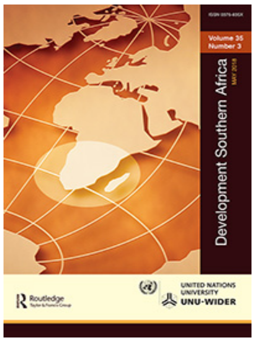

Routledge
Taylor & Francis Group

Development Southern Africa

ISSN: 0376-835X (Print) 1470-3637 (Online) Journal homepage: http://www.tandfonline.com/loi/cdsa20

The implications for suppliers of the spread of supermarkets in southern Africa

Reena das Nair, Shingie Chisoro & Francis Ziba

To cite this article: Reena das Nair, Shingie Chisoro & Francis Ziba (2018) The implications for suppliers of the spread of supermarkets in southern Africa, Development Southern Africa, 35:3, 334-350, DOI: 10.1080/0376835X.2018.1452715

To link to this article: https://doi.org/10.1080/0376835X.2018.1452715

Published online: 06 Apr 2018.

DEVELOPMENT SOUTHERN AFRICA
2018, VOL. 35, NO. 3, 334–350
https://doi.org/10.1080/0376835X.2018.1452715

The implications for suppliers of the spread of supermarkets in southern Africa

Reena das Nair[a], Shingie Chisoro[a] and Francis Ziba[b]

[a]Centre for Competition, Regulation and Economic Development (CCRED), Department of Economics and Econometrics, University of Johannesburg, Johannesburg, South Africa; [b]Zambia Institute for Policy Analysis and Research (ZIPAR), Lusaka, Zambia

ABSTRACT
The growth of supermarkets in southern Africa opens local and regional markets to suppliers through participation in supermarket supply chains. Supermarkets in the region provide an important route to market for processed foods and household consumable products. Through a regional value chain lens, this article provides an assessment of the implications of the growth of supermarkets for the participation of suppliers in Botswana, South Africa, Zambia and Zimbabwe. The research finds that, while supermarkets provide important opportunities for suppliers, they also exert considerable buyer power that limits supplier development and upgrading. High private standards, onerous requirements and costly trading terms negatively affect supplier participation in value chains. Long-term investments are required to build the capabilities of suppliers to meet supermarket requirements in terms of quality, consistency, volume and cost-competitiveness.

KEYWORDS
Supermarkets; suppliers; regional value chains; buyer power; capabilities

1. Introduction

The internationalisation of supermarkets in southern Africa has important consequences for suppliers of food and household consumable products. Supermarkets are a key and growing route to market for suppliers and, given their multinational nature in the region, they open larger regional markets for them (das Nair & Chisoro, 2015, 2016, 2017). This potentially allows suppliers to attain the necessary scale to invest in capabilities and become competitive in national, regional and even international markets. Supermarkets, therefore, can be a catalyst to stimulate food processing and light manufacturing industries in southern Africa, key objectives of the Southern African Development Community (SADC) Industrialisation Strategy and Roadmap, 2015–63. For certain countries in the region, this can contribute to the development of capabilities to move them from being exporters of basic commodities to exporters of value-added products, and can allow for deep-sea import replacement.[1] This trigger in industrial development has

CONTACT Reena das Nair reenadn@uj.ac.za Centre for Competition, Regulation and Economic Development (CCRED), Department of Economics and Econometrics, University of Johannesburg, 1st Floor, 6 Sturdee Avenue, Rosebank, Johannesburg, South Africa

[1]Deep-sea markets refer to non-African markets – mainly in Europe, America and Asia.

important knock-on effects on intra-regional trade, employment creation, economic growth and poverty alleviation (Reardon & Weatherspoon, 2003; Reardon & Gulati, 2008).

Supermarkets have transformed food supply chains – from procurement methods and requirements to negotiation of trading terms and private standards with suppliers (Reardon et al., 2004; Brown & Sander, 2007; Emongor & Kirsten, 2009). Supermarkets with market power can exert considerable buyer power in the negotiation of trading terms, with cost implications for suppliers. This can negatively impact supplier participation and capabilities development. Suppliers have to upgrade capabilities to obtain shelf space and remain competitive in terms of cost, quality, consistency and volumes demanded. Often in the region, it is only a handful of large, dominant suppliers that can do so.

This article explores the implications of the growth of supermarkets for suppliers in the southern African region, the factors that affect their ability to participate in value chains and the potential opportunities available to expand regional sales. This is viewed through a regional value chain (RVC) lens. Building on core concepts of governance, linkages and upgrading from the global value chain (GVC) literature (Gereffi et al., 2005; Gereffi & Fernandez-Stark, 2011), an RVC lens is appropriate as it reveals the importance of regional dynamics and the advantages that regional suppliers have over global suppliers in supplying supermarkets in southern Africa. As highlighted, the development of industrial capacity in the region is a key priority, and understanding the potential that supermarkets offer in this regard is important for regional development.

This article draws from in-depth country studies undertaken for UNU-WIDER by das Nair and Chisoro (2015, 2016, 2017), Ziba and Phiri (2017) and Chigumira et al. (2016). Section 2 reviews the literature on the interaction between supermarkets and suppliers, the implications of buyer power, and the changes in procurement practices and requirements of supermarket chains globally. Section 3 sets out the methodology and highlights the key findings from the studies. These include the role of supermarkets in driving regional trade patterns of food and household consumables in Botswana, South Africa, Zambia and Zimbabwe. The section further assesses the critical success factors, requirements and capabilities needed to supply supermarkets, and evaluates concerns of supermarket buyer power. Finally, it provides an overview of supplier development programmes of regional supermarket chains. Section 4 concludes by providing policy recommendations for creating regional suppliers, with supermarkets as key routes to market.

2. The relationship between supermarkets and suppliers

A GVC or an RVC framework allows for an understanding of upgrading opportunities for suppliers within a value chain. Essentially a bottom-up approach, upgrading looks at strategies used by actors to maintain or improve their positions in the global, or regional, economy. Upgrading refers to 'firms, countries or regions moving to higher value activities in GVCs in order to increase the benefits (e.g. security, profits, value-added, capabilities) from participating in global production' (Gereffi, 2005b:171). GVC participation can grant firms in developing countries the access to social capital and competitive assets that will allow them to upgrade. Upgrading is not automatic and is very selective, with only the very best firms being granted the opportunity. Nonetheless, this 'upgrading' effect has been credited with enabling relatively underdeveloped regions to become substantial exporters within a short space of time (Humphrey & Schmitz, 2002).

