The internationalisation of supermarkets, the nature of competitive rivalry between grocery retailers and the implications for local suppliers in Southern Africa

by

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Declaration

DECLARATION

I certify that the thesis submitted by me for the degree of Doctor of Philosophy (Economics) at the University of Johannesburg is my independent work and has not been submitted by me for a degree at another university.

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Abstract

The growth and spread of supermarket chains globally has transformed how consumers purchase groceries and household consumable products and how these supply chains have developed. This thesis analyses the spread of supermarket chains in Southern Africa, with a specific focus on South Africa, Botswana, Zambia and Zimbabwe. It analyses how the internationalisation of supermarket chains in these countries has affected, and is affected by, competition dynamics and what the implications on suppliers are. This study is among the first to assess these topics in Southern Africa, particularly the implications on the competitive landscape and the effects of market power of supermarket chains on rivals and suppliers.

The thesis draws on a critical review of the literature on industrial organisation-based theories of foreign investment and Ownership-Location-Internalisation (OLI) principles to understand the patterns of supermarketisation and internationalisation in the region. It identifies the significance of national policies, political economy dynamics, proximity to suppliers and firm-specific strategies related to market power in understanding the spread of supermarkets. A key finding is that internationalisation has not been to the extent that the literature predicted, including the entry and growth of transnational retailers in Southern Africa. What is seen instead is the 'regionalisation' of South African supermarket chains, essentially extending their home networks and oligopolistic rivalry into the region. The thesis also identifies the resilience of alternative forms of retail through buying group-led independent retailers in South Africa, alongside supermarketisation that started in the apartheid period.

The complexities of how supermarket chains compete and how market power is exerted affects their spread. The study examines the impact of market power of supermarket chains, showing that competition needs to be understood narrowly by format and segment in very localised markets, possibly limited to a shopping mall in the South African context. Importantly, the analysis reveals the shortcomings of viewing competition through just a price lens and highlights the importance of understanding non-price dimensions of competition, given the characteristics of supermarkets and the way in which the positioning of supermarkets changes over time. This requires a more dynamic perspective.

Through extensive firm-level and organisation interviews in each country, the thesis evaluates the impact on suppliers through a combination of a global value chains framework and industrial organisation principles of competition in markets. The forms in which buyer power is exerted in Southern Africa and the impact that this and other requirements has on regional supplier development is evaluated. It finds that supermarket chains are important in driving the upgrading of supplier capabilities to meet these requirements by providing access to wider

markets, facilitating their climb up a regional or global value chain ‘ladder’. The study however also finds strong concerns of buyer power imposed through the trading terms negotiated with suppliers. As gatekeepers to store networks in the region, supermarkets offer suppliers the opportunity to access more consumers. However, unequal bargaining power leads to rents extraction from value chains by supermarkets, negatively affecting supplier participation and upgrading.

The thesis shows that these topics are complex and inter-related, requiring multiple lenses to analyse them. Supermarketisation and internationalisation affect the structure of markets and the competitive landscape, while the degree of competitive rivalry and market power in turn impacts the pace of supermarketisation and internationalisation. Similarly, the market power of supermarket chains has a significant impact on suppliers, while the ability of supermarkets to grow into new markets hinges on the proximity and links to well-established supplier networks.

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CHAPTER 1

INTRODUCTION

The growth and spread of supermarket chains globally over the past three decades has transformed the way consumers purchase groceries and household consumable products. In developing countries, the formats and locations of supermarket outlets have further evolved since the mid-1990s, moving away from serving only affluent consumers in urban areas to penetrating low-income peri-urban and rural areas (Reardon and Berdegué, 2002; Weatherspoon and Reardon, 2003; Reardon and Hopkins, 2006).

The 'supermarket revolution', or 'supermarketisation' as this spread is sometimes referred to, involves a growing share of food products sold through supermarkets. Along with supermarketisation, the internationalisation of supermarkets through foreign direct investment (FDI) outside the home countries in which they were already established has been characterised in the literature as occurring in 'waves'.

Various studies have documented these waves, starting in the early 1990s (see, for example, Reardon, Timmer and Berdegué, 2004 and 2005; Reardon and Hopkins, 2006; Traill, 2006; Reardon, Henson and Berdegué, 2007). The first wave occurred in the early 1990s in South American countries (Brazil, Argentina and Chile), northern central Europe (Czech Republic), East Asia (excluding Japan and China) and in South Africa as the only African country towards the end of the first wave. This saw a rapid catch-up of these regions towards countries in Western Europe and North America that had supermarketised earlier over a much longer period. The second wave was in Mexico, Central America, Southeast Asia, and south-central Europe, while the third wave hit India, China, poorer Latin and Central American countries, Eastern Europe and Kenya in the late 1990s and early 2000s. The last formally documented fourth wave in the literature was in Southern and East African countries in the mid-2000s, affecting countries in Sub-Saharan Africa outside South Africa and Kenya, as well as in South Asia outside India (Reardon and Hopkins, 2006; Reardon, Henson and Berdegué, 2007). The predictions in the literature in the early 2000s were that supermarketisation and internationalisation in developing countries would continue to be significant. Especially on the African continent, supermarketisation and internationalisation were predicted to take off rapidly and on a large scale in the mid- to late 2000s. It was predicted that global multinational supermarket chains would enter Africa by around 2010, repeating patterns evidenced in Latin America and East and Southeast Asia (Weatherspoon and Reardon, 2003; Reardon, Timmer and Berdegué, 2004; Traill, 2006).

The growth and spread of supermarkets globally have been attributed to several demand-side and supply-side factors. From the demand side, increasing incomes per capita, rising levels of urbanisation, the growing middle class and the entry of women into the workforce have fuelled supermarket growth globally (Weatherspoon and Reardon, 2003; Humphrey 2007; Tschirley, 2010). From the supply side, increases in FDI, attributed to the saturation of home markets and greater profitability opportunities in other developing countries, has stimulated internationalisation of supermarkets (Reardon, Timmer and Berdegué, 2004; Humphrey, 2007; Bartels, Buckley and Mariano, 2009). FDI has also been aided by economic liberalisation in developing countries since the early nineties. Economies of scale and scope arising mainly from the modernisation of procurement systems and investments in transport and logistics systems, have further allowed for the spread of supermarkets, as has the growing construction of shopping malls that offer attractive store sites (Reardon, Timmer and Berdegué, 2004; Humphrey 2007; Tschirley 2010).

The growth in the Southern Africa region has largely been through the spread of South African-owned supermarket chains, championed by Shoprite Holdings. This comes in the context of increased intra-regional FDI, which is part of and follows trade and financial liberalisation in Southern African countries in the 1990s/early 2000s, including through the Southern African Development Community (SADC).

The supermarketisation and the internationalisation of supermarket chains in Southern Africa has important implications for consumers, suppliers and the competitive landscape. Greater competition between supermarkets can result in better prices and a wider range of non-price benefits to consumers, such as better quality and range of products and services, and increased convenience. This improves consumer welfare. Greater competition between supermarkets can also benefit suppliers, giving them more alternatives through which they can access end markets and better prices for their products. Competition dynamics between grocery retailers in home and host countries further directly affect both supermarketisation and internationalisation trajectories.

This thesis contributes to the literature by analysing the spread of supermarket chains in Southern Africa, with a specific focus on South Africa, Botswana, Zambia and Zimbabwe. I address the complex and inter-related dynamics of the growth and spread of supermarkets in the region by making three main contributions.

My first key contribution is the assessment of the patterns of supermarketisation and internationalisation and their key determinants relative to the predictions in the literature. This has previously not been substantially tested in the specific context of Southern Africa.

The second contribution is an evaluation of the nature and extent of market power on the part of supermarket chains. This involves assessing competition and concentration in terms of geographic and product or offering space, barriers to entry, and the price and non-price dimensions of the market conduct of the main supermarket chains.

The third contribution analyses the implications of the large supermarket chains for suppliers of processed food and household consumable products. The high levels of concentration in supermarket retail through a very few large chains mean that not only are supermarkets important routes to market for suppliers, but that they are also able to potentially exert buyer power, including through imposing onerous requirements, on suppliers.

These three contributions are closely inter-related. Supermarketisation and internationalisation affect the structure of markets and the competitive landscape, while the degree of competitive rivalry in markets in turn impacts the pace of supermarketisation and internationalisation. Similarly, the market power of supermarket chains has a significant impact on suppliers, while the ability of supermarkets to grow into new markets hinges on the proximity and links to well-established supplier networks.

The rest of this introduction sets out the structure of this thesis and describes each of my contributions in more detail. Chapter 2 provides an overview of the grocery retail landscape in Southern Africa. Chapter 3 reviews relevant literature and Chapter 4 covers the methodology. The main analytical contributions are in Chapters 5, 6 and 7.

As part of my first contribution, Chapter 5 traces the spread and experiences of the main grocery retail chains in the Southern African region to understand, first, what has happened in terms of supermarketisation and the internationalisation of supermarket chains. Second, it assesses the factors which explain these trends, and reasons why they have not been to the extent predicted in the literature. This involves testing the trends against the existing theories of the determinants of FDI. The analysis shows that supermarketisation happened in South Africa, with the most developed supermarket sector on the continent, largely under apartheid and during the early 2000s. This is consistent with it being in the 'first wave'. Moreover, the expansion of supermarkets in other countries in Southern Africa has largely been through the spread of the main South African chains and not through the entry and growth of global transnational chains. By 2003, the share of packaged food going through supermarket and hypermarket channels in South Africa was already close to 70 per cent and, in fact, declined somewhat between 2003 and 2017. In the case of fresh food, the share of sales was around 55 per cent in 2008 and declined thereafter to 2017 (Euromonitor International, 2018).

The analysis in Chapter 5 points to the extension of supermarket chains through tailoring their formats and offerings to penetrate peri-urban areas (so-called 'townships') and rural areas following the opening up of these markets at the end of apartheid. However, it also highlights the resilience of small and independent retailers in these areas through the development of alternative models of retail. These models include, in particular, buying group-supported independent retailers. These alternative, formalised models of grocery retail have not previously been substantially considered in the literature. The significance of the alternative models questions the general narrative in South Africa, as elsewhere, that growing supermarketisation has been at the expense of independent retailers. This has been a key area of inquiry in the on-going grocery sector inquiry by the Competition Commission of South Africa – the Grocery Retail Market Inquiry (GRMI) (Competition Commission South Africa, 2015b).

Chapter 5 also shows that the internationalisation of supermarket chains in Southern Africa has been slower than what the literature predicted for Africa. The region has not seen the entry and rapid expansion of transnational corporations (TNCs) like Walmart (although Walmart did enter in 2011/2012 through a merger with South African retailer, Massmart, its expansion in grocery retail has been slow), Carrefour and Metro, which are the top three retail TNCs globally in terms of international revenue (Coe and Wrigley, 2018). What is seen instead is a 'regionalisation' of South African chains as an extension of their home-based operations, along with the expansion of a Botswana-owned chain in the SADC region since the late 2000s (see also Barrientos et. al., 2016; Crush et al., 2017). This regionalisation is enabled, amongst other factors, by favourable conditions under SADC trade agreements and proximity to established suppliers, including suppliers of well-known brands in the region. This makes it easier for regional supermarket chains to invest and trade within the region.

The analysis demonstrates that no single 'theory of internationalisation' is adequate in explaining the trends we see in Southern Africa and that the characteristics of modern grocery retail require extending the theories of internationalisation reviewed in the literature. Supermarkets supply a basket of daily food and non-food products and a wide assortment of other products and services selling concurrently in a convenient setting and location, providing an overall customer experience (Betancourt and Malanoski, 1999; Betancourt, 2006; Basker and Noel, 2013). Sometimes referred to as a 'price, quality, range and service' (PQRS) package, this offering can reduce overall costs for consumers, including transport, time, search, information and storage costs (OECD, 2015). The combination of these features make assessing the internationalisation of supermarkets through frameworks more suited for the manufacturing sector unsatisfactory.

A combination of frameworks, such as industrial organisation-based theories of FDI (for instance, Hymer, 1976; Jenkins, 1984; 2013; Dunning, 1993; Narula and Dunning, 2000; Lall and Narula, 2004) and the Ownership, Location, Internalisation (OLI) framework (Dunning, 1977; 2001) is employed in this study to understand the spread of supermarkets in the region. Key factors, including specific ownership and location advantages that allow regional supermarket chains to grow more rapidly in the region relative to transnational chains, are significant for the patterns of spread seen, along with the importance of investment in distribution and logistics, regional supplier networks and knowledge of customer segments and preferences.

In addition, my assessment highlights the importance of local policies, political economy dynamics and firm-specific factors such as first-mover advantages, market power and competition issues. These have all clearly affected the pace of supermarketisation and internationalisation in the region. National policies like the indigenisation requirement in Zimbabwe impact how easily foreign multinational retailers can enter and grow in that country. Similarly, the national protection of certain local food industries, like cooking oil or poultry, and soft local content policies in some of the SADC countries, limits the ability for supermarkets to expand if there is a lack of local production capacity. Political economy dynamics, such as preferential treatment towards certain players by governments in the region, political affiliations and lobbying by powerful interest groups (Andreoni, 2016; Khan, 2017), have also impacted on internationalisation as will be evaluated in Chapter 5. Importantly, firm-specific advantages, like first-mover advantage in accessing lucrative store sites and finding local suppliers with capacity and capabilities, are important to entrench the positions of supermarket chains and to set the pace of growth in host countries.

My second contribution is in understanding the nature of competitive rivalry and market power in grocery retail in Southern Africa, which is addressed in Chapter 6. This affects, and is affected by, the supermarketisation and internationalisation of supermarkets. In many countries in Southern Africa, and in geographic markets within these countries, it is only two or three (mainly) South African supermarket chains that hold most of the market share. These high levels of concentration are reinforced by structural barriers to entry that are inherent in the nature of modern chain grocery retail.

In Chapter 6, I evaluate how supermarkets compete from a product and offering perspective, as well as from a geographic perspective, and consider the implications of market power. This is done through different levels of analysis that involve understanding rivalry from static and dynamic perspectives, as well as from price and non-price dimensions. This includes understanding the positioning of supermarkets and the implications of exclusive lease arrangements entered into by the main chains with regard to shopping malls.

Almost all the main supermarket chains have diversified into different formats that target different income segments of the population. The offerings in terms of the PQRS package are different in each format and each face varying intensities of competition. Markets are therefore effectively segmented by format in terms of product range, size, convenience, quality, branding, look and feel, and location. Independent retailers, while offering more of a competitive constraint in the low-income segments of the market, typically do not offer the full PQRS suite in competition to the higher-income targeting formats of the chains. In a static sense, similar formats are therefore closer rivals to each other (intra-format competition). However, as noted, the main chains in Southern Africa have multiple formats that have evolved, both in terms of offerings and geography. It is therefore also crucial to understand competition from a dynamic sense.

I empirically assess the impact of market power through two sets of analyses that involve prices. First, I assess general price margins in selected food products between retailers and producer/wholesalers as a means of measuring the extent of market power. Although not definitive on its own, the margin analysis suggests some product categories in which retailers may have substantial market power. Second, I assess the impact of concentration levels on supermarket-specific prices of a typical basket of products sold in selected localised areas in Gauteng Province, South Africa. While the results are mixed, the analysis indicates that there is significant local pricing variation. This is reflective of discounting and highlights the need to carefully assess narrower, local markets. There are also indications that prices are responsive to local rivalry, but more data is required for a fuller statistical analysis to be undertaken in future research.

Importantly, the analyses highlight that price is just one dimension in which supermarket chains in South Africa compete. Through intra-format competition, the chains compete on multiple other, non-price, dimensions. An analysis of pricing alone therefore does not reveal the impact of concentration and market power on the non-price aspects that consumers value. Non-price competition is important, yet it is very difficult to quantify. Competition authorities in South Africa have typically placed much more weight on evaluating price dimensions of competition in the supermarket sector. This is also a function of the way the Competition Act[1] in South Africa is worded, where anti-competitive conduct of firms with market power requires showing a substantial lessening of competition, interpreted in static price terms.

The approach to a prevalent practice historically in South Africa is reflective of this narrow view taken by the authorities. This is in the practice of supermarket chains as anchor tenants entering into leases containing exclusivity clauses with property developers in shopping malls. Exclusive leases, by their very nature, are exclusionary. They prevent new entry, limit the growth of rivals and reinforce the incumbents' positions of power in the mall or centre that they

[1] The Competition Act 89 of 1998, as amended.

are enforced in. With fewer competing supermarkets in a given location, customers are left with reduced choice. Incumbent supermarket chains are able to negotiate these exclusive leases given the market power that comes with their ‘must-have’ position in drawing footfall into a mall. To date however, the South African competition authorities have not made a finding that such conduct is anti-competitive. This is a result of the way the Competition Act has been interpreted as noted above with a strong emphasis placed on proving price effects. Non-price dimensions valued by customers linked to location, ambiance, a one-stop-shopping experience and the importance of malls in the region, may also mean that a mall or centre is a geographic market on its own. Complainants in these cases find it difficult to prove that the leases result in a substantial lessening of competition through price effects alone. This reflects the high threshold or burden of proof in the South African competition regime. I argue that this dismisses the importance of the dynamic process of effective competitive rivalry and the potential for new chains to enter and grow to be effective competitors to the incumbents in the future, including on non-price dimensions. A different approach by competition authorities is required to consider non-price dimensions that arise from intra-format competition.

Furthermore, given that it is the same large chains that have managed to penetrate other markets in the region, there are concerns that some of these practices will be exported to host countries, affecting the competitive landscape. Situated in industrial organisation and competition economics literature, such competitive dynamics have seldom made it into the literature on supermarketisation of internationalisation of retailers, especially in the African context, yet they clearly affect the spread of supermarkets.

Competition authorities in the region have grappled with these and other competition concerns in grocery retail with, for example, the Competition Authority of Botswana (CAB) and the Competition Commission of South Africa (CCSA) having undertaken market inquiries in the retail sector. In South Africa, the CCSA, following complaints by smaller competitors, initiated a Grocery Retail Market Inquiry (GRMI) in 2015 to evaluate competition concerns. As of March 2019, the CCSA had not yet released its findings from the inquiry, although evidence presented as part of the public hearings has been analysed in this thesis.

My third contribution considers the importance of supermarkets as a source of demand and route to market for suppliers of fresh and processed food and household consumable products (Boselie, Henson and Weatherspoon, 2003; Emongor and Kirsten, 2006; 2009). The spread of supermarkets in Southern Africa opens up a larger regional market for suppliers to attain the necessary scale to become competitive in national, regional and international markets. Intra-regional trade patterns in food and household consumable products reveal the importance of supermarkets in driving regional trade. Supermarkets therefore can be a strong catalyst to stimulate food processing and light manufacturing industries in Southern Africa, which is in line with SADC's industrialisation strategy (SADC Industrialisation Strategy and Roadmap, 2015). However, the escalating requirements and trading terms imposed on suppliers in the region can limit this opportunity.

A lack of competition in the grocery retail space negatively affects suppliers as it reduces the alternatives that they have to sell their products. High levels of concentration in markets in the region mean that the large supermarket chains have considerable buyer power and are often able to control pricing and trading terms with suppliers. This shifts the bargaining power dynamics in favour of supermarkets, especially with their dealings with small- and medium-sized suppliers. Buyer power can result in additional costs imposed on suppliers when supplying supermarket chains. Supermarket chains with market power are able to squeeze the margins of suppliers to extract a higher share of the joint rents in the value chain through imposing trading terms that are not justified in terms of costs or efficiencies (OECD, 2008). This can dampen the growth and development of suppliers if the outside options available to them are less attractive. Common additional costs in South Africa and in the region include listing or support fees to get listed in supermarket books, advertising fees, promotion fees, settlement fees, and wastage and return costs, amongst others.

As assessed in Chapter 7, an evaluation of the data from interviews in the region and from testimonies and submissions made at the South African Competition Commission's GRMI suggests that there are concerns of abuse of buyer power in South Africa and in the region. Exploitation of buyer power can reduce investment and innovation amongst suppliers, leading to poorer product quality and less choice, in addition to higher prices. The long-run effects of buyer power include suppliers exiting the market, which ultimately could lead to higher prices for consumers (Dobson, Waterson and Chu, 1998; Clarke et al., 2002; OECD, 2015). The forms in which such buyer power is exerted in Southern Africa and the impact that this and other requirements has on regional supplier development is evaluated in this thesis.

Over and above costs imposed by the exertion of buyer power, Chapter 7 shows that suppliers face numerous legal requirements such as compliance with national and international standards, food safety, labelling and packaging requirements, sanitary and phytosanitary standard requirements. These escalating requirements increase the barriers to participation for suppliers (Tschirley, 2010; Dakora, 2012), and require the building of capabilities to meet them. The interviews nonetheless suggest that supermarket chains in the region have been important in driving the upgrading of capabilities of suppliers to meet these requirements by providing access to wider markets, facilitating their climb up a regional or global value chain 'ladder'. This is consistent with past studies around the role of supermarkets in driving supplier upgrading (Humphrey and Schmitz, 2002; Humphrey, 2007). Small- and medium-sized suppliers however can be excluded from participating given the difficulties they face in meeting the requirements.

As the literature review in Chapter 3 highlights, there has been no consistent framework through which the implications of the exertion of market power by supermarkets on suppliers and the development of supplier capabilities have been evaluated. My contribution in this regard includes therefore not just the forms in which market power is exerted over suppliers in the region, but also an adapted framework to evaluate the impacts of governance and power in value chains. This is through a combination of a Global Value Chain (GVC) framework, tailored for regional dynamics (Regional Value Chains, RVC), and industrial organisation theories of buyer power.

There has been limited intervention in cases of buyer power by competition authorities in most countries as it is not certain what the welfare effects are. Bargaining power, in the form of buyer power, can be exercised by buyers in a way to countervail the market power of suppliers. In such instances, prices to end consumers may be lowered if there is pass-through, increasing consumer welfare (OECD, 2008; Van Doorn, 2015). Competition authorities have generally tended not to intervene in concerns of buyer power given these potential welfare-enhancing effects. Yet, the exertion of buyer power towards suppliers could potentially harm their growth and development in the long run, which in turn could affect competition at the supplier level (Dobson, 2015).

The proposed hybrid approach of using industrial organisation frameworks and a GVC approach allows for a more complete assessment of core concepts that are significant to both frameworks. These include concepts of governance, rents extraction, linkages and upgrading in value chains (Gereffi, Humphrey and Sturgeon, 2005; Gereffi and Fernandez-Stark, 2011; Fessehaie and Morris, 2013; Kaplinsky and Morris, 2016; Dallas, Ponte and Sturgeon, 2018) as well as the evaluation of the mechanisms and consequences of the exercise of buyer power (Dobson, Waterson and Chu, 1998; Clarke et al., 2002; Davis and Reilly, 2009; Inderst and Valletti, 2011; OECD, 2015). Further, 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. This approach adds to the competition economics framework by providing a wider understanding of the causes and effects of buyer power, and the implications of governance and the exercise of power in value chains. Equally, the use of competition economics principles to better understand the impact of market power at specific levels of the value chain deepens and enriches traditional global value chain analysis. Combined, the framework can allow for more targeted and effective policy interventions in value chains to remove bottlenecks and facilitate supplier upgrading.

The three inter-related contributions of my thesis collectively show that the complexities in understanding the growth and spread of supermarket chains and their impacts should be analysed through multiple lenses, making original contributions to the traditional literature on internationalisation, industrial organisation and competition economics, and global value chains.

An outline of this thesis is summarised below:

Chapter 2 provides an overview of the grocery retail landscape in Southern Africa. It sets out the key routes to market that suppliers have in South Africa, and in three other countries in the SADC region – Zambia, Botswana and Zimbabwe. It provides a description of the main retail chains operating in these countries and their broad offerings.

Chapter 3 reviews three main areas within the existing literature – the internationalisation of retailers, the competition dynamics in grocery retail and the impact on suppliers. The chapter first evaluates the characteristics of supermarkets that make it different from manufacturing, which is what most of the traditional internationalisation literature is focused on. The chapter also provides a review of the empirical literature on supermarketisation and internationalisation globally, and what the expectations were for the growth of supermarkets in Africa. The literature on the nature of competition is then debated from industrial organisation and competition economics perspectives, and the types of strategic behaviour that supermarkets with market power can engage in are evaluated. Lastly, GVC and industrial organisation literature is reviewed to understand the impact of governance and buyer power on suppliers and the capabilities they require to successfully participate in supermarket value chains. The gaps in each of these main areas are critically debated and alternative, complementary frameworks for assessment are introduced.

Chapter 4 sets out the methodology employed in each of the analytical chapters (5, 6 and 7). The key research questions are set out and the approaches and tests to answer these questions in each analytical chapter are explained. The chapter provides the motivation behind the selection of the countries analysed and the types and sources of data utilised.

As noted, **Chapter 5** evaluates the supermarketisation and internationalisation of supermarkets in Southern Africa using the frameworks described above. The chapter highlights the importance of market power, firm strategies, local policies and political economy, that all need to be taken into consideration to understand the patterns of supermarketisation and internationalisation in Southern Africa. This is done through an analysis of the internationalisation trajectories of all the main multinational supermarket chains in the region.

Chapter 6 assesses the nature of competitive rivalry between grocery retailers in South Africa. This includes different levels of analyses on the intensity of competitive rivalry between grocery retailers, the structural barriers to entry that result in concentrated markets, and the strategies that supermarkets engage in to diminish competitive rivalry. Measurements of the degree of market power are undertaken in terms of producer-retailer margins for selected products in South Africa and in terms of the impact of concentration levels in certain geographic areas in Gauteng province, South Africa, on the prices of selected food and household consumable products.

In **Chapter 7**, an evaluation of the impact on suppliers using data obtained from interviews with relevant stakeholders in South Africa, Zambia, Zimbabwe and Botswana (including a survey in Zambia), as well as from submissions and testimonies given at the GRMI, is undertaken. This chapter assesses the impact of the spread of supermarket chains on intra-regional trade of products sold by supermarkets as an indication of supplier upgrading. It evaluates the critical success factors required to supply supermarket chains, the opportunities and difficulties that suppliers in the SADC region face given escalating procurement requirements, and how supermarkets have driven the upgrading of suppliers in value chains. The forms of exertion of buyer power are especially scrutinised.

Chapter 8 provides conclusions, highlighting the key contributions that this thesis has made to the literature. The chapter also provides policy recommendations emanating from the findings and suggestions for a future research agenda.

This thesis includes research as part of a series of studies which I have undertaken at the Centre for Competition, Regulation and Economic Development (CCRED) at the University of Johannesburg for the United Nations University World Institute for Development Economics Research (UNU-WIDER) as part of a broader research project on Regional Growth and Development in Southern Africa. The thesis draws on interviews conducted mainly as part of this project on the spread of supermarkets and implications on suppliers in South Africa, Botswana, Zambia and Zimbabwe. I was the lead researcher for the three working papers produced by CCRED as part of this project (Das Nair and Chisoro, 2015a, 2016 and 2017), and was closely involved in methodology workshops, conceptual framework and questionnaire development for the two studies conducted in Zambia and Zimbabwe by Ziba and Phiri (2017) and Chigumira et al., (2016) respectively. One of the CCRED working papers included a synthesis of findings from all four countries in which I was the lead author.

The thesis also draws from two studies for the Department of Trade and Industry in South Africa (the DTI) on specific food and household consumable value chains as part of the African Industrial Development and Integration Research Project and a third study for the National Treasury on the barriers to entry using the experience of Fruit and Veg City. The working papers produced as part of these studies are Das Nair, Nkhonjera and Ziba (2017), Bosiu, Chinanga, Das Nair and Mondliwa (2017) and Das Nair and Chisoro-Dube (2015b) respectively. I have also published three peer-reviewed journal articles drawing from this thesis and from the above-mentioned research. These are Das Nair (2017), Das Nair, Chisoro and Ziba (2018) and Das Nair (2018).

CHAPTER 2

OVERVIEW OF THE GROCERY RETAIL LANDSCAPE IN SELECTED COUNTRIES IN SOUTHERN AFRICA

2.1. Introduction

This chapter provides a brief overview of the grocery retail landscape in selected countries in Southern Africa. It provides a description of the main retail multinational chains operating in these countries. It also sets out the key routes to market that suppliers have in South Africa, and in three other countries in the SADC region – Zambia, Botswana and Zimbabwe.

The alternatives that suppliers have to get their product to market ('routes to market') are important in terms of their reliance on the formal supermarket chains network in each country and the 'outside options' available to them (OECD, 2008). The routes to market differ in the different Southern African countries.

2.2. The main multinational supermarket chains in Southern Africa

The largest supermarket chain in South Africa and in the Southern African region in terms of store numbers is **Shoprite Holdings Ltd**. The group opened its first stores in 1979 with Pep Stores's purchase of a small, family-owned, eight-store Western Cape grocer. Shoprite now has over 2843 outlets (across all grocery and non-grocery offerings) in 15 countries across Africa and the Indian Oceans islands, employing over 146,000 people.[2]

Shoprite has four core supermarket offerings in South Africa: Shoprite, Checkers, Usave and OK. It caters for different demographic profiles and has set up different store formats to meet the needs of the full spectrum of different income groups covering all Living Standard Measures (LSM) categories in South Africa. The South African Audience Research Foundation's (SAARF) LSM is the way most supermarket chains in South Africa classify their target customers. It divides the population into 10 LSM groups, 10 (highest) to 1 (lowest) according to their living standards using criteria such as degree of urbanisation and ownership of cars and major appliances.[3] Checkers and Checkers Hyper stores target high-end affluent consumers whereas Shoprite focuses on the broad middle-to-lower end market segments. Shoprite has extended its offering to lower-income segments by penetrating economically disadvantaged communities through Shoprite Usave. Shoprite Usave is also used as a tool to

[2] https://www.shopriteholdings.co.za/group.html, accessed in June 2019.
[3] http://www.saarf.co.za/lsm/lsms.asp, accessed in March 2019.

spearhead expansion into the rest of Africa. Further, Shoprite runs the OK franchise, which caters for smaller convenience-oriented markets located in rural towns, suburbs and neighbourhoods. While the focus for several years was to grow the lower end of the market, the group has been moving into targeting the highest-income spectrum through Checkers Hyper Flagship stores in the recent years. In addition to its grocery retail formats, the group has fast food outlets, furniture stores, liquor stores, pharmaceuticals, logistics, ticketing, property, money markets and hospitality offerings.

Pick n Pay Stores Ltd, which started in 1967, is the second largest retailer in South Africa with operations in seven other countries in Africa. Pick n Pay has operations in groceries, clothing and general merchandise, as well as value-added services like fast food, catering for entertainment, liquor, travel, financial services, payment facilities for utilities and services, and pharmacy offerings. The group has also grown its online offering in the past five years. Pick n Pay operates both corporate-owned and franchised stores with 1,795 stores across all formats, including a 49 per cent interest in TM Supermarkets in Zimbabwe, employing around 80,000 people.[4]

In South Africa, the main formats are Pick n Pay Hypermarkets, Supermarkets, Family Franchise stores and Butcheries. Pick n Pay also has 'Express' franchise stores in collaboration with BP Southern Africa. These are small format convenience stores located at BP forecourts. Like Shoprite, Pick n Pay in its earlier years of growth and expansion targeted lower-income consumers. As part of this strategy, it acquired Boxer Superstores in 2002. But, also like Shoprite (and other retailers as discussed below), Pick n Pay has started opening concept stores or flagship stores targeting the highest-income consumers.

The **SPAR Group Ltd**, as the third largest mass grocery retailer specialising in foodstuffs and general merchandise in South Africa, operates almost exclusively through a voluntary trading or franchise model. Stores are independently owned and operate under the SPAR name. SPAR started operations in South Africa in 1963, when eight wholesalers were given exclusive rights to the SPAR name and brand by SPAR International (the Netherlands) to service small retailers. Today the SPAR Group operates seven distribution centres that supply goods and services to over 2,000 stores across formats in 10 countries in Southern Africa. Some of the SPAR franchises in these countries belong to the SPAR International group although being serviced out of South African distribution centres. SPAR SA holds the licenses for four countries in the region. It employs over 3,800 employees in its corporate and distribution centres in South Africa, and the franchise stores across the region employ tens of thousands of workers.

[4] http://www.picknpayinvestor.co.za/at-a-glance.php, accessed in June 2019

The main SPAR formats are SuperSPAR, SPAR, KwikSPAR and SaveMor, catering for the full spectrum of income groups. SaveMor is exclusively focused on rural and township markets. It gives the option to existing small-store owners to convert their store into a SaveMor store. SPAR also opened forecourt convenience stores in 2013, SPAR Express, in collaboration with oil company Shell. SPAR further has liquor offerings through Tops and SaveMor Liquor, building and hardware stores and pharmacies.

Woolworths Holdings Ltd, the fourth largest retail chain in South Africa in terms of store numbers specialises in food and clothing, exclusively targeting high-income consumers. The first Woolworths store was opened in Cape Town in 1931. Woolworths now operates in 12 countries in sub Saharan Africa and in New Zealand. Woolworths employs more than 46,000 employees and trades in more than 1,500 store locations.

In addition to its grocery retail offering, Woolworths has clothing operations through David Jones and the Country Road Group trading in South Africa, Australia and New Zealand. Woolworths has also entered a joint venture with Barclays Africa Group, with Barclays Africa Group owning 50 per cent + 1 share in Woolworths Financial Services. Woolworths in South Africa, like Pick n Pay and SPAR, has ventured into convenience stores (Woolworths Foodstop) at Engen fuel forecourts.

The group only has a single brand and format store for its supermarket offering, which emphasises providing superior quality and product innovation and exclusively targets the high-end, affluent market.

The fifth largest grocery retailer in terms of store numbers in South Africa is **Fruit and Veg City Holdings** (FVC). It expanded rapidly since its first store opening in 1993 and by 2007 had around 80 stores nationally. There are now 128 FVC stores in 11 countries in Southern Africa and Australia, employing 16,200 workers.

Like the other supermarkets, FVC has evolved to targeting customers across different income groups, including through its more up-market Food Lover’s Market (FLM) format mainly in suburbs. Unlike the other major supermarkets, FVC’s model when it first started was predominantly focused on the sale of fresh fruit and vegetables with a small proportion of other grocery item lines. Its FLM format, which it is converting most of its stores into, has a wider range of grocery products. FVC has also expanded into franchised convenience stores (Fresh Stop stores) through a joint venture with fuel retail company Caltex. FVC further introduced an in-house fast food brand and has diversified into the liquor market. It also has a profitable import and export joint venture primarily of fresh fruit (FVC International).

In 1990, the Massmart Group was formed in South Africa with Makro as the founding entity. In 2012, US-owned **Walmart**’s acquisition of Massmart was approved by the South African competition authorities with conditions, making it the second TNC (after SPAR) to enter the country. The group operates in 11 countries in the Southern African region, employing over 48,000 staff.

The group has wide-ranging offerings: general merchandise, food and liquor retail through the Game and Cambridge brands; hybrid wholesale and retail offerings through Makro; wholesale and retail offerings through Jumbo Cash and Carry; food and general wholesale for lower-income consumers through CBW, Trident and Rhino; a voluntary buying association Shield; wholesale and distribution of fresh and cut fruit and vegetables through Fruitspot; hi-tech appliances and equipment through DionWired; and DIY, homeowner and building materials and services through Builders Warehouse, Express, Superstore and Trade Depot. Walmart's entry into grocery retail in more direct competition to the incumbents through Game has however has only been since 2013 as discussed in Chapter 6.

The only non-South African multinational supermarket chain in the region is **Choppies Enterprises Ltd**. A grocery and general merchandise retailer from Botswana, Choppies commenced its operations with a single store in 1986. The group now operates in eight countries in Southern Africa and East Africa with 218 stores. The group operates ten distribution centres across the eight countries and employs over 17,000 workers.

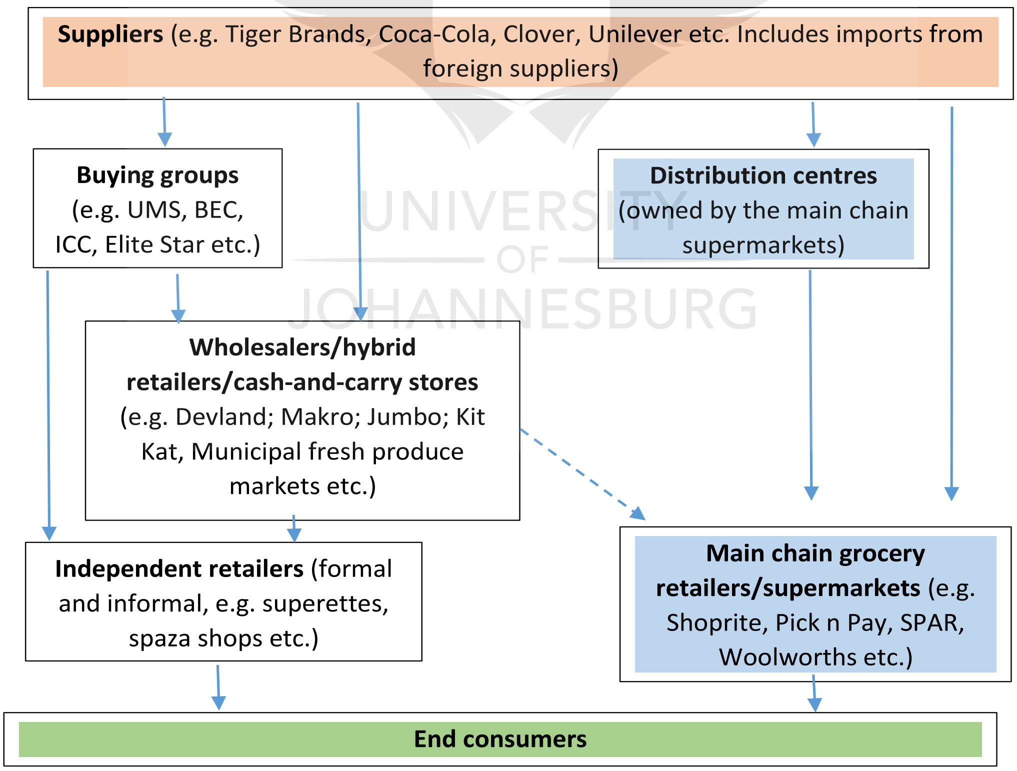
It has three main formats, Hyper stores, Super Stores and Value Stores, offering food and non-food groceries, clothing, tobacco, beauty products and general merchandise. It also offers value-added services such as financial transactions at till points. Choppies's target market is low-to-middle-income consumers, but it is also attempting to attract middle-to-upper income consumers. Choppies stocks branded international products as well as a wide range of its own private label products. It is also vertically integrated with its own suppliers for certain products such as poultry, sugar and bottled water. Choppies also stocks fresh fruit and vegetables and has a butchery, bakery and takeaway. Its location in South Africa is mainly in the semi-urban and rural areas in mining towns, locating near transport nodes such as taxi ranks. It has a strong regional focus in the platinum belt in South Africa, with limited inroads into other parts of the country.

2.3. The routes to market in selected countries

In South Africa, fast-moving consumer goods (FMCG) and fresh produce suppliers can access consumers either through the formal supermarket value chain, where products flow from supplier to distribution centres or directly through supermarkets to the end consumer. Alternatively, suppliers can sell via independent retailers, both formal and informal, who access their products through buying groups or wholesalers (Figure 1). Small and Independent (S&I) retailers are typically small businesses, targeting low-income customers in peri-urban, township, industrial and central business district areas of cities. They include cash-and-carry stores that have wholesale and retail offerings (hybrid format) as well as numerous informal spaza shops[5] and superettes.

In South Africa, formal independent retailers and wholesalers largely fall under the banner of buying groups or voluntary trading organisations. The main buying groups in South Africa are Unitrade Management Services, Buying Exchange Company, Independent Buying Consortium, Independent Cash & Carry Group and Elite Star Trading (although Elite Star Trading has recently moved to hardware and DIY). Each support independent retailers, which range from small superettes to fairly large supermarkets, as well as hardware stores. Buying groups in South Africa are separate, independent entities. Independent retailers that are part of buying groups are owned by individuals with their stores being branded under a common name. Buying groups also sell to wholesalers who sell on to spaza shops. In South Africa, it is estimated that around 30–40 per cent of the grocery retail market is served by independent retailers[6] (see Chapter 6 for the extent of inter-format competition by S&I retailers).

Figure 1: Retail value chains for fast-moving consumer goods in South Africa



Source: Das Nair (2017)

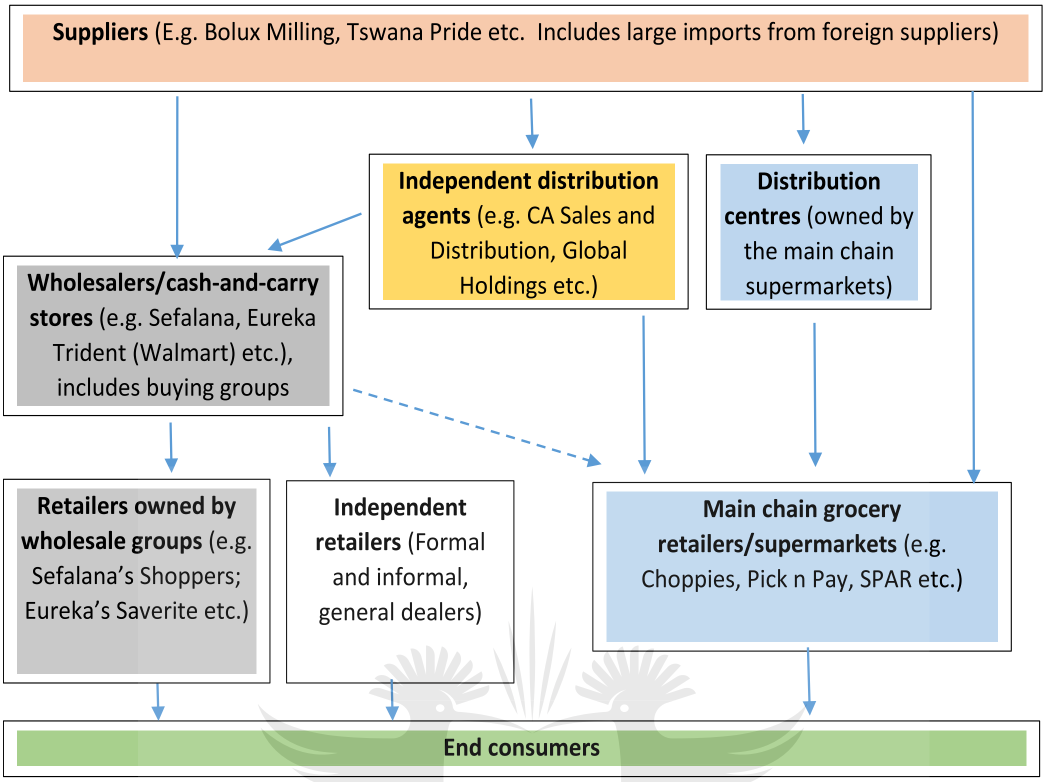
[5] A spaza shop is an informal convenience business in South Africa typically located in peri-urban areas, townships and informal settlements. These shops are usually run from the home of the owner.
[6] Interviews undertaken as part of research in Das Nair and Chisoro (2016).

In South Africa there are no prominent distribution agents in the FMCG value chain. Wholesalers are not limited by legislation and are allowed to be 'hybrid' wholesalers and retailers, especially via cash-and-carry stores.

In Botswana (Figure 2), the value chain or routes to market for FMCG is different from South Africa's. While supermarkets are a key route to market for suppliers, accounting for over 50 per cent of sales, there are alternative routes to market such as wholesalers (Sefalana, Trident Eureka (part of Walmart)), who sell on to vertically integrated supermarkets or independent retailers. These routes account for approximately 25–30 per cent of total sales of food products, and the balance of food products goes through the growing 'quick service restaurant' market and government contracts. Large distribution agents such as CA Sales & Distribution and Global Holdings are an intermediate level in the value chain in Botswana that are not present or that operate on a much smaller scale in the other countries.

Also unique to Botswana is wholesalers like Sefalana actively rolling out their own retail outlets owing to the legislative framework that prevents wholesalers from selling directly to end consumers from their premises. Legislation also stipulates that wholesalers be located in the outskirts of the city and in industrial areas (Briggs and Associates, 2015). Similar to buying groups in South Africa, some wholesalers have also started 'banner groups' where independent retailers can join and receive support. The support offered includes credit facilities, promotions and advertising assistance, and discounts. The scale of the buying group model is smaller than in South Africa.

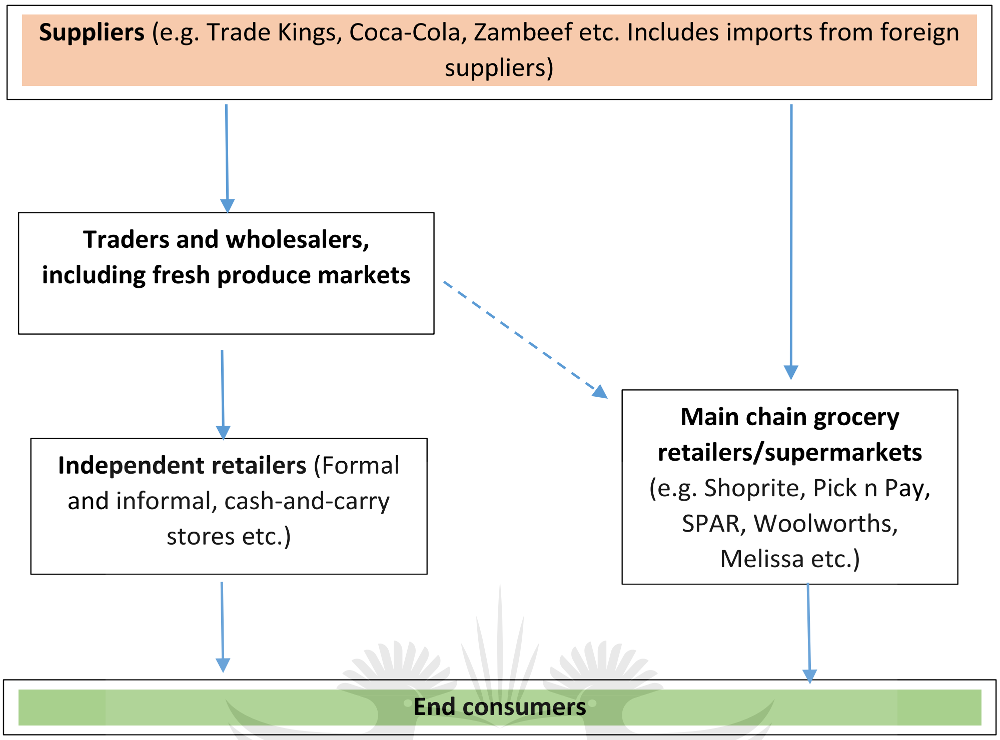
Figure 2: Retail value chains for fast-moving consumer goods in Botswana



Source: Das Nair (2017)

The route to market for suppliers in Zambia as shown in Figure 3 is more straightforward. Suppliers can sell products directly to supermarket chains, or through traders and wholesalers who sell on to independent retailers and supermarket chains. There are large fresh produce wet markets in main cities, such as Soweto market and Lusaka City Market in Lusaka, and Chisokone market in the Copperbelt, which are also frequented by urban customers (see Abrahams, 2009).

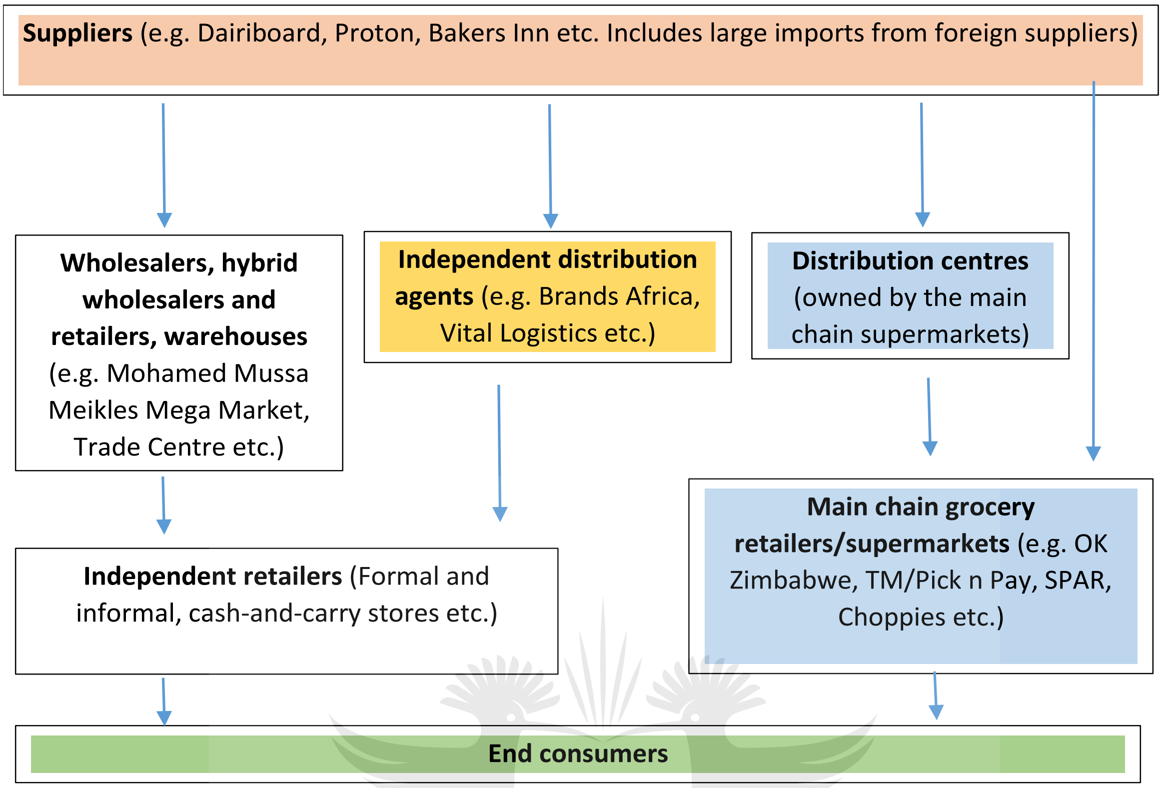
Figure 3: Retail value chains for fast-moving consumer goods in Zambia



Source: Das Nair (2017)

The FMCG value chain in Zimbabwe is depicted in Figure 4. Like in South Africa and Botswana, there are distribution centres present in Zimbabwe that serve as central procurement points for supermarkets. As in South Africa, wholesalers such as Mohamed Mussa Wholesalers, Meikles Mega Market and Trade Centre are allowed to offer retail sales as hybrid wholesalers and retailers.

Figure 4: Retail value chains for fast-moving consumer goods in Zimbabwe



Source: Das Nair (2017)

The retail landscape therefore differs in each of these four countries. In common however is the presence of the same multinational supermarkets chains in each country. Also in common is a significant proportion of supply of FMCG products in each country coming from South Africa, imported via supermarket chains (see Chapter 7 for intra-regional trade flows). In this sense, large South African suppliers are also participants at the upstream level of the value chain in each country.

The degree to which independent retailers and alternative routes to market compete with supermarkets differ in each country. Alternative routes to market are important both from the perspective of suppliers and consumers as I discuss in Chapter 6. The differences in the retail landscape are also a function policy and political economy factors. These dynamics are evaluated in Chapter 5.

CHAPTER 3

LITERATURE REVIEW

3.1. Introduction

This chapter reviews the key literature relevant to understand the factors behind the international spread of supermarkets, as multinational enterprises, and their potential market power. The chapter covers:

1. The characteristics of supermarket chains as modern grocery retailers (Section 3.2).
2. The factors that determine the internationalisation of supermarkets and the suitability of traditional foreign direct investment (FDI) theories focused to explain supermarket FDI. It also looks at the empirical evidence on the patterns of the internationalisation of retailers globally (Section 3.3).
3. The nature of competitive rivalry in grocery retailing, including both intra- and inter-format competition in product and geographic space, the barriers to entry that are inherent in the structure of supermarket chains as well as the strategies that supermarkets engage in with regards to rivals and suppliers. Potential abuses of market power are reviewed here primarily through an industrial organisation (IO) lens (Section 3.4).
4. The impact on local suppliers and capabilities required to successfully participate in supermarket supply chains. The possibility is introduced of viewing market power and the extraction of rents through a global or regional value chains lens in conjunction with IO frameworks (Section 3.5).

3.2. Characteristics of modern supermarket chains

It is necessary to first set out the basic characteristics of modern retailing to provide a foundation for understanding my main contributions. Modern retailers such as supermarkets have a combination of characteristics that make it difficult for traditional, neo-classical economic theories to adequately explain the three key areas I am evaluating in this thesis. Given these characteristics of supermarkets, multiple approaches are needed to analyse my contributions.

Product and offering perspective

A supermarket offering today is much more than a mere 'basket of goods' at a specific price (Harvey, 2000). Supermarkets offer consumers a wide selection of products under one roof that is convenient; are easily accessible; have secure parking options; is open for long hours and have a range of other ancillary services. Modern retailers are thus said to offer a 'Price, Quality, Range, Service' (PQRS) package (Dobson, 2015). Such a package of offerings can greatly reduce overall costs for consumers, including time, transport, search, information and storage expenditures. The offering includes an 'overall customer experience', which brings in elements of accessibility, ambiance, range and variety (Betancourt and Malanoski, 1999; Betancourt, 2006; Basker and Noel, 2013).

Supermarkets are sometimes argued to be in the business of offering a set of distribution services in combination with retail items, where the 'distribution' offering is just as important as the physical items being offered. Modern retailers in some instances may also simply offer shelf space for rent and other distribution services to suppliers without actually taking ownership of the goods (Berasategi, 2014). In Southern African countries however, supermarkets in general assume ownership of goods and are not in this type of purely distribution business.

Modern retailers typically also sell other services in an outlet (Dawson, 2007). Examples include transaction services, financing, delivery and information services. As noted by Nooteboom, 'in retailing the "product" is in fact a "bundle of services" ... in a marketing mix which is not homogeneous across competitors' (1980: 18). This bundle is effectively the 'product' of the retailer and is therefore broader than just the physical product on offer.

In providing these offerings, modern retailers differentiate between themselves through their store formats. Store formats have been described as broad, competing categories that provide benefits to match the needs of different types of consumers and/or shopping situations (González-Benito, Muñoz-Gallego and Kopalle, 2005). Examples of different formats of modern retailers include supermarkets, hypermarkets, convenience stores, cash and carrys and discount stores/ discounters (Reardon and Hopkins, 2006).

The distinction between modern and 'traditional' retail is not always straightforward. A study undertaken for the European Commission characterises traditional retailers as 'small, independent and often family-owned businesses with non-organised distribution channels' (European Commission, 2014: 46). Modern retailers have been defined as distribution channels that have emerged over the past 30 to 40 years with certain characteristics: selling a wide assortment of goods (typically measured in stock keeping units, SKUs); allowing self-service; involving sophisticated supply chains; and having ownership concentrated in a small number of national or international retail groups.

Modern retailing is also characterised by multiple shop sizes, types and formats. However, these characteristics are not necessarily consistent across countries. Modern retailer development is also highly dependent on the local context in terms of culture, legislation, consumer behaviour, geographic characteristics and existing retail channels of distribution (European Commission, 2014). This, in turn, creates a heterogeneity across countries and some formats may be seen by consumers as closer substitutes to each other in some countries than in others. This has relevance for the competition assessment with regards to market segmentation by format as we shall in detail in Chapter 6.

The development of modern retail, particularly grocery retail, in Europe offers insights into the evolving characteristics and formats of modern retail internationally. Since 2000, there has been an increase in the number of shops and commercial sales areas in 27-member states of the European Union. Hypermarkets (defined as being >= 2,500 m^2 and stocking the widest range of SKUs, both food and non-food) and supermarkets (400–2,499 m^2, the most common food shop type in Europe) grew rapidly in terms of store numbers and sales areas. However, the most significant growth in Europe has been that of discounters (all sizes with the narrowest range of SKUs and very competitive pricing. See below for characteristics of discounters). This trend in the rapid spread of discounters has been significant in Europe, especially in Germany, and has changed the grocery retail landscape in the region (European Commission, 2014). Discounters of this type are less prominent in Southern Africa, but take the form of cash and carrys or are a part of the main chain's hybrid wholesale and retail offerings.

There has also been growth in the supply of private labels in Europe, a trend increasingly seen in Southern Africa as discussed in chapters 6 and 7. Private labels are products manufactured or packaged by suppliers for sale under the name of the retailer rather than that of the manufacturer. Growth in private labels is attributed to consumers' perception of better value for money, higher margins for retailers and a means through which manufacturers can make use of excess capacity. As I discuss later however, there are concerns of abuse of retailer market power with regards to private labels.

An industrial organisation perspective of the nature of competition is discussed more fully in Section 3.4. However, forms of competition commonly observed between supermarkets are highlighted here as it relates directly to characteristics of modern retailers. Competition within same format supermarkets ('intra-format') depends on how similar the offerings of competing supermarket chains are in terms of their product and service range and how prepared consumers are to substitute between offerings (closeness of competition). The competitive reaction to lost market share through pricing between same format stores can be through increasing promotional activities like everyday low prices (EDLP) to gain customer loyalty for a discount format retailer or high-low or promotional pricing (with several short-term promotional discounts), amongst other strategies (Soler, 2005; Dobson, 2015).

Competitive pressure need not arise only within supermarkets of the same format. As highlighted above, in Germany there is increasing competitive pressure on supermarkets coming from other formats of retail outlets such as 'hard-discount' chain stores Aldi and Lidl ('inter-format' competition). Verboven et al. (2010) show that such discounters exert considerable pressure on supermarkets to improve operational efficiency and lower price besides taking market share away from them (even though they find that competition between comparable supermarket formats – that is, intra-format competition – is still greater (see also Zhu, Singh and Manuszak, 2009). Yet, the offerings of these discounters are very different from what the traditional supermarkets offer. They stock a much narrower range of products in a smaller retail space than supermarkets, with fewer branded products and more private labels, very basic displays (often just groceries from boxes stacked on pallets) and limited or no customer service (Verboven et al., 2010). These stores are less about the 'overall customer experience' but more about fiercely competitive pricing. The competitive reaction to such discounters by supermarkets has included diversification into similar format outlets as part of their suite of retail offerings, amongst others. Although no single multinational chain in Southern Africa is exclusively focused on heavy discounting, the chains have expanded into multiple formats including formats that target low-income consumers.

Geographic perspective

Another important characteristic of supermarkets is the relevance of location. In terms of geographic boundaries, consumers tend to shop regularly from supermarkets located within short distances from their residential or work locations. Supermarkets often therefore compete for space in close proximity to residential locations, in central business districts, near the workplace or in townships near dense housing areas (as is the case in South Africa). This typically creates competition between supermarkets at a very local level in terms of physical location. It may be that a number of local markets overlap such that it leads to a 'chain of substitution', where consumers in overlapping radii may view rival supermarkets as substitutes (Office of Fair Trading, 2004). This might imply wider regional or national markets from a geographic perspective.

In practice however, in competition matters 'catchment areas' for various formats of grocery retail have been defined as local in several different jurisdictions (Dobson, 2015). A catchment area has been defined as the area from which a store draws most of its customers. This requires defining some sort of cut-off, beyond which customers are less likely to travel to for their groceries. The cut-off can be in terms of distance or drive times. Chains of substitution in catchment areas can create 'local market areas' and breaks or weakening in the chain of substitutes are often used to define local market areas (Cotterill, 2007). For instance, the UK Competition Commission in its inquiry into the grocery retail market defined local geographic markets as being limited to within a 5–15-minute-drive time depending on whether they were categorised as large, mid-sized or convenience grocery stores (UK Competition Commission, 2008; see also Dobson, 2015 and Ellickson et al. 2016). Specifically, boundaries were defined within a 10-minute-drive time isochrone in urban areas and 15 in rural areas (Cotterill, 2007).

In an entry analysis, the Commission also looked at the impact on sales when a new store entered within 5, 10 or 15 minutes' drive time from an incumbent store. But when no driving was involved, distances on foot was used to define markets. In 2015, the UK Competition and Markets Authority (CMA) when considering the geographic extent of the market for high-street discount variety stores looked at a radius of one mile. Shorter distances may be more appropriate when stores are clustered together in a city centre, high street or shopping mall (Dobson, 2015).

Other countries have also used variations in distances and drive times in assessments of geographic boundaries for competition cases. In the Whole Foods case in the US (*FTC v. Whole Foods, 2007*), the courts agreed with the Federal Trade Commission who defined the relevant geographic market as a catchment area of supermarket within a 6-mile driving distance (Cotterill, 2007). In the Australian Competition and Consumer Commission's decision of the acquisition of Hawker Supa IGA by Woolworths Limited, geographic markets were defined as areas within a radius of 3 kilometres from the target firm's stores (Australian Competition and Consumer Commission, 2013). Country submissions to an Organisation for Economic Co-operation and Development (OECD) roundtable on geographic market definition (2017) reveal similar approaches in trying to understand the geographic scope of retail markets from the consumers' perspectives. Israel's approach is to consider store-size groupings, population-density groupings and travel times to define markets. In Belgium, isochrones, defined as 'a line delimiting a catchment area for a point of sale based on a given level of travel time' (OECD, 2017: 6), were used to establish geographic boundaries. Travel time was preferred to distances as consumers were considered to be more time conscious. New Zealand's approach has been to generally use a 5 kilometre radius as a starting point and to apply the standard small but significant no transitory increase in price (SSNIP) test on groceries relative to the cost of travel, in addition to considering other information. The state of the roads, traffic flows, the level of motor vehicle ownership and the population density of different parts of the country are all considered as it affects the distances consumers were willing to travel (OECD, 2017).

In some cases, it has been argued that since decisions on pricing and other competitive elements are made at the head offices of national retail chains and rolled out to all stores, competitive rivalry is at a national level and not in response to local pressures. This has been argued to be the case where local store managers have little discretion to offer discounts off a nationally set list price. This nationally set list price is based on competition by other national retail chains.[7] Prices may be set at a narrower level than nationally, but at a broader level than local catchment areas. DellaVigna and Gentzkow (2017) for instance show that supermarket chains often set uniform prices across broad geographic areas or zones. This is irrespective of competitive conditions in localised catchment area (DellaVigna and Gentzkow, 2017, cited in Ma et. al, 2018). Even if the supermarket chain operates in different countries, the market for each store is located within a certain context and retailers typically need to adapt to some degree to local cultures and consumer requirements (Dawson, 2007).

Heavy investments in infrastructure and supply chain

Another important characteristic of modern grocery retail is the heavy investment in infrastructure and supply chain. Large investments include those in distribution centres (DCs), advanced IT systems, logistics and inventory management, transport fleets and warehouses in order to get a wide range of products on shelves at the lowest possible costs (Harvey, 2000).

Supermarkets have switched to centralised DCs instead of store-to-store procurement (Reardon and Hopkins, 2006), a phenomenon increasingly happening in Southern Africa. Since Sam Walton started the concept of building distribution centres to service Walmart stores in villages and small towns in the US in the sixties (Reardon and Gulati, 2008), supermarket investments in DCs have been a key pathway to retail modernisation. DCs reduce transaction costs, coordination costs and congestion diseconomies. These can outweigh the transport costs to and from DCs that are located in more remote parts of the city (Reardon and Hopkins, 2006). The perishable nature of food further requires supermarkets to make large investments in storage facilities, and supermarkets are increasingly investing in cold storage DCs that can handle perishables.

Substantial investments in logistics and technologies have transformed the supermarkets sector globally to becoming one of the most technologically advanced sectors. But this has also raised barriers to entry for small-scale operators who cannot afford to make such large

[7] For instance, although not in grocery retail, the Competition Tribunal of South Africa in the JD Group Limited and Ellerine Holdings Limited case (Case No: 78/LM/Jul00) defined a national market along these lines.

investments (Marion, 1984; Basker and Noel, 2013). A key characteristic of supermarket competition is indeed endogenous sunk-cost investments such as these (see Section 3.4).

The very size of large chain retailers and the investments in DCs and logistics allow for scale economies at both store and chain level through spreading of fixed costs across numerous outlets, from sharing DCs and other resources, as well as through discounts from suppliers for bulk buying. Scope economies are also achieved through being able to offer a range of products on shared premises with shared resources (Dobson, 2015). This is often a cost advantage over independent retailers with single outlets.

Supermarkets also invest heavily in advertising to attract footfall. Advertising costs can be a significant barrier to entry for new players and independent retailers. To gain market share, new entrants have to match this spend out of a much smaller revenue base, putting entrants at a cost disadvantage. It is easier for incumbent supermarket chains with many outlets to spread advertising costs (Marion, 1984; Ellickson, 2004; Basker and Noel, 2013).

Implications for analyses?

This combination of characteristics of supermarket chains mean that frameworks typically used in traditional, neo-classical economics to understand internationalisation of firms or competition dynamics are less suited for the analysis of supermarkets as I discuss below. The multiple dimensions of competition are not just across a large set of products and services within different geographic boundaries. They are also in terms of various other factors of consumer behaviour that are heterogenous in nature in different countries and difficult to measure (such as the culture of consumption, the value attached to branding, the value of convenience and 'ambiance', the benefits of a one-stop-shop given local infrastructure considerations and transport dynamics). The traditional frameworks are often poorly able to capture these nuances. These difficulties are expanded upon below, but it is important to emphasise that they fundamentally stem from the characteristics of supermarket chains.

3.3. The factors that determine retail internationalisation

While there is a large body of literature on theories of internationalisation of manufacturing or production firms, there has been considerably less research on the theories of internationalisation of retailers, possibly given the complexities discussed above and because it is a relatively more recent phenomenon.

Several authors have suggested that trying to explain retail internationalisation using theories and empirical evidence from the internationalisation of manufacturing/production firms is inadequate given the characteristics of retail (Sternquist, 1998; Alexander and Doherty, 2000; Burt et al, 2002; Dawson, 2007). I explore these debates later.

I argue, however, that a blanket disregard for theories or empirical evidence from manufacturing internationalisation is not helpful either. Even though there are differences between manufacturing and retail firms, there are also similarities with regards to general factors affecting internationalisation and implications on local supply chains. For these reasons, it is useful to first trace the spread of supermarkets (or retailers more broadly) through the lens of these more 'traditional' theories of internationalisation, bearing in mind their limitations. There are also common macroeconomic drivers of internationalisation for both manufacturing and retail. These include growth in income (gross domestic product, GDP), growth in population size and density, levels of infrastructure, political stability, strong institutions and protection of property rights, amongst others, in host countries.

This section maps the evolution of theories of internationalisation to arrive at a more suitable framework to understand the nature and impact of the spread of supermarkets in the Southern African region.

Patterns in supermarket internationalisation

There is no single definition of internationalisation, but in the context of retailers, internationalisation can be viewed as the extent to which retailers operate outside their home country. International retail operations have been defined as the operation, by a firm or alliance, of shops, or other forms of retail distribution, in more than one country (Dawson, 1994). This has been measured by different metrics, for instance, by the value or volume of total sales or profits generated internationally relative to total sales/volumes, or by the growth in the number of stores and the number of countries that a retailer operates in (or what is termed geographical spread) (Stopford and Dunning, 1983; Sullivan, 1994; Ietto-Gillies, 1998; Coe and Hess, 2005; Wrigley and Lowe, 2010; Coe and Wrigley, 2018).

Linked to the internationalisation of supermarkets are the terms 'supermarketisation' or 'supermarket revolution', which refers to the trend in which retail food sales in a given country or region are increasingly happening through supermarket chains (Reardon, Timmer and Berdegué, 2004; Traill, 2006), marking a shift away of food sales from independent retailers and traditional wet markets.

As highlighted in the introduction, the supermarket revolution globally has happened in a number of waves. The first wave occurred in the more affluent South American countries (such as Brazil, Argentina and Chile), northern central Europe (Czech Republic) and East Asia (excluding Japan and China) in the early 1990s. In these regions, the food retail share of supermarkets increased sharply to 50–60 per cent in 2004 from 10–20 per cent in the early

1990s and as high as 80 per cent in some European countries. The second wave covered the spread in Mexico, Central America, South Africa, Southeast Asia and south-central Europe, although some studies place South Africa as part of the first wave (see Reardon, Henson and Berdegué, 2007). The share of food retailing through supermarkets in these regions grew from 5–10 per cent in the 1990s to between 30 and 50 per cent in 2004. The third wave hit India, China, poorer Latin and Central American countries, and Eastern Europe in the late 1990s and early 2000s with a share of food retailing through supermarkets growing rapidly from 10–20 per cent. The most recent documented wave, the fourth wave, involved mainly eastern and Southern African countries outside South Africa and Kenya, but also other South Asian countries (Weatherspoon and Reardon, 2003; Reardon, Berdegué and Timmer, 2005; Reardon and Hopkins 2006; Reardon, Henson and Berdegué, 2007).

In Africa, South Africa and Kenya were the front runners in the growth of supermarkets in the first round of expansion. Countries in the second round of growth are largely recipients of FDI from South Africa. Weatherspoon and Reardon (2003) predicted that the trend of giant waves of FDI by global multinationals such as Ahold, Walmart and Carrefour that had hit Latin America would probably spread to Africa around 2008.

Several demand-side and supply-side factors have been attributed to the spread of supermarkets in developing countries. Demand-side factors include increasing urbanisation, increased per capita income, rise of the middle class and the entry of women into the workforce seeking processed foods to save on cooking time (Reardon, Timmer and Berdegué, 2004; Tschirley, 2010). From the supply side, a major driving force has been the increase in FDI given saturation of home markets and greater profitability opportunities in developing countries (Humphrey, 2007; Bartels, Buckley and Mariano, 2009). FDI was further fuelled by liberalisation of the retail sector and trade liberalisation in the 1990s. Lower unit costs due to economies of scale and scope, as well as transport economies, also spurred the spread. This was coupled with the modernisation of procurement systems, including centralised distribution as discussed above, and increasing efficiency in logistics and inventory management that have resulted in more efficient operations and lower cost of supermarket products (see also Reardon, Timmer and Berdegué, 2004).

Internationalisation of supermarkets through foreign direct investment

South African supermarket chains investing in SADC countries are essentially multinational corporations/enterprises (MNCs or MNEs) that have engaged in FDI in host countries (Reardon and Weatherspoon, 2003). The only major transnational corporation (TNC)[8] that

[8] TNCs, unlike MNEs, do not have head offices in their country of origin or in any other country, and do not rely on their 'home base' as the centre of their economic activities.

entered the region in 2012 is Walmart, through its takeover of South Africa's Massmart (see Chapter 5 for a discussion on this).

To understand the different strategies of MNEs in host countries, it is important to understand the factors that determine foreign investment and internationalisation. The theories of FDI have evolved over the years. The theories of FDI have evolved over the years. Ranging from capital-seeking theories, where FDI was determined by differences in rates of return on capital invested with capital seeking higher rates of return between different countries (MacDougall, 1958; Kemp, 1964), to trade-based (Ricardian frameworks of comparative advantage and Hecksher-Ohlin models of trade, see Helpman, 1984) and production-cycle theories (Vernon, 1966), all of these have primarily focused on FDI in production or manufacturing given that these were the sectors in which early FDI occurred. They were also hinged on rigid assumptions of perfect competition, zero transport costs, no information asymmetries, constant returns to scale and full factor mobility (Mundell, 1957). Others, such as Kojima and Osawa (1984), approached FDI from a macroeconomic perspective, also incorporating elements of trade theory. Again, these had several limitations including the restrictive assumptions stated above, as well as other shortcomings such as not distinguishing between firm-level and plant-level scale economies, and not taking into account product differentiation and forms of market failures.

Transport and related costs influence the decision to internationalise, whether to locate in a host country as opposed to exporting to that country (Markusen and Venables, 1998). An MNE's decision to invest and produce in different countries is based on a comparison of the added fixed costs of investing in a second plant in a foreign country versus the costs associated with exporting to the foreign country (transport, tariffs and other costs) (see also Brakman and Garretsen, 2008). Although the theory is applied mainly in a manufacturing context, it has some applicability for the internationalisation of supermarkets, especially in terms of location decisions based on where suppliers are concentrated.

Trade liberalisation also brings to the fore important regional dimensions for FDI. While trade restrictions initially may have led to MNEs investing in host economies to circumvent import barriers, liberalisation in the 1990s meant that they could instead export to these countries. Trade liberalisation also has implications on supermarket internationalisation because supermarkets cannot 'export' their retail model to host countries without access to reliable supply chains. In the case of weak supplier capabilities in the region, such as in Southern Africa (see Chapter 7), open trade in the region is important to ensure stores in the region have products on their shelves. Trade and FDI liberalisation that occurred in the 1990s as part of structural change in many African countries spurred the spread of supermarkets in the region.

These theories however lack sufficient explanatory power for the internationalisation of supermarkets given their manufacturing bias. Fundamentally, these theories are limiting for the specific study of the internationalisation of supermarkets because of their narrow assumptions and the lack of consideration of the specific characteristics of supermarkets. They do not apply to supermarkets, which, by their very nature, require to be located near target consumers. The alternative is not 'exporting' supermarket products directly to customers in the host country as it is for manufactured products or commodities. These frameworks also do not provide sufficient insight on the choice of location, the advantages of the ownership of assets and management skills, the importance of networks and the importance of understanding local cultures and knowledge transfer for supermarket internationalisation.

Further, these also do not adequately consider the institutional framework, national policies or the political economy of the host country and the impact this has on investment decisions of distribution firms like retailers. These are factors that supermarket chains consider when investing in a country as they would have a significant impact on their operations and profits. These theories also do not add much to understanding vertical linkages and relationships of the investing firms and the impact of the investment on other parts of the value chain (for instance, the impact on suppliers).

A set of theories that overcome at least some of these weaknesses and that better capture the realities of many markets are industrial organisation (IO)-based theories of FDI. IO-based theories offer possible explanations for the strategies that firms employ in host countries which is of relevance to my study. While the orthodox FDI theories, particularly those linked to trade, assume perfect competition in markets and no barriers to trade or entry, IO-based theories accept that there are market imperfections such as barriers to entry and possible strategic anti-competitive behaviour by dominant firms. These theories take into account scale economies, increasing returns, imperfect competition, product differentiation and strategic reaction of rivals.

The basic premise of these theories is that FDI happens precisely because a foreign firm has some specific advantage that makes it profitable to invest in a foreign country and engage in production as opposed to exporting (Hymer, 1976; Jenkins, 1984, 2013). These specific advantages are the sources of market power and can include the possession of patent-protected technology, brand names, business techniques, skilled personnel, marketing and management skills and cheaper sources of finance, amongst others (see also Kindleberger, 1969). Imperfections in international markets make it more feasible to set up in the host country instead. In this sense, the MNE 'internalises' the market failure by directly investing in the host country. Market power and imperfections, as well as particular advantages, therefore drive FDI. Penrose's resource-based view on FDI (1956; 1959) also followed this thinking in explaining the spread of MNEs, where growth is as a result of being able to create and sustain unique and firm-specific advantages (such as specific knowledge or technology). A further motivation for choosing a location was put forward by Knickerbocker (1973) suggesting that firms in oligopolistic markets may follow each other's location decisions, especially if they are uncertain about production costs in the country to which they are currently exporting (and therefore, by following their rivals, they reduce the risk of being undercut if the country is lower cost). However, Knickerbocker's view of oligopolistic reaction holds true only when uncertainty exists about costs in the host country.

These IO-based theories have been extended to view FDI as a way of defending and reinforcing market power in oligopolistic industries, which the literature suggests the nature of competition between large supermarket chains is tending towards (see Section 3.4). Also, along this line of thinking is Narula and Dunning (2000) and Dunning (1993), who provide a useful framework to understand motives for FDI as evaluated below.

The first set of motivations for FDI are broadly categorised as 'asset exploiting', where investments aim to generate economic rent by using existing firm-specific assets. Asset exploiting investments include three types: i) natural resource seeking – when MNEs are attracted to a host country given its natural resource base, low raw materials or labour cost (mainly in mining or other extractive industries, textiles etc.); ii) new market seeking – when FDI happens because home markets are saturated and good growth prospects exist in other countries, or FDI happens to save the cost of serving a market or to establish a presence locally to offer aftermarket services; and iii) efficiency seeking – to take advantage of economies of scale and scope and differences in consumer tastes and supplier capabilities. These provide some explanations for FDI flows.

The second set of FDI is categorised as 'asset augmenting' where investments seek new strategic assets to protect or enhance existing assets. Dunning refers to such FDI as 'add(ing) to the acquiring firm's existing portfolio of assets others which they perceive will either sustain or strengthen their overall competitive position or weaken that of their competitors' (1993: 60). This is a more strategic position on FDI which protects or augments specific advantages of the firm or reduces the advantages of competitors (Dunning, 2000).

Developing countries usually attract more asset exploiting investments, particularly resource seeking and new market seeking investments. Resource seeking investments such as in mining are said to generally offer fewer domestic spillovers than new market seeking investments in manufacturing industries (Lall and Narula, 2004). Efficiency-seeking investments on the other hand, although still asset exploiting, require greater host country capabilities. In Europe, the empirical evidence is that the internationalisation of European retailers has indeed been mainly for seeking new markets. Limited growth prospects in home countries and greater sales growth potential in member states saw the rapid growth and spread of retailers across Europe. This was aided by the single market, growth in number of EU member states and limited competition in these markets especially in Central and Eastern Europe (European Commission, 2014).

An organising framework that is potentially better suited to explain the internationalisation of supermarkets is Dunning's Ownership, Location, Internalisation (OLI) framework (Dunning, 1977; Dunning, 2001). This framework combined the major, but imperfect, market-based theories highlighted above with internalisation theories and added a third important dimension – location. Changing world dynamics and increasingly knowledge-based economies meant that static organisational theories were no longer adequate in explaining internationalisation. An amalgamation was needed between production-based, innovation-based and transaction-based theories of the firm (Dunning, 2000). The OLI framework attempted to explain why a firm opens a foreign subsidiary in a given location, who produces what goods or services in which locations and why. The OLI framework postulates that the 'extent, geography and industrial composition of foreign production undertaken by MNEs is determined by the interaction of three sets of interdependent variables — which, themselves, comprise the components of three sub-paradigms' (Dunning, 2000: 2).

