The internationalisation of supermarkets and the nature of competitive rivalry in retailing in southern Africa

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Impact of the spread of supermarkets on consumers and suppliers

- Rapid spread of supermarkets in s. Africa in the past 2 decades
- Benefits for **consumers**: potentially lower prices, one-stop-shop, convenience, variety etc.
- Benefits for **suppliers**: growing route to market (RTM) for farmers, agro-processors and light manufacturers:
  - Opens up opportunities to access regional markets
  - Support entry and growth into regional value chains
- BUT anticompetitive and exclusionary conduct of supermarkets with market power can limit these benefits
- Research looked into spread of supermarkets in SA, Botswana, Zambia & Zimbabwe
  - impact on suppliers and competition dynamics
What has driven internationalisation?

- Rising levels of urbanisation & income
- Greater sales & profits in southern Africa: asset exploiting / new market-seeking theories of internationalisation
- Increased FDI, trade liberalisation
  - Clear growth in trade of products sold on supermarket shelves
- Modernisation of procurement systems & centralised distribution resulting in economies of scale
- ‘Ownership’ and ‘Location’ advantages
Retail landscape and degree of internationalisation

- RTM differ in the different countries
- Country-specific political, social and economic context determines the rate and extent of internationalisation
A few regional multinational supermarkets dominate formal markets in the region.
Lack of competition can harm consumers and suppliers

• Compete on multiple aspects: ‘Price-Quality-Range-Service’ - Format

• High concentration limits options for suppliers and exposes them to potential abuses of buyer power

• Structural and strategic barriers to entry

• Strategic practices keep rival supermarkets out, maintaining high concentration:
  o Exclusivity clauses in leases in shopping malls

• Buyer power of supermarkets - trading terms:
  o Listing fees
  o Advertising and promotional rebates
  o Long payment periods, onerous requirements, private standards, packaging requirements (bar codes) etc.
  o Access to good shelf space

• Conduct ‘exported’ to the region by SA supermarkets
New entry and alternative business models illustrate benefits of competition

| Fruit and Veg City/Food Lover’s Market | • Identified gap for fresh produce  
                                      | • Direct procurement from municipal markets – alternative RTM for farmers  
                                      | • Efficient and lean operations  
                                      | • Lower prices and greater choice for consumers  
                                      | • Prices 20-25% lower  
                                      | ... but has taken a long time |

| Choppies Enterprises                   | • Regional chain  
                                      | • Targets low-income consumers in rural areas & along taxi routes  
                                      | • Cheaper products (house brands); long opening hours  
                                      | • Alternative RTM for suppliers |

| Independent retailers                  | • Choice and convenience for low-income consumers, esp. in townships  
                                      | • Successful ones supported by buying groups  
                                      | • Alternative business model for new entrants  
<pre><code>                                  | • Alternative RTM for suppliers – less onerous requirements |
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<table>
<thead>
<tr>
<th>Supplier</th>
<th>Supplier Development Programmes</th>
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<tr>
<td><strong>WOOLWORTHS</strong></td>
<td>Supports small, medium, black-owned &amp; black women-owned suppliers (3-5 yrs)</td>
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<tr>
<td><strong>Pick n Pay</strong></td>
<td>Enterprise &amp; Supplier Development Scheme (1 yr)</td>
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<td><strong>SPAR</strong></td>
<td>Preferential procurement policies for SMEs and co-ops</td>
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<tr>
<td><strong>SHOPRITE &amp; CHECKERS</strong></td>
<td>Freshmark’s Good Manufacturing Practice assisted 200 small-scale farmers (3yr)</td>
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| Financial assistance (inc. shorter payment terms) | Preferential trading terms to small suppliers with turnover < R3mill/a: 1% cash settlement, 1.5% advertising fee, 5% rebate, 7-days payment |
| Rural Hub Model in Limpopo aimed at empowering local small farmers to meet quality, volumes and consistency requirements |
| Assistance in meeting minimum food safety and quality standards |

| Guaranteed offtake, mentorship, targeted upskilling, technical assistance | Mentorship, guidance and support |
| Involved setting up a Fresh Assembly Point: assist farmers to meet localGAP and GlobalG.A.P |
| Training, capacity building, provision of technical support, inspections |
• Conditions imposed by the Competition Appeal Court in the Walmart/Massmart merger
  – Set up a supplier development fund; ZAR 240 million available over 5 years
• Worked with TechnoServe to upskill and train farmers to supply fresh produce to stores
• Provided preferential finance terms and inputs for 3 yrs
• Assisted a number of farmers, but programme was relatively unsuccessful and has been discontinued
  – Small farmers vulnerable to crop disease and weather; no insurance
  – Farmers sought best prices and were not exclusive to Massmart
  – Investment in infrastructure, logistics, pack houses, extension services (soil science and fertilizer) and food safety was underestimated
• But some positive stories on the manufacturing and processing side – Lethabo Milling
• Current and going forward: focus on established business that can be up-scaled quickly in FMCG, General Merchandise, DIY and Building; where it makes mutual commercial sense
Insights and recommendations

• Fostering a competitive environment for a diversity of retail models
• Developing municipal markets and lowering barriers to entry for farmers into these
• Opening up retail spaces and supermarket shelves
  – Role for competition authorities, urban planners & supermarkets
• ‘Regional content policy’: Open up shelf space to regionally produced product/offtake commitments
• Encouraging codes of conduct between suppliers and supermarkets (incl. ‘regional’ codes/retail charter)
• Commercially sustainable and mutually beneficial, long-term SDPs