Supermarket procurement methods and requirements affect the participation and upgrading of suppliers in processed food and household consumables value chains in the region. Globally, supermarkets have moved away from spot purchases[2] to the use of specialised procurement agents or dedicated wholesalers, or direct procurement from farmers and processors under contract. This gives them direct influence over pricing, quantities, terms of delivery and product quality. This can have the adverse effect of shrinking the supply base as a result of using only preferred suppliers (see Altenburg et al., 2016) and bypassing general wholesalers (Humphrey, 2007). Large supermarket chains have also shifted away from traditional store-by-store or direct-store delivery procurement and towards distribution centres (DCs) to supply stores (Reardon & Hopkins, 2006; Reardon & Gulati, 2008). DCs have become a key pathway to modern retailing.

Supermarkets further impose private standards that can limit supplier participation (Boselie et al., 2003). These are over and above the legal standards that suppliers must adhere to. The capabilities of local suppliers to meet these standards and reach the scale required to compete with imports are important for their sustainability. Marketing of fresh produce to supermarkets has been particularly difficult for suppliers in developing countries as the institutional, physical and financial infrastructural support systems are weak (including bar coding, packing houses, cold chains, credit facilities, standards, certifications, sanitary and phytosanitary protocols, etc.) (Tschirley, 2010). Suppliers are usually responsible for all activities until product delivery, and for the costs of private standards and other supermarket requirements.

The modernisation of supermarkets has therefore placed pressure on suppliers with regards to costs, volumes supplied, consistency and quality of products (Dakora, 2012; Basker & Noel, 2013). This can make it difficult for them to integrate into supermarket value chains and they often require significant investments in capital and technological, managerial, organisational and financial upgrades to meet requirements. Supermarkets therefore tend to turn to imports and are more likely to source their products via imports if they are foreign-owned (Altenburg et al., 2016). As shown in Section 3.1, this is the case of South African chains in the region that import heavily from South Africa. A range of region-specific factors have contributed to this, including lower relative transport costs, lower tariffs, trade liberalisation, trade agreements, innovations in communications and increased capital mobility (Brown & Sander, 2007).

When foreign retailers first enter a host country, they tend to import a larger share of their supplies from their home base and, over time, increase their share of local sourcing (Cattaneo, 2013). In southern Africa, an obvious first step to connecting to GVCs is to successfully compete in RVCs. The time taken to switch to local supply depends on the product, the existing level of supplier capacity and capabilities in each country,[3] as well as country-specific institutional and political factors. Foreign supermarkets are most likely to first source perishable agricultural products locally given the importance of short cold chains for these. In southern Africa, switching from South African imports takes longer, especially for products that require significant value-addition, given the limited processing and manufacturing capabilities in many countries. This is where

[2]One-time purchases on the open market to meet immediate demand.

[3]Increased local supply over time may also result from supermarkets becoming better acquainted with local suppliers that meet the requisite standards.

opening markets via supermarkets can assist suppliers, requiring a combination of building capabilities and designing enabling policies for the region.

Over and above demanding lower costs and higher standards, supermarkets often impose other costs on suppliers through the exertion of buyer power in the negotiation of trading terms. Within an industrial organisational framework, 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)

Dobson et al. (1998:5) describe buyer power in a similar way; that is, the case in which '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'.

A GVC approach can complement a traditional industrial organisational framework to better understand buyer power, governance and distribution of rents at different levels of the value chain and how these can affect upgrading.

Large supermarket chains control prices paid to suppliers by controlling elements in trading terms such as listing fees, rebates, advertising and slotting allowances, promotion fees, payment period terms, settlement discounts and so on (Clarke et al., 2002; Reardon & Gulati, 2008; Dobson, 2015). Increasing retail concentration and significant barriers to entry limit the choices suppliers have in terms of distributing their goods in many countries (Dobson, 2015).

In the supermarket industry, abuse of buyer power can result in the 'waterbed effect', whereby large retailers negotiate with suppliers to secure price reductions that are not cost-related, and then increase prices to smaller independent grocery retailers to compensate for this (Inderst & Valletti, 2011). While suppliers would want to have as many retailers to sell to as possible, the threat of being de-listed by large supermarkets chains may result in suppliers giving in to the demands of supermarkets (Dobson, 2015). Market inquiries are initiated by competition authorities given concerns around buyer power, particularly because of the exclusionary effects it can have on suppliers and rival retailers.

3. The implications of the spread of supermarkets for suppliers in southern Africa

3.1 Methodology

The country studies analysed both qualitative and quantitative data from a combination of primary data from field interviews and secondary data from trade and statistics databases. A total of 171 field interviews were conducted in Botswana, South Africa, Zambia and Zimbabwe, with supermarkets, suppliers, wholesalers, independent retailers, industry associations, competition authorities and government departments (Table 1).

Tailored semi-structured questionnaires were administered to respondents as part of in-depth interviews. Based on value chain and industrial organisation principles, the questionnaires were designed to probe the perceptions and experiences of suppliers and other stakeholders regarding supermarket practices. Similarly, supermarkets were asked about their requirements and the challenges they faced in procurement. The questionnaire

Table 1. Type and number of stakeholders interviewed in Botswana, South Africa, Zambia and Zimbabwe.

	Number of stakeholders interviewed				
Respondent type	South Africa	Zambia	Zimbabwe	Botswana	Total
Retailers/supermarkets	7	6	2	1	16
Wholesalers, buying groups and distribution agents	8			3	11
Government departments and competition authorities		2	2	1	5
Industry experts, stakeholders and associations	2	3	10		15
Suppliers by sector					
Dairy	2	9	1		12
Poultry, eggs and meat	3	7		3	13
Milling and bakery	4	28	1	2	35
Fresh produce and processed food	4	24			28
Soaps and detergents	3	12		1	16
Manufactured beverages and drinks		19	1		20
Total respondents	33	110	17	11	171

Note: Given that many of the South African chains operate in the selected countries, interviews with these chains in South Africa also provided insights on operations in other countries.

included closed and open-ended questions on concentration levels, growth trends, linkages, procurement methods, factors in the supply to supermarkets, investments in upgrading, concerns around market power and supplier development programmes.