Ownership advantages provide explanations as to why some firms choose to go abroad. This is linked to firm-specific advantages which allow it to be competitive despite the additional costs of operating in a foreign country. Advantages include preferential access to markets (control over key inputs, patents, intangible assets etc.); access to technology and finance; and economies of scale and scope. The advantage also arises from firms' ability to co-ordinate these assets with other assets across national boundaries to give them an advantage over competitors. Location advantages seek to understand where an MNE chooses to locate and this is dependent on benefits accruing from transport cost savings, local market potential, incentives provided and institutional framework, amongst others. Internalisation refers to the decision of firms to set up foreign plants to internalise these advantages, rather than use the market to transfer them to foreign firms. Internalisation also looks at the decision on how it chooses to operate in a foreign country to make use of ownership assets – whether through acquisition of local retailers, joint ventures, franchising or wholly owned subsidiaries. For FDI to occur, Dunning's framework needs all three elements to hold. The OLI framework therefore seeks to explain why and how FDI takes place (Dunning, 2001).

Also referred to as the 'eclectic paradigm', OLI is flexible in that it caters for contextual responses of firms to economic and political features of the host economy, as well as other specific factors, such as the relevant industry dynamics, the nature of value-added activity as well as the characteristics and objectives of the firm (Dunning, 2000). Firm-specific advantages can vary between countries or regions and among firms. This flexibility makes the OLI particularly attractive as a framework for assessing the internationalisation of supermarkets. The relative successes of supermarket chains in Southern Africa are very much context specific and dependent on the economic, social and political settings of respective countries in the region.

Dunning's OLI eclectic approach to FDI has however been criticised as lacking a robust theoretical foundation, merely combining elements from various other theories. However, these elements individually are firmly grounded in theory (Nayak and Choudhury, 2014; see also Dunning's own admission of this in Dunning, 2001). Strong criticisms came from proponents of internalisation theories of multinationals who argued that market failures in international intermediate product markets were both necessary and sufficient to explain multinational enterprises, while OLI fell short in this regard (Buckley 1981, 1983; Rugman 1980; Casson, 1987). It has also been criticised as having too many variables such that it loses any operational practicality (Nayak and Choudhury, 2014; Dunning, 2001), and that it does not take into account inter-relationships/ interdependence of each variable to one another. The framework is also static in nature, discounting dynamic interactions between firms in the long run (Vernon, 1985; Mathews, 2006). The OLI framework further does not add much to understanding the distinction between horizontal and vertical motives for locating production facilities in foreign countries (see Nayak and Choudhury, 2014). The Chinese experience further raises questions for the application of the OLI framework, for instance, with regards to forms of ownership advantages through large business groups rather than individual firms, as well as the role of strong institutional support in successful FDI (Yiu, 2010; Liang, Ren, Zhu, 2011).

Nonetheless, there is a body of empirical evidence that shows its practical applicability (see Brouthers, Brouthers and Werner, 1999; Nakos and Brouthers, 2002; Merchant and Gaur 2008; Arvanitis, Hollenstein and Stuck, 2015). Furthermore, some of these limitations have been addressed in adaptations to the OLI framework by Dunning himself (see Dunning, 2001).

Why retail FDI is different from production or manufacturing FDI

As highlighted, the characteristics of retail are not well explained by most of the literature on internationalisation which has largely been focused on the primary sector or in manufacturing (Jenkins, 2013). This section looks at the differences between the internationalisation of retailing and production or manufacturing in more detail.

Retailer internationalisation is conceptually and theoretically different from manufacturer-driven internationalisation on several aspects (Burt et al. 2002; Dawson, 2007). The literature on manufacturing FDI ignores the internationalisation of distribution functions of the kind undertaken by retailers (Dawson, 2007). Retailer internationalisation is said to involve a process for the growth and decline of firms and for the diffusion of managerial knowledge through economic and social systems. This 'process view' is supported by the fact that internationalisation affects all levels of a supermarket value chain – from sourcing, logistics and operations to property management and customer relationships (Dawson and Mukoyama, 2006). In this regard, contributions by Johanson and Vahlne (1977), Johanson and Wiedersheim-Paul (1975) and Luostarinen (1979) that focused more on the processes and dynamics of internationalisation are useful, where market commitment and knowledge diffusion are important factors.

The differences stem from the inherent characteristics of supermarkets as discussed in Section 3.2, which result in fundamentally different business models according to these authors. The business model of retailers is driven by the primary objective to increase sales growth, while manufacturing internationalisation is often driven by cost reduction considerations. While it can be argued that the debate is circular – a reduction in costs could lead to a reduction in price, which then could result in an increase in sales – Dawson (2007) argues that the difference in the primary objective drives different strategies in these sectors. For instance, both the expansion and retrenchment/recovery strategies of retailers are different to manufacturing firms. In terms of expansion strategies, retailers essentially expand to increase their sales and when they decide to scale back or retrench, they typically close foreign operations first to focus on home markets. In manufacturing on the other hand, retrenchments are done mainly to cut back costs and the home country may be where costs are higher (see also Burt et al, 2002).

The market dynamics are also different between manufacturing and retailing. Supermarkets are essentially 'local' from the customer's point of view, irrespective of whether they are part of large multinationals. This requires retailers understanding and adapting to, or even creating, local cultures. It requires understanding patterns of consumption and consumer attributes if they are to be successful. This is not the case for manufacturers. Customers of manufacturers can be global. There is no requirement for customers to be in the locality of manufacture. In fact, manufacturing internationalisation is often focused on production for export markets (Dawson, 2007).

Further, the package offered by the retailer, as described above, is more complex than just a physical product and often incorporates a bundle of services. As highlighted by Dawson, 'in an international context, the product of the retailer is anchored in a specific social, economic and political environment with the implication of considerable cultural inputs into the product design and operation' (2007: 384). While this combination may be unique to retail, some of these factors (like the economic and political environment) also apply to manufacturing internationalisation and affect the location decisions of manufacturers.

Another difference between the two is the network of relationships with suppliers and customers. Retailers have an intimate relationship with suppliers to ensure efficiencies and on-time deliveries, along with constant monitoring of sales off the shelf. These 'network' efficiencies are integral to the operations of the retailer. In manufacturing on the other hand, 'operational' efficiencies are often more important (Dawson, 2007), again emphasising the cost-reduction objective of manufacturing internationalisation. However, this is not to say that retailers do not place a strong emphasis on lowering costs from suppliers (see Chapter 7, section 7.2 on cost considerations in supplying supermarket chains). The different approaches are also seen in the management of suppliers. In retail, the links and interactions with central head office are important for corporate stores (although not necessarily for franchises) in terms of supplier management, while for production, control is usually at local management levels (Wang, 2005; Jonsson and Elg, 2006). The value-add of retailing comes from managing relationships with suppliers and creating a range of items for sale (a PQRS bundle offering). Manufacturers, on the other hand, add value by transforming physical items procured from suppliers.

The relationship with customers is also very different between the two. The volume of direct customers can be very large for retailers and close contact with customers requires a degree of cultural responsiveness to be successful in international markets.

Another key differentiating factor is that supermarkets receive their revenue in local currency while several of their costs are denominated in foreign currencies. This is especially the case when majority of the products on supermarket shelves are imported, as is the case in countries other than South Africa in the Southern African region. Supermarket chains in host countries are exposed to foreign exchange fluctuations, making it difficult to hedge.

Finally, cost structures are different between the two. This is as a result of the different nature or processes of retailers as noted above. Retailers face costs also based on spatial variations given that demand is often location specific. Spatially related costs include property costs, which are highly location specific. Retail firms' financial structures are also often characterised by negative working capital, where current liabilities exceed current assets given that retailers tend to lag payments by different degrees to different suppliers. This is typically different from manufacturing and effectively is a source of free capital which provides finance for international growth for retailers.

Based on these differences, retail internationalisation is said to involve four different types of 'transfers' that are unique to it (Dawson, 2007): These include the transfer of culture, the capability to adapt, the transfer of operational capabilities and the ability to create new consumption behaviours in host markets.

The transfer of the culture and business model of the firm can happen in varying degrees. At one extreme, internationalisation is seen as central to the development of the firm and is part of their core strategy. Examples of retailers that have followed this strategy include Carrefour, Tesco,[9] Mercator and DSG International (as well as IKEA and The Body Shop for non-grocery retailers). For these firms, while domestic operations are still the most important, depending on the orientation of the firm, they transferred varying degrees of their culture and business model to the foreign market. In contrast, Marks and Spencer's strategy was to not transfer its culture into foreign markets at all (and many suggest that this was the reason why its internationalisation has not been very successful) (see Burt et al, 2002; Dawson, 2007). With full culture transfer, the influence of senior management is significant and the internationalisation process fully transfers strategy, business models, corporate values and operations to host countries (Burt et al. 2002; Dawson, 2007).

The second type of transfer is the capability to adapt and respond to the host market. No matter how strongly retailers hold on to their home-country culture, some degree of adaptation to local markets in host countries is necessary to be successful. The adaptation may be small if cultures are very similar, which might be the case for immediate cross-border internationalisation, or very large when trying to succeed in very different markets. There is much less of a requirement, if any, for manufacturers to adapt to local cultures. The lack of adaptation may explain why South African retailers have been less successful in other parts of Africa and outside the continent as their experience in East Africa has shown (see Section 5.3). This transfer hinges on the managerial ability to adapt to the market (Wrigley and Currah, 2003; 2004; Dawson, 2007). Again, retailers like Boots and Marks and Spencer's have lacked this management capability, or have elected not to adapt, while others have had unsuccessful experiences in selected countries (for instance, Wal-Mart in Germany, Ahold in China, Carrefour in Japan and USA, and IKEA's original entry to Japan) (Dawson, 2007).

The third type transfer that occurs is operational, where the retail 'formula' is transferred to the host country. This formula includes how the retailer operates, formats, brand, loyalty programmes etc. If successful, other retailers may copy this formula.

[9] The Tesco strategy is often known as 'Tesco in a Box', highlighting the full transfer of culture, identity and strategy in host markets.

A last type of transfer is that of consumer values and expectations. In addition to adaptation to host-market cultures, retailers also create consumption by bringing in new consumer demands. This forms part of the retail formula. These could include new offerings (such as delis and coffee shops in the supermarket), new items to the range, delivery options, recycling and other innovative initiatives. These can help shape consumer culture (Dawson and Henley, 1999).

While these four different types of 'transfers' apply to all types of retailers, the characteristics of grocery retail in particular, described in Section 3.2, further set it apart from other retailers. Given perishability of certain food products such as fresh produce and dairy, supermarkets typically have to engage local suppliers in host countries to be able to supply them. This requires establishing relationships and transferring requirements of standards of supply to farmers and producers in host countries. Other retailers or manufacturers usually do not have such vast differences in product portfolios across thousands of widely different suppliers that supermarket chains typically do, ranging from fresh products to processed and manufactured products to services.

Summary

A combination of frameworks, such as IO-based theories of FDI and the Ownership-Location-Internalisation (OLI) framework, is useful to understand some factors behind the spread of supermarkets. However, even this combination is limiting because it does not adequately account for the importance of investment in distribution and logistics, supplier networks and knowledge of customer segments and preferences. The empirical literature based on these frameworks has also not adequately accounted for the importance of local policies, political economy dynamics and firm-specific factors such as first-mover advantages, firm strategies, market power and competition issues, all of which have a bearing on supermarket internationalisation. Principles from the economic geography have however contributed to the understanding of patterns of internationalisation by more closely considering the characteristics of supermarkets.

3.4. The nature of competition between supermarket chains and potential abuses of market power

The internationalisation of supermarkets has affected, and is affected by, competition dynamics between grocery retailers. Foreign retailers introduce new formats, pricing structures, management processes and marketing methods into host markets, and this can affect competitive dynamics. There has been increasing concentration levels of multinational retail chains in several countries (Coe and Hess, 2005; Coe and Wrigley, 2018, see below in this chapter for a discussion on levels of concentration). The practices that supermarket chains with market power in concentrated markets engage in can affect competition and outcomes in host markets. This has implications for consumers, rivals and suppliers. There have been no studies that have comprehensively captured the nature of competition between supermarkets, between supermarkets and other retailers, and the relationship between supermarkets and suppliers in the context of Southern Africa.

Building on the characteristics of supermarkets, this section assesses the literature on the nature of competition between supermarkets and the impact of potential abuses of market power. It does so primarily through an industrial organisation (IO) framework which is the conventional framework that most competition authorities use to assess competition dynamics (both horizontal and vertical). Weak competition in the sector can diminish the PQRS benefits to consumers, raising prices, reducing quality and range, and stifling innovation. This reduces consumer welfare. The exertion of market power towards suppliers in the form of buyer power is reviewed in Section 3.5.

Industrial organisation characterisation of the nature of supermarket competition

From an industrial organisation perspective, supermarkets could be viewed as competing in monopolistically competitive markets. Under this market structure, there are many firms selling differentiated products. The different formats of supermarkets described in Section 3.2 can be seen as differentiated 'product' offerings. Differentiation can be along product, service, marketing, distribution and location dimensions. Given this product differentiation, there is a degree of customer loyalty which allows firms to raise prices above competitive levels in the short run (firm faces a downward-facing demand curve and prices are above marginal costs) (Hart, 1985). Firms decide, amongst price, output and product dimensions, the level of selling effort they are willing to employ (through advertising, for instance). Under this market structure, non-price competition is an important aspect (including through quality, store formats and advertising). The extent of competition comes from how closely consumers value different supermarket offerings (closeness of competition) and how prepared they are to substitute between different offerings from a PQRS perspective.

However, there are key limitations to traditional monopolistic competition models that make them less suitable to characterise the nature of competition between supermarkets. These models assume low barriers to entry, which is why they assume a large number of firms in the market. Monopolistic competition models also assume that there are no super-normal profits in the long run because of low barriers to entry.

As discussed in Section 3.2 above, barriers to entry are high, resulting in concentrated markets in many countries, where only a handful of large chains operate (see estimates of concentration ratios later and largest retailers globally in Table 1). The levels of concentration are even higher in more narrowly defined regional or localised geographic markets. As described in Section 3.2, these barriers include scale and scope economics and other large sunk costs such as distribution and logistics infrastructure investments as well as advertising costs. Monopolistic competition models also assume little strategic interaction between firms and that firms are price takers. In reality, there is considerable strategic reaction by supermarkets to each other's competitive actions as described in Section 3.2 and as evaluated in Chapter 6. Supermarkets react to each other's pricing and promotional strategies, formats and investments (for example, investments in DCs).

Competition between supermarket chains in the literature has therefore been evaluated more along oligopolistic market structures, where there are a few firms that are strategically inter-dependent, with high barriers to entry and that are able to price supra-competitively in the long run (see for instance, Lamm, 1981; Sutton, 1991; Cotterill, 2007; Ellickson and Misra, 2008; Seaton and Waterson, 2013; Thomassen et al., 2017).

Even markets with a few players such as those in oligopolistic and monopolistic settings can have competitive outcomes if there is a credible threat of entry which disciplines pricing. Contestable market theory suggests that, absent barriers to entry, efficient incumbent oligopolists and monopolists can keep entry at bay by offering benefits to consumers that competition would otherwise bring. If they do not do so, they may face hit-and-run entry (Baumol, 1982).

The theory however rests on certain strong assumptions. It assumes that potential entrants can seamlessly enter and exit, using the same productive techniques and serve the same markets as the incumbents. It also assumes that potential entrants consider the profitability of entry based on existing prices (pre-entry prices). This does not take into account the dampening impact on prices as their volumes come on stream. There may also be factors that make it difficult for incumbents to react to new entry as a form of deterrence, such as long-term contracts that fix prices for a period of time. Such contracts however can also be negotiated by new entrants to protect them from post-entry responses. Similarly, the presence of high sunk costs, financial market imperfections and information asymmetry all affect entry and exit (Martin, 2000).

What is characterised as barriers to entry is therefore important when evaluating whether a market is contestable or not. It is widely accepted that scale and scope economies need not be barriers to entry if costs of attaining the scale and scope can be recovered at little or no costs (Bailey and Panzar, 1981). This however again hinges on whether access to capital in financial markets is costless.

There are significant barriers to entry present in grocery retail, particularly in formal chain store grocery retail. Discussed in Section 3.2, these include large sunk costs in infrastructure and advertising, reduce the contestability of markets. Contractual agreements, both with suppliers and with property developers in retail locations such as shopping malls (discussed below), further make it difficult for new entrants to enter and expand. Given the nature of offerings, there are also considerable regulatory barriers in terms of food safety.

Including product differentiation complicates evaluating supermarkets through an oligopolistic lens. One set of oligopoly models that attempt to take into account differentiation are models of spatial competition (Hotelling, 1929; Salop, 1979). In these models, geographic differentiation/location insulates retailers from competition, conferring them with a degree of market power in a localised area. Given that consumers incur travel costs to get to different store locations implies that stores close to one another are better substitutes. Literature developed from Hotelling's model of spatial competition uses game theoretical approaches to predict market outcomes in differentiated product oligopolies. Competition is seen as a two-stage game with firms competing in prices and quantities once all firms in the market enter and have made product space location decisions. Therefore, firms in the second stage of the game select price and quantity to maximise profits given the product types and location that all the other firms have chosen (Economides, 1993). Obvious limitations of these types of models include the assumption that each customer consults the prices of all retailers, identifies the lowest price inclusive of transportation costs and purchases from the cheapest retailer (that is, customers have full information and there are no search costs). Further, such models still only add one dimension of product differentiation – location – and do not take into account convenience, ambiance and overall utility of a basket of goods and services simultaneously.

Other formal treatments of supermarkets have characterised them under endogenous sunk cost models or endogenous fixed cost frameworks of competition, where a few powerful chains provide quality products and low prices (Sutton, 1991). Under this model, firms compete for customers by providing higher quality and wider service offerings, including through offering a greater variety of products. Local rivalry increases, and existing firms expand their sunk cost investments to compete. Such investments have the effect of limiting the number of firms that can profitably enter even large or fast-growing markets, so markets remain concentrated. Sutton's model therefore seeks to explain why some markets remain concentrated as they grow in size, while others fragment. As highlighted, modern supermarket chains do indeed heavily invest in infrastructure and advertising.

Ellickson's (2004; 2013) modification of Sutton's model shows that while the number of large supermarkets chains do not necessarily increase with growth of the market, the size of the smaller fringe players can, and does, grow. The small competitive fringe, however, does not compete on quality and variety in the same way that large supermarket chains do and, in this sense, can grow without investing in large sunk investments as demand grows.

This appears to tie in with the observation in many Southern African countries of a few large supermarket chains collectively dominating the market, with competition from a fringe of independent retailers who do not invest as much directly in infrastructure and advertising. Consumers are not necessarily worse off even though markets are concentrated. There can still be vigourous competition between incumbent supermarket chains, and better quality and variety are also outcomes of this competition.

There is also a range of price leadership models in oligopolistic settings that attempt to model how supermarkets compete, where price changes of the first mover are strategically followed by rivals (Rotemberg and Saloner, 1990; Deneckere and Kovenock, 1992). Developments of these models show that the first mover does not always have to be the dominant firm (Eckert, 2003). Seaton and Waterson (2013) have found price leadership in pricing of UK supermarkets with smaller supermarkets leading price changes.

Supermarkets can indeed be characterised as having become increasingly oligopolistic over time where there are a few large chains dominating markets. These chains tend to have both significant market power (oligopoly) and buyer power (oligopsony), with a consequent high degree of control over the entire value chain (Dobson, 2015). In addition to possible anti-competitive impacts that affect consumers, the supply chain can be affected by buyer power by supermarket chains with market power.

Concentration levels

The oligopolistic nature of supermarkets is reflected in the high levels of concentration in many markets. The International League of Competition Law in 2015 produced country reports that highlight the degree of concentration in the grocery retail sector in different countries. In Australia, the Netherlands, Austria, Finland and Belgium, the 2- and 3-firm concentration ratios (CR) in the grocery retail sector were between 55 and 87 per cent (Jenny, 2015). The 4-firm CRs in Germany, Sweden and the UK were 85, 80 and 85 per cent respectively (Jenny, 2015). These CRs show the concentrated nature of grocery retail markets in these countries. The levels of concentration in Europe more broadly as noted earlier have also been increasing. In 2000, the top 10 European retailers accounted for 26 per cent of retail sales, and this increased to 30.7 per cent in 2011 (European Commission, 2014).

At a global level, the share of the global market accounted for by the largest 100 retail firms (which includes all retail firms, not just grocery retail) has been steadily increasing (Dawson, 2007). In 2013, the constitution of the top 20 transnational retail chains in terms of revenues earned in international markets (dominated by grocery retailers) has been the same for the past decade (Table 1), although relative positions have changed (Coe and Wrigley, 2018). This highlights the dominance of the same small group of grocery retail chains globally who have held these positions for many years, and who are growing in markets globally (although not necessarily growing as predicted in Africa as I discuss in Chapter 5).

Table 1: Top 20 transnational retailers, ranked by their international revenue in 2013

Rank	Company	Home country	Type	International revenue (USD mill)	International revenue, 1999 (% of total)	International revenue, 2013 (% of total)	Change in % (1999-2013)	No of countries with operations
1	Walmart	USA	Food, GM	135201	14	29	15	28
2	Carrefour	France	Food, GM	53329	38	54	16	31*
3	Metro	Germany	Food, GM	52787	40	62	22	32
4	Schwarz	Germany	Food, GM	48401	20	56	36	26
5	Aldi	Germany	Food, GM	38312	33	54	21	17
6	Tesco	UK	Food, GM	34431	10	34	24	13
7	Auchan	France	Food, GM	33653	19	57	38	13
8	IKEA	Sweden	Furniture	33490	92	95	38	13
9	LVMH	France	Luxury goods	32455	48	89	41	76
10	Casino	France	Food, GM	32025	21	60	39	26
11	Ahold	Netherlands	Food, GM	28002	76	66	-10	12
12	Costco	USA	Food, GM	27758	19	28	9	9
13	Amazon	USA	GM	25185	22	43	21	11#
14	Delhaize	Belgium	Food, GM	22926	83	78	-5	11
15	H&M	Sweden	Clothing	16999	84	96	8	49†
16	Inditex	Spain	Clothing	16242	48	79	31	88
17	Seven & I	Japan	Convenience	15892	30	27	-3	18
18	Couche-Tard	Canada	Convenience	14889	0	45	45	19
19	Rewe Combine	Germany	Food, GM	13813	20	28	8	11
20	The Home Depot	USA	Home improvement	11961	4	16	12	5

Source: Reproduced from Coe and Wrigley (2018) using data from Deloitte, annual reports and Euromonitor

* Entered Kenya after 2013; #Grown significantly since 2013; † Opened operations in South Africa since 2013

Implications of market power

Theories of imperfect competition predict that such high levels of market concentration reduce effective competition and can allow sellers (buyers) with market power to increase (reduce) prices. This raises concerns of firms with market power possibly abusing this power, not just in terms of raising prices, but through their strategic behaviour that can exclude rivals. This can have negative effects on consumers and on suppliers.

There have been several studies on the impact of concentration on price levels, including in the grocery retail sector (see for example, Marion et al., 1977; 1979; Hall, Schmitz and Cothern, 1979; Lamm, 1981; Meyer, Garber and Pino, 1983; Clarke, Davies and Waterson, 1984; Cotterill,1986; Smith and Thanassoulis, 2015). These studies generally show that increased concentration results in higher prices.[10] Hovhannisyan, Cho and Bozic (2018) undertake a simulation analysis and find that a 5 per cent increase in retail market concentration would increase prices by 18 per cent and decrease food consumption by 2–5 per cent.

But there are also many studies that find support for the contrasting school of thought (initially put forward by Demsetz, 1973) that essentially claim increased concentration levels are as a result of a few firms developing products that are superior to their rivals' and that consumers are happy to pay higher prices for these products/services. This results in rising concentration (and higher profits). Under this framework, prices or profits are positively correlated with concentration because of efficiency reasons and this increases consumer welfare (Demsetz, 1973).

Those that argue for cross-category effects in grocery retail also support the notion that high concentration does not have to result in high prices (Thomassen et al., 2017). The idea behind this is that an increase in the price of one category/product may lead to consumers transferring away all their category purchases. Given this, supermarkets are less able to raise prices of individual products. Ignoring these cross-category effects can result in market power of supermarket chains being significantly overestimated. However, the opposite can also hold true: consumers who do not prefer a one-stop-shop can also constrain price increases of individual products by easily moving to rival supermarkets.

What is not considered by Thomassen et al. (2017) is the possibility of another impact: a strong preference for one-stop-shopping or 'single homing' may mean that consumers are *less sensitive* to price increases of an individual product category in a basket, or similarly, a supermarket chain may not adjust individual product prices according to competition in local markets given that consumers are unlikely to multi-home for a single product. The main point is that the characteristics of supermarkets mean that prices of a single product may not be the best measure of market power.

[10] For a comprehensive list of proponents of this school of thought and a summary of their arguments, see Newmark (2004).

Oligopoly models of competition by Ellickson (2004) also suggest that few superior firms compete on a variable other than price, such as quality, while the offerings of the competitive fringe do not compete on quality to the same degree. This product differentiation and quality argument was also put forward by Matsa (2011) and Courtemanche and Carden (2014) who show that supermarket chains differentiate themselves with higher quality products, store amenities and services rather than compete directly on price (see also Nakamura, 1997; Ratchford, 2003). Other dimensions of non-price competition include product range, both depth and breadth, location, ambiance, availability of product and convenience (Betancourt and Gautschi, 1988; 1990). These dimensions speak to the nature of intra-format competition discussed in Section 3.2. Therefore, high levels of concentration may not necessarily result in consumer harm through high prices, as non-price effects may be significant.

There have nonetheless been numerous competition concerns in the supermarket sector throughout the world arising from market power of a few large supermarket chains. Large-scale market inquiries have been undertaken by the UK and Australian authorities given these concerns. In Africa, the Competition Authority of Botswana and Competition Commission of South African have recently undertaken grocery retail market inquires as discussed in Chapter 6.

One set of concerns involve foreclosure of a rival by a dominant firm. This foreclosure can take the form of refusing access to key inputs or access to a sufficient customer base. Exclusion can either happen to firms in vertical or horizontal relationships and can be either price or non-price based. Table 2 below highlights the typical strategies under each of these.

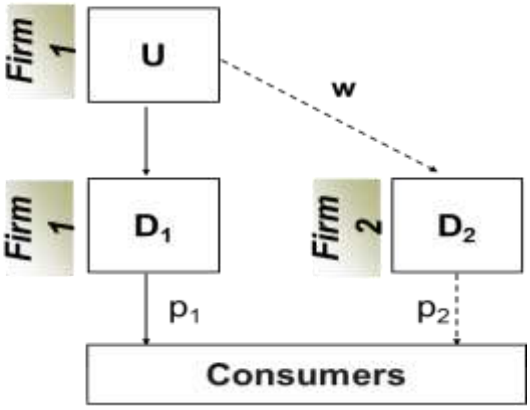
Table 2: Types and forms of foreclosure

	Horizontal foreclosure	Vertical foreclosure
Non-price-based exclusion	• Tying • Naked/outright refusal to supply	• Refusal to supply • Constructive refusal to deal
Price-based exclusion	• Loyalty rebates • Mixed bundling • Predation	• Margin squeeze • Constructive refusal to deal

Source: Adapted from European Commission (2005a)

Concerns of vertical foreclosure can arise when vertically integrated firms engage in conduct which excludes rivals that compete with them (Hart and Tirole, 1990; Whinston, 1990; Rey and Tirole, 2007). A firm that is vertically integrated with its input suppliers can prevent rivals from accessing the input. If the input is essential and there are only a few, or more expensive, alternatives for the rival, then the rival may be foreclosed. In its simplest formulation (Figure 5), if Firm 1 owns both essential upstream input (U) and seller downstream (D_1) it can either refuse to sell to D_2 (or in constrained quantities undermining scale of D_2); charge price *w* that means D_2 is not profitable given downstream price p_2 or supply on worse/degraded terms and quality.

Figure 5: Exclusionary conduct by a vertically-integrated dominant firm



In the case of supermarkets, by vertically integrating backwards into processing and manufacturing levels of the value chain, including for house brands, dominant supermarkets can potentially be in a position to foreclosure rivals. Firms need not be vertically integrated for exclusionary outcomes to occur. The same outcomes can occur through vertical contracts that tie-up suppliers into exclusive supply agreements or through forms of exclusive dealing. The form that the practice takes is less important than the effect of the conduct has on consumer welfare, and an effects-based approach is typically taken by most competition authorities in investigating such cases.

A type of strategic behaviour that has been prevalent in the retail sector in a number of countries has taken the form of restrictive vertical agreements between mall owners, landlords or property developers and supermarket chains as anchor tenants. Exclusivity clauses in leases grant anchor tenants the rights to operate as the sole supermarket in the mall/shopping centre. Property owners or landlords would then require permission from the incumbent if they wished to rent space to other ancillary tenants who overlap with the incumbent supermarket's offering. If incumbents refuse to allow new entrants into the premises, competition would be stifled in that location.

By its very nature, leases with such clauses are exclusionary. They can be seen as a type of exclusive dealing, where the property developer is not allowed to 'deal' with rival supermarkets that want to locate in the same space. Entering into exclusive leases have also been categorised as a restrictive vertical agreement between landlord and anchor tenant. Effectively, exclusivity clauses in leases prevents new entrants from locating in affected retail spaces and therefore limits their ability to enter or expand. This can result in the exclusion of rivals from the market, resulting in horizontal foreclosure (see Table 2).

With fewer competing supermarkets in a given location, customers are left with reduced choice in terms of product range, pricing and quality. This is indeed a concern in the South African retail space and is evaluated in Chapter 6.

There are however several well-known efficiency or pro-competitive justifications for vertical arrangements or exclusive dealing. Firms in a vertical relationship are generally complementary to one another and vertical agreements can allow for better co-ordination of manufacturing, distribution, investment and innovation. This can result in a reduction in transaction costs. Vertical arrangements also can promote relationship-specific investments, such as training and incentivising of sales staff, as well as assist in proper marketing of products. On these efficiency grounds, Chicago School proponents criticise theories of vertical foreclosure, claiming that a dominant firm in one level of the market does not have an incentive to leverage its position/power into another market. Any additional profit it seeks to make through foreclosing rivals can be made at the level in which it holds a monopoly (the 'one monopoly profit theory'). This school of thought raises questions on the incentive as well as the ability of firms with market power to engage in abuse based on a restrictive assumption that entry barriers are not generally high and that there are short-term costs to such exclusionary strategies (see Bork, 1978; Posner, 1978; Areeda and Turner, 1978).

In the specific case of exclusive leases, potential efficiency justifications have included the relationship-specific investments made by the anchor tenant to increase footfall into a shopping mall. Anchor tenants argue that exclusivity is needed to protect their investment. The effects of such leases have to be assessed to understand the net impact on competition. The extent to which exclusive leases stifle entry and growth of rivals is relevant insofar as consumer welfare is harmed. Most jurisdictions are concerned with conduct that prevents or lessens competition to the detriment of consumers, not competitors.

There are incumbency advantages that can contribute to the prevalence of exclusive leases. As highlighted by Reardon, Timmer and Berdegué (2004), in developing countries, initial barriers to entry are low for the first multinational supermarket chains investing as existing levels of local competition are generally weak. This gives them significant first-mover advantages in the occupation of key retail locations and access to suppliers. Subsequent locking in of such advantages by dominant supermarket chains through practices like exclusive leases could dampen competition.

Internationally, the Australian Competition and Consumer Commission's (ACCC) grocery inquiry have found exclusive leases to be an impediment to competition. It found that the major supermarkets in Australia entered into such leases to ensure that they maintained exclusive access to prime sites. Particularly, the ACCC found that such restrictive leases hindered entry of new and small supermarkets into local areas. The main supermarket chains argued that exclusivity was necessary to foster investment in densely populated urban areas. The ACCC, however, found that it was, in fact, still possible to enter and invest in metropolitan areas without exclusive leases. Given the possible procompetitive benefits of exclusive leases in terms of encouraging investments, the ACCC through advocacy efforts set out certain conditions under which exclusive leases could be entered into, including allowing exclusive leases in areas where there was still room for future growth and not in larger urban areas (Competition Commission, 2015a).

Therefore, the ACCC approached the issue of exclusivity on a case-by-case basis, evaluating the arguments made for incentives to invest and potential outcomes based on concentration levels in defined markets (for instance, there were more concerns in dense, urban areas). The onus thus fell on the supermarket chains to prove that the leases are necessary to make investments.

After the ACCC's intervention, some of the major supermarkets such as Coles Group and Woolworths voluntarily undertook to phase out these provisions over a few years, and these undertakings were enforceable by law. This was followed by similar undertaking by Aldi Foods, Franklins, SPAR Australia, Australian United Retailers and Metcash, and Supabarn. Furthermore, all future lease agreements entered into would no longer have exclusivity clauses (Australian Government Productivity Commission, 2011; OECD, 2013; see also Kobel et. al, 2015). According to the ACCC, this has led to an increase in the number of shopping centres with multiple supermarkets, creating more competition and leading to lower prices for consumers than in shopping centres with only one supermarket (OECD, 2016).

Similarly, the UK authorities investigated the potential anti-competitive impacts of exclusive leases. Out of 384 stores operating in highly concentrated markets, the Commission found that 30 existing exclusivity arrangements created barriers to entry. The Commission proposed a five-year exclusivity limit for new shopping centres and the annulment of existing exclusivity arrangements after five years of their report being published (Competition Commission, 2015a).

3.5. Impact on suppliers and capabilities needed to supply supermarket chains

The high levels of concentration in supermarket retail, with a very few large chains, mean the supermarkets are important routes to market for suppliers. It also means that the chains have buyer power given the large volumes that they purchase. This allows them to potentially exert this buyer power, by imposing onerous terms and requirements on suppliers. This shifts the bargaining power dynamics between buyer and supplier in favour of supermarkets. The concern with this is that it can result in additional costs imposed on suppliers when supplying supermarket chains. The absence of effective competitive rivalry at the supermarket level means that supermarket chains with market power are able to squeeze the margins of suppliers to extract a higher share of the joint rents in the value chain. Such conduct and the escalating requirements to supply modern supermarket chains affects the participation and development of suppliers in supermarket supply chains.

This section provides frameworks through which the exercise of buyer power and the effect it has on suppliers can be evaluated. It highlights the limitations of the traditional competition economics focus and explores how the global value chains (GVC) literature can be valuable in widening the lens through which issues of governance and buyer power can be more holistically assessed.

Buyer power of supermarkets through a competition economics lens

The exertion of buyer power by supermarket chains that have significant market power can affect the ability of suppliers to participate and develop in supply chains. Concerns of buyer power of large supermarket chains and the impact this has had on suppliers have emerged in many countries such as the UK, Australia, Japan, Germany, Hungary, Bulgaria, Finland, the Netherlands, Austria and Romania, amongst others (OECD, 2015). This can negatively impact supplier participation and the development of their capabilities, thus also hindering upgrading efforts into higher-value products or into global value chains.

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). It has also been defined as a situation where 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 (Dobson, Waterson and Chu, 1998: 5).

Large supermarket chains in many cases are able to control pricing in their trading terms by controlling elements such as listing fees, rebates, advertising allowances, promotion fees, payment period terms, settlement discounts and new store openings fees amongst others (Reardon and Gulati, 2008). Supermarkets can also charge slotting allowances that food processors or other suppliers have to pay for to access shelf space or specific placements. Slotting allowances may help retailers screen products and determine which products are more likely to sell. Slotting fees can however be a means by which retailers can extract rents from processors, when market power sits with the retailer (OECD, 2013). This unilateral control of trading terms can be reflective of the buyer power of large supermarkets (Clarke et al., 2002; OECD, 2015) and can be a way through which they extract a greater share of the surplus in a value chain. A combination of increasing retail concentration and significant barriers to entry limits the choices that suppliers have in terms of the competing means of distributing their goods in many countries (Dobson, 2015). In a number of countries, market inquiries or studies are initiated by competition authorities given such concerns around buyer power (Kobel et al. 2015).

Abuse of buyer power can also result in what is called the 'waterbed effect', where large retailers negotiate price reductions with suppliers that are not cost related, and then the suppliers increase prices to smaller grocery retailers and wholesalers to compensate for this (Davis and Reilly, 2009; Inderst and Valletti, 2011). While suppliers would want to have as many retailers to sell to, the threat of being de-listed from large supermarkets' supplier bases may result in suppliers giving in to the demands of supermarkets (Dobson, 2015).

Another avenue through which supermarkets can increase their bargaining power against suppliers is through increasing their range of private label or house brand products. Supermarkets in both developed and developing countries are increasingly selling house brands of food and household products. In Europe, private labels can exceed 40 per cent of all sales in countries like the UK and Switzerland, while in the US, they account for only around 18 per cent in 2011 (European Commission, 2014). The increase in the number of private labels may also be an indicator of increased competition between supermarket chains, where supermarkets are trying to differentiate themselves by building customer loyalty. These private label brands are proving to be highly successful and fast sellers for supermarkets as they compete with branded alternatives on price, value and quality, particularly for cost-conscious customers. However, supermarkets are also producing private label products that target different groups of customers, including high-income consumers (Gilo, 2008; Ezrachi, 2010). Given limited branding and advertising for these products, costs of sales are often lower than for other well-known branded products. There is a perception that these products offer good value for money for consumers.

Private labels can benefit manufacturers as they can use spare capacity to produce the private label. But private labels have raised concerns for suppliers of branded products in instances where supermarkets favour private labels on their shelves at the expense of branded products as they have the potential to increase supermarket margins (Harvey, 2000). They can increase the bargaining power of retailers, putting pressure on suppliers of branded products and potentially resulting in their foreclosure.

The overall long-term competitive impact of private labels is ambiguous (Ezrachi, 2010). On one hand, private labels are welfare-enhancing as double mark-ups are eliminated and the additional competition created between the brand and private label could lead to lower prices (Mills, 1995). Further, retailers that identify a gap in the market and produce private label products to fill that gap enhance consumer welfare (Ezrachi, 2010). On the other hand, in addition to the impact on branded goods stated above, private labels can lead to lower levels of innovation if they are produced soon after the branded product is released (reducing incentives to invest in R&D and innovation of branded products). Others have suggested that private labels actually result in an increase in price of the branded product given a core base of loyal customers for the branded product (see OECD, 2013). The implications of the growth of private labels in Southern Africa is evaluated in Chapters 6 and 7.

Another practice that affects suppliers is category management. Category management refers to a relationship between a supplier and retailer in managing an entire product category. It is a fairly common practice which aims to improve a grocery retailer's sales or performance in a particular product through a relationship and collaboration between the retailer and its suppliers. As part of this, grocery retailers may exchange information with suppliers on sales volumes and trends, consumer demographics, profiles and preferences. Retailers can also be guided by suppliers on the way the product is displayed, placement and size of the product displays, pricing, promotion, supply-chain improvements and stock management. Suppliers are often better informed about consumer preferences, and appropriate placing and other promotion of products would benefit consumers. A form of category management, championed by an appointed 'category captain', is when an important supplier takes on a major role in the retail management of the category, including managing rival brands of the same product (OECD, 2013).

However, there are potential competition concerns with certain category management practices. A category captain could take advantage of its position to foreclose rival products from supermarket shelves, particularly if the rival is aggressively gaining market share. Further, such practices could also serve as a mechanism by which collusion between retailers, or between suppliers, is facilitated. This occurs because a supplier provides the same information to multiple competing retailers, potentially dampening competition between them, or by providing a platform through which suppliers can exchange information between themselves or via the retailers (UK Competition Commission, 2008).

Intervention in cases of buyer power by competition authorities in most countries has been very limited. In competition economics, a distinction has been made between two categories of buyer power – monopsony power when buyers can profitably reduce the price paid below competitive levels by withholding demand from a supplier or group of suppliers and bargaining power when the bargaining strength in negotiating terms of trade between buyer and seller is skewed towards the buyer (OECD, 2008).

Dealing with monopsony power is much clearer for competition authorities. It results in withholding demand, quantity distortions and loss of efficiency in the input market, which harms consumers in downstream markets. Dealing with bargaining power is more difficult as it is not certain what the welfare effects are. This is because bargaining power can be exercised by buyers in a way to countervail the market power of suppliers. In such instances, prices to end consumers may be lowered, increasing their welfare (OECD, 2008; Van Doorn, 2015). Competition authorities have generally tended not to intervene in concerns of buyer power given these welfare-enhancing effects.

Yet, the exertion of buyer power towards small suppliers could potentially harm their growth and development in the long run, which in turn could affect competition at the supplier level. The long-run effects of buyer power can include smaller suppliers exiting the market, which ultimately could lead to higher prices for consumers especially when a few, often multinational, suppliers dominate that level of the value chain. Abuse of buyer power can also reduce investment and innovation amongst suppliers, leading to poorer product quality and less choice, in addition to higher prices (Dobson, 2015). These long-run, dynamic effects are important and competition authorities have generally not considered them through traditional enforcement provisions. Such effects are often ignored by competition authorities in favour of short-term price effects.

In some jurisdictions, buyer power in the context of retail has instead been tackled through separate rules or codes of conduct introduced following market inquiries. In the UK and Australia, mandatory and voluntary codes of conduct have been implemented to ensure that suppliers are treated fairly in their supply agreements with supermarket chains. The retail sectors in most countries in Southern Africa are largely unregulated on aspects related to conduct towards suppliers, except for Namibia, which introduced voluntary regulation through the Namibian Retail Charter in 2016. In 2015, the Competition Commission of South Africa commenced the GRMI which looked into issues of buyer power. The outcomes of the inquiry, which may include a call for a code of conduct or similar forms of regulation, are due to be released on 30 September 2019.[11] As part of such inquiries, and in the literature, there has been no satisfactory or consistent framework through which the implications of the exertion of buyer power of supermarkets and the impact this has on supplier participation and development, is evaluated.

[11] https://www.gov.za/sites/default/files/41932_gon1001.pdf

Global value chains: A complementary framework to assess the impact on suppliers?

I argue that a framework that adds value to the narrowly focused industrial organisation or competition economics framework of buyer power is the global value chains (GVC) framework. Evaluating the implications on suppliers of the spread of supermarkets in Southern Africa through a combination of a GVC framework and industrial organisation approaches to buyer power discussed above also enriches the understanding of global and regional value chains, contributing to the literature in this regard. Elements of each framework and tools for analysis strengthens the other.

While there is a rich literature on GVCs, its use in assessing competition dynamics has been very limited to date. It is however an area where competition authorities in developing countries are becoming interested in to foster conditions where markets can work better. Although very limited, there are some contributions to this approach in the competition field (see for instance, Lianos and Lombardi, 2016), where non-traditional methods to evaluate the implications of market power and rent extraction have been introduced.

GVC analysis evaluates inter-firm linkages and vertical relations regarding design, production and marketing of products, as well as value addition, which involves a chain of activities divided between different enterprises often located in both developed and developing countries. A value chain describes the full range of activities that firms engage in to bring a product from its conception to end-use. This includes activities such as design, production, marketing, distribution and support to the final consumer (Gereffi and Fernandez-Stark, 2011).

Although less relevant for analysing horizontal dimensions of competition, a value chain approach can provide important insights into vertical dimensions of value chains. It can provide insights into the interaction between producers, intermediate players, service providers and retailers, going beyond just simple buyer-seller relationships.

The GVC framework provides a methodology for tracing patterns of value creation as well as understanding power and governance across the full range of economic activities within a value chain. It does so by exploring the linkages amongst geographically dispersed economic activities and actors (Gereffi and Fernandez-Stark, 2011). The GVC framework has the added benefit of allowing for practical policy actions in terms of developing a particular level of the value chain, redistributing rents or upgrading certain actors, particularly in developing countries. It can be used to identify opportunities and bottlenecks for upgrading and development of capabilities in global industries.

The GVC framework originally stemmed from early studies on global commodity chain (GCC), which looked at a network of labour and production processes that ended with a finished commodity (Hopkins and Wallerstein, 1986; 1994). GCC looked mainly at agricultural commodity chains, where firms are either producers or users of inputs. In the mid-1990s, Gereffi and Korzeniewicz (1994) moved the analysis towards industrial commodity chains, looking at amongst other chains, the value chain of clothing from East Asia to the US. The focus was on global manufacturing systems in which economic integration moved beyond international trade in raw materials and final products. Related to the French empirical tradition of 'filiére' (chain) studies (which were more technical in nature), early GVC studies included understanding centrally coordinated but internationally dispersed production of many activities along the value chain (Gibbon and Ponte, 2005). The literature has moved away considerably from the theoretical principles of GCCs and has become more firm-centric, with greater importance placed on upgrading and the use of policy tools to redistribute rents (Ponte and Sturgeon, 2014).

GVC analysis typically uses four basic building blocks to assess cross-cutting issues along a value chain: input-output structures, geographic scope, governance and institutional context. These impact another important concept in the GVC framework – the upgrading of firms within the value chain. For the purposes of this thesis, governance and upgrading are particularly significant. While upgrading takes a 'bottom-up' approach, exploring how firms or countries can maintain or improve their positions within global value chains, governance is about understanding the value chain in a 'top-down' manner.

(i) Input-output structures

This involves understanding the entire input-output process of a product or service, from its conception to the end user or consumer, and even beyond in the case of value chains with aftermarkets or recycling. The flow of processes typically involves research and design, inputs, production, distribution, marketing and sales. The assessment is typically in terms of the main players, their activities, the structure and dynamics of these players, as well as their interactions with other players in the value chain (for instance, their sourcing strategies from suppliers) (Gereffi and Fernandez-Stark, 2011). In terms of the supermarket value chain, it involves understanding the flow of products from production to distribution to sales off supermarket shelves. It also extends to understanding the research and development of new products and designs (e.g. for house brands).

(ii) Geographic scope

Given the multinational nature of many companies through rising globalisation, geographic scope involves understanding the location decisions and changes in these decisions over time of firms in a given value chain. Developed countries typically have the necessarily skills to undertake research and design for product development, while developing countries offer low labour costs and raw materials (Gereffi and Fernandez-Stark, 2011). This spreads value chains globally across continents. However, there is evidence of increasing regionalisation of value chains and that global value chains are becoming more consolidated (Cattaneo et al., 2010). Gereffi and Fernandez-Stark (2011) highlight that large MNEs, in search of fewer, larger and more capable suppliers are likely to turn to more regional sourcing and are increasingly investing in regional operations. Emerging economies and an increase in regional trade agreements have also promoted regional value chains, particularly in Europe and North America.

An RVC focus is useful in understanding the implications of the internationalisation of supermarkets in the Southern African region. Increasing regional integration and consolidation of global value chains has seen new patterns of trade and investment emerge. Emerging economies in Southern Africa and an increase in regional trade agreements further promotes regional value chains.[12] This is evident in the recent increase in intra-regional trade in processed foods and diversified manufactured products as assessed in Chapter 5. An assessment of value chains that is either too narrow in that it only looks at national dynamics or too wide in that it only looks at global dynamics leaves out a critical geographic segment that has strong implications for growth and industrialisation in the Southern African region.

There are several reasons why a regional value chain approach is appropriate to evaluate the implications of the spread of supermarkets in the region. First, studies evaluating patterns of trade show that in the Southern African region, regional MNEs largely export manufactured products into the region itself (Fessehaie et al., 2015a), and so the region as a whole is an important market. There are obvious transport cost benefits in supplying the region. As will be highlighted in Chapter 5, many supermarket chains in the Southern African region are South African owned and procure products from South Africa. This is reflected in large growth of exports to the region as a share of total exports as shown in Chapter 5. Trade flows for processed foods and household consumables sold on supermarket shelves, especially in recent years, highlight the strong role that the region plays in terms of the demand for these products. Other studies have also identified substantial gains from intra-regional trade in agro-processing products and South Africa has been identified as being a key driver of regional value chains as a market and as a source of inputs (AfDB et al., 2014; Jensen and Sandrey, 2015). This points towards growing importance of evaluating supermarket value chains through a regional lens. In addition, as noted in Section 3.3, cultural similarities can also make it easier to be successful in the region relative to global markets.

[12] Only a few studies have looked at regional value chains in Southern Africa (see Keane, 2015; Farole, 2015 and Morris et al., 2012), and even fewer have looked at selected value-chains in depth (Fessehaie et al., 2015a, b; 2016; Ncube et al., 2016).

Second, there is greater potential for firms to successfully enter global value chains and produce greater value-added products once they have developed capabilities and obtained scale through participation in regional value chains (Fessehaie and Morris, 2013; Kaplinsky and Morris, 2016). Upgrading in regional value chains is likely to be easier than in global value chains as these chains are likely to be less tightly governed or controlled (Keane, 2015). This provides a 'stepping stone' into global markets by providing suppliers the opportunity to upgrade and achieve international competitiveness (UNCTAD, 2013; Keane, 2015).

Third, given existing regional integration agreements and policies (in the case of Southern Africa and the SADC free trade agreement, Southern African Customs Union), there is greater scope for collaborative efforts, including by governments, in supporting, upgrading and developing value chains. In this context, the political and economic realities and the respective country policies are important.

Finally, a few large regional players in agro-processing value chains dominate not just South African, but also regional, markets in terms of ownership, production and investment. In the case of key processed food products for instance, South African multinationals are key players across the region. These firms are also often vertically integrated. At the retail end, it is the same handful of South African supermarket chains that collectively dominate the formal retail sector in many Southern African countries and are growing their presence in the region. This allows upgrading opportunities for suppliers as these supermarkets have a greater incentive to develop suppliers that can supply their stores throughout the region with products of the required quality, consistency and characteristics.

(iii) Governance and power

An important contribution of the global value chain framework is the governance of the chain and the impact of this on the development of players in the chain. This is relevant for supermarket–supplier relationships.

Governance is seen as the process of exercising control along the chain through specification of what type of product needs to be supplied, what quantity, at what price and how it should be produced (Gibbon and Ponte, 2005). Governance refers to authority and power relationships that determine the allocation and flow of resources within a value chain (Gereffi, 1994; Dallas, Ponte and Sturgeon, 2018; Gereffi and Lee, 2012; Gereffi and Lee, 2014; Gereffi and Fernandez-Stark, 2011). The concept and evaluation of governance, which includes a range of mechanisms for vertical control and coordination, has evolved in the GVC literature over time to take into account practical realities in many markets.

The governance of value chains offers insights on the distribution of rents and power dynamics at each level of the value chain and can add to the assessment of buyer power. This analysis can then potentially set the foundation for designing appropriate tools for competition law interventions (Lianos and Lombardi, 2016; Davis et al., 2016).

A GVC analysis identifies the lead firms at different levels of the value chain that shape who does what and what the standards and specifications are. In this sense, GVC provides a useful framework to capture the impact of lead firms on the value chain and in particular, the impact on suppliers if these lead firms are supermarkets. Lead firms are typically, but not necessarily always, the firms with the biggest market shares and that capture the greatest rents. They control production through setting and enforcing product and process parameters including standards and protocols that must be met by other players operating in the value chain. This includes controlling decisions about what to produce, how to produce and how much to produce (Humphrey and Schimtz, 2002; Gereffi, and Fernandez-Stark, 2011). Lead firms are thus 'gate-keepers' of a value chain and the role they play in coordinating production activities and shaping the distribution of profits and risk within an industry is central to understanding governance structures (Gibbon and Ponte, 2005; Gereffi and Lee, 2012).

In early GVC studies, governance was assessed in one of two ways, whether value chains were producer driven or buyer driven. Producer-driven value chains are typically found in industries characterised by high technological, capital and proprietary requirements, all of which constitute barriers to entry into these chains (Gereffi, 1994). Buyer-driven value chains, on the other hand, are found mainly in labour-intensive sectors, where market information, product design, marketing and advertising costs set barriers to entry. In these chains, production functions are usually outsourced with lead firms that govern the value chain focusing on branding, marketing, design and retailing functions (Gibbon and Ponte, 2005).

Large retailers, marketers and branded product manufacturers often play a key role in these types of value chains in coordinating decentralised production networks in many exporting countries (Humphrey and Schmitz, 2002). Retailers such as supermarkets and marketers often drive these chains as key buyers, and this type of governance has resulted in a number of institutional and organisational developments, such as global sourcing, specialty retailers and the growth of private labels/in-house brands (Gereffi, 2001).

Given that supermarkets are often the immediate interface or last link between products and consumers, they play a key role in what is offered to the final consumer (in terms of price, quality and other characteristics such as how products are packaged and presented). Large supermarket chains therefore can and do exercise considerable control over certain value chains and have a significant impact on suppliers of these products. For instance, changes in the procurement strategies (discussed in more detail below) of UK supermarkets away from wholesalers and importers to tightly managed supply chains for fresh vegetables has had a huge impact on the structure and governance of the fresh vegetable value chain. It has also affected the number and types of firms involved and the distribution of functions between them. UK supermarkets specify the quality assurances and performance measures required, amongst other controls, in these value chains (Humphrey and Schmitz, 2002). A key driving force for this was the change in legislation that made supermarkets liable for food safety in the UK, hence transferring risk onto the supermarket chain.

Retailers aim to build store loyalty to increase sales. This allows them to extract a more significant part of the total surplus value in a chain. Combined with constant direct interactions with customers, retailers have greater incentives than suppliers to control potential risks in the supply chain so that sales can be maximised. Thus, value chains driven by retailers tend to develop private food standards over and above legal requirements (Lianos and Lombardi, 2016).

The GVC literature has since progressed beyond the bifurcated view on value chain governance. Empirical studies have found that outsourcing, which was traditionally thought to be a feature of buyer-driven value chains and for low-profit, non-core functions were no longer so, blurring the line between producer and buyer-driven value chains (Sturgeon, 2002). For instance, many core electronic-component-manufacturing functions including in automobile production which were formerly producer-driven chains were increasingly being outsourced (Gibbon, Bair and Ponte, 2008). In addition, there was considerable variability in different buyer-driven value chains in terms of their degree of control of the value chain (Fold, 2001; Gibbon, 2001; Ponte, 2002). The same value chain can also be controlled by different lead firms at different levels of the value chain (termed 'bi-polar governance' by Fold (2002) in relation to the cocoa-to-chocolate value chain where cocoa trader/grinders and brand-name chocolate manufacturers both drove developments in the value chain). Further, as highlighted by Gibbon and Ponte (2005), certain buyer-driven value chains are becoming more hands-off with governance being exercised instead by setting precise standards, modularisation of production specifications and codification of suppliers' knowledge requirements.

Gereffi, Humphrey and Sturgeon (2005) and Gereffi and Fernandez-Stark (2011) have since demarcated governance of value chains based on informational complexity, supplier capabilities, codification of information and costs of switching. Under these criteria, governance of value chains can be classified – in order of increasing level of control over suppliers – as market, modular, relational, captive or hierarchical governance (see Table 3). This has relevance in terms of how lead supermarket chains interact with their suppliers as discussed below.

Table 3: Governance types

Governance type	Complexity of transactions	Ability to codify transactions	Capabilities in the supply-base	Degree of explicit coordination and power asymmetry
Market	Low	High	High	Low
Modular	High	High	High	
Relational	High	Low	High	
Captive	High	High	Low	
Hierarchy	High	Low	Low	High

Source: Lianos and Lombardi (2016)

Market governance refers to the simplest level of transactions, with suppliers being independent from buyers and engaging in arms-length transactions. It is assumed that information on products can easily be transmitted and that here are few costs of switching, both for suppliers and producers. In other words, the central governance mechanism is price rather than a powerful lead firm. In relational value chains, the power balance between retailers and suppliers is more symmetrical given high supplier capabilities. There is a degree of mutual dependence.

At the other end of the spectrum is hierarchical governance, where chains are characterised by vertical integration and lead firms yield considerable control, including manufacturing products in house. Products are typically complex, specifications cannot be codified or highly competent suppliers are not available (Gereffi and Fernandez-Stark, 2011).

Viewed under these demarcations, governance of supermarket chains potentially falls within captive or hierarchical types of governance structures. Under captive governance, a few buyers (supermarkets) possess considerable buyer power and small suppliers are dependent on them. This may be the case where there are few alternative routes to market for these suppliers other than the lead supermarkets. This is further evaluated in Chapter 7. There are nonetheless limitations of the framework in capturing supermarket–supplier relationships. For instance, supplier capabilities under captive governance are typically considered to be low. However, this is not necessarily always the case, especially in value chains that have lead producers or manufacturers with significant capabilities (for instance, large multinationals like Kraft Foods or Unilever that supply supermarkets).

Also, under this form of governance, theoretically there is a high degree of monitoring and intervention of buyers. Buyers set conditions that are often specific to them and costs of switching are high for both parties. Production is outsourced and since it is in the interest of lead firms to increase efficiency of its supply chain, it engages in upgrading of suppliers' production capabilities (Gereffi and Fernandez-Stark, 2011). Again, this is seen in the regular monitoring and auditing of suppliers by large supermarket chains to ensure that certain standards are met, especially for private label or house brands.

When products have complex specifications, lead firms have the incentive to control the chain and to build a transactional dependence which locks in suppliers (Lianos and Lombardi, 2016). Complexity in the context of supermarket value chains may however not be the same as in automotive or electronics value chains for instance. Producing top-quality fresh produce that adheres to private standards of supermarkets and consumer requirements (such as organic, pesticide-free and genetically designed or modified fruit) requires sophisticated technology and cold-chain systems. Compliance to sanitary and phytosanitary requirements of supermarket chains also requires complex supplier capabilities (discussed further below; see also Chisoro and Das Nair, 2019). Further, in a supermarket setting, captive value chains need not be only for complex products. Supermarket chains can also control the value chains of relatively simple products, such as commodity-type products.

A growing trend in the region has been with regards to house, private or own-label brands manufactured under close control and specifications of supermarket chains (discussed in Chapters 6 and 7). These suppliers of house brands are even more tightly controlled by supermarket chains and represent captive forms of governance, perhaps even bordering on hierarchical governance in cases where there are exclusive supply agreements or full vertical integration.

Limitations of the framework are however seen in the types of suppliers that supermarkets vertically integrate with. Supermarkets in Southern Africa have vertically integrated with some manufacturers of very basic products (bottled water, packaged sugar etc.) as well as with logistics providers, which suggests that full vertical integration does not only occur for products that are highly sophisticated or for products and services where highly competent suppliers are not available. This suggests that the nature of competition between supermarkets may well drive some of the vertical integration outcomes seen in value chains, something the GVC framework does not adequately account for.

More generally, supermarkets deal with a wide range of suppliers with differing capabilities. Suppliers that supply supermarket chains nationally may have greater capabilities than those that only supply one or two stores in a limited location given volume and logistics requirements. Capabilities also vary by type of product supplied and governance forms may vary depending on product or service supply chain. This is evaluated in Chapter 7.

While not perfect in capturing every iteration of the different forms of governance in different supply chains, this categorisation nonetheless provides improved tools to better understand relationships between suppliers and buyers.

The GVC literature has more recently started to consider the nuances in the sources and the ways power is yielded in value chains. While the concept of governance is widely captured in GVC literature, the concept of power is not explicitly defined. Power has generally been conflated with governance of the value chain and treated as a dyadic relationship between buyers (lead firms) and suppliers as a unitary, static concept (Kadarusman and Nadvi, 2012; Dallas, Ponte and Sturgeon, 2018;). In other words, whether buyer or supplier driven, or more granular through market, modular, relational, captive or hierarchical forms, it has mostly been viewed as a bilateral relationship between two players (buyers and suppliers) along a value chain.

The recent literature has however recognised that the exertion of power is not always limited to a 'lead' or powerful firm. There are often other multiple dimensions of power exercised in GVCs, and by various stakeholders, beyond the simple bargaining power between buyers and suppliers (Dallas, et al., 2018). Power can also be exerted by other stakeholders in the value chain and through different mechanisms. Actors that demand certain standards and certifications on quality and sustainability, ethical requirements, fair labour practices, corporate social responsibility and social movements can all drive the development trajectory of value chains. Governments or other institutions can also affect value chains. Building on existing frameworks, Dallas et al. (2018) try to capture the emerging collective approaches to power and governance in GVCs by considering the role of government, business associations, social and consumer movements. In the supermarket space, consumers are increasingly demanding more organically grown, pesticide-free fruits, with more stringent requirements for ethical labour standards and responsible environmental practices. These are examples of conventions shaped by social movements and corporate social responsibilities.

Political economy considerations are also very relevant to issues of power and governance in the supermarket industry. The development trajectory of industries is affected by the ability of the industry to lobby and influence outcomes in the industry. An analysis of political economy-related issues and the distribution of power is therefore important in understanding how these dynamics have shaped and continue to shape the structure and development trajectory of these value chains. Policies are driven by contextual (institutional and structural) and political economy factors, as well as by the policy space and rationales for government action (Andreoni, 2016). Powerful lobby groups and dominant players influence the policy space and this has been important in gaining access to resources and extracting rents in value chains in Southern Africa (see also Kirsten, Van Zyl and Van Rooyen, 1994). These developments in the GVC literature complement OLI theories, as they affect internationalisation decisions and outcomes (see Chapter 5). In this way, a GVC framework adds to OLI theories of internationalisation of supermarket chains.

(iv) Institutional context

As noted, a building block of the GVC framework is the institutional context that MNEs are faced with. This affects both the decision to invest in the host country and the conduct once invested. An institutional context analysis goes further than just the host country, however. It seeks to identify how local, national and international conditions and policies shape the internationalisation in each stage of the value chain (Gereffi, 1995). Institutional context includes availability of infrastructure, access to capital, access to finance and other resources; availability of labour as well as the efficacy of institutions such as the tax system and labour regulations.

Domestic economic policies can have a major impact on MNEs. Of relevance to the supermarket sector are national policies like local content requirements as part of industrial policies in many countries in Southern Africa. These affect the product choice on supermarket shelves and therefore potentially the profitability of supermarkets. Policies on limits to foreign ownership also affect internationalisation. Political economy issues are also relevant here.

The institutional aspects that affect the actors at the different levels of the value chain in different countries can be compared and contrasted under a GVC framework. This allows for targeted policies towards bottlenecks in terms of these factors. As highlighted above, the GVC framework in this way complements OLI theories of internationalisation.

There are other commonalities between the OLI and GVC frameworks with respect to the understanding of transaction costs.

The ‘internalisation’ element of OLI is premised on the strategy that firms take in operationalising their foreign investments, that is, whether they save on transaction, holdup and monitoring costs by expanding operations wholly into host countries (subsidiaries), or whether they choose instead to export, enter into joint ventures, or licence in host countries thereby incurring transaction and co-ordination costs (Neary, 2009). The degree of internalisation depends on the relative magnitude of the costs associated with each approach.

Developments in the concept of governance in GVC framework also consider transaction cost economics (Gereffi et al., 2005). Nuanced forms of governance through market, modular, relational, captive or hierarchical governance similarly deal with co-ordination between buyers and suppliers at each level of the value chain. The nature of these co-ordination costs depends on the complexity of transactions, the ability to codify transactions and the capabilities in the supply base. This creates a ‘a continuum of co-ordination’ which spans from open market to full vertical integration (Gibbon, 2009).

There are also overlaps in the ownership aspects of OLI and issues of governance in GVCs. As noted, ownership advantages include firm-specific advantages, such as preferential access to markets (control over key inputs, patents and intangible assets); access to technology and finance; and economies of scale and scope. These advantages can impact the governance of value chains conferring greater control of lead firms over suppliers, especially in forms of captive or hierarchical governance. Studies have also found that ownership advantages of suppliers on the other hand enable them to shift between different end markets and capacitate them to respond to lead firm requirements (Morris, Plank and Staritz, 2016). Lead firms in such situations are less likely to tightly control suppliers.

Upgrading within a value chain

The governance and power dynamics discussed at length above are important insofar as they affect the ability of suppliers to participate and grow within supermarket value chains. Essentially a bottom-up approach, upgrading looks at strategies used by actors to maintain or improve their positions in the global economy. Upgrading has been defined as ‘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, 2005: 171). I use these concepts to evaluate the results from the interviews with suppliers around the forms of upgrading they have invested in as a result of supermarket supply requirements in Chapter 7.

In a global context, GVC participation can be seen as providing developing country firms access to social capital and competitive assets to allow them to upgrade, although this is a difficult process. Upgrading is not automatic and is selective, with only the very best firms being allowed the opportunity to upgrade. Nonetheless, this ‘upgrading’ effect has been credited for relatively underdeveloped regions becoming substantial exporters in a short space of time (Humphrey and Schmitz, 2002). While lead retailers are becoming increasingly demanding in terms of reducing costs, raising standards and increasing speed of production, it has been shown that if they actively provide support to suppliers, they can transfer skills, knowledge and best practice to suppliers relatively quickly in terms of how to improve layout, production flows etc. This has implications for capability development of suppliers to supermarkets (see also Barrientos et. al (2016) and Barrientos and Visser (2012) for an account of upgrading in horticulture chains in South and East Africa, and South Africa respectively).

Upgrading can be categorised as:

- Process upgrading: The transformation of inputs into outputs more efficiently by reorganising the production system or introducing superior technology;
- Product upgrading: Moving into more sophisticated product lines;
- Functional upgrading: Acquiring new functions to increase overall skill content of activities;
- Intersectoral upgrading: Firms move into new productive activities (lateral migration) (Humphrey and Schmitz, 2000; Humphrey, 2004; Gibbon, 2004;).

Upgrading capabilities requires effort from all stakeholders in value chains as well as from governments. Upgrading initiatives in the supermarket sector can include public and private investments in wholesale infrastructure developments, construction of distribution and warehouse facilities and cold chains. It can also include investment in systems to improve the sorting, grading, labelling, tracking, inventory maintenance and managerial systems of suppliers. Suppliers also have to upgrade to meet both legal and private supermarket standards. This includes upgrades in plants and machinery; food quality, health and safety standards; packaging and logistics; and processes to improve efficiency of production. The experiences of suppliers in the Southern African region is evaluated in Chapter 7.

It can be difficult to distinguish between product and process upgrading of products. Upgrading is also about deepening the specific capabilities required to explore new opportunities offered at the same stage of the value chain where the firm is currently engaged (Morrison, Pietrobelli and Rabelloti, 2008; Ponte and Ewert, 2009).

While an attractive framework overall for this study, value chain analyses have a number of pitfalls, over and above those mentioned previously. For instance, the analysis and policy recommendations provided in GVC studies are often based on qualitative data from case studies and are therefore criticised as being subjective (Frederick, 2014). The GVC literature has also been criticised for paying little attention to inter-firm cooperation and business associations in upgrading (Humphrey and Schmitz, 2002).

A shortcoming of GVC studies to date is that they have rarely considered competition dynamics both within and between levels of the value chain at any depth. Few, if any, value chain studies assess competition between firms at a horizontal level (between lead firms and between lead firms and others at the same level) and the impact that this has on ownership, location and internalisation decisions of MNEs. While the framework evaluates control and governance issues between suppliers and buyers, it falls short of assessing the implications of abuse of buyer power on suppliers at a vertical level. This thesis aims to contribute to the literature by showing that a hybrid approach of industrial organisation theories and GVC frameworks can both widen and deepen our understanding of the impact of power dynamics in value chains.

Changes in procurement methods and private standards

The procurement methods and requirements of supermarkets have important implications on suppliers. Internationally, supermarkets have moved away from spot purchases to adopting specialised procurement agents, dedicated wholesalers or procuring directly from farmers and processors. Specialised agents and wholesalers can act as 'channel captains' and enter into relationships (formal contracts, including contract farming or verbal agreements) on behalf of supermarkets with processors and farmers to ensure quality and consistency is maintained. Dedicated procurement agents and wholesalers are usually efficient as they cut costs in terms of search, transaction and coordination costs. They also assist in maintaining private standards and contract terms between supermarkets and suppliers. However, this has further shifted power away from small farmers and processors to supermarkets.

This also gives supermarkets more direct influence over pricing, quantities, terms of delivery and product quality. It has the adverse effect of shrinking the supply base by using only preferred suppliers (Altenburg et al., 2016) and bypassing traditional wholesale markets (Humphrey, 2007).

Key reasons for increased pressure on the supply value chain are the risks faced by supermarkets and increased competition to access shelf space. Humphrey and Schmitz (2002) emphasise the importance of continuity and consistency of supply in terms of non-price competition parameters such as quality, response time, delivery etc., all of which affect supermarkets' reputation (a key risk factor). As noted earlier, leading UK supermarkets control many of their major fresh vegetable supply chains in terms of which they specify the types of products, processing and packaging requirements as well as the quality assurance systems that need to be in place. This was mainly due to legislation that made supermarkets liable for food safety in the UK.

As highlighted in Section 3.2 above, modern supermarkets chains globally are also moving towards using their own centralised DCs to supply stores in the chain and are shifting away from the traditional store-by-store procurement and supply practices. The increasing investments in DCs in Southern Africa are discussed in Chapter 6. With regards to food items, it was estimated in a 2008 study, that majority of products (65 per cent) of large supermarkets are sourced from processors rather than directly from farmers, given that most foods sold are processed in some form and packaged (Reardon and Gulati, 2008).

Reardon and Hopkins (2006) highlight certain procurement trends of supermarkets for different categories of products internationally. They find that supermarkets tend to source from medium-to-large suppliers of meat, dairy and processed food companies. Fresh produce also tends to be sourced from medium-to-large farmers, which presents difficulties for small-scale farmers in developing countries especially if they do not supply export markets. Supermarkets tend to only source indirectly from smaller farmers through wholesalers and processors, but even these smaller farmers are those that have better capital assets and equipment, access to infrastructure and are more commercially oriented in that they use hired labour and chemical inputs and thus have training advantages (Reardon and Timmer, 2007). If supply from small farmers is critical, often the intermediaries between supermarkets and the small farmers have to assist with training and credit facilities. Supermarkets typically prefer to procure from large suppliers to reduce transaction costs as large suppliers have the capacity to supply all the outlets of a supermarket chain, therefore ensuring sufficient volumes, consistency and quality of products. These changes in procurement practices have an impact on the development of suppliers in the value chain.

Large supermarkets are also imposing escalating private quality and processing standards on suppliers (Boselie, Henson and Weatherspoon, 2003; Humphrey 2005; Barrientos and Visser, 2012). These standards are over and above the country-specific and basic legal standards that suppliers have to adhere to. In the case of multinational retailers, international standards are often applied in all their operations (Friedberg, 2003; Ponte and Gibbon, 2005; Coe and Hess, 2005). Some of these standards however, as discussed earlier and assessed in Chapter 7, are not triggered by supermarkets, but by collective consumer and social movements (Dallas et.al, 2018).

The capabilities of local suppliers (particularly small-scale farmers, small food processors and producers of household consumable goods) to meet these standards and reach the required scale to compete with imports are important for their sustainability. Marketing of fresh food produce to supermarkets has been particularly difficult for suppliers in developing countries as often the institutional, physical and financial infrastructure support systems are weak (including bar coding, packing houses, cold chains, shipping equipment, credit facilities, standards and certification processes etc.). For fresh fruits and vegetables, sanitary and phytosanitary protocols are extremely important (Tschirley, 2010), especially for producers in developing countries. Suppliers are usually responsible for all activities up until the product is delivered to a DC or a supermarket and are solely responsible for the costs of escalating private standards, and the accompanying audits by supermarkets (see also Coe and Hess, 2005 for some of the implications on the supply chain of private standards).

Sourcing for regional supermarket chains

The modernisation of supermarkets and changes in procurement methods has therefore placed pressure on suppliers with regards to costs, volumes supplied, consistency and quality of products (Dakora, 2012; Basker and Noel, 2013). This can make it difficult for them to integrate into supermarket value chains and they often require significant capital, technological, managerial, organisational and financial investments and upgrades to meet requirements. Supermarkets have evolved to become ‘global sourcing companies’ and have important implications for regional sourcing, a potentially powerful avenue for growth in agro-processing and manufacturing value chains in Southern Africa. But to be able to supply to the region through supermarkets, suppliers have to first develop the required capabilities (Brown and Sander, 2007).

Supermarkets are more likely to source their products via imports if they are foreign-owned chains than if they are locally owned (Altenburg et al., 2016). A range of factors have contributed to this, including lower relative costs of sea and air freight, tariff reductions, trade liberalisation, innovations in communications, improved transport systems and increased capital mobility (Brown and Sander, 2007). This is more so the case for regional sourcing, with transport costs being lower from the region given proximity than for deep-sea imports. Further, Southern African Development Community (SADC) trade agreements make it relatively easier to import from South Africa than from deep-sea sources.

When foreign retailers first enter into a host country, they tend to import a large share of their supplies from their home base, and over time, they increase their share of local sourcing (Cattaneo, 2013).

Using supermarket experiences in different countries (Shoprite’s in Zambia and Madagascar, Carrefour’s in Morocco and Tunisia and Metro in Kazakhstan), Cattaneo (2013) highlights three phases of connection to the ‘global’ value chain.

In line with the limited literature on regional value chains, especially in the Southern African region, an obvious first step to connecting to global value chains is to successfully compete in regional value chains. In any case, the phases are likely to be similar whether on a regional or global level:

- Phase 1: Lead retailer in developing country imports most of its products given the lack of capabilities and capacity of local producers to satisfy its requirements and standards.
- Phase 2: As local producers build capabilities and capacity, they begin to grow their supplies to lead retailer.

- Phase 3: Local producers that meet high standards export their products to the retailer's regional/global network.

The duration of each phase is likely to be very dependent on the type of products, the existing level of supplier capacity and capabilities in a given country, 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 such products. It is often only a few large farmers that can meet the stringent requirements of supermarkets, and it is these that are able to transition to exportation.

In Southern Africa however, Phase 2 and 3 are unlikely to be reached in a short period of time after foreign retailers set up operations, especially for products that require significant value addition, given the limited processing and manufacturing capabilities in most of these countries (see Chapter 7). This is where opening up of markets via regional multinational supermarkets can assist suppliers in attaining the scale needed to be competitive and to invest in building capabilities. This requires a combination of building supplier capabilities and designing enabling policies for the region.

As highlighted in this section, a value-chains perspective allows for understanding upgrading of suppliers in the value chain. While lead retailers are becoming increasingly demanding in terms of reducing costs, raising standards and increasing speed of production, it has been shown that if they actively provide support in terms of governance in the value chain, they can transfer skills, knowledge and best practice to suppliers relatively quickly in terms of how to improve layout and production flows. That is, they can facilitate the upgrading and transition of suppliers that show potential from Phase 1 to Phases 2 and 3, including through the use of intermediaries. This 'upgrading' effect has been credited for relatively underdeveloped regions becoming substantial exporters in a short space of time. Upgrading can be categorised as process, product, functional and intersectoral upgrading (Humphrey and Schmitz, 2002).

Summary

The limitations of using a narrow competition economics lens to evaluate the effects of supermarket buyer power on suppliers points to the need for alternative or complementary frameworks. The review of the literature in section 3.5. above has shown how a GVC framework can add value to understanding the wider impacts of supermarket–supplier relationships and provides a useful lens through which I assess the impact of the internationalisation of supermarkets in Southern Africa in Chapter 7.

CHAPTER 4

METHODOLOGY

4.1. Introduction

This thesis aims to assess the internationalisation of supermarkets in Southern Africa, the nature of competitive rivalry between grocery retailers and the implications for suppliers. This chapter sets out the key research questions, the methodology and the data used to analyse each of these three areas.

The literature review in Chapter 3 discussed the different lenses through which these issues have previously been analysed but highlighted several gaps in important areas. The existing frameworks were shown to individually not be adequate to assess my research areas given their complex and inter-related nature. The lack of a clear existing framework therefore requires approaching the core issues from different levels or layers of analysis using a combination of frameworks. Building theory on these topics is a process of engaging with the reality on the ground, reflecting on existing theory and developing it to reflect this reality. This is precisely how some of the frameworks I am using have evolved over time, such as Dunning's OLI and the literature on Global Value Chains.

My thesis aims to fill these gaps by creating knowledge on these topics in the Southern African context by collating existing data, collecting new data through institutional and firm-level interviews, and triangulating the different sources in order to build up and fill gaps in the existing theories (Denzin, 1978).

I primarily employ a case study approach to illustrate key developments in each of the three areas and to undertake comparisons between the selected Southern African countries. Case studies are a commonly used research method in social sciences as they allow for in-depth investigation and understanding of complex economic and social phenomena (Yin, 2013). Case studies are useful to explore new processes or behaviours that have not yet been widely researched or understood, and therefore are useful to understand how and why certain events happen (Meyer, 2001). A case study approach is thus suitable to assess the trajectory and the implications of the growth of supermarkets in Southern Africa in which there has been little past research undertaken in the combination of areas that I am looking at. It allows for an in-depth exploration of a 'bounded system' (such as an activity, event, process, or individual), based on extensive data collection (Creswell, 2007). In this thesis, a collective case study approach is taken where several case studies using multiple forms of data are undertaken and compared and contrasted to provide insights (Stake, 1995).

Mixed methodologies involving using a combination of qualitative and quantitative data is used (Sieber, 1973; Jick, 1979). Competition assessments generally involve both qualitative and quantitative methods. Company decision making, strategy and inter-firm relationships are often qualitative in nature but can also be analysed against a background of company performance and evolution, which can be mapped in quantitative terms such as through the number of stores, sales, turnover and profits by country. Qualitative assessments of the actual experiences of rivals, suppliers and consumers on the ground are essential to understand competition dynamics. This can be supplemented with quantitative price and margin analyses to determine the degree of market power at the supermarket level.

The process for ethical clearance in the Code of Academic and Research Ethics at the University of Johannesburg was followed, and ethical clearance was granted by the Research Ethics Committee with respect to aspects of the research that required interviews (clearance number: FEFSREC29052017-02).

