The Africanisation of South African retailing: A review

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The internationalisation of retail businesses has become a global phenomenon as retailers around the world expand their operations beyond national borders. This phenomenon has attracted some academic attention. In Africa, South Africa appears to be more advanced in this regard, with Shoprite at the forefront of the Africanisation of South African retailers. A review of Shoprite’s expansion into the continent results in two propositions and some challenges that affect this process. The wider significance of the propositions is further examined by a study of other South African retailers expanding into Africa. The review finds that although there are opportunities for retailers in African countries, there are also significant challenges that can negate the opportunities. Most importantly, the chosen mode of entry into African countries plays a significant role in the overall internationalisation process and should be a primary concern of management teams considering making such a move, and it is established that the mode of entry comprises at least five areas of critical decision making.

Key words: Africanisation, retailing, international retailing, South African retailing, African markets, mode of entry, ICTs, international business.

INTRODUCTION

Since 1994, South Africa has moved to become part of the African continent, even to the point that it developed and championed an African agenda¹. This move opened up opportunities for South African businesses within the continent. In this regard, leading South African retailers (including Shoprite, Woolworths, Massmart, Truworths) have already invested in, and now operate in diverse African countries. In the past decade, the continent has also seen shopping centres and malls built in most African cities, some of which are also South African investments (Miller, 2006). There is still huge potential for all kinds of South African businesses to expand within the continent, and there are benefits for all concerned.

Already the six primary sectors of the South African economy: mining, retail, construction and manufacturing, financial services, telecommunications, and leisure and tourism, are in one way or another investing in the continent (Daniel et al., 2003). Furthermore, the completion of the SEACOM’s East African submarine cable and the up coming West African cable system that will provide fibre optic connection from Africa to the rest of the world will open more business opportunities on the continent. It is, therefore, not surprising to see an increasing number of South African retail companies expanding into the rest of the continent to seek growth and explore new strategic opportunities.

The Shoprite Group operates its own stores in 15 African countries outside South Africa, including Angola, Botswana, Ghana, Lesotho, Madagascar, Mauritius, Mozambique, Namibia, Nigeria, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe (Shoprite, 2008). The group’s operations have been generally successful in most of these countries and in some cases income has exceeded their projections and expectations. This performance has triggered numerous growth and expansion plans for most of the countries listed above. For example, with the opening of one supermarket in Accra, Ghana (in November, 2007), the group immediately started investigating the possibility of opening five more stores around the Accra area (Shoprite, 2008). This report also indicates that their

¹ African agenda in this case refers to former president Mbeki’s vision of an African renaissance, and the establishment of the New Partnership for Africa’s Development (NEPAD).
African operations have produced higher turnover growth than their South African counterparts. However, this is not the case with their operation in India where foreign retail ownership is forbidden by government regulations. Shoprite had to operate by means of franchising in Mumbai (Shoprite, 2008). Revenues do not match those achieved in Africa, highlighting the mode of entry as a key factor in the successful achievement of retail internationalisation.

Yet, even in Africa, it has not all been easy. Due to lack of suitable acquisition targets and alliance partners, and given the informal nature of the retail sector in most African countries, they are obliged to open their own stores (Games, 2008). The Shoprite annual report (Shoprite, 2008) indicates that they are currently facing competition from other South African retailers who are also moving into Africa. For example Massmart, also expanding into Africa, will give Shoprite a run for its money in markets for hard goods. Also, as a consequence of their go-it-alone approach to Africanisation, Shoprite often does not gather enough market knowledge and contacts before entering and establishing a foothold in these new markets, which in itself becomes a problem (Games, 2008).

There are also reports of supply issues haunting the company in its Africa operations. Nigeria is reported to have government-imposed import restrictions on some products. This is in a bid to protect the local economy and suppliers. Miller (2008) points out that the issue concerning local suppliers is politically controversial for South African companies operating in foreign African countries. Although South Africa has moved to be part of the continent and has championed an African agenda (as noted at the start of this paper), there are concerns that this commercial activity might become another form of colonisation. As a result, these companies have to demonstrate their support and participation in local development in those foreign countries or risk being accused of “exporting Apartheid” into Africa (Miller, 2008). Of course, the circumstances of each country might vary: Miller found that the Shoprite Group entered Zambia under favourable conditions that did not attempt to protect local producers and suppliers.