Small, medium and large suppliers within selected sectors were interviewed to understand the respective challenges faced, including millers and bakers, poultry and dairy producers and light manufacturers of household consumables, as shown in Table 1. The studies were limited to selected processed foods and manufactured household products because these constitute key consumer goods sold in supermarkets and comprise part of a typical consumer basket. These also have the potential to promote value addition and industrialisation. This is significant for countries like Zambia, where manufacturing and agro-processing have been specifically identified as priority areas in the government's Industrialisation and Job Creation Strategy for sustainable economic growth and employment creation.

It is largely the same South African supermarket chains that operate across the region, although there are also global, other regional and local chains present. South African, other regional and local chains were interviewed.

3.2 Findings

3.2.1 Role of supermarkets in developing regional supplier capabilities through increased regional trade

The expansion of supermarkets appears to be driving important changes in the trade of food and household products within the region, which in turn has implications for the capabilities of suppliers in the region.

A large proportion of the products on supermarket shelves in Botswana, Zambia and Zimbabwe continue to be imported from South Africa. However, there are opportunities for other countries to increase exports to the region and to replace deep-sea imports. For instance, Zambia shows potential in non-traditional exports (NTEs[4]), such as

[4]NTEs refer to all export products that have not been the traditional source of export revenue for the government but have exhibited rapid export growth rates, including products that have undergone a significant degree of processing.

cereals,[5] beverages, sugar, sugar confectionery, soaps and detergents – products that are increasingly being sold through supermarkets. Exports of cereals, beverages, soaps and detergents recorded the fastest compound annual growth rates (CAGR[6]) of 42, 29 and 25%, respectively, between 2009 and 2015 (TradeMap – Trade Statistics for International Business Development,[7] 2015).

This suggests that firms in these sectors are developing capabilities and are competitive in regional markets. Zambia's main export trading partners for processed foods are the Democratic Republic of Congo (DRC), Zimbabwe and Malawi. However, Zambian exports still only account for a small proportion of total regional imports, especially South Africa's. Hence, there is potential for Zambia to increase exports to meet some of the regional demand and replace deep-sea imports through access to supermarket networks in the region. The DRC, in particular, is a large and growing market for Zambian products.

Zimbabwe's economic challenges have negatively affected its agricultural and manufacturing sectors, which have failed to meet local demand and thus forced supermarkets to import. South Africa accounted for the largest and most valuable share of imports in 2015. Although Zimbabwe has limited export potential, an increase in exports was evidenced in local industries receiving import protection through tariffs and import bans. This suggests that these measures have helped to some extent in reviving production and stimulating exports. These industries include cooking oil, milk and milk products, baked confectionery and beverages. There has also been growth in exports of vegetables and fruit (TradeMap, 2015). Zimbabwe's main export destinations in recent years are countries within SADC (comprising South Africa, Zambia, Mozambique, Botswana and Malawi).

Like Zimbabwe and Zambia, Botswana remains a net importer of food and household products. However, Botswana has export capabilities in beef, making it competitive in global markets.

Although a large proportion of food and household products in the region continues to be imported from South Africa, most South African imports of selected food and household products are from deep-sea markets. Nonetheless, countries like Mozambique, Zimbabwe, Swaziland and Zambia are growing as sources for South African imports of fruit, sugar, sugar confectionery and fish (TradeMap, 2015). This signals opportunities for increased exports from the region to South Africa.

South African exports of processed foods are progressively going to the region, highlighting the importance of the region to South African suppliers. South African imports into the selected countries accounted for the largest share of imports in terms of value in 2015 (> 80%) (TradeMap, 2015). The rapid growth of South African exports into the region is closely linked to the supermarket take-off that started in the early 2000s (concurring with past studies that claim that the growth of supermarkets is associated with increased trade in processed foods; Reardon & Weatherspoon, 2003).

While the trade data highlights products in which there are opportunities to deepen regional trade, and reduce dependence on deep-sea and South African imports, this

[5]Cereals under HS Code 10 in TradeMap – Trade Statistics for International Business Development refer to field crops such as maize or corn, maize seed for sowing, rice, wheat, grain oats, rye and barley.
[6]Compound annual growth rate (CAGR): average annual growth rate over a specified period of time exceeding one year.
[7]Hereafter referred to as TradeMap.

must be considered in the context of country-specific economic and social policy objectives. Despite the countries studied being part of SADC, each country pursues its own policies to protect and promote its national industries. This affects the participation of suppliers from the region. This protection takes many forms, including local content requirements and trade restrictions (das Nair & Chisoro, 2016).

In Botswana, Zambia and Zimbabwe, there are outright bans on imports of poultry, maize meal and cooking oil, while import duties are levied on a range of other products to protect local suppliers. These policies are in line with each respective country's objective to promote industrial development and beneficiation within its borders. While South Africa, Botswana and Zambia have 'softer' local content requirements for supermarkets, Zimbabwe's Competition and Tariff by-laws stipulate that supermarkets are to procure at least 20% of products locally. However, such initiatives, although in existence, remain underdeveloped and are small in scale, with the majority of food products still imported from South Africa and deep-sea sources.

3.2.2 Critical success factors in the supply to supermarkets

The increased trade in supermarket products suggests that certain suppliers are successfully meeting supermarket requirements and have upgraded their capabilities. As part of the questionnaire, suppliers were asked to rank factors that were important in supplying supermarkets on a Likert scale from 1 to 5 (1 = not important; 5 = very important. Figure 1 shows the results for each country and on average across countries.

Important factors in supplying supermarkets from the perspective of suppliers include the ability to supply products at the lowest cost and at the required quality, and to consistently supply the required volumes across all outlets. For franchises, however, smaller suppliers with limited scale can participate because individual store owners have the discretion to choose suppliers on the basis of the required volumes for their stores alone.