The following sections map out the key research questions, methodology, data (and limitations of the data) that I use for each of my three main research questions.

4.2. Internationalisation of supermarkets

Chapter 5 evaluates the internationalisation of supermarket chains in Southern Africa, including an assessment of the supermarketisation experience in South Africa. The key question asked is: *What are the patterns of supermarketisation and internationalisation in Southern African and what have been their key determinants?*

To evaluate this question, my analyses in Chapter 5 will focus on how and why supermarkets in Southern Africa have internationalised, and if the supermarketisation and internationalisation have been to the degree that the literature has predicted. It assesses the extent to which the traditional factors that determine internationalisation apply in the context of retailers, and how regional proximity, political economy issues, supplier relationships, competitive dynamics and market power are also critical in explaining internationalisation in Southern Africa. The literature has not substantially considered these dimensions. This is done through an analysis of the internationalisation trajectories of all the multinational supermarket chains in the Southern African region as described in Chapter 2, with a particular focus on Shoprite as the first, and largest, supermarket chain to enter and grow in the region.

As highlighted in Section 3.3, supermarketisation, which has been defined as the trend in which retail food sales in a given country or region are increasingly happening through supermarket chains, is assessed in the context of South Africa with the most advanced grocery retail sector in the region. This is done through tracking the growth of the share of packaged food sold through different retail channels between 2003 and 2017. Secondary data for this assessment was obtained from Euromonitor International. Growing sales of processed foods through modern supermarkets and hypermarkets, taking away sales from traditional retailers, are an indicator of rising supermarketisation. Similarly, the trend in fresh food sold through different retail channels in South Africa between 2008[13] and 2017 is evaluated to see whether there has been a growth of sales through supermarkets and if this has been at the expense of traditional retail. Traditional retail for both packaged and fresh food is defined in the data set as sales through specialist food, drink and tobacco retailers, independent small grocers, other grocery retailers. Other measures of supermarketisation with available data from Euromonitor for a shorter period (2012[14] to 2017) are also evaluated. These include the growth in number of stores/outlets by category of retail, the growth in selling space by category of retail and the growth in sales value in current terms by category of retail. Changes in the proportion of sales of food products through supermarket and hypermarkets, and growth in store numbers, space and sales values further provide an indication of the saturation of home markets in South Africa and offer insights into the motives for internationalisation.

To evaluate the internationalisation of supermarkets, a combination of frameworks identified in the literature is used, drawing on IO-based theories of FDI and the Ownership, Location, Internalisation (OLI) framework. Given the limitations of even this combination, other dimensions such as the importance of investment in regional distribution systems and logistics, supplier networks and knowledge of customer segments and preferences are evaluated. As noted, the significance of local policies, political economy dynamics and firm-specific factors, such as first-mover advantages, firm strategies, market power and competition issues, are further important contributions to adapting and extending the existing internationalisation theories for the retail sector. Empirically, I do this through an assessment of the performance, experiences and expansion trajectory of the supermarket chains in Southern Africa from annual reports, company investor presentations, interviews (see Table 5 for a list of interviews conducted), competition cases and inquiries, and publically available secondary data.

As noted in Section 3.3, in the context of retailers, internationalisation has been defined as the extent to which retailers operate outside their home country. The countries selected in this thesis in Southern Africa are South Africa (home country to most of the chains), Botswana,

[13] Data for earlier years was not available.
[14] Data for earlier years for these metrics was not available.

Zambia and Zimbabwe. My criteria for the selection of each country are as follows and this applies for all three areas of my research.

In the Southern African region, most supermarkets are South African-owned. As an extension of their retail networks and essentially an extension of their oligopolistic rivalry into the region, the business models, strategies and conduct of these chains are often 'exported' from South Africa to the region. This has implications on the competitive landscape and on suppliers in host countries. It is the strategies of these multinationals and the implications of their spread in the region that are of interest in this research. Therefore, an evaluation of the South African supermarket sector is an appropriate starting point to understand dynamics in the region. It has also been easier for South African supermarkets to move into the region given the proximity to established suppliers in South Africa. Suppliers to supermarkets in South Africa typically have higher levels of capabilities than those in the region. This has facilitated the spread of South African supermarkets in the region through sourcing from these suppliers, benefiting not only from short distances, but also from trade concessions being part of SADC. Understanding the requirements and capabilities of these suppliers is an important part of this study.

As the only other African multinational chain in the region, Botswana's Choppies Enterprises has entered and grown rapidly in SADC in the past 10 years, recently entering East Africa through the acquisition of Ukwala stores in Kenya. Its growth trajectory provides insights on internationalisation, as well as barriers to entry. In particular, political economy dynamics appear to have played a very strong role in the speed of internationalisation of Choppies, and these are evaluated in Chapter 5. Botswana is also interesting given recent studies by the Competition Authority of Botswana (CAB) in matters concerning the abuse of buyer power in relation to house brands/private labels and investigations into agreements involving exclusivity clauses in leases between shopping malls and supermarkets.

Zambia has been one of the fastest growing countries in the SADC region (in terms of GDP) with a strong and growing presence of South African supermarkets. This growth of foreign chains highlights the relatively low barriers to entry for supermarket chains in Zambia. Limited competition from local supermarkets and few restrictions to retail FDI and imports have further encouraged the growth and spread of South African supermarkets. In addition, Zambia shows promise in terms of suppliers (processors and light manufacturers) being able to upgrade their capabilities in order to supply supermarkets in the region.

Zimbabwe is studied given the relatively weak presence of South African supermarket chains, despite it being an immediate neighbour to South Africa. This is partly attributable to restrictions in entry as a result of legislation, where local Zimbabweans are required to hold

51 per cent shares in any FDI under the 2011 Indigenisation and Economic Empowerment requirement (Chigumira et al., 2016). The entry of South African chain store, Pick n Pay, has therefore been through a joint venture (JV) agreement with Zimbabwe's established TM Supermarkets. Local content policies and entry requirements in Zimbabwe further illustrate the importance of political economy issues that affect internationalisation. Despite being part of SADC, Zimbabwe (and to a more limited extent, Botswana) has imposed import restrictions on products typically sold through supermarkets.

The supermarketisation and internationalisation experience of the main South African supermarket chain in Africa, Shoprite Holdings, in these four countries – South Africa, Botswana, Zambia, Zimbabwe, is particularly focused on in Chapter 5. This is because Shoprite was the first grocery retail chain to move out of South Africa entering Namibia in 1990, and then Zambia in 1995. The entry into Namibia is not focused on as it was essentially a part of South Africa through administration in the apartheid years. Shoprite is also the largest chain in terms of store numbers operating on the continent and which has comprehensive reporting of operations outside South Africa in public documents. Shoprite's experiences, both the successes and failures, may offer useful insights on the factors determining internationalisation in Southern Africa that may be generalisable because it is a lead firm in this regard (Gereffi and Fernandez-Stark, 2011). Ownership and location advantages of Shoprite and how this affects internationalisation success are assessed through an OLI lens (Dunning, 1977; 2001). The experiences of Shoprite outside the Southern African region contribute to understanding the critical importance of location and geographic dimensions of supermarket internationalisation.

Internationalisation can be measured by the value or volume of sales, or profits generated internationally relative to total volumes/sales or by the growth in the number of stores and the number of countries that a retailer operates in. The extent of internationalisation is measured using descriptive statistics to test the traditional theories, including the number of countries the chain is operational in and how this has changed over time; the proportion of stores and revenues outside South Africa over time for Shoprite and Pick n Pay; the ratios of revenues from international operations as a proportion of GDP over time for Shoprite; the growth in relative sales and profits in and outside South Africa for Shoprite and Pick n Pay; and the growth in revenue per store over time in South Africa and in SADC for Shoprite. The internationalisation trajectories of the other chains are also evaluated from interviews, annual reports and other publically available documents, where possible. These are compared against the predictions of internationalisation in the literature, and in the case of Shoprite, against its own predictions of growth in Africa. There are limitations in the data available in the annual reports, however. Each chain does not consistently report the number of stores and revenue splits by country, nor are they consistently reported each year even within a chain. There are therefore gaps in the data collected.

Factors generally affecting retail FDI, such as GDP per capita, urbanisation, political stability and levels of infrastructure development, are further assessed with data from the World Bank, annual reports of supermarket chains, interviews and other secondary sources. Other factors less evaluated in the literature, but which have a significant impact on internationalisation, such as political economy issues, the impact of local government policies, proximity to suppliers and the significance of culture on supermarket internationalisation are evaluated, in addition to firm-specific factors, such as market power and firm strategies. This is done through firm- and industry-level interviews, past competition cases, as well as media articles.

4.3. The nature of competitive rivalry

Competition between modern supermarket chains and between different forms of grocery retail is complex and multifaceted. The competitive landscape affects, and is affected by, supermarketisation and internationalisation. The extension of oligopolistic rivalry from home country into host countries as supermarkets internationalise motivates for a deeper understanding of competition dynamics. The exertion of buyer power also has a significant impact on suppliers. Competition dynamics therefore intricately links the three chapters of my thesis.

Chapter 6 seeks to answer the following key research question: *What is the nature and intensity of competitive rivalry between grocery retailers in Southern Africa?*

It first examines the different dimensions of competition in grocery retail markets in South Africa from both product and geographic perspectives. This involves assessing the extent of inter- and intra-format competition through data from supermarket websites, annual reports and interviews. Retailers that exert a competitive constraint on each other may be part of the same antitrust market in terms of closeness of competition. A comparison of supermarket offerings within the same format is undertaken, with aspects of differentiation along price, product, services, marketing, distribution and location lines analysed (intra-format competition). Inter-format competition (competition between different formats) is also briefly evaluated along the lines of Dobson’s (2015) Price, Quality, Range, Service (PQRS) package.

The characteristics of modern supermarket chains that give rise to structural barriers to entry and determine the retail market structures that we see in the region are then assessed, guided by the literature review. The data for this is from annual reports, listing documents, interviews and past studies. How certain alternative retail models, like buying-group led independent retailers and niche entry strategies, have managed to overcome some of these structural barriers to entry are also evaluated. This is important to understand the responses of alternative forms of retail to the growth of supermarket chains and of the strategies of new chain entrants.

A key contribution in Chapter 6 is understanding the impact of concentration and market power of the incumbent supermarket chains. This is done through two levels of analysis. First, market power is evaluated through a general analysis on wholesale/producer - retailer margins for several food products in South Africa. Next, the impact of concentration levels on supermarket-specific prices in narrow catchment areas in Gauteng Province is analysed.

In the first analysis, I evaluate pricing data over time to understand whether wholesale/producer and retail margin spreads can provide some insights into market power for selected food products in South Africa. This is based on average consumer retail pricing data per product (not supermarket-specific) and average producer/wholesale prices. Details of the data used for the margin analysis for selected products in South Africa are as follows:

- Monthly average wholesale prices for the top five fruit and vegetables by volume sold in Gauteng from the City of Johannesburg Municipal Market. These include onions, tomatoes, potatoes, apples, and bananas for the period January 2010–March 2015.The Johannesburg Municipal Market is the largest fresh produce market in South Africa, located in Gauteng province, with 48 per cent market share of national fresh produce.
- Monthly average producer prices for fresh and frozen chicken from Agrimark, a South African-based company that specialises in the analysis and forecasting of national and regional agricultural industry statistics, for the period January 2008–December 2015.
- Monthly average producer/farm-gate prices for fresh and long-life milk from the Milk Producers' Organisation—an industry organisation for milk producers in South Africa for the period January 2010–March 2015, and January 2008–December 2015 respectively.
- The above producer/wholesale prices were compared to monthly average retail prices for Gauteng province from Statistics South Africa for the relevant periods.

The second level assesses the impact of concentration on the supermarket-specific prices of selected food and household consumable products within narrow geographic catchment areas and drive times (5km radius and under 10-minute drive time) in Gauteng, South Africa.

This is based on scanner data of individual supermarkets purchased from Retail Price Watch, part of Red Gekko (Pty) Ltd. The company collects individual supermarket product prices each month by means of data gatherers with 3G enabled barcode scanners who visit stores on a rotational basis. There are fifty-four stores in ten centres around the country in the database. All major supermarket chains are represented. The data includes branded and private label prices for over 40,000 SKUs (Stock Keeping Units) or product categories. Given that it is scanner data, prices are final prices (i.e. after sales and promotions discounts).

Monthly prices for thirteen products (including different pack sizes) sold by Pick n Pay and Shoprite Checkers stores from January 2012 to June 2017 in Gauteng are evaluated in this Chapter (Table 4). These products are Known Value Items (KVIs), or products that consumers themselves are likely to use for comparison purposes when shopping around.

Table 4: Selected products and pack size

1	Iwisa maize meal (10kg)
2	Iwisa maize meal (2.5kg)
3	Clover milk (2L full cream)
4	Sunflower oil (750ml)
5	Albany white bread (700g)
6	Rainbow chicken (2kg)
7	Rama margarine (500g)
8	Sasko cake flour (10kg)
9	Weetbix cereal (450g)
10	Protex Gentle bath soap (175g)
11	Ariel washing powder (3kg)
12	Omo washing powder (2kg)
13	Inkomazi sour milk (2kg)

Google Maps is used to estimate drive times and distances from supermarkets. Addresses of stores are obtained from supermarket websites. Drive times were determined for Saturdays mornings (assuming that shoppers do their weekly shopping on Saturdays).[15]

It is important to bear in mind the limitations of using this quantitative pricing data to evaluate competition outcomes and market power in the supermarket sector. The first limitation is on the quality of the data, which is discussed in Section 6.4.2. Second, a lack of more disaggregated data and over longer periods of time limits the assessment of trends in the changes in market power, for instance, when there are entry episodes. This longer data series is not available in the public domain to researchers and needs to be purchased from companies like Nielsen. A third key important limitation is that supermarkets compete on multiple other dimensions that are non-price related as the literature review has shown. Customers value non-price aspects of supermarket offerings, such as location, convenience,

[15] I acknowledge that drive times on Google Maps change depending on time of day and traffic conditions.

quality, a one-stop shopping experience for a wide array of goods and services, credit offerings, loyalty programmes and desirable formats, amongst others. An analysis of pricing data alone does not offer insights on the impacts of concentration on these non-price aspects.

Insights drawn from the above two levels of analyses are used to assess the approach of the competition authorities in dealing with conduct of supermarket chains with market power. Specifically, I explore the conduct of supermarket chains entering into leases in prime shopping locations with property owners that contain exclusivity clauses. This prevents new entrants from locating in these retail spaces, limiting their ability to enter, expand and compete. The extension of these practices in other countries given that the same South African chains operate in the region is also assessed.

For this assessment, data was collected from interviews with supermarkets, property developers and associations of property owners in South Africa, as well as national competition authorities in the region. Publically available submissions and transcripts from the South African Competition Commission's GRMI were also used. Reports undertaken by the Competition Authority of Botswana (CAB) and the Competition and Consumer Protection Commission (CCPC) were further evaluated.

4.4. Impact on suppliers

The spread of supermarkets in Southern Africa and the competitive landscape has important consequences for suppliers in food and household consumable product value chains in the region.

Chapter 7 addresses the following key research question with regards to the implications on suppliers: *What is the impact of the growth and spread of supermarket chains on suppliers in the Southern African region?*

The literature review highlighted that the expansion of supermarkets can drive important changes in the trade of processed food and household products. The growing network of supermarket chains opens new markets for suppliers in the region, allowing them to grow their volumes. Under a GVC framework, increased export volumes and values reveal improving capabilities of suppliers in certain sectors, as it shows that suppliers who are exporting have engaged in upgrading to meet the volumes, standards and requirements of supermarket chains. They have essentially 'climbed the ladder' in a regional value chain. Growing intra-regional trade therefore highlights the importance of the spread or regionalisation of supermarket chains for suppliers in Southern Africa.

The analysis in Chapter 7 utilises trade data from ITC Trade Map and interviews to evaluate trends in intra-regional trade flows between 2001 and 2017. The products evaluated include fresh fruit and vegetables, fish and meat, processed products like coffee and tea, milled products like maize meal and flour, cooking oils, sugar and confectionery, dairy products and beverages. It also includes household consumables like soaps and detergents. Trade flows to and from the selected countries to the SADC region as a whole are assessed.

An important contribution of this chapter is the evaluation of how the relationship between supermarkets and suppliers can affect the participation and upgrading of suppliers in regional or global value chains. As the literature review highlighted, there has been no satisfactory framework through which the implications of the growing requirements of supermarkets and the exertion of buyer power on suppliers has been assessed. Chapter 7 contributes to the literature in this regard in a Southern African context through a combination of a Global Value Chain (GVC) framework and industrial organisation (IO) theories of buyer power. This hybrid approach allows for the assessment of core concepts of governance and power within value chains, the significance of linkages and the opportunities and bottlenecks to upgrading, in conjunction with the evaluation of the mechanisms and consequences of the exercise of buyer power by supermarkets as lead firms. A GVC approach provides a wider understanding than traditional competition economics or IO frameworks of the implications of governance and the exercise of market power in value chains. Equally, the use of IO frameworks to better understand forms and the impact of market power at specific levels of the value chain deepens and enriches traditional GVC analysis, allowing for more targeted and effective interventions in value chains to remove bottlenecks and facilitate upgrading.

For this assessment, primary data was gathered through semi-structured questionnaires implemented mainly through face-to-face interviews with stakeholders in different countries. As explained in Chapter 1, these interviews were conducted as part of a series of studies in which I was the lead researcher for the Centre for Competition, Regulation and Economic Development (CCRED) at the University of Johannesburg. Field interviews as part of these projects in Botswana, South Africa, Zambia and Zimbabwe were undertaken through tailored, semi-structured questionnaires with supermarkets, suppliers, wholesalers, independent retailers, industry associations, competition authorities and government departments. In Zambia, a survey was also conducted by Ziba and Phiri (2017) as part of the UNU-WIDER project on suppliers who provided supermarkets and alternative routes to market. The categories of firms and other stakeholders interviewed are presented in Table 5.

The questionnaires for the face-to-face interviews were designed to probe the perceptions and experiences of suppliers and other stakeholders regarding supermarket practices in the respective countries and how these affect suppliers. It included questions to understand the critical success factors and other requirements needed to supply supermarket chains, as well as the characteristics of the types of suppliers that are typically able to meet these. How this affects upgrading and the development of suppliers is an important contribution in understanding power dynamics and governance issues in supermarket value chains.

The interviews also included a range of questions to understand the exertion of buyer power on suppliers through trading terms guided by the literature review. The responses are analysed to understand the forms in which buyer power was exerted and how this could harm supplier development.

The forms of governance and buyer power in the value chain, and the ways in which suppliers upgraded to meet supermarket requirements, were assessed through principles from the GVC framework. As with the assessment of internationalisation, these issues are evaluated in light of the policy and institutional frameworks, as well as the political economy, in each country

The questionnaires used for supermarket and supplier interviews and topic guides for interviews with other stakeholders are in Appendices 10 to 12 respectively. The types of questions asked are discussed in more detail in Chapter 7.

The suppliers were selected based on products that constitute key consumer goods sold in supermarkets and comprise part of a typical consumer basket. A range of different-sized suppliers was interviewed in selected key product groupings to understand the respective challenges each group faced. Suppliers included municipal markets for fresh produce, millers, bakers, poultry producers, dairy producers, beverage manufacturers, sugar and confectionery producers and light manufacturers of household consumable products like soaps and detergents. These suppliers were also selected because they have the potential to promote value addition and industrialisation. This is especially significant for countries like Zambia, where certain manufacturing and agro-processing firms have been identified as having capabilities that, with appropriate support for upgrading, could result in greater regional exports through supermarkets.

Given that there are only seven major multinational supermarket chains in the region, representatives of all of them were approached for interviews as part of the different projects stated above. Since the same South African chains operate in the selected countries, interviews with these chains in South Africa also provide insights on operations in other countries.

In line with the hybrid GVC-IO approach, and in terms of practical policy recommendations that emerge, Chapter 7 also provides a review of the interventions in other countries of how the skewed balance of power between supermarkets and suppliers has been dealt with through codes of conduct. The types of supplier development programmes by supermarket chains in Southern Africa and how these could be strengthened and institutionalised is also assessed. The information for this primarily from publically available sources on international practices, and from supermarket websites, annual reports and interviews for the Southern African region.

Table 5: Types and number of stakeholders interviewed in Botswana, South Africa, Zambia and Zimbabwe

Respondent type	Number of stakeholders interviewed for UNU WIDER and National Treasury (NT) studies					Number of stakeholders interviewed for DTI studies					
	SA	**Zambia**	**Zimbabwe**	**Botswana**	**Total (UNU-WIDER, NT)**	**SA (Sugar & confectionery)**	**Zambia (Sugar & confectionery)**	**SA (Soaps, cosmetics, detergents)**	**Zambia (Soaps, cosmetics, detergents)**	**Total (DTI)**	**GRAND TOTAL**
Retailers/supermarkets	7	6	2	1	**16**	1	2	2	1	**6**	**22**
Wholesalers, buying groups and distribution agents	8			3	**11**	1	2			**3**	**14**
Government departments and competition authorities		2	2	1	**5**	1	3	2	1	**7**	**12**
Industry experts, research centres and associations	2	3	10		**15**	1	1	4	1	**7**	**22**
Suppliers by sector:											
Dairy	2	9	1		**12**						**12**
Poultry, eggs and meat	3	7		3	**13**						**13**
Milling and bakery	4	28	1	2	**35**						**35**
Fresh produce and processed food	4	24			**28**						**28**
Soaps and detergents	3	12		1	**16**						**16**
Beverages and drinks		19	1		**20**						**20**
Sugar						3	2			**5**	**5**
Sugar confectioneries						8	4			**12**	**12**
Soaps, cosmetics and detergents								9	7	**16**	**16**
Total supplier interviews					***124***					***33***	***157***
Total interviews	**33**	**110**	**17**	**11**	**171**	**15**	**14**	**17**	**10**	**56**	**227**

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.

CHAPTER 5

EVALUATION OF THE SUPERMARKETISATION AND INTERNATIONALISATION OF SUPERMARKETS IN SOUTHERN AFRICA

5.1. Introduction

A key theme that this dissertation evaluates is the internationalisation of supermarkets in Southern Africa. As highlighted in Chapter 3, there is no single definition of internationalisation but, in the context of retailers, internationalisation can be viewed as the extent to which retailers operate outside their home country. A related concept, that of supermarketisation, was also defined earlier as the trend in which retail food sales in a given country are increasingly happening through supermarket chains (Reardon, Timmer and Berdegué, 2004, 2004; Traill, 2006), marking a shift away of food sales from independent retailers and traditional wet markets.

A review of the literature in Chapter 3 suggested that there has been both rapid supermarketisation and internationalisation of supermarkets, especially in developing countries, over the past three decades. Supermarket internationalisation on the African continent especially was predicted to take off rapidly and on a large scale in the mid-to-late 2000s (Reardon, Timmer and Berdegué, 2004; Traill, 2006), similar to experiences in Latin America. The entry and expansion transnationals such as Ahold, Walmart, and Carrefour was expected to be significant in Africa. Whether this has happened, and the factors which explain the extent and nature of internationalisation of supermarkets in Southern Africa, has not been tested and this chapter contributes to the literature in this regard. It distinguishes between supermarketisation and the internationalisation of supermarkets, while acknowledging that there are important links between the two.

The demand-side factors attributed to the spread of supermarkets as highlighted in Chapter 2, such as urbanisation, increased per capita income, increased demand for convenience, services, product diversity and quality, and the rise of the middle class, have also attracted global supermarket chains (Weatherspoon and Reardon 2003; Reardon et al., 2005; Tschirley, 2010; Battersby and Peyton, 2014). These also relate to location aspects of internationalisation.

On the supply side, factors that spur outward retail FDI by multinational retailers include saturation of home markets and new market-seeking motives of internationalisation where investors search for new markets given limited growth potential at home (Narula and Dunning 2000; Lall and Narula, 2004; Humphrey, 2007). The profitability of the opportunities in developing countries' markets also depends on retail and trade liberalisation, including as part of structural reform programmes in the 1990s in many African countries. Other supply-side factors cited in the literature such as growing economies of scale and scope of modern retail chains, the modernisation of infrastructure, procurement systems including through centralised distribution and efficiency in logistics and inventory management, and the need to diversify risks have all been attributed to the rising spread of supermarkets (Reardon et al., 2005). These are considered as explanatory factors in the assessment of the spread of supermarket chains in Southern Africa.

The nature of retail means geography is critical in the expansion of retail chains across borders (Burt et al, 2002; Coe and Hess, 2005; Dawson and Mukoyama, 2006; Dawson, 2007). This has a direct bearing on the role of logistics, investment decisions in distribution centres and the development of properties suitable for supermarkets. The physically embedded nature of retail space as well as the need to maintain cross-border supply chains also has political economy implications for the relations between firms and the state in different countries. These aspects are tested in the relative internationalisation of different chains. Firm-specific factors and the nature and extent of competitive rivalry, especially given the concentrated nature of the sector, are introduced before being addressed in more detail in Chapter 6.

This chapter assesses the following key research question: *What are the patterns of supermarketisation and internationalisation in Southern African and what have been their key determinants?* It focuses on how and why supermarkets in Southern Africa have internationalised, and if supermarketisation and internationalisation have been to the degree that the literature has predicted. It assesses the extent to which competitive dynamics, market power, regional proximity, political economy issues and supplier relationships are important in explaining internationalisation in Southern Africa. The structure of this chapter is as follows:

Section 5.2 evaluates the evidence on supermarketisation, drawing focus on South Africa with the most advanced retail markets in the region, and as the home market for most of the major chains found in Southern Africa.

Section 5.3 evaluates the nature, extent and determinants of internationalisation of supermarket chains in Southern Africa. The extent of internationalisation is evaluated using descriptive statistics on the spread of supermarket chains. As explained in Chapter 4, the internationalisation experience of the main South African supermarket chain in Africa, Shoprite Holdings, is particularly focused on throughout this chapter given its position as the first mover into the region and as the largest chain in terms of store numbers operating on the continent. The experiences, both the successes and failures, of Shoprite in comparison with other chains, enables firm-specific factors to be identified in addition to testing the factors applying in general.

Section 5.4 draws together the key insights from the general and firm-specific factors that drive retail FDI. It points to the critical aspects of supermarket internationalisation, especially in a regional context, and highlights the need to pay greater attention to political economy issues, the impact of local government policies and the significance of culture on supermarket internationalisation. Links to local suppliers are an important aspect further analysed in depth in Chapter 7. The importance of firm-specific factors identified in this chapter lays the basis for the assessment of the nature and extent of competition in Chapter 6.

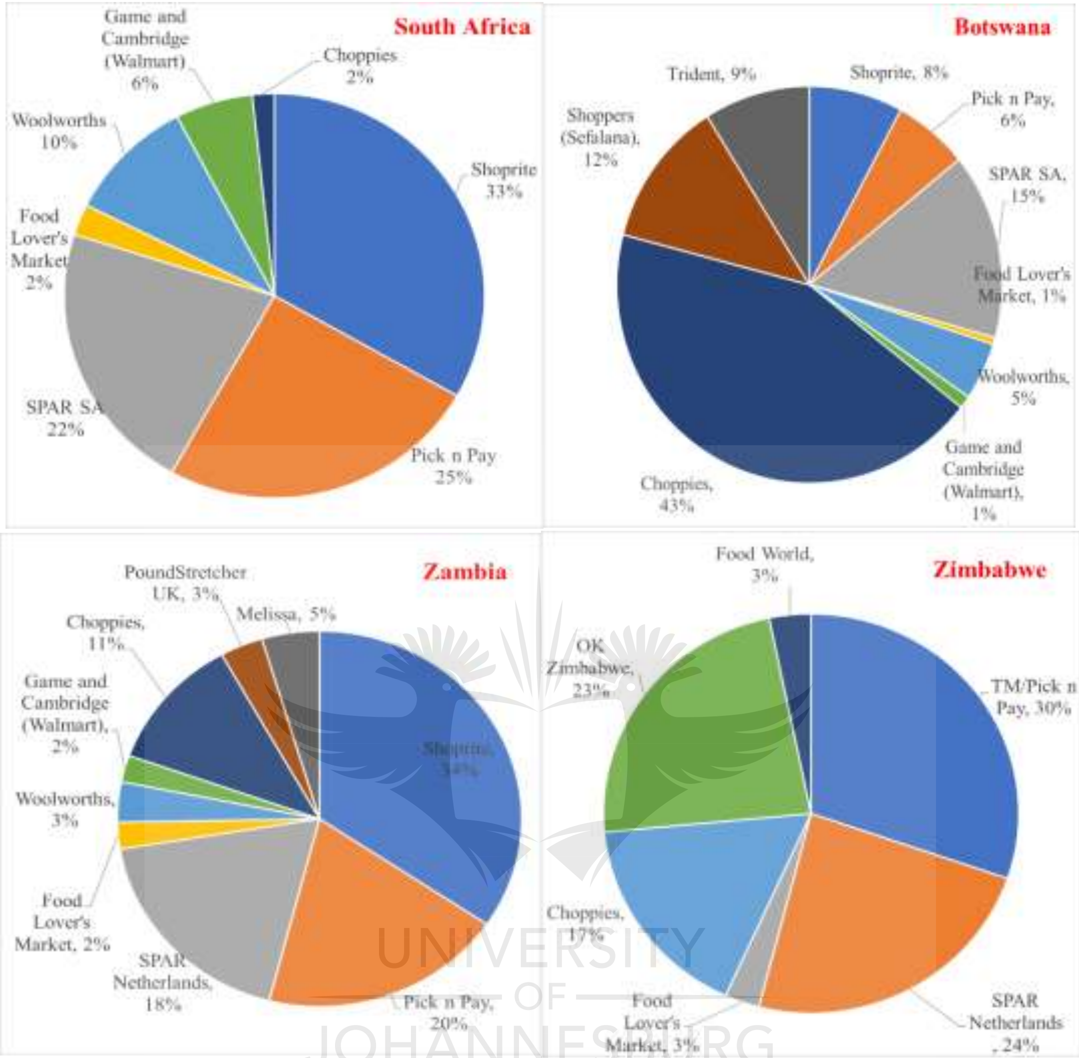
Section 5.5 summaries the key findings and the contribution it makes to the existing body of literature.

5.2. Supermarketisation in Southern Africa

The current proportions of supermarket chains in terms of store numbers in each of the selected countries is shown in Figure 6. South African supermarket chains accounted for significant proportion of the number of supermarket stores in Zambia (59 per cent), Botswana (35 per cent) and Zimbabwe (33 per cent, although this is through a joint venture with local chain TM, more on this will be discussed later) (by store numbers of chain stores only)[16] in 2017. The share of the top three chains in South Africa, Shoprite, Pick n Pay and SPAR, amounts to 80 per cent of all the chains in terms of store numbers.

[16] Revenue or sales data by country for each supermarket is a better measure of relative size in each country. This data is, however, not consistently publicly available per country for all supermarkets.

Figure 6: Proportion of stores of formal supermarket chains in selected Southern African countries, 2017



Source: Author's own compilation from annual reports and interviews
Note: These only include grocery retail outlets of the chain as far as possible. It also does not include independent retailers and retailers under buying groups.

Figure 6 however does not show the extent to which independent retailers, both formal and informal, participate in these countries.

The formal independent and informal retail landscape in each country differs. In South Africa, these account for around 40 per cent of the grocery retail market largely supplied through buying groups and wholesalers, while modern retail accounts for around 60 per cent.[17] Other estimates for 2015 (see Figure 7) similarly suggest that modern food retail accounts for around 56 per cent of total food expenditure in South Africa (calculated as the percentage of all supermarket sales, both chains and independents, over total food expenditure). Namibia can

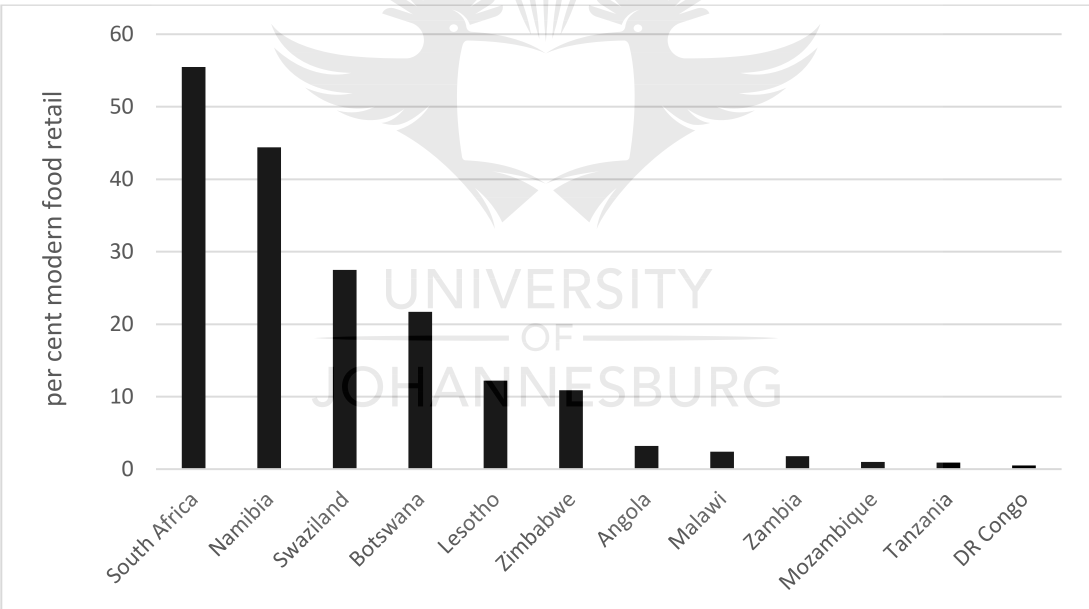
[17] Interviews with buying groups in South Africa on 22/09/2015, 06/10/2015 and 06/10/2015.

be seen as an extension of South Africa as it was under South African administration until March 1990. The relatively higher levels of food share through modern formats for Namibia in Figure 7 below are reflective of this.

In Botswana, the estimate is 22 per cent, while it is 11 and 2 per cent respectively in Zimbabwe and Zambia (see also Abrahams (2009) on the resilience of other forms of retail, especially wet markets, in Zambia). While there has been significant growth of Botswana-owned Choppies Enterprises and the growth of Shoprite in some of these countries since 2015, this nonetheless shows relatively low levels of supermarketisation in the other countries. (Figure 7).

The other countries in the region started their supermarketisation much later (as part of the fourth wave), and the internationalisation into selected countries has essentially been about the extension of South African retail networks into these countries as seen in Figure 6 above.

Figure 7: Modern food retail share in selected countries in Southern Africa, 2015



Source: Formalising African Retail, Sagaci Research, 2017 (underlying data AfDB, IMF and World Bank and Sagaci Research)

With the most mature and sophisticated modern grocery retail sector on the African continent, the data on South Africa show that the share of packaged food going through formal supermarket and hypermarket channels decreased from 69.7 per cent in 2003 to 65.2 per cent in 2017 (Euromonitor International, 2018), although overall share of sales of packaged food through modern retail channels has remained high in this period (around 80 per cent, but also declining, see Table 6).

The share of traditional grocery retailers in packaged food also declined slightly over the period from 14.3 per cent in 2003 to 13.1 per cent in 2017 (Table 6). However, it has not been lost not to supermarket and hypermarket formats, but to convenience stores and forecourts, which in South Africa, nonetheless also belong to the large chains. The growth of forecourts and discounters reflects the mature nature of the market in South Africa.

There has actually been an increase in the share of fresh food sold through traditional grocery retailers between 2008 and 2017, accounting for around 40 per cent in 2017 from 39.4 per cent in 2008 (see Table 7) (Euromonitor International, 2018).

In Tables 6 and 7, independent retailers are shown under the traditional grocery retailers' category. Traditional grocery retailers, according to Euromonitor International, are dominated by independent small grocers, but also includes specialist food, drink and tobacco retailers, independent small grocers and other grocery retailers. This also, at least partially, covers informal retail through spaza shops that buy from formal retailers such as cash and carrys and from wholesalers.

In South Africa particularly, but also in the region, there has been a general narrative in the last ten years that growing supermarketisation has been at the expense of independent retailers.[18] This Euromonitor data suggests that supermarketisation has already happened in South Africa, and is now slowing down, and that independent retail has remained resilient. Since the early 2000s, South Africa already had mature levels of supermarketisation. This maturity was reached early given apartheid economic planning with highly formalised economic structures serving mainly in white, urban areas. Traditional retailers and informal spaza shops were limited to township areas serving black communities during this time. Following the end of apartheid and zoning restrictions, the formal supermarket chains took grocery retail closer to where majority of the population lived. This was seen through their spread into township, peri-urban and even rural areas. The share of food sold through supermarkets, however, did not necessarily increase as a result of this as Tables 6 and 7 show. Supermarkets and hypermarkets already constituted a large proportion of sales of fresh and packaged food. What did evolve were the formats that the chains introduced in these areas to target lower-income consumers. This also led to the evolution of traditional independent grocery retailers to adopt alternative formats of retail through buying groups to compete with the new formats of chain supermarkets (see Chapter 6).

As highlighted in the literature review, this is consistent with South Africa being part of the first or second wave of the supermarket revolution where shares of food retailing through

[18] See for instance, terms of reference, submissions and testimony at the Competition Commission of South Africa's Grocery Retail Market Inquiry (Competition Commission, 2015b).

supermarkets grew from 10–20 per cent to 50–60 per cent in the first wave and from 5–10 per cent to 30–50 per cent in the second wave between 1990 in 2004 (Weatherspoon and Reardon, 2003; Reardon, Berdegué and Timmer, 2005; Reardon and Hopkins 2006). If anything, the proportion of food sales through supermarkets and hypermarkets in South Africa was even higher than the literature estimated in 2004 for the first wave for packaged food.

The declining supermarketisation at home also points towards new market-seeking motivations for internationalisation, when there are limited growth prospects at home and greater sales opportunities outside (Dunning, 1993; Narula and Dunning, 2000).

Table 6: Share of packaged food sold through different retail channels in South Africa, 2003–2017

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
STORE-BASED RETAILING	**99.7**	**99.7**	**99.7**	**99.7**	**99.7**	**99.7**	**99.7**	**99.7**	**99.8**	**99.8**	**99.7**	**99.7**	**99.6**	**99.6**	**99.6**
Grocery Retailers	**94.3**	**94**	**93.8**	**93.6**	**93.5**	**93.4**	**93.2**	**93**	**93**	**92.8**	**92.6**	**92.4**	**92.1**	**92**	**91.9**
Modern Grocery Retailers	**80**	**80.1**	**80.1**	**80.1**	**80.1**	**80.3**	**80**	**79.8**	**79.6**	**79.6**	**79.4**	**79.3**	**79.1**	**79**	**78.8**
Convenience stores	4.9	5.1	5.2	5.5	6	6.3	6.6	6.7	6.8	6.9	6.9	6.9	7	7	7.1
Discounters	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8
Forecourt retailers	4.9	5.1	5.3	5.5	5.7	5.7	5.7	5.8	5.7	5.7	5.7	5.7	5.7	5.7	5.6
Hypermarkets	5.6	5	5	5.5	5.6	5.8	5.8	5.7	5.6	5.6	5.6	5.7	5.7	5.7	5.6
Supermarkets	64.1	64.3	64.1	63.1	62.2	61.8	61.3	61	60.7	60.7	60.4	60.2	60	59.8	59.6
(Supermarkets + Hypermarkets)	***69.7***	***69.3***	***69.1***	***68.6***	***67.8***	***67.6***	***67.1***	***66.7***	***66.3***	***66.3***	***66***	***65.9***	***65.7***	***65.5***	***65.2***
Traditional Grocery Retailers	**14.3**	**14**	**13.7**	**13.4**	**13.4**	**13.1**	**13.1**	**13.2**	**13.3**	**13.2**	**13.2**	**13.1**	**13**	**13.1**	**13.1**
Food/drink/tobacco specialists	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Independent small grocers	9.8	9.6	9.5	9.4	9.6	9.6	9.8	9.9	9.9	9.8	9.8	9.7	9.8	9.8	9.9
Other grocery retailers	4	3.9	3.7	3.6	3.4	3.2	3	2.9	3.1	3.1	3.1	3.1	2.9	2.9	2.9
Non-Grocery Specialists	**0.4**	**0.4**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.6**	**0.6**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**
Health and beauty specialist retailers	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Other foods non-grocery specialists	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Mixed Retailers	**5**	**5.3**	**5.5**	**5.7**	**5.7**	**5.8**	**6**	**6.1**	**6.2**	**6.3**	**6.4**	**6.5**	**6.8**	**6.8**	**7**
NON-STORE RETAILING	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.2**	**0.2**	**0.3**	**0.3**	**0.4**	**0.4**	**0.4**
Vending	0.2	0.3	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Home shopping	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Internet retailing	0	0	0	0	0	0	0	0	0	0	0.1	0.2	0.2	0.2	0.2
Direct selling	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Euromonitor International database, 2018

Note: All grocery retail includes modern grocery retailers (convenience stores, discounters, forecourt retailers, hypermarkets, supermarkets) and traditional grocery retailers (specialist food, drink, tobacco retailers, independent small grocers and other grocery retailers).

Table 7: Share of fresh food sold through different retail channels in South Africa, 2008–2017

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
STORE-BASED RETAILING	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Grocery Retailers	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Modern Grocery Retailers	**60.6**	**60.1**	**59.6**	**59.4**	**59.3**	**59.3**	**59.3**	**59.4**	**59.5**	**59.7**
Convenience stores	3.0	3.0	3.0	3.0	3.0	3.0	2.8	2.8	2.7	2.7
Discounters	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.1	2.1
Forecourt retailers	0.8	0.8	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9
Hypermarkets	12.2	12.2	12.1	12.1	12.1	12.1	12.2	12.3	12.4	12.5
Supermarkets	42.6	42.1	41.7	41.5	41.4	41.4	41.4	41.4	41.4	41.4
(Supermarkets + Hypermarkets)	***54.8***	***54.3***	***53.8***	***53.6***	***53.5***	***53.5***	***53.6***	***53.7***	***53.8***	***53.9***
Traditional Grocery Retailers	**39.4**	**39.9**	**40.4**	**40.6**	**40.7**	**40.7**	**40.7**	**40.6**	**40.4**	**40.3**
Food/drink/tobacco specialists	21.6	21.9	22.2	22.3	22.5	22.6	22.6	22.7	22.7	22.7
Independent small grocers	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.1	4.2	4.2
Other grocery retailers	13.8	14.0	14.2	14.3	14.2	14.1	14.0	13.8	13.6	13.3
Non-Grocery Specialists	-	-	-	-	-	-	-	-	0.0	0.0
Health and beauty specialist retailers	-	-	-	-	-	-	-	-	-	-
Other non-grocery specialists	-	-	-	-	-	-	-	-	0.0	0.0
NON-STORE RETAILING	-	-	-	-	-	-	-	-	-	-
TOTAL	100	100	100	100	100	100	100	100	100	100

Source: Euromonitor International database, 2018

Note: All grocery retail includes modern grocery retailers (convenience stores, discounters, forecourt retailers, hypermarkets, supermarkets) and traditional grocery retailers (specialist food, drink and tobacco retailers, independent small grocers and other grocery retailers).

Other data available, although for a shorter time period (2012–2017) reinforce the saturation of modern retail in South Africa. Tables 8, 9 and 10 show the growth of modern grocery retail (dominated by the main supermarket chains), measured in different ways over a five-year period, relative to the growth of all grocery retail (modern and traditional) and relative to the growth in all retail (store-based grocery and non-grocery retail). The measures are as follows:

- Table 8: Growth in number of stores/outlets by category of retail
- Table 9: Growth in selling space by category of retail
- Table 10: Growth in sales value in current terms by category of retail

In terms of store numbers, the growth in grocery retail between 2012 and 2017 slightly exceeded the growth rate of all retailers (grocery and non-grocery) for the same period. This has been spurred, not by modern grocery retailers (i.e. the main supermarket chains), but by growth in the number of traditional grocery retailers. The number of traditional grocery retailers has grown faster than modern grocery retailers.

Table 8: Number of all retail, all grocery retail and modern grocery retail sites/outlets in South Africa, 2012–2017

Number of outlets	2012	2013	2014	2015	2016	2017	% growth
All retail	141,701	152,460	162,736	172,531	182,348	191,859	35%
All grocery retail	71,070	76,975	82,612	88,043	93,173	97,753	38%
Modern grocery retail	7,118	7,493	7,783	8,035	8,312	8,532	20%
Traditional grocery retail	63,952	69,482	74,829	80,008	84,861	89,221	40%
All grocery retail % of all retail	50%	50%	51%	51%	51%	51%	
Modern grocery retail % of all retail	5%	5%	5%	5%	5%	4%	
Modern grocery retail % of all grocery retail	10%	10%	9%	9%	9%	9%	
Traditional grocery retail % of all grocery retail	90%	90%	91%	91%	91%	91%	

Source: Euromonitor International database, 2018
Notes: All retail includes all store-based retailing (grocery, apparel and footwear, electronics and appliances, health and beauty, home and garden, leisure and personal goods). All grocery retail includes modern grocery retailers (convenience stores, discounters, forecourt retailers, hypermarkets, supermarkets) and traditional grocery retailers (specialist food, drink, tobacco retailers, independent small grocers, other grocery retailers).

While traditional retail may be growing at a greater rate in terms of site/outlet numbers, these may be very small in terms of overall selling space size and in terms of sales values. Tables 9 and 10 therefore look at selling space and sales value growth respectively. Selling space of traditional grocery retailers has increased, showing some resilience in the face of the growth of modern retailers in terms of overall selling space (Table 9).

Table 9: Selling space of all retail, all grocery retail and modern grocery retail in South Africa, '000 square metres, 2012–2017

Selling space, '000 square metres	2012	2013	2014	2015	2016	2017
All retail	24,740.1	26,351.9	27,844.2	29,195.9	30,760.0	32,367.0
All grocery retail (modern and traditional)	6569.6	7079.1	7588.6	8074.3	8583.5	9130.2
Modern grocery retail	**4008.2**	**4327.6**	**4651.3**	**4966.4**	**5310.1**	**5687.6**
Modern grocery retail (hypermarkets)	3448.1	3720.2	3996.4	4252.5	4562.8	4908.3
Modern grocery retail (supermarkets)	264.3	271.7	286	294.9	306.7	318.4
Modern grocery retail (discounters)	163.3	195.5	220.2	260.7	279.8	296.8
Modern grocery retail (convenience)	132.5	140.2	148.7	158.3	160.8	164.1
Traditional grocery retail	**2561.4**	**2751.5**	**2937.3**	**3107.9**	**3273.4**	**3442.6**
All grocery retail % of all retail	27%	27%	27%	28%	28%	28%
Modern grocery retail % of all retail	16%	16%	17%	17%	17%	18%
Modern grocery retail % of all grocery retail	61%	61%	61%	62%	62%	62%
Traditional grocery retail % of all grocery retail	39%	39%	39%	38%	38%	38%

Source and notes as in Table 8 above

In terms of sales value or revenues (current values), the compound annual growth rate (CAGR) of traditional grocery retail has exceeded that of modern grocery retail (10% vs 8.3% for 2012-2017) (Table 10). This suggests that traditional grocery retail is not only showing resilience but is growing. All retail grew at a faster CAGR than GDP (in current terms) for the period.

Table 10: Sales value of grocery retailers and of all retailers in South Africa, and GDP, 2012 to 2017, current values

ZAR mill, current	2012	2013	2014	2015	2016	2017	CAGR (2012-2017)
GDP	3,253,851	3,539,977	3,805,350	4,044,658	4,350,314	4,651,785.0	7.4%
All retail	662,100	722,400	781,300	840,600	909,100	982,200	8.2%
All grocery retail	351,700	385,900	418,500	452,900	495,400	538,300	8.9%
Modern grocery retail	226,800	246,100	264,900	284,800	311,800	337,600	8.3%
Traditional grocery retail	124,900	139,800	153,600	168,100	183,600	200,700	10.0%
All grocery retail % of all retail	53%	53%	54%	54%	54%	55%	
Modern grocery retail % of all retail	34%	34%	34%	34%	34%	34%	
Modern grocery retail % of all grocery retail	64%	64%	63%	63%	63%	63%	
Traditional grocery retail % of all grocery retail	55%	57%	58%	59%	59%	59%	

Source and notes as in Table 8 above, GDP data from SARB

5.3. The extent of internationalisation or ‘regionalisation’ of supermarkets in Southern Africa: Testing the traditional theories

The saturation of supermarkets in the South African market provides motives for the internationalisation or ‘regionalisation’ of South African chains. The pace of internationalisation in Africa with regards to the entry of transnationals has however not been to the extent that the literature has predicted (Reardon, Timmer and Berdegué, 2004; Traill, 2006).

In Southern Africa, the spread of supermarkets has until recently been through only a handful of large South African grocery retail chains: Shoprite Holdings, Pick n Pay Stores, the SPAR Group, Woolworths Holdings and Fruit and Veg City (Food Lovers Market). However, as described in Chapter 2, the last decade has seen the entry and growth in Africa of other African chains like Botswana-owned Choppies Enterprises, as well as international chains like USA’s Walmart, France’s Carrefour and Casino, and the United Kingdom’s Pound Stretcher.

Globally, the constitution of the top 20 transnational retail chains in terms of revenues earned in international markets (dominated by grocery retailers) has been the same for the past decade (see Table 1 in Chapter 3, Section 3.4), although relative positions have changed (Coe and Wrigley, 2018). This highlights the concentration in global retail markets and the dominance of a small group of powerful retail chains. As seen in Table 1, in Africa, only three of these top 20 global grocery retailers – Walmart, Carrefour and Casino – were present in 2018, with only one chain – Walmart – in Southern Africa. Walmart acquired an existing store network through its takeover of South Africa’s Massmart in 2011. The number of grocery retail outlets of Walmart is still much less than the South African chain stores and in fewer countries in the region.

Southern Africa is instead dominated by a handful of South African supermarket chains. Table 11 lists the key supermarket chains in the selected Southern African countries – Botswana, South Africa, Zambia and Zimbabwe – and their ownership (see also Figure 6 above). What is seen instead is therefore a ‘regionalisation’ of mainly South Africa chains and more recently, Botswana-owned Choppies in the SADC region (see also Barrientos et. al., 2016; Crush et al., 2017).

Table 11: Formal supermarket chains operating in selected Southern African countries and their ownership

Botswana	South Africa	Zambia	Zimbabwe
Ownership: South African			
Shoprite	Shoprite	Shoprite	
Pick n Pay	Pick n Pay	Pick n Pay	TM/Pick n Pay – Zimbabwe/SA JV
Food Lovers' Market	Food Lovers' Market	Food Lovers' Market	Food Lovers' Market
Woolworths	Woolworths	Woolworths	
SPAR Group	SPAR Group		
Ownership: Global			
Game/Walmart – USA	Game and Cambridge/Walmart – USA	Game – USA SPAR International – Netherlands	SPAR International – Netherlands
Saverite (Trident Eureka/Walmart) – USA		PoundStretcher – UK	
Ownership: Other African			
Choppies – Botswana	Choppies – Botswana	Choppies – Botswana	Choppies – Botswana
Shoppers (Sefalana) – Botswana		Melissa – Zambia	OK Zimbabwe – Zimbabwe
			Food World – Zimbabwe

Source: Author's own compilation from annual reports and interviews

5.3.1. The internationalisation of Shoprite

The regionalisation has been spearheaded by Shoprite Holdings, well before the rest of the continent was seen as an attractive market to the other retailers. Shoprite was the first grocery retail chain to move out of South Africa by opening a Shoprite format outlet in Namibia in 1990, and then in Lusaka, Zambia, in October 1995. It is the largest chain in terms of store numbers operating on the continent. It also, in its early years of expansion, acquired the OK Bazaar group, converting all their outlets in Swaziland and Botswana to Shoprite stores.

The experience, both successes and failures, of Shoprite therefore is a useful case study on the factors affecting internationalisation in Southern Africa, including to understand issues of ownership, location and internalisation in line with OLI theories. This is evaluated in detail, followed by the experiences of all the other multinational supermarket chains operating in Southern Africa.

Headquartered in South Africa, Shoprite has grocery retail operations in 14 other African countries (Table 12). Listed on the Johannesburg, Namibian and Lusaka stock exchanges, it is the only South African chain to have multiple listings on the continent. The number of stock exchanges on which a company is listed provides an indication of the degree of its internationalisation (Dörrenbächer, 2000).

In each country that Shoprite has spread to, whether in or outside Africa (where it briefly had operations in India), the initial type of store has always been grocery retail. Over time, once it has established a presence in a country and is successfully trading in the grocery retail space, it diversifies into other types of stores, such as furniture, pharmacy and liquor outlets. The typical grocery store formats used to penetrate new African markets is the Shoprite, Usave and, to a lesser degree, Checkers Hyper formats (see Chapter 6 for different formats). The Usave format, especially in more recent years, has been successful in the rest of the continent. These small format stores of around 400m^2 target low-income consumers (LSM 1–5), carrying only the fastest-selling, 700, most-popular product lines (compared to Shoprite's typical 14,000 lines), is suited to the trading environment in many African countries.

The group also has a property arm, Shoprite and Checkers Property (SCP), which is important for its internalisation strategy in host countries. Its key mandate is to provide the group's retail operations with trading locations. Outside South Africa, SCP invests in developing of its own retail facilities, including shopping malls, given the scarcity of alternative leasing opportunities and inadequate trading space. Shoprite therefore tends to own the land and property it operates from outside South Africa. Considerable investments in land and property have been made in other African countries. This is discussed in Section 5.4.2 below.

Table 12: Shoprite's internationalisation outside South Africa, number of stores over time

	Angola	Botswana	Democratic Republic of Congo	Egypt	Ghana	India	Lesotho	Madagascar	Malawi	Mauritius	Mozambique	Namibia	Nigeria	Tanzania	Swaziland	Uganda	Zambia	Zimbabwe
2003		7		5			3	5	3	1	3	55		6	4	2	18	1
2004	4	7		7	3		4	6	8	1	3	56		7	5	3	18	1
2005	9	9		7	3	1	2	7	8	1	3	52		7	3	3	18	1
2006	8	7		exits	2	1	4	7	6	1	4	61	1	5	6	2	18	1
2007	8	11			1	1	7	8	5	1	4	65	1	5	8	2	18	1
2008	8	11			1	1	8	7	5	1	5	69	1	5	9	2	16	1
2009	8	11			1	1	8	7	5	1	5	72	1	4	9	2	17	1
2010	8	12			3	exits	7	7	5	1	5	74	2	3	9	2	19	1
2011	11	9			3		7	7	5	1	8	73	2	3	8	2	19	1
2012	14	11	1		3		8	7	5	3	8	73	5	3	9	3	20	1
2013	17	9	1		3		10	8	5	3	9	81	7	3	13	3	20	1
2014	21	11	1		4		11	8	6	3	11	83	10	exits	14	3	21	exits
2015	27	12	1		6		11	8	7	3	11	89	12		14	2	25	
2016	29	12	1		5		11	9	7	3	12	92	19		15	2	29	
2017	32	12	1		6		13	9	7	2	20	105	24		24	4	33	

Source: Websites and annual reports

As noted, a common measure of the degree of internationalisation is the number of countries in which a supermarket chain operates. In terms of Shoprite's grocery store numbers (which also sells general merchandise), the proportion outside South Africa has grown from around 11% per cent in 2001 to 17 per cent in 2017 (Table 13). Non-RSA (non-South African) mainly refers to stores in the African continent, with only one store outside Africa - in India - for a short period of time (Table 12 above).

The actual number of stores outside South Africa has increased over threefold between 2001 and 2017. The number of countries outside South Africa in which Shoprite operates has more than doubled between 2000 and 2017, although falling in 2014.

Table 13: Shoprite's growth in South Africa and in other countries over time, number of stores in grocery retail only

	RSA store numbers	Non-RSA store numbers	Total store numbers	% Non-RSA number of stores	No. of non-RSA countries
2000					6
2001	663	82	745	11%	9
2002	729		729		
2003	630	113	743	15%	13
2004	650	133	783	17%	16
2005	643	134	777	17%	16
2006	694	134	828	16%	16
2007	718	146	864	17%	16
2008	737	150	887	17%	16
2009	806	153	959	16%	16
2010	870	158	1028	15%	15
2011	911	159	1070	15%	15
2012	1073	174	1247	14%	16
2013	1141	193	1334	14%	16
2014	1206	207	1413	15%	14
2015	1236	228	1464	16%	14
2016	1284	246	1530	16%	14
2017	1418	292	1710	17%	14

Source: Shoprite Integrated annual reports. Gaps in the table are where data was not easily discernible from annual reports.
Note: Store formats include Shoprite, Checkers, Checkers Hyper, Usave, OK Foods, OK Grocer, OK Mini Mark (old 8 till late), OK Value, Megasave, Sentra and Friendly. Megasaves are wholesalers, which also act as 'feeders' in the non-RSA countries to supply Usaves

Growth in store numbers was predictably higher in the initial years after Shoprite first entered other countries given that this was off a low or zero base. Store number growth outside South Africa, although useful, is not necessarily always an accurate measure of the success of internationalisation. Shoprite's strategy for growing in the continent includes both organic growth and growth via acquisition. Particularly in the earlier years, the initial strategy was to duplicate local (South African) growth and local strategies in the rest of the continent through acquisitions (Shoprite Integrated Annual Report, 2000). Following acquisition, non-profitable stores were consolidated and shut down reducing the number of outlets. This would however increase efficiency and improve turnover. So, while there would be a slower growth rate in store numbers, revenues grew at a faster rate, and this is still a sign of successful internationalisation. An assessment of turnover is therefore a better measure and is also commonly used in the literature.

Shoprite's non-South African turnover as a proportion of total turnover has more than doubled between 2000 and 2017 (Table 14). This is similar to the changes in proportions of international revenues for Walmart and Carrefour although lower than the proportion of the growth of the other transnational food retailers in Table 1 (see Chapter 3).

The proportion of non-South African stores decreased after 2007, showing consolidation after a period of internationalisation from 2000 (Table 13), while revenues from non-South African stores has been growing till 2017 (Table 14). This suggests deepening of Shoprite's position in the region, including through investments in property, branding and infrastructure, as discussed later in Section 5.4.

Table 14: Shoprite's growth in South Africa and in other countries over time, turnover

	% Non-SA no. of stores	SA Revenue ('000)	Non-SA Revenue ('000)	Total Revenue ('000)	% Non-SA revenue of total	No. of non-SA countries
2000		17,286,001	1,144,562	18,430,563	6%	
2001	11%	18,030,885	1,565,844	19,596,729	8%	9
2002		19,850,589	2,259,208	22,109,797	10%	
2003	15%	22,404,975	2,566,358	24,971,333	10%	13
2004	17%	24,517,841	2,653,803	27,171,644	10%	16
2005	17%	27,354,510	2,973,966	30,328,476	10%	16
2006	16%	30,156,155	3,355,132	33,511,287	10%	16
2007	17%	34,642,975	4,306,870	38,949,845	11%	16
2008	17%	41,756,411	5,895,137	47,651,548	12%	16
2009	16%	51,197,924	8,120,635	59,318,559	14%	16
2010	15%	52,121,519	7,002,912	59,124,431	12%	15
2011	15%	57,213,793	7,316,698	64,530,491	11%	15
2012	14%	64,584,215	9,174,147	73,758,362	12%	16
2013	14%	70,925,545	11,729,237	82,654,782	14%	16
2014	15%	76,881,000	14,779,000	91,660,000	16%	14

2015	16%	84,945,000	16,781,000	101,726,000	16%	14
2016	16%	94,167,000	22,246,000	116,413,000	19%	14
2017	17%	101,734,000	24,840,000	126,574,000	20%	14

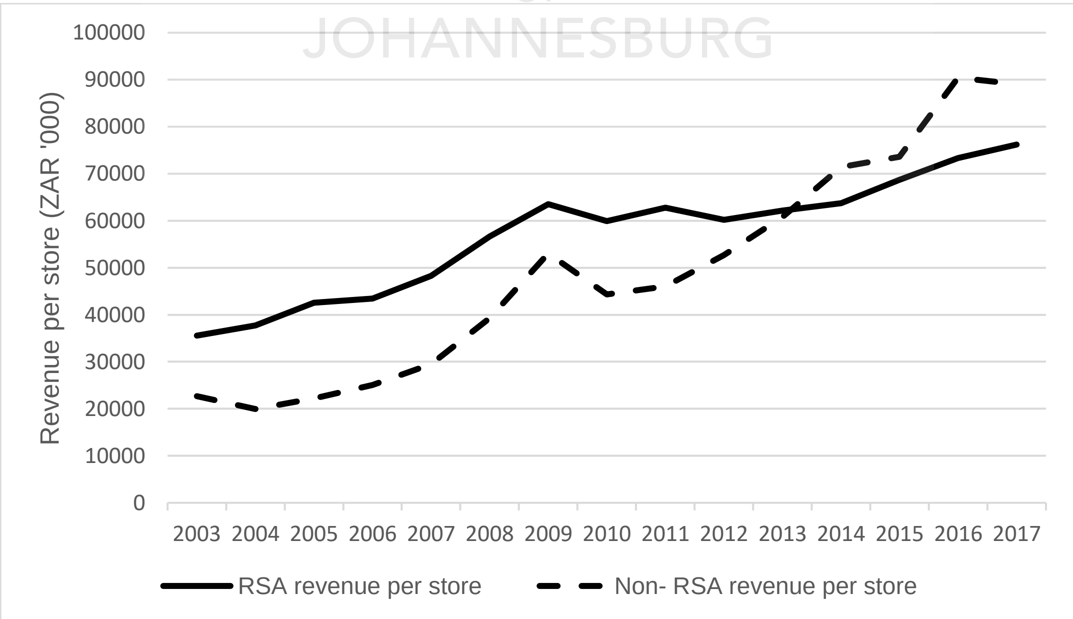
Source: Shoprite Integrated annual reports

Note: Store formats include Shoprite, Checkers, Checkers Hyper, Usave, OK Foods, OK Grocer, OK Mini Mark, OK Value, Megasave, Sentra and Friendly. Gaps in the table are where data was not easily discernable from annual reports.

Relative revenues per store at home and in host countries are another measure of the significance of international markets. Figure 8 shows that the revenue per store outside South Africa has grown at a faster rate than in South Africa, especially after 2013. This is likely because more, and smaller stores, including in the form of USaves and basic Shoprite stores have been rolled out in peri-urban and rural areas in South Africa, so revenues per store are lower. But this could also be because non-South African markets are growing faster given saturation of South African markets, pointing to new market seeking motives for internationalisation.

The higher revenues per store outside South Africa than in South Africa point to a regional business model, where Shoprite is looking at expanding through larger, more profitable stores in the region.

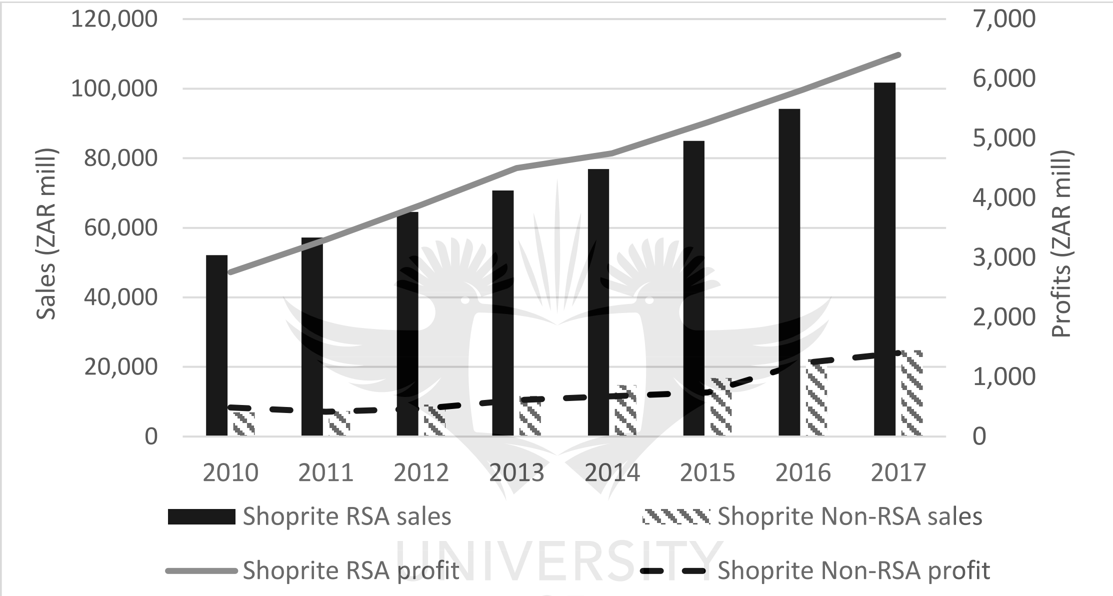
Figure 8: Revenue per store, South Africa and non-RSA



Source: Shoprite annual reports

Shoprite has also grown in terms of sales and profits in South Africa, with a CAGR of sales between 2010 – 2017 of 10 per cent and a CAGR of profits of 13 per cent (Figure 9). In the rest of Africa, Shoprite has experienced a CAGR of sales for the same period of 20 per cent and of profits of 16 per cent. While the growth rates for non-South African operations have been greater than in South Africa, this is off a lower base as noted. In terms of levels, non-South African profits were close to 20 per cent of all profits in 2017.

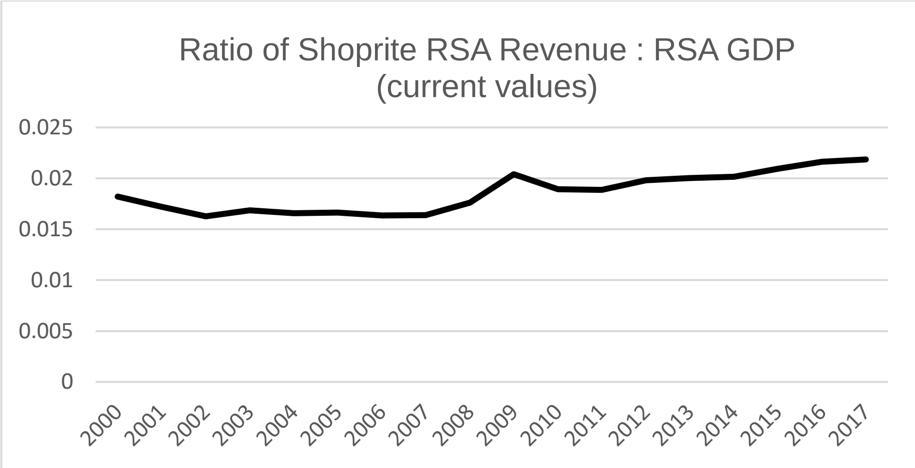
Figure 9: Shoprite's South Africa and non-RSA supermarket sales and profits, 2010–2017



Source: Shoprite annual reports
Note: The sales figures represented by bars are on the primary (LHS) axis, while the profit figures represented by lines are on the secondary (RHS) axis

Figure 10 below tracks the ratio of Shoprite's revenue from South African operations to GDP in South Africa in current terms. The ratio has not changed substantially from 2000 to 2017, increasing only slightly over the period from over 0.015 to just over 0.02.

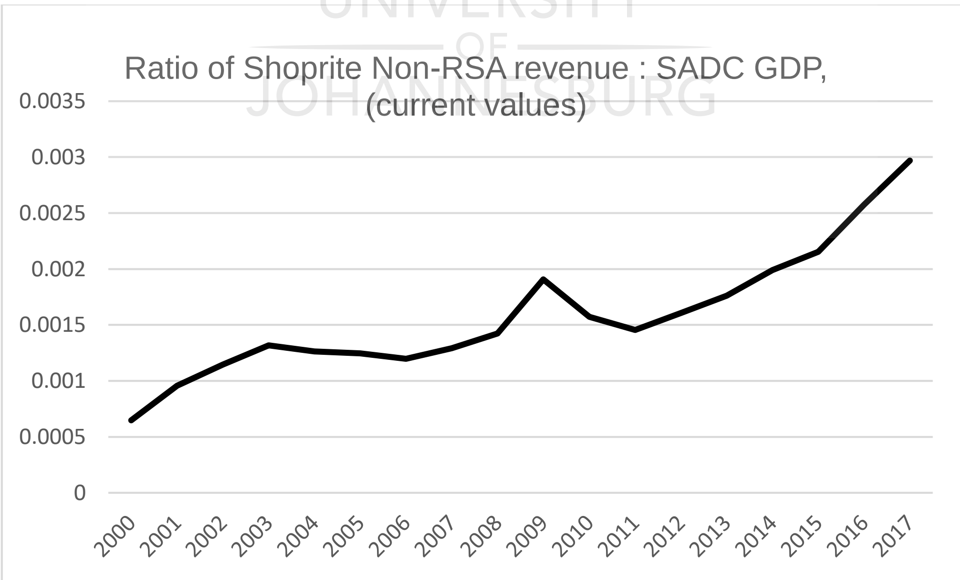
Figure 10: Shoprite's sales revenue as a proportion of South African GDP, 2000–2017



Source: Shoprite annual reports and World Bank data

The ratio of Shoprite's non-South African revenue (most of which comes from the SADC region, although there is some revenue from Ghana and Nigeria included in the figures) to SADC GDP in current terms shows a different picture (Figure 11). Although a lower absolute proportion, the increase has been at a faster rate, an indication the growing significance of the SADC region for Shoprite relative to GDP.

Figure 11: Shoprite's sales revenue as a proportion of SADC GDP



Source: Shoprite annual reports and World Development Indicators

While there has been some internationalisation, it is important to check this against the expectations of growth that the literature has claimed and against what the supermarket chains themselves expected. The growth in sales is lower than Shoprite's own estimates of how significant the rest of Africa would be for its operations. In 2000, Shoprite noted its long-term aim to increase its operating income from other African countries to 50 per cent of group revenue (Shoprite Integrated Annual Report, 2000). Although it is not clear what time frame was envisaged by 'long term', the data in Table 14 show that by 2017, only around 20 per cent of group revenue came from outside South Africa.[19]

The motive for Shoprite's expansion according to its annual reports is because it considered the South African market to be saturated (as early as 2000) in line with new market-seeking motives of internationalisation. However, as seen in Tables 13 and 14, the number of stores in South Africa almost doubled between 2001 and 2017 while revenue more than quadrupled, suggesting that there continued to be large growth opportunities at home. This growth is largely due to township and rural areas opening up for Shoprite after apartheid.

Shoprite's expansion strategy outside South Africa has largely been to duplicate its South African model through the acquisition of existing stores in the countries (Shoprite Integrated Annual Report, 2016). Its exit from India, Egypt, Tanzania and Zimbabwe (Table 12) reveal that this was not always successful. In the cases of countries outside SADC (India and Egypt), the chain over-estimated their internal capabilities and under-estimated the advantages of proximity to well-established supplier bases, as well as the importance of regional investments in logistics, distribution centres and property space. These factors are discussed further in section 5.4.

5.3.2. The internationalisation of the other incumbents: Pick n Pay, SPAR and Woolworths

Pick n Pay

Compared to Shoprite, Pick n Pay's performance has been weaker and has internationalised to a much lesser degree (Table 15, Figure 12). Currently in Africa, Pick and Pay is solely listed on the Johannesburg Stock Exchange. Pick n Pay only opened its first corporate store in Zambia in 2010, some 15 years after Shoprite entered that country and its entry into other countries has been mainly only from 2012 onwards. Its offerings in countries outside South Africa are limited to the supermarket format (with clothing and liquor offerings only in some cases) and franchise stores. In 2017, Pick n Pay had operations in six countries, namely, Zimbabwe, Zambia, Namibia, Botswana, Lesotho, Swaziland, Mauritius and Mozambique.

[19] I acknowledge however, this may have merely been a statement for shareholders, rather than a clearly determined position or strategy.

The data on store numbers before 2012 are difficult to assess given that Pick n Pay's annual reports do not separately report on store numbers for subsidiaries in Botswana, Namibia and Swaziland. These subsidiaries were under the Score Supermarkets brand name with 100 per cent of shares held and incorporated by Pick n Pay, South Africa. In addition, for Pick n Pay Namibia Limited, a subsidiary of the Ohlthaver & List Group registered in Namibia, store numbers were not reported in earlier annual reports. Similarly, the data on revenue was not split out by South Africa and other Southern African countries prior to 2012. Nonetheless, in terms of store numbers outside South Africa, Pick n Pay has much fewer and in fewer countries relative to Shoprite.

Table 15: Pick n Pay's growth in South Africa and in other countries, 2007–2017

	South Africa	Zimbabwe	Australia	Zambia	Botswana	Namibia	Swaziland	Lesotho	Mozambique	Mauritius	Non-RSA	Total store numbers	% Non-RSA number of stores	No. of non-RSA countries	RSA Revenue, mill	Non-RSA Revenue, mill	% Non-RSA revenue of Total	RSA profit. mill	Non- RSA profit, mill	% Non-RSA profit of Total
2007	552	56	78								134	686	20%	2						
2008	569	56	80								136	705	19%	2	†37,704	×4,974	12%			
2009	566	56	82		*	*	*				138	704	20%	5	†44,256	×5,880	12%			
2010	550	52	84	1	*	*	*				137	687	20%	6	†49,255	×5,673	10%	1812		
2011	558	51	90	2	*	*	*				143	701	20%	6	†52,177	×5,617	10%	1356		
2012	574	50	Sold off	4	9	17	10	1	1	2	94	668	14%	8	53,376	1,955	4%	1120	50	4%
2013	605	49		5	10	20	14	2	1	3	104	709	15%	8	56,694	2,577	4%	716	93	11%
2014	574	52		8	9	17	6	1	exit	exit	93	667	14%	6	60,381	2,736	4%	692	140	17%
2015	648	53		10	9	27	14	3			116	764	15%	6	63,912	3,029	5%	1016	189	16%
2016	671	57		11	10	35	14	3			130	801	16%	6	70,313	4,006	5%	1,247	226	15%
2017	731	56		17	12	38	14	3			140	871	16%	6	79,718	4,648	6%	1,296	287	18%

Source: Pick n Pay annual reports. Gaps in the table are where data was not easily discernible from annual reports.

Note: *Subsidiaries in Botswana, Namibia and Swaziland are not broken down by store numbers prior to 2012. These subsidiaries were under the Score Supermarkets brand name with 100% held and incorporated by Pick n Pay, South Africa, and Pick n Pay Namibia (Pty) Limited, a subsidiary of the Ohlthaver & List Group registered in Namibia; †These revenues include subsidiaries in Southern Africa. Annual reports do not split these out; ×These are revenues from Franklins in Australia only.

Pick n Pay stores in Namibia have grown strongly (Table 15) relative to the other countries. As noted earlier, Namibia is essentially an extension of South Africa. Also as noted above, Pick n Pay operates in Namibia through a franchise model, where all franchise stores are part of the Ohlthaver & List Group of Companies. This holding company is diversified, controlling firms in a wide range of sectors related to supermarkets. It controls Broll, a property services company, and food processors, Namibia Dairies and Hangana Seafood, amongst other companies. The relationship between property developers and supermarket chains, also seen in Shoprite's growth strategy earlier, is an important part of Pick n Pay's internalisation in host countries. Relationships with property developers are discussed in Chapter 6 with regards to competition concerns from exclusivity clauses in lease agreements between developers and supermarkets. Relationships with suppliers, in this case through suppliers of dairy and seafood products being part of the same group, is also important when internationalising in countries where there are limited supplier capabilities as discussed in Chapter 7. It is also relevant for competition evaluations in terms of vertical integration (Chapter 6).

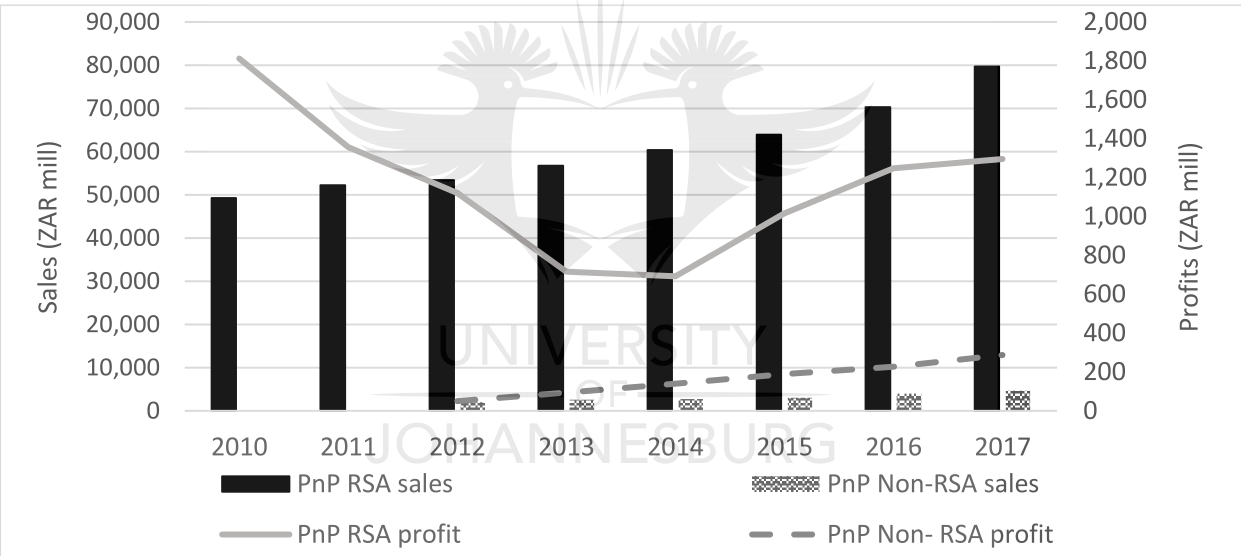
In Zimbabwe, where Pick n Pay has the greatest number of supermarkets outside South Africa today, the 2011 Indigenisation and Economic Empowerment requirement stipulates that 51 per cent of shareholding be by indigenous Zimbabweans. Pick n Pay therefore operates as a joint venture with local supermarket chain, TM Supermarkets. Local chain OK Zimbabwe and TM/Pick n Pay collectively hold over half the national market (Figure 6).

