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# SOUTH AFRICA

RETAIL INDUSTRY

20/12/2017

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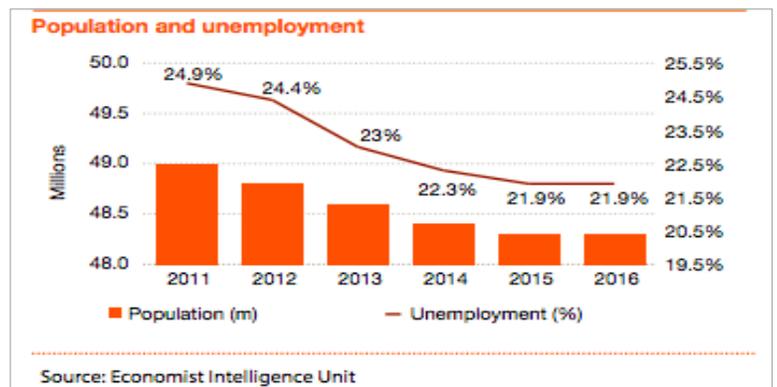
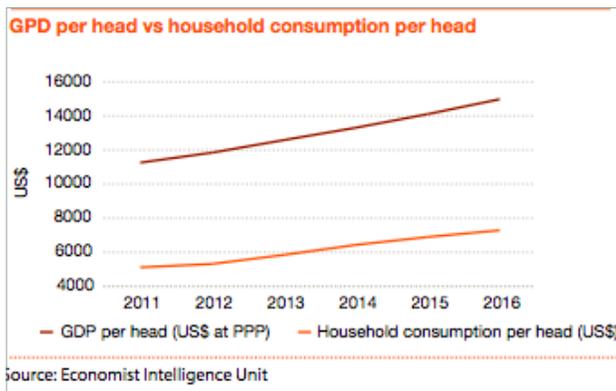
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## INTRODUCTION

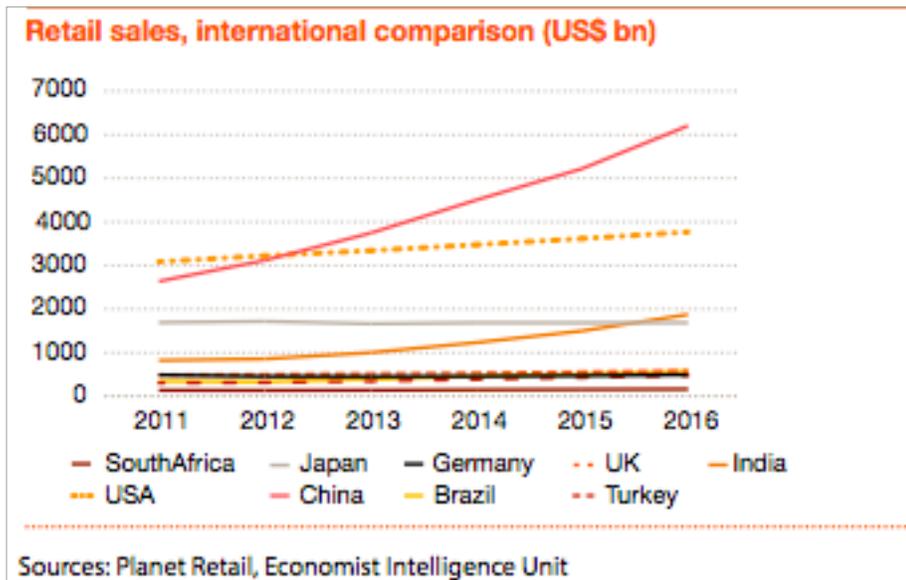
“Retail plays a vital role in the South African economy and shopping Centre’s are at the heart of this significant economic activity. Furthering excellence in retail is of wide benefit and represents vast positive outcomes for consumers, retailers, shopping centers, service providers and the economy in general.”-

By - Amanda Stops, General Manager of the South African Council of Shopping Centers, 2011



South Africa's retail industry has advanced throughout the years. Enhanced and current framework in the nation has taken into consideration more thorough financial action. The retail business has profited through productive circulation of merchandise to urban focuses, townships and provincial territories. Strip mall improvement has moved from being amassed in inward urban areas to rural areas and townships. Rapid construction of high-density housing in the surrounds of major urban areas has led to the demand for and increased developments of retail Centre’s in these residential areas. The nation's retail outlets offer a full assortment of arrangements that are like those in the United States (US). These retail outlets extend from bistros, general merchants, claim to fame stores, selective boutiques, chain stores, retail establishments, money and convey discount retail outlets and the co-agent stores, which serve most country regions.