Acceptable lead times and brand awareness are also considered important. Brand loyalty is further found to be important amongst low-income customers, particularly in South Africa and Botswana. Such customers have little disposable income and are less flexible regarding trying new brands, preferring to stick with tried and tested brands. Suppliers therefore have to invest significantly in building brand awareness and loyalty through advertising.

Innovation capabilities appear to be relatively less important, although there was a recognition that innovation, either in product range or packaging, was important to maintain competitiveness, especially with imports. Other forms of innovation undertaken by suppliers included investments in the quality of existing products and introducing new, value-added products (e.g. new flavours in yoghurt and milk drinks in the dairy industry, processed crumbed chicken in the poultry industry and pre-cooked and flavoured maize meal in the milling industry). In addition, suppliers invested in machinery and equipment and upgraded logistics supply chains to reduce costs.

The ranking of critical success factors (Figure 1) differed between suppliers and supermarkets (on the 1–5 Likert scale), at least in Zambia and South Africa. However, cost, quality, consistency and ability to supply requisite volumes were also the key requirements for supermarkets. Supermarkets generally demanded higher rankings for almost all of the factors (with some between-country differences). This suggests that information

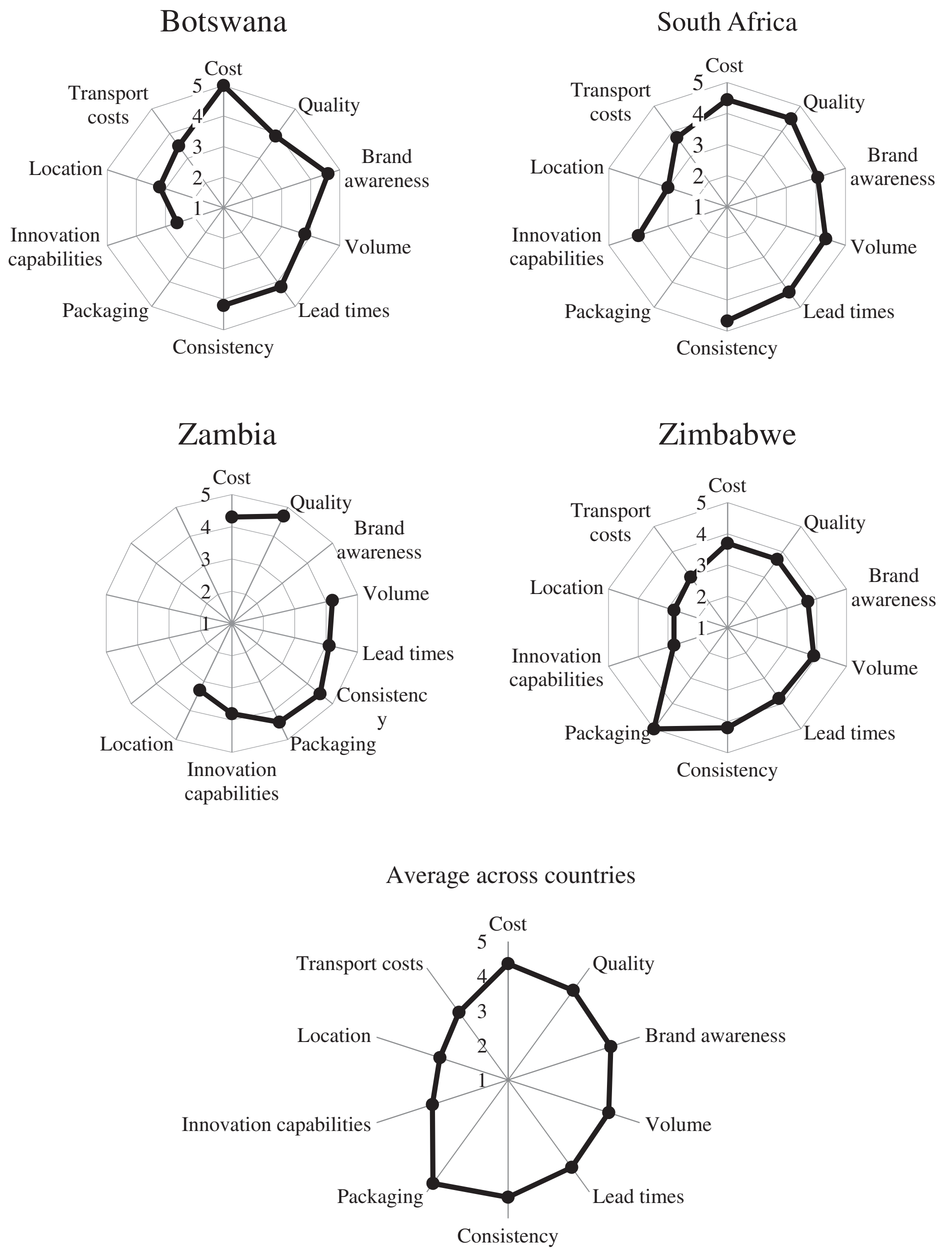

Figure 1. Critical success factors – perspectives of suppliers. Source: Supplier interviews, 2015 and 2016. South Africa $N = 11$; Botswana: $N = 5$; Zambia: $N = 48$; Zimbabwe: $N = 15$.

Note: Not all of = the suppliers interviewed provided answers for every question. In the case of Zambia, distance to supermarket is used as a proxy for location. Scale: 1 = not important; 5 = very important.

asymmetries between supermarkets and suppliers exist, and that suppliers might not be in tune with what supermarkets are looking for. This calls for greater communication between supermarkets and suppliers, for instance, regarding why products are rejected and what improvements can be made. Supermarkets were also less concerned about the location of suppliers. This suggests that suppliers can be located in other countries and, if they meet the critical success factors identified, have the potential to supply supermarkets.

Given the growing capabilities exhibited by certain Zambian suppliers, further analysis was conducted on the interview data from Zambia. A maximum likelihood Probit model was employed to empirically evaluate determinants of participation of local suppliers in Zambia. A range of factors was assessed to see what affected the likelihood of supplying supermarkets, including size of supplier, foreign ownership, years of operation, accreditation, investment in machinery, barcoded packaging, association membership, management experience and distance to supermarkets. These factors were tested against the null hypothesis that the respective regression coefficients of the explanatory variables are equal to zero; that is, they do not affect local firms' participation in supermarket value chains. The results shown in Table 2 reveal that local firms with barcoded products are more likely to supply supermarkets in Zambia than those without. Similarly, firms that invested in new machinery stood a higher chance of supplying supermarkets.

