	3,013,909	10.59	Zimbabwe, SA
Cereals	Imports	59,600,675	72,221,614	130,542,183	8.16	SA, Zambia
	Exports	2,303,406	1,284,876	17,106,959	22.2	SA, Zambia
Soaps, organic surface- active agents, polishes and creams	Imports	58,773,967	52,555,207	53,883,091	-0.01	SA
	Exports	1,005,567	1,329,415	5,320,890	16.35	Zimbabwe, SA, Namibia

Source: Authors' illustration based on Trademap Database (2015) and UN Comtrade Database (2015).

7.4 Zimbabwe

Zimbabwe's exports have significantly declined over a 12-year period during 2002–14 with most export products recording negative average annual growth rates (see Table 6). This is mainly due to a shrinking manufacturing sector and stagnant economy. Entry of South African supermarkets into Zimbabwe has fuelled the demand for food and household imports from South Africa given the proximity to South Africa. In absolute terms, imports of household products and cereals recorded the highest growth. On the other hand, exports of sugars and sugars confectionery are one of the only growing exports, at a rate of 8.5 per cent between 2002 and 2014.

Table 6: Imports and exports by Zimbabwe (USD)

Product Description		2002	2008	2014	CAGR (%) (2002–14)	Top sources and markets (2014)
Poultry	Imports	118,044*	1,419,500	6,417,695	35.98	SA, Botswana
	Exports	202,224*	28,627	-	-	-
Beef (frozen)	Imports	25,715*	198,361	829,029	30.63	SA
	Exports	45,293*	65,036	-	-	-
Dairy products, eggs, honey	Imports	7,169,264	19,294,211	37,102,071	14.68	SA, Malta, New Zealand
	Exports	25,662,866	5,214,509	963,427	-23.93	Nigeria, Mozambique, Botswana
Cereals, flour, starch, milk preparations	Imports	9,193,320	52,794,213	44,092,021	13.96	SA, Zambia, Botswana
	Exports	16,187,267	2,484,606	3,309,924	-12.39	Zambia, SA, Botswana
Preparations of meat, fish, crustacean	Imports	1,593,427	607,311	6,518,428	12.46	SA, Namibia, Thailand
	Exports	3,101,682	1,344,924	155,826	-22.06	SA, Mozambique, Zambia
Miscellaneous edible preparations	Imports	14,894,049	10,222,081	53,308,495	11.21	SA, Zambia, Kenya
	Exports	5,034,716	1,721,024	1,943,063	-7.63	Zambia, Mozambique, SA
Sugars and sugar confectionery	Imports	3,128,953	4,712,846	42,355,800	24.25	SA, Zambia, UAE
	Exports	57,385,012	42,567,171	153,156,258	8.52	Mozambique, SA, Botswana
Products of the milling industry	Imports	28,134,904	35,402,949	54,845,252	5.72	SA, Mozambique, Botswana
	Exports	5,084,210	1,888,746	2,750,917	-4.99	Zambia, Malawi, Mozambique
Cereals	Imports	54,854,112	215,703,020	331,649,255	16.18	SA, Thailand, Zambia
	Exports	11,610,447	20,664	1,218,699	-17.13	Zambia, SA, Mozambique
Soaps, organic surface-active agents, polishes and creams	Imports	3,957,208	31,292,635	96,152,890	27.82	SA, Zambia
	Exports	1,423,286	195,608	324,982	-10.74	SA, Zambia

Note: *2001 data, no data for 2002.

Source: Authors' illustration based on Trademap Database (2015) and UN Comtrade Database (2015).

The trends in imports and exports in this section show that the spread of South African supermarkets appear to be driving the demand for imports of food and certain household consumable products in the selected countries in the region. South African supermarkets operating within the region procure a large proportion of products directly from South Africa. Expansion of supermarkets has not only benefited South Africa but has increased exports of certain products from other countries within the region (for example Zambia's exports of household products and cereals have significantly grown).

8 Conclusions

This paper has mapped the growth and spread of supermarkets in the southern African region, and growing trends in independent retailing in South Africa. It has highlighted the strategy of most supermarket chains extending their offering to target customers across the full range of LSMs, either through franchise or corporate stores. There has been a particular focus by supermarkets on increasingly targeting low-income consumers, either by opening new stores or by acquiring existing stores targeting this segment. In South Africa at least, most of the supermarket chains have diversified their formats to include hypermarkets, convenience stores, express stores at fuel forecourts, fast food offerings, etc. The paper has also shown a reversal in the trend of only South African supermarkets spreading into the region, with the recent rapid growth of Botswana-owned Choppies.

A range of structural and strategic barriers to entry that affect the competitive landscape in South Africa were evaluated in this paper. This provides an indication of the likely barriers in the other selected countries in the region. The structural barriers to entry are largely a function of the inherent characteristics of supermarkets. The biggest of these barriers are the substantial investments required in DCs (and the associated economies of scale benefits) and significant advertising/promotions costs. The most prevalent strategic barrier appears to be the practice of incumbent supermarkets entering into exclusive leases with property owners in South Africa. While the practice is less prevalent in recent years (given increased awareness following the Competition Commission's intervention, larger sized shopping malls, etc.), new entrants and specialist retailers particularly in smaller shopping centres in rural areas appear still to be affected. Reducing such barriers to entry would require firm undertakings by the incumbent supermarkets either not to enter into such agreements at all, or to reduce the duration of the exclusivity clauses. In turn, this would require stronger enforcement by the competition authorities (as opposed to just passive advocacy, which has clearly not worked in the past in South Africa) grounded in a view that such conduct has a distortionary effect on competition.

The resurgence and growth of independent retailers, either on the back of strong buying groups or offshoots from wholesalers through hybrid models, was also highlighted in this paper. This reveals an interesting alternative model to traditional supermarket chains in South Africa for consumers, new entrants, and local suppliers alike. For low-income consumers, they offer a range of branded products as the supermarkets do, often at lower prices given the low overheads incurred. For new entrants, the buying groups or wholesalers can significantly reduce the main barriers to entry identified (scale and scope barriers, investment in DCs, advertising cost barriers, investing in building retailers' capabilities, etc.). For suppliers, independent retailers offer an important alternative route to market to traditional supermarkets. Supermarkets are increasingly imposing escalating standards and conditions on suppliers, and independent retailers' requirements are likely to be less onerous than those of supermarkets.

Evaluating recent trends in trade patterns, this paper has shown an increase in regional trade in food and certain household consumable products on the back of the growth and spread of supermarkets in the region. Lower costs through investments in DCs and logistics by supermarkets appear to have facilitated greater regional trade in these products. While exports from South Africa to the selected countries dominate the trade flows (a reflection of procurement from centralized DCs in South Africa), the expansion of supermarkets has also increased exports of certain products from other countries within the region. This highlights opportunities for product value chains that could be developed to encourage greater regional industrialization through supermarkets and independent retailers as a route to market.

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