The mode of entry in the region typically pursued by Pick n Pay is therefore through franchising. In 2013, Pick n Pay started its expansion into Mozambique also through franchise partners and had plans to expand to Mauritius. However, the franchise operations in both these countries were short-lived, closing in 2014 citing limited prospects for sustainable growth (Pick n Pay Financial Statements, 2014). While Shoprite is operating profitably (although on a small scale) in these countries and has plans to grow, Pick n Pay has not managed to do so, suggesting that firm-specific factors may be important (see discussion about this in Section 5.4.2). This can also be attributed to its less-developed infrastructure relative to Shoprite. Pick n Pay's measured approach to internationalisation in the rest of Africa reflects its weak performance at home in the late 2000s. Pick n Pay has faced significant growth challenges both in South Africa and in the region owing to, amongst other factors, slow pace of investment in infrastructure.

Pick n Pay also failed in its Australian operations. The selling off of Franklin stores in Australia by 2012 led to the proportion of revenue from outside South Africa declining from 10 per cent to 4 per cent, although increasing again towards 2017.[20] From 2013, Pick n Pay's sales and profits in the rest of Africa started seeing growth although off a much smaller base than Shoprite (Figure 12). Pick n Pay now recognises markets in the rest of the African continent as its 'second engine of growth' which generated revenue of over R4.6 billion in 2017, accounting for 6 per cent of total revenue, and contributing more strongly towards profits (18 per cent of total profits) (Table 15 and Pick n Pay Integrated Annual Report, 2017).

Growth rates of sales revenues and profits outside South Africa show this growth (Figure 12). CAGR of profits between 2012 and 2017 for the rest of Africa were 42 per cent compared to around 3 per cent in South Africa, while CAGR of sales in the rest of Africa was 19 per cent compared to 7 per cent in South Africa.

Figure 12: Pick n Pay's South Africa and non-RSA supermarket sales and profits, 2010–2017



Source: Pick n Pay annual reports

Note: The sales figures represented by bars are on the primary (LHS) axis, while the profit figures represented by lines are on the secondary (RHS) axis

SPAR

The SPAR Group, the third largest grocery retailer in South Africa, operates through a franchise-type or voluntary trading model. The SPAR Group is listed on the Johannesburg Stock Exchange (JSE). The group's claimed key internationalisation strategy is focused on

[20] Note however that this may be distorted by the figures for the subsidiaries in Southern Africa being captured in the revenue data for South Africa prior to 2013, and subsequently being separated.

growing the SPAR brand in new markets in Africa, while supporting the ongoing progress of long-term partners in already established markets. Like Pick n Pay, SPAR considers operations in the rest of the African continent to be a second engine of growth. In line with new market-seeking motives, the group contends that the tight retail-operating environment in South Africa has spurred its internationalisation aspirations.

The SPAR annual reports do not consistently report store numbers in each country of operation in Southern Africa each year. Table 16 provides aggregate grocery store numbers of SPAR SA in the region. It also does not split out sales revenues and profits in South Africa and in the region consistently.

Despite its claimed internationalisation strategy for Africa, there has been limited growth between 2011 and 2018 with 44 new stores over the period in the Southern African region. This is less than the growth of Shoprite and Pick n Pay in the region.

Table 16: Number of grocery stores in Southern Africa owned by SPAR South Africa

	Southern Africa
2011	859
2012	868
2013	873
2014	875
2015	885
2016	890
2017	903

Source: SPAR annual reports

Note: Includes grocery retail stores of Superspar, Spar and Kwikspar only.

SPAR South Africa services independent retailers across eight formats in 10 countries in the region. These include Namibia, Angola, Botswana, Mozambique, Seychelles, Lesotho, Malawi, Zambia, Zimbabwe and Swaziland. However, while these are serviced from DCs out of South Africa, SPAR SA does not necessarily hold the licences for all of these. SPAR SA holds licences for Namibia, Botswana, Mozambique and Angola, which are serviced through the South African distribution centres (SPAR Integrated Annual Report, 2018). This makes it difficult to separate out the exact footprint in terms of store numbers by country in the region.

The SPAR stores operating in Zambia for instance are not part of the South African group, but part of the SPAR International group in the Netherlands, operating as a JV between Innscor

International, Zimbabwe and Platinum Gold Zambia Ltd under SPAR Zambia Ltd.[21] Therefore, the South African SPAR Group does not own stores in Zambia.

The internationalisation of SPAR therefore was initially not only a regionalisation story of SPAR South Africa, but the growth of SPAR International in the region. In 2016 however, SPAR reported that it aimed to buy a stake in SPAR Zambia Ltd. By 2017, it acquired 47.87 per cent of the shareholding of SPAR Zambia and obtained the contractual right to appoint one out of six directors to the board of directors of the company, although having no outright control over it (SPAR Annual Financial Statements, 2017). Given geographic proximity and potential for new store growth, Zambia is an attractive country. The Zambian stores are currently served by DCs in South Africa (SPAR Integrated Annual Report, 2017). Sanctions in South Africa during the 1950s also forced the SPAR group in Zimbabwe to seek their own rights directly from SPAR International, although SPAR Group (SA) subsequently acquired 35 per cent stake in SPAR Zimbabwe (SPAR Integrated Annual Report, 2014). While not acquiring full control, SPAR SA has through these stakes entered these countries. This is significant as it highlights again the importance of regional suppliers and distribution networks that give regional chains an advantage over international chains.

The trend of buying shares in SPAR stores in other countries was also seen in 2014, when SPAR SA acquired BWG, through which it operates in Ireland and South West England. The Irish operations comprise 1,332 independently owned stores under various brands (SPAR Integrated Annual Report 2015). In 2016, SPAR SA also acquired 60 per cent of SPAR Holding AG in Switzerland, which operates around 300 stores across all brands. In this sense, SPAR is the most 'international' in terms of sustained and growing operations beyond the African continent although its spread in Africa has been muted relative to expectations of supermarketisation and internationalisation for the continent.

Woolworths

Listed on the JSE, Woolworths Holdings is the fourth largest retail chain in South Africa exclusively targeting high-income consumers. Its presence in the other countries in Southern Africa is limited given its high-income focus, starting off with clothing and gradually diversifying into grocery retail (Table 17). For instance, Woolworths has clothing and general merchandise stores in eleven African countries outside South Africa (Namibia, Tanzania, Mozambique, Mauritius, Kenya, Ghana, Zambia, Botswana, Lesotho, Swaziland and Uganda), while its food stores are limited to only five countries (Botswana, Swaziland, Mozambique, Namibia and Zambia), initially beginning with long-life/frozen food offerings only (Woolworths Holdings Integrated Annual Reports, 2015; 2017). There is a new drive to build the brand in East Africa

[21] http://spar-international.com/country/zambia/

and Mauritius through pursuing country-specific marketing activities and local sourcing of fresh food products.

The annual reports of Woolworths do not consistently spilt out revenues and profits by South African and Southern African operations, so it has not been possible to track changes in these measures over time.

Woolworths has grown less in Africa than Shoprite, Pick n Pay and SPAR have. This may be given its focus on high-income consumers exclusively. It is a niche supermarket chain and it is not accessible to most consumers in the Southern African region. To further preserve this niche status and to ensure consistent quality, Woolworths has bought back most of its franchises, converting them into corporate-owned stores or shutting them down.

Woolworths' business model is focused on sourcing and exclusive access to suppliers of high-quality fresh and packaged products. This makes it difficult to rapidly expand in the region given the lack of sufficient supplier capabilities as discussed in Chapter 7. It relies strongly on well-established regional supplier networks built on long-term supplier relationships (Woolworths Holdings Annual Report, 2017).

Table 17: Woolworths Food and full line store numbers only

	South Africa	Botswana	Swaziland	Mozambique	Namibia	Zambia	Rest of Africa	% Non-RSA number of stores	Notes
2006	197								Franchise stores only, some converted, others closed.
2007	273								
2008	305								
2009	339								
2010	350								
2011	323								
2012	300						23	7%	*only total Africa reported
2013	296						20	6%	
2014	297						22	7%	
2015	311						24	7%	
2016	389	9	2	2	6	2	21	5%	*food store numbers per country reported
2017	399	9	2	2	6	3	22	5%	As above

Source: Woolworths Holdings Integrated reports and investor presentations

5.3.3. Challengers to the incumbents – internationalisation of the 'new' entrants: Fruit and Veg City, Game and Choppies

Fruit and Veg City

The fifth largest grocery retailer and the first key challenger to the incumbent chains in South Africa is Fruit and Veg City Holdings (FVC). Like the other supermarkets, it has evolved to targeting customers across different income groups, including through its more up-market Food Lover's Market format. FVC is not listed on any stock exchange. In the region, FVC through Food Lover's Market (FLM) is present in Zambia, Zimbabwe, Botswana, Namibia, Lesotho, Mauritius, Reunion, Malawi and Angola. The premium format of FLM is being used to spearhead expansion into the continent to benefit from the higher-margin business (Enslin-Payne, 2011). Since not listed, there are no publically available annual reports to track number of stores, revenues and profits as measures of the degree of internationalisation.

As described in Chapter 2, unlike the other chains, FVC's model is predominantly the sale of fresh fruit and vegetables, with a small (but growing) proportion of other grocery items. FVC primarily procures its fresh produce daily from South African municipal fresh produce markets. FVC has only recently ventured into the Southern Africa region and faces competition not only from other supermarkets, but also from wet markets. Concerns around availability of consistent quality and availability of fresh produce in the region has been raised as a problem by FVC, affecting its internationalisation (see Section 5.4.2 and Chapter 7).

In South Africa, FVC has been buying back franchise stores and converting them into corporate FLM stores. This has happened in the region too, for instance, in Zambia. A driving force for this change is to ensure that quality and consistency is maintained across outlets, allowing it to remain competitive.[22] While the initial mode of entry into Africa has been through a franchise model, highlighting its mode of internalisation (as part of OLI frameworks), this has not been successful, and these franchises have been converted to corporate stores.

FVC has also internationalised in a different way to the other supermarkets in Southern Africa which is unique to it. Building on its niche advantage in fresh fruit and vegetables, it has expanded into the import and export business in fresh fruit. Fruit and Veg City International is a vertically integrated entity with its own logistics company geared to cater to global markets and operated in partnership with two South African fruit growers. This has required developing different capabilities from retail. FVC is able to meet stringent export phytosanitary standards demanded in high value, fresh fruit export markets in Europe and Asia. Strong relationships with suppliers and packaging houses has been critical to the success of the fresh fruit export business. Fresh fruit exports constitute a profitable arm of the overall business, contributing

[22] Interview with a supermarket chain, 26/07/15

approximately 80 per cent of total revenue.[23] FVCs expansion into high-value fruit-export markets has helped to sustain its local grocery-retailing part of the business, which has not yet grown to match the size and range of the other major supermarkets.

Like the other main chains, FVC also has links with property management and investment companies. In 2015, it received a R760-million investment from Actis, which bought a minority stake in the business (Fin24, 2015). Part of Actis' portfolio includes mall developments in several countries in Africa.[24] Actis provides funding to continue FVC's growth in South Africa and other countries within sub-Saharan Africa. The significance of this relationship with Actis as a property developer for FVC's internationalisation strategy, and indeed the general trend of partnerships between supermarket chains and property developers, is important for internationalisation. The importance of such relationships is emerging as location in malls continues to be an essential competitive advantage for supermarket chains in the Southern African region (see Chapter 6).

FVC/FLMs initial growth in South Africa prior to its spread in the region was hindered by barriers to entry and expansion imposed by the incumbent supermarket chains precisely through the incumbents' contractual relationships with property developers in South Africa. Through exclusive clauses in tenancy contracts between property developers in malls and incumbent anchor tenants in supermarkets, it was further prevented from doing so. When it first attempted to locate in malls, it was hindered given these exclusive leases. Even though FVC grew since the opening of its first store in 1993 to over 120 stores in the region to date, this growth could have been faster and greater in terms of store numbers if not hindered by such exclusionary mechanisms. Its partnership with Actis is an acknowledgement of the important role that property developers play in the retail landscape in the region, given the significance of shopping malls. This is introduced in Section 5.4.2 below and discussed in detail in Chapter 6.

Walmart's Game

Another new entrant into grocery retail in Southern Africa around 2011 was American giant Walmart, the largest retailer globally in terms of revenue from international markets (see Table 1 in Chapter 3). Aside from SPAR International, Walmart is the only other non-African grocery retailer to have entered the region. Its entry into the African continent followed the takeover of South Africa's Massmart which was eventually approved in 2012. So, the largest transnational retailer globally had only a recent entry into Africa (the transaction was initially notified to the South African Competition Commission in 2010, but only concluded in 2012), even though the

[23] Interview with a supermarket chain, 26/07/15

[24] See for instance, https://www.act.is/about-actis/our-portfolio/?region=&sector=real-estate&year=

influx of multinational chains was expected earlier in the 2000s according to the predictions of the literature.

Its Game portfolio branched into food products only after the Walmart takeover, previously only selling general merchandise and electronics. This shift marked the group's entry as a closer rival to the incumbent grocery retailers in terms of intra-format competition. Walmart also targets low-income consumers through Cambridge Foods and offers hybrid wholesale and retail sales through Makro. In terms of food retail offerings outside of South Africa, it only operates through Game.[25] Cambridge does not operate outside South Africa currently. Dry groceries are also sold through its hybrid wholesale Masscash outlets (Makro, CBW, Trident and buying group Shield).[26]

The group's retail expansion strategy in Southern Africa is through growing its Game stores in selected cities and metros and growing Builders Warehouse's presence in the SADC region. Their next wave of expansion in Sub-Saharan Africa is said to be through new Builders Warehouse, Game and Masscash stores (Massmart interim results presentation, 2018).

While the group reports on segmental revenue and profits in and outside South Africa, this is combined for all four of its business segments – Massdiscounters, Masswarehouse, Massbuild and Masscash. It is therefore not possible to strip out Game's revenue and profits on a consistent basis over time without additional, non-publically available information.

Walmart is present in 13 sub-Saharan countries. Its annual reports have noted that it has followed a 'measured' approach into Africa (Massmart Integrated Annual Report, 2016). This is despite the group claiming that the growth of sub-Saharan African markets remains a key strategic, long-term priority given slow growth in South Africa (Massmart Integrated Annual Report, 2015). According to Massmart, its South African operations did not grow strongly given low economic growth, a weakly performing manufacturing sector, drought, low commodity prices, high unemployment, inflationary pressures, political uncertainty and growing social unrest. These speak to general factors that affect all FDI.

Although present in 13 African countries, Game is operational only in 11 of these. As of 2018, Game operates in South Africa, Zambia, Namibia, Tanzania, Malawi, Mozambique, Lesotho, Kenya, Uganda, Nigeria and Ghana (Massmart interim results presentation, 2018). Table 18 below presents Game stores in South Africa and in the rest of Africa. Further, not all of the

[25] While Builders Warehouse and Masscash Wholesale formats are also used to spearhead expansion outside food (2015 Integrated Annual Report).
[26] Other wholesale and retail operations are not in grocery retail.

Game stores in South Africa and in other countries offer fresh food. In 2017, the group reported that 72 stores in South Africa and 17 stores in the rest of Africa offered fresh products.[27]

Table 18: Massmart's Game stores in South Africa and the rest of Africa

	SA	Rest of Africa	% Non-RSA number of stores
2013	121		
2014	130		
2015	117	20	15%
2016	119	22	16%
2017	110	32	23%

Source: Massmart Integrated Annual Reports and investor presentation
Note: Data on the split of stores between South Africa and the rest of Africa in 2013 and 2014 is not discernible from websites and annual reports

Despite having the advantage of Walmart's immense global supplier base allowing it to benefit from lower costs, Game has yet to gain traction in Southern Africa as a grocery retailer. It has internationalised even less than the South African chains. This questions OLI theories around ownership advantages and their role in internationalisation. In this case again, regional advantages in terms of establishing supplier bases and logistics networks, and therefore locational proximity, appears to be more important, speaking to locational advantages. This is discussed further in Section 5.4.2.

Game has also faced strategic barriers to its expansion in South Africa imposed by the incumbent chains. Similar to the experiences of FVC in terms of exclusive leases in malls in South Africa, Game's entry into fresh groceries has resulted in numerous legal disputes and competition cases. Game, prior to expanding its offering to include fresh produce and groceries, was not in direct competition with the incumbent supermarkets and co-located in malls with incumbent anchor tenants. However, as Game started converting its stores to include groceries, anchor tenants, particularly Pick n Pay, contested this as a breach of the exclusivity clauses they had in their leases in different malls. This has affected their growth in South Africa and is discussed further in Chapter 6.

Choppies

The newest entrant supermarket chain is Botswana's Choppies Enterprises. As highlighted in Chapter 2, Choppies has expanded rapidly in Africa as Figure 13 and Table 19 show. Choppies has over the last 30 years grown from two stores in Botswana to over 200 stores in

[27] http://www.massmart.co.za/iar2017/our-performance/massdiscounters-divisional-review/

Botswana, Zimbabwe, South Africa and Zambia. Recently, it also entered Kenya, Tanzania and Mozambique, with plans to open new stores in Namibia (a joint venture agreement has been concluded for Namibia (Choppies Integrated Annual Report, 2016 and 2017).

Figure 13: Key milestones in Choppies internationalisation trajectory

Milestones

1986
- **Founded** by the Chopdat family
- **First supermarket** opens in Lobatse, Botswana

1992
- **Ram Ottapathu** joins company

1993
- **Second store** opens in Lobatse

1999
- **First superstore** opens in Gaborone, Botswana

2003
- **First hyperstore** opens in Gaborone, Botswana

2004
- Choppies **acquires** Chathley, Food Mart and MultiSave in Botswana

2008
- **First store** opens in Zeerust, South Africa
- His Excellency Festus Mogae, former President of the Republic of Botswana, appointed as chairman

2011
- **Restructuring** completed
- **Largest hyperstore** opens in Rail Park Mall, Gaborone, Botswana

2012
- **Listing** on **BSE**
- **50th store** opens in Botswana

2013
- Choppies acquires **MegaSave and SupaSave** in Botswana
- **Expands into Zimbabwe** by acquiring 10 Spar stores

2014/2015
- **Total stores:** 129
- **New distribution centre** opened in Harare
- **Fruit and vegetable** distribution centre opens in Rustenburg
- **Listing** on JSE

2016
- **KZN and Eastern Cape** acquisition
- **Commenced** Zambian and Kenyan operations

2017
- Opened **Mozambique** and **Tanzania** stores

Source: Choppies Integrated Annual Report, 2017

Listed on both the Botswana Stock Exchange and the JSE,[28] Choppies is the only supermarket other than Shoprite to have more than one listing in Africa and is the other African supermarket chain to grow rapidly in the Southern and East African region. The fast-growing African market is a key motivation for Choppies' expansion into Africa, supporting new market-seeking motives of internationalisation.

Its growth in store numbers and revenues over time is given in Table 19. Of all the African chain supermarkets, Choppies is one of the fastest-growing retailers on the continent in terms of rate of store number growth. It has 60 per cent of its stores and 54 per cent of its total revenue outside of home base of Botswana, achieved over a very short time period. This is a much higher proportion than the other chains (see Table 19).

The latest expansions were mainly targeted in KwaZulu-Natal, South Africa, in addition to Zambia and Zimbabwe. The group noted that after this round of expansions, there would be no more new store openings as its focus is changing to improving efficiencies across operations by expanding existing operations in Kenya, Mozambique, Tanzania, Zambia and Zimbabwe (Retail Analysis (2017).

[28] http://choppies.co.bw/choppies-lists-on-the-jse/

Table 19: Choppies internationalisation from 2012–2017

	Botswana	South Africa	Zambia	Zimbabwe	Kenya	Tanzania	Mozambique	Total store numbers	Total non-Botswana store numbers	% Non-Botswana number of stores	No of countries	Revenue Botswana, Pula mill	Revenue in non-Botswana, Pula mill	% non-Botswana revenue of Total
2012	51	12						63	12	19%	2	*3313		
2013	64	19						83	19	23%	2	*4045		
2014	69	28		13				110	41	37%	3	3594	1427	28%
2015	75	38		21				134	59	44%	3	3811	2142	36%
2016	81	64	7	30	9	1		192	111	58%	6	4591	2830	38%
2017	84	71	12	32	11	1	1	212	128	60%	7	4070	4822	54%

Source: Annual reports
Note: *Split by country not reported

The group also owns 12 DCs in Botswana, South Africa, Zimbabwe, Zambia and Kenya. The DCs are located strategically to effectively supply the Southern African region, and with its own vertically integrated transport fleet, Choppies has been able to rapidly expand in the region over a relatively short space of time. The significance of regional infrastructure is once again apparent in Choppies' growth. Further, firm-specific and ownership advantages that contribute to this are discussed in Section 5.4.2. However, of particular interest in the Choppies growth story is the political economy issues and how these have supported the growth and spread of the chain. This is discussed in Section 5.4.1 and Box 1 below.

5.4. The determinants of internationalisation of supermarket chains in Southern Africa

This section looks at key determinants of internationalisation that has resulted in the trends seen in Sections 5.2 and 5.3. This is first done in general terms in Section 5.4.1 based on what the literature suggests affects internationalisation generally to test whether these factors also apply in the grocery retail setting in Southern Africa. This includes assessing the general attractiveness of markets measured by the levels and growth in GDP per capita and urbanisation qualitatively. Other factors that are likely to have an impact on supermarket internationalisation, such as population levels and growth, political stability and state of infrastructure are also evaluated. This is also assessed from the motivations put forward by supermarket chains in their annual reports and websites. Other factors that have affected the internationalisation of retailers in the region such as political economy issues and significance of culture are further debated here.

Furthermore, firm-specific factors that have affected internationalisation of the supermarket chains are assessed in 5.4.2. These include ownership, location and internalisation advantages in line with OLI frameworks. It also looks at motives other than new market-seeking for internationalisation (such as gaining a competitive edge over rivals).

5.4.1 General factors affecting internationalisation

The literature on internationalisation suggests that the level and growth in income per capita is an important consideration for the spread of retailers, as they are for FDI generally. Greater income per capita indicates greater spending power. Consistent with the empirical literature, GDP, income per capita levels and population growth are key considerations in the expansion plans for the supermarket chains as reported in their public documents. This applies to both supermarketisation and internationalisation.

GDP per capita and urbanisation

Shoprite's views, for instance, on the importance of GDP levels, GDP growth and GDP per capita are evident from its annual reports in which these measures are regularly tracked and reported. Linked to GDP, a measure closely monitored by the group is the trend in commodity prices. Oil-rich countries in Southern Africa, like Angola, and outside Southern Africa, such as Nigeria, Ghana and the Democratic Republic of Congo, have been targets for Shoprite since the start of the commodity price boom (Shoprite Integrated Annual Report, 2007; 2010). Aside from the increase in employment and disposable income that can result from commodity price increases, governments' efforts in managing this growth through investments in infrastructure such as improving roads, harbours and air links have positive spinoffs for retailers (although still at poor levels in many of these countries).

However, GDP average levels and growth rates are not the only factors that affects internationalisation. Countries with high GDP growth rates have not necessarily had the highest store growth rate. For instance, countries other than those I evaluate, such as Mozambique, Mauritius and Tanzania have slow growth of supermarkets despite high GDP growth rates, although these generally have lower GDP average levels. Others, like Zambia, have relatively low levels of GDP on average, but have seen high growth (Table 20).

Table 20: GDP per capita average levels and growth; average urbanisation, 2007–2017

	Average GDP per capita (2007–2017, constant 2010 US$)	GDP per capita growth (annual %) Average 10yrs (2007–2017)	Average urban population % (2007–2017)	Urban population growth (2007–2017 average annual %)
South Africa	7418	0.8	63	2.1
Botswana	6892	2.4	64	3.6
Zambia	1501	3.2	40	4.2
Zimbabwe	956	2.1	33	1.6
Namibia	5508	2.0	44	4.3
Tanzania	761	3.5	30	5.5
Lesotho	1224	3.2	26	2.9
Mozambique	454	3.3	33	4.4
Mauritius	8605	3.8	41	0.0
Malawi	460	2.3	16	3.9
Angola	3622	2.4	61	4.7

Source: World Bank Open Data

Rising urbanisation levels are also claimed to be a driver of both supermarketisation and internationalisation, as described in Chapter 3 (Reardon, Timmer and Berdegué, 2004; Tschirley, 2010). Aspirational consumption as a result of higher urban incomes and upwardly mobile consumers with changing consumption patterns has spurred retail investment in Africa (Abrahams, 2009).

Table 20 above also shows the proportion of urban population for selected SADC countries. South Africa and Botswana have the highest proportions of urban population, followed by Angola. Angola has also had high urban population growth rates (between 2007 and 2017). Only Shoprite has grown strongly in Angola (Table 12), while the other chains have not entered or have a minimal presence. In Tanzania, there is a relatively low proportion of urban population, but one that is growing fast. However, there has been very slow growth of modern retail in the country and chains like Shoprite have exited.

Other factors aside from GDP and urbanisation levels therefore as discussed below, such as political economy issues, supplier networks and retail culture, which all affect internationalisation of supermarkets.

Population

Related to urbanisation, population levels and growth are considered important factors by the retailers. For Shoprite, population levels and growth are important when considering the location of new stores outside of South Africa. This is seen in most of its annual reports where population trends in the countries it operates in and in potential new countries are regularly monitored (see for example, Shoprite Integrated Annual Report, 2011).

Growing numbers in population mean a growing customer bases, and with a combined population of over 900 million (excluding South Africa in 2015), sub-Saharan Africa is clearly attractive to Shoprite (Shoprite Integrated Annual Report, 2015). Although not part of the assessment in Southern Africa, the approach of supermarket chains towards other populous countries in Africa and beyond is illustrative. Shoprite attempted to get a foothold in Nigeria and India, two highly populous countries.

Nigeria, with around 200 million people, of which 10 million are in Lagos, was an obvious target for Shoprite. While only entering in 2006, Nigeria has been on the radar of the group for many years and there are plans to expand rapidly in the country. There have however been barriers and delays in rolling out new stores in Nigeria including an acceptance that Nigeria is generally an expensive country to do business in, besides the cultural differences in doing business there. These appear to have curtailed its ability to expand as planned. Nonetheless, since 2013, Shoprite has seen considerably faster growth in Nigeria (Table 12).

Population size also steered Shoprite to open its first non-African franchise operation in India in 2005. The population of just Mumbai (where the store was located) was 15 million in 2005. The decision to enter the massive Indian market was first considered around 2004. Shoprite thought that because it had a similar culture to the large Indian population in KwaZulu-Natal, in which the group was highly successful, that it could trade successfully in India. The Indian government however had restrictions on retail FDI and Shoprite decided to enter the Indian market through a franchise model, a Shoprite Hyper, in Mumbai in 2005. The projections were that organised retail space would increase significantly and that there would be a huge move from corner shops to shopping malls. This also did not materialise as planned as the independent retailer culture was so entrenched and the modern supermarket concept was completely different from what Indian consumers were familiar with. Shoprite withdrew from the Indian market in 2009. Government restrictions on foreign participation in the retail space and the slow pace of retail liberalisation were cited as reasons.

Similar to Shoprite, Pick n Pay was attracted to Nigeria given the large population and strong growth potential. In 2014, it sent a team to the country to explore opportunities (Pick n Pay Financial Statements, 2014), although to date, it has not opened any branches there. In 2015, it registered a company in Ghana (Pick n Pay Financial Statements, 2015), but has yet to start operations in the country either. The projection in its 2017 financial statements is that the first stores in these West African countries will open over the next two years.

Shoprite's internationalisation in Nigeria and India therefore has been less successful than in other much less populous countries, like Zambia, Namibia and Botswana. Pick n Pay has effectively not yet entered Nigeria. This further points to more successful regionalisation than internationalisation. So new markets based on large populations and growing middle class alone, without considering other factors such as culture, local policies and political economy issues, proximity to suppliers, does not necessarily contribute growth and expansion of chains. Population may be a key factor when looking to enter into a new market but does not appear to affect the rate of growth directly.

Internal ownership capabilities did not benefit Shoprite or Pick n Pay in these countries. The significance of geography and proximity to supplier bases is again relevant.

Country infrastructure

The general state of infrastructure development in a country is another factor which affects supermarket operations. This is not unique to retail FDI, although the perishable nature of products makes it even more important to have basic infrastructure in place. Good roads, harbours and air links are important, however in many African countries, the infrastructure is still well below internationally acceptable standards. Long lead times at harbours, which can vary from 60 to 120 days, means that merchandise worth millions are destroyed annually when past its sell-by dates due to transport delays.

This was a problem for Shoprite in Angola for instance, where the harbour was not able to handle the volume of freight. Instead, more expensive alternatives by road had to be explored and fresh produce had to be flown in (Shoprite Integrated Annual Report, 2005; 2007). On the other hand, the use of Mauritius' free harbour as a collection point which has good storage facilities has helped the Group to distribute merchandise sourced from all over the world to stores in East and Southern Africa as well as Madagascar (Shoprite Integrated Annual Report, 2004).

Infrastructure challenges have also been raised as a reason for the slow pace of the spread of supermarkets in general in Mozambique (Nkhonjera and Das Nair, 2018). This slow pace of infrastructure development in Mozambique is seen in the Africa Infrastructure Development Index published by the African Development Bank (African Development Bank, 2018). Other Southern African countries with weak infrastructure include Malawi, Angola, Tanzania and Lesotho. This affects the pace of internationalisation.

How the supermarkets have overcome some of the infrastructural problems in Southern Africa are firm-specific responses and are discussed in Section 5.4.2 (for instance, through DC and supply chain investments, electronic customs interfaces, mall construction etc).

Governance and political stability

Other common factors that affect FDI as highlighted in the literature include political stability, levels of infrastructure, strong institutions and protection of property rights in host countries.

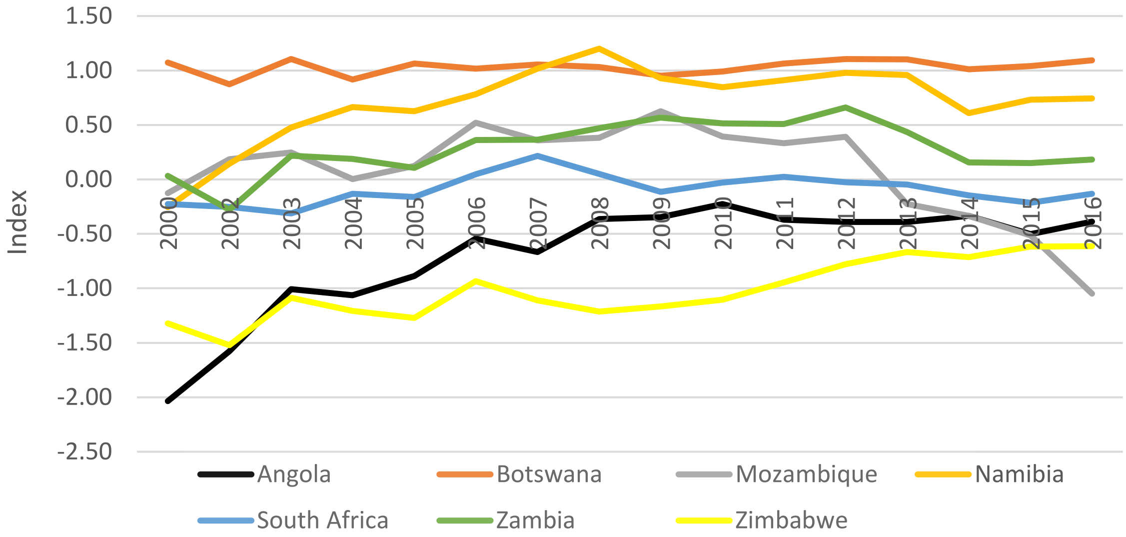
The OLI framework allows for these and other political economy considerations, which is an attractive feature of this approach (Dunning, 2000). However, there has been very little empirical evidence of this in the retail context in Africa.

Political stability is considered for expansion into Africa by retailers as highlighted in their annual reports. The political stability of Zambia has long contributed to it being a strong growth country, especially for Shoprite and increasingly for the other retailers. The World Bank's World Governance Indicators[29] has a Political Stability and Absence of Violence/Terrorism index (Figure 14) which measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism, and a Government Effectiveness index (Figure 15), which reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. The estimate of both these indicators range from approximately -2.5 (weak) to 2.5 (strong) governance performance.

For the political stability index, Zimbabwe and Angola have both had weak and negative scores, although improving (with Angola more strongly) over the period. Shoprite, for example, has seen strong growth in Angola however but not in Zimbabwe (see Table 12). Choppies, on the other hand, has grown strongly in Zimbabwe. Botswana, Namibia and Zambia have had relatively strong and stable scores, higher than those of South Africa, while Mozambique's index has weakened considerably. The growth of Shoprite's stores in Mozambique has indeed not been as strong as in Angola, but in 2016, it reached the same number of stores as in highly stable Botswana (in terms of world rankings, Botswana is in the 90th percentile). This highlights that despite political instability, the growth rate (although off a lower base) has been greater for Angola and Mozambique than more stable countries like Zambia and Botswana.

[29] The Worldwide Governance Indicators (WGI) are a research dataset summarising the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organisations, international organisations and private sector firms. The WGI do not reflect the official views of the World Bank, its executive directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

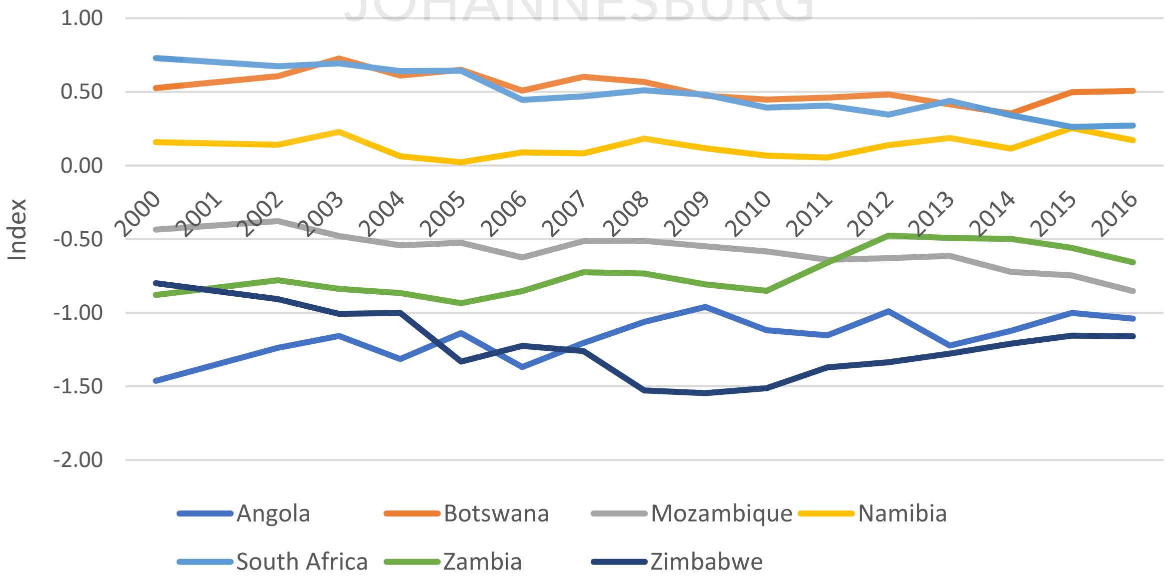
Figure 14: Political Stability and Absence of Violence/Terrorism index, World Governance Indicators, for selected SADC countries



Source: World Bank Worldwide Governance Indicators

Figure 15 shows government effectiveness, with positive scores for Botswana, Namibia and South Africa, and negative scores for Zambia, Angola, Zimbabwe and Mozambique, even though these are amongst the fastest growing countries in terms of Shoprite's store numbers.

Figure 15: Government Effectiveness, World Governance Indicators, for selected SADC countries



Source: World Bank Worldwide Governance Indicators

Conversely, political instability can lead to diversification of risk and investment outside home countries. This appears to be, at least in part, Woolworths' motive for internationalisation. Woolworths' reported internationalisation strategy is to leverage scale across the Southern hemisphere (Woolworths Integrated Annual Report, 2017) to mitigate both political and economic risk. This is evident in its operations and expansion in sub-Saharan Africa, Australia and New Zealand, including through its acquisition of Australia's David Jones in the clothing space.

The significance of political economy factors

The good governance and political stability indices above however mask important political economy dynamics. As discussed earlier, in 'stable' countries like Zambia and Botswana, and in less stable Zimbabwe, political settlements were reached with the large chains and with political elites, Shoprite and Choppies, aiding significantly in their expansion. Furthermore, national policies that are in place because of lobbying by powerful interest groups affect the availability of products sold on supermarket shelves and affect the rate of internationalisation. Aggregate figures such as the ones above by the World Bank do not reveal these important nuances which I elaborate upon below.

In this section, I discuss the importance of understanding specific country policies, as well as agreements and arrangements that foreign investors reach with governments and political elites which pave the way for their entry and growth.

Government policies have a large impact on location and expansion decisions. In Zimbabwe, for instance, as previously noted, given the Indigenisation and Economic Empowerment policy of 2011 which stipulates that 51 per cent of shareholding in all businesses with a net asset value of US$500,000 be owned by indigenous Zimbabweans, foreign investors have to operate as joint ventures, or enter into contract farming, build and transfer assets and projects, or enter into land use agreements with locals (Chigumira et al., 2016).

This has affected the entry and growth of South African retailers in Zimbabwe. For instance, given the indigenous requirements, Pick n Pay operates as a joint venture with local supermarket chain, TM Supermarkets. Local chain OK Zimbabwe and TM/Pick n Pay collectively hold over half the national market. Shoprite, on the other hand, has exited the Zimbabwean market altogether.

Choppies, which has grown strongly in Zimbabwe, has worked around this requirement through a Zimbabwean subsidiary, Nanavac Investments (Pvt) Limited. Choppies owns 49 per cent of the shares in Nanavac, an indigenous Zimbabwean company which owns the majority 51 per cent share. However, the Choppies group has a 93 per cent economic interest in Nanavac, therefore controlling it. Choppies states that the shareholders of the balance of the shares have agreed to allow it to manage the company as it seems fit and the success of its operations are dependent on the investment of the group (Choppies Integrated Annual Report, 2017). However, there are currently major disputes around this (see Box 1).

While there are such policies, it would appear that there are also means of working around them. These are political economy considerations and firms like Choppies have had the power to retain economic control over the Choppies stores in Zimbabwe despite legislation (at least until recently – see Box 1).

Box 1: Choppies Enterprises and politicians

Choppies Enterprises has from its early days of operations been linked to top politicians in Botswana. In 2008, the former Botswana president, Festus Mogae, was appointed as the Independent Non-Executive Chairman of the group. Allegations are that he was appointed as a director while he was still president of the country, although this has been denied (Konopo, 2015).

There have been several further allegations of political influence to receive favourable treatment from the Botswana government over the years. These have included obtaining work permits for expatriate employees from India; political party support in Botswana; the transferring of shares to politicians prior to listing on the Botswana Stock Exchange; supplying groceries to the Botswana Defence Force and prisons department; and supply relationships with companies owned by the current president of the country. Other former politicians, including ministers and a Botswana ambassador to India, have also subsequently become directors of Choppies after exiting politics (Konopo, 2015).

In Zimbabwe, as noted above, Choppies controls the 32-strong store network (economic control) albeit with minority share of 49 per cent given the indigenisation laws. Nanavac Investments holds the majority share. In terms of economic control, Choppies believes it has 93 per cent economic control, with Nanavac holding the balance 7 per cent. Recently, there have been disputes around this control by the investors in Nanavac, owned by Zimbabwe's former second deputy president, Phelekezela Mphoko, and his son, Siqokoqela (Yende, 2018a). If indeed Choppies does have economic control over the Zimbabwe operations, the indigenisation requirement has only been met from an ownership perspective, while all decision making remains in the control of Choppies. Choppies has thus found a way to work around the investment requirement in Zimbabwe and used this to expand rapidly in Zimbabwe.

There have been other allegations of fraud too both on the part of Nanavac shareholders and Choppies. In late 2018, the Nanavac shareholders invoked a clause to purchase all of the Choppies shares for a cash consideration equal to the latest audited financial results (Yende, 2018b). Choppies, however, has not released its 2018 financials, in breach of stock exchange rules. Trade of Choppies shares in both the Botswana and Johannesburg Stock Exchange have been suspended as a result (Reuters, 2018). These allegations have not, as far as I am aware, been proven. However, such political influence if proven accurate, would have had a significant impact on the internationalisation trajectory of Choppies.

Relative to Zimbabwe, the approach to retail FDI in Zambia has been very liberal, with policies actively encouraging the entry and growth of MNEs as discussed in Box 2 below. This has contributed to Shoprite's entry and expansion into Zambia.

Box 2: The role of political economy considerations in Shoprite's internationalisation

Shoprite's entry into Zambia in 1995, the second country it entered after Namibia, was greatly facilitated by the Zambian government under the presidency of Frederick Chiluba. As discussed in Ziba and Phiri (2017), following liberalisation policies and a move away from exchange controls in the 1990s, a range of incentives was given to investors and government intervened minimally in market operations. These included a guaranteed 100 per cent tax repatriation, tax credits (through the Investment Act of 1993), land acquisition and incentives on duties. Foreign investors faced no limitations or conditions on repatriating their profits (Miller, Nel and Hampwaye, 2008).

After the parastatal supermarkets (ZCBC and Mwaiseni Stores) were dissolved, Shoprite bought up six of their buildings through the Zambia Privatization Agency, taking over the main existing competition in terms of supermarket chains. Shoprite lobbied for further favourable conditions with the Zambian government (over and above the general incentives offered to all foreign investors) such as a five-year tax break and favourable import tariffs. In return, it pledged to expand its footprint to all provinces in Zambia, which it did by 2015.

Such incentives, coupled with the first-mover advantage, entrenched Shoprite's lead position in Zambia. The other retail chains who entered much later are unlikely to have received such favourable treatment, giving Shoprite a competitive advantage.

Decades later in 2016, Shoprite again lobbied to expand in Angola with planned investments of US$572 million. President Jose Eduardo dos Santos appointed a commission to negotiate potential tax breaks and other incentives (Mendes and Bowker, 2016). Today Shoprite has 57 stores in Angola (across different formats, with 32 in grocery retail) although it has faced heavy losses given hyperinflation.

The existing literature on the growth and spread of supermarkets does not adequately take into account such political economy factors, yet they clearly have a massive impact on how some chains have had greater success in internationalising in the region. The traditional neo-classical economic factors fail to accurately capture this.

As previously noted, national policies also affect internationalisation and the grocery retail landscape. In Botswana for instance, the licensing of traders of goods regulated by the Trade Act of 2003 and the Trade Act Order of 2008 prevents wholesalers from selling directly to end consumers. To remain competitive in the face of expanding supermarkets, wholesalers have vertically integrated into retail. Multinational supermarket chains therefore compete not only with Choppies, but also with vertically integrated wholesalers and retailers.

Intra-regional trade is important for supermarket internationalisation because of cross-border supply chains and logistics, a factor that has given regional supermarket chains an advantage over national chains. Tariff and non-tariff barriers can prevent this, despite being part of SADC. Each country pursues its own policies to protect respective national industries and local suppliers.[30] These restrictions are a lever which can be deployed by governments, including in response to local lobby groups. These restrictions can take many forms, including local content requirements and trade restrictions. Local content policies require MNEs to source a minimum proportion of goods locally (Altenburg et al, 2016). The different countries further have different import restrictions that serve to protect local manufacturing industries. Some of these import restrictions, such as duties and quotas, are put in place following heavy lobbying by powerful interest groups and in many cases, serve to support a handful of powerful producers/manufacturers. This affects the internationalisation of supermarkets, especially in countries where a large proportion of products is imported given very limited local manufacturing capacity and capabilities.

Protectionist measures are strongest in Zimbabwe with high import duties levied on a range of supermarket products (such as cooking oil, maize meal, rice, salt and wheat flour). In Botswana and Zambia there have been outright bans on imports of poultry and maize meal, and other non-tariff barriers such as vitamin A fortification for sugar and non-GMO requirements for grain (in Zambia).

While South Africa, Botswana and Zambia have 'softer' local content requirements for supermarkets, Zimbabwe's competition and tariff by-laws set a hard threshold that stipulate supermarkets are to procure at least 20 per cent of products locally (Chigumira et al. 2016). These factors impact the internationalisation of supermarkets in the region and are discussed further in Chapter 7.

The significance of understanding consumer culture and preferences

Although out of the scope of my thesis, the significance of consumer culture and habits is important. In this section, I briefly discuss these issues that offshoots from the traditional theories have contributed towards understanding internationalisation. These include

[30] These include Zimbabwe's Industrial Development Policy of 2012-2016; Zimbabwe Agenda for Sustainable Social and Economic Transformation; Zambia's Industrialisation and Job Creation Strategy for Sustainable Economic Growth and Employment Creation; Botswana's 2012 Citizen Economic Empowerment Policy.

frameworks from the economic geography discipline which emphasise the importance of understanding and adapting to local cultures and consumer patterns (Burt et al., 2002; Dawson and Mukoyama, 2006; Coe and Hess, 2005; Dawson, 2007).

Stemming from the characteristics of supermarkets highlighted in the literature review, multinational chains need to adapt to host country cultures or create new consumer cultures to gain acceptance (Burt et al., 2002; Wrigley and Currah, 2003; Dawson, 2007). A retailer's product offering is not only embedded in a particular economic, but also in a social and political context (Dawson, 2007). This appears true in the experiences of South African retailers in and out of Africa.

Shoprite has always considered the rest of Africa to be a natural extension of its South African business and that they could transfer their learnings from South Africa into these markets (Shoprite Integrated Annual Report, 2016). Therefore, as previously noted, its expansion strategy has largely been to duplicate the South African model through the acquisition of existing stores in the countries, although over time, a mixed model of acquisitions and greenfield investments was pursued. Duplicating the South African model was possible and more successful in countries where consumer preferences were very similar to those in South Africa. In such countries, such as Zambia and Namibia, proven retail formats could be replicated.

Although claiming to have appreciated very early on in its internationalisation drive that Africa was not a single market and acknowledging that what works in one country does not necessarily work in another (Shoprite Integrated Annual Report, 2005), it appears to have not applied these general principles in its expansion outside the Southern African region. Shoprite's failure in India, Egypt, East and West Africa suggest that it may have applied blanket strategies which did not work in these markets. The culture in these markets is significantly different from Southern Africa and Shoprite struggled to gain traction in these markets.

In East Africa, Shoprite entered Tanzania in 2002 through the acquisition of three Pick n Pay Score stores located in the northern parts of the country, a region with growing tourist numbers. But by 2003, the operations incurred losses. The group also opened modern supermarkets in Dar es Salaam and Arusha in 2004. However, with its agriculture-based economy, Tanzania retained a very strong street market and corner shop culture. Shoprite continued to open new outlets but was not able to attain critical mass and break even. While there were opportunities, given new mining ventures in the country, the infrastructure to these areas were also not sufficiently developed for the group to take advantage of. It finally exited Tanzania in 2014.

5.4.2 Firm-specific factors affecting internationalisation of supermarkets in Southern Africa

Section 5.4.1 evaluated general factors affecting supermarket internationalisation. While this provided insights on the trends observed in Southern Africa, there are a number of firm-specific factors that also have a bearing on the internationalisation of supermarkets. This sub-section looks at firm-specific factors, such as first-mover advantages, firm-specific innovations and investments, and managerial and other capabilities that have driven internationalisation. These speak to the nature of ownership advantages that specific multinational retail chains possess in line with the ownership dimension of OLI frameworks. The section further emphasises the geographic nature of retail, linking key issues of logistics, distribution investments and regional supplier networks to internationalisation, in line with location dimensions of OLI. The internalisation aspects of OLI frameworks are also relevant in the way that supermarkets operate in host countries. Efficiencies realised through regional distribution networks, logistics and infrastructure, vertical integration of supply and other relationships with suppliers, as well as relationships with property developers to secure prime locations, all speak to internalisation strategies of supermarket chains.

The section further extends OLI theories by introducing competitive dynamics and market power of firms in value chains which affect internationalisation in Southern Africa. It speaks to the spread of supermarkets as a means of extending the oligopolistic rivalry between main chains. The conduct engaged in to maintain or extend market power are also firm-specific strategies. These issues are introduced here but discussed in more detail in Chapters 6 and 7.

Ownership advantages

Ownership advantages provide explanations for why some firms choose to internationalise and this is linked to advantages which allow it to be competitive despite the additional costs of operating in a foreign country. These advantages or assets can be applied to production at different locations without reducing their effectiveness. Examples include preferential access to markets (control over key inputs, patents and intangible assets); access to technology and finance; economies of scale and scope; technological and managerial capabilities; marketing skills etc. These ‘headquarter services’, a catch-all term for these proposed by Helpman (1984), are important for the prospects and success of internationalisation. Some of these ownership advantages could apply to the class of business (for instance, large MNCs with scale and scope) while others may apply to firm-specific ownership advantages (like managerial capabilities and marketing skills).

Shoprite has been the lead firm in internationalising into Southern Africa in terms of some of these headquarter services. It has been dynamic in terms of keeping up with evolving markets and the needs of the growing middle class in the region, investing in retail modernisation and exploiting opportunities in the region, including with suppliers. Other retailers of similar size and scale to Shoprite in the early 2000s like Pick n Pay did not invest in these aspects to the degree that Shoprite did. Pick n Pay reacted slowly to the changing market dynamics post-apartheid and the emerging black middle class (Shevel, 2016). It also invested much later in centralised distribution and other forms of retail modernisation (Moneyweb, 2010). While Pick n Pay invested over R2 billion in its DCs collectively around 2010/2011, these investments were needed to catch up to the rest of the industry, particularly Shoprite. This is accepted both by Pick n Pay and by industry commentators.[31] Pick n Pay's management after 2013 implemented other turn-around strategies, and these appear to have borne fruit in recent years both in South Africa and in the rest of the region.

Shoprite has responded quickly to infrastructural challenges in the region. It had to deal with weak landline telecommunication in the countries when it first entered countries in the region. It did so by installing satellite link-ups, large investments in IT for ordering stock and global tracking system for delivery trucks. Shoprite's ability to successfully get a foot in the door outside South Africa has also been attributed to continuously improving technological support for decentralised businesses in the different countries, while still maintaining strong centralised control at home. This is possible because of the geographic proximity to head office and suppliers in South Africa. Early investments by Shoprite in export systems in the region allowed for real-time tracking of product delivery and efficient communication with customs authorities in the different countries. Shoprite was the first commercial company (and not just in the retail sector) to communicate electronically with customs authorities in some of the countries it operates in (Shoprite Integrated Annual Report, 2001).

Another example of Shoprite's firm-specific dynamism in the region is seen in the repositioning of its Megasave offering in countries outside South Africa. Given the high costs of transport and weak infrastructure in many African countries, management has adapted formats and trading structures to meet local needs. In several countries, it has combined different formats into a functional unit where a Megasave wholesale outlet acts as a DC to supermarkets to reduce costs of replenishment, as well as sells directly to small traders. These Megasaves

[31] According to former Pick n Pay CEO, Nick Badminton, 'Our decision to move to centralised distribution was motivated by changes in South Africa's retail landscape which had seen us fall behind our competitors, who were investing significantly in their supply chains and in improved service to their stores through centralised distribution systems. Throughout the world, the most successful retail groups have unlocked massive value from their supply chains, and most of them have moved away from direct-to-store delivery distribution' (Makholwa, 2010).

service satellite Usave stores in neighbouring areas or towns and in effect, act as 'feeder' stores. This has been adapted in Angola, Tanzania, Uganda and Zambia (Shoprite Integrated Annual Report, 2004; 2006). By 'internalises' certain costs in host countries is another one of Shoprite's firm-specific responses to host market conditions.

There are also benefits in being the first mover in new markets. As highlighted by Reardon, Timmer and Berdegué (2004), initial competition in the 'receiving regions' of retail investment historically has generally been weak, with little resistance put up by incumbent independent and other traditional grocery retailers. This was Shoprite's experience in Africa as the first supermarket chain to move into the continent. There was, in most cases, little existing competition to it, with many markets in the region characterised by numerous dispersed independent retailers and wet markets. Shoprite's motives, in addition to seeking new markets in the continent, appear to be in line with asset-augmenting motives for FDI linked to first mover advantages. The premise of such motives, as the literature review highlighted, is that investments seek new strategic assets to protect or enhance existing assets, and where adding to the acquiring firm's existing portfolio other assets which will either sustain or strengthen the firm's overall competitive position or weaken that of rivals (Dunning, 1993; 2000).

In effect, moving into the region is an extension of local competition. This is evident in Shoprite's strategy as stated in its annual reports, where early on in its internationalisation drive, it wanted to establish as big a footprint to give it the greatest possible head-start over rivals who would undoubtedly attempt to follow into the rest of Africa (Shoprite Integrated Annual Report, 2005). In 2014, Shoprite noted how South African retailers were now finally following it into the rest of Africa but that its first-mover advantage built up over years meant that competitors would find it difficult to effectively compete and present a real threat to its growth. Indeed, it did have a massive head start over rivals. The other retailers followed its lead into Africa, but only several years later, and these had to compete with the now established multinational retailer as an additional hurdle to their entry.

This is consistent with asset-augmenting motives of FDI and raises the possibility of firms with market power engaging in potentially anti-competitive conduct to keep the growth of rivals at bay (Chapter 6). This also resonates with leader-follower theories (Knickerbocker, 1973), in which it is suggested that firms in oligopolistic markets follow each other's location decisions, especially if they are uncertain about costs in the host country.

Location advantages

The significance of regional location and geographic proximity to supply networks is evident in the experiences of regional supermarket chains. These are not necessarily firm specific as they would apply to all regional chains and therefore to a ‘class’ of firms. The OLI framework allows for analysis of location advantages to understand where an MNE chooses to locate. This is closely linked to benefits accruing from distribution systems, supply networks, transport cost savings, local market potential and incentives provided.

Transnational retailers, especially grocery retailers, have been less successful in Africa than the literature predicted they would be as discussed in Section 5.3. As Walmart Game’s experience in Africa shows, while it has the backing of giant Walmart, it has yet to gain traction in Southern Africa as a grocery retailer. Walmart has supply chains that reach more than 100,000 suppliers around the world (Walmart, 2018). This raises the question as to why a large multinational with significant ownership advantages, such as access to global supply networks and capital, has seen slow growth in Southern Africa. These ownership advantages which could translate into lower prices for consumers are alone apparently not sufficient for internationalisation and to grow market share in host countries.

There are clear advantages that regional chains have over international chains, one of which includes proximity to supply chains. Walmart sources considerably from China and from other low-cost manufacturing countries for its global store network to optimise its supply chain and to reduce costs. In Southern Africa therefore, these suppliers for grocery retail products in particular are located further away than the supplier base of the regional retail chains like Shoprite and Pick n Pay, who have strong supplier bases in South Africa. Location advantages therefore play a more significant role than ownership advantages in understanding the internationalisation patterns of grocery retailers Southern Africa. This is even more relevant for fresh produce supply chains given the short cold chains. The slow pace of Walmart’s growth may also be due to strategic barriers to entry faced by Game when it branched into grocery retail as evaluated in Chapter 6. The benefits that regional chains have over global multinationals with regards to proximity to supply networks is also seen in the entry and growth of Botswana’s Choppies. The regional chains have spread more aggressively than large transnational chains.

Early heavy investment in regional infrastructure such as distribution centres and warehouses by Shoprite, including in Freshmark, its fresh produce arm, is an important area that has allowed Shoprite stores on the continent to maintain consistent supply and low prices. Linked information systems are continuously upgraded in each country to suit the specifics of that country, allowing for more streamlined cross-border trading over long distances. Supply chain efficiencies have been invested in as part of the distribution centre infrastructure, such as the ‘Efficient Consumer Response’ system which gives Shoprite full control of the product from manufacture to when the customer purchases it from the shelf. Shoprite’s move away from direct-to-store delivery to centralised distribution (Shoprite Integrated Annual Report, 2002) has been a major contributor to its success in many African countries, giving it a competitive edge over rivals who invested in such infrastructure much later. So, while now investments in DC are commonplace across all the main supermarket chain and is a standard feature of modern retail in Southern Africa, Shoprite was the first to invest in this to supply its regional store network. The group also invests in ‘new country infrastructure’, allowing it to fully automate in a relatively short period after entry. In countries where Shoprite has not been able to do this, and these typically are those further away from home, Shoprite has been less successful (e.g., Egypt and India).

This highlights the importance of supplier relationships. Location advantages of regional chains in terms of access to well-trusted suppliers from their home country with whom they have strong relationships are critical. Shorter supply chains and lead times may be more beneficial than having numerous deep-sea suppliers, especially for perishable products. Being relatively new in the grocery retail space, Game has yet to build these relationships. Walmart has, however, also openly conceded to a slower, more cautious approach in expanding into Africa given certain risks as previously noted in Section 5.3.3.

Internalisation

Internalisation, in addition to other measures, looks at the decisions on how firms choose to operate in a foreign country to make use of ownership assets. This includes how they enter, whether through acquisition of local retailers, joint ventures, franchising or wholly owned subsidiaries (Dunning, 2001). In the context of retail, it further extends to supplier and other relationships, such as those with property developers and logistics companies, in host countries.

First-mover advantage in accessing attractive store sites, either through leasing or owning, has contributed to maintaining Shoprite’s lead position in countries in which it has grown strongly. Land availability for these sites has been repeatedly highlighted as a problem in the continent by Shoprite, as well as by the other retailers. For instance, this was a major problem for Shoprite in Cairo, contributing to its failure and ultimate exit from Egypt, in addition to long distances from supply chains. The cost of land for own development was considered by the group as being prohibitively expensive. Similarly, in Ghana, complex land legislation and uncertainty about ownership hampered opening of stores. In Nigeria, suitable land is also scarce and very expensive (Shoprite Integrated Annual Report, 2005; 2007).

As noted in Section 5.3.1, Shoprite has a property arm – Shoprite and Checkers Property (SCP) – whose key mandate is to provide the group’s retail operations with trading locations. Outside South Africa, SCP invests in developing of its own retail facilities, including shopping malls, given the scarcity of alternative leasing opportunities and inadequate trading space.

Shoprite therefore typically owns the land and property it operates from outside South Africa. Considerable investments in land and property have been made in other African countries and this is a way in which the group has internalised this cost. This also speaks to some of the political economy concessions large chains like Shoprite have benefited from as discussed in Section 5.4.1. Where it does not own the land, it often partners with property developers. Shoprite is seen as having spearheaded the pattern of investment in opening up new shopping malls in the countries it moves to with a supermarket as an anchor store. Shoprite usually forms a joint consortium with a local minority shareholder that own the new shopping mall and other companies, which are mostly also South African companies, tend to rent space in these malls (Miller, 2004).

The SPAR group also identified that retail demand in Southern Africa was shifting away from traditional retailers and strip malls to bigger, modern shopping mall experiences. Given that it traditionally operated in strip malls, SPAR had to also develop relationships with property developers to access malls (SPAR Integrated Annual Report, 2014).

This highlights the importance of the relationship between large chain retailers and property developers as the shopping mall 'experience' has grown in popularity in Africa. As discussed in Section 5.3, many of the supermarket chains have developed partnerships with property developers. In this sense, such relationships may not necessarily be firm-specific responses. However, some of the conduct that has emerged as a result of these relationships with property developers may require viewing it through a firm-specific lens. As Chapter 6 evaluates, supermarkets have engaged in anticompetitive behaviour to maintain their first-mover advantage with respect to store sites especially in shopping malls through entering into long-term exclusive leases with property developers. Competition concerns stemming from some of these relationships have emerged in South Africa, Botswana and Zambia, as I evaluate in Chapter 6. This is exacerbated by the fact that the same large property developers in South Africa also operate in neighbouring countries in the region. These have already established long-standing relationships with the retailers in South Africa.

Efficiencies through relationships with suppliers also speak to internalisation strategies of supermarket chains. While continuing to import a large proportion of products from South Africa, Shoprite has invested in some long-term supply relationships with local suppliers. For instance, it built partnerships with meat processor, Zambeef, in Zambia for in-house butcheries in the Shoprite stores. This relationship has expanded with in-store butcheries under this partnership being considered in West Africa, tapping into previously unexplored areas (Mataranyika, 2016). There have also been some initiatives by the other supermarkets with large suppliers, including agreements with a meat supply company in Zambia, Amatheon, which operates in-store butcheries in Shoprite, Pick n Pay, Spar and independent retailer outlets (Amatheon Agri Annual Overview, 2015). As there is increasing pressure from host country governments in the Southern African region to source locally and to develop local producers/manufacturers, these types of relationships are likely to evolve for all supermarket chains. This is debated in Chapter 7.

The other South African supermarkets have only more recently seriously started their expansion into Africa, and while they too are beginning to slowly build relationships with suppliers, Shoprite has had the first-mover advantage in countries with limited supplier capacity. Qualifying suppliers in host countries often do not always have the scale and distribution networks to supply more than one large supermarket chain.

Woolworths in particular has invested heavily in suppliers and has exclusive supply agreements with them given this relationship-specific investment. Their business model with regards to suppliers is different from the other chains given its focus on high-quality private label products. The exclusive supply agreements entered into with suppliers that Woolworths develops is a firm-specific strategy in line with its business model and is discussed in Chapter 7.

5.5. Summary: Factors that impact supermarketisation and internationalisation in Southern Africa

This chapter evaluated the related concepts of supermarketisation and internationalisation of supermarkets and how each applies in Southern Africa. South Africa, from which most of the large supermarket chains are, was focused on with regards to supermarketisation. The analysis showed that South Africa already had mature levels of supermarketisation by 2000, measured in terms of proportions of food sold through chains. This maturity was reached early given apartheid economic planning with highly formalised economic structures serving mainly in white, urban areas. Traditional retailers and informal spaza shops were limited to township areas serving black communities.

Following the end of apartheid and associated zoning restrictions, the formal chains took grocery retail closer to where majority of the population lived. This was seen through the spread into township, peri-urban and even rural areas. The share of supermarkets however did not necessarily increase, but formats that the chains introduced in these areas to target lower-income consumers evolved. This also led to the evolution of independent grocery retailers to adopt alternative formats of retail through buying groups as will be analysed in Chapter 6 to compete with the new formats of chain supermarkets. The data on supermarketisation in the other countries is very limited, but it is evident that, other than Namibia (which was administered by South Africa in the apartheid years), the supermarketisation trajectory was different and slower than in South Africa.

Supermarketisation in the other countries kicked off as South African firms spread into them. This highlights the importance of country- and regional-specific contexts in assessing supermarketisation.

The levels of supermarketisation and saturation of markets in South Africa provide insights into new market-seeking motives for internationalisation of South African chains. The chapter traced the experiences of all the major multinational chains in the region but particularly Shoprite as the key chain that has spread in the region. The analysis showed that, while internationalisation has occurred, it has not taken-off to the extent predicted. What is seen instead is more of a regional spread or regionalisation of supermarket chains. This raises important questions about the theories of internationalisation with respect to retail. The general factors that drive internationalisation such as income per capita, urbanisation population, political stability and governance factors, do not sufficiently explain trends seen in the spread of supermarket chains in the region. Nuances in the impact of political economy dynamics and political settlements have had a big impact on the internationalisation of retailers, and this links to national objectives on industrialisation and local supplier development questions. These national decisions have a regional impact on trade and supplier development as evaluated in Chapter 7.

The case of Shoprite showed that certain ownership advantages, such as dynamic management that kept up with evolving markets, heavy investments in retail modernisation, and setting up 'new country infrastructure' and business models speedily, gave it a head start in certain countries. However, these ownership advantages failed in other countries that were not in close proximity to its home country's supplier bases. The 'transplanting' of Shoprite's South African business model, although successful in countries like Zambia, failed in Egypt, India, Tanzania and until recently, in Nigeria. Similarly, ownership advantages in having access to a large, global supplier base in the case of Walmart, has not led to expansive growth of Walmart's Game in the region.

This points to the critical importance of geography and not necessarily just of internal capabilities or ownership advantages when it comes to supermarket internationalisation. The geographic nature of retail as it relates to key issues of logistics, distribution investments and links to supplier bases is critical. The spread of supermarkets in the region has also been partly about extending the oligopolistic rivalry between the main chains.

The internalisation strategies of the supermarket chains once they enter host countries is important in understanding the success of internationalisation. The mode of entry into countries varies and is also a function of the national laws and policies in a county. The relationships with suppliers are critical and this is linked to the integration of the supply chain to store networks in the region (see Chapter 7). The relationships with property managers and developers in an environment where shopping malls are important to consumers is significant, and the ways in which supermarkets internalise the risks of access to store sites in South Africa and in the region has implications both on supermarketisation and internationalisation (Chapter 6). This chapter has highlighted the importance of applying and adapting the traditional theories of internationalisation to the specific characteristics of retail.

CHAPTER 6

THE NATURE OF COMPETITIVE RIVALRY BETWEEN GROCERY RETAILERS IN SOUTHERN AFRICA

6.1. Introduction

The expansion and internationalisation of supermarket chains affects, and is affected by, competitive rivalry within countries and across Southern Africa, especially given of the high levels of concentration. High levels of concentration raise concerns relating to the possible exertion of market power by these supermarket chains both as buyers and as sellers, and to exclude smaller rivals. In this chapter the nature and extent of competitive rivalry between the main supermarket chains is examined in different ways in order to address the following key research question: *What is the nature and intensity of competitive rivalry between grocery retailers in Southern Africa?*

I assess the implications in terms of price and non-price dimensions, and consider static and dynamic aspects of competition, including ways in which the large chains can undermine or exclude smaller market participants. The impact of supermarkets on suppliers is assessed in detail Chapter 7.

The high levels of concentration are reflected in two or three (mainly South African) chains holding the majority of the market share in most Southern African countries. The market outcomes are the result of the competitive interaction between these chains and the rivalry which may be posed by independent grocery retailers. In Section 6.2 the segmentation of grocery retail markets in terms of the supermarket offering (differing formats) and in terms of the geographic markets is analysed with reference to South Africa. Competition also depends on the ability of smaller retailers to be effective rivals which relates to the extent of barriers to their entry and growth, as assessed in Section 6.3. In Section 6.4, competition and market outcomes are analysed for selected products and for narrow geographic areas, while Section 6.5 specifically addresses the ways in which the major chains secure their position through exclusive leases in shopping malls, undermining smaller rivals. This links to the importance of property development, identified as an important aspect of supermarket chains positioning in Chapter 5, and the ability for supermarket chains to migrate across the region as well as to different geographic segments.

Given the regional spread of the main chains, the same or similar arrangements have been put in place across countries and have been the subject of competition investigations and inquiries, as I analyse. The understanding of competition in terms of non-price as well as price dimensions, and in terms of dynamic location decisions, has implications for the standards applied in competition law tests. The Competition Authority of Botswana (CAB) and the Competition Commission of South Africa (CCSA) have each undertaken market inquiries into competition in the retail sector. In South Africa, the CCSA, following complaints by smaller competitors, initiated a Grocery Retail Market Inquiry (GRMI) in 2016 to evaluate some of these concerns. As of January 2019, the CCSA had not yet released its findings from the inquiry, although evidence presented as part of the public hearings has been analysed in this study. The CAB has inquired into practices that affect suppliers (Bagopi et al., n.d, see Chapter 7), as well as competition in retail and wholesale markets in Botswana (Mokubung, 2014). Emanating from a recommendation from the latter inquiry, the CAB subsequently undertook another inquiry into the nature and state of competition in the Botswana shopping mall retail property market (Bagopi and Daman, 2016). The Competition and Consumer Protection Commission (CCPC) of Zambia has also investigated certain conduct relating to supermarkets in shopping malls. These are critically assessed in Section 6.4 of this chapter. In Namibia, there has been a key intervention in the retail sector although not by the competition authority but by the Namibia Trade Forum. This relates to suppliers and is evaluated in Chapter 7.

6.2. What are the dimensions of competitive rivalry between grocery retailers?

Grocery retailers all offer a price, quality, range, service (PQRS) package such that they compete on several dimensions. The nature of competitive rivalry between supermarket chains and between supermarket chains and independent grocery retailers is therefore multifaceted and complex. Independent grocery retailers, especially in Southern Africa, typically do not offer the full PQRS suite, and the markets are effectively segmented, as I analyse below. This is partly due to the spread of different supermarket formats and their geographic reach, as well as arrangements which supermarkets are putting in place that limits access to certain locations as discussed in Section 6.5.

6.2.1 Competition in the product space

As highlighted in the literature review, assessing competition dynamics in markets with differentiated products is complex, and this is particularly the case where supermarkets have thousands of different product and service offerings, including different formats targeted at specific consumer segments. These formats vary in terms of product range, size, branding, look and feel, and locations (for example, within shopping malls or street side). In addition, there are independent grocery retailers, some of whom have organised to access suppliers through buying groups, and which are important in lower-income segments in South Africa. Internationally, economic analyses have highlighted that competition at a given point in time is mainly intra-format in quite narrow geographic markets, as consumers look at the set of alternatives in front of them taking into account that convenience is a key aspect provided by supermarket retailing (UK Competition Commission 2007; Zhu, Singh and Manuszak, 2009; Dobson, 2015). Over time, however, supermarkets can evolve their formats and change their geographic footprint such that there is inter-format rivalry.

Intra-format competition

Supermarkets of the same format and in the same geographic areas are nevertheless still differentiated from one another in a number of ways. The closeness of competition within the same format supermarkets (intra-format) therefore depends on how similar the offerings of supermarkets are perceived to be by consumers and their willingness to switch. This is the result of the strategic positioning of supermarket chains. Size is one dimension, along with store format or 'fascia' (Davis and Reilly, 2009). For example, in the UK, it has been found that larger supermarkets are not necessarily constrained by smaller stores, which was reinforced by analysis of the impacts of entrants on incumbent stores' revenues (UK Competition Commission 2007; Davis and Reilly, 2009).[32]

Most of the supermarket chains in South Africa, consistent with the international picture, have diversified their formats to include hypermarkets, supermarkets, convenience stores at fuel forecourts, liquor outlets and fast food offerings amongst others (Table 21). The different formats leverage off a common base in terms of logistics, distribution, sourcing and branding. Supermarket chains thus compete by offering a range of formats, with competition in any given market being between the stores of similar formats. The extent of different formats is more limited outside South Africa.

[32] The UK study differentiated between stores above 1400m^3 and between 280 and 1400m^2

Table 21: Formats and offerings of the main supermarket chains in South Africa

	Shoprite	Pick n Pay	SPAR	Woolworths	Walmart/ Massmart	Fruit and Veg City	Choppies
Formats:							
Supermarket	✓	✓	✓	✓	✓	✓	✓
Hypermarket	✓	✓	✓	x	✓	✓	✓
Low-to-middle income segment supermarket	✓	✓	✓	x	✓	✓	✓
Wholesalers, cash and carry's, hybrids		x	x	x	✓	x	x
In store delicatessens	✓	✓	✓	✓	✓	✓	✓
Convenience store at fuel forecourts	x	✓	✓	✓	x	✓	x
Offerings (in addition to groceries and/or as separate outlets):							
Financial and other services	✓	✓	✓	✓	✓	x	✓
Fast food outlets	✓	✓	✓	x	?	✓	✓
Liquor outlets	✓	✓	✓	x	✓	✓	x
Furniture	✓	x	x	x	✓	x	x
Clothing	✓	✓	x	✓	✓	x	✓
Pharmacy	✓	x	✓	x	x	x	x
Other (electronics, DIY)	x	x	x	x	✓	x	x

Source: Websites and annual reports. Supermarkets and hypermarkets include food, general merchandise and personal care.

All of the supermarket chains in South Africa, except for Woolworths, have extended their offerings to multiple branded formats of differing sizes, targeting customers at different income levels. This reflects a segmentation of markets, with a smaller number of competitors within segments with the same formats, which is a key finding of this chapter. At the same time, the chains have arrangements to extend the range of the offering including with cellular network providers, ticketing companies (such as Computicket), utilities and banks for financial services. These combinations of offerings are an important part of their strategic positioning and are part of intra-format competition between the main chains. They undermine competition from independents, who typically do not have this suite of offerings, apart from in the lower-income segment.

Except for Woolworths Holdings, which targets only high-income consumers, all the main supermarkets – Shoprite/Checkers, Pick n Pay Stores, SPAR SA and Fruit and Veg City (FVC) – have different formats which target low-, middle- and upper-income consumers, with differentiated look and feel to their stores (see Table 22). For instance, Shoprite's Usave targets low-income consumers with small stores and narrow product ranges, while its Checkers format targets upper-income consumers with a wider range of products and ancillary services.

Shoprite's Usave format stores are around 400m^2 and targets low-income consumers in LSM 1–5, carrying only the fastest-selling, 700 most popular product lines (compared to Shoprite's typical 14,000 lines). Similarly Pick n Pay and SPAR have their lower income-targeting Boxer and Savemor stores respectively. Shoprite's USave competes more directly with Pick n Pay's Boxer, Spar's Savemor and Massmart's Cambridge and Saverite stores than it would with its own Shoprite Checkers (or Pick n Pay's Hypermarket or Massmart's Game). Usave also competes more directly with Choppies stores, which also targets low-income consumers. Pricing in these types of low-end stores is focused on EDLP (every day low price), where consumers can expect a low price without the need to wait for sales or promotions (Ellickson and Misra, 2008). These formats in peri-urban and rural areas also compete with independent retailers.

There are therefore particular stores in the main supermarket chains which are closer rivals within each format, while independents are very limited to compete across all formats of the major supermarket chains (Table 22).

Table 22: Closeness of intra-format competition in supermarkets and hypermarkets in South Africa

Lower-income, smaller size stores	Middle-to-high income, larger size stores	High income, larger size stores
Shoprite (Shoprite, Usave, OK Franchise)	Shoprite (Checkers, Checkers Hyper)	Checkers Hyper Flagship stores
Pick n Pay (Franchise and Boxer Superstores)	Pick n Pay (Supermarket, Hypermarket)	Pick n Pay Flagship stores
SPAR (SaveMor)	SPAR (SPAR, Super Spar)	-
Fruit and Veg City (FVC)	Food Lover's Market (FVC)	Food Lover's Market Flagship stores (FVC)
Massmart (Cambridge, Saverite)	Massmart (Game)	
Choppies (Value, Supermarket)	Choppies (Hypermarket)	
		Woolworths Food
Pricing: Every day low prices (EDLP)	*Pricing: High to low, emphasis on sales and promotions*	*Pricing: Premium*
Narrow range, few SKUs, limited services	*Wider range, thousands of SKUs, more service offerings, private labels*	*Wider range, several thousands of SKUs, wide service offerings (delis, bakery, butchery, pharmacies, ticketing services etc.), lifestyle focused: healthy living, sustainable and ethical practices, focus on experience, loyalty programmes, omni-channel retailing*

Source: Annual reports, websites
Note: Excludes convenience stores and other formats that are not primarily grocery retail.

There has been a strong focus on targeting low-income consumers in most Southern African countries, which has underpinned much of the supermarketisation that has occurred. In South Africa, the low-income areas in black townships were not accessible to the chains under apartheid, but since 1994 there has been increasingly penetration of supermarket chains supported by growing shopping mall developments and increased income through social grants in these areas too.[33] This has gone in parallel with extension of supermarkets to neighbouring countries with lower levels of per capita income than South Africa. The low-income formats have been used across countries to penetrate peri-urban and rural areas through malls, strip malls and shopping centres.

The Shoprite supermarket format stores target middle-income customers in LSM 4–7, competing mainly with Pick n Pay, SPAR, FVC and Choppies. The upper bounds of middle-income consumers and the lower bounds of high-income consumers are fluid, with Game active in LSM 5–10, and Shoprite’s Checkers and Checkers Hyper, Super SPAR, Pick n Pay Hyper, FVC’s Food Lovers Market active in the LSM 8–10 segment.[34] These outlets offer ‘high–low’ promotional pricing, where higher regular prices are punctuated with frequent short-term price promotion discounts, requiring extensive advertising to create awareness about them. At the highest end of the spectrum are Woolworths and flagship stores of Shoprite, Pick n Pay and Food Lovers Market. This reflects the nature of competition between these similar format chains.

Segmented along a different dimension than income are the small convenience outlets at fuel forecourts. These outlets are largely for secondary top-up grocery shopping (small basket) and do not compete with supermarkets or hypermarkets for primary grocery shopping (large trolley/cart) (Dobson, 2015). Fuel court or forecourt retailers are growing in South Africa, as seen in Table 6 in Chapter 5. Pick n Pay, SPAR, Woolworths and FVC have convenience outlets at fuel forecourts through joint ventures with large oil companies’ retail outlets in South Africa. Pick n Pay recently opened Pick n Pay Express franchise stores in collaboration with BP Southern Africa. Woolworths has also ventured into convenience stores (Woolworths Foodstop) at Engen fuel forecourts. FVC has expanded into franchised convenience stores (Fresh Stop stores) through a joint venture with Caltex.

At the other end of the spectrum, targeting the high-income segment of the market is Woolworths Food. Woolworths offers high-quality food and general merchandise. Its food segment in particular is characterised by high-quality private label products that are significantly more expensive than the other supermarkets (premium pricing). Presently, in

[33] Interview with a buying group, 9/10/15; interview with a marketing company, 4/11/15
[34] Company websites and annual reports

terms of closeness of competition to Woolworths in South Africa is only the niche, concept or flagship stores of Pick n Pay, Shoprite Checkers and FVC. But these are very few and have only been recently launched (less than five stores collectively in the past 5 years).