The centralisation of procurement activities through DCs, which supermarkets in the region are moving towards, also affects supplier participation. While DCs have benefits for suppliers (reduced queuing times at multiple stores, more efficient use of transport due to full truck-loads, lower administration costs resulting from single invoicing and less handling of products), they can also limit the ability of small suppliers that lack the necessary scale to participate in supermarket supply chains.

In the case of South African supermarkets with a corporate store model in the region, decisions on suppliers are made at head office in South Africa. Store managers often have little discretion to select suppliers, although they may provide supplier information to head office for consideration. Stores under a franchise model however have more flexibility in procurement decisions, making it easier for local suppliers to supply franchises. However, even for franchises, it is often cheaper to source through DCs given the attractive cost savings resulting from economies of scale and scope. Supermarkets with DCs are further able to extract greater discounts from suppliers, including distribution, warehouse and pallet discounts.

Table 2. Determinants of local supplier participation in supermarket value chains in Zambia.

Variable	Coefficient	Robust Std. Err.	Z	p value
Constant	−1.966953	1.244205	−1.58	0.114
Turnover	0.0014183	0.0869493	0.02	0.987
Possession of a barcode	1.671103	0.3844063	4.35	0.000*
Improved packaging	−0.3833772	0.3736645	−1.03	0.305
Accredited to ZABS	−0.1377651	0.4276549	−0.32	0.747
Distance to nearest supermarket	−0.0247078	0.0149043	−1.66	0.097**
Foreign ownership	−0.0359864	0.3824747	−0.09	0.925
Membership of association	0.127736	0.4105323	0.31	0.756
Number of years of operation	0.0073323	0.0180595	0.41	0.685
CEO's years of experience	−0.0144431	0.0179568	−0.8	0.421
Investment in machinery	1.029162	0.4841402	2.13	0.034**
Number of observations = 74				
Wald chi square (10) = 31.22				
Prob. > chi square = 0.0005				
Pseudo R^2 = 0.3482				

*5% significance level;
**10% significance level.
Source of data: Interviews with suppliers.

3.2.3 Legal and private standards

Each country has legal standards that suppliers should adhere to and are enforced by national bureaus of standards. Food safety, health and safety, environmental, packaging and labelling standards are also enforced by regulatory bodies.

Over and above these basic legal requirements, supermarkets impose private standards on suppliers. In South Africa, supermarkets require that suppliers have HACCP (Hazard Analysis and Critical Control Point) accreditation, an internationally recognised system for reducing food safety hazards. In Zambia, while HACCP is fully operational, it is voluntary and implemented only by large companies that can afford it. Instead, the Zambian Bureau of Standards (ZABS) sets the bare minimum domestic quality and food safety standards to accommodate local firms struggling to compete with imports. However, this creates a gap between local and international standards, making it difficult for Zambian suppliers to compete and gain access to export markets, including South Africa. In Botswana, HACCP is on the list of standards but not compulsory. In Zimbabwe, HACCP is compulsory and incorporated in the Standards Association of Zimbabwe.

In some cases, supermarkets in South Africa seek higher standards than HACCP, such as FSSC 22000 (Food Safety System Certification), an international accreditation. In other cases, suppliers are taking it upon themselves to achieve higher accreditations in order to gain a competitive edge over local rivals and imports. Estimates in South Africa suggest that HACCP can cost as much as US$5500 and FSSC 22000 can cost up to $13 800 per annum, with an additional $6900 in annual maintenance fees.[8] Supermarkets also impose other private standards, such as sustainability requirements, good manufacturing practices, minimum chemical and pesticide requirements, organic systems, barcoding and packaging requirements. Suppliers also have to consider investing in local and global GAP (good agricultural practice) if they want to export to European supermarkets.

While offering benefits to consumers, the costs of adhering to all these standards are borne entirely by the supplier, making it increasingly costly to supply formal supermarket chains. It is not always the case that suppliers are compensated for these additional costs in terms of higher prices and they still have to compete with cheaper imports. Independent retailers, on the other hand, often have lower, if any, private standards.

3.2.4 An evaluation of supermarket buyer power in southern Africa

A value chain perspective allows for analyses of governance and market power at different levels. In certain processed foods and household consumable value chains in the region, the large supermarket chains have considerable buyer power and dominate negotiations of trading terms with suppliers. These value chains tend to be buyer-driven, with supermarkets governing and shaping investments and developments within the chain. Since supermarkets are growing as a route to market to access urban (and increasingly peri-urban and rural) consumers, suppliers have limited alternatives through which they can distribute their products. There are only a few supermarket chains that dominate formal markets in southern Africa. These include Shoprite Checkers, Pick n Pay, SPAR,

[8] Reserve Bank of South Africa's exchange rate of 14.427 on 29 August 2016.

Woolworths, Choppies, Game and Cambridge (Walmart), Food Lover's Market, OK Zimbabwe and TM/Pick n Pay JV.

Suppliers, particularly small and medium-sized suppliers, are not always able to secure attractive trading terms to enable long-term participation in value chains. Over and above demanding lower costs and higher standards from suppliers, supermarkets often impose a range of other costs through trading terms. Given that it is largely the same retailers that operate in most southern African countries, practices across the countries tend to be similar.

South African supermarket chains typically require suppliers to pay listing or support fees to be listed on their books. From supermarkets' perspective, given vigorous competition for shelf space, payment of listing fees shows suppliers' commitment to and confidence in their ability to supply the products. Estimates of listing fees in South Africa range between $350–3500 for a single product line for a limited period (sometimes also quoted as a percentage off the list price), to as high as $17 000–20 000 for shelves located close to till positions (near cash registers where customers pay for products).[9] In Zimbabwe, estimates range between $10–2500 per product line, $50–100 for the introduction of additional new product lines and $180–300 per gondola.[10] The charging of listing fees does not appear to be a common practice among non-South African supermarket chains, but the South African chains have attempted to 'import' such practices within the other countries in which they operate.