South Africa kept on confronting various financial and financial difficulties amid 2016. Factors, for example, conversion scale instability, the declining accessibility of credit and inflationary weights contrarily influenced the funds of numerous family units. Notwithstanding the previously mentioned challenges, numerous customers remain optimistic, with request staying solid for fundamental FMCG, particularly items which are in accordance with worldwide patterns. Because of the predictable request from customers, retail esteem development rates stayed positive in general in 2016. Therefore, retailers kept on creating different techniques, for example, the development of their item runs, the utilization of successive advancements and value diminishments to pull in customers and augment their edges.



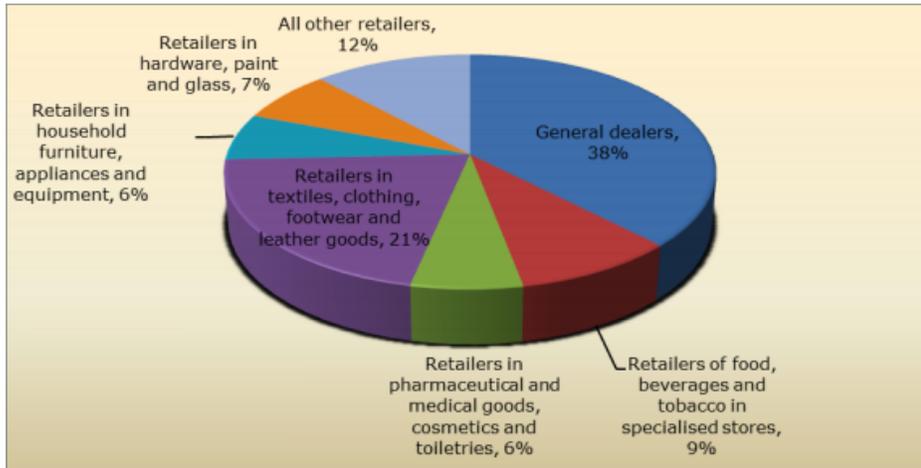
One of the best assembling powerhouses on the landmass, south Africa has a solid mechanical convention going back 150 years. The previous couple of decades, be that as it may, have postured difficulties to the business, with outer and residential variables weighing on division development. To help revive the business, the legislature and industry pioneers have been attempting to stir development and create esteem-included enterprises. By harvest time of 2015, some industry weights were hinting at facilitating, with modern activity reaching an end, and new power and water framework going ahead stream. While some auxiliary issues remain, especially in the domain of work enactment and training, the administration's mechanical methodology has enabled the area to look after energy, with speculation motivating forces and close participation with speculators counterbalancing drawback

dangers to some extent. Over the more extended term, assembling will be floated by development crosswise over Africa, which should bolster higher deals. South Africa additionally has a very much grew retail division as one of Africa's biggest and most rich markets – with a sizeable arrangement of real residential players. While late macroeconomic challenges have influenced certain portions of the market, the retail division has kept on developing, attracting various new worldwide brands searching for a section point to whatever is left of the landmass. Their entry underscores the division's sound essentials, and the market looks set to remain very aggressive and dynamic in the coming years