Despite the increase in retail internationalisation in Africa led by the South African retailers, little research has been done in this area. This paper is a review based on a study of annual reports and other publicly available sources; it seeks to develop a foundation for more detailed case study work on the phenomenon. The paper discusses how the Shoprite Group’s expansion into Africa has been achieved, and how it secured its position as the largest food retailer on the continent. Two propositions concerning challenges affecting the decision of entry mode are established, based on the Shoprite study. The issues that inform these propositions are, however, limited to the results of the Shoprite’s review, and, therefore, preclude other issues that might be relevant to the phenomenon but not obvious in this study. The propositions are further examined by looking at a range of other cases of South African retailers’ expansion into Africa.

**GENERAL PERSPECTIVE ON RETAIL INTERNATIONALISATION**

In recent years, the world of retailing has seen a dramatic increase in international activities by retailers around the world (Park and Sternquist, 2008; Myers and Alexander, 2007; Dawson and Mukoyama, 2006). The phenomenon of retail internationalisation has become an important feature of global business. As consumer products and services become global, and around the world consumers’ styles of consumption and attitudes increasingly become similar, retailers are prompted to respond to this trend. This results in the emergence of international (and in some cases global) retail companies (Federzoli, 2006).

As Jack Shewmaker, director of Wal-Mart points out; “it is absolutely clear the biggest opportunity facing retailers [today] is internationalisation” (McGarriagle, 2008:12). In exploiting this window of opportunity, the world has seen retail businesses grow into multinational corporations contributing to economies on a worldwide basis. The rising levels of internationalisation among retail businesses can be attributed to three factors: growth in size, growth in technological sophistication and the need to respond to the changing demands and behaviours of customers (Myers and Alexander, 2007).

However, retailing is geographically tied, and international companies must have a physical presence in the foreign countries concerned in order to conduct their business (Sternquist, 2007). According to Dawson and Mukoyama (2006), the internationalisation of retailing is evident in many ways including: the sourcing of products for resale, the operation of stores in foreign countries, the use of foreign labour, the adoption of foreign ideas and the use of foreign capital. There has been an increase in all these aspects in terms of volume and spatial reach, Dawson and Mukoyama indicate. This increase in retail expansion has continued across the world, characterised by large retail chains, mainly from the most developed countries, moving into less developed ones, and this has attracted some academic attention.

However, most research in the area of retail internationalisation has focused on the developed world with little attention being paid to developing economies, especially those in Africa. Zhang and Dodgson (2007:336) observe that most research in the field of international business and entrepreneurship concentrates on “early internationalisation of firms based in developed countries, especially Europe and United States”. Where Africa is studied, little attention is paid to retailing, as
most previous research has always focused on manufacturing and pure service industries despite the recent increase in retail internationalisation (Park and Sternquist, 2008).

METHODOLOGY

The review takes into consideration South African retail companies that have expanded their operations beyond their home region, the Southern African Development Community (SADC) in a significant way. Pure service retailing is beyond the scope of this paper. Shoprite is the largest food retailer in Africa, and also the pioneering retailer to embark on a continent wide expansion strategy. A review of Shoprite’s Africanisation process is carried out with the view of gaining some understanding of the phenomenon. Therefore, the propositions and challenges around the issue of modality are limited to what is obvious in the Shoprite study.

The significance of these propositions and the relationships between them are further examined by the study of other cases of purposively selected South Africa companies moving into Africa. Since the intention is to understand the phenomenon under study, purposive sampling enhances the potential of understanding (Devers and Frankel, 2000). As indicated earlier, the study has largely been based on annual reports and other publicly available sources, and, therefore, the review took a content analysis approach. Due to its ability to assess the effects of environmental variables like regulation, socio-economic issues, and location characteristics such as market attractiveness, credibility and likability (Kolbe and Burnett, 1991) in the internationalisation process, content analysis techniques was useful in this study.

A REVIEW OF SHOPRITE’S EXPANSION INTO AFRICA

The Shoprite Group of companies came into existence with the acquisition of a supermarket chain in the Western Cape, in 1979 (Shoprite, 2009a). This expansion strategy has continued and has helped the expansion-driven company to show its presence across the country, and the group now comprises Shoprite, Checkers, Checkers Hyper, Usave, OK Furniture, OK House and Home, OK Power Express and OK Franchise Division (with a number of stores and brands under it). The national growth and expansion strategy of Shoprite, as observed, has been through mergers and acquisitions, but it modified and extended this strategy when moving abroad.