Access to good shelf space is critical for suppliers to successfully sell their products. For new entrants and small suppliers, it is a constant battle to access prime shelf space, which is usually taken up by multinational suppliers. Similarly, access to cooler/refrigeration space is important for suppliers of cold products. There have been competition cases have recognised the harm to competition posed by dominant suppliers imposing exclusivity on cooler space.[11] Recently in South Africa, a settlement was reached in the South African Breweries Miller/Coca-Cola bottlers merger that included an undertaking to allow small retail outlets to use 10% of Coca-Cola fridge space to stock competitors' carbonated soft drinks.

Settlement discounts are also charged by supermarkets for paying the supplier within the number of days stipulated in the trading terms, which vary depending on the supplier. In South Africa, it is commonly 15–30 days from statement and the discount for paying within this period is usually in the range of 2.5–5% off the list price. In Botswana, the payment period is usually 30 days. In Zambia and Zimbabwe, however, there appears to be a perception that longer payment periods are the 'norm' in South Africa and that this practice has been imported by South African supermarkets and adopted by local supermarkets. Long payment periods are a key cause of non-participation of local suppliers in the supermarket value chain. It puts considerable pressure on suppliers' cash flow and working capital, which is particularly problematic for smaller suppliers.

[9]Reserve Bank of South Africa's exchange rate of 14.43 on 29 August 2016..

[10]Gondola ends are the exposed short blocks of shelves at the ends of aisles meant to increase sales through intense advertising.

[11]European Commission Decision Case COMP/39.116/B-2 Coca-Cola. Available at http://ec.europa.eu/competition/antitrust/cases/dec_docs/39116/39116_258_4.pdf; Competition Commission of Mauritius (2013). Investigation into the supply of coolers to retailers by Phoenix Beverages Limited and Quality Beverages Limited CCM/INV/019. Available at http://www.ccm.mu/English/Documents/Investigations/INV019-Final%20Report%20of%20Undertaking-NC.pdf; Competition Commission of Singapore (2013). 'Coca-Cola Singapore Beverages changes business practices in local soft drinks market following enquiry by CCS', Media release, accessed 21 April 2016).

Supermarkets sometimes require advertising discounts off the purchase price for advertising on behalf of suppliers when they advertise the supermarket generally. Not all suppliers are required to pay such fees, however, especially those that already heavily invest in advertising their own brands. Suppliers are sometimes further required to pay supermarkets to participate in promotions. Promotion fees can range between \$2500–7000[12] in South Africa, depending on the scale of the promotion and the size of the outlet. For large-scale promotions in Zimbabwe, suppliers can pay up to \$10 000 for each product line, allegedly to cover the costs of the supermarket advertising through TV, newspapers and flyers. Given that suppliers in the region face competition from deep-sea imports, they often have to absorb these costs, which then result in the squeezing of their margins.

The Competition Authority of Botswana (CAB) undertook an inquiry into the retail sector in Botswana in 2015/16, evaluating the following potential abuses of buyer power on the part of supermarkets: threatening de-listing when suppliers do not reduce their prices or agree to supermarket demands; charging advertising fees, retrospective rebates and after-sales rebates from manufacturers; delaying payments and demanding wastage payments. The CAB found that some of these concerns were legitimate and that the various trading terms typically lowered the price that suppliers could earn by at least 10–15% (see Bagopi et al., 2016). The Competition Commission of South Africa has also initiated a retail market inquiry looking into issues of buyer power.

Supermarkets can also increase their bargaining power by expanding their range of own/private label or house brand products. Private label brands are becoming successful fast-sellers in southern Africa as they compete with branded alternatives on price, value and quality, particularly for cost-conscious customers.[13] Given limited branding and advertising for these products, prices are often lower than branded products. Private labels have raised concerns for suppliers of branded products in instances where supermarkets favour private labels on their shelves. They also improve the bargaining position of supermarkets, putting pressure on the margins of suppliers of branded products.

Every major supermarket chain has a range of its own brand/private label products in southern Africa. Many suppliers of branded products also manufacture and sell private labels to supermarkets. While suppliers can use this as a stepping stone to get onto supermarkets' preferred supplier lists, especially if they have not yet built a brand name, some of the concerns highlighted above were expressed by manufacturers of private label products in the interviews. These concerns were most strongly expressed in Botswana, and the CAB formally investigated the rapid increase in house brands and the impact on suppliers. The CAB's inquiry highlighted that house brands increased the buyer power of supermarkets and this negatively affected the margins of suppliers who supplied both house brands and branded products. The concern was that retailers in Botswana were pushing the sales of house brands at the expense of branded products (in terms of better and more visible shelf space, promotions, advertising, etc.).

3.2.5 Supplier development programmes

The growth of supermarkets, the modernisation of their procurement systems and their relationship with suppliers has placed considerable pressure on suppliers in the region.

---

[12]Reserve Bank of South Africa's exchange rate of 14.43 on 29 August 2016..
[13]Supermarkets are also producing private label products that target high income consumers (Ezrachi, 2010).

Suppliers require a range of capabilities to meet these requirements. Through actively providing support to suppliers, supermarkets can transfer skills, knowledge and best practices to them (Altenburg et al., 2016). Some supermarkets in the region have been more proactive in building these capabilities through close partnerships with local suppliers than others. A non-exhaustive account of these programmes is discussed below.

In South Africa, Woolworths offers considerable support for its South African suppliers. Woolworths typically has long-standing relationships with its exclusive suppliers, investing in them to achieve the desired quality and standards of their house brands. As part of the Woolworths Enterprise Development programme, it further supports suppliers to improve empowerment credentials and supports small, medium, black-owned and black women-owned suppliers. It provides financial assistance (including shorter payment terms), guaranteed business, mentorship and targeted upskilling.

In 2015 Pick n Pay established its Enterprise and Supplier Development Scheme in South Africa to assist small suppliers by providing mentorship, guidance and business development support. This programme provides preferential trading terms to small suppliers with a turnover of less than R3 million over a 12-month period.