KEY STATISTICS

South Africa's retail sales increased 3.2 percent year-on-year in October of 2017, following an upwardly revised 5.7 percent gain in the previous month and below market expectations of 5.3 percent. Sales rose at a softer pace for: textiles, clothing, footwear and leather goods (5.5 percent compared to 9.3 percent in September); all other retailers (15 percent compared to 19.4 percent); food, beverages and tobacco in specialized stores (0.8 percent compared to 5.4 percent) and furniture and household equipment (5.4 percent compared to 6.4 percent). In addition, sales fell for general dealers (-0.3 percent compared to 3.7 percent) and hardware, paint and glass (-0.9 percent compared to -4.1 percent). By contrast, sales advanced at a faster pace for pharmaceuticals goods and cosmetics (5.7 percent compared to 2.2 percent). On a monthly basis, retail trade decreased 0.1 percent, after a downwardly revised 0.4 percent drop in September. Retail Sales YoY in South Africa averaged 4.56 percent from 2003 until 2017, reaching an all time high of 15.50 percent in September of 2006 and a record low of -6.40 percent in April of 2009.





**KEY MARKET PLAYERS:**

Five South African retailers made the cut into the worldwide 250, with Steinhoff International, a maker and retailer of for the most part furniture and family unit merchandise, demonstrating great development – up to 72nd on the rundown, from 101st in the 2016 rundown.

The gathering works in 29 nations, and claims Pepkor and JD Group – two major retailers in South Africa. Shoprite Holdings is the second greatest retail mark in the nation, positioned 110th (105th in 2016), while Spar Group surpassed Pick n Pay, moving from 180th to 155th. Pick n Pay, in the interim dropped 10 places, from 161st beforehand. Woolworths Holdings likewise slipped 10 puts on the rundown, to 197th.

As per Deloitte's report, retailing in the Africa/Middle East area is on a high-development way. "The rising white collar class in Africa has added to the modernization of the retailing area, and numerous African economies are progressing toward utilization driven markets," the report said. Together, the Africa/Middle East locale's 19.1% development rate and 5.8% net revenue were the most elevated among the five geographic districts in FY2015. Top 250 retailers situated in the locale have an extensive geographic impression. Each of the nine organizations worked universally in FY2015 in a normal of 11.3 nations. They created more than 33% of their joined retail income outside their nations of origin, Deloitte said.



This supermarket chain is a Dutch multinational retail chain and franchise brand with about 12,500 stores in 42 countries worldwide. Adriaan van Well founded it in 1932. Through its affiliate organizations, Spar operates in most parts of Africa as well as European countries, parts of Asia and Oceania. It is headquartered in Amsterdam. In July of 2014, Spar Group South Africa opened its first supermarket in Angola. In August 2014, the group acquired 80% of the BWG Group, which had outlets in Ireland and southwest England. This helped make it soar to the number three position in South African retailers.

Turnover (year ended 30 September 2012) R43.2 billion (€4.1 billion) Market Share 28% Store type and Ownership SPAR is primarily a wholesaler and distributor of goods and services to SPAR and SaveMor supermarkets, Build it building materials outlets, TOPS at SPAR liquor stores and Pharmacy at SPAR pharmacy and healthcare outlets. There are 1725 stores across the following formats:

- 295 Super Spar (selling area of 1,300m<sup>2</sup>+)
 

• 295 Super Spar (selling area of 1,300m <sup>2</sup> +)
• 439 Spar (selling area of 700m <sup>2</sup> +)
• 134 KwikSpar (selling area between 300m <sup>2</sup> and 700m <sup>2</sup> )
• 178 SaveMor (selling area of 300m <sup>2</sup> )
• 538 Tops Liquor Stores (stand-alone liquor)
• 281 BuildIt (stand-alone building materials)
- 439 Spar (selling area of 700m<sup>2</sup>+)
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• 21 Spar Pharmacy (in-store pharmacy) International Footprint Distribute to SPAR stores in Swaziland, Botswana, Lesotho, Mozambique, Zimbabwe and Namibia. In addition, SPAR wholesales goods to independent SPAR stores in Zambia and Malawi although these stores do not fall under a license agreement controlled by SPAR South Africa. Product Range Premium alongside value. SPAR stores stock a full range of food and beverage products. There is a big disparity in merchandising between SPAR stores as store owners tend to merchandise for the demographics of the area they serve. Purchasing from local suppliers tends to give each SPAR a unique feel. Consumer Demographics Traditionally market to the middle to upper income consumers (LSM 6 to 10) Buying Practices SPAR operates under "voluntary trading" principles which means that SPAR retailers can take advantage of the Group trading power but retailers are also free to source goods from local manufacturers and traders. Retailers do however most often take advantage of SPARs centralized supplier negotiations and procure against central agreements. Procurement is done at both a national and regional level by SPAR Group The SPAR Group operates 7 distribution centers including a group import center which is used primarily for BuildIt stores.



