Grocery Retail Sector Market Enquiry

The Paper To The Grocery Retail Market Stakeholders

Comments by Jad Perreira, CEO of Unitrade Management Services

On the Chairman's Statement of the Issues

1. **Clause 2.3**: Information received by the commission from the likes of voluntary trading associations and buying groups unfortunately for the most part does not carry proof. It must be noted that there are no manufacturers that would risk exposing the abuse and anti competitive behaviour by the big 5 grocery retailers. The fear of reprisal is too great. This in our view is an indication/ demonstration of the market power held by the larger supermarket chains.
2. On the other hand there are also "the big five " amongst the manufacturers: Nestle; Unilever; Tiger group; Pioneer; Foodcorp RCL; Premier. These are also very powerful in the supply chain and they far too easily find their margins/ profits more from the independent trade rather than the big five distributors.
3. **Clause 4.1**: Prevent; distort; restrict. All three are in existence. Certain behaviours from both the big retailers and the big manufacturers will prevent/distort/restrict. Behaviours such as distribution inequalities; inhibiting access to mainline suppliers; independents being given a break into small regional malls; pricing; stock allocations; stock availability; and export behaviour from some suppliers ae also issues. For example, stock is supplied at export pricing (sometimes below 20 to 30% of the South African price). These goods are delivered to a South African warehouse , VAT is charged and paid for, and the stock barely leaves our shores. By this behaviour selecting 5 to 7 "exporters" - and some of these are not "honest" businesses - the prices they take to the South African market excludes so many independents and the "privileged few" tie up the market unfairly.
4. **Clause 6:** To promote competition there needs to be a cessation of certain behaviours from both the retailers and the manufacturers. As stated above distribution inequalities; export behaviours; pricing; etc. Major chains using value added trading terms to discount pricing. I.e . Loyalty cards; distribution allowances; etc. The issue here is that being denied entry/ access to these loyalty programs has a dampening effect on the UMS business but critically how these programs can be used to "mask" the unfair business practices that the

manufacturers are forced to implement to avoid reprisal from the larger supermarket chains.

5. **Clause 7:** This is incorrect. It is stated here that before 1994 small informal businesses supplied residents in townships /peri-urban and rural areas with groceries. These areas were supplied by non-white businesses either in the townships or on the outskirts of townships. These were not small by any means (although they may have begun small); they grew to become huge wholesalers and distributors serving the markets. However, once these goods were bought from these non-white businesses the local South African sold those goods through small retail outlets of many forms. It is the change in the way the supply chain currently functions (i.e adding dedicated distributors) that has had an impact on how the independents (formal and informal) in these areas operate.
6. **Clause 7.1**: There has in my opinion not been a decline in the number of informal businesses. There has in fact been an increase. The foreign traders have by far exceeded the South African entrepreneur for many reasons, one of which is they are able to run their businesses very lean on low cost and low margins, whereas many of the South African entrepreneurs were simply charging too much for the goods. Crime has had a part to play also though. Foreign traders will buy counterfeit stock; expired stock; stolen stock and, I am sure, very little tax is paid.
7. **Clause 9**: Certain features of the grocery retail supply chain, such as buyer groups. The industry has managed to compete/survive by the creation of these buying groups that were able to leverage volume to enjoy some "economies of scale ". Although these economies were well beyond those of the majors they still went a long way to bringing the supplier to listen and react in a more positive manner regarding trading terms and distribution. Some of these buying groups evolved into voluntary trading associations where the offerings are found to be similar to what head offices/support offices do for their own corporately owned stores. The economies of scale allowed these groups to offer services and products to independent stores that they themselves could never afford on their own. It is a well known fact that these groups operate lean businesses in order to pass on most of the benefits back to the independent. However, these percentages, known as "trading terms", are not offered to the independents and the additional benefits earned outside of "invoiced goods" are often used to take market share unfairly from the independent trade. Looking at buying groups and voluntary trading associations and stand alone independents their profit before tax is often less than 1%. Compare this to the larger chains at 5% to 3, 5%. With such large expense bases to run these conglomerates we cannot accept that manufacturers are being

squeezed to provide more. Manufacturers however produce 7,5 to 14% profit before tax. Surely there is something wrong here. If this is the case then we as consumers are paying too much!

8. **Clause 11**: It is a concern that the Commission's view of the independent is one of "small". See my comments in (5) above.
9. **Clause 12**: The effect of the national chains moving into townships. When their sole purpose is to dominate this is a problem. When they push for abnormal market dominance it becomes an issue. Government allows this. For example, in a small rural town like Burgesfort there are two Shoprites, one Usave, and one Checkers, all competing with 2 to 3 great independents. To allow the chains to dominate is not good for competition . What the Commission needs to know is that the independents keep prices low. Not the listed businesses! So when the listed businesses deliberately build strategies to take market share from the independents, and when that independent finally closes down, then prices will go up. Major chains are listed companies designed to produce additonal value to the share price. The independent's drive is to make a profit for his family. Allow the independent to live. Do not allow the majors more than a specific market share and you will keep the balance right.
10. **Clause 12.5**: The impact of buying groups on small independents. These can only be positive! The lower the prices the spaza can buy at the lower the prices he can sell at. Buying groups give the independent critical mass. Small spaza/stokvel stores have more choice and they are fed by these larger independent wholesalers/distributors that sell at lower margins.
11. Some of these independent chains like UMS have built academies and provide training to the independent stores. However, some ruthless training companies are "bucking the system " to enrich themselves without much training being done. This issue needs to taken up with the SETAs and relevant ministries.
12. **Clause 14**: How do we incentivise the independent to grow? The Inquiry could consider some combination of the followin: Tax incentives; staff incentives/employment incentives; banking incentives; training incentives; loans to expand, via IDC; offer of sites, local and regional malls or developments.
13. **Clause 20.3**: The degree of competition from both chains and manufacturers. The behaviour of both is important; we find the behaviour of some manufacturers to exclude independents to be abhorrent.