The mainstream chains largely do not compete directly with upmarket Woolworths. However, a study by the UK Competition Commission on the impact of the entry of 'upmarket' supermarkets, Waitrose or Marks and Spencer, on the revenues and sales of incumbents in a 5-, 10- and 15-kilometre catchment area suggest that they do in fact have an impact (UK Competition Commission, 2007). Cotterill (2007) argues that these upmarket chains should, to be conservative, be added to the relevant product market definition in competition matters involving supermarkets. Similarly, the entry of the flagship stores of Shoprite, Pick n Pay and FVC may, as they grow in number, become effective rivals to the once-uncontested space that Woolworths operated in. We return to this in the pricing assessment in Section 6.4.2.

The implication of different formats is that there is likely to be substantially fewer direct competitors in any given geographic market than the total number of supermarket outlets, when the formats are taken into account. The supermarket and hypermarket formats are the main focus in this chapter.

Another area where there has been increased intra-format competition between the main chains is in the offering of lower-priced house brands or private-label products. All the main chains have house/private-label brands, which reflect a degree of vertical integration by the chains into supply, as discussed in Chapter 7, Section 7.3.2. Private labels are generally more profitable for retailers through cost saving and increased margins. Cost savings are made due to lower advertising requirements relative to building a brand, lower research and development costs for the supplier, reduced costs of testing products prior to launching and reduced packaging costs (Beneke, 2010). The supermarket chains compete against each other for essentially the same product, but with different perceptions of value and product characteristics thereby acting as differentiators. Importantly, private labels help to create a distinct corporate identity (Beneke, 2010) and this is a means through which chains can build loyalty. While it signals an increase in inter-brand competition between retailers, the emergence and growth of private labels also marks a shift of the balance of power from suppliers to retailers. Many suppliers of branded products also manufacture and sell private labels to supermarkets, and there have been competition concerns that have arisen in different countries in the region as a result of the abuse of buyer power of supermarkets with regards to private-label procurement. This is discussed further n Chapter 7.

Supermarket formats that target middle-to-upper-income customers typically offer extensive loyalty programmes in South Africa. Loyalty programmes that offer discounts, cashbacks and free products are a draw card for customers and provide valuable customer data to the chain. All the main chains have some form of loyalty programme, and these are part of intra-format competition between the major chains to shape consumers' shopping habits. The data generated from the loyalty programmes are used to tailor offerings to differentiate offerings from the competition. South Africa has a high take-up of loyalty schemes (South African Loyalty Landscape, 2018), with rebates or cash back, and product discounts being reported as amongst the most valued rewards (Nielsen, 2017).

The upper-income formats are also increasingly engaging in omni-channel retailing as natural extensions of their bricks-and-mortar offerings, such as online and mobile options with home delivery or collection facilities. For instance, Shoprite reported that its digital transformation journey is led by data-driven customer insights and that it aims to grow its offering across digital platforms (Shoprite Integrated Annual Report, 2018).

Supermarkets that target low-income consumers run extensive competitions to draw in customers and to encourage certain thresholds of purchase, instead of focusing on loyalty programmes. The prizes are wide ranging, from cell phone airtime, data and store vouchers to fridges, washing machines and cars.

The market in South Africa is clearly segmented by format, evidenced in the different branding, targeting and strategies of the main chains. This is also consistent with the analyses in competition cases.[35]

The segmentation and the offerings within each format mean that the main intra-format rivalry has been between Shoprite, Pick n Pay and SPAR (the 'mainstream' supermarket chains with a full suite of grocery offerings across formats), especially in columns 1 and 2 in Table 22 above. The other chains remain relatively small (see Figure 6, Chapter 5), notwithstanding their growth. Until the other chains started targeting high-income customers from around 2008, this high-income segment was almost exclusively targeted by Woolworths.

Four key developments in terms of dynamic aspects of competition through evolving the offerings and geographic locations by supermarkets to rival the main regional chains can be identified. First, the expansion of the Fruit and Veg City group illustrates the incremental building of a supermarket chain. Second, the expansion of Choppies has shown the possibility of entry through regional migration, in this case, outwards from Botswana. Third, Walmart's acquisition of Massmart led to changes in the offering, especially in Game stores to attempt to become a grocery retailer with the Walmart business model following the FDI. Fourth, the

[35] See for instance, JD Group Limited and Ellerine Holdings Limited, Case No: 78/LM/Jul00. Competition Tribunal Decision; Massmart Holdings Limited and Moresport Limited, Competition Tribunal Republic of South Africa, Case No: 62/LM/Jul05

independent grocery retailers in South Africa have organised buying groups to attempt to match the characteristics of supermarket chains.

Each of these provides insights into the nature of competition and what is required to be an effective competitor to challenge the major regional chains, as analysed below. This is also considered in the detailed consideration of pricing in small geographic markets in Section 6.4. Buying groups are assessed under the inter-format rivalry heading and the issues of barriers to entry are discussed in more detail in Section 6.3 below.

Fruit and Veg City

The entry and growth of FVC to become an effective rival in groceries followed the founders, brothers Michael and Brian Coppin identifying a gap in the market for fresh fruits and vegetables around 1993. At the time, the major incumbent supermarkets traditionally did not have a strong focus on fresh fruit and vegetables. FVC's entry and differentiating strategy was therefore to initially focus on trading fresh fruit and vegetables (Pitman, 2009).[36] During the 2000s, FVC moved to become a chain store. This required locating more in shopping malls, where consumers choose to do their full-basket supermarket shop, extending the range of goods and creating an integrated distribution network to ensure similarity across South Africa and the region as it expanded into other countries. This took over a decade and very substantial investment to reach critical scale and compete effectively with similar formats of the incumbent supermarkets. It also involved a proposed acquisition by Pick n Pay being blocked by the Competition Commission in 2007 and competition complaints in subsequent years relating to exclusive leases in shopping malls which made it difficult for FVC (as for others) to enter where the main three were already present.[37]

FVC achieved impressive growth, with turnover increasing from R1.6 billion in 2006 to over R12 billion in 2018 (Shevel, 2018), a growth rate well ahead of the major listed food retailers.[38] The number of stores has also grown to over 120 Food Lover's Market stores throughout Southern Africa by 2018 as shown in Chapter 5, in addition to a large number of outlets of other formats including non-supermarket offerings (such as liquor stores and coffee shops). In South Africa, FVC is present in all the main cities. In 2017, FVC, through the FLM flagship store and eatery concept started targeting high-income consumers.

FVC entered the market with a different procurement model for its fresh produce than the mainstream supermarkets. FVC sources its fresh produce daily from the two main municipal

[l]Interview with a supermarket chain, 26/07/15

[37] The merger was abandoned by the parties when the Commission indicated it viewed it as stifling current and future competition.

[38] Growth rates of the major listed supermarket chains were reported at about 15 per cent per year between 2006 and 2012, while that of FVC was 20 per cent per year (Das Nair and Chisoro, 2015b).

markets in Johannesburg and Pretoria as well as directly from farmers, including for sale in FVC stores in neighbouring countries. This produce often comes from farmers who have excess produce over and above their fixed contracts. In 2015, FVC's purchases from municipal markets accounted for 40–60 per cent of all their goods, making them the largest buyers on the municipal markets (Pitman, 2009). Sourcing directly from municipal markets is said to give FVC a competitive edge in price over the mainstream rivals for fresh produce, allowing them to charge prices that are estimated to be between 20–25 per cent and 25 lower than the other major retailers, in addition to being able to offer a wide range of fresh produce (Das Nair and Chisoro, 2015b). Therefore, even without the scale and scope of the incumbent supermarkets initially, FVC was able through its initial niche positioning to grow over time to become an effective rival to certain formats of the incumbent chains. This included investments in DCs which allowed it to compete more effectively with the incumbents.

Choppies

As discussed in Chapters 2 and 5, Choppies Enterprises is the 'new kid on the block' and has in the last decade grown from two stores in Botswana to over 200 stores in the region. It has grown rapidly in South Africa with 71 stores in the country by 2017 (Choppies Enterprises investor relations presentation, 2017). In 2018 it also entered East Africa through acquisitions of existing Ukwala stores in Kenya. Choppies' core target market has been low-to-middle-income consumers, with some attempts to attract middle-to-upper-income consumers. This has been the trajectory of all the chains in the past – migrating, or attempting to migrate, across the income spectrum.

Choppies has pursued an aggressive growth strategy mainly via acquisitions of existing, already established independent supermarkets strategically located along key public transport routes and urban locations.

Its stores are typically open for longer hours than the mainstream supermarkets and it stocks a wide range of lower-priced, private-label products. Given its location however – along transport routes and not in shopping malls – Choppies is still relatively unknown in South Africa, especially outside the low-income segment, although it is seen as an effective rival to South African supermarket stores in its home country and in the region. This raises the question about the importance of malls as distinct markets in South Africa, something that may not be the case to the same degree in other countries in the region. This is discussed below and in Section 6.4.

Walmart/Massmart

Following the acquisition by Walmart of Massmart that was finalised in 2012, Game in South Africa branched into grocery retail. Previously focusing on general merchandise and non-perishable grocery offerings only, its new trading model expanded its offering to the supply of fresh groceries (fresh fruit, vegetables, meat, dairy and bakery products).[39] This leveraged the existing positions of most Game stores in shopping malls (110 of 115 Game stores in South Africa are located in malls). This extension of offerings was contested by the main chains as breaching the lease agreements they had with property owners of malls which restricted direct grocery competitors in the malls. As discussed in detail in Section 6.5 below, this led to competition complaints being lodged that the exclusivity clauses present in leases between the mainstream chains and property developers in malls excluded rivals such as Game from expanding into fresh groceries in malls.

The outcomes of the litigation are analysed below in terms of competition law, but the cases clearly show that the incumbent or mainstream chains viewed Game as an actual or potential rival in terms of format and offering due to the combination of the location in shopping malls and the extension of the range of products. It also shows the importance of having a footprint of mall-based stores on a national basis for effective competitive rivalry[40] as had been the case with FVC which needed to expand stores in shopping malls. It also highlights that having large economies of scale and scope as Massmart does through Walmart without access to the correct locations is insufficient to be an effective competitor.

Inter-format competition

Independent grocery retailers

While at a given point in time, the evidence indicates that consumers view other stores within the same format and geographic area as alternatives, over time chains can evolve to migrate across formats. This has been observed in Europe where ‘hard-discount’ chain stores like Aldi and Lidl (with limited ranges and focusing on price competition) have moved to compete with supermarket chains, although competition from other same format supermarkets has still been found to be greater (Verboven et al., 2010). In the UK the hard-discounters were not found to have a significant impact on the four main supermarket chains above a certain size (280m²) (Cotterill, 2007).

In Southern Africa, the three cases above demonstrate the possibility for competition across formats, and the challenges this entails.

In South Africa (as elsewhere) the competition between independent retailers in peri-urban and township areas from the major chains has been a particular concern as shopping malls

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[39] Massmart Holdings public submission to the GRMI – Founding affidavit of Massmart’s representative in the case between Massmart and Respondents Shoprite, Pick n Pay, SPAR and SAPOA
[40] Ibid, Para 6.6.2, Massmart’s Founding affidavit

have been constructed (Ligthelm, 2008). The independent retailers are not direct rivals in terms of the full PQRS offering and could be displaced as a result of the spread of supermarket chains. This has also been a major focus of the Commission's Grocery Retail Market Inquiry (Competition Commission, 2015b).

As described in Chapter 2, small and independent (S&I) retailers cover a wide range of retailers, from large and formal supermarket-type retailers and cash and carrys to small and informal shops. There is a range of estimates of the significance of independent retailers, with these estimates also varying in terms of whether they include informal stores. As the informal stores generally purchase from cash and carrys and on-sell, it is difficult to accurately estimate their size. They also purchase from supermarkets and on-sell. As discussed in Chapter 5, according to Euromonitor International data, formal S&I retailers fall under the traditional grocery retailer category. In terms of location in South Africa, 61 per cent of S&I are in urban areas and the rest in rural.[41] Of these the great majority are very small informal outlets, known colloquially as 'spaza shops', typically stocking fast-moving items bought from cash and carrys and sold at very low profit margins. They do not compete with supermarket chains. Independent retailers also include specialist stores like butcheries, bakeries and liquor stores which also do not compete on range and format with supermarket chains. They are located in the communities they serve, therefore their customers do not incur transport costs and also have the convenience of smaller, more frequent purchases with pack sizes broken down (see also Peyton, Moseley and Battersby, 2015). Operating hours are typically longer for increased convenience and better access, and credit is offered through personalised relationships between shop owners and customers from the community.[42] These are complementary to supermarkets and not a focus here.

Buying groups

There are formal independent retailers who seek to offer a PQRS to match supermarket chains in the low-income segment (see column 1 of Table 22 above). Contrary to expectations, trends in South Africa over the past 15 years show that the independent retailers have not diminished but have even grown in significance in specific geographic areas such as peri-urban and rural areas (see Tables 6 and 7, Euromonitor International, 2018).This has been at least in part due to a buying group-supported model where independent retailers and wholesalers fall under the banner of buying groups or voluntary trading organisations and are present as part of multi-store groups sourcing collectively and with common branding. It has been estimated that

[41] Massmart public submission to the GRMI, 30 September 2016
[42] Massmart public submission to the GRMI, 30 September 2016

around 30–40 per cent of total grocery retail in South Africa is served by independent retailers (Nielsen, 2016)[43] who primarily access their products through buying groups or wholesalers.

The main buying groups in South Africa are Unitrade Management Services, Buying Exchange Company, Independent Buying Consortium and Independent Cash & Carry Group (Table 23). Each support independent retailers which range from small superettes to fairly large supermarkets, as well as hardware stores. They also support wholesalers who on-sell to spaza shops.

Table 23: Main buying groups in South Africa, 2018

Buying Group/Voluntary Trading Organisation	Number of affiliated supermarkets
Buying Exchange Company (BEC)	Foodzone, Tradezone (170 supermarkets)
United Management Services (UMS)	Food Town, Powertrade, Best Buy; >240 stores (200 in South Africa; 40 in neighbouring countries)
Independent Cash & Carry Group (ICC)	>156 stores
Independent Buying Consortium	(store numbers unavailable)

Source: Websites and submissions to the GRMI

Buying groups have assisted independent retailers in: lowering costs, given large volume purchases from suppliers for the group; advertising and promoting on behalf of independent retailers falling in their group; and offering important skills development and training to the retailers.[44] They have further developed innovative IT and customer management systems that allow members to access data on electronic exchange platforms. To a degree, these alternative models have been able to capture some of the scale economies benefits that are a core competitive advantage of large supermarket chains. In addition to their continued significance in the lower-income segment, there is evidence that S&I have grown the range of brands they stock as part of maintaining their share of consumer spending.[45]

In Botswana, independent retailers account for around 25–30 per cent of grocery retail sales (this includes vertically integrated retailers).[46] Vertically integrated wholesalers and retailers in Botswana such as Sefalana have actively rolled out retail outlets, forming chains, in a migration downstream into retail. As of 2015, Sefalana had 23 ‘Shoppers’ supermarkets in addition to its cash and carry offerings in Botswana and was considering moving into the SADC region.[47] Trident Eureka wholesalers in Botswana, a part of Masscash (Walmart) have

[43] Labelled the Traditional Trade segment by Nielsen, it was said to be valued at R46 billion in 2016 or 33 per cent of all consumer goods package sales in South Africa.
[44] Interviews with buying groups 24/07/15; 06/10/15 and 22/09/15
[45] Massmart public submission to the GRMI, 30 September 2016.
[46] Interviews undertaken as part of research in Das Nair and Chisoro, 2016
[47] Interview with a supermarket chain, Botswana, 17/11/2015

also launched 'Saverite' retail supermarket outlets. The reason wholesalers are actively setting up new retail shops in Botswana, creating a new business model of retail stores, is partly due to legislation. Wholesalers are limited from selling directly to end consumers, including through hybrid offerings.[48] To remain competitive in the face of growing supermarket chains, wholesalers have vertically integrated forward into retailing (Das Nair and Chisoro, 2017).

Therefore, while there is an overall trend of supermarketisation, the simplistic picture often presented of supermarket chains 'taking over' retail is incorrect. While there has been more intense competition with the broad class of S&I retailers and some have been displaced in township areas (Mathenjwa, 2007; Ligthelm, 2008; Madlala, 2015) the effect depends on the ability of independent retailers to upgrade and extent their offering, including as part of buying groups. There is a spectrum of independent retail models that offer varying degrees of inter-format competition to supermarket chains.

6.2.2 Competition in the geographic space

With regards to the geographic boundaries within which competition takes place, consumer shopping patterns are relevant. Consumers tend to shop regularly from supermarkets located near their homes or work. This creates competition between supermarkets at local levels.[49] Supermarkets often therefore compete for space near residential locations, central business districts, workplaces or dense housing areas (like township areas in South Africa).

However, as discussed in Section 3.2, for chains that operate nationally, strategic decisions are often determined at head office and rolled out to stores. These decisions are made based on, amongst other things, overall competitive rivalry between chains and not necessarily rivalry in a specific location. Notwithstanding the significance of independents in the lower-income segments, national chains compete with each other and dominate the grocery retail landscape as a whole in South Africa. The scale of these national chains gives them an advantage over smaller, locally bound rivals, and enables them to build a national strategy around positioning and pricing.[50]

There are thus local and national levels (and regional reach) at which competition works in geographic terms. While there are national pricing strategies determined at head office,

[48] Under the Trade Act of 2003 and the Trade Act Order, 2008—S.I. No. 21 of 2008
[49] The UK Competition Commission in its grocery retail market inquiry defined geographic markets as being limited to 5–15-minute drive time depending on whether they were large, mid-sized or convenience grocery stores. See Dobson (2015) Ellickson et al. (2016).
[50] Massmart Holdings public submission to the GRMI – Founding affidavit of Massmart's representative in the case between Massmart and Respondents Shoprite, Pick n Pay, SPAR and SAPOA. Pick n Pay public submission to the GRMI, 31 August 2016

managers at store level nonetheless typically have some discretion to offer discounts.[51] Stores can also adapt to local pricing pressures through sales and promotions, advertising campaigns, levels of service and staff training, refurbishments, ancillary services and store opening times (Dobson, 2015). Even though Pick n Pay claims to have single national pricing, as shown in Section 6.4.2. below, there are variations in prices based on location. The evidence on discounts advertised by the main chains is that specials can be limited to one province as, for example, a Shoprite for the Western Cape in May 2018 (Figure 16). Within that province, there are furthermore exceptions in regions where the specials do not apply that are listed in the small print at the bottom of the pamphlet. This highlights the strategy to increase sales, possibly in response to local competitive threats, in specific areas only. Similar exceptions are seen in television advertisements on promotions.

Figure 16: Extract from a Shoprite sales pamphlet applicable to the Western Cape for 23 April 2018 to 6 May 2018

[fine print at the bottom reads]: …PRICES WESTERN CAPE ONLY (EXCLUDING BEAUFORD WEST, GEORGE, KNYSNA, MOSSEL BAY, OUDSHOORN, PLETTENBERG BAY) …

[51] Interviews with three supermarket chains, 9/06/15; 3/08/15; 18/11/15

Source: https://specials.shoprite.co.za/deals/shoprite/wcbaby23apr06may2018/index.html

While the advertising of sales and special offers signals regional pricing and discounting, from a consumer perspective, catchment areas for various formats of grocery retail have typically been defined as much narrower in several jurisdictions by competition authorities. This is typically done in terms of the catchment area from which a store draws most of its customers or in terms of travel time (termed isochrones) (Cotterill, 2007; Netherlands Authority for Consumers and Markets: Jumbo/C1000 merger, Case no 7323, 2012; Competition and Market Authority: Asda/Co-operative Group merger, 2014; Dobson, 2015). An isochrone is a line that connects points of equidistant travel time away from a focal point (Competition and Market Authority, 2017: 62).

As discussed in Chapter 3, the UK Competition Commission has defined geographic markets by drive times, where boundaries are within 10-minute drive-time isochrone in urban areas and 15 in rural areas, depending on whether they were large, mid-sized or convenience grocery stores (Cotterill, 2007; UK Competition Commission; 2008). Similarly, drive times and catchment areas have been used to define geographic markets in several other countries as highlighted in the Section 3.2 in the literature review.

Geographic markets in South Africa

There are specific dynamics in South Africa that should be considered when trying to determine catchment areas or isochrones based on drive times. The spread of the population in South Africa is unique given the history of apartheid. Given the spatial segregation of zoning laws of apartheid, large populations were geographically far removed from areas of investment, including retail centres. Shopping centres and malls with supermarkets were historically located in affluent, urban areas while townships located in the outskirts and peri-urban areas were largely served by independent retailers and spaza shops. Far distances from rural and township areas to urban areas, high transport costs and limited public transport affects the geographic scope that customers are willing and able to travel to get their groceries.

In addition, South Africa has a strong mall culture that grew after 1994. With over two thousand malls in the country, it is ranked sixth globally in terms of mall numbers, following United States of America, Japan, Canada, the United Kingdom and China (Provantage Media Group, 2017). This is different from other countries in Europe and Asia, where street shops are more prevalent. Supermarket chains in South Africa are often anchor tenants in these malls, drawing large footfall into them. This mall culture has started spreading into township and rural areas.[52]

[52] Interview with a property developer, 21/09/2015; see also Ligthelm, 2008; Madlala, 2015

South Africa is therefore unique in this regard, and access to mall space and the relationship with mall/property developers is important as discussed in Section 6.5.

The competition authorities in South Africa have historically used similar reasoning to other countries in their assessments of geographic market definitions in grocery retail matters. For instance, in the large merger between Shoprite Checkers and Foodworld Group,[53] the Tribunal considered competition in two possible markets - a narrower markets within a 3-kilometre and 5-kilometre radius of the target firm's stores, and a wider catchment area of 10 kilometres. Other studies, although not directly undertaken for purposes of competition proceedings, have looked at the impact on independent retailers within 5 kilometres of shopping centres (Ligthelm, 2008; Madlala, 2015).

The classification of shopping centres by the South African Council of Shopping Centres is consistent with the importance of travel time, along with nature and size of the shopping centre and the income levels of the households in the surrounding community (Appendix 1). It further reiterates the strong mall culture in South Africa. Aside from super-regional centres that typically house 1 large supermarket or hypermarket store but with a strong emphasis on entertainment offerings, the average radius that these centres serve is within 10 kilometres. The median drive time varies, with 16–28 minutes being the longest for centres that contain supermarkets. This can be interpreted as the longest drive times that customers usually travel when they frequent a centre that has a supermarket (super regional centre) is between 16–28 minutes. Drive times are much shorter for regional and community centres.

The geographic extent of the markets as well as the concerns of format and the PQRS offering are used in the analysis in section 6.5 below to further explore the intensity of competition in South Africa.

6.2.3 Market definition and market power in grocery retail

The relevance of different formats and offerings, and how these relate to consumer segmentation including in terms of income levels and preferences for convenience and range, is evident in the way the major chains have filled the product space with their types of stores. This overlaps with geographic location, including whether the stores are targeted at those using public transport or those using cars and preferring mall-based shopping experiences. The major chains are able to evolve their offerings leveraging-off a common base of competitive capabilities and infrastructure, while smaller rivals start by competing in one segment and country and incrementally expand from there. This has implications for their costs and competitiveness given the economies of scale and scope associated with logistics,

[53] https://www.comptrib.co.za/assets/Uploads/Case-Documents/47LMJun05.pdf

distributions centres, sourcing and advertising, as I analyse in the following Section 6.3. It also raises the question as to whether competition is sufficiently effective if it is between a small number of rival chains, or whether the alternatives offered by the smaller competitive fringe are competitively significant? I consider this in Section 6.4 in terms of static price competition, the way it impacts on the growth and positioning of rivals in dynamic terms, and in the way exclusivity arrangements have been analysed in Section 6.5. It also clearly has implications for suppliers, as will be analysed in Chapter 7.

6.3. Structural barriers to entry, market structure and concentration levels

The segmentation of markets in terms of the characteristics and geographic area is necessary for analysing market structure and concentration. To further understand the nature of competition within these markets, it is important to assess the barriers to entry which make it difficult for potential rivals to be effective competitors. I analyse the structural barriers which exist because of factors inherent in the nature of supermarkets and the features of grocery retailing. The strategic barriers to entry which result from the conduct of incumbent firms are assessed in Section 6.4.2. Together, the assessments indicate the extent of likely market power on the part of the major supermarket chains, which has implications for consumers as well as for suppliers.

In many countries around the world there is only a handful of supermarket chains that dominate markets, both at the national and at more localised levels (see for instance, Kinsey, 1998; Davis and Reilly, 2009; OECD, 2013; Hovhannisyan, Cho and Bozic, 2018). This reflects key characteristics of supermarkets which mean there are intrinsically substantial barriers to entry and tendency to highly oligopolistic market structure.

There are sizable fixed and sunk costs which imply that the number of firms that can profitably enter and compete is limited (Sutton, 1991). This is the case even as the market grows, as the existing firms (in this case, supermarket chains) expand sunk cost investments to remain competitive. Such markets are typically characterised by a very few large firms and a small competitive fringe. There are positive effects for consumers, as the sunk investments mean that quality is higher in the offerings of the main firms (Ellickson, 2004), however, this is balanced by the possible effects of substantial market power (see later in Section 6.4.2).

Economies of scale and investment requirements

The perishable nature of food requires supermarkets to make large investments in distribution networks, logistics and inventory management. Modern supermarket chains in Southern Africa have heavily invested in supply chains, centralised distribution centres (DCs), IT systems and transport fleets to get a wide range of products on shelves at the lowest possible costs. DCs are important for successful retailing because they generate substantial scale economies in procurement and delivery to stores as compared with stores individually negotiating and buying stock directly from main suppliers. Stores can place orders electronically with the centralised warehouse periodically, based on each store's individual supply requirements. DCs also allow for fewer and more coordinated deliveries to stores, lower inventory holdings, lower associated risks at stores, and less storage space required at stores (Dos Santos, 2010). These efficiencies also apply to suppliers who have fewer points to which to deliver, lower administration costs less handling of products in the process. Digitalisation means greater efficiencies from the integration of the logistics arrangements in DCs. As analysed in Chapter 7, it impacts on the ability of small local producers to supply the main chains.

The importance of DCs for being competitive as a supermarket chain is evident in the number of DCs throughout Southern Africa which have been established, including the investments made by the smaller rivals (Table 24). In addition, countries in the region are typically also supplied from DCs in South Africa. This compares with around 50 DCs in 2010. In addition to new DCs, the supermarkets have invested in expanding their existing DCs.

Table 24: Number of distribution centres of the main chains in Southern Africa, 2018

Chain	No. of DCs
Shoprite	27
Pick n Pay	12
SPAR	7
Woolworths	4
Choppies	10
Massmart	8
FVC	2
TOTAL	**70**

Source: Company annual reports and websites

Note: Local supermarket chains like OK Zimbabwe also have DCs

Shoprite has the largest DCs in Africa. The Centurion DC was doubled in size from 80,000m² to 180,000m² in 2009 and is the largest DC under one roof on the continent. The facility serves as the distribution point for about 90 per cent of ambient products delivered to stores in the Gauteng area and to other countries to the north. More than 1,100 suppliers deliver their products to the centre where they are stored, collated and then distributed to retail stores on a high-frequency basis (Shoprite Integrated Annual Report, 2014). Its sophisticated and efficient distribution infrastructure in South Africa is credited for achieving world-class trading margins and low prices.

Very large capital investments are required in the DCs, especially those at the core of the logistics networks of the supermarket chains. Moreover, the DC investments are ideally required in advance of growth in demand and the network of stores meaning financing is necessary. Shoprite invested around R400 million in 2014 and over R650 million in 2015 on its DCs. In 2015, this was around 14 per cent of total capital expenditure (Shoprite results presentation, 2015). Large investments were further made in DCs in 2017, with R1 billion invested in Cilmor DC in Brakenfell, Cape Town (around 19 per cent of total capex of R5.2 billion, including land and buildings, in that year). This DC of 123,000m² is a highly technologically advanced distribution centre serving Shoprite's stores throughout the continent, consolidating 500 suppliers and 20,000 products (Fin24, 2017).

In 2018, Pick n Pay had 12 DCs around the country, in addition to a perishables inland distribution centre. Pick n Pay invested R628 million in 2010 in its DC in Longmeadow, Gauteng, which according to the business was essential to maintain competitiveness.[54] To put this into perspective, the Longmeadow DC was 43 per cent of the total capital expenditure for that year (of R1.6 billion). Their two largest distribution centres are Longmeadow in Gauteng and Philippi in the Western Cape, both distributing fresh produce, perishables and groceries (Pick n Pay Integrated Annual Report, 2018).

Large supermarket chains therefore have the advantage of significant economies of scale and scope by exploiting advances in logistics and operations technologies, as well as by procuring large volumes for multiple outlets through DCs. Economies of scale and scope create barriers to entry for new entrants as they have to enter with sufficient scale and product range, including through numbers of outlets, to benefit from the cost savings that large incumbents have (Basker and Noel, 2013). Smaller chains can also invest in smaller DCs, but for regional supply, the large scale of the DCs invested in by the incumbents provides a competitive advantage.

However, scale economies can also be at least partly realised by independent retailers by procuring through buying groups who buy in bulk on their behalf (Section 6.2.2 above). Buying groups like UMS offer considerable support to franchised independent retailers for

[54] 'Our decision to move to centralised distribution was motivated by changes in South Africa's retail landscape which had seen us fall behind our competitors, who were investing significantly in their supply chains and in improved service to their stores through centralised distribution systems. Throughout the world, the most successful retail groups have unlocked massive value from their supply chains, and most of them have moved away from direct-to-store delivery distribution.' – Former CEO Nick Badminton (Makholwa, 2010: para 4).

advertising, promotions and marketing. This alleviates some of the cost pressures faced by affiliated independents.

The example of Fruit and Veg City indicates that it is possible to sidestep the scale economies challenge in the earlier years by orienting to a niche offering with lower prices in the niche. FVC focused on fresh produce and procuring daily from local municipal fresh produce markets, at substantially lower costs giving the abundant supply. As Fruit and Veg City built a footprint, they could support investments in DCs and logistics networks. Suppliers often provide additional discounts for sales to DCs even for the same volume of product. These include distribution, warehouse and pallet discounts, which estimates suggest could amount to 10 per cent off the price of products in South Africa (Das Nair and Chisoro 2015b).

Other large investments with regards to distribution are in logistics. Supermarkets either own their vehicle fleet (including refrigerated trucks) or outsource this function. Shoprite for instance has its own fleet including for fresh produce under the Freshmark name. Choppies also owns their transport fleet of over 500 vehicles and sees this as being a major competitive advantage to them. Pick n Pay on the other hand outsources its logistics to Imperial Logistics with dedicated trucks. There are thus still economies of scale even while it is not in-house. Choppies however suggested that owning their own fleet was an important step in being a competitive chain[55] and Shoprite claims that its own fleet is integral to its success. Shoprite estimates that the use of its own fleet saved the group R673 million in 2018 (Shoprite Integrated Report, 2018).

Linked to investments in DCs and logistics, the supermarket industry is further subject to food safety and other regulations that it has to adhere to in these and in store facilities. Food safety regulations govern the conditions under which food products are produced, stored, transported, maintained and consumed. Supermarkets unlike other (especially open-air or informal) markets are characterised by stringent quality and food safety standards and consistency requirements across all outlets. These are not barriers to competitors in and of themselves but again raise scale economies as investments to meet standards do not vary with output. The regulatory requirements entail substantial investments in capital, infrastructure and new processes which can be expensive for new entrants.[56] The smaller and independent retailers may therefore be pushed to operate in the less profitable informal markets, with fewer regulations (Reardon and Berdegué, 2002).

[55] Interviews undertaken in Chisoro and Das Nair, 2015b.
[56] Interview with milling companies in South Africa, 30/10/15 and 03/11/15

Advertising and branding

Advertising, marketing and promotions expenditure is an important dimension of competition between the major chains and with independents. However, advertising is a sunk cost which does not vary directly with sales, and national chains can benefit from national advertising reach on media such as television and some radio stations. Extensive investment in advertising and promotions used to create loyalty and attract greater footfall with the aim of converting this into greater sales. These sunk costs can also be a significant barrier to entry for new players in the market. Supermarkets advertise, inter alia, through pamphlets, newspapers, TV and radio. Scale economies are also substantial with average advertising costs lowering with greater number of stores. The importance of advertising to create brand awareness and consumer trust means that smaller independent chains are at a significant disadvantage, especially where non-price dimensions of competition are important, that is, outside of the low-income segment.

The significance of advertising costs for chain retailers reflects its importance for attracting consumers. In 2016, Shoprite was the single biggest spender in advertising in 2016 in South Africa across all media, moving up from second in 2013 and 2015 (Table 25). Amongst the other mainstream supermarket chains, Pick n Pay and SPAR were also in the top 10 in 2013 and 2015, with SPAR moving to 12th in 2016. Massmart in 2016 entered the top 10.[57]

Table 25: Supermarket chains in the top 10 of advertisers in South Africa, all media, ZAR millions

	Jan–Dec 2013		Jan–Dec 2015		Jan–Dec 2016	
1	Unilever SA	1732	Unilever SA	1541	Shoprite	1513
2	Shoprite	1056	Shoprite	1394	Unilever SA	1441
3	Vodacom	746	Clientele Life	898	Clientele Life	1133
4	SAB Miller	702	SAB Miller	791	SAB Miller	797
5	First Rand	602	Pick n Pay	708	ABSA	714
6	Pick n Pay	573	Distell	627	Pick n Pay	694
7	Standard Bank	505	ABSA	610	Massmart	618
8	MTN	490	OUTsurance	581	OUTsurance	613
9	Nedbank	464	Nedbank	507	Vodacom	605
10	SPAR	437	SPAR	507	Coca Cola	518
	TOTAL SPEND	**37044**		**40931**		**43657**

Source: AC Nielsen and http://www.marklives.com/2017/03/nielsen-adex-top-50-advertisers-2015-vs-2016/

[57] Annual reports and analyst presentations for Shoprite and Pick n Pay do not disclose advertising expenditure as individual line items. Shoprite, for instance, reports advertising costs as part of expenses with electricity and water, repairs and maintenance, security and packaging.

These high sunk costs and scale economies present significant barriers to entry that limit the number of players in markets. The resulting market structure is highly oligopolistic with chain store retailers dominating markets, with a fringe of independent retailers. While independent retailers have been resilient to some degree in cases where they have been supported by buying groups, these are not direct rivals to the full PQRS offerings of chain supermarkets and compete to limited degrees with the lower-end format offerings of the incumbent chains in peri-urban and rural areas.

Property and space

Access to store sites is important to compete in certain segments in terms of intra-format competition (see Section 6.2). Securing attractive store sites in malls is particularly important for supermarket and hypermarket formats to effectively compete. There is path dependency in that incumbent supermarket chains in South Africa have longstanding relationships with property developers and are able to secure mall space with exclusivity for many years. This entrenches their lead positions and is a barrier to new entrants into malls. The potential for strategic behaviour is discussed in depth in Section 6.5.

Zoning regulations by local authorities also impose restrictions on the size and location of retail developments and are critical in the designation of land and property for retail purposes. This means that there can be strong incumbency advantages where zoning does not take competition into account and where incumbents are well able to lobby to influence zoning decisions. Zoning restrictions are meant, amongst other objectives, to reduce negative externalities such as congestion that comes with developments. Zoning and planning restrictions have been found to lessen competition in the grocery retail sector and increase barriers to entry in the UK and in Australia (UK Competition Commission, 2000; ACCC, 2008). In South Africa, building permits required from municipalities, as well as utilities connections which are often delayed, add to the costs of setting up.[58] The Competition Commission's GRMI also revealed serious concerns around zoning regulations by municipalities. These are discussed under strategic barriers in Section 6.5 below as they are linked to the market power of supermarket chains in shaping layouts in new mall developments.

Implications on concentration?

The high share of the main three supermarket chains across countries in Southern Africa (as reviewed in Chapter 5) means that the obstacles to smaller firms entering and growing into effective competitors are important for market outcomes. This reinforces the oligopolistic

[58] SPAR's public submission to the GRMI, 16 August 2016

nature of chain supermarkets. The analysis here finds that there are substantial barriers to entry and growth for new entrants, especially in the supermarket and hypermarket format of chain supermarkets.

Independent retailers, who compete more closely with the low-income consumer targeting formats of the chains in peri-urban and rural areas, have partially overcome some of these barriers through buying groups. And although there has been new entry by a chain – FVC – it has taken over a decade to get to the level at which it offers an effective competitive constraint to the incumbent, partly because of the barriers it initially faced in locating in malls (Section 6.5). Choppies' entry has also been recent and limited to the lower-income category in South Africa and has not located in malls, instead locating mainly along taxi and bus routes.

These barriers are reinforced by significant market failures in the provision of finance in the region. Information problems intrinsic to finance mean that credit is rationed to newer and smaller retailers. The incumbent chains have a strong track record and assets, which can be used to obtain finance. Further, banks in general prefer financing properties that have anchor tenants who are the large incumbent supermarket chains (although the banks do not require exclusivity – see Section 6.5). Financial market imperfections in the region therefore contribute to barriers to entry and expansion for new retailers.

6.4. Assessment of extent of price competition between supermarket chains

The previous section evaluated factors that affect the market structure seen in retail markets in many countries. Although there can still be vigorous competition and innovation in oligopolistic retail markets to the benefit of consumers, a lack of effective competition and abuses of market power can result in both loss of consumer welfare and negative impacts on suppliers (see Chapter 7). However, measuring market power is complex where products and services are differentiated in terms of offering and geography as is the case with supermarkets.

This section grapples with the issues of measuring the market power of supermarket chains in terms of pricing in two ways. I then consider the tests applied to exclusive leases in shopping malls in the context of the market power assessment of the main chains in Section 6.5.

First, market power is measured through retail over wholesale price margins for selected food products over time in South Africa. Second, disaggregated data on prices by store within local geographic markets are assessed. In each case, while there are changes in price mark-ups and local prices charged, clear conclusions cannot be drawn. There is a number of reasons for this, including the lack of more disaggregated data and over longer periods of time. However, a major consideration which is analysed in the context of the appropriate competition tests is the fact that competition in supermarkets involves a range of non-price factors and prices are just one dimension on which firms compete. The consideration of data on price competition, and its limitations, is relevant for the critical review of the Competition Commission's and Tribunal's approach to exclusive leases in shopping malls. These leases exclude rivals from the shopping malls, by design. Whether this is significant depends on how competition works in geographic markets (Section 6.5).

6.4.1 Market power and retailer margins[59]

An indication of market power and its evolution can be traced through the spread over time between farm/producer/wholesale and retail prices for selected food and household consumable products. This offers insights on the extent, rate and speed by which price changes at the upstream level are passed through to end consumers. The extent to which changes in marginal and variable costs are passed onto consumers therefore provides an indication of market power. The data used for this assessment is described in Section 4.2.

Internationally, retail food prices have generally been found to be less volatile than farm-level or commodity prices (see, for example, OECD, 2013; Schnepf, 2013; Gardner,1975). The reluctance by retailers to adjust prices as frequently as changes in costs through commodity price fluctuations is due to menu costs as well as other factors along the value chain, such as productivity or quality improvements and technological developments (OECD, 2013). Caution should therefore be exercised around short-term fluctuations. The ability to increase margins over time has been found to be an indicator of market power (McCorriston et al., 2006; OECD, 2013).

In South Africa, margins of retail prices over producer prices are assessed for selected important product categories on which data was available: fresh produce, chicken and milk.

As described in Section 4.2, monthly average wholesale prices for the top five fruit and vegetables by volume sold in Gauteng were obtained from the City of Johannesburg Municipal Market. These include onions, tomatoes, potatoes, apples, and bananas for the period January 2010–March 2015.The Johannesburg Municipal Market is the largest fresh produce market in South Africa, located in Gauteng province, with 48 per cent market share of national fresh produce. For chicken, monthly producer prices for fresh and frozen chicken were obtained directly from Agrimark, a South African-based company that specialises in the analysis and forecasting of national and regional agricultural industry statistics, for the period

[59] A version of this analysis for South Africa was published in Das Nair and Chisoro (2017).

January 2008 to December 2015, and for milk, producer/farm-gate prices for January 2010 to March 2015 were obtained from the Milk Producers' Organisation, an industry organisation for milk producers in South Africa. These prices were compared to monthly average retail prices for Gauteng province from Statistics South Africa for the above products for the relevant periods.

High correlation coefficients would suggest that retail prices closely follow trends in producer prices and that changes in variable costs are passed through to consumers by retailers. Conversely, low correlation coefficients would suggest that retailers do not take into account producer price changes and, to a degree, set retail prices independently of them as would be consistent with market power (Bishop and Walter, 2002).

Two sets of correlation analyses are undertaken: a direct correlation of wholesale/producer/farm-gate prices with retail prices and a correlation of the first differences of the producer and retail prices, with a one-month lag in retail prices (assuming there is a one-month delay in retailers' transmitting any price changes to consumers, perhaps due to menu costs). The lagged correlation of the first differences is to account for non-stationarity of prices. The correlation analyses are done for the period 2010 to 2015 for all products for consistent comparisons (Table 26).

Table 26: Retail–wholesale price correlations, January 2010 to March 2015

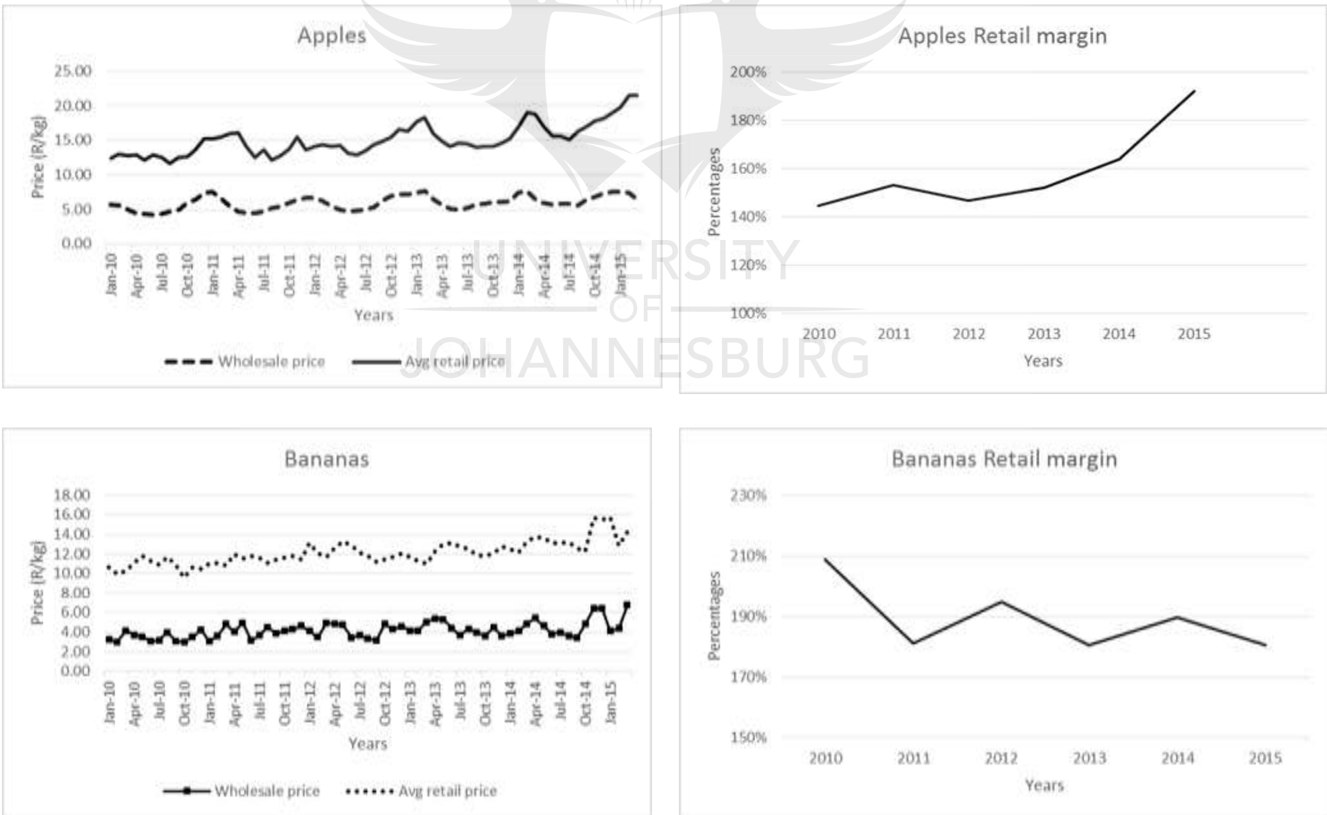
Product	Direct correlation coefficient	Correlation coefficient of lag of first difference (retail difference lagged by one month)
Apples	0.72	0.46
Bananas	0.57	0.56
Onions	0.58	0.73
Potatoes	0.59	0.55
Tomatoes	0.70	0.59
Fresh chicken	0.66	0.37
Frozen chicken	0.95	0.28
Fresh milk	0.97	0.22
Long life UHT milk	0.95	0.08

For each product in the no-lag correlation analysis, 63 monthly observations each for producer and retailer prices from January 2010 to March 2015 are used. For the lagged correlation of first differences, 61 monthly observations each for producer and retailer prices from January 2010 to March 2015 are used.

The direct correlations show relatively high coefficients for most products. However, when the correlation of the first differences with a one-month lag in retail prices is undertaken to account for stationarity and for transmission delays to retail prices, the coefficients are lower and, in some cases significantly lower (except for onions, where it is higher) than direct correlations. This suggests that retailers do not take into account producer price changes, which is an indication of market power.

Graphically, the retail-producer price spreads are depicted in Figures 17 to 19 below. For fresh produce, given the limited value addition that takes place once the produce leaves the wholesale municipal market and before it gets onto supermarket shelves, the spreads provide a useful indication of where rents are extracted in the value chain and therefore indications of market power. Figure 17 shows that for apples, there is a clear increase in retail-wholesale spreads, suggesting higher surpluses along the value chain being extracted by retailers. On the other hand, margins for bananas and tomatoes declined over the period. There are no clear trends in onions and potatoes. While not increasing, the wide absolute margins for bananas and tomatoes are also indicative of where rents are extracted in the value chain.

Figure 17: Selected fresh produce retail–wholesale margins, January 2010 to March 2015



Source: Das Nair and Chisoro, 2017; Joburg Municipal Market (wholesale prices), StatsSA (retail prices).

Note: The annual average for 2015 in the retail margin chart is just for January to March 2015.

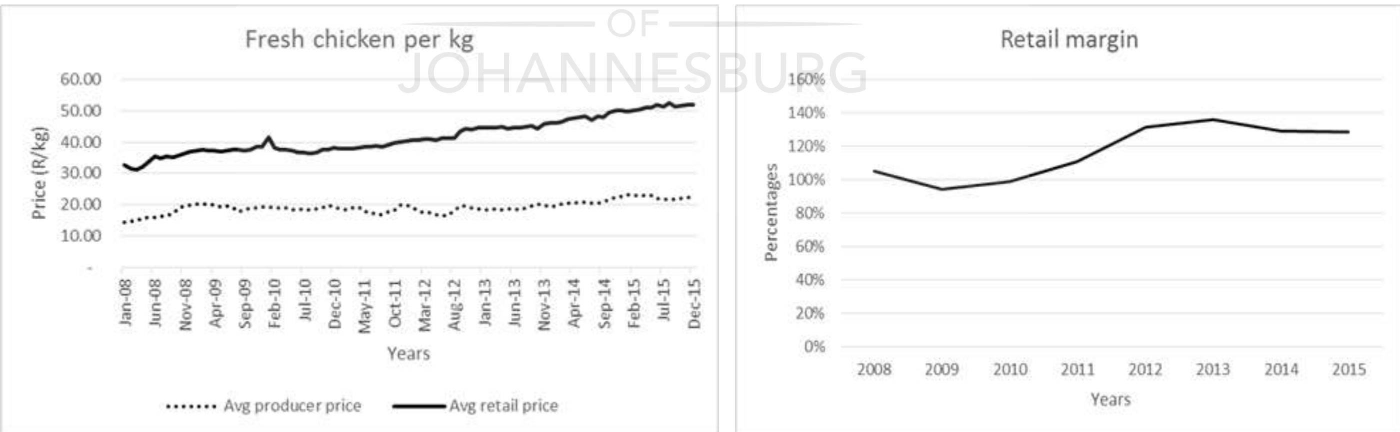
For chicken, a major product sold through supermarkets, the lagged correlation coefficients of first differences were low for both, with 0.37 for fresh chicken and 0.28 for frozen chicken. This suggests that there is slightly better transmission of fresh chicken prices to consumers than frozen chicken (also known as Individual Quick Freezing (IQF) chicken). However, as Figure 18 shows, the absolute retail margin for frozen chicken is declining over time, while that of fresh chicken is increasing.

Supermarket chains are better equipped than independent retailers to handle fresh chicken, which requires investments in shelf space that is chilled to the correct temperature without freezing. Supermarket chains also have more sophisticated logistics and cold-chain capabilities, allowing them to handle fresh chicken. Large poultry producers are indeed increasing their sales of fresh chicken to supermarket chains. One of the largest poultry producers in South Africa, for example, reduced its sales of IQF chicken from 66 per cent in 2012 to 53 per cent in 2015, supplying more fresh chicken and value-added products to supermarket chains. The company supplies to supermarket DCs that can handle perishables or directly to stores.[60]

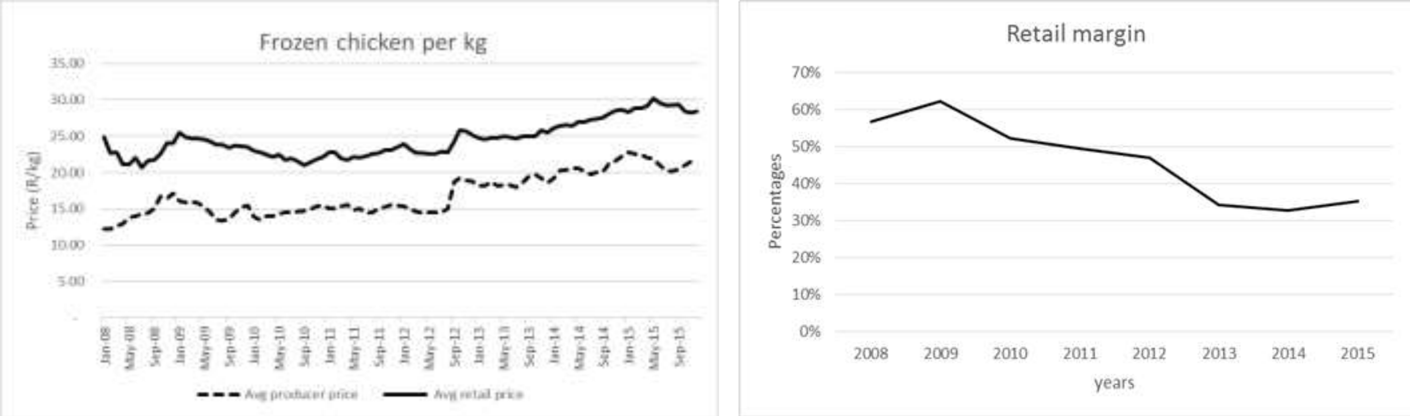
Frozen chicken has a longer shelf life and is easier for independent retailers to stock. Further, large poultry producers do not supply directly to independent retailers given that the small scale makes it inefficient to deliver in full truckloads. They sell to wholesalers instead, who then sell on to independents. This extends the supply chain, making it even more difficult to supply fresh chickens to independent retailers.

Therefore, it is supermarket chains that are increasing margins over producer prices for fresh chicken and extracting greater surpluses over times. Interviews with large suppliers of poultry have corroborated the market power of retailers with regards to negotiation of trading terms (see Chapter 7).

Figure 18: Chicken retail–producer price margins, January 2008 to December 2015



[60] Interview with a poultry producer, 22/09/2015



Source: Das Nair and Chisoro (2017); Agrimark (producer prices); Stats SA (retail prices)

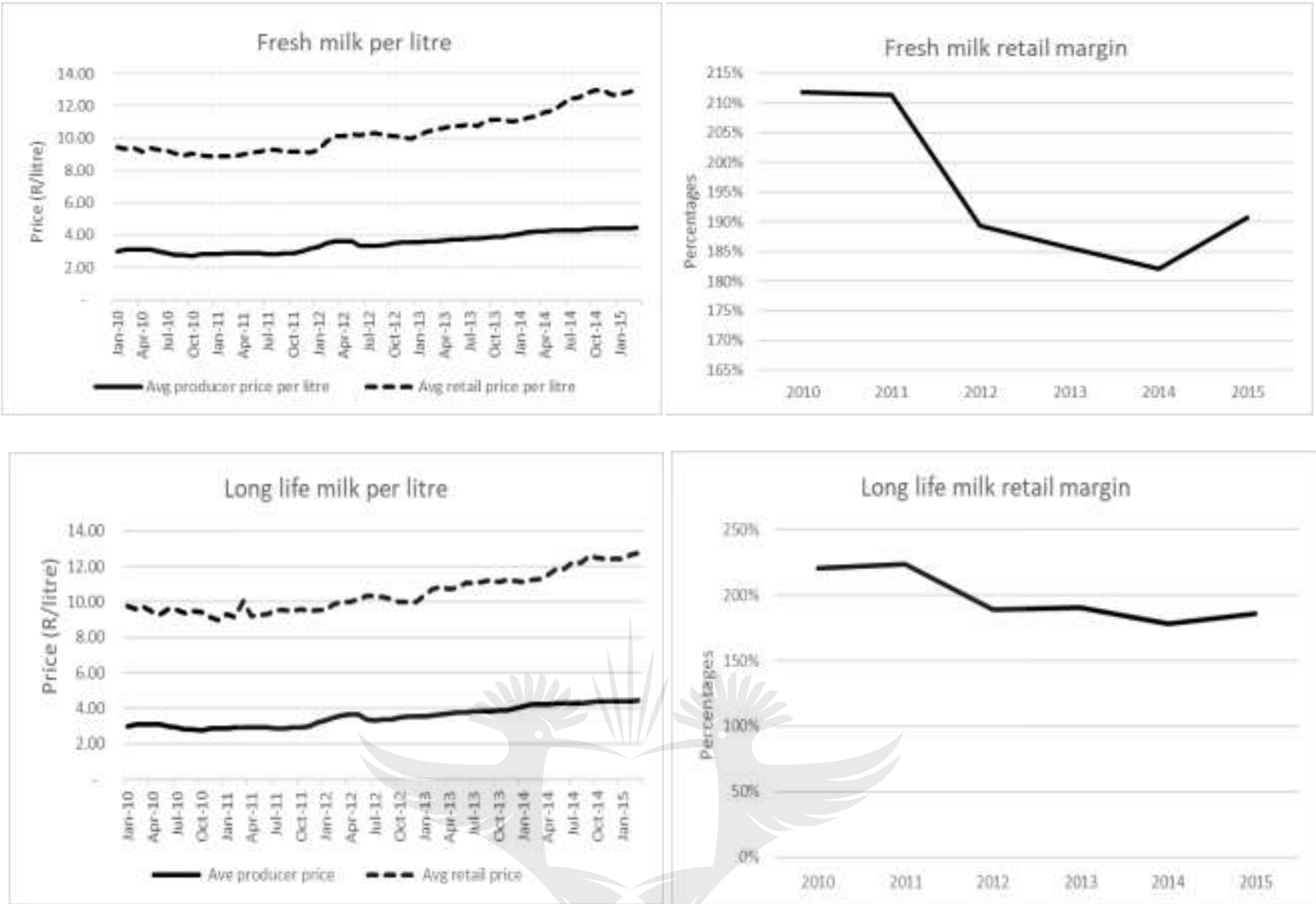
Retail margins over producer prices for fresh chicken increased from 105 per cent in 2008 to 128 per cent in 2015, an increase of 23 percentage points, while margins for frozen (IQF) chicken have declined by 22 percentage points from 57 per cent in 2008 to 35 per cent in 2015 (Figure 18). The comparison of fresh with frozen chicken suggests local market power in outlets selling fresh chicken, which are predominantly supermarket chains.

The retail margins for frozen chicken on the other hand have continued to fall over the period, which might be partly explained by the increase in poultry imports from Brazil. Imports are in frozen form and therefore compete directly with frozen chicken produced locally. After 2013, the retail margins stabilised, ranging from between 33–35 per cent, which could be explained by the anti-dumping tariffs imposed in 2013 (12–82 per cent on chicken imports from Brazil). Prices by retailers in the case of imports of frozen chicken have therefore been constrained by imports.

In the case of milk, a similar result might be expected as fresh milk requires the cold-chain and logistics infrastructure while long-life or UHT milk does not. Unfortunately, I do not have data on producer prices for pasteurised milk and UHT, but only for raw milk from dairy farmers. The margin analysis therefore includes both the processing margin and the retailer margin. There have been concerns about the market power of processors in the South African dairy value chain (Ncube et al., 2016), making it difficult to confirm at which level of the value chain rents are extracted.

The data indicate that relative margins have decreased for both fresh and long-life milk but decreased at a slower rate for long-life milk (Figure 19). This may be reflective of market power at the processor level in long- life milk.

Figure 19: Milk retail–producer price margins, January 2010 to December 2015



Source: Das Nair and Chisoro, 2017; Stats SA, MPO.

Note: The annual average for 2015 in the retail margin chart is just for January to March 2015.

Some important limitations

There are important limitations to both the correlation analysis and the assessment of spreads undertaken above. First, more useful correlation analyses would be between prices and supermarket concentration, or comparisons of producer-retailer spreads of the same products in the same time periods with more competitive markets (see, for instance studies undertaken for the European Parliament (2007) and London Economics (2004), and studies by McCorriston et al. (2006 and 1998) on price transmission and divergence between producer and retail prices depending on the degree of market power, amongst other factors).

Time series data on changes in supermarket concentration levels as a measure of the degree of market power on a provincial level (i.e. in Gauteng province for the above assessment) during the period considered were not available to me.

Second, these margins do not give a complete picture of the profits earned by retailers because they do not take into account a range of other costs incurred such as transport, cold storage and re-packaging costs. There are also several other factors that contribute to fluctuations in prices for fresh produce, such as weather patterns, seasonality of the produce, and other supply and demand considerations. Further, while some supermarkets such as Fruit and Veg City procure most of their produce from municipal markets, others like Shoprite and Pick n Pay have direct contracts with farmers, buying produce from the market only for top-up purposes during periods of high demand. The prices therefore of fresh produce that these supermarkets receive may not be the same as the wholesale price at municipal markets (Das Nair and Chisoro, 2017). Given these major limitations, caution is taken in making firm conclusions.

6.4.2 What is the impact of competition on prices in selected geographic areas?

To assess the impact of concentration on pricing, I assess supermarket-specific prices of the main South African chains, Shoprite and Pick n Pay, for selected products in local geographic markets. Urban locations within Gauteng that consumers would use public transport or cars to access supermarkets and hypermarkets were selected. The markets were also selected based on available comparable data on prices of products.

The prices were assessed for specific products from a typical basket, covering a combination of top-selling, core and packaged food products.[61] As described in Chapter 4, monthly scanner prices for 13 selected food and household consumable products part of key value items (KVIs) (including different pack sizes) were obtained from Retail Price Watch (see Table 4). These KVIs are products that consumers themselves are likely to use for comparison purposes when shopping around.

Prices for the products are broken down by supermarket, city and suburb. Shopping mall/store name information had to be matched with the data sets for each product. An example of the raw data for Albany bread, matched with the store name information, is given in Appendix 2. The store locations and drive times are determined using Google Maps and supermarket websites for addresses. Drive times were determined for Saturdays mornings (assuming that shoppers do their weekly shopping on Saturdays).[62]

Based on the review of international and local literature, as well as given the realities in South Africa described in Section 6.2.2, narrower geographic areas are defined here as catchment areas within a 5-kilometre radius and isochrones based on drive times of within 10 minutes

[61] Massmart public submission to the GRMI, 30 September 2016.
[62] I acknowledge that drive times on Google Maps change depending on time of day and traffic conditions.

from a candidate store. The combination is appropriate as a simple radius may involve travel time across a congested urban area or also into a quite different neighbourhood. The distances and drive times to rivals within the 5km and 10-minute drive time isochrone from each Pick n Pay and Shoprite store selected is given in Appendix 3 and 4 of this chapter.

Pick n Pay

Table 27 shows a summary of Pick n Pay supermarkets and hypermarkets in areas I have selected for this assessment within Johannesburg (JHB) and Pretoria (PTA) in Gauteng province, South Africa. In each area, I evaluate prices where there is a Pick n Pay store as an incumbent, with differing numbers of rival stores within a 5-kilometre radius and 10-minute drive time from this incumbent. Rivals are categorised as direct rivals (which include the other incumbents with similar formats), challengers (which include FVC/Food Lovers' Market, Game and/or Choppies) as well as indirect rivals in terms if format (Woolworths that exclusively targets high-income consumers, and formats of the incumbents that target lower-income consumers like USave, Savemor, Saverite or Boxer). Woolworths, as discussed in Section 6.2.1, is not a direct rival to the supermarket and hypermarket format of Pick n Pay. I nonetheless include it as an indirect rival as it may offer a competitive constraint to lower-income targeting supermarkets, although perhaps not vice versa. Own chain stores in catchment area (other Pick n Pays) are not included. Prices are then compared across the different areas.

The areas are 'ranked' based on the relative levels of concentration to provide a ball-park measure of the degree of competitive rivalry. This is based primarily on the presence of direct rivals and challengers. Although Game has been listed under challengers, it should be noted that it is not necessarily as effective a challenger to the incumbents as an FVC, given that it has only relatively recently (since around 2013) entered into grocery retailing. Based on the above considerations, in Table 27, Pick n Pay Hatfield has the greatest number of effective rivals and is therefore given a rank of 1, and Pick n Pay Northgate has the least number of rivals and is ranked fifth. Prices would therefore be expected to be lowest in Hatfield and highest in Northgate.

Table 27: Summary of geographic areas selected for Pick n Pay stores and rivals in its catchment area

Selected area	Incumbent store	Number of rivals within 5 km and within 10-minute drive time		Total	Competitive ranking
		Direct + challengers	***Indirect***		
Northgate (JHB)	Pick n Pay	2 direct +1 challenger (Game)	2 (Usave, Woolworths)	5	5
Hatfield (PTA)	Pick n Pay	6 direct + 2 challengers (FVC/FLM; Game)	4 (Savemor, Woolworths)	12	1
Parkmeadows (JHB)	Pick n Pay	3 direct + 2 challengers (FLM located in the same mall; Game)	2 (Woolworths)	7	3
Benmore (JHB)	Pick n Pay	4 direct + no challengers	4 (Woolworths)	8	4
Faerie Glen (PTA)	Pick n Pay	6 direct + 2 challengers (FLM and Game)	3 (Woolworths)	11	1/2

An assessment of prices in the different areas facing different degrees of competitive rivalry is presented in Table 28 below. Pair-wise comparisons were done between combinations of areas with higher and lower levels of comparisons as ranked in Table 27 above.

A first observation is that the data indicates that price differences in different locations are commonplace. While prices may not vary monthly in every instance, over a longer period, prices variations reflect discounting. This is also reflective of high-low pricing strategies in supermarkets and hypermarkets formats as discussed in Section 6.2.1, where higher regular prices are punctuated with frequent short-term price promotion discounts.

Table 28 however shows that the results are not always as expected. The prices in Hatfield were not always lower than the comparator area as would be expected. However, in two out of the six comparisons, rivals (whether challengers or indirect) are located in the mall with the incumbent Pick n Pay store, which may have had an impact on the pricing observed. Prices in these locations were more competitive than expected, which may suggest supermarkets located in malls compete more vigorously with each other.

In addition, the characteristics of the Hatfield area, in terms of whether the store is located in a mall or on the street, or the profile of customers that reside or work in the area, are unknown at this stage. There are also certain products where more discounting or price variation is seen in Hatfield, such as in milk, cake flour and Protex soap, but not in others like cooking oil, margarine, soap powder and sour milk. This may be a function of the profile of customers in the Hatfield area.

The number of direct rivals further does not necessarily indicate the diversity of rivals. For instance, in Hatfield, most of the direct rivals are SPARs, while in Faerie Glen, most are Shoprite Checkers or Shoprite stores (see Appendix 3 and 4 of this chapter). This may also affect the intensity of rivalry in a given area. More information is required to make more conclusive findings.

Table 28: Price differences for Pick n Pay [63]

	Northgate less Hatfield	Hatfield less Parkmeadows	Benmore less Hatfield	Benmore less Parkmeadows	Northgate less Parkmeadows	Hatfield less Faerie Glen
Iwisa maize meal (2.5kg)	- 1%	2%	0%	-1%	0%	2%
Clover Milk	2%	3%	4%	2%	3%	-4%
Sunflower Oil	- 1%	0%	-2%	2%	0%	3%
Albany bread	1%	1%	0%	-1%	1%	2%
Rama margarine	0 %	5%	-7%	2%	3%	-5%
Sasko cake flour	6 %	0%	4%	2%	1%	0%
Protex	4 %	0 %	5 %	3%	8%	4%
Ariel	-3%	0 %	0 %	0%	0%	0%
Omo	-5%	3 %	-3 %	-2%	-5%	1%
Inkomazi sour milk	0 %	-2 %	-1%	2%	-1%	4%
Total number of monthly comparable observations	151	140	121	137	169	124
Result	Prices higher for 4 products and lower for 4	Prices higher for 5 products and lower for 1	Prices higher for 3 products and lower for 4	Prices higher for 6 products and lower for 3	Prices higher for 5 products and lower for 2	Prices higher for 6 products and lower for 2
Expectation	Hatfield prices would be lower	Hatfield prices would be lower	Hatfield prices would be lower	Parkmeadows prices would be lower	Parkmeadows prices would be lower	Prices expected to be roughly similar
Result vs expectation?	Hatfield not as competitive as expected	Hatfield prices not lower as expected, although FVC in Parkmeadows is in the same mall as Pick n Pay	Hatfield not as competitive as expected, although Woolworths, even though an indirect rival, is located in the same mall as Pick n Pay	As expected	As expected	Hatfield not as competitive as expected

Source: Retail Price Watch

[63] Ms Grace Nsomba, Research Assistant at CCRED, assisted with the data cleaning and calculations in this section.

Shoprite Checkers

The same analysis as undertaken above was undertaken for prices of Shoprite Checkers' stores. Table 29 is a summary of direct rivals, challengers and indirect rivals within 5km and 10-minute drive from selected Shoprite Checkers stores. Based on the same considerations as for the Pick n Pay analysis, Checkers Fourways has the greatest number of effective rivals and is therefore given a rank of 1, and Checkers Pretoria North and Eastgate, the least, and ranked third. Prices would be expected to be lowest in Fourways and highest in Pretoria North or Eastgate.

Table 29: Summary of geographic areas selected for Checkers and rivals in the catchment area of incumbents

Selected area	Incumbent store	Number of rivals within 5 km and within 10-minute drive time		Total	Competitive ranking
		Direct + challengers	***Indirect***		
Pretoria North (PTA)	Shoprite Checkers	4 direct + 2 challengers (FVC, Choppies)	2 (Woolworths and Usave)	8	3
Fourways (JHB)	Shoprite Checkers	9 direct + 4 challengers (3 FVC,1 in the same mall; Game)	2 (Woolworths, 1 in the same mall)	15	1
Kolonnade (PTA)	Shoprite Checkers	6 direct + 3 challengers (2 FVC; Game)	2 (Woolworths)	11	2
Eastgate (JHB)	Shoprite Checkers	2 direct + 2 challengers (Game in mall, and FVC in Parkmeadows – other side of highway)	2 (Woolworths)	6	3

The Checkers analysis also shows variations in pricing in different locations (Table 30). The results are as expected – prices are lower in areas where there is greater competitive rivalry. However, there are fewer areas of comparisons and comparable product observations for Shoprite Checkers.

Table 30: Price differences for Shoprite Checkers

	Pretoria North less Fourways	Pretoria North less Kolonnade	Pretoria North less Eastgate
Rama margarine	0%	0%	0%
Sasko cake flour	2%	0%	-
Weetbix	3%	4%	1%
Protex	2%	6%	4%
Ariel	5%	-	0%
Omo	2%	-1%	0%
Inkomazi	-2%	1%	-2%
Total number of monthly comparable observations	111	90	77
Result	Prices higher for 5 products and lower for 1	Prices higher for 3 products and lower for 1	Prices higher for 2 products and lower for 1
Expectation	Fourways prices would be lower	Kolonnade prices would be lower	Prices expected to be roughly similar
Result vs expectation?	As expected	As expected	As expected, although Eastgate is likely to be more competitive given the location of Game in the mall and FVC across the highway.

Source: Retail Price Watch

Further analysis was undertaken in the catchment area of a Shoprite Checkers in Vanderbijlpark located outside Johannesburg and Pretoria, and which has fewer rivals within its catchment area than all the Checkers stores assessed above as well as fewer rivals than two additional Checkers store locations in Sandton and Northgate. Shoprite Checkers Vanderbijlpark only has three mainstream rivals (two Spars and one Pick n Pay), one challenger (FVC) and one indirect rival, Woolworths. Prices are expected to be higher in Checkers VanderbijlPark than in the other Checkers assessed, but as Table 31 shows, the results are ambiguous. Of the 34 comparisons, in 18 instances, there were no price differences (53 per cent). In 9 instances, prices in Vanderbijlpark were higher (26 per cent), and in 7 instances, they were lower (21 per cent).

The purpose of this analysis is slightly different from the previous set of analysis. It also tests the possibility of there being a standard single price determined nationally or regionally (by province) for certain product categories that are maintained irrespective of competitive forces.

This again raises questions about the types of products in which there is more discounting from a national list price, and whether this is as a response to local competitive pressures or nature of target consumers. For instance, there is no difference in the pricing of Ariel washing powder generally across the different Checkers stores (although, as seen in Table 30 above, there was a 5 per cent difference in Ariel prices between Checkers Pretoria North and Checkers Fourways). Further data and analyses are needed to understand these trends more thoroughly.

Table 31: Price differences between Checkers Vanderbijlpark and other Checkers outlets across Gauteng, by product

Supermarket location	Lower	Higher	No difference	Avg % difference
Weetbix cereal 450g				
Eastgate		✓		15%
Northgate			✓	0%
Kolonnade		✓		15%
Fourways		✓		6%
Sandton	✓			-6%
Sasko Cake Flour 10kg				
Eastgate			✓	0%
Kolonnade	✓			-2%
Fourways			✓	0%
Sandton			✓	0%
Protex Gentle soap				
Eastgate		✓		10%
Northgate			✓	0%
Kolonnade		✓		8%
Fourways		✓		7%
Sandton			✓	0%
Pretoria North	✓			-1%
OMO washing powder 2kg				
Eastgate		✓		1%
Kolonnade	✓			-3%
Fourways	✓			-1%
Pretoria North	✓			-3
Northgate			✓	0%
Iwisa maize meal 10kg				
Fourways		✓		2%
Kolonnade			✓	0%
Eastgate			✓	0%
Northgate		✓		1%
Sandton			✓	0%
Inkomazi sour milk 2kg				
Fourways			✓	0%
Kolonnade	✓			-1%
Eastgate			✓	0%
Pretoria North			✓	0%
Ariel washing powder 3kg				
Eastgate			✓	0%
Kolonnade			✓	0%
Fourways			✓	0%
Sandton			✓	0%
Pretoria North			✓	0%

Source: Retail Price Watch

Implications

The above analysis indicates that there are local differences in the pricing of products that are typical to shoppers' baskets. Although prices may be set at national or broader regional level (as noted by Pick n Pay for example in the GRMI[64]), there is undoubtedly discounting happening within narrower markets by both Pick n Pay and Shoprite Checkers (also as seen in the Shoprite pamphlet extract in Figure 16 above). There are also indications that prices are responsive to local rivalry, but more data is required for a fuller statistical analysis to be undertaken in future research. This includes data on a wider set of KVIs as well as over more geographic markets. This could test whether there are cross-category effects as found by Thomassen et al. (2017) where the supermarket is a one-stop-shop and increasing the price of one or two key categories may lead to consumers transferring away all their purchases. Given this, supermarkets are less able to raise prices of individual products. On the other hand, it could be that consumers value one-stop-shopping or 'single homing' experience so much that individual product categories are not responsive to local competition in terms of price. In other words, supermarkets do not need to adjust individual prices according to structure and competitive dynamics in local catchment areas. Better quality data is also needed for future analysis. The data available was very limited in that prices for the same product were not collected by Retail Price Watch every month in each store site for each selected product. This limited the number of comparable observations across stores. Similarly, prices were not available for every store in the catchment area given the limited number of stores that were part of the sample of Retail Price Watch.

More definitive results could be obtained if the analysis could be extended to include a wider range of products across more geographic nodes across the country, and in other countries in the region. If good quality data was available for nodes across geographies over longer periods of time, a more systematic econometric analysis could be undertaken to see the effect of concentration on price levels. Longer price series for more products could also allow an assessment of the impact of entry of challenger supermarkets in given nodes.

A separate set of issues relate to the focus only on price. Consumers may value other aspects including product range, service, convenience, credit offerings, loyalty programmes and the overall shopping experience (such as whether located in a mall). In other words, supermarkets may compete more intensely on these *non-price* aspects than on price of individual products. These are all important dimensions of intra-format competitions, as discussed in Section 6.2.

[64] Pick n Pay public submission to the GRMI, 31 August 2016

Capturing the non-price effects of supermarket competition is more difficult and would require data from supermarket chains over time on customer footfall, product ranges (changes in number of lines stocked over time), formats by location, investments in store upgrades, customer feedback and spending patterns, advertising spend and amenities in store, amongst other variables.

A related important consideration is whether the geographic definition is correct or whether a mall or shopping centre in itself may constitute a market. In other words, even if there are rivals within 5 kilometres and under 10 minutes' drive time of the store in question, these offer little constraint if it is not located in the same mall. The results for Pick n Pay showed that in two out of the six area comparisons, rivals (whether challengers or indirect) were located in the mall with the incumbent Pick n Pay store. Prices in these locations were more competitive than expected (relative to where there were a greater number of rivals), which may suggest supermarkets located in malls compete more vigorously. This is a central question in evaluating exclusive leases, as discussed in Section 6.5; however, the rationale for the leases from the supermarket perspective in itself implies that a shopping mall does constitute a market for a substantial proportion of shoppers.

6.5. Exclusive leases and potential exclusionary effects on smaller rivals

Section 6.3 highlighted the key structural barriers to entry that contribute to the concentrated nature of formal grocery retail markets. The difficulty in measuring market power and in showing the effects of concentration on the pricing of products was further seen in Sections 6.4.1 and 6.4.2. Measuring market power and its effects is especially complex where products and services are differentiated in terms of offerings and geography as is the case with supermarkets.

This has relevance for the evaluation by competition authorities of a type of conduct that has been prevalent in South Africa. It is a common and historic practice that supermarket chains enter into leases in prime shopping locations with property owners that contain exclusivity clauses. This prevents new entrants from locating in these retail spaces, limiting their ability to enter or expand. An outcome of incumbency advantages and path dependency, this conduct acts as a barrier to entry and expansion and entrenches the position of the incumbents. The first movers who are able to access mall space secure themselves against competition in that space by entering into such leases as anchor tenants in that mall.[65] This

[65] Massmart Holdings Founding Affidavit in the matter between Massmart and Shoprite, Pick n Pay, SPAR and South African Property Owners' Association (2015) (hereafter referred to as Massmart Founding Affidavit), filed as part of Massmart public submission to the GRMI, 30 September 2016.

allows them to grow at the expense of rivals, thereby making it easier to secure other lucrative retail spaces in the future. Attractive store sites are necessary if a new entrant is to become an effective competitor, and especially so in grocery retailing. Property developers provide supermarkets with these store sites, with the most desirable sites in South Africa being located inside a shopping mall/centre or close to the centre where customer traffic is dense.

This section looks at whether this conduct by supermarket chains is indicative of the exertion of market power and if it creates strategic barriers to entry and expansion using past competition cases and data from the South African Competition Commission's Grocery Retail Market Inquiry (GRMI). Importantly, in light of the difficulties in showing effects of market power in concentrated markets, it questions the traditional approach of the competition authorities in assessing the effects of such conduct through a narrow lens based primarily on prices. Price is typically used as part of defining geographic market and in terms of quantifying effects on consumers. This has resulted in difficulty for new entrants to prove that the conduct which excludes them has a negative effect on competition to the detriment of the final consumer.

I argue that this is a narrow and static interpretation and is missing a central point – the importance of the process of effective competitive rivalry itself and the potential for new chains to enter and grow to be even more effective competitors to the incumbents in the future. It ignores the fact that non-price competition is just as, if not more, important in the supermarket sector and that effective rivalry can stimulate this in the long run. These non-price dimensions have not been appropriately considered in competition assessments involving exclusive leases to date and the effect is that entry and expansion of rivals is likely to have been slower than if these leases were not in existence.

Exclusive leases in South Africa

Exclusivity can either be 'blanket' exclusion on all grocery retail offerings or on particular product lines (butchery, bakery, pharmacy etc.). Exclusivity clauses can also mandate that product lines cannot be greater than a stipulated size, for instance, a specialist butchery in a shopping mall cannot be in excess of 300–400m.[2] Other forms of exclusivity carve out specific exceptions on who can operate in the mall. Others still stipulate that property owners or landlords require permission from the incumbent if they wish to rent to other ancillary tenants who overlapped with the incumbent supermarket's offering. The Competition Tribunal, in its decision in the Massmart matter noted that these leases, while varying in their terms, have an essential feature – a term preventing or restricting the landlord from allowing any other tenant in the mall from selling, in that case, fresh grocery products (Competition Tribunal, Case: CRP034Jun15/EXC239; 240 and 241Mar17, 2017).

A range of factors appear to affect whether exclusive clauses in leases are insisted upon. These include size of shopping centre, whether the centre is new, whether the centre is in a rural or urban area or whether it is a corporate or franchise store, amongst others (Das Nair and Chisoro, 2015b).