In 2015 SPAR put in place procurement policies to create market access for small business and cooperatives. It initiated a Rural Hub Model in Mopani District in Limpopo province aimed at empowering local small farmers who struggle with meeting the required quality, volumes and consistency needed to supply supermarkets, as well as with meeting local and international standards like local and global GAP.[14]

Through Freshmark, its fresh produce distribution arm, Shoprite embarked on a three-year programme (2008–11) to help 200 small-scale farmers meet minimum food safety and quality standards in South Africa, Swaziland, Namibia and Zambia, including global GAP and the Freshmark Good Manufacturing Practice standards. The programme involved training sessions, capacity building, compliance evaluation, provision of technical support and regular inspections.

In instances where large retailers have been mandated to develop suppliers, there have been mixed results. Part of the conditions imposed by the Competition Appeal Court of South Africa in the Walmart/Massmart merger required the merged entity to set up a supplier development fund and make available ZAR 240 million over a five-year period to develop suppliers. Massmart worked with TechnoServe, a non-profit organisation, to upskill and train farmers to supply fresh produce to its stores, in addition to providing preferential finance terms and inputs. This aspect of the initiative was relatively unsuccessful in terms of creating long-term suppliers of fresh produce, highlighting the difficulties of upgrading capabilities of small-scale subsistence farmers to commercial farmers within a short space of time. However, Massmart has recently refocused its supplier development programme away from small-scale farmers and agro-processors to target more mutually-beneficial projects in DIY and general merchandise with better commercial alignment for both suppliers and Massmart. There have, however, been some positive outcomes on the agro-processing side of the programme. One beneficiary, Lethabo Milling, a new entrant producing maize meal and other products, received a R1.6 million grant from Massmart for refurbishing its plant. The support extended to an offtake agreement with Massmart that helped Lethabo secure a loan from a commercial bank. Lethabo has a guaranteed

[14]Funded by the Dutch government, the Masisizane Fund and the Jobs Fund.

route to market through supplying Massmart stores and received additional support for training, waived listing fees, fast-track payments and assistance with pricing models.

In Zambia, suppliers receive limited direct assistance from supermarkets. Supermarkets in certain cases have, however, relaxed their standards to incorporate local suppliers. There have nonetheless been two concrete local content initiatives implemented by supermarkets in the last five years: a Memorandum of Understanding (MOU) signed between Shoprite and the Zambia Development Agency aimed at promoting small and medium-sized enterprises (SMEs) with support from the Ministry of Commerce, Trade and Industry; and an MOU signed between Shoprite and the Private Enterprise Programme Zambia under the Department for International Development programme also supporting SMEs.

Choppies Enterprises, a large retail chain in Botswana, has driven some small-scale enterprise development by procuring from (and in some cases, advancing cash to) small farmers in Botswana. In Zimbabwe, supermarkets offer limited support to suppliers.

While such initiatives on the part of the major supermarket chains have yielded some positive results, these have been limited. Almost all the initiatives involve small-scale farmers and are of short duration only. The initiatives also appear to be seen as meeting the obligations of corporate social responsibility rather than as commercially viable endeavours, although the recent changes in the Massmart supplier development programme appear to be moving in the latter direction.

4. Conclusions and policy recommendations

This article assessed the implications for suppliers of the spread of supermarkets in southern Africa. The growth of supermarkets in the region creates opportunities for food processors and light manufacturers, providing potential to stimulate and revive these industries. The trade patterns in selected food and household consumable products revealed the importance of supermarkets in driving regional trade. To create mutually beneficial trade relationships in the SADC region, however, it is important that South Africa increases its share of imports from the region and that trade is not so heavily skewed in one direction (exports from South Africa only). In this regard, opportunities for greater exports, particularly from Zambia, were identified. Bilateral trade agreements between national governments could open greater trade opportunities through supermarket networks.

However, there are restrictions to such trade due to local content policies, import duties and import quotas that serve to protect national industries. Although local content initiatives have not always been strictly enforced and are at different stages of implementation in the different countries, they are not aligned with an agenda to develop suppliers to regional markets. If supermarkets are to become a key route to regional markets for suppliers, then the country-level policies and laws that currently exist need to be harmonised across the region with a wider view of developing regional value chains. Such policies could be specific to the supermarket industry, in which, for instance, governments and supermarkets jointly determine a proportion of space on supermarket shelves to be allocated to products manufactured within SADC. There are further benefits in harmonising standards across the region to create greater acceptance of products from outside South Africa.

Opening the region to trade alone is not sufficient to guarantee sustainable supply to supermarkets. Suppliers also need to continue to invest in building their capabilities to ensure they meet supermarket requirements. Limited support appears to be offered by supermarkets (and governments) to upgrade supplier capabilities. The existing supplier development initiatives are ad hoc and small in scale and scope. They also do not have a regional development objective in mind. Successfully developing supplier initiatives requires a larger, long-term and commercially-oriented approach by supermarkets in partnership with governments. This can be achieved through the creation of supplier development funds, such as that of the Massmart programme. Fines levied by competition authorities in relation to abuse of market dominance or cartel infringements in this sector can be a further source of co-funding.

The research further revealed that supermarket chains in the region have significant buyer power, the exertion of which is clearly seen in the negotiation of trading terms and the imposition of private standards. This results in additional costs for suppliers, thus squeezing their margins and limiting their participation in value chains. The international experience has shown that codes of conduct or a retail charter between suppliers and supermarkets are a useful way to control the exertion of buyer power and have been identified as an effective approach to level the playing field and reduce information asymmetries between suppliers and supermarkets. This approach has been used in the United Kingdom, through a Groceries Supply Code of Practice that stipulates that retailers are required to comply with the Groceries Market Investigation Order of the former Office of Fair Trading.[15] In Ireland, there are plans to institute a mandatory code of conduct in the grocery sector, to be overseen by the Department of Jobs, Enterprise and Innovation. In Spain, a new act focusing on measures to improve the functioning of the food chain was promulgated in 2013 using a mixed model of regulation and self-regulation (through voluntary codes of conduct). In Africa, Namibia is the only country to have a formalised voluntary retail sector charter.[16] Such codes of conduct can be encouraged by national governments in the other southern African countries, and harmonised across the region given that it is largely the same retailers that operate in the different countries within this region.

