

Retailers' Strategies In Sub-Saharan Africa

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South African retailers are looking to expand northwards, while companies such as Kenyan-based Nakumatt Holdings Ltd and Zambian-based Zambeef Retailing Ltd are searching for opportunities in high growth markets and are investigating the strategies being employed by their larger South African competitors.

Together these retailers highlight the opportunities provided by the countries in question but also the different methods being used to expand in their target markets.

Differing markets ask retailers a variety of questions

The African continent is made up of very diverse economies. Different countries are at very different stages of development and therefore, have very diverse retail landscapes in 2011. South Africa is considered a developed country thanks to its relatively high living standards and a diversified economy. Oil exporters like Equatorial Guinea and Gabon enjoy fairly high GDP per capita but their small populations and difficult business environments remain obstacles for large-scale retailers.

Of the 29 most populous African countries in 2011, most can be considered either underdeveloped or in transition by international standards. The Democratic Republic of Congo is an established mineral resources exporter but other sectors of its economy are in their infancy. Likewise, Ethiopia is focused mainly on agriculture and commodities (coffee, sesame seeds, horticulture), has a population of over 84 million people in 2011 and a fast growing economy, but modern branded retailing in the country is almost non-existent.

Such environments provide a range of opportunities for any retailer looking to expand its footprint and gain access to large, young and fast growing populations, albeit with each country also offering its own set of risks.

The key factor is that any retailer which enters a market first will have the opportunity to create its own space within that country's retailing industry by providing a potentially new shopping experience and services that were not available before. In the majority of sub-Saharan Africa, there is a middle-class which could afford brands and lifestyle products if only they were available.

Different entry strategies

Many factors have to be taken into account when deciding to enter a new market. Beyond consumer purchasing power, the business environment is a key aspect as it will determine how long it will take for a foreign player to become operational. Local transport infrastructure and supply chain development will impact the cost and time needed to get products onto shelves. Moreover, the presence of retail space to lease can facilitate entry and help target the most lucrative locations. Depending on these factors, retailers can choose from various business models.

Franchising versus company-owned stores

Franchising is more appropriate for distant markets where operational costs are high and local regulation unfavourable to foreign ownership. Franchising is used frequently by grocery retailers, with South African-based Shoprite Holdings Ltd and Pick 'n Pay Stores Ltd employing this model within their home market as well as abroad. However, it should be noted that the companies do not employ franchising across the board and also run corporate stores.

Generally, the largest stores located in neighbouring countries tend to be corporate-owned as they are the companies' flagships and require greater monitoring. Of Pick 'n Pay's 379 franchise network, the majority are convenience stores and pharmacies, while all hypermarkets and large supermarkets are corporate-owned.

The company's operations in Mauritius and Mozambique, where it started business in 2010 and 2011, respectively, are based on franchise agreements as the company needs local support from a business partner on the ground. The same goes for Shoprite, with a dedicated franchise arm named OK Franchise Division (OKFD) operating 226 shops in South Africa and 43 abroad. The franchise stores are also small-scale outlets such as convenience and liquor stores targeting the lower-middle classes in second-tier cities and rural areas. This division is present only in the nearby markets of Botswana, Lesotho and Namibia while operations in other African countries are monitored by the group's subsidiary Shoprite International Ltd.

Franchising is an ideal way to quickly expand a retailer's footprint at limited cost to the company, with investment instead coming from the franchise partner in a given market. However, it requires a very strong support platform to help franchisees reach their targets and correctly introduce a global brand to their own market so that it does not conflict with the brand's image in the retailer's home market.

Goods are usually exported from a retailer's home country, which demands an efficient supply chain and the capacity to be able to export across potentially long distances. Exporting comes with the additional risks of volatile currency fluctuations and import duties that can change at a moment's notice and can lead to higher than expected retail prices and/or a loss of competitiveness for the brand. Pick 'n Pay, for instance, decided in June 2011 to centralise its distribution facilities in South Africa in order to further expand its franchise network throughout Africa.

Brand image is a key issue and the franchising model does not give the brand owner full control over how it is perceived locally. This was experienced by Internationale Spar Centrale BV in Botswana where the brand progressively lost its appeal because it lacked "local flavour" and was perceived as not giving back to the community, despite being present in the country for 40 years.

Given Botswana's competitive retail market, this forced the company's management to launch a large-scale marketing campaign to reach out to its clients, including a prize draw for 10 Kia Picanto cars and the sponsorship of a local football team. The company also decided to adapt its advertisements to the local market instead of using the same commercials as in South Africa.

As opposed to corporate stores, not all profits from a franchise go to the brand owner and the main revenue stream is from royalty fees. Because the profits are shared with the local franchisee, the brand owner will not benefit completely from the value chain of a very successful store. For example, Truworths Group Pty operates 35 stores outside South Africa. Half of them are franchised but have only generated 15% of the company's overseas revenue in 2011.