Steinhoff International is a German international retail holding company that is based in South Africa. It moved its headquarters to South Africa IN 1998, attracted by the low production costs, and went public on the Johannesburg Stock Exchange that same year. It deals mainly with the sale of furniture and household goods. As of August 2016, it held retailing activities in 30 countries, counting 6,500 retails outlets belong to 40 different brands and employing about 90,000 people. Its South African brands include HiFi Corp, Penny pinchers, Timber city, Pep, Ackerman's, Shoe City, Incredible Connection, and Unitrans.



Pick n Pay is the second largest supermarket chain store in South Africa. It was established in 1967. It can also be found in other regions of South Africa, such as Botswana, Mozambique, Zambia, Zimbabwe, Lesotho, and Namibia as well as Mauritius. The supermarket behemoth was founded by Jack Goldin, who was born in Obeliai Lithuania but moved to South Africa when the Nazis invaded his home town. Raymond Ackerman purchased three Pick n Pay supermarkets (in Cape Town) from Goldin and today, Ackerman's son Gareth, who currently serves as CEO of the company



Shoprite Holdings is Africa's largest food retailer. It operates 2,653 outlets in 15 countries across Africa and the Indian Ocean Islands. The Company is headquartered in the Western Cape province of South Africa. Its primary business is food retailing to consumers of all income levels, with the goal of providing all communities in Africa with food and household items in a world-class shopping environment but at the lowest possible prices. As of June 2016, some 76% of the total adult population of South Africa's shopped at one of the retailer's supermarkets. The company employs nearly 138,000 people of 212,000 works outside of South Africa.

**RANKING #197 - WOOLWORTHS HOLDINGS LIMITED**

The Woolworths Holdings Limited (not to be confused with the now-defunct American W.F. Woolworths chain) is South African chain of retail stores and one of the largest in the country, modeled after Marks & Spencer of the U.K. The first department store opened in The Old Royal Hotel in Cape Town in 1931 and was founded by a gentleman named Max Sonnenberg. It operates through both corporate and franchise stores throughout South Africa and neighboring countries. Various store formats include full-line stores, food stand-alone stores, food and homeware lifestyle stores, and stores offering textiles such as clothing, footwear, and homewares. In-store cafes offer organic teas and coffee as well as light meals, while some stores also offer tapas bar restaurants. In 2015 Woolworths was acclaimed the best store for customer care in accordance with the South African Customer Index.

**CAMBRIDGE FOODS:**

Cambridge Food is South Africa's latest entrant into the retail grocery arena. Currently 27 stores with additional 7 stores. A further 16 stores will be added from the acquisition of Rhino Cash and Carry bringing number of stores to a total of 48. Targeting 100 stores by 2015 Fresh food – vegetables, meat, bakery and take-away. Basic grocery items Consumer Demographics Lower end of the market (LSM 2-7). The company's website describes their customers as "characterized by high levels of unemployment, reliance on social grants as a primary source of income, and heavy dependence on taxis, trains and buses to travel between work and home." Stores are located on or nearby high traffic commuter nodes and densely populated residential areas. Buying Practices Buying through Masscash channels (Wal-Mart). Centralized distribution system in place.

**CHECKERS HYPER:** Checkers Hyper offers the same selections as Checkers, but within large-format stores that encourage rather than convenience shopping. The general merchandise ranges are wider covering small appliances, pet accessories, pool care, outdoor gear, home improvement, home ware, baby products, toys and stationery..

**USAVE:** Usave is a no-frills discounter focusing on lower income consumers.

**OK FURNITURE:** OK Furniture offers a wide range of furniture, electrical appliances and home entertainment products at discounted prices.