With regards to shopping centre size, in larger malls, there is typically more than one anchor grocery retail tenant at different ends of the mall. Shopping centres of 12,000m^2 can usually only support one anchor tenant; centres of 25,000m^2 can support two and centres of >40,000m^2 can support up to three supermarkets. Exclusive leases are more likely to be insisted upon when the size of the centre is between 12,000 and 12,500m.^{2} Other estimates are that shopping centres between 14,000 and 20,000m^2 are where there are typically still fights around exclusivity. According to the South African market classification of shopping centre size (see Appendix 1 of Chapter 6), exclusive leases are likely to be more prevalent in neighbourhood and community shopping centres.

Negotiating leases is difficult in new centres as the dominant anchor tenant is critical in obtaining finance from banks to build the centre. Property developers may end up allowing or giving in to demands of exclusivity by major supermarkets to kick start the development process. Subsequently, property developers struggle to re-negotiate the terms of the leases. Exclusive leases therefore may be more prevalent in new centres where there is risk and uncertainty and where the anchor tenant seeks to protect its investment from competition. However, property owners suggest that exclusivity clauses in leases were more prevalent historically, and that it was common practice in the grocery retail industry in South Africa for many years.[66] Potentially, given the increased attention by the Competition Commission around this practice recently, there is greater sensitivity around exclusive leases in new centres, while in existing centres the problem persists given that the leases were signed many years ago. In practice, exclusive leases usually span for 10 years, but many leases have several options for renewal for large supermarkets. This means that exclusivity for large supermarkets can span for over 30 years.

Small property developers, particularly of developments in rural areas, who do not have bargaining power against major supermarkets are more inclined to succumb to entering into leases with exclusivity clauses to kick start developments. Lack of competition potentially has greater consequences in rural areas where the closest alternative centre may be further away than in urban areas. Further, small specialised businesses in rural areas like grocers, bakers, butchers and delicatessens are prevented from locating in centres if there is exclusivity clauses. A specialised butchery for example, Roots Butchery, has encountered such

[66] Interviews conducted in Das Nair and Chisoro (2015b)

problems in rural areas. In the case of Roots, it is alleged that it started selling other grocery products such as canned food, dry grocery products and mealie meal (over and above its butchery offering as per the lease agreement) and that the anchor supermarkets in the shopping centres evoked their rights under the exclusivity clause.[67]

Models of retailing, whether franchise or corporate, also appear to impact on whether supermarkets insists on exclusive leases. In the case of franchise stores, individual store owners typically insist on exclusivity clauses in leases to protect his/her individual investment.[68] However, SPAR claims that it has existing exclusive lease agreements in place only for around 30 per cent of its stores, with most having forms of partial exclusivity. Nonetheless, according to SPAR, the duration (initial 10-year period, with options to renew) is negotiated to protect the owner's investment which could range from R5 million to R18 million. SPAR also highlights the increased riskiness for independent retailers relative to corporate stores.[69] Corporate anchor tenants also argue that this is the motivation for the exclusivity requirement – to protect their investment. For instance, they argue that exclusivity is needed to offer certainty to investors,[70] to ensure a return on their investments, to maintain their financial viability and to construct malls in the first place. The validity of such efficiency claims is discussed later.

The international approach by the Australian Competition and Consumer Commission's (ACCC) and the UK authorities was discussed in Chapter 3 above. Either bans of the practice or phasing out of these leases have been mandated in these jurisdictions.

History of competition complaints on exclusivity clauses in leases in Southern Africa

The Competition Commission in June 2009 initiated an investigation against the major supermarket chains, Shoprite, Pick n Pay, Woolworths and Spar, as well as wholesalers and hybrid stores – former Massmart and Metcash. In addition to allegations of abuse of buyer power, engaging in category management practices and information sharing, the Commission looked into the practice of supermarkets entering into long-term exclusive leases (Competition Commission of South Africa, 2011).[71] Subsequent allegations around exclusive lease agreements between the major retailers and property developers were made by Fruit

[67] Interview with a property developer who predominantly develops shopping centres in rural areas, 21/09/2015
[68] Interviews undertaken in Das Nair and Chisoro (2015b)
[69] Although SPAR notes that individual owners are not required to provide SPAR with copies of their lease, so this is just an estimate. SPAR's submission to the GRMI, 19 August 2016
[70] See for instance, public testimony of Pick n Pay, GRMI, 3 November 2017, p. 8
[71] A number of similar allegations were made by relatively new entrant, Fruit and Veg City (FVC), the A&M Hirsch Family Trust and Mr Ismail Ganchi of Aquarella Investments 437 (Pty) Limited (Competition Commission, 2015a).

and Veg City (FVC), the A&M Hirsch Family Trust and Mr Ismail Ganchi of Aquarella Investments 437 (Pty) Limited (Competition Commission, 2015a).

The Commission's investigations revealed the widespread existence of long-term exclusive lease agreements between food retailers and landlords. The Commission found that these had the potential of dampening competition because the anchor tenant was unlikely to approve entry of competing supermarkets or specialist stores like bakeries and butcheries. This leaves the anchor tenant as the only grocery retailer in the premises free from effective competition and customers are left with limited choice regarding product range, pricing and quality in that location.

However, after investigating the complaint, the Commission concluded that there was insufficient evidence to prove that exclusive leases had the effect of substantially lessening competition. The reasoning behind this, as highlighted previously, is problematic and I discuss the shortcoming of this approach in the next section.

The Commission subsequently non-referred the allegations and instead at the time engaged in softer, ongoing advocacy measures to deal with exclusive leases. As part of this, the Commission took part in discussions with supermarkets, property developers and banks, recommending the use of long-term exclusive lease agreements only in cases where the supermarkets can prove that they undertook substantial investments in certain shopping centres. The Commission also made recommendations on the duration of exclusivity granted. The Banks Association made a step towards addressing the issue by agreeing that the major banks no longer required exclusivity clauses in agreements between developers and anchor tenants before accessing funding (Competition Commission, 2015a).

Notwithstanding these passive undertakings, new complaints were lodged at the Commission from October 2013. These led to the Commission announcing that it would be re-opening investigations into such practices. In October 2013, Massstores (now Walmart) lodged a complaint against the exclusive lease agreement between Shoprite Checkers and Hyprop Investments for the Cape Gate Regional Centre in Cape Town.

In September 2014, the South African Property Owners Association (SAPOA) filed complaints against Pick n Pay, Shoprite and SPAR for exclusive lease agreements in a number of shopping malls. The main concern was that as anchor tenants, Pick n Pay, Shoprite and SPAR were granted exclusive rights to trade as the only supermarkets in the premises and restricted entry of competing smaller and independent firms into the shopping malls. In October 2014, Massmart took the complaint against the major retailers Pick n Pay, Shoprite and SPAR directly to the Competition Tribunal after the Commission non-referred it.[72] following the difficulties that one of Massmart's subsidiaries, Game, faced in locating in certain centres following Game's recent entry into fresh grocery retail.[73] Game argued that this conduct prevented it from becoming an effective, national rival to the incumbent supermarkets, and that consumers were left with less choice and potentially lower prices.[74]

Given these extensive complaints and other concerns in the grocery retail industry, following authorisation by the Economic Development Department Minister, the Commission on 13 May 2015 announced that it would undertake a market inquiry into the retail sector. Minister Patel announced that the Grocery Retail Market Inquiry (GRMI) would examine the tenancy arrangements in shopping malls in addition to the other objectives previously noted.

Are exclusive leases anticompetitive?

Exclusive leases, by their very nature, are exclusionary. They prevent new entry, limit the growth of rivals and reinforce the incumbents' positions of power in the mall or centre that they are enforced in. With fewer competing supermarkets in a given location, customers are ultimately left with reduced choice.

As of December 2018, the South African competition authorities have not made a finding that such conduct is anticompetitive. The Competition Tribunal in 2018 dismissed the complaint by Walmart/Massmart in the Game matter on similar grounds. Exclusive leases were argued as a restrictive vertical practice and the Tribunal dismissed the complaint as it found that Massmart had not shown that a mall was its own market or that the leases led to consumer harm or substantial lessening of competition.

This is as a result of the way the Competition Act has been interpreted in the past and the emphasis that the authorities have placed in proving substantial effects of the conduct on end consumers often through price and quantity effects. Complaints brought under Section 5 (1) of the Act under restrictive vertical practices need to show a substantial lessening of competition. Complaints brought under Section 8 (c) or 8 (d) of the Act, which cover forms of exclusionary conduct through evolving jurisprudence, also have to show substantial harm to competition and not to competitors.

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[72] The Commission non-referred the matter given the GRMI about to commence at that time which was also covering these issues. Exception application case numbers: CRP034Jun15/EXC239; 240 and 241Mar17, available at https://www.comptrib.co.za/assets/Uploads/CRP034JUn15-EXC239Mar17-EXC240Mar17-EXC241Mar6.pdf

[73] In the same period, Mr S.A. Mahwiliri, a franchisee of Pick n Pay, laid a complaint against the manager of Kwa-Mhlanga Shopping Complex after he was refused retail space, allegedly following an order from Shoprite, the anchor tenant. Similarly, in December 2014, Mr Hlope, a businessman operating a liquor store filed a complaint against the major retailers after he was also denied lettable space in malls.

[74] Massmart Founding Affidavit

The competition authorities have typically evaluated effects under these provisions in terms of price and quantity only. Limiting the scope of effects on consumers to just this is a static and narrow approach and dismisses the importance of the process of effective competitive rivalry itself and the potential for new chains to enter and grow to be even more effective competitors to the incumbents in the future. Non-price dimensions on which supermarkets compete such as location, format, range, quality, convenience, ancillary offerings, a one-stop-shopping experience, ambiance and others, are not taken into account when only looking at price and quantity. Large incumbents are likely to be able to offer lower prices than new entrants and independent or specialist retailers given economies of scale, but this is only one dimension of offering in the PQRS bundle.

Smaller retailers may be able to provide better, more personalised products and services and be more responsive to community needs. If larger rivals like Game were allowed to locate or expand their offerings within malls, they could grow to be effective rivals to the incumbent chains at a national level. While Game pleaded this in its complaint, it was not able to show how much of an effective competitor it was and could be. For instance, the Tribunal noted that the most Game pleaded was that it aims to be at least 2-5 per cent cheaper than comparative retailers for perishable and non-perishable food products, but that it did not provide sufficient evidence of this. If these figures were indeed correct, this is not trivial relative to trading margins in retail. Shoprite's trading margin in 2017 was 5.76 per cent (Shoprite results presentation, 2017), while Pick n Pay's was 2.3 per cent in 2017 (Pick n Pay results presentation, 2017).

The Tribunal however made it clear that what was needed for the complainant was to show that the harm had already happened.[75]This again highlights the importance attached to price effects. Further, Game needed to show that the exclusive leases covered a significant portion of the downstream market to pass the substantial lessening of competition test.

This reflects the high threshold or burden of proof in the South African competition regime. Conduct that clearly has an exclusionary effect on competitors, and a distortionary effect on the competitive landscape, is not sufficient to make a finding given the high standard of proof required. Complainants in exclusive leases cases find it difficult to prove that the leases result in a substantial lessening of competition to the detriment of end consumers. This difficultly is not limited to the grocery retail sector, although it is amplified here given the complexities of multi-product markets, significance of location and consumer shopping behaviour.

In grocery retail, a first problem has been defining the geographic scope of the relevant market. Without showing that the mall itself is a market on its own, respondents in exclusive

[75] Exception application case numbers: CRP034Jun15/EXC239; 240 and 241Mar17

leases cases have been able to argue that there is nothing stopping rivals from locating outside or near the mall in which there is exclusivity. The Tribunal in the Game case concluded that Massmart failed to define a clear geographic market, and that this was a major weakness in its case. Second, the impact on consumers in terms of prices being higher in malls with exclusivity has been difficult to show (also seen in Section 6.4.2), speaking to the type of effects that are considered important to competition authorities. Finally, especially for smaller rival chains and independent retailers, because they typically do not constitute a big enough proportion of defined markets to warrant a substantial effect on consumers, it is hard to show that their exclusion negatively impacts consumers.

The burden of proof for complainants, who are often smaller players or new entrants in South Africa, is high. This is reflected in the very poor record of successful enforcement cases and is contrary to the objectives of the Competition Act, which aim to address anti-competitive conduct in the interests of broader-based participation in the economy. This includes small and medium enterprises and by historically disadvantaged persons, and the need to address the legacy of apartheid in terms of concentrated ownership and control (Roberts, 2017).

Smaller players affected by exclusive leases also testified to their effects during the GRMI hearings. For instance, buying group UMS testified that the independent retailers they supported could have grown more if not for long-term exclusive leases which prevented their members from entering certain shopping malls and 'from competing effectively on the basis that they do not have access to lucrative and suitable retail space'.[76] UMS testified that when new shopping malls are being built, its members are not given the opportunity to rent space in them because at the stage in which they know of the construction of the mall, the property developers have already allocated all the space and secured all the tenants. Specialist businesses such as butcheries, bakeries and liquor stores also testified as having struggled to get mall space, particularly in peri-urban areas in South Africa.[77] These businesses also echoed UMS' account of not being consulted about new mall developments until construction had already started and tenant mix already determined. This highlights the importance of the location aspect of competition.

The playing field for independent grocery and speciality stores is uneven before they can get a foot in the door. Written submissions by the Sustainable Livelihood Foundation go as far as to state that the supermarket chains and their holding companies influence municipal

[76] Public testimony of Unitrade Management Services, GRMI, Gauteng, 6 June 2017, slide 15
[77] See for instance the experience of an entrepreneur looking to open a liquor store in several different malls and being denied access each time given exclusive leases with incumbent chains in place. Testimony of Walter Hlope, GRMI Transcript, 7 June 2017, pp. 57–68. See also testimony of MJ Group of companies, Cape Town, 8 May 2017, pp. 8, 11.

regulation and land use zoning to the disadvantage of microenterprises[78] although further evidence of this was not debated in the GRMI.

Property developers, who are the other party to the exclusive lease contract, claim not to be in favour of exclusivity clauses and suggest that they are often forced into a situation to accept the demands of anchor tenants. The South African Property Owners' Association, SAPOA, lodged a complaint to the Commission in August 2014 in this regard.[79] In general, they claim that these leases prevent them from optimising the tenant mix suited for the shopper coming to the centre. According to SAPOA, the bargaining power rests with the large supermarkets, who often demand exclusivity.[80]

Industry stakeholders' recommendations to the GRMI to rectify this is to phase out existing leases over a five-year period after the inquiry (following the UK example); to introduce a term limit of five years on new leases or to get incumbents to voluntarily agree to phase out exclusive leases over a determined period (following the Australian example). A five-year period is viewed to be sufficient to allow the property developer to secure the viability of the centre and to gain a return on the investment. SAPOA also expressed its view that exclusive leases should be limited to five–seven years, with limited or no options for renewal. This suggests that if there are efficiency justifications for exclusive leases,[81] such as, ensuring a return on investment for the anchor tenant, preventing free-riding of any relationship-specific investments made by the anchor tenant in the mall, and compensating the anchor tenant for the positive externality it imposes on other retailers in drawing large footfall into the mall, the potential harm outweighs these after a certain time period has passed. Evidence contradicting the viability of this timeframe to re-coup investments was not put forward in the public domain by the supermarket chains.

While exclusive leases might arguably be justified in the initial phases of the investment to allow the anchor supermarket to recoup its investments, gain footfall and establish a customer base, it is hard to see how such justifications can be reasonable for clauses that span several decades. This is especially the case if supermarkets are able to recoup their investments within a few years of establishment.

[78] Submission to the GRMI from sustainable Livelihood Foundation; University of the Western Cape's Institute for Poverty, Land and Agrarian Studies (PLAAS); Centre of Excellence in Food Security, undated.

[79] Ibid, p. 97. See also submission by Redefine, 3 November 2017, pp. 24, 25. Pretoria.

[80] Das Nair and Chisoro (2015b). This was supported by a smaller property developer, Masingita Properties, who explained that they have in the past yielded to the pressure from anchor tenants for exclusivity, slide 19. Large property developer, Redefine, also expressed their clear dislike for exclusivity clauses in leases: Marc Wainer, Chairman of Redefine, 3 November 2017, p 22, Pretoria.

[81] Which, as far as I am aware, have not been explicitly set out or quantified in the public domain by either SAPOA or the supermarket chains in any proceedings.

Property developers further suggest that there is pressure on them from banks to ensure that the mall or centre is fully let before advancing finance. However, as Standard Bank[82] who also testified at the GMRI clearly noted, while they would like to know that the mall is fully let and that an anchor tenant has been secured, there is no pressure from them to enter into exclusive leases with these tenants. The bank stated in fact that exclusive leases were effectively ignored in their assessment of whether they were going to provide funding for a particular retail centre.[83] On the other hand, there is certainly pressure from anchor supermarkets for leases to have exclusivity clauses before they sign up, an indication of their market power. Further, the relationships with property developers extends across countries in the region as discussed in Chapter 5. This further entrenches the position of chains in the region, providing them with preferential access to store sites outside South Africa, giving them an advantage in spreading regionally.

Related competition concerns in other countries in the region

Given that it is often the same South African firms (supermarkets and property developers) that operate in the Southern African region, some of these practices are 'exported' to the other countries.

In Zambia, some supermarkets attested to having exclusive leases with shopping malls. Others claimed that these leases no longer exist but did so prior to the Competition and Consumer Protection Commission (CCPC) discouraging such conduct. The CCPC has in the past received complaints about alleged discriminatory prices (rentals) by property owners between local and South African tenants in malls. There were also allegations of excessive prices for rentals at certain malls, and complaints from the Zambia Retailers Association. The CCPC ultimately did not find for a case of discrimination or excessive pricing according to the Competition Act.[84]

In 2016, the Competition Authority of Botswana undertook an inquiry on the nature and state of competition in the Botswana shopping mall retail property market (Bagopi and Daman, 2016). While it found that there were no explicit exclusive clauses in lease agreements of anchor stores, it found that there were in certain cases, implicit exclusive agreements, including in the form of verbal agreements. However, it appears that the more concerning issue was the duration of leases with anchor tenants than non-anchor tenants (with or without exclusivity) which could present barriers to entry. The recommendation that emerged in this

[82] One of the main banks in South Africa.
[83] Testimony of Standard Bank. 30 October 2017, p. 7.
[84] Interview with the Competition and Consumer Protection Commission (CCPC), STAFF PAPER NO. 481. 'Report to the Technical Committee of the Board on the Allegations of Excessive Rentals Rates and Discrimination in Rentals chargeable in Shopping Malls'. Case File No. CCPC/RBP/ 021. March 2012. It is uncertain if this report is in the public domain.

regard was for the CAB to continuously monitor the lease period of anchor tenant agreements, and that the duration should allow anchor tenants time to recoup their initial investment, after which tenancy should be opened up to competitive bidding. A recommended period of 10 years is given in the report. It is unclear if any enforcement of cases has since happened. With regards to exclusive clauses in agreements, the recommendation is that these should be avoided. Again, the ability or appetite of the CAB to enforce these if they are found to be in existence is unclear.

6.6. Conclusions

The combination of characteristics of modern supermarket chains make understanding the competitive rivalry and the implications of high levels of concentration from both product and geographic perspectives particularly complex. There are only a few large supermarket chains operating at national levels and in the Southern African region. This chapter showed that even within supermarkets chains, rivalry happens on multiple dimensions, with similar formats competing more closely with each other (intra-format competition). Formats that consumers perceive as close alternatives in terms of product range, size, convenience, quality, branding, look and feel, and location, offer a greater competitive constraint on each other in a static sense. The implication is that there are substantially fewer direct competitors in any given geographic market than the total number of supermarket outlets present. A first level of analysis in this chapter was therefore to understand concentration and competition in product and geographic terms.

However, the chains in Southern Africa have multiple formats that have evolved, both in terms of offerings and geography. Following the end of apartheid, supermarket chains extended their formats to target lower-income consumers in township, peri-urban and rural areas. These formats compete more closely with independent grocery retailers, some of whom have organised to access suppliers through buying groups. It is therefore also crucial to understand competition from a dynamic sense.

The high levels of concentration among a few large chains have raised concerns about the impact on competition through the exertion of market power by supermarkets as key buyers and sellers, and their ability to exclude rivals from. These high levels of concentration are reinforced by barriers to entry as the chapter evaluated. Although scale and scope economies are substantial in chain stores, alternative forms of retail such as buying-group supported independent retailers have partly overcome this through different distribution models. Similarly, challengers FVC and Choppies have also managed to enter and grow over time to offer effective competitive constraints to the incumbents. Other significant barriers include sunk costs investments in advertising to create a brand, as well as access to lucrative store sites.

Evaluating market power arising from high levels of concentration is challenging due to data limitations. The chapter approached this assessment through different levels. Market power was first evaluated through a general analysis on wholesale/producer - retailer margins for several food products. The results were mixed, indicating that for some products mark-ups were substantial and that supermarkets may be extracting greater rents in these value chains. The methodological challenges and data limitations at the different levels of the selected value chain made this type of analysis difficult.

A second level assessed the impact of concentration levels on supermarket-specific prices in narrow catchment areas in Gauteng Province. The analysis showed that there was clear local pricing variation. This is reflective of discounting happening within narrower markets by Pick n Pay and Shoprite and highlights the need to carefully assess narrower, local markets. The results for the Pick n Pay analysis was mixed relative to the expectation that prices would be lower in geographic areas where there was greater rivalry, while that of Shoprite Checkers was as expected. There are nonetheless indications that prices are responsive to local rivalry. Substantially more and better data is however required to draw more robust conclusions.

Importantly however, both sets of analyses highlight that price is just one dimension in which supermarket chains in South Africa compete. Through intra-format competition, the chains compete on multiple other, non-price, dimensions. An analysis of pricing alone does not reveal the impacts of concentration and market power on the non-price aspects that consumers value. The analysis also raises the possibility that in South Africa, a mall or centre might be a geographic market on its own given these non-price factors that consumers value. Although difficult to quantify, non-price dimensions of competition are significant. This, together with the nature of exclusive leases and the internal capabilities regarding property discussed in Chapter 5, points to the importance of securing space for shaping local rivalry.

This has implications for the way competition authorities evaluate competitive outcomes in the supermarket sector. Competition authorities in South Africa have placed much more weight in evaluating static price and quantity effects of competition without considering the importance of the other non-price dimensions. This is evident in the way the conduct of the major chains securing their position through exclusive leases in shopping malls has been approached in South Africa. It is also partly due to the wording in the Act that requires showing a substantial lessening of competition or effects of such conduct, interpreted in static price terms. Given that a mall might be its own market, exclusive leases that incumbent supermarkets enter into have the effect of preventing entry in a given mall, undermining the dynamic process of competitive rivalry.

My analysis motivates for non-quantified judgements of lessening, preventing or distorting competition tests rather than the substantial lessening of competition test or quantified competitive effects tests in order to ensure a level playing field for new entrants and existing rivals. This raises an important question about the benefits of a diversity offerings, or whether competition between a small number of multinational chains is enough. A diversity of retailers is able to offer different non-price offerings that consumers value.

As a handful of supermarket chains continue to spread and grow in the region, it is important to consider the non-price and dynamic aspects of competition, and how the chains evolve to extend and entrench their positions both in product and geographic spaces. These are currently not addressed through the way competition law is applied in South Africa and a change in approach is needed which brings together regulatory provisions for space (such as in urban planning) together with competition tests relating to preventing and distorting competition, including inquiries which address barriers to entry.

Chapter 6: Appendices

Appendix 1: South African Council of Shopping Centres (SACSC) Retail Centre classification

Type of Centre	Size of centre (m²)	Trade area	Access Requirements	No. of households	Socio-economic groups	Average Radius (km)	Median Travel time (minutes)	Main tenants
Small free-standing centre	500 – 1 000 Less than 10 stores	Serves part of a suburbs	Suburban street	<2 000	Mainly middle, middle low and low LSM 4-7	1	<2	✓ Café/Superette ✓ Few convenience stores ✓ Less than 10 stores
Local convenience centre	±1 000 - ±5 000 5-25 stores	One suburb or parts of suburb(s)	Minor collector road	700 - 3 600	All LSM 4-10	1,5	3	✓ Supermarket ✓ Few convenience stores ✓ 5 – 25 stores
Neighbourhood centre	±5 000-±12 000 25-50 stores	Strategically located for a group of suburbs	Major collector roads	2 400 –5 700	All LSM 4-10	2,0	4-9	✓ Supermarket ✓ Convenience ✓ Some small specialised stores
Community Centre	±12 000-±25 000 50-100 stores	Strategically located to serve a suburban community.	Major arterial road	8 500 - 17 800	All LSM 4-10	3,0	6-14	✓ Large supermarket ✓ Convenience ✓ Small national clothing ✓ Restaurants & takeaways ✓ Services
Small regional	±25 000-±50 000 75-150 stores	Specific sub-region of city (can be large self contained community (i.e. Chatsworth)	Major suburban arterial road linking to a provincial highway	17 800-35 700	All LSM 4-10	5,0	10-16	✓ Large supermarket ✓ 1 or 2 large clothing anchors ✓ Strong national tenant comparison goods component ✓ Boutiques ✓ Restaurants ✓ Entertainment ✓ Services
Regional centre	±50 000-±100 000 150-250 stores	Large region of city/or whole city	Major arterial road usually a Provincial main road linking to a National road.	28 600 – 57 150	All LSM 4-10	8,0	14-20	✓ Large supermarket/hyper ✓ 2 or more large clothing ✓ Small clothing and boutiques ✓ Entertainment restaurants ✓ Services ✓ Convenience
Super regional centre	>100 000 More than 250 stores	Large region in city and surrounding areas/Tourists	Major arterial road usually a Provincial main road, linking to a National road.	57 150- 114 300	Above average LSM 5-10	10+	16-28	✓ As at regional but more emphasis on entertainment and variety
Specialist/ entertainment Theme, centre/Life Style centre	Vary from 10 000 to 30 000	Depend on type of store or centre - mostly on regional level	Major urban arterial main road.	5 700 – 85 700	Mainly above average LSM 7-10	5-10	10-30	✓ Specialist traders/ entertainment and/or theme centre
Value Centre	10 000 – 45 000	Next to regional centre or on main road/highway	Major urban arterial main road.	4 800 - 23 800	Middle to above average LSM 6-10	3-6	10-15	✓ Emphasis on big box retailers ✓ Specialist retailers ✓ Home improvement ✓ Limited groceries ✓ Fast food

Type of Centre	Size of centre (m²)	Trade area	Access Requirements	No. of households	Socio-economic groups	Average Radius (km)	Median Travel time (minutes)	Main tenants
								✓ Banks
Hyper centres	15 000 – 35 000	Strong correlation with a regional centre	Major urban arterial main road.	21 400 - 50 000	Middle to above average LSM 5-10	6-8	10-15	✓ One hyper store (70% of area) ✓ Convenience line stores ✓ Services
Lifestyle Centre	15 000 – 50 000 (can be smaller or larger)	Upscale Catchment areas	Major urban arterial main road.	10 000 – 60 000	Mainly LSM 9-10	3-8	6 - 20	✓ Upscale supermarket ✓ Book stores ✓ Dining ✓ Entertainment ✓ Speciality retail (house/home/garden) ✓ Fresh produce stores

Source: Demacon Ex. SACSC, 2010

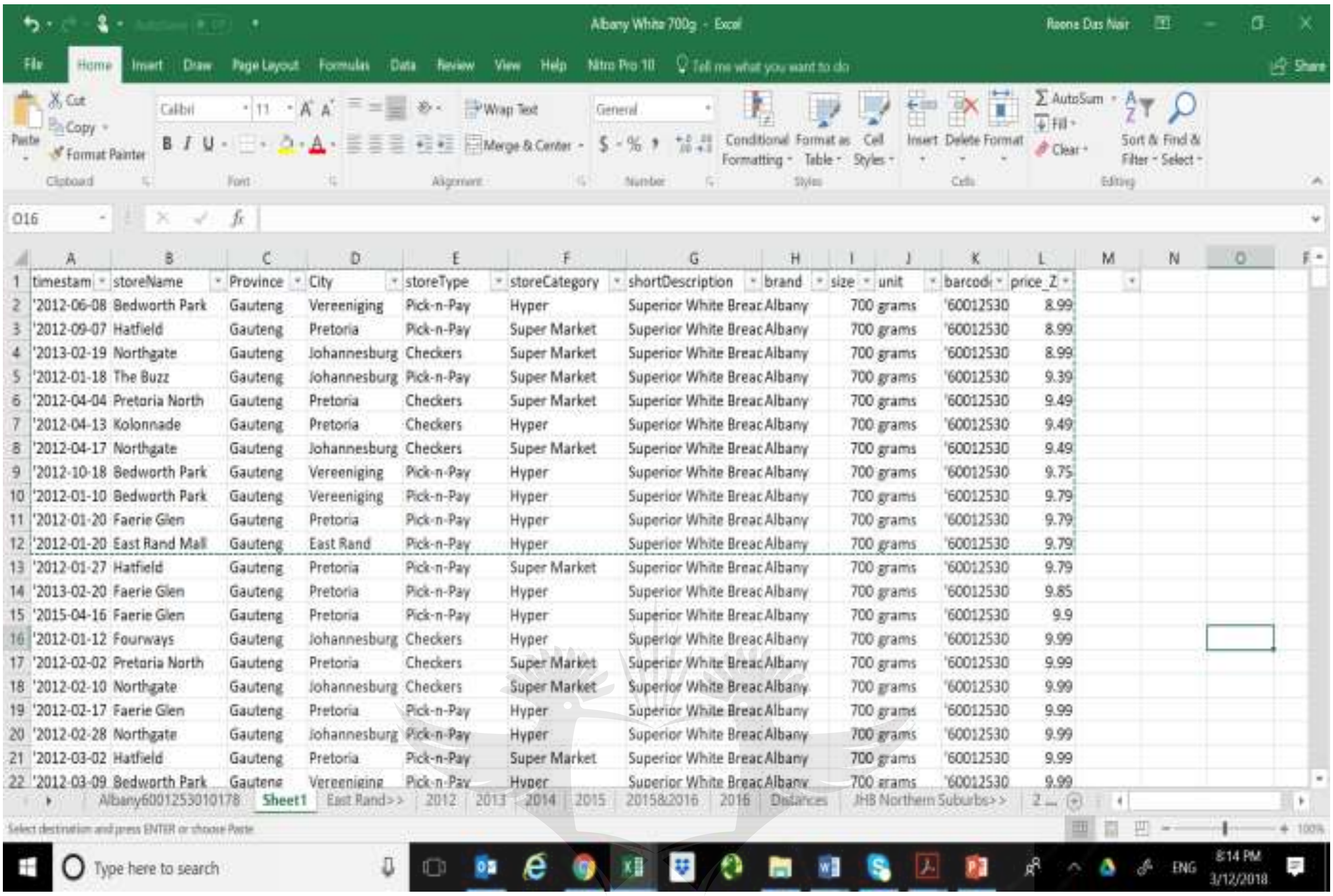
Examples of Centres:

- ✓ Super Regional: Eastgate (Johannesburg), Sandton City (Johannesburg), Menlyn (Pretoria), Gateway (Durban Metro), Canal Walk (CT)
- ✓ Regional: Westgate, Fourways Mall, Cresta (Johannesburg), Brooklyn Mall (Pretoria), Pavilion (Durban), Sanlam Centre in Parrow, Tyger Valley, Kenilworth (Cape metro); Greenacres (Port Elizabeth); Mimosa Mall (Bloemfontein); Vincent Park Shopping Centre (East London).
- ✓ Community: Sunnypark (Pretoria); Musgrave Centre (Durban); Middestad Mall in Bellville, Meadowridge, Goodwood Mall, Constantia Village (Cape metro); Constantia Centre (Port Elizabeth); Brandwag Centre (Bloemfontein); Beacon Bay Retail Park (East London).

Source: Reproduced from Demacon (2010)[85]

85 Demacon is a private company specialising in real estate and related economic research services. Demacon is a member of the South African Council of Shopping Centres (SACSC) and South African Property Owners Association (SAPOA).

Appendix 2: Extract of raw data for Albany white bread, 700g in Gauteng



	timestam	storeName	Province	City	storeType	storeCategory	shortDescription	brand	size	unit	barcode	price_Z
2	'2012-06-08	Bedworth Park	Gauteng	Vereeniging	Pick-n-Pay	Hyper	Superior White Breac	Albany	700	grams	'60012530	8.99
3	'2012-09-07	Hatfield	Gauteng	Pretoria	Pick-n-Pay	Super Market	Superior White Breac	Albany	700	grams	'60012530	8.99
4	'2013-02-19	Northgate	Gauteng	Johannesburg	Checkers	Super Market	Superior White Breac	Albany	700	grams	'60012530	8.99
5	'2012-01-18	The Buzz	Gauteng	Johannesburg	Pick-n-Pay	Super Market	Superior White Breac	Albany	700	grams	'60012530	9.39
6	'2012-04-04	Pretoria North	Gauteng	Pretoria	Checkers	Super Market	Superior White Breac	Albany	700	grams	'60012530	9.49
7	'2012-04-13	Kolonnade	Gauteng	Pretoria	Checkers	Hyper	Superior White Breac	Albany	700	grams	'60012530	9.49
8	'2012-04-17	Northgate	Gauteng	Johannesburg	Checkers	Super Market	Superior White Breac	Albany	700	grams	'60012530	9.49
9	'2012-10-18	Bedworth Park	Gauteng	Vereeniging	Pick-n-Pay	Hyper	Superior White Breac	Albany	700	grams	'60012530	9.75
10	'2012-01-10	Bedworth Park	Gauteng	Vereeniging	Pick-n-Pay	Hyper	Superior White Breac	Albany	700	grams	'60012530	9.79
11	'2012-01-20	Faerie Glen	Gauteng	Pretoria	Pick-n-Pay	Hyper	Superior White Breac	Albany	700	grams	'60012530	9.79
12	'2012-01-20	East Rand Mall	Gauteng	East Rand	Pick-n-Pay	Hyper	Superior White Breac	Albany	700	grams	'60012530	9.79
13	'2012-01-27	Hatfield	Gauteng	Pretoria	Pick-n-Pay	Super Market	Superior White Breac	Albany	700	grams	'60012530	9.79
14	'2013-02-20	Faerie Glen	Gauteng	Pretoria	Pick-n-Pay	Hyper	Superior White Breac	Albany	700	grams	'60012530	9.85
15	'2015-04-16	Faerie Glen	Gauteng	Pretoria	Pick-n-Pay	Hyper	Superior White Breac	Albany	700	grams	'60012530	9.9
16	'2012-01-12	Fourways	Gauteng	Johannesburg	Checkers	Hyper	Superior White Breac	Albany	700	grams	'60012530	9.99
17	'2012-02-02	Pretoria North	Gauteng	Pretoria	Checkers	Super Market	Superior White Breac	Albany	700	grams	'60012530	9.99
18	'2012-02-10	Northgate	Gauteng	Johannesburg	Checkers	Super Market	Superior White Breac	Albany	700	grams	'60012530	9.99
19	'2012-02-17	Faerie Glen	Gauteng	Pretoria	Pick-n-Pay	Hyper	Superior White Breac	Albany	700	grams	'60012530	9.99
20	'2012-02-28	Northgate	Gauteng	Johannesburg	Pick-n-Pay	Hyper	Superior White Breac	Albany	700	grams	'60012530	9.99
21	'2012-03-02	Hatfield	Gauteng	Pretoria	Pick-n-Pay	Super Market	Superior White Breac	Albany	700	grams	'60012530	9.99
22	'2012-03-09	Bedworth Park	Gauteng	Vereeniging	Pick-n-Pay	Hyper	Superior White Breac	Albany	700	grams	'60012530	9.99

Source: Retail Price Watch

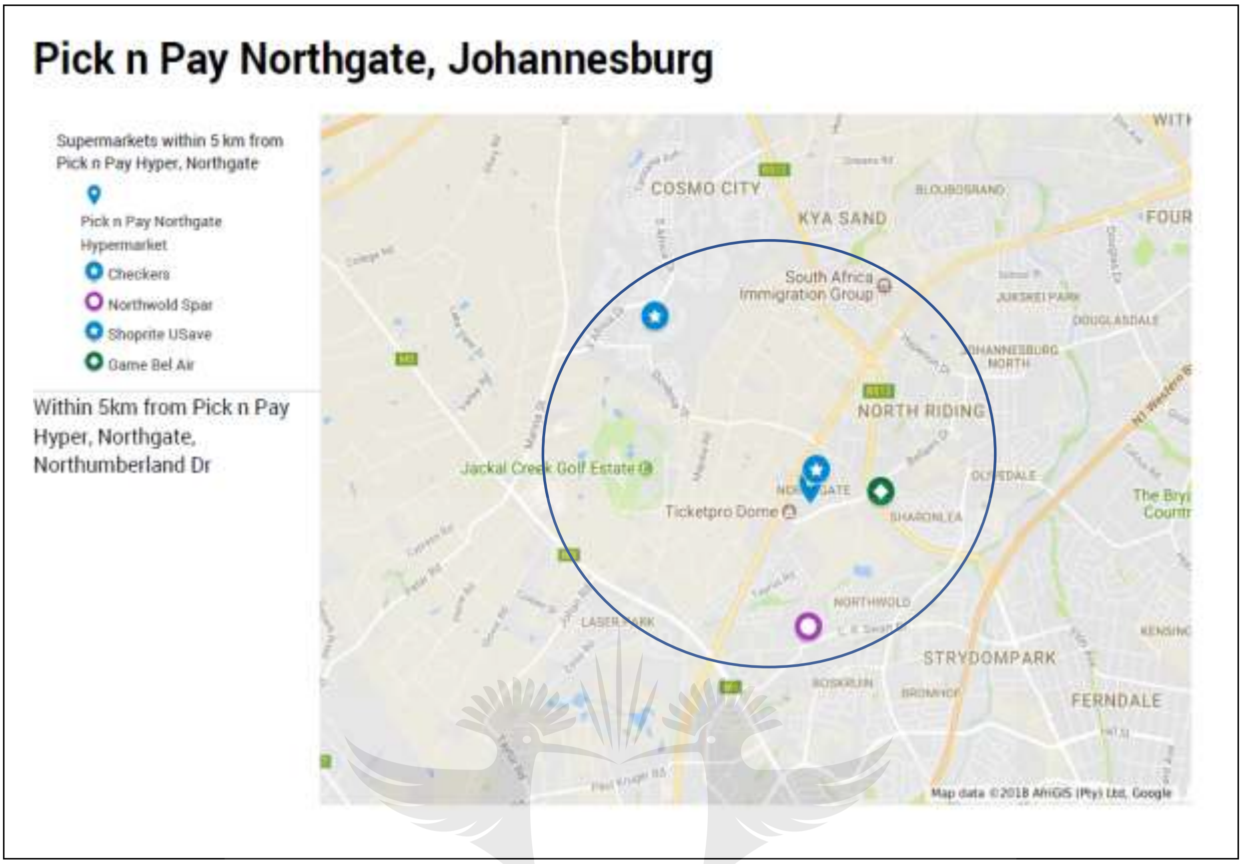
Appendix 3: Distances of supermarkets from Pick n Pay stores

Table 32: Distances of supermarkets from Pick n Pay Northgate, kms and drive times

From	To	km	Drive time (min)
Pick n Pay Northgate Hypermarket Northumberland Avenue, Randburg	1. Checkers Northumberland Avenue, Northgate	0.9	4
	2. Northwold Spar Randburg	2.4	6
	3. Game Bel Air Randburg	2.2	8
	4. Shoprite USave Russia Avenue, Roodepoort (indirect rival based on format)	4.8	9
	5. Woolworths Food Northumberland Avenue, Johannesburg (indirect rival based on format)	0.14	2

Source: Google Maps and supermarket websites

Figure 20: Rivals within 5 km and 10-minute drive time around Pick n Pay Northgate



Source: Google Maps

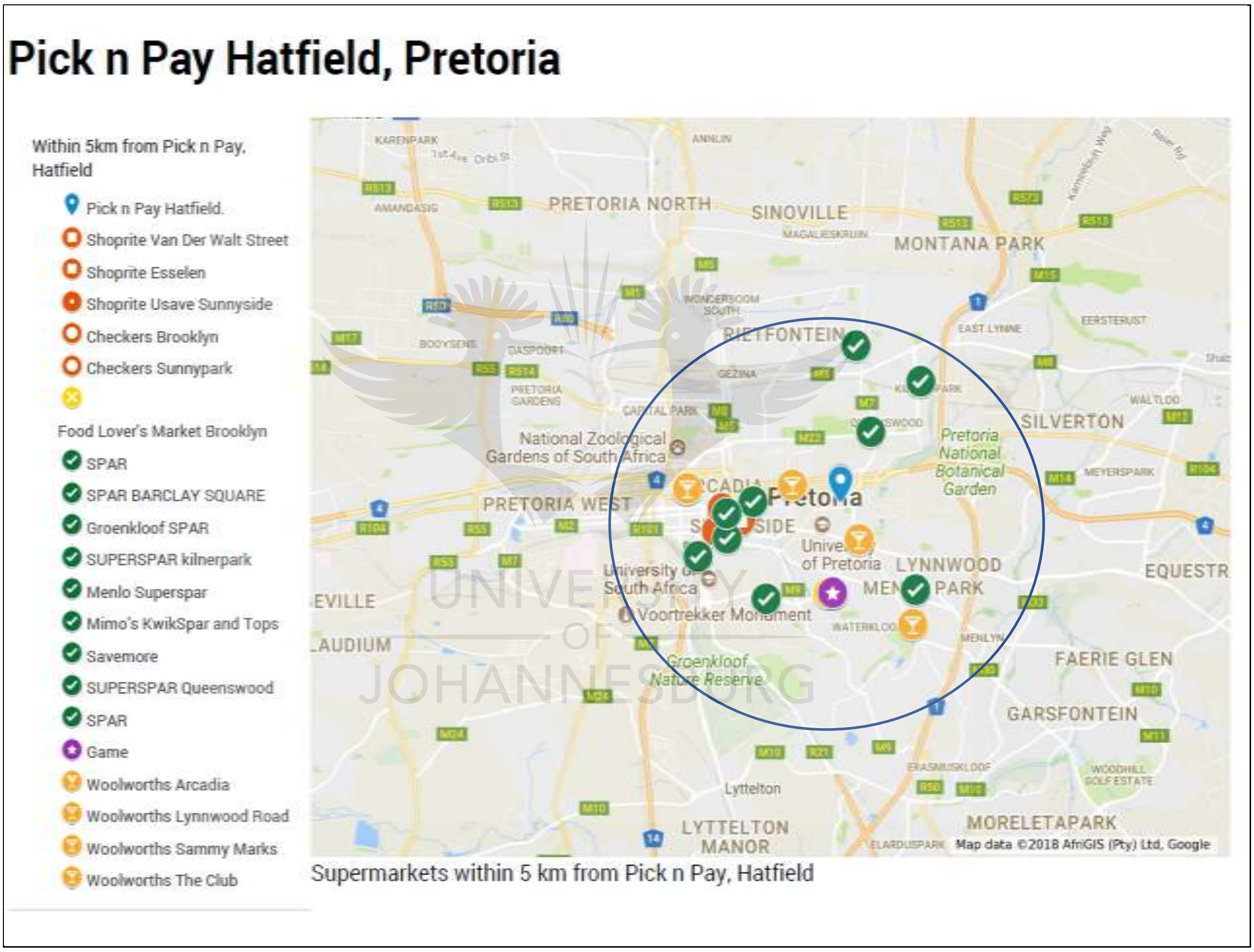
Table 33: Distances of supermarkets from Pick n Pay Hatfield, kms and drive times

From	To	km	Drive time (min)
	1. Shoprite Esselen, 300 Robert Sobukwe St, Sunnyside, Pretoria, 0002	3.5	10
	2. Checkers Brooklyn, Fehrsen St, Nieuw Muckleneuk, Pretoria, 0181	2.8	8
	3. Food Lover's Market Brooklyn, 5, Brooklyn Square, Veale St & Middel Street, Brooklyn, Pretoria, 0181	3	9
	4. SPAR, 329 Park St, Arcadia, Pretoria, 0002	2.7	8
	5. Menlo Superspar, 71 13th St, Menlo Park, Pretoria, 0081	3.7	9
	6. SUPERSPAR Queenswood, Queens Corner, Soutpansberg Rd, Queenswood, Pretoria, 0121	3.2	8
	7. SPAR, The Fields, 1, The Fields, Hilda St & Burnett Street, Hatfield, Pretoria, 0028	0.75	3
	8. Game, Fehrsen St, Brooklyn, Pretoria, 0181	2.8	6
	9. Savemore, 167 Robert Sobukwe St, Sunnyside, Pretoria, 0002 (indirect rival)	4.4	10

	10. Woolworths Arcadia, Eastwood Village Shopping Centre, Cnr Eastwood & Pretorius Str, Arcadia, Pretoria, 0001 (indirect rival)	2	5
	11. Woolworths Lynnwood Road, Hillcrest Boulevard Shopping Centre, Lynnwood & Duxbury Roads, Pretoria, 0083 (indirect rival)	1.4	5
	12. Woolworths The Club, 147 Pinaster Ave & 8th Street, Hazelwood, Pretoria, 0081 (indirect rival)	4.1	10

Source: Google Maps and supermarket websites

Figure 21: Rivals within 5km and 10-minute drive time around Pick n Pay Hatfield[86]



Source: Google Maps

[86] These maps are not repeated for every comparison undertaken. Figures 20 and 21 are for illustrative purposes of areas where there is less and more competition respectively.

Table 34: Distances of supermarkets from Pick n Pay Park Meadows, kms and drive times

From	To	km	Drive time (min)
	1. Checkers Hyper Eastagte, Bradford Road, Johannesburg	1.3	4
	2. Spar Van Buuren Road, Germiston, East Rand	3.2	8
	3. Game, Eastgate, Germiston	1.6	4
	4. Food Lover's Market Bruma, Cumberland Road, Johannesburg	0.6	2
	5. Shoprite Malvern, Johannesburg	2.1	4
	6. Woolworths Eastgate, Bradford Road, Johannesburg (indirect rival)	1.3	3
	7. Woolworths Bedford Square, Johannesburg (indirect rival)	1.4	5

Source: Google Maps and supermarket websites

Table 35: Distances of supermarkets from Pick n Pay Benmore, kms and drive times

From	To	km	Drive time (min)
Pick n Pay Benmore Centre, Cnr Benmore Str & West Str, Benmore, Ground Floor (Inside Benmore Gardens Shopping Centre), Elizabeth Ave, Benmore Gardens, Sandton, 2196	1. Checkers Hyper Sandton, Sandton City Mall, Cnr Alice Lane & 5th Street, Sandton, 2196	1.3	4
	2. SPAR, 116 Katherine St, Sandton, Johannesburg, 2196	3.2	7
	3. SPAR, Cnr 12th Av & Olympia St, Parkmore Mews, Sandton, 2196	1.6	3
	4. Fontana Morningside SPAR, 10, 90 Degrees on Rivonia, Kelvin Dr & Rivonia Rd, Morningside, Johannesburg, 2146	4.3	8
	5. Woolworths Morningside The Wedge, The Wedge Shopping Centre, Rivonia Road, Sandton, Johannesburg, 2196 (indirect rival)	4	7
	6. Woolworths Sandton City, 79 Rivonia Rd, Sandhurst, Johannesburg, 2199 (indirect rival)	2.3	5
	7. Woolworths Morningside Shopping Centre, Rivonia Rd, Morningside, Johannesburg, 2196 (indirect rival)	3	6
	8. Woolworths Benmore Gardens, Benmore Gardens Shopping Centre, Corner Grayston Drive, West Road & 11th Street, Benmore Gardens, Johannesburg, 2196 (indirect rival)	0.4	1

Source: Google Maps and supermarket websites

Table 36: Distances of supermarkets from Pick n Pay Faerie Glen, kms and drive times

From	To	km	Drive time (min)
Pick n Pay Hypermarket - Faerie Glen, Cnr Atterbury Rd & Selikats Causeway, Pick 'n Pay Centre Faerie Glen, Faerie Glen, Pretoria, 0081	1. Checkers Atterbury, 2001 Atterbury Rd, Faerie Glen, Pretoria, 0081	1.6	4
	2. Checkers Lynnwood, Cnr Lynnwood and Daventry Str, Glenfair Shopping Centre, Lynnwood Manor, Menlo Park, 0081	5	9
	3. Checkers Hyper Menlyn, Menlyn Park Shopping Centre, Cnr Atterbury Road & Lois Avenue, Menlyn, Pretoria, 0181	3.8	8
	4. Shoprite Checkers - Lynnwood, Lynwood Drive, Lynnwood Manor, Pretoria, 0081	5.1	9
	5. Game Menlyn, Cnr Atterbury Rd & Lois Ave, Menlyn Park Shopping Centre, Menlyn, Pretoria, 0181	3.7	9
	6. SUPERSPAR Menlyn Maine, Menlyn Maine Central Square, Corner of Dallas Ave and, Aramist Ave, Menlyn, Pretoria	2.6	5
	7. SPAR Dely Road (Newlands), Cnr Lois Ave &, Dely Rd, Newlands, Pretoria, 0181	4.7	9
	8. Food Lover's Market Menlyn, 43 Palala Rd, Menlyn, Pretoria, 0063	3.7	8
	9. Woolworths Lynnwood Bridge, Lynnwood Bridge Shopping Centre, 4 Daventry St & Lynnwood, Lynnwood Manor, Pretoria, 000 (indirect rival)	5.1	7
	10. Woolworths Menlyn, Menlyn Shopping Centre, Atterbury Rd, Menlyn, Pretoria, 0081 (indirect rival)	3.7	9
	11. Woolworths Foodmarket Menlyn Maine, Menlyn Maine Central Square, Dallas Avenue & Aramist Avenue, Menlyn, Pretoria, 0181 (indirect rival)	2.6	5

Source: Google Maps and supermarket websites

Appendix 4: Distances of supermarkets from Shoprite Checkers stores

Table 37: Distances of supermarkets from Checkers Pretoria North, kms and drive times

From	To	km	Drive time (min)
Checkers Pretoria North Pretoria	1. Food Lover's Market Pretoria North, Emily Hobhouse Avenue, Pretoria	0.2	1
	2. Choppies, Emily Hobhouse Avenue, Pretoria	0.2	1
	3. Spar Pretoria Noord Rachel De Beer Street, Pretoria	0.7	2
	4. Pick n Pay Wonderboom Junction Pretoria, Gauteng	3.1	6
	5. Pick n Pay Dorandia, Pretoria	2.1	5

	6. Spar Pretoria Noord, Rachel De Beer Street, Pretoria	2.8	5
	7. Usave - Hestea Park, Pretoria (indirect rival)	1.2	3
	8. Woolworths Nina Park, Pretoria (indirect rival)	3.5	7

Source: Google Maps and supermarket websites

Table 38: Distances of supermarkets from Checkers Fourways, kms and drive times

From	To	km	Drive time (min)
Checkers Hyper Fourways, Fourways Mall, Cnr William Nicol Drive & Fourways Boulevard, Fourways, Johannesburg, 2055	1. Pick n Pay Fourways Crossing, G38, Fourways Crossing, William Nicol Dr & Sunrise Blvd, Lone Hill, Fourways, 1613	1.7	3
	2. Pick n Pay, Cedar Rd, Fourways, Johannesburg South, 2021	2	5
	3. Pick n Pay Fourways, Cnr Witkoppen Rd & Nerine St, Shop G51, The Buzz Shopping Centre, Witkoppen, Sandton, 2191	2.7	4
	4. Pick n Pay Epsom Downs, Epsom Downs Shopping Centre, Sloane Rd & William Nicol, Bryanston, Sandton, 2021	3.3	6
	5. Pick N Pay Dainfern Family Store, Cedar Rd, Zevenfontein 407-Jr, Midrand	5.7	8
	6. Fourways Gardens SPAR, Fourways Gardens, Uranium St & Bushwillow Street, Sandton North, Fourways Gardens, 2191	3.2	5
	7. Spar Kingfisher, Sandton, Gauteng, 39A Kingfisher Dr, Fourways, Sandton, 2055	1.9	3
	8. Spar Pineslopes, Pineslopes Shop Ctr, Cnr Witkoppen Rd and The, Fourways Blvd, Sandton, 2055	1.2	2
	9. Spar - Broadacres, Cedar Rd, Cedar Lakes, Sandton, 2125	4.3	6
	10. Food Lover's Market Nicolway, Shop U 20, Nicolway Shopping Centre, 2959 William Nicol Dr, Bryanston, Sandton, 2194	4.7	8
	11. Food Lovers Market, Witkoppen, Sandton, 2191	2.3	4
	12. Food Lovers Market, William Nicol Road, Lone Hill, Sandton, 2068	2	1.3
	13. Game Fourways, Cnr Short St & Fourways Blvd, Game Centre, Fourways, Sandton, 2191	1.9	3
	14. Woolworths Fourways Mall, G9, Fourways Mall, William Nichol Dr & Witkoppen Rd, Fourways, Johannesburg, 2191 (indirect rival)	0.56	1
	15. Woolworths, Cedar Rd & Cedar Road, Fourways, Johannesburg South, 2194 (indirect rival)	1.9	4

Source: Google Maps and supermarket websites

Table 39: Distances of supermarkets from Checkers Kolonnade, kms and drive times

From	To	km	Drive time (min)
Checkers Hyper (Kolonnade Mall) Montana, 1 Sefako Makgatho Dr, Montana Park, Pretoria, 0182	1. Pick n Pay Montana Hypermarket, Cnr Sefako Makgatho Dr & Enkeldoorn Ave, Shop 35, Kolonnade Retail Park, Montana, Pretoria, 0182	1	2
	2. Pick N Pay Retail park, 68 Rooibos Rd, Montana, Pretoria, 0151	1	2
	3. Pick n Pay Magalieskruin, 390 Braam Pretorius St, Magalieskruin, Pretoria, 0150	3.1	6
	4. SPAR doornpoort, No.8, Village Square Shopping Centre, Amandelboom Rd, Doornpoort, Pretoria, 0017	3.1	6
	5. Zambezi SUPERSPAR, Shop 1, Zambezi Retail Park, Zambezi Drive, Zambezi, Pretoria, 0129	5.3	8
	6. Superspar - Montana, Zambezi Drive & Dr Swanepoel Street, Montana, Pretoria, 0182	1.6	4
	7. Game Kolonnade, Sefako Makgatho Dr, Kolonnade Shopping Centre, Montana Park, Pretoria, 0182	0.29	1
	8. Food Lover's Market Montana, Zambezi Junction South Mall, 1123 Tibouchina, Montana Park, Pretoria, 0159	2.3	4
	9. Food Lover's Market, Breed St, Montana Park, Pretoria, 0182	3.3	6
	10. Woolworths - Montana, Sefako Makgatho Dr, Montana Park, Pretoria, 0182 (indirect rival)	0.28	1
	11. Woolworths Zambezi Junction, Zambezi Junction Shopping Centre, Sefako Makgatho Drive & Breed Road, Pretoria, 0182 (indirect rival)	2.5	5

Source: Google Maps and supermarket websites

Table 40: Distances of supermarkets from Checkers Eastgate, kms and drive times

From	To	km	Drive time (min)
Checkers Hyper Eastgate, Eastgate Shopping Centre, 43 Bradford Rd, Bedfordview, Johannesburg, 2008	1. Pick n Pay Bedford Centre, L1, Bedford Centre, Smith Rd & Kirby Rd, Bedfordview, Germiston, 2047	2	7
	2. Food Lover's Market Bruma, Shop 1, Park Meadows Mall, Arena Close, Cumberland Rd & Allum Road, Bedfordview, Johannesburg, 2094	0.7	9
	3. Spar, Cnr and Roads, Van Buuren Rd, Bedfordview, Germiston, 2008	2.4	8
	4. Game Eastgate, 42 Bradford Rd, Entrance 1, Lower Level, Eastgate Shopping Centre, Eastgate, Germiston, 2090	0.55	7
	5. Woolworths Eastgate, 43 Bradford Rd, Oospoort, Johannesburg, 2008 (indirect rival)	0.02	1
	6. Woolworths Bedford Square, Bedford Square, Van der Linde and Smith Street, Bedfordview, Johannesburg, 2007 (indirect rival)	2.1	7

Source: Google Maps and supermarket website.

CHAPTER 7

THE IMPACT ON SUPPLIERS OF THE SPREAD OF SUPERMARKETS

7.1. Introduction

Supermarketisation within a country and the internationalisation of supermarkets in the Southern African region have important consequences for suppliers in food and household consumable product value chains. The relationship between a supermarket and a supplier is essentially a vertical one along a particular product value chain. Supermarket chains procure from a large number of suppliers across value chains, including local, regional and multinational suppliers.

To evaluate the implications on suppliers, this chapter addresses the following key research question: *What is the impact of the growth and spread of supermarket chains on suppliers in the Southern African region*?

As shown in Chapter 2, the routes to market available to suppliers are different in the countries evaluated. In South Africa, suppliers of fast-moving consumer goods can sell their products through supermarkets, but also through buying groups, wholesalers, independent retailers and informal channels. These alternatives account for around 40 per cent of retail sales in South Africa (see Chapter 6; Das Nair and Chisoro, 2015a, b; Das Nair, 2017).[87] The extent of sales through modern supermarket chains in the other countries in the region differ, but it is generally smaller than in South Africa. The alternatives range from informal 'spaza' shop equivalents and wet markets to formal wholesalers, fresh produce markets and formal independent retailers. The levels of organisation of independent retailers also differs in the countries. As shown in Chapter 2, buying group-supported independent retailers are not as large or formalised in the other countries as they are in South Africa (Abrahams, 2009; Das Nair and Chisoro, 2015a; Sagaci Research, 2017).

Despite different levels of reliance on supermarkets as routes to market in the different countries, the growth and spread of supermarket chains in Southern Africa has had significant implications on suppliers. Given the supermarket chains' multinational nature in the region, they open larger regional markets for them. This allows suppliers to attain the necessary scale and scope to upgrade and become competitive in national, regional and international markets. Supermarkets therefore can be catalysts to stimulate food processing and light manufacturing

[87] See also interviews with Minanawe Marketing, 05/11/15; three Buying Groups on 22/09/15; 06/10/15; 06/10/15.

industries in Southern Africa. These are key objectives of the Southern African Development Community (SADC) Industrialisation Strategy and Roadmap, 2015–2063, with important knock-on effects on intra-regional trade, employment creation, economic growth and poverty alleviation (Reardon and Weatherspoon, 2003; Reardon and Gulati, 2008).

The literature review in Chapter 3 set out how supermarket chains have transformed food supply chains in many parts of the world through procurement methods, supply requirements and private standards (Reardon and Berdegué, 2002; Reardon, Timmer and Berdegué, 2004; Brown and Sander, 2007; Emongor and Kirsten, 2009). By exerting significant power and control over suppliers in these respects, large supermarket chains as lead firms control production through setting and enforcing product and process parameters (Humphrey and Schimtz, 2002; Gibbon and Ponte, 2005; Gereffi and Fernandez-Stark, 2011;). The forms of governance by lead supermarkets in value chains can facilitate investments by suppliers, building supplier capabilities and allowing them to upgrade in the value chain, which involves moving to higher-value activities with improved technology, knowledge and skills (Gereffi, 2005). However, particularly for smaller suppliers, it can also limit their participation if the requirements of supply are overly onerous.

In Chapters 5 and 6, it was shown that the spread of a few large supermarket chains in the region has resulted in two or three supermarket chains holding majority of the market share in formal national markets. The main chains have market power in these concentrated markets, although, as shown in Chapter 6, this is not easy to assess in terms of consumer price outcomes alone. This chapter evaluates how market power is wielded by the chains in the negotiations of trading terms with suppliers. This has a direct impact on supplier participation, and in turn, supplier development and upgrading in order to meet the requirements that supermarket chains set in the first place. The exertion of market power is especially a concern in concentrated markets where there are few alternatives for suppliers. So, while lead supermarket chains drive investments and the development of certain suppliers in value chains, positively affecting suppliers, the exertion of market power through exploitative or exclusionary means can have a negative effect on suppliers.

The negative welfare effect of the exercise of buyer power is not straightforward either. As highlighted in Chapter 3, bargaining power refers to a form of buyer power when the bargaining strength in negotiating trading terms between buyer and seller is skewed towards the buyer. More simply, it is defined as the strength of a buyer in its negotiations with sellers. This form of buyer power can be exercised by buyers in a way to countervail the market power of suppliers. In such instances, prices to end consumers may be lowered, increasing consumer welfare (OECD, 2008).

However, lower prices may not be passed on and end prices may not be lowered. Further, while larger, multinational suppliers have countervailing power, small- and medium-sized suppliers are often forced to take the terms imposed on them by large supermarket chains. This can lead to rents along the value chain being extracted by supermarket chains and margins of suppliers being squeezed. Buyer power can therefore be exploitative. This negatively impacts supplier participation and the development of their capabilities and hinders upgrading efforts into higher-value products or into global value chains. The long-term effects of buyer power thus can include smaller suppliers exiting the market, which ultimately could lead to higher prices for consumers especially when a few, often multinational, suppliers dominate that level of the value chain. Abuse of buyer power can also reduce investment and innovation amongst suppliers, leading to poorer product quality and less choice, in addition to higher prices (Dobson, 2015).

In Section 7.2 of this chapter, the requirements of supermarket chains in Southern Africa and the way in which they shape the building of capabilities and upgrading of suppliers are first evaluated using a GVC framework. A key indication that product upgrading is happening generally across a range of suppliers of processed food and manufactured household products sold on supermarket shelves is the growing volumes of exports to the region. The implications of the spread of supermarkets in Southern Africa on intra-regional trade patterns are therefore evaluated in Section 7.2.1 using trade data. The trade flows of products typically sold through supermarkets from South Africa to the SADC region and from other selected countries are assessed. This provides an indication of the level of capabilities of suppliers and whether upgrading has happened generally in the region, which has enabled suppliers to sell more products through regional supermarket store networks.

Secondly, Section 7.2, using the interview data, looks at how supermarkets control suppliers' production through setting and enforcing product and process parameters including standards and protocols that must be met. Lead supermarket chains govern value chains by demanding specific production requirements and protocols from suppliers. Some of these requirements, such as basic health and safety requirements, are critical for consumer welfare. Others, such as requirements to supply all national and regional store outlets of a chain, or requiring adherence to certain private standards, raise the barriers to entry for suppliers in the region and could lead to their exclusion, potentially negatively affecting consumer welfare in the long run. These requirements, including what is critical to supply supermarkets, are evaluated from the responses given in the interviews conducted with supermarkets and suppliers in South Africa, Botswana, Zambia and Zimbabwe as described in Chapter 4. The types of upgrading, such as product, process, functional and inter-sectoral upgrading (see Chapter 3) that suppliers have invested in are assessed in this section.

Section 7.3 evaluates the forms in which buyer power is exerted by the large chains and how this can affect supplier participation. The ways in which buyer power is exerted in negotiations of trading terms between supermarkets and suppliers is also evaluated using data from interviews. A competition framework is used to evaluate this. This involves consideration of the counter, potentially pro-competitive, arguments for why supermarkets would engage in conduct that could result in the reduction of their supplier numbers, and what the rationale for short-term rent extraction and exploitation versus long-term investment along the supply chain could be.

It is important to emphasise that the analyses in Sections 7.2 and 7.3 are not mutually exclusive. GVC and competition economics frameworks can strongly complement each other. This hybrid approach allows for the assessment of core concepts of governance within value chains, the significance of linkages and the opportunities and bottlenecks to upgrading, while considering the mechanisms and consequences of the exercise of buyer power by supermarkets as lead firms. As highlighted above, the exercise of buyer power affects the ability of suppliers to participate and upgrade in GVCs. And while the role of supermarkets as lead firms has driven investments and upgrading in supply chains, not considering the implications of the exercise of buyer power provides an incomplete picture. The concepts of governance and power are central to both the GVC and competition economics frameworks.

A GVC approach provides a *wider* understanding than just traditional competition economics or industrial organisation frameworks of the implications of governance and the exercise of market power in value chains. Further, as discussed in the literature review, a regional value chain (RVC) lens is appropriate as it analyses the importance of regional dynamics related to global suppliers to supermarkets in Southern Africa. The development of industrial capacity in the region is a priority and balancing the positive and negative effects of the spread of supermarkets is important for regional economic development. Equally, the use of competition economics principles to better understand dimensions and the impact of market power at specific levels of the value chain *deepens* and enriches traditional global value chain analysis by providing insights on the power dynamics in dyadic relationships between suppliers and supermarkets. The use of both these frameworks can allow for more targeted and effective interventions in value chains to remove bottlenecks and facilitate upgrading.

Section 7.4. provides examples of how certain countries have approached regulating supermarket conduct given similar concerns of power and raises the possibility of introducing similar forms of regulation in Southern Africa. The section also briefly evaluates the types of supplier development programmes by supermarket chains in Southern Africa and how these could be strengthened and institutionalised.

Section 7.5 provides a summary of key contributions.

7.2. Supermarkets as lead firms in value chains: Implications of the spread of supermarket chains on suppliers

This section evaluates how the spread of supermarkets has affected suppliers in the region in terms of developing capabilities and fostering upgrading in value chains. In the GVC framework, upgrading in value chains by suppliers can be measured through various outcomes. Forms of product upgrading can include suppliers increasing their local and export sales volumes and values, producing more varieties and better quality of products, producing higher value-added products, diversifying export markets, investing in new packaging, and achieving higher unit prices. Forms of process upgrading can include improvements in production processes and practices, investments in food safety and other standards (for instance, upgrading to international accreditations), investments in environmental and social standards, branding and new managerial systems. Such upgrading is as a result of suppliers developing their capabilities.

This evaluation is in two parts. First, the impact of the spread of supermarkets on intra-regional trade in the SADC region is assessed in Section 7.2.1. This shows how trade values of products typically sold on supermarket shelves have changed since the take-off of supermarket internationalisation/regionalisation in the early 2000s. Section 7.2.2. then assesses implications on suppliers based on the extensive firm-level interviews conducted in Botswana, South Africa, Zambia and Zimbabwe with supermarkets, suppliers, wholesalers, independent retailers, industry associations, competition authorities and government departments (see Table 5, Chapter 4).

7.2.1 The spread of supermarkets and intra-regional trade trends

The expansion of supermarkets is driving important changes in the trade of food and household products within the region. Increased intra-regional trade reveals improving capabilities of suppliers in certain sectors as it shows that suppliers who are exporting have engaged in upgrading to meeting the standards and requirements of supermarket chains through which these products are sold.

The analysis below uses trade data to show trends in export values between 2001 and 2017. The products selected for this analysis include those that are part of a typical basket of products that customers would purchase from supermarkets, such as fresh fruit and vegetables, fish and meat, processed food products like coffee, tea, milled products like maize meal and flour, cooking oils, sugar and confectionery, dairy products and beverages. It also includes household consumables like soaps and detergents. Cereals (such as wheat, rice, rye, barley, oats, maize, corn), although not processed to the degree of the products mentioned above, are also included. These are broadly referred to as 'supermarket products' in the rest of this section.

A large proportion of supermarket products in Botswana, Zambia and Zimbabwe, and in the rest of the region, are imported from South Africa. Past studies have also highlighted this (see Emongor and Kirsten, 2009; Ziba and Phiri, 2017).

The value of South African exports of supermarket products to the region has been growing, highlighting the importance of the region to South African suppliers (Appendix 5 of this chapter). This is largely a result of the South African supermarket chains with store networks in host countries continuing to import from their established supplier bases in South Africa as they spread in the region (see also Goldstein, 2003; Charalambides, 2013; Bronauer and Yoon, 2018). The rapid growth of South African exports into the region is closely linked to the supermarket take-off mainly South African chains which started in the early 2000s (concurring with past studies that claim that the growth of supermarkets is associated with increased trade of processed foods (Reardon and Weatherspoon, 2003)). This happens essentially through 'intra-firm' trade within supermarket chains, importing from South Africa through their distribution centres (DCs) located in South Africa, either directly through their store network or via DCs in the region.

As revealed in the interviews and in annual reports, both Pick n Pay and Shoprite serve their stores in the region through massive DCs located mainly in Gauteng, South Africa (Shoprite Annual Report, 2016; 2017; 2018). Shoprite's centralised distribution network enables the management of the supply of products to its stores across the continent. It imports and exports products across the region and globally through its International Trade Department, an ISO 9001 accredited unit. As discussed in Chapter 5, this is accompanied by in-house cross-border transport operations and supported by information management systems, logistics infrastructure and technology. Pick n Pay has an 'Africa' DC in Gauteng which serves its stores in the region through outsourced trucking and logistics operations.[88] Choppies Enterprises also has five DCs across eight countries for groceries, as well as fresh and perishable produce DCs into which it imports products from South Africa and deep-sea sources (Choppies

[88] Interview with a supermarket chain, 3/08/15

website). The rise of regional procurement systems by South African supermarkets stimulates intra-regional trade in SADC. As noted by Weatherspoon and Reardon, this is through 'essentially using the powerful logistical mechanisms of supermarket procurement systems to collapse the fragmentation of markets' (2003: 14).

Significant volumes of supermarket products are exported into SADC especially by Shoprite as the largest chain in the region. A 2011 World Bank report focusing on the costs of non-tariff barriers and border delays to Shoprite note how in 2009, the value of SADC preferences to Shoprite was US$13.6 million on US$550 million of exports to the region (World Bank, 2011). In 2009, this accounted for around 42 per cent of the value of all exports of what I have categorised as supermarket products from South Africa to SADC (Appendix 5 of this chapter). I note however, that there may have been exports of other products not on my list that may be included in the World Bank figure, such as household electronics and clothing that Shoprite also sells through its store network in the region. Nonetheless, this highlights the significance of a large chain like Shoprite for South African exports into SADC.

The growth in exports of supermarket products in nominal US Dollar value terms from South Africa and into the SADC region is reflective of the increase in store numbers of multinational supermarket chains. Supermarket products account for between 10 per cent to 20 per cent of total exports (i.e. exports of supermarket and non-supermarket products) from South Africa to the SADC region between 2001 and 2017, fluctuating from year to year.

The compound annual growth rate (CAGR) of all exports from South Africa to the SADC region was around 13 per cent between 2001 and 2017. The growth of exports of a number of supermarket products (14 out of the 17) have matched or outstripped this average growth rate in all product exports. Products that have exceeded the CAGR of all products include preparations of meat, fish or crustaceans; preparations of cereals, flour, starch or milk and pastrycooks' products; and preparations of vegetables, fruit, nuts or other parts of plants, which grew at 19 per cent over the same period. Edible vegetables and certain roots and tubers; meat and edible meat offal grew by 17 per cent. Other supermarket products like cocoa and cocoa preparations grew by 16 per cent; dairy produce, birds' eggs, natural honey; edible products of animal origin and animal or vegetable fats and oils as a category grew by 15 per cent – all of which grew at a faster rate than all product exports to the SADC region.

It should be noted however that the use of CAGRs only offer very high-level insights on the trends in the growth in exports. There is considerable variation within years, for instance, exports of many products peaked in 2013 and 2014, while others like cereals fluctuate widely over the period. Rapid exports are recorded from around 2006/2008, plateauing around 2013 and 2014 for many products.[89] A simple CAGR masks these nuances.

Further, there are obviously other factors that affect these patterns of exports that are not directly linked to supermarket expansion (such as demand-side considerations, GDP and tariff and non-tariff barriers). This makes it important to triangulate these insights with firm-level interviews with supermarkets and suppliers, and from other sources of information (see Section 7.2.2 below).

This trade generally has also largely been one way, with South African supermarkets in the SADC region importing from their established supplier bases in South Africa. The reason given in the interviews for this skewed pattern of trade is mainly the lack of capabilities of suppliers in the host countries that South African supermarkets operate in, which negatively affects the reliability, quality and consistency of supply by local suppliers, as well as the ability to supply large volumes for all stores within the chain.[90] This is discussed in Section 7.2.2.

South African imports of supermarket products are instead mostly from deep-sea markets. For many observations in categories of supermarket products over the period assessed, less than 10 per cent of all imports are from the SADC region (Appendix 6). For some supermarket products however (see highlighted in red in Appendix 6), such as more commodity-type products, there has been growth in the proportion imported from the SADC region into South Africa between 2001 and 2017. These include products of the milling industry, malt, starches inulin and wheat gluten, meat and preparations of meat. There has also been a significant increase in the proportion of edible fruit and nuts. Further, a considerable proportion of sugars and sugar confectionery is also imported from the region. This is given the various regional agreements governing the production and trade of sugar (Das Nair, Nkhonjera and Ziba, 2017). Other products like coffee, tea, maté and spices; fish and crustacean molluscs and other aquatic invertebrates have had a relatively high proportion of imports from SADC for most of the period. This shows that lower value-added products continue to be exported from the region to South Africa, suggesting limited supplier capabilities in the region to produce higher value-added products. This is also the case of exports from SADC to other parts of the world.

Patterns of trade are also assessed for the other countries selected – Zambia, Zimbabwe and Botswana. In Zambia in particular, there have been some positive developments in terms of

[89] There are also data points that show once-off relatively high export values for certain products (for instance, coffee, tea, maté and spices, preparations of meat, of fish or of crustaceans, and edible vegetables and certain roots and tubers in 2013. These may be errors in the data base.

[90] Interviews with supermarkets in South Africa, Botswana and Zambia on 1/08/2015; 17/11/2015 and 28/02/2017.

growing exports of value-added products into the SADC region. In some of the supermarket product categories, the interviews have revealed that lead suppliers in Zambia have developed capabilities. Zambia's exports of non-traditional exports (NTEs)[91] have grown substantially in the region, although not necessarily into South Africa. Off a low base, product categories like animal or vegetable fats and oils which include cooking oils and margarines (with a CAGR of 45 per cent between 2001 and 2017), soap, organic surface-active agents and washing preparations (CAGR of 37 per cent), preparations of vegetables, fruit and nuts (29 per cent), cereals and preparations of cereals (CAGR of 24 per cent and 28 per cent respectively) have grown significantly (Appendix 7). These products are largely going to the Democratic Republic of Congo (DRC), Zimbabwe, Malawi, Tanzania and Mozambique (see Fessehaie et al., 2015b; Ziba and Phiri, 2017).

Growth in exports from Zambia of products like soap, organic surface-active agents and washing preparations have been spearheaded by large firms like Trade Kings Zambia, which exports to nine countries in the region.[92] Trade Kings also manufactures sugar confectionery products like sweets and biscuits that are exported to the region (Das Nair, Nkhonjera and Ziba, 2017). Such firms are developing capabilities in producing value-added products sold through the wholesale and retail sectors, and are competitive in regional markets.

However, Zambian exports still only account for a small proportion of total regional imports, especially in South Africa. For branded products like soaps and detergents, there is considerable consumer loyalty in South Africa[93] built through extensive advertising often by multinational producers. This makes it difficult for new entrants from the region to gain access to supermarket shelves if they cannot match this advertising spend, and prime shelf space is often taken up by well-known branded products from established multinationals. Imports into South Africa of these and other supermarket products produced in the SADC region is thus hindered as new players try to build their brand. This is an important aspect in terms of increasing intra-regional trade in FMCG products and is discussed further in Section 7.2.2 below.

Given the difficulty in accessing shelf space in South African supermarkets, certain suppliers in Zambia have had to sell through wholesalers or independent and informal retailers. These have been the routes for rapidly growing exports to the Democratic Republic of Congo (DRC)

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[91] Export products that have not been the traditional source of export revenue but have exhibited rapid export growth rates, including products that have undergone a significant degree of processing. In the case of Zambia, traditional export products include minerals, mainly copper.
[92] Interview with a supplier in Zambia; see Bosiu et al., 2017
[93] Interview with a marketing company focused on low income consumers and township enterprises, 05/11/15.

from Zambia (Fessehaie et al., 2015b; Ziba and Phiri, 2017). Demand for consumer products has risen steeply following increases in income from mining activities, especially in the densely populated Katanga province. This has spurred demand for processed foods like dairy products and flour from Zambia given its proximity. A trade agreement was signed in 2016/2017 between the Zambian and Congolese governments to further formalise and bolster trade between the two countries (Ziba and Phiri, 2017).

While trade is therefore also being bolstered by independent grocery retailing and informal retailing (the latter which is unlikely to be captured in formal trade data), the potential for large supermarket chain stores to be a strong catalyst for more equal two-way trade in the region is still substantial. This is especially the case for suppliers of value-added products in countries like Zambia that are exhibiting capabilities to manufacture consumer products that are demanded in the region. Presently, trucks of the main supermarket chains leave South Africa full of products but come back to South Africa from the region largely empty.

Manufacturing activity in supermarket products in Zimbabwe and Botswana is limited. Zimbabwe's economic challenges have negatively affected its agricultural and manufacturing sectors which have failed to meet the local demand, forcing supermarkets to import mainly from South Africa. Although Zimbabwe has limited export potential, an increase in exports was evidenced in certain industries between 2001 and 2016, including in edible fruit and nuts; peel of citrus fruit or melons; sugars and sugar confectionery; and coffee, tea, maté and spices. In other categories like cocoa and cocoa preparations, there has been rapid growth, but of an insignificant base (Appendix 8). Zimbabwe's main export destinations are countries within SADC. Similarly, Botswana has very limited exports of supermarket products, However, Botswana has export capabilities in beef, making it competitive in global markets (see growth in meat and edible meat offal in Chapter 7 Appendix 9[94]).

The assessment above shows growth in the value of exports of a number of supermarket products from the selected countries in the SADC region, especially from South Africa. A key reason for this growth is the spread of supermarket chains in the region, as corroborated by the interviews with suppliers and supermarkets. The supermarkets, through the use of centralised distribution to serve store networks in the region, are conduits for this increased trade. Despite all the countries being part of SADC, national policies such as local content requirements and trade restrictions affect these patterns. These have been discussed in Chapter 5.