Starting a business from scratch in a new market can be the best solution, especially when no competent franchisee can be found and if foreign direct investment (FDI) regulations are conducive. This allows the brand owner to ensure the business runs to its own expectations at all levels, from store management and the operation of a local supply chain to making sure that stores enjoy a decent road network that can get consumers to them. However, entering a market organically is more of a long-term venture as it will take longer for the business to return a profit.

Furthermore, retailers have to come up with the funding themselves and often buy land as there is no local bank or financial institution willing to invest in such large retail developments. Shoprite has a dedicated property management division responsible for funding, organising and managing new openings.

A growing trend - mergers and acquisitions

In the past, mergers and acquisitions used to emanate from South African investors' participation in their neighbours' mining, manufacturing and agricultural industries. In some cases, this was forced upon them by local regulation. Zimbabwe, for instance, has tight regulation on FDI which forces foreign investors to cap their shares in local companies at 49% and sell the rest to nationals. This indigenisation policy is probably the reason why the bid from Pick 'n Pay Stores Ltd to raise its share in local retailer Meikles Ltd from 24% to 49% was still awaiting authorisation from the Zimbabwean government in November 2011.

In 2010, the world's largest retailer, Wal-Mart Stores Inc, bought a majority share in one of South Africa's leading retailers, Massmart Holding Ltd. Many South African players are listed and some of them rank among the world's largest companies. This has attracted the attention of top retailers wishing to expand out of their core markets and benefit from young and growing demographics.

Doug McMillon, President and Chief Executive of Wal-Mart International, noted: "Going to South Africa right now at this moment, with the current consumer demand for retail, might not be a great idea. But when you look forward at the region, the growth and what's going to happen there, we have created headroom. We can create short-term profits, we can add a good business to the company with some strong and talented leaders, but we also create an opportunity 5, 10, 20 and 30 years out to continue to grow".

Massmart serves as an entry point for Wal-Mart to access southern Africa without having to approach each country individually. As the region further develops, it is likely that other mergers and acquisitions will take place in South Africa in order to leverage retailers' regional store footprints.

However, international retailers can face distrust from political elites and the general public when buying large shares in local companies. In South Africa, trade union protests due to fears of staff lay-offs were later echoed by MPs trying to challenge the acquisition. The same happened in Namibia in November 2011 when the Supreme High Court backed demands from the Competition Commission with regard to Wal-Mart's entry into the country. This could spread to other countries impacted by Wal-Mart's takeover and potentially damage the retailer's image among consumers.

Gaining more control - entering through joint ventures

The establishment of a joint venture can be considered halfway between corporate and franchised stores. In this case, the global brand owner can rely on a local partner which has the experience and management capacity to make the business grow. This helps to split the costs and also gives the local party a greater stake in the business as opposed to

the franchise model.

South African-based Woolworths Holdings Ltd decided in 2010 to overhaul its global strategy and moved away from franchising, instead opting for the joint venture model. The company said the move would simplify its business model and ensure consistency of brand image in all markets in which it operates.

In 2011, the company has spent R384 million (US\$48 million) on acquiring 75% of its franchise network in South Africa. The company said it wanted greater control over its brand and believes it can generate higher levels of profit through better engagement with consumers. Outside South Africa, the company will try to negotiate new deals with existing franchisees in order to create greater synergy. This new policy suggests that the franchising model was underperforming and did not meet the company's international standards in terms of customer service.

Leading the charge towards regional powerhouses

In 2011, there are two main types of retailers looking to expand - South African companies searching for opportunities throughout sub-Saharan Africa and businesses from smaller markets that are looking to enter neighbouring markets. Euromonitor International will look at each in turn.

South African retailers looking to expand widely in sub-Saharan Africa

When analysing modern retailing in Africa, the dominance of South African companies is striking. The geographical proximity and maturity of South Africa has led to retailers such as Woolworths Holdings Ltd, Pick 'n Pay Stores Ltd and Shoprite Holdings Ltd expanding into neighbouring markets. They have been allowed to do this as global players have instead been focusing much more on Asia and Latin America where they feel short-term benefits are likely to be easier to come by.

Historically, South Africa has had strong economic and political ties with its direct neighbours and the existence of the SADC (Southern Africa Development Community) has helped standardise trade tariffs between member states and facilitate cross-border operations, making expansion for retailers much easier than it would have been when rules were different between markets.

Most retailers are looking to expand their number of stores in the markets in which they are present, and, in the case of multi-brand retailers such as Shoprite, Foschini or Mr Price, they want to increase the presence of each brand they own.

Despite the fact that many retailers foresee further growth in the markets in which they are present in 2011, new markets are also on the agenda. The need for expansion into new markets in the short term is underpinned, especially for big-box retailers, by the need to garner as much first mover advantage as possible in these new markets.

A good example of this is Shoprite planning its entry into the Democratic Republic of Congo's (DRC) two major cities of Kinshasa and Lubumbashi, with a total selling space of 32,500 sq. m, due to open before the end of 2011. On entry, Shoprite will only compete with local independent supermarkets and so should be able to offer consumers a wider range of brands at better prices than its competitors. Ultimately, Shoprite will be hoping that its move into the DRC will enable it to build up long-term consumer loyalty.