**HOUSE & HOME:** House and Home offers a wide selection of affordable, exclusive and well-known ranges of furniture, appliances, home entertainment and floor coverings.

**MEDIRITE PHARMACY:** MediRite pharmacies are located inside Shoprite and Checkers stores

**LIQUORSHOP:** LiquorShop offers an upmarket, convenient shopping experience to Shoprite and Checkers shoppers. It offers a full range of wine, beer and spirits.

**TRANSPHARM:** Transpharm Pharmaceutical Wholesalers distributes a wide range of pharmaceutical products and surgical equipment to our MediRite pharmacies as well as other pharmacies, hospitals, clinics, dispensing doctors and veterinary surgeons across South Africa.

**HUNGRY LION:** Hungry is Quick Service Restaurant specializing in fried chicken

**OK FRANCHISE:** The OK Franchise division operates smaller, convenience-oriented stores that offer a range of fresh perishable food items, as well as general merchandise.

## **THE CHANGING TRENDS:**

Four trends have come to characterize the retail sector in South Africa

### **1: ONLINE RETAIL TAKES CENTRE STAGE**

As indicated by the Digital Evolution Index, created by MasterCard as a team with Tufts University in Massachusetts, South Africa is positioned number 33 for advanced preparation – which is measured by a nation's capacity to help and empower computerized business and installments. Web based business monster, takelot.com for instance has 18 divisions, 9 million items and 9 adaptable installment techniques. Its site sees near 9 million visits for every month and it is right now positioned number 3621 on the planet. Web based business destinations are mushrooming all through the nation, furnishing clients with a more secure and advantageous approach to shop



that was beforehand envisioned by the cutting edge shopper. This pattern will keep on boosting retail development going into the New Year.

## **2: THE HEALTH MOVEMENT BOOSTS CONSUMER CONSCIOUSNESS**

With the worldwide move towards all the more naturally cognizant living, the pattern towards more beneficial living is likewise on the ascent. More noteworthy mindfulness around item fixings and assembling procedures will goad development in specialty zones. South Africans are changing their ways of life, and are developing more hesitant to purchase high carb/high-fat items for natural nourishments and more advantageous options. Things, for example, unfenced eggs and meat that has been delivered from grass-encouraged cows are in higher request. This wellbeing and prosperity slant stretches out to the buying of wellness contracts for exercises like yoga and Pilates. By and large, the segment is developing relentlessly with purchasers ending up more wellbeing and earth cognizant.

## **3: GLOBALIZATION LEADS TO DIVERSIFICATION**

The previous year has seen a flood in universal – particularly American – brands entering the nation. H&M, Dunkin' Donuts, Baskin Robbins, Hamleys and Zara are conspicuous cases. Alongside the pattern towards the nearby creation of merchandise, the globalization of the retail part has prompted the expansion of products and with it, an increment in buyer decision. Worldwide stores are turning into a key piece of South Africa's mall biological system. Where some time recently, South African buyers needed to set out abroad to shop particular brands, these brands are currently promptly accessible in South Africa and are adding to the nation's own particular GDP development in an immediate manner.