Disclosure statement

No potential conflict of interest was reported by the authors.

Funding

This work was supported by UNU WIDER.

References

Altenburg, T, Kulke, E, Hampel-Milagrosa, A, Peterskovsky, L & Reeg, C, 2016. Making retail modernisation in developing countries inclusive. Discussion paper 2/2016. German Development Institute.

[15]This code is enforced by an independent Groceries Code Adjudicator, set up specifically to oversee the relationship between supermarkets and their suppliers, and is situated within the former Office of Fair Trading.
[16]http://www.ntf.org.na/pdf/Retail_Charter_Document.pdf.

Bagopi, E, Mbongwe, T, Daman, C & Modungwa, G, 2016. Competition dynamics in retail and wholesale sector. Proceedings of the 2nd Annual Competition and Economic Regulation (ACER) Conference, 11-12 March, Livingstone, Zambia.

Basker, E & Noel, M, 2013. Competition challenges in the supermarket sector with an application to Latin American markets. Report for the World Bank and the Regional Competition Centre for Latin America. Mexico, DF: CRCAL.

Boselie, D, Henson, S & Weatherspoon, D, 2003. Supermarket procurement practices in developing countries: Redefining the roles of the public and private sectors. American Journal of Agricultural Economics 85(5), 1155–61.

Brown, O & Sander, C, 2007. Global supply chains and smallholder farmers: Supermarket buying power. International Institute for Sustainable Development (IISD).

Cattaneo, O, 2013. Aid for trade and value chains in agrifood. World Trade Organization, Geneva.

Chigumira, G, Chipumho, E, Mudzonga, E & Chiunze, D, 2016. The expansion of regional supermarkets chains, changing models of retailing and the implications for local supplier capabilities: A case of Zimbabwe. UNU Wider report by Zimbabwe Economic Policy Analysis and Research Unit (ZEPARU).

Clarke, R, Davies, S, Dobson, P. & Waterson, M, 2002. Buyer power and competition in European food retailing. Edward Elgar, Cheltenham.

Dakora, E, 2012. Exploring the fourth wave of supermarket evolution: Concepts of value and complexity in Africa. International Journal of Managing Value and Supply Chains 3(3), 25–37.

Das Nair, R & Chisoro, S, 2015. The expansion of regional supermarket chains: Changing models of retailing and the implications for local supplier capabilities in South Africa, Botswana, Zambia, and Zimbabwe. UNU WIDER Working Paper 2015/114.

Das Nair, R & Chisoro, S, 2016. The expansion of regional supermarket chains and implications for local suppliers: A comparison of findings from South Africa, Botswana, Zambia and Zimbabwe. UNU WIDER Working Paper 2016/169.

Das Nair, R & Chisoro, S, 2017. The expansion of regional supermarket chains: Implications on suppliers in Botswana and South Africa. UNU WIDER Working Paper 2017/26.

Dobson, P, 2015. Structural Issues in the Groceries Sector: Merger and Regulatory Issues. Background paper by the OECD Secretariat – Latin American Competition Forum, Session I – DAF/COMP/LACF (2015)13.

Dobson, PW, Waterson, M, & Chu, A, 1998. The welfare consequences of the exercise of buyer power. Office of Fair Trading Research Paper 16.

Emongor, R. & Kirsten, J, 2009. The impact of South African supermarkets on agricultural development in the SADC: A case study in Zambia, Namibia and Botswana. Agrekon 48(1), 60–84.

Ezrachi, A, 2010. Unchallenged market power? The tale of supermarkets, private labels and competition Law. World Competition 33(2), 257–274.

Gereffi, G, 2005b. The global economy: organization, governance, and development. In Smelser, NJ & Swedberg, R (Eds.), The handbook of economic sociology (pp. 160–182). 2nd edn. Princeton University Press, Princeton and Oxford; Russell Sage Foundation, New York.

Gereffi, G & Fernandez-Stark, K, 2011. Global value chain analysis: A primer. Centre on Globalization, Governance & Competitiveness (CGGC)

Gereffi, G, Humphrey, J & Sturgeon, T, 2005. The governance of global value chains. Review of International Political Economy 12, 78–104.

Humphrey, J, 2007. The supermarket revolution in developing countries: Tidal wave or tough competitive struggle? Journal of Economic Geography 7, 433–50.

Humphrey, J & Schmitz, H, 2002. How does insertion in global value chains affect upgrading in industrial clusters? Regional Studies 36(9), 1017–27.

Inderst, R & Valletti, TM, 2011. Buyer power and the waterbed effect. The Journal of Industrial Economics 59(1), 1–20.

OECD, 2013. Directorate for financial and enterprise affairs competition committee: Competition issues in the food chain industry. DAF/COMP (2014)16.

Reardon, T & Gulati, A, 2008. The rise of supermarkets and their Development Implications, International Experience Relevant for India. International Food Policy Research Institute (IFPRI) and Michigan State University. IFPRI Discussion Paper 00752.
Reardon, T & Hopkins, R, 2006. The supermarket revolution in developing countries: policies to address emerging tensions among supermarkets, suppliers, and traditional retailers. The European Journal of Development Research 18(4), 522–45.
Reardon, T & Weatherspoon, D, 2003. The rise of supermarkets in Africa: Implications for agrifood systems and the rural poor. Development Policy Review, 21(3), 333–55.
Reardon, T, Timmer, P & Berdegue, J, 2004. The rapid rise of supermarkets in developing countries: Induced organizational, institutional, and technological change in agrifood systems. e-Journal of Agricultural and Development Economics 1(2), 168–83.
Trademap Database, 2015. Trade statistics for international business development. http://www.trademap.org/Index.aspx
Tschirley, D, 2010. Opportunities and constraints to increased fresh produce trade in East and Southern Africa. Proceedings of the 4th Video Conference under AAACP-funded Series of High Value Agriculture Seminars.
Ziba, F & Phiri, M, 2017. The expansion of regional supermarket chains: Implications for local suppliers in Zambia. UNU Wider Working Paper 2017/58, Zambia Institute for Policy Analysis and Research (ZIPAR).