

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

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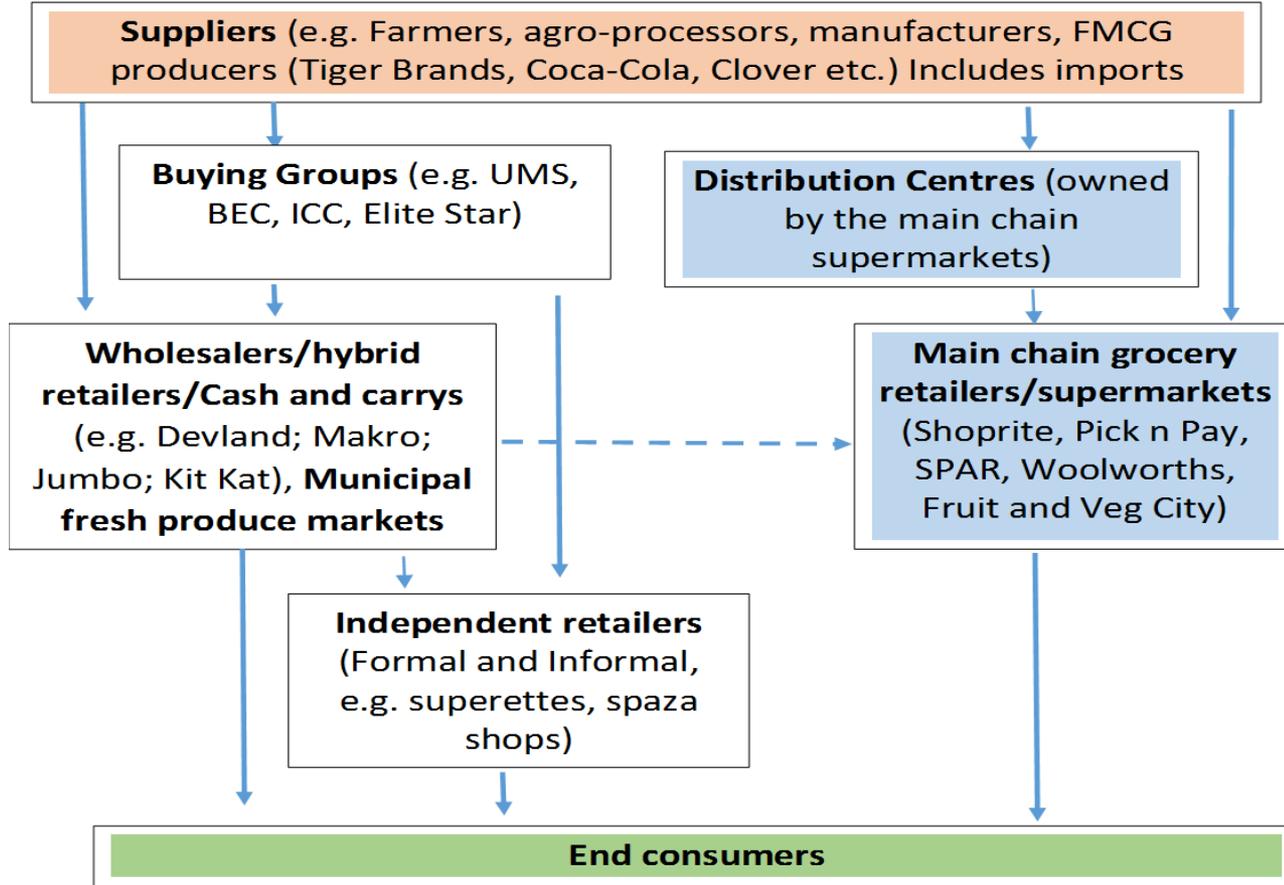
Impact of the spread of supermarkets on consumers and suppliers

- 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?