## **4: EXPERIENTIAL RETAIL ON THE RISE**

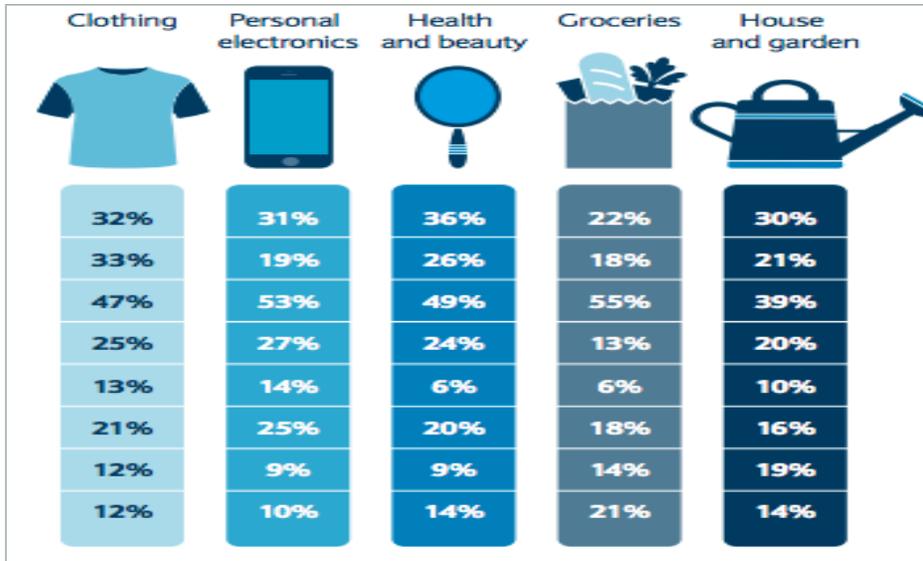
The present customer requires shopping centers to be something beyond retail goals – they expect retail encounters. Effective focuses need to engage, allure and energize customers. What this has implied in the South African space is the expanded obtaining of experiential outlets, for example, gaming stands, intelligent item advancements, connecting with presentations and hands-on item encounters. An all the more comprehensively captivating retail encounter prompts additional time spent in the strip mall, and at last more retail spend. It's a

triumphant recipe. This pattern has prompted an ascent in the prevalence of way of life focuses all through South Africa.

The effect of South Africa's present political atmosphere on the retail part stays to be seen. After some time, the nation's retail condition has turned out to be versatile – even in times of monetary downturn. Feelings with reference to whether this pattern will proceed all through 2017 be that as it may, stay isolated.

## **ECOMMERCE:**

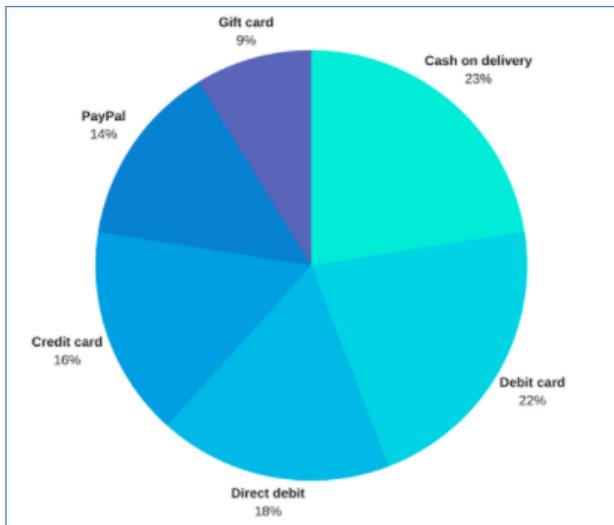
In recent years, the balance of power has shifted from retailers to consumers. The sluggish recovery from the global financial crisis has engendered a more cautious and price-sensitive buyer, whose shopping habits have been transformed by ecommerce and the increasing proliferation of digital and smart devices. Better-informed consumers The growth of social media and price-comparison sites has allowed consumers to make informed purchasing decisions, eroding brand and retailer loyalty, while creating a more polarized environment of discount retailers (for most basic items) and higher-end, premium retailers. Shifting allegiances As online shopping has revolutionized the convenience of retail, so buyers have also displayed an increasing tendency to switch – both in terms of the retailer and the type of shopping channel used. With m-commerce enabling shoppers to compare prices of almost any product, and with peer reviews on social media empowering them further, the consumer has more choice and information than ever before Switching might be more prevalent than in the past, but our survey suggests that UK consumers retain a degree of allegiance, with around 71% of shoppers using broadly the same retailers as they did three years ago. Many factors could account for this, such as the dominant position of incumbent retailers, concerns over online security when it comes to less well-known retailers, and the role of retailer loyalty schemes (which despite having lost some of their potency still appear to be an important consideration for a sizeable minority of shoppers in our survey). That said, for those consumers that had switched, the search for better value is cited by 49% as the major factor driving this change (the frequency of sales and discounting also rank highly). Among those that hadn't switched, price is also the main factor that might persuade them to hotfoot it elsewhere.