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[94] See also interview with a large meat producer in Botswana, 18/11/15

7.2.2 The role of supermarket chains in the governance of value chains and upgrading of suppliers

As described in Chapter 4, extensive interviews were conducted to evaluate the impact of the growth and spread of supermarket chains on suppliers in the selected countries of Botswana, South Africa, Zambia and Zimbabwe. The data from these interviews is used extensively for this section.

The semi-structured questionnaires with supermarkets, suppliers, wholesalers, independent retailers, industry associations, competition authorities and government departments (Table 5) were designed to probe the perceptions and experiences of suppliers and other stakeholders regarding supermarket practices in the respective countries and how these affect suppliers. In addition to the in-depth interviews, Ziba and Phiri (2017) conducted a survey of suppliers and non-suppliers to supermarkets in Zambia.

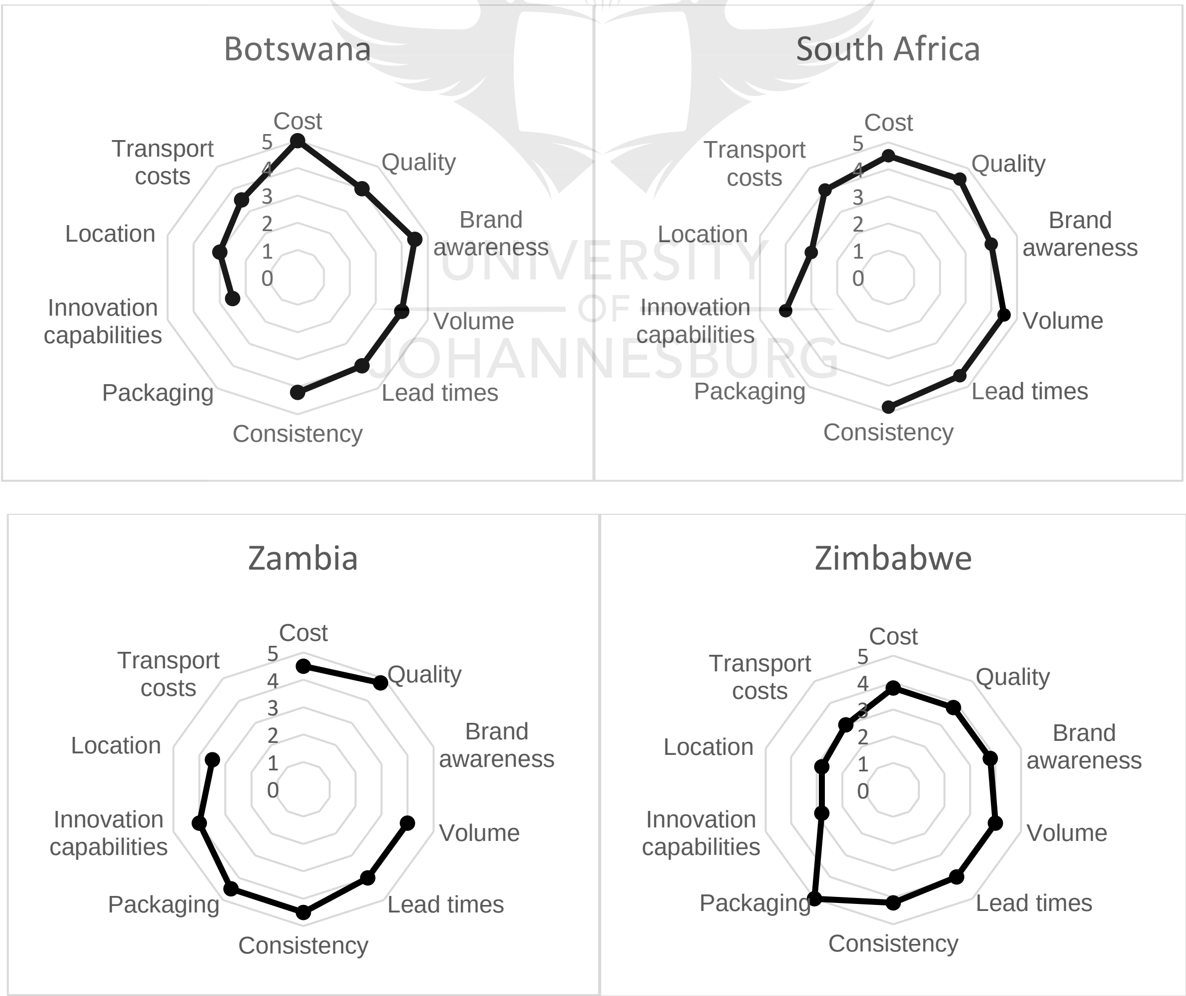
The questionnaires (attached in Appendices 10–12) included closed and open-ended questions to understand a range of factors on implications on suppliers. These included questions on concentration levels both in terms of supermarket concentration and supplier concentration in the selected product groupings. Supermarket concentration offers insights on the alternatives that suppliers have to sell their products to. Concentration in supplier markets provides indications of the degree to which suppliers can influence trading terms in negotiations with supermarkets. Questions were asked to understand the impact that procurement methods of supermarket chains have on suppliers, and on the requirements to supply supermarkets nationally and regionally. This was linked to questions on investments in upgrades that suppliers needed or had undertaken to meet these requirements. The governance of the value chain by supermarkets through enforcing these requirements is an important part of this analysis and the interviews included questions to understand how supermarkets governed the development of the selected product value chains generally.

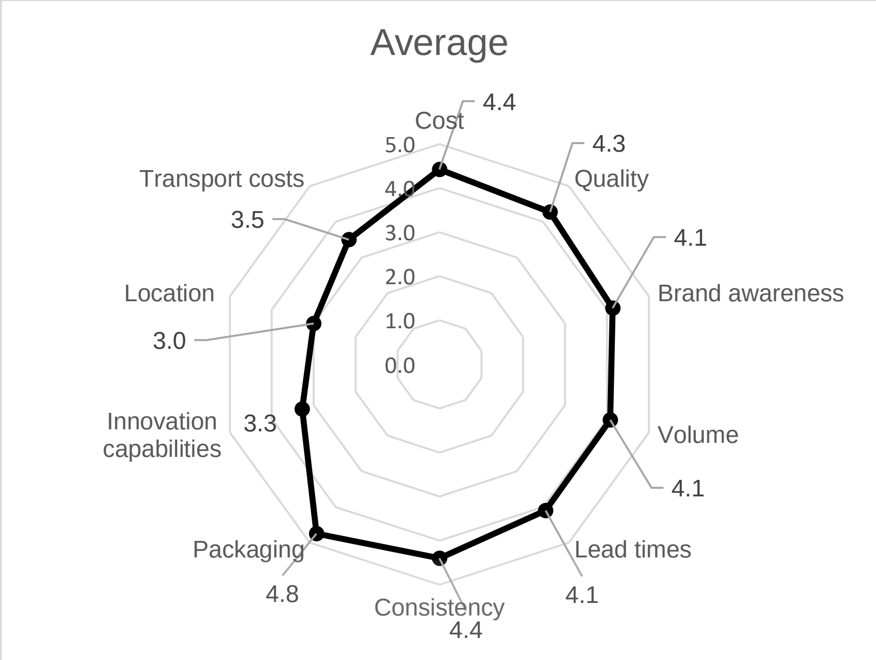
As described in the literature review, the modernisation of supermarket procurement systems internationally has placed considerable pressure on suppliers with regards to the ability to supply the required volumes, maintain consistency, ensure quality and contain costs of supplying products, amongst other factors (Dakora, 2012). This is the case in Southern Africa too. To supply supermarkets, suppliers in Southern Africa have to meet certain ‘critical success factors’ and, as lead firms, supermarket chains put pressure on suppliers to meet these requirements.

Some of these factors are amplified when supplying corporate chain stores nationally or regionally compared to supplying local franchise stores. Other factors affect suppliers of branded supermarket products more than they affect suppliers of commodity-type, homogenous supermarket products. Certain factors have emerged as a result of supermarket chains in the region, like in other parts of the world where modern retail has grown, moving to a centralised distribution model. The increased trade in supermarket products in Section 7.2.1 and an analysis of the interviews below nonetheless shows that certain suppliers are successfully meeting these supermarket requirements and have upgraded their capabilities.

Suppliers were asked to rank factors that were important requirements in supplying supermarkets on a Likert scale of 1 to 5 – with 1 being not important and 5 very important. Not all suppliers interviewed provided responses to this question, and in South Africa and Botswana, suppliers addressed packaging in combination with innovation capabilities as discussed later. Comparing these with what the supermarkets themselves consider to be important factors when they procure from suppliers helps in triangulating findings. Figure 22 shows the results in each country and on average across countries from the suppliers' perspectives.

Figure 22: Critical success factors: Perspectives of suppliers



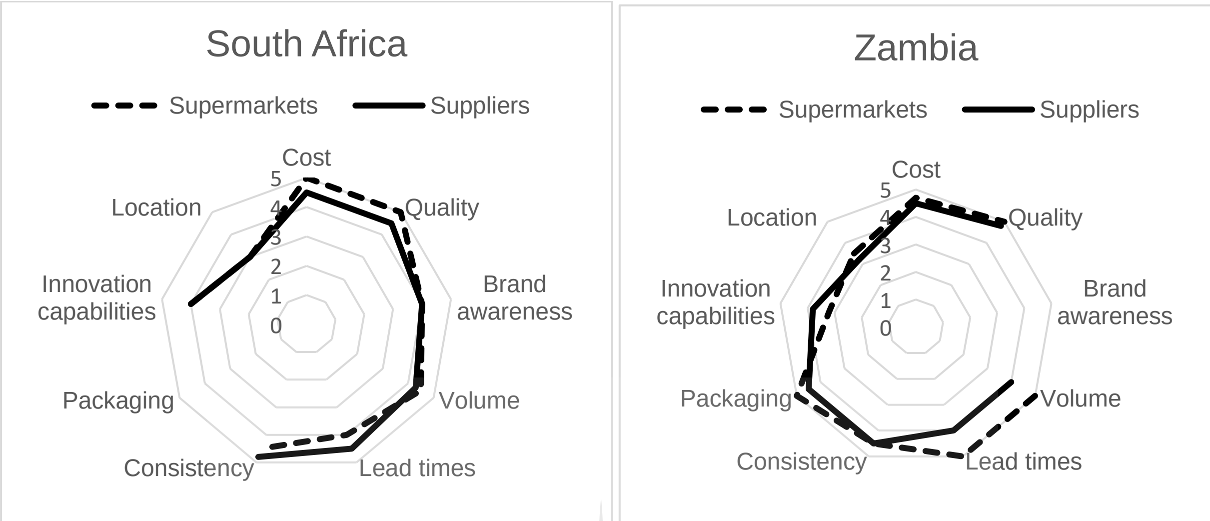


Source: Supplier interviews, 2015 and 2016. South Africa: N=11. Botswana: N=5. Zambia: N=48. Zimbabwe: N=15. Note: not all the suppliers provided answers to this question.
In the case of Zambia, distance to supermarket is used as a proxy for location. The Zambian numbers include the survey.
Scale: 1 being not important and 5 very important.

On average, the most important factors in supplying supermarkets from the perspective of suppliers was packaging, followed by costs, consistency and quality. However, the average for packaging in Figure 22 is just for Zambia and Zimbabwe given that suppliers in South Africa and Botswana spoke about packaging under innovation capabilities. This is because for these suppliers innovative solutions were found for problems in packaging. Given the larger sample size of suppliers interviewed including as part of the survey by Ziba and Phiri (2017) in Zambia, this result is important, and the significance of packaging was also emphasised by suppliers in Botswana and South Africa in their responses under investments in upgrading. Brand awareness, volume and lead times were also considered important. Innovation capabilities, transport costs and location were ranked as relatively less important. Each of these are discussed in more detail below.

The extent to which adhering to these factors is essential for the growth and development trajectory of suppliers in the selected product grouping reveals how these value chains are governed and shaped by large supermarket chains. Supermarkets in fact ranked most factors higher than suppliers did (on a 1 to 5 Likert scale) (see Figure 23 below). For Zambia and South Africa, the interviews collected comparable data from supermarkets. This data was however not consistently gathered from supermarkets in Botswana and Zimbabwe and results for these countries cannot be presented.

Figure 23: Critical success factors: Perspectives of supermarkets vs suppliers



Source: Supermarket and Supplier interviews, 2015 and 2016.
Note: Not all respondents provided answers to this question. In the case of Zambia, distance to supermarket is used as a proxy for location.
Scale: 1 being not important and 5 very important.

In South Africa, cost and quality were ranked highest by supermarkets, and these factors were ranked higher than how suppliers ranked them. Lead times and consistency were ranked lower by supermarkets than by suppliers in South Africa, while the other factors were ranked similarly. In Zambia however, almost all the factors were ranked higher by supermarkets than by suppliers. Packaging, lead times, volume and quality were ranked highest by supermarkets. This suggests that there may be some information asymmetries between supermarkets and suppliers in Zambia, and that local suppliers might not be as in tune with what supermarkets are looking for or understand the importance of certain factors.

Meeting these requirements and expectations of supermarket chains requires suppliers investing in their capabilities and upgrading. Supermarkets as large buyers govern these value chains by dictating the terms of participation through these critical factors and through other requirements. In this sense, traditional dyadic buyer-seller relationships persist in the region in these value chains, with governance structures resembling more captive and hierarchical forms where a few buyers (supermarkets) possess considerable power and dictate the conditions of supplier participation in the value chain. These factors are harder for local suppliers that are not multinationals to achieve. At the extreme, hierarchical value chains are characterised by vertical integration and lead firms yielding considerable control, including manufacturing products in-house. With the growth of private labels on supermarket shelves in Southern Africa, this type of governance form is evolving (discussed in Section 7.3.2).

The critical success factors are evaluated below, highlighting the role that supermarkets as lead firms play in governing and shaping these value chains.

Packaging

Packaging was ranked amongst the highest factors in terms of importance for suppliers in Zambia and Zimbabwe (Figure 22) and was also amongst the highest ranked in Zambia by supermarkets (Figure 23). Suppliers interviewed in South Africa and Botswana answered the question around packaging as part of their responses to innovation undertaken. Innovation in packaging was undertaken by a number of suppliers to continue to supply supermarkets. Supermarket chains are driving the need for suppliers to invest in better packaging so that they can more effectively compete with imported products on shelves. Supermarkets, as part of their efforts to differentiate their offerings from rivals, also drive packaging requirements. FVC for instance is trying to keep up with international developments and is benchmarking itself against Wholefoods in the US with regards to look, feel and packaging. As part of this, FVC is encouraging the use of clear packaging with labelling that tells the 'story' of the product.[95]

Investments in packaging are undertaken by suppliers across the spectrum – for high- and low-value products, high- and low-income targeting supermarket chains and by small and large suppliers.

For instance, a small, relatively new entrant in maize milling in South Africa supplying to Massmart wholesalers and retailers invested in a packaging line,[96] while a large milling company in Botswana has invested in new packaging for its pasta range,[97] both in order to supply supermarkets. A medium-sized South African miller invested in packaging to ensure that the product is well displayed and attractive to consumers.[98]

Packaging was also found to be a major constraint for suppliers of higher-value products like soaps, cosmetics and detergents in South Africa and Zambia, especially for new entrants (Bosiu et al. 2017). Packaging plays a very important role in shaping consumer preferences and driving sales in these markets given consumer loyalty. In product categories where there is a high level of brand loyalty especially from low-income consumers who have limited disposable income to test new brands, branding and packaging is critical. For new entrants in

[95] Interview with a supermarket chain, 26/07/15
[96] Interview with a small milling company in South Africa, 03/11/15
[97] Interview with a large milling company in Botswana, 18/11/2015
[98] Interview with a medium-sized milling company in South Africa, 30/10/15

these product categories, substantial investment is needed to upgrade their branding and their packaging to gain loyalty for their product. Packaging for these products can account for up to 50 per cent of costs of production (Bosiu et al., 2017). This has implications for suppliers in the region trying to sell their products through South African supermarket chains, especially into South Africa, in competition with well-known multinational suppliers of these products. The Bosiu et al. study recommended support at the packaging level to boost these value chains in the region, especially for smaller players and new entrants.

Large players are also continuously upgrading their packaging capabilities to supply supermarkets. In Zambia, the largest confectionery and FMCG manufacturer, Trade Kings, has an in-house packaging plant where all the design, labelling and branding is done and has heavily invested in regional and global quality standards such as HACCP (Food Safety) and ISO (quality). Supermarkets like Woolworths have even greater requirements on packaging given their high-income target markets. A large producer of high-value fresh stone fruit in South Africa, for instance, has invested heavily to adhere to the strict quality requirements of Woolworths. This includes investments in packaging, labelling, wrapping and heat-sealing machinery as well as in pre-packing facilities. This producer has grown to become a large exporter of stone fruit to Europe.[99]

Packaging can be outsourced of course, but several suppliers interviewed noted that they are developing these capabilities in-house. This is a form of functional upgrading identified in the GVC literature, where suppliers acquire new functions to increase overall skill content of activities. Packaging requirements have enabled these suppliers to compete not only at a regional level but also in global markets. Supermarket chains in the region therefore, by requiring better packaging, are equipping suppliers to access global markets.

In Zimbabwe, even when investments by suppliers in plant and equipment were low, there have been investments in packaging as this was considered important to supply supermarkets (Chigumira et al., 2016). Similarly, in Zambia, Ziba and Phiri (2017) find that supermarkets attach significant importance to packaging.

As part of investments in packaging, supermarkets in the region are requiring suppliers to have barcodes on their packaging. The study by Ziba and Phiri (2017) found that local suppliers in Zambia that have barcodes for their products are more likely to supply supermarkets. This requires additional investments that traditional independent retailers typically do not require. In South Africa, a medium-sized confectionery producer for instance

[99] Interview with a large fruit producer and exporter in South Africa, 06/11/15

invested R100 million in a fully automated barcoding machine for their lollipop packaging, which allowed individual lollipops sold at supermarket tills to be scanned.

Such investments in packaging build the capabilities of suppliers and improve their competitiveness even in global markets. It also builds linkages to third-party packaging firms if these capabilities are not developed in-house by suppliers. These and further linkages with suppliers of packaging materials, such as plastics, paper and glass, in turn develop industrial capabilities in upstream levels of value chains. Innovations in packaging material to improve the look, feel and quality of packaging are important. Supermarket chains therefore play an important role in driving these developments, not just in supply chains of food and household consumable products, but also in the closely related packaging sector in Southern Africa.

But it is not just supermarket requirements that are driving certain packaging requirements. Innovations in more environmentally friendly packaging are also becoming increasingly important. These may not be driven by supermarkets but rather by collective consumer and social movements (Dallas et al., 2018). In addition, in South Africa, labelling and advertising of foodstuffs regulations (R146 of 2010) introduced in March 2012 (Von Broembsen, 2016) mean that certain information like ingredients, expiry dates, country or origin, batch identification, mandatory warnings, amongst others, have to be clearly stipulated on the packaging. These are basic standards that serve to protect consumers and are essential for food safety.

While packaging requirements, whether driven by private standards of supermarkets, by pressure from consumers and social groups or by legislation, can create barriers to entry especially for smaller suppliers, even when these requirements can be welfare enhancing for consumers. There are also positive implications for suppliers who, if they meet these requirements, could potentially be more competitive in global markets. Through upstream linkages, packaging material suppliers could also be positively affected.

Costs

The ability to be cost competitive in the supply to supermarkets was also rated highly as shown in Figures 22 and 23 above. The importance of cost is irrespective of the type of product supplied and whether supply is for a single store, nationally or regionally across multiple stores. Supermarkets place pressure on all suppliers to reduce their cost of supply. The cost to supply a product is dependent on many things, including the negotiation of trading terms, scale of production, costs of labour and raw materials, transport, and finance. Larger suppliers have an obvious cost advantage given scale economies.

Supermarkets push suppliers to supply at the lowest price possible, yet they impose additional costs on suppliers making it difficult to achieve these lower prices (discussed in Section 7.3). Being able to impose onerous trading terms highlights the power that large chains have in the value chain and how they can squeeze the margins of suppliers.

Suppliers in the region have had to invest in various forms of upgrading to reduce costs and increase efficiencies to supply supermarket chains. The interviews highlight the forms of upgrading as discussed below that suppliers have undertaken. In general, these have been largely to improve production efficiencies and to achieve greater scale as a means to reduce costs. Upgrading has also been undertaken to adhere to rising safety and quality standards required by supermarkets as will be discussed later.

In the sugar and confectionery sector, large suppliers of confectionery products to supermarkets in South Africa have invested heavily in upgrading their plants and machinery to maintain their cost competitiveness against imports of sweets from South America and Asia.[100] Suppliers in the milling, poultry and red meat industries in South Africa and Botswana have also invested in equipment, plant and machinery to improve efficiencies and costs.[101] Investments in skills development and new technology to improve production processes were undertaken by large players in the milling sector.[102] Smaller, niche players have also invested in proprietary innovations to increase productivity, including in new machinery which increases output and efficiency and by adding new line items and extensions, while constantly upgrading packaging.[103] These are largely forms of 'process' upgrading that serve to reduce costs (Humphrey, 2004; Gereffi, 2005).

Supermarkets have driven these investments in upgrading to a large degree. Even suppliers that do not currently substantially supply national supermarket chains have invested in upgrading machinery and equipment with ambitions of tapping into the supermarket chain in the future. This was the case for instance of a medium-sized confectionery producer in South Africa[104] that supplied majority of its products to wholesalers and independent retailers, but that wanted to start supplying supermarket chains like SPAR.

[100] Interview submissions from a large food and confectionery producer in South Africa, 8/02/17.Over R46 million was invested in these upgrades.
[101] Interviews with a medium-sized milling company in South Africa, 30/10/15; a large meat producer in Botswana, 18/11/15; a large poultry producer in Botswana, 18/11/15. See also Chigumira et al. 2016.
[102] Interview submissions from a large food and confectionery producer South Africa, 8/02/17.Over R46 million was invested in these upgrades.
[103] Interview with a small confectionery producer in South Africa, 12/07/16
[104] Interview with a medium-sized confectionery producer in South Africa, 22/10/16, which invested in cookers, mixers, form processors and wrapping and packing machines from Europe.

Small suppliers are at a disadvantage in making these investments given the lack of access to finance and are often limited to supplying alternative routes to market like independent wholesalers and retailers, and to the informal sector. Access to affordable finance is a key constraint in the development of small businesses generally in South Africa (Banda, Robb and Roberts, 2015).

In other countries in the region however, these alternative routes to market remain significant (see Chapter 2). This means that suppliers who cannot make such heavy investments in upgrading do have an alternative to supermarkets. But given that supermarket chains are spreading to peri-urban and rural areas, the traditional stronghold of these alternative routes to market, small suppliers have to some degree still invest in forms of process upgrading to be competitive against the suppliers to the large supermarket chains.

Quality and consistency

Quality and consistency of supply were also ranked relatively high by both supermarkets and suppliers. Supermarkets require suppliers who can supply consistently in terms of providing high-quality goods and in terms of being able to maintain consistent supply to all outlets. A concern in the countries in the region is that suppliers are not able to consistently supply stores in a chain, even if they are able to produce quality products. Erratic suppliers not only disadvantage customers who are loyal to the product but are costly in terms of the supermarket's reputation.[105]

For supermarkets that follow a franchise model like SPAR, the significance of quality is seen in the difficulty in maintaining consistent quality across the different franchise outlets given that franchise owners have the flexibility in sourcing. This raises concerns of maintaining uniform standards across the chain.[106] Quality and consistency concerns also contributed to Woolworths and Fruit and Veg City's strategies to convert franchises stores to corporate stores or shut them down both in South Africa and in the region (Chisoro-Dube and Das Nair, 2015b).

Legal and private standards to ensure quality and safety

Basic quality standards are not set by supermarkets but by legislation. In terms of legal requirements, each country in the region has its own legal standards that suppliers have to adhere to. Some of these standards are enforced by the respective national bureaus of

[105] For instance, interview with small milling company, 03/11/15, where it noted that quality was essential in the retail sector and that a number of small millers overlook quality issues which makes them uncompetitive relative to bigger players. Consistency of supply is also important, and the miller struggled with erratic supply when it first started supplying supermarkets due to cash flow problems following volatility of maize prices.

[106] Interview with a supermarket chain, 1/08/15

standards in each country such as the South African Bureau of Standards (SABS), Zambian Bureau of Standards, Botswana Bureau of Standards and Standards Association of Zimbabwe. Because the standards in the different countries are not harmonised across the region and with SABS, it is difficult for suppliers in the other countries to compete with South African suppliers for shelf space in South African supermarkets even in their own countries. Proving that their products are of equal standards to South African standards raises additional costs for suppliers in the region. This further creates barriers to intra-regional trade, skewing trade patterns from South Africa further (Chapter 5). There is an even bigger gap between these local standards and international standards as discussed below, making participation in GVCs particularly hard.

There are also food safety, health and safety, environmental, packaging and labelling standards enforced through other regulatory bodies. In South Africa, these standards include legislation that governs the manufacture, sale and importation of foodstuffs, cosmetics and disinfectants with hygiene specifications. They deal with issues of hygiene at the point of production, general consumer protection and food safety. They also include the conditions under which food is stored, transported, maintained and consumed. Labelling and advertising of foodstuffs regulations were also introduced in March 2012 (Von Broembsen, 2016).

These are basic standards that serve to protect consumers and are essential for food safety. Whether suppliers supply supermarket chains or not, they have to adhere to these standards and therefore investments to meet these standards are not driven by supermarket chains alone. Suppliers to informal channels however sometimes flout these regulations.

Private standards are set by supermarkets when they demand certain quality requirements that are over and above these basic legal standards. To adhere to these, suppliers have had to invest in processes, machinery and equipment, as well as safety and quality management systems. These can result in barriers to entry for suppliers.

Supermarket chains, particularly the South African chains, impose private standards on suppliers. In South Africa, supermarket chains often require that suppliers have HACCP (Hazard Analysis and Critical Control Point) accreditation, an internationally recognised system for reducing the risk of safety hazards in food. HACCP has been gazetted as part The Foodstuffs, Cosmetics and Disinfectants Act, but is not yet mandatory in South Africa.[107] However, suppliers interviewed in South Africa are investing in HACCP to ensure that they

[107] There are calls for it to be made mandatory given the listeriosis outbreak in 2018. See https://www.iol.co.za/pretoria-news/new-food-safety-regulations-imminent-13904842, accessed on 21/11/18.

can supply supermarkets that demand this.[108] In Zambia, while HACCP is fully operational, it is voluntary and implemented only by large companies that can afford it, such as Trade Kings (Ziba and Phiri, 2017; Das Nair, Nkhonjera and Ziba, 2017). Such companies supply supermarket chains and have invested in HACCP because the benefits of complying enable their growth across the region. In Botswana, HACCP is on the list of standards although not compulsory. Again, certain suppliers in Botswana nonetheless have invested in it.[109] In Zimbabwe, HACCP is compulsory, and like in Zambia, the costs of adhering to it are very high. In some cases, suppliers are taking it upon themselves to get higher accreditations such as FSSC 22000 (Food Safety System Certification), an international accreditation, to gain a competitive edge over local rivals and imports.[110] Sizeable investments by a large confectionery producer in South Africa in the past ten years were made in improving quality standards, including investing in FSSC 22000 accreditation, and in new machinery and replacement capital. Estimates in 2016 in South Africa were that HACCP can cost as much as US$ 5,500 and FSSC 22000 can cost up to US$ 13,800 per annum, with additional US$ 6,900 annual fees for maintenance.[111]

Suppliers further have to consider investing in Local and Global GAP (Good Agricultural Practice) if they want to export to European supermarkets. In Southern African countries, a stepping stone initiative, 'local GAP' is a more cost-effective solution for suppliers by providing an entry level to Global GAP certification.[112]

Private standards extend to other requirements, such as sustainability, good manufacturing practices, environmentally friendly farming and production, minimum chemical and pesticide requirements and organic systems. To some degree, these requirements are governed and shaped not directly by supermarket chains, but by mechanisms of collective action or social movements/conventions by consumers who are increasingly demanding these requirements (forms of 'constitutive power' as defined by Dallas et al., 2018; see also the growing role of civil society organisations in the governance of GVCs (Davis, Kaplinsky and Morris, 2018)).

For some supermarket chains, like Woolworths, even higher private requirements such as sustainable farming requirements under its 'Farming for the Future' initiative, are closely

[108] Interview with a medium-sized milling company, South Africa, 30/10/15; a large poultry producer in South Africa, 22/09/15; a large fruit producer and exporter in South Africa, 06/11/15
[109] Interview with a large meat producer in Botswana, 18/11/15
[110] Interviews with a medium-sized milling company in South Africa, 30/10/15; a small sweet and confectionery producer in South Africa, 12/07/16; Interview submissions from a large food and confectionery producer in South Africa, 8/02/17.
[111] Exchange rate of 14.427 as of 29/08/16. Reserve Bank of South Africa. Estimates from interviews listed above.
[112] https://www.globalgap.org/uk_en/for-producers/localg.a.p./

related to its niche positioning in the market and therefore are governed by its strategy. Some of these additional standards are demanded deliberately by supermarkets to differentiate them from rivals and is used as a competitive tool rather than to adhere to minimum regulations (Davis, Kaplinsky and Morris, 2018).

This requires commitments and costs on the part of suppliers. In the case of Woolworths, mainly long-term, exclusive vertical relationships are entered into with suppliers. Woolworths has over 900 direct food suppliers and they work closely with them, reducing the number of agents used. Suppliers in these exclusive relationships have to comply with Woolworths' supplier codes of conduct which govern operating procedures, requirements for ethical sourcing, people and environmental management. Regular reviews and assessments of suppliers are conducted through supplier audits and supplier scorecards (Woolworths Integrated Annual Report, 2018). The other supermarkets also conduct regular audits on suppliers to make sure they are adhering to these standards.[113] These requirements can raise barriers to participation by smaller suppliers. However, Woolworths works closely with these suppliers to achieve upgrading, and the exclusivity prevents free-riding. So, while barriers to entry are raised, supplier capabilities are also being built. The chains that do not have exclusivity with suppliers may not engage in the degree of supplier development that Woolworths does.

The costs of adhering to private standards imposed by supermarkets are borne entirely by the supplier, making it increasingly costly to supply formal supermarket chains, especially for small- and medium-sized suppliers. It is not always the case that suppliers are compensated for the additional costs in terms of higher prices and they still have to compete against cheaper imports. Independent retailers, on the other hand, often have lower, if any, private standards.

Some suppliers have nonetheless upgraded to meet growing supermarket quality standards in the region. This upgrading, as explained by Ponte and Ewert (2009), is not neatly captured in the traditional 'process' (producing more efficiently) or 'product' upgrading categories (moving into more sophisticated product lines) in the literature. Investing in accreditations involves improvements in production processes even when not necessarily producing higher-value products. The examples provided earlier on the forms of product upgrading by suppliers that have served to reduce costs have also improved quality. Supermarkets' private standards on quality are driving these investments in value chains. This push over and above basic legal requirements allow suppliers to climb the ladder towards accessing export markets.

[113] Interviews with a supermarket chain, 1/08/15; a medium-sized milling company in South Africa, 30/10/15; a large poultry producer in South Africa, 22/10/15; a large eggs producer in South Africa, 05/11/15; a soaps and detergents producer in Botswana, 19/11/15.

However, as interviews revealed, most producers of food products in the countries assessed can only afford to adhere to their local/national minimum-required quality and food safety standards as the interviews revealed. Significant investments are required, and suppliers with scale are better able to spread the fixed costs of investments.

In Zimbabwe, the inability to meet quality standards and lack of capacity to supply supermarkets consistently were raised as two major reasons for the failure to supply supermarkets, particularly by some small-holder farmers (Chigumira et al., 2016). In Zambia, adhering to these standards was also considered an important factor for suppliers to be listed by supermarkets and many local suppliers struggled to meet these (Ziba and Phiri, 2017).

Volume requirements

Another critical factor, as can be seen in Figures 22 and 23, is being able to supply sufficient volumes across multiple stores in the networks of supermarket chains. Suppliers have to have sufficient scale to meet the demands of all stores in a chain. Suppliers interviewed, especially of basic, relatively homogenous products like flour, maize meal and meat, highlighted that they invested in upgrading to increase their scale of production by upgrading old mills, investing in new machinery and rationalising product lines to focus on increasing volumes of existing products rather than introducing new product lines.[114]

Needing to increase volumes of production is an important aspect that has been amplified by the spread or regionalisation of chains and by the changes in procurement practices of the main chains through distribution centres. These two features of modern supermarket chains in South Africa – the requirement to supply all/most outlets of corporate supermarket chains to maintain consistency of offerings and the centralised procurement methods that support this – has put pressure on suppliers to grow volumes to supply a much larger regional store network. This makes it difficult for small suppliers and new entrants to start supplying supermarket chains as they often do not yet have sufficient scale to supply all outlets nationally. While DCs have benefits for suppliers (see Chapter 6) they can also limit the ability of small suppliers who do not have the scale to participate in supermarket supply chains. This entrenches the positions of already large suppliers of products, making it difficult for small producers to enter and expand in their respective markets.

There is a distinction between corporate and franchised stores in this regard. For corporate supermarkets where accounts are centrally managed, suppliers have to get approval from the supermarket's head office in order to supply the chain and are often required to supply to all

[114] Interviews with a small miller in South Africa, 03/11/15: a large miller in Botswana, 18/11/15; a large food producer in Botswana, 19/11/15; a large meat producer in Botswana, 18/11/15.

outlets.[115] Store managers have little discretion to select suppliers although they may provide supplier information to head office for consideration. This difficulty is compounded for non-South African suppliers who seek to supply South African supermarket outlets even within their respective countries. They also require acceptance from the head offices of the supermarket chains in South Africa, which is not easy to obtain (Ziba and Phiri, 2017; Chigumira et al. 2016).

For franchises of chains, however, smaller suppliers with limited scale can participate in the supply chain as individual store owners have the discretion to choose suppliers for volumes just for their store. This is the case for SPAR franchises that are independently owned under its voluntary trading model. Franchise owners can support local suppliers in their area. According to SPAR, suppliers can directly approach head office, and if they are unsuccessful in listing nationally, they can approach local stores directly and supply at a local level.[116] However, in practice, a large proportion of dry goods are still sourced by SPAR owners from the group's various DCs given cost savings through bulk buying. DCs are further able to extract greater discounts from suppliers including distribution, warehouse and pallet discounts.[117] Despite this, the interviews and previous studies (see Emongor and Kirsten, 2009; Das Nair, Nkhonjera and Ziba, 2017) have shown that suppliers in the countries studied have a better chance of supplying SPAR franchise stores than the corporate stores of the other chains given the discretion to purchase locally.[118]

The SPAR model therefore allows for smaller suppliers with limited scale to participate in grocery retail value chains. However, the spread of supermarkets in Southern Africa is mostly through corporate stores. While Woolworths and FVC started expanding through franchise stores, these have been converted or are in the process of being converted to corporate stores. Of Pick n Pay's spread in the rest of Africa, around 40 per cent is franchised (Pick n Pay Integrated Annual Report, 2018). However, unlike SPAR's model, Pick n Pay's franchises are obligated to purchase stock from Pick n Pay's list of nominated suppliers, with the exception of fruit and vegetables, meat products and cigarettes, which still have to be bought

115 See also interviews with a supermarket chain, 18/11/15, 9/10/15, 5/05/15, where it is was noted that all decisions were centralised and made at head office, and that there was limited flexibility at store level.
116 Interview with a supermarket chain, 1/08/2015. Interviews with confectionery producers in South Africa, 13/11/16, and in Zambia (Das Nair, Nkhonjera and Ziba, 2017), who note that they find it easier to supply SPAR franchises than the corporate chains.
117 Interview with a buying group in South Africa, 22/11/15.
118 Interviews with a medium-sized confectionery producer in South Africa, 13/10/16; a supermarket chain, 9/06/15; a supplier of instance coffee, 22/07/15

from approved suppliers (Pick n Pay website, 2019). This limits the ability for local suppliers especially of processed food and household products to participate.

From a supplier perspective, it is costly for larger suppliers to supply small volumes to individual stores like franchises and independent retailers. Such suppliers prefer to sell to corporate chains or wholesalers or distributors who in turn sell to independent retailers. [119]

Lead times and transport costs

Acceptable lead times, although scored relatively highly by supermarkets in Zambia, were scored lower on average by supermarkets in South Africa (Figure 22) and by suppliers (Figure 23). Short and accurate lead times are important for forecasting and replenishing stock and is especially important for fresh products with short shelf lives (bread, fresh milk, fresh fruits, vegetables and poultry). A higher proportion of these types of products thus tends to be sourced locally rather than from other countries in the region. Past studies have found that supermarkets source majority of their fresh produce locally (Fessehaie et al, 2015b; Ziba and Phiri, 2017) and that supplying supermarkets has had a positive impact on the incomes of small-scale farmers in countries like Zambia (Emonger and Kirsten, 2009). Majority of the supplier development initiatives (discussed in Section 7.4) have been with regards to developing local supply chains for fresh produce. Therefore, while processed food and household consumable products are mainly imported (Section 7.2.1), the spread of supermarkets has had a significant impact on fresh produce and offers an intrinsic advantage to local suppliers of fresh produce.

There has been a growing trend towards fresh produce in retail in South Africa. Fresh offerings have high margins, and ensuring that fresh, good-quality produce is consistently available is important to build customer loyalty. This requires investment throughout fresh value chains to ensure that freshness and quality is maintained, including in transport and cold storage. Suppliers have to invest in upgrading their capabilities to do so (see below under innovation).

Supermarket chains are however now also investing in DCs that can handle perishable products. Shoprite's new Cilmor DC for instance is highly technologically advanced, with storage capacity for both ambient and frozen/chilled products (Shoprite Annual Report, 2018).[120] This has implications for small farmers and producers of fresh, perishable products. Whereas previously the payment cycles were shorter for fresh produce, this may change with

[119] Interview with a large poultry producer in South Africa, 22/09/15. Given the volumes-based nature of their chicken business, they cannot directly supply independent retailers that procure less than 25,000-ton truckloads at a time.

[120] See also https://www.fin24.com/Companies/Retail/pics-inside-shoprites-giant-new-distribution-centre-20170822

such advances in technology as products can be stored for longer. Such advances nonetheless can also benefit suppliers by allowing them to supply their perishable products to a single DC rather than to multiple stores.[121] Advances in technology and the harnessing of big data by retailers are further allowing for better predictions of consumer shopping patterns.[122] Such advances can open up opportunities for regional suppliers of fresh products.

Linked to both lead times and costs to supply are issues of transport costs. Location of suppliers relative to supermarkets and transport costs were ranked as a relatively less important factor in supplying supermarkets or distribution centres. Yet, location of suppliers clearly affects logistics costs in the supply chain. Location of trusted supplier bases was also found to be critical for the internationalisation of supermarkets as Chapter 5 showed.

The suppliers essentially have to absorb any transport cost disadvantages they may have relative to their competitors. Firms that supply high-volume, low-value products such as maize meal are usually located near the source of the input as opposed to close to the market. It is cheaper for the supplier to transport the final maize meal product to the market, than it is to transport maize over long distances.[123] However, for processed foods manufacturers, it is important to be closer to where there is a high density of supermarkets, that is, closer to market. Similarly, for products with a shorter shelf life, like fresh milk and meat, it is important to be relatively close to retailers.

Depending on supermarket requirements, suppliers either deliver directly to stores, distribution centres or third-party warehouses affiliated with transport companies. In some cases, large suppliers noted that they were forced to use the supermarket-nominated transport company.[124] Other suppliers internalise transport cost by owning their transport fleet.[125] Suppliers who supplied multiple store outlets highlighted that delivering to a distribution centre saved them considerable transport costs by delivering to a single destination. In terms of transporting products from the DCs to the individual stores, the supermarkets either outsource this (like Pick n Pay) or use their own in-house fleet (like Shoprite, Woolworths and Choppies).

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[121] For instance, a poultry producer has been selling poultry products directly to a supermarket chain using Imperial Logistics given that the chain did not previously have a perishables DC. This had implications on transport costs incurred by the company. Interview with a poultry producer in South Africa, 22/09/15.

[122] http://www.bizcommunity.com/Print.aspx?l=196&c=185&ct=1&ci=164704. See also Shoprite Annual Report, 2018.

[123] For instance, interview with a milling company in South Africa, 30/10/15. It is located closer to its inputs than it is to the market.

[124] Interview with a large poultry producer in South Africa, 22/09/15.

[125] Interview with a large fruit producer in South Africa, 06/11/15.

It is the supermarket chain that ultimately dictates what the delivery requirement is and suppliers bear all the costs of transporting or distributing the product, highlighting again the degree of power the supermarket has in supply chains.

Brand awareness

Brand awareness was ranked by suppliers on average the same as ability to supply sufficient volumes and lead times (Figure 22) but considered less important by supermarkets in South Africa (Figure 23). Brand awareness is important amongst lower-income customers in the region. Such customers have little disposable income and are less flexible to try new brands, preferring to stick with tried and tested brands.[126] A Nielsen Global Premiumisation Survey of 2017 shows that consumers moving up the economic ladder are attracted to aspirational brands that signal that they have achieved a certain level of success. Branded products provide assurances of quality and are less risky in terms of money being wasting on new products that may not fulfil expectations. This is the case in South Africa not just for premium electronics and clothing, but for supermarket products like meat or seafood, coffee and tea and dairy as the survey found (Koigi, 2017).

Suppliers therefore have to invest significantly in building brand awareness and loyalty through advertising, promotions, free sampling, point of sale material, merchandising and marketing material.[127] Branding is also closely linked to packaging as discussed earlier. Suppliers noted that they have to show supermarkets that they are continually investing in building their brand[128] (see also Bosiu et al., 2017 for the importance of building brands in the cosmetics sector), and in some cases, are forced to have an advertising and marketing budget which is negotiated as part of their trading terms discussed in Section 7.3. This is typically the case for new products launched. Well-known brands of products such as poultry and bread do not need to have additional marketing budgets with supermarkets.[129] The costs of building brand awareness rest solely with the supplier.

Innovation

Innovation capabilities were considered relatively less important by suppliers and supermarkets although there was a recognition that innovation, either in product range or packaging, was important to maintain competitiveness especially with deep-sea imports. Forms of innovation undertaken by suppliers in the selected countries included investments

[126] Interviews with a marketing company in South Africa, 04/11/15; a buying group in South Africa, 22/11/15; a miller in South Africa, 30/10/15; a poultry producer in South Africa, 22/09/15.
[127] Interviews with millers in South Africa, 30/10/15; 03/11/15; a supermarket chain in Botswana, 17/11/15
[128] Interview with a miller in South Africa, 30/10/15;
[129] Interview with a supermarket chain, 9/06/15

in packaging, investments in the quality of existing products and introducing new, more sophisticated higher value-added products. In the GVC literature this is also classified as product upgrading. Such upgrading occurs regularly in the dairy industry, with new flavours of drinking milk, milkshakes and yoghurts being introduced as part of the suite of products sold through supermarket shelves. In the poultry sector, in addition to supplying whole and cut chicken, poultry producers in South Africa have invested in plants to produce value-added, processed crumbed chicken and chicken nuggets.[130] Poultry producers in Botswana have also invested in producing free-range chicken to cater for the needs of Woolworths and meat producers have invested in capital equipment in slaughter houses.[131] In the sugar confectionery sector, new concept sweets are being developed, for instance, flavours and colour that merge upon chewing to produce a new and distinct flavour.[132] Even in the most basic commodity-type staple product like maize meal, there has been some innovation to create differentiated products by medium-sized players, for instance, pre-cooked and flavoured maize meal.[133]

Sophisticated upgrading has also happened in the South African fresh fruit sector in the form of higher value, new cultivars and varieties of fruit. It is important to note however that these developments are mainly as a result of demands from European supermarket chains and in response to export market access and climate change concerns, rather than pressures from Southern African supermarkets. Requirements by European supermarkets have resulted in substantial investments in science, technology, research and development in producing high-quality fruit. In the citrus industry for example, South Africa has developed new varieties of soft citrus such as mandarins and clementines. Varieties have also been developed across different fruits using advanced breeding technologies to make them adaptable to climate change and weather variability, as well as offering improved resistance to diseases and pests (Chisoro-Dube and Das Nair, 2019). New areas of production in South Africa have also emerged geographically, with almost all year-round supply for certain fruit like avocados and vegetables, including to local markets. This has also required the introduction of new plant varieties.

There is strong institutional support for industries like fruit in South Africa to upgrade to meet international standards through industry associations. These associations have been instrumental in supporting science and technology innovations and market access for the

[130] Ncube et al. (2016) and interview with a poultry producer in South Africa, 22/09/15.
[131] Interview with a poultry producer in Botswana, 8/11/15
[132] Interview with a confectionery producer in South Africa, 13/10/16.
[133] Interview with miller in South Africa, 30/10/15.

industry. There is also a strong existing capability base within large lead fruit producers in South Africa. Both have contributed to South Africa being a global player in fresh fruit.

Nonetheless, large South African stone fruit producers have also invested in producing fruit with improved characteristics to supply to high-end regional supermarket chains like Woolworths. Supply to Woolworths has thus provided a stepping stone to accessing European markets for these suppliers,[134] highlighting the role that private requirements of regional supermarkets can play in facilitating upgrading into GVCs.

Innovation is also seen in forms of inter-sectoral upgrading, with firms moving into new productive activities. For instance, lead firm Trade Kings in Zambia moved into producing their own plastic containers, lollipop sticks, and inner plastic films for their detergents and sugar confectionery products (Bosiu et al., 2017). While the interviews revealed numerous examples of investments to upgrade undertaken by suppliers of all sizes to supply supermarkets in the region, the exact nature and magnitude of upgrading undertaken by a wider set of suppliers across the region is an important area for further research.

This section has discussed the various requirements that suppliers in the region have to adhere to when supplying supermarket chains and how supermarkets, as lead firms in many food and household consumable product value chains, govern and shape these requirements. Some of these requirements are amplified by the regionalisation of supermarket chains.

Suppliers interviewed have had to invest in upgrading their capabilities to meet these requirements. This has allowed them to attain scale and produce higher-value products, and in certain cases, better equipped them to enter global markets. However, investments in upgrading to meet the various requirements of supermarkets is not easy for all classes of suppliers. It is often large, multinational suppliers that are able to invest in such upgrading, or suppliers like in the fruit industry that have strong, coordinated institutional support. Upgrading requires capital for investment, and access to finance in the region is expensive (Banda, Robb and Roberts, 2015; Chigumira et al. 2016; Ziba and Phiri, 2017). There is also a lack of technical capabilities and skills in the region as highlighted across interviews and past studies. This has the effect of increasing concentration at the supplier level, with large lead firms that have been able to upgrade and increase their exports through supermarket networks in the region. Small- and medium-sized suppliers are often excluded from supermarket value chains and are limited to supplying alternative routes to market.

[134] Interview with a fruit producer in South Africa, 06/11/15.

7.3. An evaluation of supermarket buyer power in Southern Africa and its impacts

Upgrading capabilities to meet growing supermarket requirements does not automatically ensure access to supermarket shelves. This section shows that the exertion of considerable buyer power by supermarkets results in supermarkets extracting greater rents/surpluses in value chain and can result in the exclusion of certain suppliers, irrespective of investments made in upgrading. The exertion of buyer power further disadvantages small- and medium-sized suppliers as it adds significantly to their costs of supply. The long-term effects of buyer power can lead to more concentrated supply markets, higher prices, poorer quality and less innovation.

The GVC literature has recognised bargaining power as the most common form of power, usually in the context of dyadic and direct relationships between clearly identifiable buyers and sellers, with buyers often being lead firms located in advanced economies and suppliers in developing economies. This power has been categorised as 'coercive' power where lead firms 'utilize(s) incentives or sanctions directly to compel another actor to act according to their wishes' (Dallas, Ponte and Sturgeon, 2018: 1). While the GVC literature has progressed and broadened to include other forms of power (Dallas et al., 2018), this section shows that there is merit in going deeper into understanding dyadic and direct relationships between buyer and seller in GVCs through assessing buyer power from an industrial organisation perspective. By understanding when and how buyer power is exerted in the region, and the implications this has for supplier participation, this chapter adds to the GVC literature. Similarly, the competition economics framework which has traditionally narrowly focused on consumer welfare in many jurisdictions can benefit from the wider perspectives a GVC framework offers in terms of the importance of upgrading and participation of suppliers in regional value chains. This allows for tailored policy interventions in value chains to reduce the ability of supermarket chains to extract rents at the expense of supplier participation.

To evaluate supermarkets' buyer power, questions were asked in the interviews to probe the balance of power in negotiating trading terms, what these terms constitute and the impact they have on suppliers. Triangulation was carried out by comparing suppliers and supermarkets' responses regarding the importance of different factors, as well as from submissions and testimonies by stakeholders to the Competition Commission of South Africa's Grocery Retail Market Inquiry (GRMI) and from findings from an inquiry undertaken by the Competition Authority of Botswana (CAB).

Trading terms directly affect the cost of supply requirement discussed in Section 7.2.2, a critical factor ranked highly by both supermarkets and suppliers. While larger, multinational suppliers may have countervailing power against the supermarket chains, small- and medium-sized suppliers are often forced to take the terms imposed on them by large supermarket chains. The following analysis shows that large supermarket chains possess considerable buyer power.

7.3.1 The extraction of rents by supermarkets through trading terms

Over and above demanding lower costs and higher standards from suppliers, supermarkets impose a range of other costs on suppliers through trading terms. Given that it is largely the same retailers that operate in most Southern African countries, some of these trading terms are 'exported' to the region by the South African chains. These additional costs imposed on suppliers make it more difficult for them to supply regional chains and can create bottlenecks to upgrading and accessing regional and global markets.

It is generally not in the interest of supermarket chains to exclude suppliers and reduce competition at the supplier level. The more competition there is between suppliers, the lower the prices supermarkets can get from them. There may also be valid, pro-competitive, efficiency justifications for some of the trading terms imposed. For instance, there may be efficiencies and cost savings due to large volumes purchased that may warrant volume discounts.

But the absence of effective competitive rivalry at the supermarket level allows for supermarket chains with market power to squeeze the margins of suppliers to earn a higher share of the joint rents in the value chain through imposing trading terms that are not justified in terms of efficiencies. It is these, unjustified and non-cost related discounts and fees that are of interest (see OECD, 2008).

Supermarket chains, through trading terms, impose a range of discounts and other components that are subtracted from a list price. This reduces the prices that suppliers can ultimately get for their products and, in this sense, imposes additional costs (over and above the costs of production) on them. The following are the main cost categories that supermarket chains in South Africa charge suppliers (Table 41). Certain of these costs are also imposed by chains in the region.

Table 41: Categories of discounts, rebates, fees and allowances charged to suppliers by supermarket chains

Basic rebates (fixed percentage or variable volume based)	Slotting allowances
Advertising allowances or rebates (newspapers, TV, radio, pamphlets)	Swell allowances
Listing/Support fees	Joint product promotion allowances
Settlement discounts	Fridge space fees
Growth Incentive discounts	Channel allowances
Trade discounts	Efficiency allowances
Data sharing allowances	Category management fees
Merchandising allowances	National/Theme promotion fees
New store opening allowances	Distribution/Warehousing allowances
Wastage allowance/returns/backhaul fees	Quality assurance allowances
Shrinkage fees	Ad hoc spend

Sources: Interviews with suppliers; Elite Star submission and testimony of Shoprite employees at the GRMI

In situations where power dynamics are more balanced between supermarkets and suppliers, these components would be negotiated between supermarket and supplier. But when power is skewed in favour of the large chains as the interviews and other evidence shows that it is, these costs are imposed on suppliers without much room for negotiation.

The various costs and requirements result in supplier margins being squeezed and can result in their exclusion from supply chains. In many cases, small- and medium-sized suppliers are limited to supplying the independent (wholesale and retail) and informal sector in which requirements are lower.[135] This limits their potential to develop the scale, scope and capabilities which could move them to becoming exporters, integrating further into the regional and global economy.

South African supermarket chains typically require suppliers to pay listing or support fees to be listed as a supplier to the chain.[136] This is a once-off fee to get their product listed with a supermarket chain. Estimates of listing fees in South Africa from the interviews in 2016 range from US$ 350 to US$ 3,500 for a single product line for a limited period (sometimes also quoted as a percentage off the list price), to as high as US$ 17,000 to US$ 20,000 for shelf

[135] For instance, interviews with confectionery producers in South Africa, 13/10/16; Zambia, 3/11/16. See also Das Nair, Nkhonjera and Ziba (2017) for more examples in the confectionery industry in South Africa and Zambia.
[136]Interviews with a supermarket chain, 9/06/15: millers in South Africa, 30/10/15 and 03/11/15; an eggs producer in South Africa, 05/11/15; a soaps and detergents producer in Botswana, 19/11/2015; a food producer in Botswana, 19/11/15; a poultry producer in Botswana, 18/11/15; Chigumira et al. (2016)

space located close to till positions (at cash registers) for a single product line.[137] A medium-sized confectionery producer highlights how these fees for it are only for a 6-month period and only for listing with stores in the inland regions of South Africa for a particular supermarket chain.[138]

In the soaps, detergents and cosmetics industry in South Africa, suppliers highlight the difficulties in listing new products with retailers, particularly if they are small companies with new products competing with products of existing large multinationals (Bosiu et al. 2017). The implications are that such fees disproportionately affect smaller suppliers, especially those with narrow ranges and those that have yet to gain customer loyalty and guaranteed sales. Established brands face less risk and uncertainty about sales.

The charging of listing fees is not common practice of non-South African supermarket chains in other countries,[139] but the South African chains have attempted to 'import' such practices into the other countries that they operate in.[140] In Zimbabwe, listing fee estimates of local chains range from US$ 10 to US$ 2,500 per product line with US$ 50 to US$ 100 for the introduction of additional new product lines with a supermarket chain. Estimates of listing fees for regional chains are from US$ 180 to US$ 300 per gondola in each store (Chigumira et al., 2016).[141] This amounts to large outlays by suppliers for stores across the country.

Some supermarket chains like Pick n Pay have submitted to the GRMI that they do not charge suppliers listing fees or slotting fees.[142] The interviews however clearly revealed that Pick n Pay does charge listing fees in some instances.[143]

The rationale for listing fees from the supermarkets' perspective includes covering some of the direct costs of adding new suppliers to their books such as checking quality standards, adding suppliers to IT systems and to cover some head office costs.[144] Supermarkets also ask for listing fees as an indication of the supplier's commitment and confidence in their ability to supply the products given vigorous competition for shelf space. It can act as insurance for

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137 Exchange rate of 14.43 as of 29/08/16. Reserve Bank of South Africa. Interviews with a miller South Africa, 30/10/15; confectionery producers in South Africa, 10/08/16; 13/10/16; 20/07/16

138 Interview with a confectionery producer in South Africa, 20/07/16

139 Interviews with supermarket chains, 18/11/15; 17/11/15; a soap and detergents manufacturer in Botswana, 19/11/15; See also Choppies' public testimony at the GRMI, http://www.compcom.co.za/wp-content/uploads/2017/12/Grocery-Retail-Public-Hearing-Choppies-2017-11-06.pdf, p 41

140 Interviews with a miller in Botswana, 18/11/2015 and a food producer in Botswana, 19/11/15 who note that Shoprite charges listing fees in Botswana.

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

142 Pick n Pay Written public submission to the GRMI, 31 August 2016, http://www.compcom.co.za/wp-content/uploads/2016/09/Pick-n-Pay-Submission-Non-Confidential-1.pdf

143 Interview with a supermarket chain, 3/08/15; a soap and detergents manufacturer in Botswana, 19/11/2015; Interview with an academic, University of Pretoria, 25/05/15

144 Interview with an eggs producer in South Africa, 05/11/15

products that fail to sell[145] and spreads the risk of a failure to sell a product with the supplier.[146] In so far as these fees are an accurate reflection of the actual costs of doing business (including accounting for risks and opportunity costs), such fees may not be exploitative or rent-extracting but legitimate costs.

Indeed in the UK, where there is a mandatory Groceries Supply Code of Practice, a retailer is not allowed to directly or indirectly require a supplier to make any payment as a condition of stocking or listing the supplier's product unless it is for a promotion or if stocking the product entails some risk (UK Groceries Supply Code of Practice, 2009).[147] The supermarket chain has to show that there is a specific cost associated to stocking/listing the product (which could include the cost of risk). This is similar to the approach in Australia, where although voluntary and only binding on the retailers that sign up for it, the Food and Grocery Code of Conduct stipulates that the retailer must not require a supplier to make any payment as a condition of stocking or listing grocery products unless there are specific and proven reasons for it (Australian Government, n.d).[148] Both in the UK and in Australia (for retailers that have signed up to the code), retailers are also not allowed to directly or indirectly require a supplier to make any payment in order to secure better positioning or an increase in the allocation of shelf space for any grocery products within a store unless made in relation to a promotion (UK Groceries Supply Code of Practice, 2009; Australian Government, 2015).

The interviews in the selected countries in Southern Africa both with suppliers and supermarket chains did not reveal that there was any level of engagement between them to explain or justify the magnitude of the listing fees charged in the process of negotiating trading terms with suppliers. The public testimonies and submissions of the supermarket chains

145 See for instance, interview with a miller in South Africa, 30/10/15

146 Slotting Allowances in the Retail Grocery Industry (2003) Selected Case Studies in Five Product Categories; Federal Trade Commission; https://www.ftc.gov/sites/default/files/documents/reports/use-slotting-allowances-retail-grocery-industry/slottingallowancerpt031114.pdf

147 Accessed in January 2019. https://www.gov.uk/government/publications/groceries-supply-code-of-practice/groceries-supply-code-of-practice: "*Limited circumstances for Payments as a condition of being a Supplier: A Retailer must not directly or indirectly Require a Supplier to make any Payment as a condition of stocking or listing that Supplier's Grocery products unless such Payment: is made in relation to a Promotion; or is made in respect of Grocery products which have not been stocked, displayed or listed by that Retailer during the preceding 365 days in 25 per cent or more of its stores, and reflects a reasonable estimate by that Retailer of the risk run by that Retailer in stocking, displaying or listing such new Grocery products*."

148 Accessed in January 2019. https://www.legislation.gov.au/Details/F2015L00242/Html/Text#primary-content. Specific reasons include: the payment is made in relation to a promotion; or the payment is required under the relevant grocery supply agreement; and is made in respect of groceries that have not been stocked, displayed or listed by the retailer during the preceding 365 days in 25% or more of its stores; and is reasonable having regard to the costs and risks to the retailer in stocking, displaying or listing the grocery products

themselves to the GRMI also did not provide any justifications for these costs.[149] This is an indication that such fees are likely being used as a means to extract rents from suppliers and is reflective of the abuse of market power of the chain.

Supermarket chains also charge settlement discounts for paying the supplier within the number of days stipulated in the trading terms, which vary depending on the supplier. The rationale for early settlement discounts is the opportunity cost of paying suppliers before the stipulated period for the supermarket. The settlement period also depends on the type of product. Slow-moving products would have longer settlement periods as supermarkets would not want to pay for something sooner than it typically sells.[150] In South Africa, settlement is commonly 15–30 days from statement and the discount for paying within this period is usually in the range of 2.5–5 per cent off the list price.[151] In Botswana, the payment period is usually 30 days.[152] Small suppliers are again at a major disadvantage with long settlement periods as it severely affects their cash flow.[153] Large players tend to have better access to finance and deeper pockets and can sustain longer periods without cash inflows. In Zambia and Zimbabwe, there is a perception that long payment periods are the 'norm' in South Africa and that this practice has been imported by South African supermarkets and adopted by local supermarkets (Chigumira et al., 2016; Ziba and Phiri, 2017). Long payment periods are a key cause of non-participation of local suppliers in the supermarket value chain especially in Zambia (Ziba and Phiri, 2017).

Some suppliers noted that supermarkets require advertising discounts off the purchase price for advertising on behalf of suppliers when they advertise the supermarket chain generally. This charge may be a notional charge, as there is no legal obligation on the supermarket to advertise the supplier's product specifically (Von Broembsen, 2016). Not all suppliers are required to pay such fees, however, especially those that already heavily invest in advertising their own brands.[154] This again advantages brands that are already well known and that have

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[149] There may have been confidential submissions as part of the GRMI which provided motivations for listing fees based on costs that I do not have access to.
[150] Choppies' testimony at the GRMI, http://www.compcom.co.za/wp-content/uploads/2017/12/Grocery-Retail-Public-Hearing-Choppies-2017-11-06.pdf, p 43 and 44
[151] Interviews with millers in South Africa, 30/10/15; 03/11/15
[152] Interviews with poultry producers in Botswana, 17/11/15; 18/11/15; a miller in Botswana, 18/11/15; a meat producer in Botswana, 18/11/15; a soaps and detergents manufacturer in Botswana, 19/11/15; a food producer in Botswana, 19/11/15.
[153] Interviews with a small sweets manufacturer in South Africa, 3/11/16; a miller in South Africa, 03/11/15; a meat producer in Botswana, 18/11/15
[154] Interviews with a supermarket chain, 1/08/15; a miller in South Africa, 30/10/15; a fruit producer in South Africa, 06/11/15; See Bosiu et al. 2017 for soaps, cosmetics and detergents suppliers who are required to commit to a marketing budget and to advertise in certain supermarket brochures.

already been well accepted by the market compared to new entrants looking to build brand loyalty.

Suppliers can also be required to pay supermarkets to participate in promotions (see also Von Broembsen, 2016). Promotion fees ranged from US$ 2,500 to US$ 7,000[155] in 2015/2016 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 US$ 10,000 for each product line, allegedly to cover the costs of the supermarket advertising through TV, newspapers and flyers (Chigumira et al., 2016). In Zambia, supermarket chains typically require an allocation of a budget for the promotion of a supplier's product (Ziba and Phiri, 2017). Suppliers have to absorb these costs which results in the squeezing of their margins.

Cumulatively, the various fees above can add up to 10–15 per cent off the price of the product sold to supermarkets, placing considerable strain on supplier margins (Das Nair, 2017; Bosiu et. al, 2017). A study by Von Broembsen (2016) on small and medium suppliers in the Western Cape, South Africa, found that suppliers paid between 2.97 per cent and 20 per cent in rebates/discounts which include the types of costs discussed above (Table 42).

Table 42: Supermarket 'rebate commissions'

Supermarket	Number of suppliers	Minimum Rebate %	Maximum Rebate %
Pick n Pay	23	9.79	17
Woolworths	8	8.99	16.75
SPAR	18	2.97	12
Shoprite Checkers	15	8.9	20

Source: Reproduced from Von Broembsen (2016)

Over and above these listed components, there are other deductions which are 'off the record' deductions informally known in the industry as 'sally or tally' discounts. These are allegedly not recorded on invoices and are invoiced out separately to maintain secrecy around the actual prices paid.[156] This type of information is not publically available.

The threat of being de-listed by large supermarket chains coerces suppliers to accept these trading terms and is another clear indication of supermarket market power.[157] Accepting these

155 Exchange rate of 14.43 as of 29/08/16. Reserve Bank of South Africa. Interview with a large poultry producer in South Africa, 22/10/15; a miller in South Africa, 30/10/15; an eggs producer in South Africa, 05/11/15

156 Elite Star Trading – Public submission to the Competition Commission, p. 3. and interviews with suppliers.

157 Interview with a food producer in Botswana, 19/11/15; Von Broembsen (2016)

terms also shows that the alternatives suppliers have, or their outside options, to sell their products through are less desirable.

Another area where competition is potentially affected is when buyer power results in the waterbed effect. As highlighted in Chapter 3, this happens when large retailers negotiate price reductions with suppliers that are not cost-related, and then suppliers increase prices to smaller independent retailers to compensate for this (OECD, 2008; Inderst and Valletti, 2011; Van Doorn, 2015). While suppliers would want to have as many retailers to sell to, the threat of being delisted from large supermarkets' supplier books may result in them giving in to supermarket demands (Dobson, 2015). The GRMI hearings revealed that this might be happening in South Africa, where buying groups claimed that they receive unequal treatment from suppliers, even for similar transactions to the large chains. This allegedly squeezes their margins and makes them relatively uncompetitive.[158]

In order to evaluate the extent of a potential waterbed effect however, substantial data is needed on suppliers' prices to supermarket chains for key SKUs or KVI relative to their prices to small, independent retailers or larger buying groups. For instance, the UK Competition Commission in its grocery retail inquiry assessed similar claims by the Association of Convenience Stores based on increasing or shifting market share of chain stores at the expense of rivals. The shift in market shares away from convenience stores was alleged to have further weakened its competitive position with suppliers, exacerbating the input price differential. In addition to challenging some of the fundamental assumptions of the model put forward by the association, the UK Competition Commission evaluated numbers and revenues of convenience stores, input cost differentials between chain stores and convenience stores and relative prices charged in the final market (OECD, 2008). Data on input costs from suppliers to the respective categories of retailers in Southern Africa is not publically available to conduct a similar assessment for this study, although some relevant data may have been submitted to the GRMI under confidentiality.

7.3.2 Ability to exert power over private-label suppliers

Private labels are becoming successful fast-sellers in Southern Africa as they compete with branded alternatives on price, value and quality, particularly for cost-conscious customers.[159] Private labels include house brands, private brands and dealer-owned brands. These refer to brands exclusively manufactured by a contract or third-party manufacturer for a retailer,

[158] See for instance, public submission by Elite Star to the GRMI, Undated.
[159] Interviews with a wholesaler in Botswana, 17/11/15; supermarket chains in Botswana, 18/11/15; 17/11/15; a large FMCG distribution company in Botswana, 18/11/15; a miller in Botswana, 18/11/15; a food producer in Botswana, 19/11/15; supermarket chains in South Africa, 3/08/15; 1/08/15; 26/08/15

according to retailer specifications, and sold under a retailer's brand name (Trade Intelligence, 2017).

In some instances, the retailer owns the manufacturer of the private label, as is seen with Lidl internationally, and with Choppies regionally. This is a form of vertical integration. There are benefits to vertical integration such as better coordination with suppliers and elimination of double margins which can result in lower prices for consumers. However, vertical integration also raises incentives to foreclose rivals as shown in the literature review. This is the concern that has been raised in the case of Choppies as discussed below.

Similar to the effects of full vertical integration, in some instances the supermarket chain tightly controls the production of retailer-branded private labels through exclusive manufacturing contracts. This may take various form, including full exclusivity, or partial exclusivity on lines or ranges. Most products sold by Woolworths are private label products that target high-income consumers. This is part of Woolworth's strategic positioning as a high-quality, niche retailer. There are efficiency justifications for exclusivity arrangements such as relationship-specific investments on design and quality. Absent exclusivity, there would be limited incentives for supermarkets to make these investments given possibilities for free-riding.

Private labels are also produced for retailers by manufacturers of branded products. This is the common practice in Southern Africa for regional supermarket chains like Pick n Pay, Shoprite, SPAR, FVC and SPAR. Private labels can also include confined labels or exclusive brands. These refer to brands owned by a manufacturer or producer, but exclusive rights are given to a retailer to be the sole distributor of the product to the market.

There has been growth in the range of private label products in the region in the past 10 years with each supermarket stocking a wide range of private labels (Table 43).

Table 43: Private brands of main supermarket chains in Southern Africa

Supermarket	Private brands*
Woolworths	90% products are Woolworths labels
Shoprite Checkers OK Franchise	Ritebrand Housebrand OK Red Label
Pick n Pay Boxer	No Name; PnP Finest Boxer Brand; Red Glove brand
SPAR	Freshline; Tender &Tasty
Food Lover's Market	Freshers; Food Lovers Signature
Choppies	Choppies
Marko	M brand

Game	Homestead; Little One; Logik; Always Home Walmart private label products (Great Value, Equate and Marketside)
OK Zimbabwe	OK Pot 'O' Gold; OK Value; Bon Marche's Premier Choice; Shoppers Choice
TM/Pick n Pay Zimbabwe	Dairy, household consumables, grain, and processed goods

Source: Websites, interviews and Trade Intelligence (2017)

*does not include confined or exclusive labels.

The supply of private labels has raised concerns around the potential for the exertion of buyer power but also it provides opportunities for new and smaller suppliers and has been used as a lever by supermarket chains in the region to stimulate competition between suppliers. The latter two impacts, unlike the first, can be pro-competitive.

The interviews revealed that private labels have raised concerns for suppliers of branded products in Southern Africa in instances where supermarkets favour private labels on their shelves. By allocating better shelf space to private labels, sales of branded products have been negatively affected. Suppliers are sometimes 'forced' into supplying private labels/house brands at much lower margins than their own branded products and this has also been used as a tool to negotiate down prices for branded products.[160] House brands are cheaper than branded products in that they do not carry the cost of advertising and branding.

This allows supermarkets to further extract rents and take a greater proportion of the surplus from suppliers. For instance, a large poultry supplier expressed its difficulty in supplying a house brand to a supermarket chain, where it was forced to compete with other house brand suppliers of the same product, making it more difficult to negotiate price increases (Ncube et al., 2016). A supplier in the cosmetics industry that supplied private labels to SPAR, Clicks, Woolworths and Sorbet, discontinued this given the onerous requirements and poor profitability on these lines (Bosiu et al., 2017).

Several such concerns around house brands were raised to the Competition Authority of Botswana (CAB). Suppliers are increasingly manufacturing and packing house brands for supermarkets and wholesalers such as Choppies, Sefalana, and Trident/Eureka. Choppies has over 50 of its own branded products in food, beverages, household cleaning products, and cosmetics. The CAB's retail inquiry revealed that house brands considerably increased the buyer power of supermarkets and that this negatively affected the margins of suppliers who supplied both house brands and branded products. The concerns extended to retailers

[160] Interview with a poultry producer in South Africa, 22/09/15; a food producer in Botswana, 19/11/15; see interview with a supermarket chain in Botswana,17/11/15 on how house brands are sold at lower margins than branded products.

in Botswana pushing the sales of house brands at the expense of branded products in terms of better shelf space, promotions and advertising (Bagopi et al., 2016). There were no actions taken against Choppies in this regard, as far as I am aware.

Furthermore, in Botswana, local supermarket chains have been backwardly integrating into manufacturing of house brands. In 2015, Choppies entered the broiler industry by acquiring existing abattoirs in Bwate and started producing its own chickens. Local poultry producers highlighted that this development resulted in a significant decrease in their sales to Choppies of frozen chicken.[161] Choppies has also backwardly integrated into the manufacture of other supermarket products, like house-brand bottled water and packaged sugar.[162] There is therefore a concern that increasing vertical integration, along with the growth in popularity of house brands and the buyer power of supermarkets, could result in the foreclosure of suppliers with respect to their higher-margin branded products. The extent of this vertical integration by Choppies is unclear at this stage and requires further research.

In Zambia, only a few house brand products are manufactured locally, with the bulk being imported from South Africa and other countries. Competition from house brands was identified as a reason why certain local suppliers were not able to access supermarket shelves in Zambia (Ziba and Phiri, 2017).

Governance of the value chains for private labels in the region is tightly controlled by supermarket chains. Power asymmetry increases as one moves from market forms towards hierarchical governance (see Chapter 3; Gereffi et al. ,2005). Value chains for private label products represent more captive or hierarchical governance structures in which supermarkets control production parameters and margins that suppliers can make. The implications of this are that supermarkets, through the growth of house brands, have even greater outside options to suppliers' branded products. In addition, once committed to producing house brands, this capacity is captive to the supermarket chain, so suppliers' outside options are reduced. These factors increase the bargaining position of supermarkets which allows them to extract greater surplus from suppliers.

Nonetheless, as noted above, there are also opportunities that the growth of private labels offers for small and medium-sized suppliers. They potentially open up a route to market for these suppliers. In this regard, contracts for private labels with suppliers can be pro-competitive. These opportunities arise under two situations.

[161] Interview with a poultry producer in Botswana, 18/11/15
[162] Interview with a poultry producer in Botswana, 18/11/15

First, supplying house brands is a way in which suppliers can get their products onto supermarket shelves. Suppliers can use this as a stepping stone to get onto supermarkets' preferred supplier lists especially for smaller suppliers that have not yet built their own brand name.[163] SPAR's strategy in this regard is illustrative of how private labels can support new entry. SPAR generally does not allow major suppliers to manufacture its private label products, thus allowing new and smaller suppliers to enter the supermarket supply chain.[164] This can help them achieve scale and progress to supplying into regional and global markets. Given limited branding and advertising for these products, the total costs of production are often lower than for branded products. SPAR has private-label contracts with smaller suppliers in a number of sectors. In the cosmetics sector in South Africa for instance, SPAR has supported small players to produce house brands for it in glycerine and aqueous creams where branding is less important (Bosiu et al., 2017). In the milk sector in South Africa, Woodlands Dairy packages private label UHT milk for SPAR. Woodlands Dairy considers the production of private-label milk brand to be a significant benefit to the company as it guarantees core volume sales (Ncube et al. 2016). As a guarantee of core off-take, such agreements to supply private labels to supermarkets are beneficial to smaller suppliers.

Second, private labels can also be developed or supported by supermarket chains to be used as a tool to leverage against dominant suppliers. In South Africa for example, the SPAR Group has supported the development of an instant freeze-dried coffee producer, [confidential], which competes with Nestlé's Nescafe and Kraft's Jacobs coffee brands. SPAR had the exclusive rights to sell [confidential]'s coffee (the 'exclusive brand' categorisation above). Favourable trading terms were given to it in terms of credit periods, launching, marketing and advertising support, good shelf position and listing fee waivers.[165] Developing or supporting such brands provided SPAR with leverage against dominant, multinational suppliers when negotiating trading terms with them on 'must-have' brands. Supporting new or smaller suppliers is important for SPAR as a smaller supermarket chain with less bargaining power with suppliers than Shoprite or Pick n Pay. SPAR's bargaining power is also likely to be lower than the top two chains given its voluntary trading model where franchise owners have the option of independent sourcing. Volumes purchased through the group are therefore likely to be lower than for the predominantly corporate chains. Increasing outside options of suppliers through private brands would therefore be beneficial for smaller chains like SPAR.

[163] Interview with a supermarket chain, 3/08/15
[164] Interview with a supermarket chain, 1/08/15; Ncube et al., 2016
[165] Interview with an instant coffee producer, South Africa, 22/07/15

In Zambia, Shoprite has a similar arrangement with Superior Milling for the provision of household sugar. Superior Milling sources and repacks sugar from a small sugar producer, Kafue Sugar, in Zambia. The Zambian sugar market is dominated by Zambia Sugar which controls more than 80 per cent of the domestic market. By providing favourable terms to Superior Milling, including selling at a 15 per cent discount to Zambia Sugar's price, offering waived listing, promotional and advertising fees as well as short payment periods, Shoprite is supporting Kafue Sugar and creating rivalry to Zambia Sugar. This helps to ensure that Shoprite is not held to the demands of the dominant Zambia Sugar.[166]

These cases illustrate how retailers can 'sponsor' rivalry at the upstream supplier level by developing smaller rivals to dominant suppliers, including through variations of private label arrangements. These are pro-competitive strategies to create more players in concentrated markets which benefits consumers through better prices and more choice. However, it also illustrates the extent to which supermarket chains govern and shape who participates in value chains and the role that they play as gatekeepers in this regard.

Therefore, the impact of private-label contracts between supermarkets and suppliers depends on the situation and a case-by-case evaluation is required to see if they harm or help suppliers and what the impact on competition is.

7.3.3 When is buyer power a problem?

The costs imposed on suppliers through the exertion of buyer power in the various forms shown in the sub-sections above all serve to reduce the price they ultimately receive for their products from supermarkets. As highlighted in the literature review, the welfare implications are not immediately obvious when bargaining power is being exercised to counter the market power of suppliers. In this situation, output may increase in the suppliers' market and the lower prices may be passed onto end consumers, increasing consumer welfare. The impact on final consumers depends on the nature of the upstream contracts with suppliers and the extent of competition at the downstream supermarket level.

If the costs or components of costs imposed on suppliers in their contracts are fixed fee costs and not related to volumes purchased, then the supermarket's incentive to reduce prices to consumers in the final market is not affected. Only if the fees result in lower marginal costs of supply will there be a possible effect on end prices to consumers. However, even the latter may not be the case if there is limited competition in downstream, retail markets. If so, prices are unlikely to be cost-related and there may be limited pass through to end consumers. The

[166] Interview with a milling and repackaging company in Zambia (see Das Nair, Nkhonjera and Ziba, 2017)

greater the competition at the downstream level, the greater the benefits to consumers in the form of lower prices (OECD, 2008).

This means that the several fixed fee costs categories imposed on suppliers by chains in the region as listed in Table 43 and discussed above, such as listing fees, slotting fees, advertising and promotion allowances, are unlikely to benefit consumers through lower prices being passed on. Furthermore, there are only a few large supermarket chains in narrowly defined localised geographic markets and national markets. The bargaining that occurs is likely to be over the incremental surplus available to a buyer and seller relative to their outside options (OECD, 2008). Who gets what proportion of this surplus depends on the relative bargaining power of the supplier and the supermarket. I argue that the evidence from suppliers discussed above suggests that supermarkets get the greater share of the surplus or rents through their strong influence over trading terms, especially with respect to small- or medium-sized, or new entrant suppliers. This is reflective of the outside options available to supermarkets, which include being able to easily switch to alternative suppliers including imports, sponsor new entry or self-supply without incurring substantial sunk costs (for instance in the case of house brands or vertical integration, see below). Further, supermarket chains as buyers are gateways or a key route to downstream markets in many geographic markets in the region.

There are outside options available to suppliers too, for instance, buying groups, wholesalers and independent retailers. However, the fact that suppliers accept the trading terms of supermarkets even if onerous, suggests that these outside options or alternatives may be less able to access customers and may not be as efficient in distributing their products as supermarket chains are. As supermarkets tailor their formats to suit consumers in peri-urban and rural areas, they are capturing a proportion of these markets too. Furthermore, in urban areas in the region (and increasingly in rural areas), formal supermarket chains control shopping mall space, which ensures sales for suppliers given high footfall (Chapter 6).