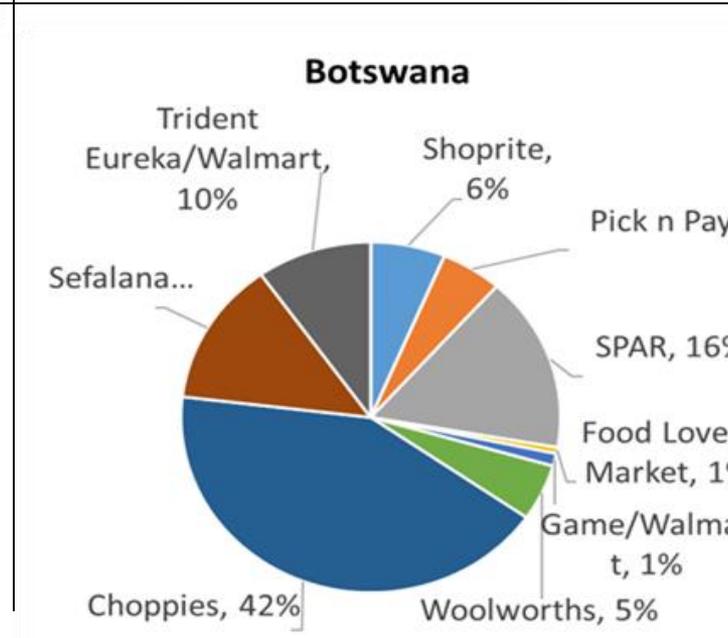
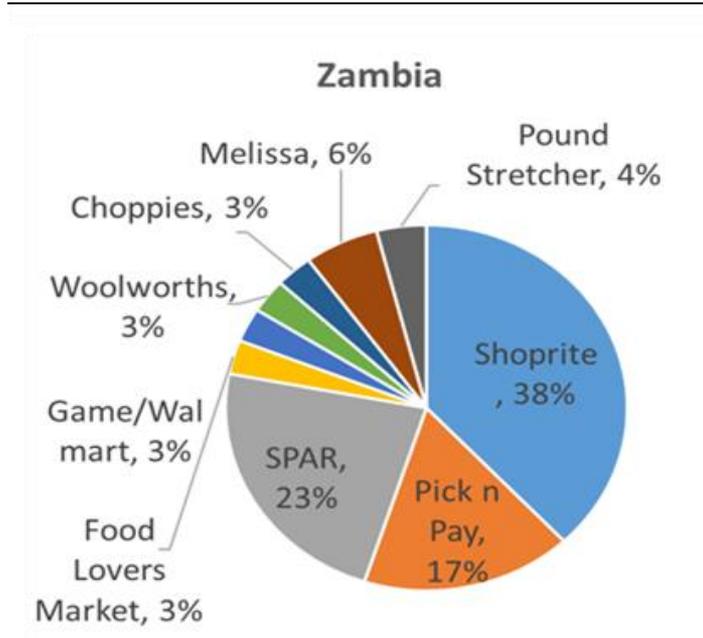
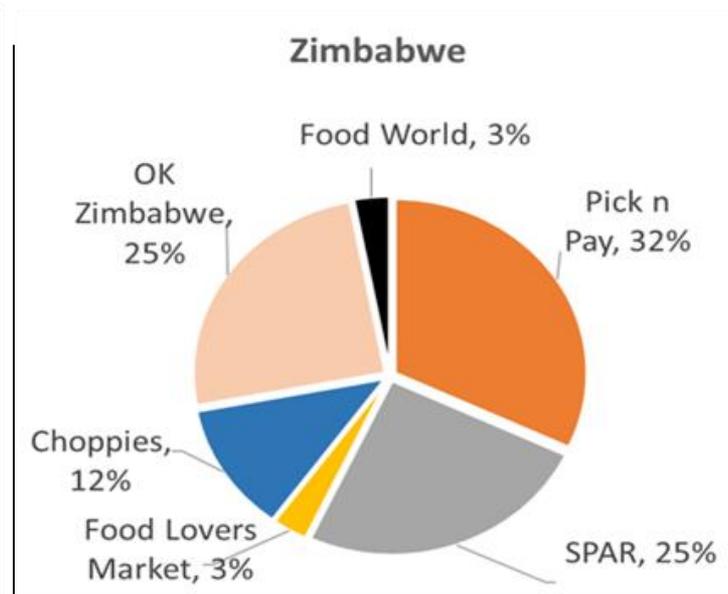
- Rising levels of urbanisation & income
- Greater sales & profits in southern Africa: asset exploiting / new market-seeking theories of internationalisation
- Increased FDI, trade liberalisation
 - Clear growth in trade of products sold on supermarket shelves
- Modernisation of procurement systems & 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:
 - Exclusivity clauses in leases in shopping malls
- Buyer power of supermarkets - trading terms:
 - Listing fees
 - Advertising and promotional rebates
 - Long payment periods, onerous requirements, private standards, packaging requirements (bar codes) etc.
 - 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
- Alternative RTM for suppliers – less onerous requirements

Supplier Development Programmes



<p>Supports small, medium, black-owned & black women-owned suppliers (3-5 yrs)</p>	<p>Enterprise & Supplier Development Scheme (1 yr)</p>	<p>Preferential procurement policies for SMEs and co-ops</p>	<p>Freshmark's Good Manufacturing Practice assisted 200 small-scale farmers (3yr)</p>
<p>Financial assistance (inc. shorter payment terms)</p>	<p>Preferential trading terms to small suppliers with turnover < R3mill/a: 1% cash settlement, 1.5% advertising fee, 5% rebate, 7-days payment</p>	<p>Rural Hub Model in Limpopo aimed at empowering local small farmers to meet quality, volumes and consistency requirements</p>	<p>Assistance in meeting minimum food safety and quality standards</p>
<p>Guaranteed offtake, mentorship, targeted upskilling, technical assistance</p>	<p>Mentorship, guidance and support</p>	<p>Involved setting up a Fresh Assembly Point: assist farmers to meet localGAP and GlobalG.A.P</p>	<p>Training, capacity building, provision of technical support, inspections</p>

- 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