**HYPER-CONVENIENCE AND DELIVERY DEMANDS:**

Alongside the constant pressure on retailers to meet buyer expectations on price, the ability for customers to shop any time, anywhere has led to growing demand on retailers to raise their game in other areas. In the convenience economy, where on-demand services are becoming increasingly prevalent, more shoppers (and particularly the millennial generation) are expecting businesses to be ‘always on’, regardless of their size or location. On a broad level, this explains the shift from big-box, out-of-town grocer formats to smaller, centrally located stores with a targeted product range supplying prepared foods and impulse purchases to satisfy shoppers’ more immediate needs. This hyper-convenience shift is also altering expectations for more service-oriented retail processes. Through social media, consumers have become accustomed to receiving a prompt reply. Meanwhile a recurring theme of recent years has been retailers’ logistical struggle to keep pace with rapid growth in online demand and fulfillment. Almost three quarters of shoppers in our survey say that they would be more likely to buy items from a retailer that could guarantee delivery in a very short time

### Preferred mode of payment in South Africa



### RISKS IN SOUTH AFRICAN RETAILING:

No matter how beautiful a retailer's strategy is, one should always look at the results it is bringing. That has seldom been more relevant than in South African consumer marketplace, where simply knowing what your customers really want has become exponentially more complex than it was before the advent of smartphones, the Internet and social media.

#### Competition

South African companies face intense competition on a national and international level where retailers often offer the same or similar merchandise and generally competed on the basis of price, quality, or speed to market. It is common to find that some retailers' competitors may have more resources or evolved business models that provide a better shopping experience that could affect smaller retailers. Also, to add to competition, the cost and

barriers to entry into the market is at an all-time low, with a large number of niche players arriving and driving change through fresh ideas and ways of servicing customers. The impact of mobile commerce and social media on retailers is only growing. Customers are increasingly placing pressure on retailers to deliver faster therefore placing pressure on delivery expectations. Often, retailers would be forced to add to their costs of delivery, all the effort to cut down on delivery times and work within the standards of what a customer would expect. Competition also comes in the form of a more socially conscious shopper who is more informed of the background of a retailer. Pop-up stores is a relatively new phenomenon in South Africa but has been met with huge success over the past three years. Reasons for this is that it involves a lower cost of concept and entry

### **Customer Trends and Preferences**

Customers are the new point-of-sale. For today's connected South African consumer, the shopping 'experience' can be an endless possibility for retailers to try and master and the shopping experiences at those retailers that are meaningful, memorable, shareable and personalized, will maintain traffic. Incorporating technology into a brand persona through influencer marketing is a powerful tool in driving customer habits. We notice more male and female bloggers popping up in South Africa, acquiring attention in the media and specializing in providing reviews on products in their area of expertise. These reviews have a big effect on the general audience who often purchase products solely based on blogger recommendations. Offline, brand building on the retail front has become a team sport for many firms that are generating significant results via partnerships that deliver competitive advantages.

### **Brand and Reputation**

Retailers run the risk that one innocuous post, video or comment from any angle (board, customer, associate or management) could trigger a significant brand protection situation, which impacts sales or customer perspective. This is something South African retailers worry about often as damages to one's brand and reputation can occur at any given moment and is difficult to reverse quickly. Brand and reputation damage is closely linked to social media because of the ease of public opinion, as any retailer then immediately feels no cost, either in a positive or negative way. This can be summed up as follows: it takes years to build reputation and seconds to destroy. A



response for local retailers to keep in mind is that since these incidents usually take place unexpectedly, they need to proactively have measures in place so they could react to situations as they happen.

**Omni Channel and 21st Century Retailing:**

Customers gravitate to retailers that provide the best and most consistent Multifaceted experience based on their quality/value perspective. It's not yet clear what the next trigger point for transformation in retail will be, however, it will occur in the next 5-10 years through adopting new technologies such as VR, self driving cars, embedded communication, etc. One view of customers is customer engagement or conversation instead of just focusing on the transaction. Current times require retailers to adopt a strategic revision of critical areas. Such as channel mix management, brand experience delivery, merchandising, communication, personalization of shopping, communication, offers, transaction processing, inventory management, logistics, forecasting, incentive alignment and customer profiling.