The main concern about this unequal power of supermarkets, as previously noted, is around the long-term implications. Dynamic efficiency can be undermined if the buyer power of supermarkets reduces the incentives of suppliers to invest. By extracting a greater proportion of the surplus or rents that suppliers make, the incentives to invest and remain in the market can be dampened. As discussed above, the suppliers that are better able to make investments in upgrading are large, often multinational, suppliers. In the long run, competition in the supplier market is affected if only a few large suppliers dominate markets, and consumers will be disadvantaged through higher prices, poorer quality and reduced variety.

Understanding the ways in which buyer power is exerted through trading terms and how this affects suppliers is important for GVC analyses. It provides a deeper understanding of power in dyadic relationships between buyers and sellers and helps in identifying practices in the value chain that negatively impact supplier participation and the development of their capabilities. These practices can hinder upgrading efforts into higher-value products or into global value chains. Using industrial organisation frameworks and tools in GVC analyses can help to focus policy interventions to reduce the ability of supermarket chains to extract rents at the expense of supplier participation. In the examples given above, this could be through policies or regulations that limit the extraction of rents by supermarket chains that are unlikely to be passed on to consumers.

7.3.4 Other costs to access shelf space: The role of rival suppliers

It is not just supermarkets that impose costs on suppliers. Large, multinational suppliers also impose costs on smaller rivals. Access to good shelf space is critical for suppliers to successfully sell their products. For new entrants and small suppliers, it is difficult 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. Large multinationals like Coca Cola provide fridges to retailers to ensure their products are always kept chilled to drive sales. In return for the investment in installing and maintaining these fridges, and to ensure no free riding of usage of fridge space by rivals, exclusivity is usually imposed. There have been competition cases globally that have recognised the harm to competition of dominant suppliers imposing exclusivity on cooler space (European Commission, 2005b; Competition Commission of Mauritius, 2013; Competition Commission of Singapore, 2013). In 2016 in South Africa, a settlement was reached in the South African Breweries Miller/Coca-Cola bottlers merger which included an undertaking to allow 10 per cent of Coca-Cola fridge space in small retail outlets to stock competitor carbonated soft drinks (Competition Tribunal of South Africa, 2013. Case ref: LM243Mar15).

Large multinational and well-known branded product suppliers have the upper hand in securing attractive shelf space. This can raise rival’s costs of supply. Further, if category management practices are prevalent, important suppliers organise and manage specific product categories on behalf of the retailer. This risks exclusion of competitors from shelves, amongst other concerns, and can also lead to raising costs for rivals.

7.4. Interventions to mitigate the risks of buyer power and promote supplier development

The power of large supermarket chains and their governance role in value chains has a significant impact on the participation, growth and development of suppliers. Appropriate intervention in the sector can reduce the harmful effects of abuses of buyer power and stimulate the upgrading and participation of suppliers, especially small, medium or emerging suppliers.

The skewed balance of power between supermarkets and suppliers has triggered regulatory responses in countries internationally. As highlighted in the Chapter 1, competition authorities have generally been reluctant to take on cases of alleged abuses of buyer power directly and have instead undertaken market inquiries to establish what features of the market are restricting or distorting competition.

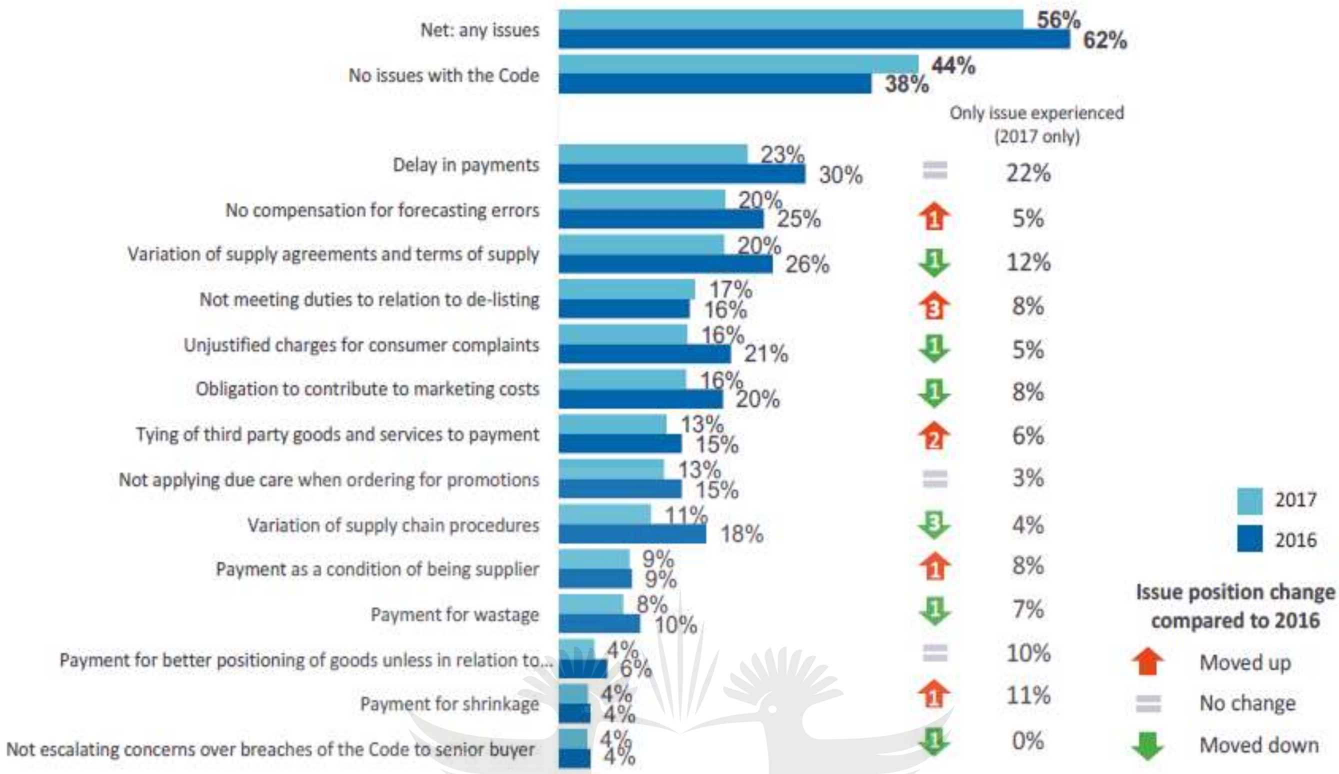
The outcomes of some of the inquiries have included establishing mandatory or voluntary codes of conduct. The international experience has shown that codes of conduct between suppliers and supermarkets are a useful way to control the exertion of buyer power and have been identified as a practical and effective approach in developing countries to level the playing field and reduce information asymmetries between suppliers and supermarkets.

These codes serve to reduce the cost of supplying supermarkets and promote transparency in procurement procedures and trading terms. They regulate the conduct of supermarkets towards suppliers by setting minimum standards and obligations for supermarkets with regards to drafting of supply agreements and various fees included in the trading terms. For instance, the code can include provisions for prompt payment to suppliers; what proportion, if any, of advertising and promotion costs of supermarkets suppliers are responsible for; whether suppliers are liable for wastage costs; and/or if there should be listing fees or other fixed fee components. This can address some of the concerns raised by suppliers in Southern Africa, while ensuring potential positive impacts of buyer power are passed through to consumers.

For a mandatory code of conduct, like the Groceries Supply Code of Practice (GSCOP) in the UK, an independent groceries ombudsman called the Grocery Code Adjudicator (GCA) oversees the functioning and adherence to the code. The adjudicator was formally established on 25 June 2013 by an Act of Parliament following the Groceries Market Investigation Order of the former Office of Fair Trading (the new Competition and Market Authority) recommending that government establish an ombudsman for the sector. The GCA was set up to ensure supermarkets treat their suppliers lawfully and fairly. Its operations are funded by a levy on the large retailers. Suppliers, trade associations and other representative bodies are encouraged to provide the GCA with information and evidence about how the large retailers are treating their direct suppliers. The GCA has the power to arbitrate in disputes, launch investigations, make recommendations and impose fines.

While undertaking an impact assessment of the GSCOP or other interventions is beyond the scope of this thesis, it is useful to note some of the outcomes of the interventions and draw lessons for a potentially similar code of conduct for the SADC region. In the earlier years of the operation of the code (2009 to 2013), there was no independent GCA. During this period the code appeared to have limited impact as there were no powers to arbitrate, investigate and penalise retailers that were in breach of the code (Gowling WLG, 2013). However, since the establishment of the GCA, there have been a number of interventions and successful outcomes. In 2014, Tesco was forced to remove its requirement for payments for better shelf space and Morrison's was found to be in breach of the Code by also charging suppliers (National Farmers Union UK, 2014). In 2017, the GCA investigated the Co-Operative in the UK for de-listing concerns and the introduction of benchmarking and depot quality control charges (Smith Carey, UK, n.d.). These developments were welcomed by suppliers (The Poultry Site, 2016). A survey undertaken in 2018 for the GCA with over 1000 responses showed that there were major improvements in the conduct of supermarket chains like Tesco, Morrisons, Asda and the Co-Operative following interventions by the GCA through investigations and case studies. Surveyed suppliers noted that in 2014, retailers' compliance with the Code categorised as complying 'consistently well' or 'mostly' ranged from 58 to 90 per cent. In 2018, the range was 84 per cent to 97 per cent, with only two retailers scoring less than 90 per cent (Groceries Code Adjudicator, 2018). Published results from the previous 2017 survey showed improvements from 2016 in most categories of the code (Figure 24 below). It would appear that the intervention was successful in addressing some of the concerns around surplus extraction by supermarkets through fixed fees and unjustified costs, as well as other behaviour that affected suppliers' profitability.

Figure 24: Code issues experienced by suppliers (GCA, 2017 Survey)



Source: Reproduced from Groceries Code Adjudicator Annual Report and Accounts 1 April 2017–31 March 2018, p. 20

Similarly, in Australia, the voluntary code of conduct enforced by the Australian Competition and Consumer Commission aims to reduce avenues through which supermarkets can extract surpluses from suppliers. This is through prohibiting the charging of fixed fee components like listing fees, shrinkage fees, wastage fees, promotion fees or payment for better positioning of products on the supermarket shelves. Only certain exceptions are permitted, and any amount paid must be considered reasonable according to predefined criteria (Australian Government, 2015; ACCC, n.d.) There are four signatories to the code, three of which are the largest chains in Australia.

The code has been claimed to have had beneficial impacts in improving the conduct of wholesalers and retailers in their relationship with suppliers. However, the ACCC in submissions in May 2018 to the Food and Grocery Code of Conduct Review process noted shortcomings and made recommendations to make the code mandatory; to remove the ability for retailers and wholesalers to opt out of certain obligations; to introduce penalties and for retailers to provide detailed reasons for de-listing of suppliers, amongst other recommendations (ACCC, 2018).

In Ireland, a statutory code with fewer, legally sanctionable provisions was determined to be more beneficial than a voluntary code with more provisions. Certain practices in the grocery goods sector are regulated under the Consumer Protection Act 2007 (Grocery Goods Undertakings) Regulations 2016 under the powers given to the Minister for Jobs, Enterprise and Innovation. The regulations cover, amongst others, practices relating to payment terms and conditions, shelf-space allocation, promotions, marketing and advertising costs. The legislation prohibits fixed fee payments unless they are justified objective and reasonable estimates of the underlying cost to prevent extraction of rents by supermarkets.

Closer to home, Namibia adopted the voluntary Retail Sector Charter of 2016 (Namibian Retail Sector Charter, 2016). Established and administered by the Namibia Trade Forum, the Retail Charter serves the purpose of bringing about structural transformation to the retail sector that explores ways in which more local Namibian products can be shelved in retail outlets.[167] Namibia was the first country in Africa to have a formalised voluntary retail sector charter which stemmed from its successful Horticulture Development Initiative. The charter is modelled on the experiences of the UK Groceries Code Adjudicator but, as far as I am aware, is the only intervention that also includes explicit, formalised supplier development components in addition to the behavioural restrictions on supermarket conduct. In this sense, the charter is wider than a code.

A key objective of the retail charter is to develop local suppliers to reduce reliance on imports, especially from South Africa on supermarket shelves (Nickanor et. al, 2018). This includes increasing visibility of local products on shelves and through the promotion, marketing and distribution of such products. It also includes local sourcing commitments which aim at progressively raising local procurement from 6 per cent of purchases of all retailers, traders and hospitality sector enterprises to 20 per cent, in addition to providing skills development, labelling and packaging upgrading.

Signatories of the charter, which include the main supermarkets Pick n Pay, Shoprite, SPAR and Woolworths amongst other clothing retailers, have given commitments from to invest 1 per cent of their net profits after taxes directly or indirectly on the development of SMEs; on discounts or business support programmes for SMEs and on grant contributions or loans or credit facilities at 0 per cent interest to SMEs.

[167] Interview with the custodians of the Namibian Retail Charter at the Namibia Trade Forum, 15/01/19.

The Charter has three pillars of focus in terms of categories of suppliers – FMCG, clothing and apparel, and building and hardware. Although the voluntary nature of the Charter has been a challenge, there have been positive outcomes in FMCG and clothing and apparel. In FMCG, food products like poultry and meat products are increasingly being sourced from Namibia. Further, supermarkets like Woolworths have invested in local poultry producers and assisted in upgrading to meet its requirements. Local suppliers are now producing non-brined, higher quality chicken. The Namibia Retail Charter has also coordinated the investments for a barcoding facility in Namibia to assist SMEs get onto retail shelves. This was found to have been a major barrier to entry for SMEs that had to go to South Africa to get barcoding for their products. The other big successes have been in the clothing and apparel sector, with additional commitments towards a supplier development programme.[168]

The conduct and adherence to the code is monitored though a scorecard, due to be released on 31 March 2019. Nonetheless, in the short period that it has been in effect, there have been positive outcomes, some of which have been discussed above. There are lessons to be learnt from the Charter for the region. The approach towards the Charter, whether intentionally or not, has been a combination of GVC frameworks of assisting suppliers to upgrade and industrial organisation frameworks of limiting extraction of rents by supermarkets through unjustified costs and fixed fee components in trading terms. This is in conjunction with other behavioural elements in terms of prompt payments and visibility on shelves. It was recognised early on in the conceptualisation of the Charter that restrictions on supermarkets charging suppliers unjustified costs alone were not sufficient to increase local supplier participation if supplier capabilities were not developed.

The significance of political economy influences in getting the Charter going and getting buy-in from supermarket chains also offers important lessons for the rest of Southern Africa. From the inception of the charter negotiations, which stemmed from Namibia's successful Horticulture Development Initiative, the Namibian government has been actively involved. The Minister of Trade and Industry played a key role in engaging with relevant stakeholders and the objectives of the Charter is squarely in line with overall government strategy. Government has also committed to playing a role in supplier development by improving the infrastructure necessary to support local suppliers. This has encouraged retailer buy-in. The managing director of Pick n Pay Namibia (a subsidiary of the Ohlthaver & List Group) has been appointed as the chairman of the Retail Charter Council for the next three years, showing the willingness of the retailers to participate if effectively engaged and there is support from the government.

[168] Interview with the Namibia Trade Forum, 15/01/19

Given that it is a similar profile of a few large supermarket chains in the SADC region, the Namibia Retail Charter is a useful starting point which can be extended to create a SADC Retail Charter or SADC Regional Code of Conduct. The assessment in Section 7.3 above identified the need for some form of intervention to reduce the negative effects on supply chains of supermarket power and Section 7.2 highlighted that many suppliers are not able to upgrade without assistance. A regional code which prohibits conduct that results in the unjustified extraction of surplus by supermarkets and fees that result in cost savings not likely to be passed through to end consumers in the form of lower prices would potentially address some of these issues. In addition, the code can also include supplier development programmes that encourage supermarkets to support local small- and medium-sized suppliers.

The international experiences show that a mandatory code of conduct, with repercussions for its breach including through penalties, is more effective than a voluntary code in bringing about real changes in behaviour of retailers with buyer power. There needs to be a concerted effort on the part of an adjudicator or equivalent to take on investigations and prosecute breaches of the code. There also needs to be some form of penalties (aside from just reputational damage) to ensure that there is deterrence and no recidivism. This suggests regulation of the sector.

The South African Competition Commission's findings and recommendations from the GRMI which began in October 2015 are due to be released by 30 September 2019. The factors that impact suppliers were discussed in the hearings and a possible outcome may be a recommendation for a code of conduct.

In 2015/2016, concerns on the impact on suppliers resulted also in the Competition Authority of Botswana (CAB) undertaking an inquiry into the retail sector in Botswana. The authority evaluated the following potential abuses of buyer power of supermarkets: the threat of 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 to 15 per cent (Bagopi et al., 2016). It is not clear if the CAB undertook any enforcement action against retailers following the findings of the inquiry.

Although not in Southern Africa, a voluntary industry code of conduct has also very recently been developed in Kenya, called the Retail Trade Code of Practice, following a situation where late payments of US$ 400 million led to the collapse of several suppliers. This was signed in January 2019. The main signatories from the supplier side are the Kenya Association of

Manufacturers, the Retail Trade Association of Kenya and the Association of Kenya Suppliers. Similar to the precedent internationally, the code deals with behavioural matters, with a Retail Trade Settlement Dispute Committee to settle issues in the first instance. Disputes from this process can also be dealt with by a recently set up separate 'Buyer Power Department' within the Competition Authority of Kenya (CAK). The CAK has powers to prosecute abuse of buyer power with punishment including imprisonment for a term not exceeding five years or a maximum fine of KES 10 million, and potentially an administrative penalty for the firm of up to 10 per cent of annual turnover (Bowmans, 2019).

Even absent government interventions through codes and charters, supermarkets have engaged in some supplier development in the region. I argue in the paragraphs below however that without regulation that mandates certain supplier development criteria, with the appropriate government investment, supermarkets will underinvest in suppler development. This is especially the case if there is no form of protection, at least initially, on the supermarket's investment. Through actively providing support to suppliers, supermarkets can potentially transfer skills, knowledge and best practices to them (Altenburg et al., 2016), allowing them to develop capabilities to participate in GVCs.

The GVC literature raises the issue of why global buyers would be prepared to invest in upgrading the capabilities of developing country firms (see for instance, Humphrey, 2004). This can be applied to the question of why supermarkets would be prepared to invest in upgrading the capabilities of suppliers in the region. Quite simply, it makes sense to do so if the costs of this assistance are more than offset by the benefits of integrating these firms into their value chains including through investing in their capabilities. This requires taking a longer-term view of the benefits of increasing a competitive supplier base. In the short run, it may be more cost effective for the chains to import products than sourcing locally. But in the long run, once local supplier capabilities are built, local or regional sourcing may be cheaper than deep sea imports. Although not explored in this thesis, investing in local supplier capabilities also reduces the impact of the risks arising from currency fluctuations of importing.[169]

The current SDPs mainly include elements of building supplier capabilities, with some concessions on trading terms to make it easier for small suppliers to participate.

[169] Currency fluctuation is regularly raised as a risk in the annual reports of supermarkets. See for instance, on p21 of Shoprite's Integrated Report of 2017, where it is noted that they may be exposed to foreign currency losses as a result of operating in various countries and due to importing significant amounts of merchandise. See also p22 of Pick n Pay's Integrated Annual Report of 2018, where it acknowledges that expanding the footprint into the rest of Africa comes with risks, including the risk of foreign currency movements.

For instance, Woolworths through its long-standing relationships with its exclusive suppliers, invests in suppliers as part of its Woolworths Enterprise Development programme. It provides financial assistance (including shorter payment terms), guaranteed business, mentorship and targeted upskilling. Woolworths' model of selling predominantly private-label products requires support and investments in suppliers to ensure that they meet its standards. These contracts have to be exclusive (to different degrees) so that there is no free-riding by other chains on Woolworths' long-term investments in suppliers. In such instances, it is unlikely that exclusivity results in negative welfare effects. Consumers get innovative, high-quality products that they would otherwise not have gotten.

Pick n Pay established its Enterprise and Supplier Development Scheme in South Africa in 2015 to assist small suppliers through providing mentorship, guidance and business development support. The programme provides preferential trading terms to small suppliers with a turnover of less than R3 million over a period of 12 months, including favourable payment terms (Pick n Pay Annual Report, 2015). Other SDPs, such as SPAR's Rural Hub Model in Limpopo province and Shoprite's programme through Freshmark, focused on building supplier capabilities to meet quality, volume and consistency standards, as well as with meeting local and international standards.

In the case of Massmart, supplier development was mandated as part of the conditions imposed by the Competition Appeal Court of South Africa in the Walmart/Massmart merger. The Court required the merged entity to set up a supplier development fund and make available R 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. The programme for farmers was not very successful. Small farmers were vulnerable to crop disease and weather and could not afford insurance leading to huge crop losses. Massmart ended up covering costs and purchasing seeds for new crop. A wide range of other unexpected costs such as farming equipment, logistics, pack houses, extension services and significant investment in food safety requirements also led to the programme failing. Lack of exclusivity also meant that farmers would supply other retailers who offered better prices than Massmart. There were however some successful initiatives on the manufacturing/processing side of the initiative. Lethabo Milling, a maize milling company based in Free Sate received financial assistance, an offtake agreement ensuring a guaranteed route to market, training support, waived listing fees, fast-track payments and assistance with pricing models and credit facilities. However, Lethabo Milling subsequently shut down. Given limited impact in agro-processing, Massmart has since shifted its supplier development programmes to focus on building supplies category where it is regarded as a market leader. The current Massmart model focuses on established business that can be up-scaled quickly in FMCG, General Merchandise, DIY and Building, where it makes mutual commercial sense for both Massmart and the supplier.

In Zambia, suppliers receive limited direct assistance from supermarkets. Supermarkets in certain cases have relaxed their standards to incorporate local suppliers. There have been two concrete local content initiatives implemented by supermarkets in the last five years: A memorandum of understanding signed between Shoprite and the Zambia Development Agency aimed at promoting small and medium enterprises (SMEs) with support from the Ministry of Commerce, Trade and Industry; and an memorandum of understanding signed between Shoprite and the Private Enterprise Programme Zambia under the Department for International Development program 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, there is limited support to suppliers from supermarkets.

The various SDPs therefore have combinations of capabilities development and relaxing of trading terms. While such initiatives by the major supermarket chains have yielded some positive results, these have been limited. Almost all the initiatives involve small-scale farmers and are only for a short duration. The initiatives are also approached more as corporate social responsibility obligations rather than commercially viable parts of the business, although the recent changes in the Massmart supplier development programme appear to be moving in this direction.

A long-term, commercially oriented approach by supermarkets in partnership with government can yield more sustainable outcomes to build supplier capabilities. Co-funding for such programmes can come from fines levied by the competition authorities in abuse of dominance or cartel matters in related markets, or from pockets of funding reserved for small businesses or development finance institutions. The critical point is that this funding needs to be channelled appropriately to commercially sustainable business that are mutually beneficial for both the supermarket and the supplier in the long term. For this to happen, the supermarket sector has to be intimately involved in designing and structuring the programmes and in identifying and developing the suppliers qualifying for the support. It cannot purely be financial support without any capability development or a check on trading terms. As the final link to customers in many food value chains and holding big data containing critical information about what consumers want, supermarkets can be a strong catalyst to stimulate industries in the Southern African region.

A charter that encompasses both supplier development aspects and a code of conduct, building on the foundations of the Namibia Retail Charter would be a potential way forward for the concerns identified in the Southern African region.

7.5. Conclusion

The growth and spread of supermarket chains in Southern African has had important implications for suppliers. Although slower than what was predicted for the region and reaching maturity in South Africa by the early 2000s, the supermarketisation and the internationalisation of the large chains has shaped the development trajectory of many supply chains. Even with alternative routes to market present, supermarket chains are an important route to market in each country evaluated and play a gatekeeper role for suppliers of food and household consumable products in accessing wider markets. By exerting significant power and control over suppliers, large supermarket chains as lead firms control production in these value chains through setting and enforcing product and process parameters. Controlling trading terms in the contracts with suppliers and exerting buyer power over them affects their margins and ability to participate in supply chains.

A key contribution of the chapter is the lens through which the relationship between supermarket chains and suppliers in the Southern African region was evaluated. Using a combination of GVC and industrial organisation frameworks, I assessed the concepts of governance within value chains, the significance of linkages and the opportunities and bottlenecks to upgrading, while considering the mechanisms and consequences of the exercise of buyer power by supermarkets as lead firms. This hybrid framework allows for both a wider and deeper understanding of the implications of governance and the exercise of market power in value chains, concepts that are central to both the GVC and competition economics frameworks.

The significance of the spread of supermarket chains in the region on value chains was shown through the impact on intra-regional trade in the SADC. Supermarket chains have driven the trade of products sold on supermarket shelves, reflecting the upgrading of suppliers that are able to supply regionally. Through the use of centralised distribution and advanced logistics to serve store networks in the region, supermarkets act as conduits for this increased trade. The trade was however shown to be skewed from South Africa to the region, given the large and established supplier base of South African supermarket chains located in South Africa and facilitated by SADC trade allowances. As Chapter 5 showed, having a strong supply base located in South Africa has spurred the more successful internationalisation of regional chains relative to transnational chains. The skewed nature of trade from South Africa has raised concerns about the ability for local suppliers in host countries to participate in supply chains and compete with South African suppliers for shelf space. This has been compounded by the growing requirements of supermarkets and the trading terms imposed by them on suppliers. The potential for large supermarket chain stores to be a strong catalyst for more equal two-way trade in the region is substantial. This requires the building of supplier capabilities in the region that enables them to supply supermarkets.

The chapter, through extensive firm-level interviews in the selected countries, highlighted the critical success factors required to participate in supermarket supply chains, and the types of investments suppliers have undertaken to meet these standards. The importance of packaging and being able to consistently supply sufficient volumes at the lowest cost and required quality was found to be critical, requiring substantial investments by suppliers. Some of these requirements are amplified by the regionalisation of supermarket chains. Supermarkets, as lead firms in these value chains, have largely driven these investments and upgrading by shaping requirements and providing access to markets. This has allowed certain suppliers to grow from national to regional, and to some cases, even international suppliers. This however needs to be evaluated in conjunction with the implications of the exercise of buyer power in these value chain which affects the ability of suppliers to participate and upgrade. The GVC literature has previously not sufficiently considered the forms in which buyer power is manifested and what the implications are.

The exertion of buyer power through exploitative or exclusionary means can negatively affect suppliers. The interviews revealed the various ways in which, through the unbalanced bargaining power of large supermarket chains, buyer power can be exerted through trading terms. In Southern Africa, the charging of listing fees, slotting allowances, advertising and promotional charges, in addition to range of other charges, may be exploitative, without justifications provided for the magnitude of the fees and their relation to costs. Understanding the ways in which buyer power is exerted through trading terms and how this affects suppliers is important for future GVC analyses. These practices can hinder upgrading efforts into higher-value products or into global value chains. Small- and medium-sized suppliers are often excluded from supermarket value chains and are limited to supplying alternative routes to market. While buyer power can lead to lower end prices, these may not necessarily be passed on to consumers given the high concentration at the supermarket level. The long-term effects of buyer power can result in suppliers exiting the market, which ultimately could lead to higher prices for consumers. Using industrial organisation frameworks and tools in GVC analyses helps to focus policy interventions to reduce the ability of supermarket chains to extract rents at the expense of supplier participation.

The chapter also highlighted experiences on how other countries globally have dealt with the skewed balance of power between supermarkets and suppliers. Mandatory codes of conduct that govern the relationships between supermarkets and suppliers have had more impact than voluntary codes. Few countries have combined both behavioural conditions in a code with building of supplier capabilities through supplier development programmes. For the Southern African region, a charter that encompasses both supplier development aspects and a code of conduct, building on the foundations of the Namibia Retail Charter, would be a potential way forward for the concerns identified. This requires a long-term, commercially oriented approach by supermarkets in partnership with government to build supplier capabilities.

Chapter 7 Appendices

Appendix 5: South Africa's exports of supermarket products to SADC (2001–2017), Value in US$ thousands

Products	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	CAGR
All products	3,030,030	3,041,804	3,634,628	4,119,952	5,012,936	5,250,319	6,456,586	8,945,898	7,239,417	19,954,518	22,727,881	23,728,310	23,608,438	23,820,684	20,438,773	18,572,435	20,252,990	**13%**
Fish and crustaceans, molluscs, aquatic invertebrates	9,866	9,806	10,469	11,016	13,941	19,783	16,670	12,338	15,596	41,687	48,579	48,615	56,839	52,463	44,411	42,002	38,361	**9%**
Cocoa and cocoa preparations	4,995	6,685	8,449	8,447	15,622	10,837	11,455	14,342	18,572	44,541	51,085	48,090	44,787	54,176	49,210	40,847	50,882	**16%**
Preparations of meat, of fish or of crustaceans, molluscs, other aquatic invertebrates	4,979	5,483	6,654	8,399	7,469	9,728	9,950	10,579	12,404	66,063	77,765	84,494	76,540	78,754	72,932	68,981	82,152	**19%**
Coffee, tea, mate, spices	9,866	7,971	7,130	9,772	7,503	10,883	8,364	12,007	16,972	83,621	87,109	95,688	95,575	100,046	91,576	86,081	102,511	**16%**
Edible fruit and nuts; peel of citrus fruit or melons	18,098	23,125	34,082	38,734	19,537	31,889	37,735	38,354	36,731	138,213	138,650	143,833	148,637	137,805	131,678	122,697	131,121	**13%**
Products of the milling industry; malt; starches; inulin; wheat gluten	27,837	50,166	29,269	16,808	112,920	21,379	18,722	68,246	94,957	160,462	176,429	205,043	227,288	203,204	171,515	184,881	160,762	**12%**
Edible vegetables and certain roots and tubers	13,881	15,335	21,635	20,027	21,088	25,532	24,892	27,300	29,626	153,670	165,357	163,553	162,321	166,465	147,980	162,207	169,277	**17%**
Meat and edible meat offal	13,904	16,774	13,400	10,032	7,681	8,208	9,935	16,221	41,868	201,944	193,711	170,233	157,038	185,986	172,732	154,787	175,702	**17%**
Preparations of cereals, flour, starch or milk; pastrycooks' products	14,006	15,419	18,982	17,291	16,629	19,936	26,342	41,782	57,522	171,586	199,479	203,585	209,052	220,515	200,494	191,213	220,383	**19%**
Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal	25,435	24,409	27,564	27,861	27,253	28,397	27,071	47,351	99,353	248,927	335,605	352,457	268,725	257,174	228,882	237,125	224,911	**15%**
Sugars and sugar confectionery	70,761	73,574	91,120	86,193	46,354	104,842	111,168	108,989	138,065	373,485	351,624	350,418	409,855	331,744	234,392	206,091	243,066	**8%**
Preparations of vegetables, fruit, nuts or other parts of plants	15,026	18,881	25,471	24,590	26,953	31,065	36,762	52,127	73,641	233,760	245,016	240,168	231,677	258,489	242,304	220,540	247,042	**19%**
Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere	26,461	37,368	36,059	29,905	22,352	27,262	29,900	46,641	66,705	223,074	236,418	258,960	280,101	286,834	244,831	205,146	250,156	**15%**

Cereals	40,693	145,064	137,499	93,132	217,080	130,162	31,620	503,497	172,598	316,581	349,596	375,667	444,115	463,105	344,852	409,920	300,854	**13%**
Miscellaneous edible preparations	30,058	29,374	41,462	39,567	39,594	52,937	50,665	64,527	87,229	268,900	306,047	306,249	313,264	326,756	314,322	286,087	323,026	**16%**
Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial	56,779	48,157	61,930	64,200	69,499	83,161	77,051	106,935	141,856	364,099	429,195	420,413	440,065	401,602	381,253	339,911	388,223	**13%**
Beverages, spirits and vinegar	69,977	80,971	126,024	104,263	74,729	68,348	102,323	172,049	178,522	384,898	437,168	424,292	440,516	479,729	496,365	429,359	501,764	**13%**

Source: TradeMap (based on UN Comtrade)

Appendix 6: South Africa's imports of supermarket products from SADC as a proportion of imports from the World (2001–2017)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
All products	1%	2%	2%	2%	3%	3%	5%	6%	4%	7%	6%	8%	7%	7%	7%	7%	7%
Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial **...**	0%	0%	1%	0%	0%	0%	0%	0%	0%	1%	1%	1%	1%	1%	1%	1%	0%
Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere **...**	1%	1%	1%	2%	1%	2%	0%	0%	0%	1%	1%	1%	1%	1%	0%	1%	1%
Cocoa and cocoa preparations	0%	0%	0%	0%	0%	1%	1%	0%	0%	9%	6%	6%	5%	4%	3%	2%	2%
Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal **...**	0%	1%	1%	0%	0%	0%	0%	0%	0%	0%	1%	2%	0%	0%	0%	1%	1%
Cereals	1%	0%	0%	0%	0%	0%	1%	0%	0%	0%	1%	2%	0%	1%	1%	1%	1%
Preparations of cereals, flour, starch or milk; pastrycooks' products	2%	3%	4%	3%	3%	2%	1%	1%	1%	3%	4%	4%	4%	5%	4%	8%	7%
Edible vegetables and certain roots and tubers	6%	6%	4%	6%	3%	6%	6%	6%	4%	8%	6%	9%	12%	14%	9%	11%	12%
Products of the milling industry; malt; starches; inulin; wheat gluten	2%	0%	0%	1%	0%	0%	0%	0%	0%	21%	23%	24%	19%	18%	16%	19%	16%
Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	1%	3%	9%	11%	9%	7%	4%	2%	0%	21%	22%	18%	16%	24%	21%	22%	12%
Preparations of vegetables, fruit, nuts or other parts of plants	2%	10%	4%	2%	0%	1%	1%	2%	1%	6%	5%	5%	7%	9%	10%	13%	12%
Coffee, tea, maté and spices	26%	29%	29%	33%	31%	31%	26%	20%	31%	26%	21%	21%	24%	22%	18%	21%	21%
Meat and edible meat offal	6%	4%	1%	0%	0%	0%	0%	0%	0%	27%	22%	20%	19%	16%	12%	10%	8%
Edible fruit and nuts; peel of citrus fruit or melons	13%	8%	14%	12%	10%	16%	16%	16%	16%	23%	23%	31%	34%	28%	33%	34%	39%
Beverages, spirits and vinegar	0%	2%	1%	0%	0%	1%	0%	1%	1%	24%	26%	25%	21%	17%	14%	13%	13%

Fish and crustaceans, molluscs and other aquatic invertebrates	20%	24%	19%	9%	11%	9%	7%	8%	7%	49%	41%	48%	47%	40%	37%	29%	30%
Sugars and sugar confectionery	1%	26%	29%	16%	8%	10%	11%	6%	8%	65%	60%	56%	47%	61%	67%	59%	44%

Source: TradeMap (based on UN Comtrade)

Appendix 7: Zambia's exports of supermarket products to SADC (2001–2017), Value in US$ thousands

Products	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	CAGR
All products	288684	355814	430585	765071	718858	709678	1052509	1018613	945127	1315510	2075607	2609193	3123494	2077731	1606685	1311412	1382190	10%
Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	5	41	251	483	1	26	9	305	352	407	12	144	*1414	303	10	20	116	22%
Coffee, tea, maté and spices	4771	3911	3632	3438	4928	5443	6085	3916	2982	620	181	398	*11094	257	198	214	137	-20%
Fish and crustaceans, molluscs and other aquatic invertebrates	340	572	278	524	2350	69	102	978	329	295	136	125	151	234	207	201	1016	7%
Cocoa and cocoa preparations	42	2	1	78	183	360	356	466	558	1369	1699	1393	1882	965	630	1340	1020	22%
Meat and edible meat offal	113	335	234	344	247	63	148	468	539	557	204	726	*2883	552	70	549	1867	19%
Preparations of vegetables, fruit, nuts or other parts of plants	33	468	185	157	224	188	1233	978	908	1781	6601	2352	5133	9786	2840	2215	1893	29%
Miscellaneous edible preparations	66	3081	2173	5381	14459	2591	3849	1790	1427	1856	4903	8973	12294	10036	7586	3463	3066	27%
Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere	1740	1538	608	432	8489	1791	4085	2584	15494	7293	6427	6967	3926	5077	1701	2441	7642	10%
Edible vegetables and certain roots and tubers	582	2333	358	15974	1281	3385	4241	6205	10914	3202	2598	9695	26166	6881	6691	9004	8004	18%
Products of the milling industry; malt; starches; inulin; wheat gluten	3417	377	5237	7349	9061	11755	23005	33256	25120	32750	57974	35982	68119	47056	25094	10232	11692	8%

Preparations of cereals, flour, starch or milk; pastrycooks' products	284	187	312	143	211	100	423	2454	8868	10628	12922	45839	15618	14234	8999	10960	14889	28%
Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal	48	262	439	593	502	1314	14745	2031	2005	1848	23193	39914	33913	33819	29896	38347	18948	45%
Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial	303	562	668	4146	6882	5862	10720	12541	13721	13456	19288	70719	33427	69211	52103	44822	45839	37%
Beverages, spirits and vinegar	2285	64	217	432	462	597	3323	7850	4463	11822	11491	4637	63330	13595	20607	30868	50241	21%
Cereals	1809	2339	6678	43064	15110	9912	62446	49170	19796	29882	158193	396365	149715	62962	199408	180329	53995	24%
Sugars and sugar confectionery	16521	26058	21139	25655	30965	31927	50157	47226	91799	107693	142894	129642	172761	200627	115171	78292	87761	11%

Source: TradeMap (based on Central Statistical Office., UN Comtrade and in certain cases, mirror data)

Appendix 8: Zimbabwe's exports of supermarket products to SADC (2001–2017), Value in US$ thousands

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	CAGR
All products	17854 8	988537	-	791559	774887	4434914	2202411	1089942	1503090	2029815	2692377	3128675	3170126	2779736	2477095	2631568	20%
Meat and edible meat offal	313	14531		2190	3666	2449	2747	843	3	0	409	1127	475	175	200	181	-4%
Fish and crustaceans, molluscs and other aquatic invertebrates	224	830		418	690	1177	1808	1389	2157	2224	4270	6294	8260	15233	12468	6946	26%
Dairy produce; birds' eggs; natural honey; edible products of animal origin	1537	24192		10214	5880	9423	19848	4899	3879	1526	2312	3486	2112	559	752	238	-12%
Edible vegetables and certain roots and tubers	174	14237		4281	630	21151	9251	8744	573	572	647	385	667	3428	1102	1019	13%
Edible fruit and nuts; peel of citrus fruit or melons	96	12964		2276	34953	5698	1932	9189	1210	2373	4235	6930	11183	13065	16028	17965	42%

Coffee, tea, maté and spices	4087	25473		9036	1529	7339	4462	3097	5348	7139	11364	21306	23628	22182	23211	20647	11%
Cereals	639	11507		32	264	429	253	21	473	421	1044	2249	2147	1218	1466	1805	7%
Products of the milling industry; malt; starches; inulin; wheat gluten	5883	5081		6454	4252	4223	4189	1882	59	326	82	1037	1968	2751	6423	4111	-2%
Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal	906	8117		3862	2540	2482	1806	985	869	2060	2159	7043	3830	2874	1222	512	-4%
Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	124	2651		2730	2075	1718	2675	1345	137	0	129	291	202	116	64	17	-12%
Sugars and sugar confectionery	14771	44310		20851	24798	52806	38828	42557	77838	52536	53098	106696	93626	153154	101815	48232	8%
Cocoa and cocoa preparations	1	121		100	108	145	91	86	159	457	438	740	487	612	527	574	53%
Preparations of cereals, flour, starch or milk; pastrycooks' products	224	15776		2581	1316	3618	4148	2396	1810	1858	2985	2180	2740	3261	2742	1625	14%
Preparations of vegetables, fruit, nuts or other parts of plants	397	20715		2546	1686	4743	3147	1524	1165	1189	2624	3129	5715	3348	5202	7158	21%
Miscellaneous edible preparations	639	4883		1280	3007	1493	2765	1598	1306	1129	2114	2803	3518	1938	1443	1051	3%
Beverages, spirits and vinegar	1753	26389		413	219	1145	1239	723	4171	7390	6737	8292	12191	4605	4121	2687	3%
Soap, organic surface-active agents, washing preparations, lubricating preparations	1578	42214		5506	2493	958	1030	254	436	963	653	732	1365	330	134	362	-9%

Source: TradeMap (based on Central Statistical Office., UN Comtrade and in certain cases, mirror data. No data for 2003 and 2017)

Appendix 9: Botswana’s exports of supermarket products to SADC (2001–2017), Value in US$ thousands

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	CAGR
All products	244580	338511	390740	471500	606331	585653	912051	1255654	756277	882372	1108655	1080895	1180754	1691411	1846699	1936360	755358	7%
Cocoa and cocoa preparations	27	146	5	96	44	32	23	62	80	72	81	193	55	24	66	9	3	-13%
Edible fruit and nuts; peel of citrus fruit or melons	16	48	18	37	30	34	19	21	50	25	37	59	25	122	69	45	140	15%
Coffee, tea, maté and spices	91	69	235	132	168	112	51	161	319	242	176	228	136	98	113	135	166	4%
Fish and crustaceans, molluscs and other aquatic invertebrates	18	17	17	9	57	1	13	5	24	21	136	245	68	252	869	1205	389	21%
Sugars and sugar confectionery	2971	9322	11269	11666	12061	13884	8976	12105	14945	22644	23701	19344	15413	14981	185	336	432	-11%
Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal	589	871	54	296	408	637	779	991	722	1601	1284	669	345	922	1193	360	516	-1%
Beverages, spirits and vinegar	281	264	154	2380	1543	3721	4311	9701	12316	17959	21708	9260	4727	3740	3329	1345	635	5%
Miscellaneous edible preparations	78	207	744	287	123	251	376	661	994	911	1001	638	356	317	340	431	731	15%
Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	247	208	252	123	469	785	524	372	853	383	641	887	914	296	385	252	735	7%
Cereals	1512	2416	2075	4163	3873	4392	747	1281	2813	1116	1488	1383	17107	654	496	1104	984	-3%
Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere	77	55	179	123	60	117	222	504	631	1015	814	478	368	1200	465	528	1075	18%
Preparations of cereals, flour, starch or milk; pastrycooks' products	5339	9086	7026	7907	9441	10653	6350	7376	6438	4827	1597	1785	2295	4160	3696	1838	1125	-9%
Products of the milling industry; malt; starches; inulin; wheat gluten	1206	3103	826	4463	967	367	773	535	5974	11960	8605	3459	3014	2034	1922	2869	1191	0%

Edible vegetables and certain roots and tubers	79	504	34	174	646	559	297	251	825	960	322	863	313	841	712	4190	1231	19%
Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial	2192	1065	1075	1569	1173	460	453	1371	967	1364	1684	2451	2709	5474	3587	4152	1800	-1%
Preparations of vegetables, fruit, nuts or other parts of plants	119	132	291	1082	287	334	202	564	831	1209	1725	1371	268	279	144	310	1816	19%
Meat and edible meat offal	8143	2022	670	9362	28604	38791	48331	35705	51916	89577	47171	60039	69991	50727	49891	45664	41922	11%

Source: TradeMap (based on UN Comtrade)

CHAPTER 8

CONCLUSIONS

This thesis has explored supermarketisation in South Africa, the internationalisation of supermarket chains in the region, and the implications on consumers, suppliers and the competitive landscape. This study (along with the papers already published by myself and co-authors) is among the first to assess the implications of the spread of supermarkets in Southern Africa, particularly around the consequences in terms of the competitive landscape and the effects on suppliers. These issues are complex, inter-related and multifaceted, requiring several different lenses through which they need to be analysed.

A summary of key findings and contributions of this thesis is set out in Section 8.1. The chapter then puts forward policy recommendations emanating from the study in Section 8.2 and proposes key areas for future research in Section 8.3.

8.1 Summary of key findings and contributions to the literature

An overview of the grocery retail landscape in Chapter 2 set out the market structure and routes to market in four countries in Southern Africa. In each country, supermarkets play an important role as a route to market, although the retail landscapes differ with respect to independent and informal retailers. The descriptions of the main supermarket chains in Chapter 2 and their evolution showed how most of the multinational chains, with the exception of Woolworths and Choppies, have evolved to offer multiple formats catering for the full spectrum of income groups. The landscape also revealed that there is a very small number of chains which account for a large proportion of supermarket stores. These high levels of concentration in formal markets nationally were assessed in Chapter 5. When the nature of competition is properly understood in terms of the product and geographic market offerings, there are even fewer direct competitors and higher levels of concentration in any given geographic market. These high levels of concentration have consequences for competitive rivalry as seen by the outcomes evaluated in Chapters 6 and 7.

Key contribution 1: Understanding the patterns of supermarketisation and internationalisation and their key determinants

My first key contribution is understanding the patterns of supermarketisation in South Africa and internationalisation of supermarkets in the region; how and why it has happened and whether this has been to the extent that the literature predicted. My main findings and contributions in this regard are as follows.

Under a definition of supermarketisation which refers to the trend in which retail food sales in a given country or region are increasingly happening through supermarket chains (Traill, 2006; Reardon, Timmer and Berdegué, 2004), supermarketisation in South Africa happened largely under the apartheid period and reached a plateau in the early to mid-2000s. This was shown through data assessed on the proportions of packaged and fresh food products going through supermarket and hypermarket retail channels relative to alternative, traditional routes to market. This finding is consistent with the literature on South Africa being part of the first wave of the supermarket revolution (Reardon, Henson and Berdegué, 2007), with shares of packaged food products sold through supermarkets being close to 70 per cent in 2004.

Following the end of apartheid and zoning restrictions, the formal supermarket chains spread into historically black township, peri-urban and rural areas. While their share of sales of food products did not grow significantly in the years after apartheid, their formats evolved to target the lower-income consumers now available to them. Main chains, Shoprite and Pick n Pay, saw growth in the number of their stores and this included the growth in smaller store formats rolled out into township and peri-urban areas.

An important finding from the data and interviews is the resilience of the traditional retail channels, particularly independent retailers in South Africa. Independent retailers have also grown in township areas, including through the upgrading of very small-scale or informal outlets. This resilience is attributed to the emergence of alternative models of retail. Buying-groups or voluntary trading organisations have several independent retailers and wholesalers under their banner. These are an important alternative to national chain supermarkets for low-income consumers in township and peri-urban areas in South Africa, and an important alternative route to market for suppliers. Buying groups have reduced certain barriers to entry faced by independent retailers by lowering costs given large volume purchases from suppliers for the group, advertising and promoting on behalf of independent retailers and offering important skills development and training to members. These alternative models that exist in the grocery retail space and their impact on the competitive landscape have not been previously evaluated in South Africa. The supermarket revolution in South Africa is thus more nuanced than the prevailing narrative of supermarket chains ‘taking over’ grocery retail sales, with alternative forms of retail emerging in parallel with chains moving to peri-urban and township areas.

The supermarketisation in the other countries in the region was quite different from South Africa’s and was triggered much later when South African chains started entering the region.

It has also not been consistent with the prediction of the wave of FDI from TNCs into African countries (see, for example, Weatherspoon and Reardon, 2003). Instead, it has largely been related to the spread of the South African chains into other Southern African countries. This has essentially been about the extension of the South African chains' retail networks and an extension of oligopolistic rivalry between the main chains, as discussed below. This motivates for a deeper understanding of competition dynamics in supermarket internationalisation and motivates for the analysis in Chapter 6.

The spread into the region was led by Shoprite and followed by the other supermarkets. And, indeed, their expansion has been relatively slow compared to the 'wave' predicted and the chains' own targets. My analysis of Shoprite, as the chain with the greatest number of stores outside South Africa, showed that the number of countries in which it operated more than doubled between 2000 and 2017 (from six to 14 countries), and non-South African stores grew from accounting for 11 per cent of store numbers in 2001 to 17 per cent in 2017. By 2017, 20 per cent of total group revenue came from outside South Africa. Profits also grew outside South Africa. All these measures, including multiple listing on stock exchanges on the continent, suggest internationalisation. However, this has been less than the chain itself had predicted back in 2000, where it aimed to get 50 per cent of group revenue from international operations.[170]

Pick n Pay's spread into the region has been slower than Shoprite's in terms of revenue, with only 6 per cent of revenue from outside South Africa. SPAR SA has licenses for stores in four other countries in the region, although servicing SPAR International-licensed stores in 10 countries in the region through its distribution centres. SPAR SA is the most 'international' in terms of sustained and growing operations beyond the African continent through its subsidiaries in Switzerland and Ireland. Its spread in Africa however has been muted relative to expectations of supermarketisation and internationalisation for the continent.

In terms of 'challengers' to the incumbents, Walmart's Game has not spread to the extent expected in terms of its grocery offerings. Fruit and Veg City has also entered the region, but only has a few stores. Botswana's Choppies Enterprises on the other hand, unlike the other chains, has expanded rapidly in the region in a relatively short period of time.

The literature has failed to incorporate key explanatory factors explaining the cross-border spread of supermarket chains. The factors that need to be understood when assessing these internationalisation trajectories were evaluated, mainly through the experiences of Shoprite as

[170] As previously noted, this may have merely been a statement for shareholders, rather than a clearly determined position or strategy.

a key case study. This required going beyond the traditional theories of FDI. The analysis in Chapter 5 demonstrated that no single 'theory of internationalisation' is adequate in explaining these trends. A combination of frameworks drawing on industrial organisation-based theories of FDI (Hymer, 1976; Jenkins,1984; 2013; Dunning, 1993; Narula and Dunning, 2000; Lall and Narula, 2004) and Dunning's Ownership-Location-Internalisation (OLI) framework (Dunning, 1977; 2001) is useful to understand the spread of supermarkets in the region. This stems from the characteristics of modern grocery retail which necessitate understanding the importance of investments in distribution and logistics, supplier networks and knowledge of customer segments and preferences. These factors are more relevant for retail internationalisation than for manufacturing internationalisation and point to factors that have been overlooked or underplayed in the literature on retailers to date.

There are important ownership and location advantages that allow regional supermarket chains to grow more rapidly in the region relative to transnational chains. The case study of Shoprite showed that ownership advantages in terms of long-term decisions in heavy investment in retail modernisation, building infrastructure networks connecting the region including regional distribution centres and 'new country infrastructure', gave it a head-start in certain countries. However, these ownership advantages failed in other countries that were not in close proximity to home country South Africa and close to established supplier bases. Ownership advantages in having access to a large, global supplier base in the case of Walmart, has also not led to expansive growth of Walmart's Game in the region as would be expected. This points to the critical importance of geography and not necessarily just of internal capabilities or ownership advantages when it comes to supermarket internationalisation. The geographic nature of retail, as it relates to key issues of logistics, distribution investments and links to established supplier networks, is critical.

Internalisation strategies with respect to the relationships with property developers are also critical in an environment where shopping malls are very important to consumers. These relationships extend to the region given the common firms involved at both the supermarket and property development levels. This can serve to entrench the positions of incumbent supermarket chains, including through strategic anticompetitive behaviour to exclude rivals from lucrative store sites and from malls. The ways in which supermarkets have internalised the risks of access to lucrative store sites has implications both on supermarketisation and internationalisation. In addition to OLI factors as applied to supermarkets, the oligopolistic rivalry underpinning regional expansion provides motivation for chains to extend and protect their position vis-à-vis challengers.

A key dimension explaining the regionalisation is therefore an extension of local oligopolistic rivalry, consistent with asset-augmenting motives of FDI and with some of the observations above. The case of Shoprite's growth in the region illustrates how, in its own assessment, it wanted to be the leader in the region with a first-mover advantage, in the knowledge that the other chains would follow. To do this, Shoprite took risks and made significant investments. Oligopolistic rivalry raises the possibility of firms with market power engaging in potentially anti-competitive conduct to keep the growth of rivals at bay. This also speaks to the internalisation strategies employed by the supermarket chains once they enter host countries, linking OLI and competition frameworks. The early IO frameworks of Hymer resonate to some of the realities seen in Southern Africa (Hymer, 1976).

The mode of entry into countries in the region itself varies and is a function of the national laws and policies in a country that need to be understood in context. National policies, like the indigenisation requirement in Zimbabwe to have 51 per cent local ownership for FDI, impact how easily multinational retailers can enter and grow in that country. Similarly, the national protection of certain local food industries, like cooking oil or poultry, and soft local content policies in some of the SADC countries, limits the ability for supermarkets to expand if there is a lack of local supplier capacity. The significance of political economy dynamics is evident in the lobbying of industries for such protection in the selected countries. Concessions and settlements with governments and political elites are also likely to have played a prominent role in Shoprite's first mover advantage in Zambia and in Choppies' rapid expansion in the region. These have all clearly affected the pace of supermarketisation and internationalisation in the region.

Yet, even this combination of frameworks is not entirely sufficient to properly understand the trends in internationalisation in Africa. Beyond the scope of this thesis, the significance of the ability to adapt to local cultures is an important aspect of retail internationalisation. Understanding local cultures includes understanding consumer behaviour, preferences and shopping habits in host countries.

The study has nonetheless highlighted the importance of applying and adapting the traditional theories of internationalisation to the specific characteristics of retail.

Key contribution 2: Competitive rivalry and the impact of the exercise of market power

The complexities of the ways in which market power is exerted, and how this affects supermarketisation and internationalisation forms part of my second main contribution. Characterising the nature of competitive rivalry in modern grocery retail is complex. Industrial organisation treatments of supermarkets have typically characterised supermarket chains as oligopolistic. This links to asset-augmenting motives for extending the oligopolistic rivalry of chains as a driver of internationalisation. Versions of oligopolistic models have put forth that, as rivalry intensifies, existing chains expand their sunk cost investments to compete (Sutton, 1991; Ellickson, 2004). Such investments have the effect of limiting the number of firms that can profitably enter even large or fast-growing markets, so markets remain concentrated. In modern supermarket chains, this is relevant given the major investments in infrastructure through distribution centres and in branding and advertising.

However, in the Southern African region, challengers FVC and Choppies have also been able to make investments in DCs, starting from niche positions in particular segments and building from this. In effect, while scale economics in distribution and logistics are important, the evidence shows that these can be achieved incrementally, as the challengers have done, or without full internalisation through arrangements as the buying groups have done. The study examined the impact of these challengers in terms of pricing in localised markets as discussed below.

Notwithstanding the entry and growth of smaller challenger chains, supermarket retail remains highly oligopolistic in nature, where there are a few large chains dominating formal markets and a fringe of rivals compete on different dimensions. The large supermarket chains tend to have both significant market power and buyer power, with a consequent high degree of control over the entire value chain.

Chapter 6 showed how supermarket chains compete on multiple dimensions. In South Africa, supermarket chains with similar formats in terms of product range, size, convenience, quality, branding, look and feel, and location compete more closely with each other. Supermarket chains that have extended their formats to target lower-income consumers in township, peri-urban and rural areas compete more closely with independent grocery retailers, organised under buying groups. Therefore, the number of chains that actually compete more directly with each other is less than the total number of supermarket outlets in a given area. This means high levels of concentration that have raised concerns about the impact on competition through the exertion of market power by supermarkets as key buyers and sellers, and their ability to exclude rivals.

Analyses on pricing were undertaken in Chapter 6 to determine whether there were indications of market power through wholesale/producer - retailer margins and whether concentration levels in narrow catchment areas in Gauteng province in South Africa had an impact on prices of selected supermarket products. The results were mixed, not least because of data limitations and methodological challenges, but nonetheless showed that in certain food product categories, margins were significant and that there is local pricing variation. There are also indications that prices are responsive to local rivalry, but more data is required for a fuller statistical analysis to be undertaken in future research. This points to the need to understand competition by segment in localised markets.

Importantly, the analysis revealed the shortcomings of narrowly viewing competition through just a price lens. The chapter showed that similar formats of the chains compete on multiple non-price dimensions that consumers value, and price outcomes do not capture these or reveal the true extent of competition between rivals. The significance of non-price dimensions points to potentially even narrower geographic markets in reality, as location, ambiance, a one-stop-shopping experience and the importance of malls in the region are all factors that consumers value.

As discussed in Chapter 6, this has implications for the way competition authorities evaluate outcomes in the supermarket sector. Competition authorities in South Africa have placed much more weight in evaluating static price and quantity effects of competition without considering the importance of the other non-price dimensions. This is also due to the wording in the Competition Act that requires showing a substantial lessening of competition, interpreted in static price terms. This approach by the authorities was discussed in the context of the practice of the major chains securing their position through exclusive leases in shopping malls. The chapter highlighted the possibility of a mall being its own market, in which such exclusive leases have the effect of preventing entry in a given mall, undermining the dynamic process of competitive rivalry. The extension of this behaviour and relationships with property developers in the SADC region as these chains spread affects regionalisation and internationalisation in other countries. I argue that the current narrow and static interpretation of competitive effects by authorities misses a crucial point – the importance of the process of effective competitive rivalry itself and the potential for new chains to enter and grow to become effective competitors to the incumbents in either or both price and non-price terms if given a fair chance.

The competition authorities therefore need to adapt their approach to analysing the effects of competition in the supermarket sector to include non-price dimensions. The analysis in Chapter 6 thus motivates for qualitative judgements of lessening, preventing or distorting competition tests rather than the substantial lessening of competition test or quantified competitive effects tests. This will allow rivals to compete on an equal footing with regards to access to retail space. A diversity of rivals benefits consumers through important dimensions of non-price competition, highlighting the benefits of a diversity of offerings. A more dynamic approach to the effects of competition is therefore required.

Key contribution 3: The implications of the spread of supermarkets on suppliers

My third main contribution is understanding the impact of the growth and spread of supermarket chains on suppliers in the Southern African region through a combination of GVC and industrial organisation frameworks. A combination of these frameworks allows for a more holistic assessment of governance of value chains, the significance of linkages and the opportunities and bottlenecks to upgrading, while considering the mechanisms and consequences of the exercise of buyer power by supermarkets as lead firms. This hybrid framework offers both a wider and deeper understanding of the implications of governance and the exercise of market power in value chains, concepts that are central to both the GVC and competition economics frameworks.

Supermarket chains are an important route to market in each country evaluated and play a gatekeeper role for suppliers of food and household consumable products in accessing wider regional markets. By determining the requirements of supply, and exerting significant power and control over suppliers, the large supermarket chains as lead firms control production in supply chains through setting and enforcing product and process parameters. The exertion of buyer power through the negotiating of trading terms further impacts the ability of suppliers to participate.

The impact of the spread of supermarkets in driving intra-regional trade is evidence of the role that they have played in stimulating the upgrading of supplier capabilities under a GVC framework. By providing access to extended markets through store networks in the region, some suppliers have been able to expand production and meet the requirements to supply regional markets. The growth in intra-regional trade of supermarket products in SADC has been facilitated by the use of centralised distribution and advanced logistics infrastructure of the large chains. However, this has been skewed towards exports from South Africa given established supplier capabilities and relationships between South African suppliers and supermarkets, as well as the lack of supplier capabilities in host markets. The potential for large supermarket chains to be strong catalysts for more equal two-way trade in the region is substantial. This requires the building of supplier capabilities in the region that enables them to supply supermarkets.

The critical success factors required to participate in supermarket supply chains, and the types of investments suppliers have undertaken to meet these standards were evaluated in Chapter 7. The importance of packaging was found to be critical, and factors such as cost containment, quality, consistency and volumes requirements were also found to be important. All of these have required substantial investments by suppliers. Under a GVC framework, supermarkets as key buyers have driven the need for these investments. Further, given the growing trend in private labels, supermarkets are increasingly controlling decisions on production, more tightly governing supply chains in more hierarchical or captive relationships. Some of these requirements are amplified by the regionalisation of supermarket chains. These requirements and subsequent investments have allowed certain suppliers to grow, and hindered others, from being national to becoming regional, and in some cases, even international suppliers.

While upgrading may have been possible for a certain class of suppliers, primarily already large and often multinational firms, unequal bargaining power, strong buyer power and the demanding requirements of supermarket chains mean that small and medium-sized suppliers struggle to supply them. The forms and implications of the exercise of buyer power in these value chain which affects the ability of suppliers to participate and upgrade is therefore important. The GVC literature, although allowing for considerations of power in dyadic relationships, has previously not sufficiently considered this. The analysis identified the various ways in which buyer power was exerted through trading terms. In Southern Africa, the charging of listing fees, slotting allowances, advertising fees and payments for promotions, in addition to range of other charges commonly imposed on suppliers, are likely to be exploitative, extracting surpluses from suppliers. These are often set in unequal negotiation processes without justifications provided for the magnitude of the fees and their relation to costs by supermarket chains. While buyer power can lead to lower end prices, these may not necessarily be passed on to consumers given the high concentration at the supermarket level. The long-run effects of buyer power can result in suppliers exiting the market, which ultimately could lead to higher prices for consumers. Using industrial organisation principles and tools in GVC analyses helps to focus policy interventions to reduce the ability of supermarket chains to extract rents at the expense of supplier participation.

The inter-relationships between the spread of supermarkets, competitive dynamics and impact on suppliers?

My three contributions are closely inter-related.

Supermarketisation and internationalisation affect the structure of markets and the competitive landscape through the extension of oligopolistic rivalry into the region. The characteristics of modern supermarket chains with large economies of scale and scope mean that markets are concentrated.

At the same time, existing levels of competition and the exertion of market power in price and non-price terms affects the pace and extent of supermarketisation and internationalisation. A manifestation of this market power is seen in the strategic actions of incumbent supermarket chains that prevent access to mall space through exclusive leases. This can slow down the pace of supermarketisation and internationalisation as rival chains or independent retailers cannot locate or expand in certain areas.

The internationalisation of supermarkets further affects suppliers in host countries. Location decisions were shown to be critical in the region, especially in relation to supplier networks. As gatekeepers of expanding store networks in the region, supermarkets also offer suppliers the opportunity to access wider consumer bases, allowing participation and upgrading in GVCs. However, the unequal bargaining power between supermarkets and suppliers leads to the extraction of rents from value chains, and smaller suppliers particularly can be excluded from participation altogether. Evaluation of competition dynamics through an understanding of market power is therefore important.

8.2 Policy recommendations

A number of policy recommendations emanate from these findings.

Chapter 7 highlighted experiences of how policy has been used in other countries to deal with the skewed balance of power between supermarkets and suppliers. Codes of conduct have been a way through which the relationship between supermarkets and suppliers has been governed. Unsurprisingly, mandatory codes of conduct have had more impact than voluntary codes given the enforcement consequences.

To reduce the ability of supermarket chains with buyer power to extract surpluses from suppliers in value chains and to promote transparency in procurement procedures and in trading terms, South Africa should adopt a retail industry code of conduct. 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 in the region. Part of such codes should include provisions for conduct that serves to exclude rivals and other formats, such as exclusionary clauses in leases.

The codes should also include commitments to supplier development by supermarket chains. Few countries have combined both behavioural conditions in a code with building of supplier capabilities through supplier development programmes. In the Southern African region, Namibia is the first country to do this formally through its voluntary retail charter. Supermarkets are well-placed to champion successful supplier development programmes. They are the key interface between suppliers and customers and can provide valuable information on what customers want. Successful SDPs require long-term, commercially oriented commitments by supermarkets in partnership with government. This partnership can be through the creation of supplier development funds. Funding for such programmes can come from fines levied by the competition authorities in abuse of dominance or cartel matters, or from existing funds reserved for black industrialists and small businesses. The critical point is that this funding needs to be channelled appropriately to commercially sustainable business that are mutually beneficial to supermarkets and suppliers. This requires supermarkets to be intimately involved in designing, structuring and running the programmes and in identifying and developing suppliers qualifying for the support. Market failures in the provision of finance in the region is also a key barrier to entry for new players in grocery retailing. The role of development finance institutions in providing this finance needs to be reviewed, in light of some of the structural and strategic barriers that new businesses face in the region as discussed in this thesis. The role of intermediaries, such as those which provide technical skills to suppliers, NGOs and donor agencies as part of supplier development programmes also needs to be reviewed.

Municipalities, local government and the competition authorities also play important roles in actively fostering a competitive environment for a diversity of retail models. Municipalities must ensure participation of independent retailers as part of rezoning processes. Local governments should encompass open and flexible retail space in planning to ensure a mix of formats. As it stands, there are no policies or regulations specifically promoting inclusivity and growth of independent retailers. Together with the long delays that are common in getting land rezoned for retail purposes by municipalities, the lack of clear policies to actively support independent players means that they are often excluded from the market.

8.3 Considerations for a future research agenda

A number of areas for future research emanate from this thesis. To strengthen all three contribution, more and better data is required. Such data is currently largely in the hands of the supermarkets and the private firms that collect scanner data, such as Nielsen and Retail Price Watch. Data on consumer spending patterns in the different countries in the region need to be made available to researchers for a better understanding of shopping patterns in specific geographic locations.

To strengthen the understanding of the determinants of regionalisation or internationalisation, more in-depth country studies in the region are required. The experiences in non-Anglophone countries such as the DRC, Mozambique and Angola, for instance, add an additional layer of complexity to internationalisation that requires greater understanding of cultural factors. Simply the packaging requirements of supermarket products in these countries to have French and Portuguese labelling presents a hurdle to internationalisation for both supermarket chains and suppliers. In-depth case studies of the failures of internationalisation where chains have had to exit certain countries will also provide important insights.

As a handful of supermarket chains continue to spread and grow in the region, it is important to develop a more formalised framework to evaluate the non-price competition effects of concentration for competition authorities, in addition to a better understanding of the geographic boundaries of competition. Refining and extending the pricing analysis undertaken in Chapter 7 to more geographic nodes across the country, and in other countries in the region, is an area for future work. It is essential to incorporate into this the evaluation of non-price dimensions that are relevant for Southern Africa. Such assessments can include assessments of the impact of specific entry episodes of rivals in different geographic markets in the region.

An assessment of the implications of the effects of currency fluctuations in host countries on supermarket operations and the extent to which they internationalise is another area for future research. This is particularly the case for South African supermarkets in the SADC region that rely on imports, either from South Africa, or from deep sea sources. Developing local suppliers in host countries of operation is a way through which supermarket chains can possibly reduce this risk and provides a strong motivation for supermarkets to actively engage in local supplier development.

The link between ownership structures and expansion of supermarkets in the region also requires further research. Whether family owned or shareholder owned structures have any impact on the rate or success of internationalisation would contribute to better understanding or extending the 'ownership' aspect of the OLI framework.

More specific case studies in selected value chains that apply the hybrid GVC-IO framework proposed in this thesis would further contribute to building the body of knowledge and pave the way for more formalised models to be developed. These could include case studies on the successes and failures of suppliers to access and progress up the GVC ladder, providing a deeper understanding on what it takes to participate in supermarket supply chains. This should be combined with studies on the impacts of existing supplier development programmes in terms of building supplier capabilities and facilitating upgrading.

Specific case studies that reveal the differences in the dynamics of the relationships between supermarkets and different categories of suppliers would also be a useful area for future research. For instance, the relations between small and medium sized suppliers and supermarkets may reveal more captive or hierarchical forms of governance relative to the relations with large multinational suppliers, which may be more modular. This would add to the body of knowledge on governance and power dynamics in value chains.

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APPENDIX - QUESTIONNAIRES

Appendix 10: Questionnaire to supermarket chains

1. General background

Year of establishment in each country	
Number of stores at inception in each country	
Number of stores current (corporate or franchise) in each country	
Location of stores (generally)	
Number of employees in each country	
Mode of entry in each country	

2. Evolution

Over the last 5–10 years, how has your strategy evolved regarding your offering in terms of the following in each country?

a. Target market
b. Product offering/ range
c. Store and shelf format and size (physical size of store, number of aisles, shelf space, etc)
d. Location
e. Advertising and marketing
f. Distribution centres and logistics (please indicate if you own a transport fleet)
g. Regional strategy (including why you have chosen to invest in the respective countries)
h. Do you have plans to expand the number of stores? If yes, how many more stores are in the pipeline and what type (corporate or franchise)?

3. Procurement strategy

a. How has your procurement strategy evolved over time in each country?
b. Who makes decisions about suppliers? Store level, head office regional, head office group?
c. Is there any flexibility at store level? How much discretion do managers have to select suppliers? Provide examples.

4. Local content

a. What is the proportion of local content vs. imported products currently for the following product categories in each country?
    i. Fresh fruit and vegetables
    ii. Dairy (milk)
    iii. Staple food (mealie meal, bread)
    iv. Processed foods (poultry and canned foods)
    v. Edible oils (cooking oil and margarine)
    vi. Household consumable products (detergents and cleaning agents)

b. What are your top five products by sales volume in the above listed categories in each country?
c. How has the level of local procurement evolved in the past 5 years with regards to the products above?
d. How have you implemented local content initiatives in the past 5 years in each country?
e. From where do you source the following products in each country?

Product		Local (list key suppliers)	South Africa	SADC	Global	Reason for sourcing
Fresh F&V	South Africa					
	Botswana					
	Zambia					
	Zimbabwe					
Dairy (milk)	South Africa					
	Botswana					
	Zambia					
	Zimbabwe					
Staple food (Mealie meal; bread)	South Africa					
	Botswana					
	Zambia					
	Zimbabwe					
Processed foods (poultry and canned foods)	South Africa					
	Botswana					
	Zambia					
	Zimbabwe					
Edible oils (cooking oil and margarine)	South Africa					
	Botswana					
	Zambia					
	Zimbabwe					
Household consumable products (detergents and cleaning agents)	South Africa					
	Botswana					
	Zambia					
	Zimbabwe					

5. Criteria and conditions of procurement

a. How important are the following criteria for your procurement decisions on a scale from 1 to 5, with 1 being ‘Not important’ and 5 being ‘Very important’? (for each of the above listed product categories).

Factors	1	2	3	4	5
Cost					
Quality					
Volume					
Lead times					
Location					
Brand awareness					
Consistency					
Innovation capabilities					
Others (pls. specify)					

b. What are your typical payment terms for local suppliers? E.g. 30-day, 90-day?

c. What additional criteria are required from local suppliers, particularly new entrants, to enter the supermarket supply chain? For instance, are slotting fees/listing fees charged; is it crucial to have an advertising budget?
d. What are the general contracting arrangements with your local suppliers?
e. What is the typical contract duration for local supply agreements for each of the product categories?
f. What are the typical conditions/terms of your contracts with local suppliers?
g. What private standards if any (i.e. not stipulated by regulation) do you require from your suppliers?

6. Supplier capabilities

a. How would you rate the following factors with regards to your local suppliers on a scale from 1 to 5, with 1 being 'Not competitive' and 5 being 'Very competitive'? (for each of the above listed product categories)

Factors	**1**	**2**	**3**	**4**	**5**
Cost					
Quality					
Lead times					
Location					
Brand awareness					
Consistency					
Innovation capabilities					
Others (pls. specify)					

b. What types of support, if any, do you offer local suppliers? Please provide examples and quantify if possible.
c. Do you have dedicated personnel for supplier chain development?

7. Competitive dynamics

a. What, in your view, is your competitive advantage over other supermarkets/grocery retailers?
b. Have there been new entrants in the market that compete directly with you in the last 5-10 years? Who were they and how did you respond to the new competitive environment?
c. Do you have exclusive leases with shopping centres in which your stores are located? What is the purpose of such leases and what is their general duration?
d. Do you have your own private label brands in any of the products listed in 4.a. above?
e. How do these perform with respect to branded products?
f. Where are these own-private label products manufactured?
g. How important is it to have your own distribution centres and vehicle fleet for your competitiveness?
h. What are the main barriers to expanding your operations into new markets (including regulatory barriers)?

8. Role of government and institutions

a. What support do you get from government and public institutions in the respective countries?
b. What are enabling and hindering government policies that affect your operations/investments in each country?

Appendix 11: Questionnaire to suppliers

1. General background

Year of establishment in South Africa	
Ownership	
Main products produced	
Number of plants/outlets and location	
Number of employees	
Sales volume per key product	
Approx. market share in past 5 years	
Main competitors	
Has your revenue increased, decreased or remained the same in the past 5 years? If possible, please indicate by what proportion and why?	

2. Supply to supermarkets

a. When did you start supplying supermarkets?
b. Do you supply directly or indirectly to supermarkets? Explain who your intermediaries are, if any.
c. What is your proportion of sales to supermarkets? Other main buyers?
d. Has your proportion of sales to supermarkets increased, decreased or remained the same in the past 3 years? Expand on why.
e. What are the requirements for supplying supermarkets? List both legal requirements and private standards imposed by specific supermarkets.
f. What is the arrangement with regards to transportation of your products to supermarkets?
g. What arrangements do you have with supermarkets with regards to promotions?
h. What are your typical payment terms for supermarkets? E.g. 30-day, 90-day?
i. What additional criteria are required by supermarkets? For instance, are slotting fees/listing fees charged; is it crucial to have an advertising budget? Quantify if applicable.
j. What are the general contracting arrangements with supermarkets?
k. What is the typical contract duration for supply agreements?
l. What are the typical conditions/terms of your contracts with supermarkets?
m. How important are the following for the supply to supermarkets on a scale from 1 to 5, with 1 being 'Not important' and 5 being 'Very important'?

Factors	1	2	3	4	5
Cost					
Quality					
Volume					
Lead times					
Location					
Transport costs					
Brand awareness					
Consistency					
Innovation capabilities					
Others (pls. specify)					

a. How would you rate yourself with regards to the following factors on a scale from 1 to 5, with 1 being 'Not competitive' and 5 being 'Very competitive'?

Factors	1	2	3	4	5
Cost					
Quality					
Volume					
Lead times					
Location					
Brand awareness					
Consistency					
Innovation capabilities					
Others (pls. specify)					

3. Upgrading your capabilities

a. Which main innovations have you undertaken in the past 5 years, in order to face competition?

i. Improving quality of existing products/services
ii. Improving production processes (please specify)
   1. Invested in new machineries
   2. Improved workers' skills
   3. Reduced the time of product delivery
   4. Introduced/improved a Total Quality Management system
   5. Introduced new organisational/management techniques
iii. Introducing new products
iv. Undertaking new functions (production/ design/ marketing / servicing)
v. Which of these investments has been as a result of supplying to supermarkets? Which has been a result for exporting?
vi. Are you planning any of the above actions in the near future? Please provide details.

b. How could government assist your firm in accessing/expanding your sales to supermarkets and upgrading your capabilities?
c. What types of support, if any, do supermarkets offer your firm with regards to developing your capabilities? Please provide examples and quantify if possible.

4. Levels of skills

How many low-skilled people do you employ?	
How many semi-skilled people do you employ (for example craft certificates)?	
How many highly skilled people do you employ (university degree)?	

5. Costs of production (actual values/unit) for the past 3 years (proportions as default)

Cost component	2014	2015	2016
Raw material inputs (specify imported vs local)			
Labour			
Capital			
Packaging			
Distribution and logistics (transport)			
Advertising and marketing			

6. Constraints

a. What are the constraints faced (current and past) in supplying supermarkets (e.g. transport, infrastructure etc.)? How were these overcome?
b. What constraints do you face in accessing finance? Are you aware of the options you have available?

7. Exports

a. Do you export, who are the buyers and in what countries?
b. How did you go about accessing the export markets? What are the requirements for export products?
c. What are some of the transport-related constraints in exporting to each country?

8. Affiliations

a. Do you have any affiliation to organisations such as trade/industry associations? Please provide details.

Appendix 12: Topic guides for other interviews

COMPETITION AUTHORITIES

1. Mapping out the retail landscape:
   a. What proportion of the selected products goes through formal retail vs wet markets/informal? Of this, how much is through supermarket chains?
   b. What is the degree of vertical integration?
   c. Who are the main players? What is their ownership structure?

2. What are the common competition-related challenges encountered in the sector e.g. vertical restraints, buyer power, exclusive leasing, collusion etc. and at what stage in the value chain do these occur?
   a. Is there a list of cases that can be shared? Mergers, collusion and abuse cases (5 years) involving retail and the selected products? Can Annual reports be provided?

3. What capacities do national authorities have in addressing competition related concerns in the sector?
   a. Provide an overview of the key competition cases involving the selected products-to retail value chain and what the outcomes have been.
   b. How is your authority able to tackle issues of buyer power of supermarket chains?
   c. What is the impact on consumers (particularly the poorest) and suppliers of a lack of competition in the sector? Have there been any studies undertaken?

4. What are the regulatory obstacles to competition in the selected product value chains in the selected countries?
   a. What are some of the regulatory requirements to participate in these products and in the retail sector? (Food safety? Global GAP? ZABS?)

b. How easy is it to get the accreditations at what costs?

5. What kind of institutional reforms and mechanisms can be used to address competition constraints in the sector?

INDUSTRY ASSOCIATIONS

1. What are the regulatory barriers for your members in supplying supermarkets?
2. What are the key certifications needed and at what costs? E.g. Food safety? Bureau of Standards?
3. What are some of the concerns raised by your members in terms of dealing with supermarkets?
4. Have there been any initiatives to support suppliers by government? By supermarkets? How successful have these been?

PROPERTY OWNERS/DEVELOPERS

1. What is the process of obtaining rental space in shopping centres?
2. What are the barriers to supermarkets accessing space?
3. How prevalent are exclusive leases?
4. Under what conditions are exclusive leases required? Under whose insistence?
5. What is the footprint of the company in the Southern African region?

BUYING GROUPS AND WHOLESALERS

1. What is the rough split between supermarket chains and independent retailers?
2. How many independent retailers do you have under your banner/do you sell to?
3. Do you sell directly to end consumers?
4. What is your relationship with large suppliers?
5. How do your trading terms compare with those of large supermarkets?
6. What are some of the difficulties you face in dealing with large suppliers?
7. Are independent retailers being squeezed out by large supermarket chains? In which areas?
8. What are some of the barriers to entry faced by buying groups, wholesalers and independent retailers?

GOVERNMENT DEPARTMENTS

1. What are the policies that pertain to the supermarket sector?
2. What is the department's plan/vision for this sector?
3. What initiatives are in place to promote the participation of suppliers in supermarket value chains?
4. What initiatives are there to support retailers?