Among the largest South African retailers, new openings centre on a small number of markets considered to be the fastest growing. Apparel specialist retailers Truworths, Woolworths and Mr Price all plan to expand in Nigeria (following the lifting of the ban on textile imports in 2010), but also Angola and Ghana.

For grocery retailers Shoprite and Pick 'n Pay, the markets they are now investigating for entry include Botswana, Madagascar, Mozambique, Uganda and Zambia. Competition in these markets will increase and consumers will be able to choose between different offers and more easily compare prices. Once a company is in business in one of these new markets, it will serve as an attraction for other players to enter as success will show other companies where opportunities exist. The cumulative effect of these market entries will progressively develop the offer of modern retailing and have a positive effect on both international and regional supply chains, which will benefit the retailing environments in these countries.

Local players catching up

Kenyan-based Nakumatt Holdings Plc has developed a very modern and upmarket concept that appeals to urban consumers. The company is the largest modern grocery retailer in Kenya, accounting for an estimated 35% value share of sales in 2011. It is the first Kenyan-based retailer to offer 24-hour shopping, adopting a strategy employed by Western retailers in order to enable consumers to shop at any time so as to make sure that sales are not lost to a competitor. Uchumi Supermarkets has replicated this strategy at its Ugandan branch in 2009.

As part of its expansion strategy, the company has ambitious plans to enter new markets following the success of its branches in Rwanda, Tanzania and Uganda. Just like its South African competitors, Nakumatt is eyeing the large consumer markets of the DRC, Nigeria and South Sudan. It is expected that the company will seek to float on the country's stock exchange in order to fuel its future growth. However, Nakumatt has had to be careful to protect its share

in its home market. Competitors like Uchumi Supermarkets Ltd and Tusker Mattresses have progressively gained market share in Kenya thanks to their economy positioning and presence in city centres as opposed to Nakumatt's out-of-town superstores.

International retailers are scarce in the majority of sub-Saharan Africa. However, French-based Casino has entered Cameroon, Gabon, Madagascar and Senegal through franchise agreements. The company is using Spar's procurement platform in those markets in order to achieve economies of scale but its expansion plans are more limited than those of African retailers as it is focusing on Latin America and Asia Pacific as core markets for company-owned stores. However, the group's presence is limited to francophone markets only and its footprint in mainland Africa is negligible.

Meanwhile, Zambef Plc is a food producer and grocery retailer operating 103 food specialist retailers in Zambia with a total turnover of US\$162 million in 2010. It also provides fresh meat to Shoprite supermarkets in the country and in Nigeria, which is the company's top priority outside its home market. The company has obtained a lease on 287 hectares of farmland north of Lagos which it will use to centralise its production and supplies to Shoprite in the country.

Zambef has in-store butcheries in 20 Shoprite stores in Zambia. The company benefits from its integrated business model and Zambia's specialisation in cereal and meat production that it can leverage in a country such as Nigeria, with a huge population but low agricultural output. This is a case in point of how a modern food supplier can be successful and benefit from other retailers' expanding store networks.

Opportunities exist for non-store retailers

Modern retail development in Africa has mostly been in the form of store-based rather than non-store retailing. The reason for this is that companies have to first establish a physical presence in a market and be visible enough before they can develop a multi-channel strategy centred on internet retailing.

Nonetheless, the continent has a fairly good presence of direct sellers and out-of-store transactions happen more often than might be expected. Firstly, direct sellers can access remote areas where no bricks-and-mortar stores are present, while, secondly, direct selling offers local entrepreneurs an opportunity to earn extra income.

As with store-based retailing, South Africa is the springboard for international expansion into neighbouring markets. Leading players such as Avon Products Inc. and Tupperware Brands Corp are selling their products, either produced domestically or imported, in markets like Kenya, Mozambique, Nigeria, Sudan and Uganda.

Limiting the development of a multi-channel strategy is the fact that internet sales are negligible outside South Africa, mainly due to consumers' limited access to hardware and poor levels of network capacity. However, Kenyan-based retailers Naivasha, Nakumatt and Uchumi are introducing online shopping sites, and the offer should grow along with rising disposable incomes.

Furthermore, all three retailers have implemented the mobile payment system M-Pesa in their outlets, allowing their customers to pay with their phones at tills but also pay their bills and withdraw money. This positions such retailers as service providers rather than simply grocery suppliers, and this is likely to develop further into other markets where mobile phone penetration is growing.

What next for other players?

While some African countries have a fairly developed retailing offer and many companies competing for market share, some others have strong growth potential although the risks are higher. Such markets offer many advantages to retailers which can enjoy the benefits of first mover advantage. They can create or import a new concept from scratch to seize market share and engender customer loyalty among the middle-classes. As the example of China shows, first-movers have only started to turn a profit 10 years after their introduction, so patience is the key to success.

On the other hand, higher costs will result as the infrastructure and supply chain network will also have to be created. Another strategy is to wait and see, i.e. piggyback other competitors and enter at a time when the main infrastructure exists and target groups better identified. The main downside to this is that a delayed entry gives global but also local competitors time to emulate retailing innovations and strategies.

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