It achieved international expansion by opening its own stores in the foreign countries in which it operates, so that in 2008, out of a total of 984 stores, 100 supermarkets were being operated in 16 countries outside South Africa (Shoprite, 2008). The company claims that the international stores operate with the same standards of sophistication as in the home country, South Africa. Hence, Shoprite now confidently proclaims its name as the largest food retailer in Africa. The expansion into African was a bold decision that has continued to influence the future of the Shoprite Group to the present day. However, this could not have been possible without clear vision, strategy and the appropriate choice of mode of working. The following points highlight some of the key factors that contributed to Shoprite’s success in Africa:

Suitability of business model

Most of Africa’s populated cities are home to middle to high income earners who yearn for quality of life, and Shoprite’s provision of a world class shopping environment and a wide range of products at arguably affordable prices meets their dreams of a better life. The opening of shopping centres and malls has been a feature of the Shoprite business model, as expressed by the Chairman of the group, C H Wiese in their annual report (Shoprite, 2008:8), “we have brought a developed country’s shopping experience to millions of people who have never been exposed to trading of this nature”. In essence, this goes beyond the activities of retailing; it is actually development, as the bright shopping outlets and malls have become part of a new urban development and modernity (Miller, 2006).

Mode of working

Shoprite’s choice of mode for its expansion programme has largely been by opening up its “own stores” in the countries where it operates. This strategy allows the company to have absolute control over all its operations, both local and foreign, and managing them from its head office in Cape Town. Park and Sternquist (2008) found that retail companies embarking on global strategies prefer opening branches or establishing wholly-owned subsidiaries for their international operations, although franchising has been widely used in this regard. This is because the wholly-owned entry mode allows for more control and involvement in the operations of the new establishment. Opening their own stores also offers potentially greater returns in terms of profit (Park and Sternquist, 2008).

However, wholly-owned subsidiaries or own stores are seen as the most expensive mode of internationalisation for any particular company as it requires more resource commitment, including management time and finance (Doole and Lowe, 2004). Doole and Lowe contend that this mode is used when a retail company is certain that its products and services will do well in the long-run, in a foreign market of a politically stable country, since it allows the internationalising company to have full ownership and the control necessary to meet its strategic objectives. Whatever ever the situation, the choice of entry mode is one of the most critical and strategic decisions the company has to make before attempting to internationalise (Venter et al., 2007).

Empowerment, jobs and training

Despite Shoprite’s approach of opening its own stores and shopping centres, it also invested and continues to
invest in the human capital of the foreign countries where it operates. The group employs more than 8 000 local people in its stores outside South Africa, some of whom have been trained to become managers (Shoprite, 2008). Further, local small scale farmers are being supported to upgrade their production standards so as to supply the Shoprite stores. It has also been reported that the Shoprite Zambian operation is already self-sufficient in vegetable supplies, thanks to the engagement with local farmers.

**Supply chain efficiency**

Selling fresh foods in multiple countries through wholly-owned stores could pose a logistical nightmare. But, thanks to Shoprite's sophisticated supply chain network and strategically located distribution centres this has been possible and it has been a success (Shoprite, 2008). Another important element here is their ability to develop the necessary skills, backed by advanced information systems, to enable them to source and deliver products to all their stores from anywhere in the world, says their 2008 annual report. This element summarises the whole essence of retailing - delivering products to the right customers, at the right place, in the right condition or form, and certainly at the right price. As indicated by Dawson and Mukoyama (2006) the most important function of retailers is to make a range of products available to consumers for potential purchase.

**Information systems and technology**

Information systems and technologies not only support supply chain management, but also management processes. For the Shoprite Group to manage all its stores and operations from one head office, it has to have reliable information systems and technology in place. They have invested in the most sophisticated information technology and systems available to the retail industry, and employ talented people to manage them, according to the Chairman’s report (Shoprite, 2008). With this advancement in information technology, their systems are able to place up to 490 000 orders per month to reorder products automatically from their existing suppliers, the report indicates. In his report Whitey Basson (Chief Executive Officer) indicates that their investment in information technology and infrastructure has improved efficiencies at all levels of the business, and no doubt the capacity to handle increased supply chain activity in an international context (Shoprite, 2008).

**DISCUSSION**

It has come to light from the Shoprite review that both political issues and company-level issues affect South African retailers in their quest to tap into the African market in a fulsome way. In an interview with the Classic FM business programme on 18 February 2009 (Shoprite, 2009b), Basson said:

"South Africa has not woken up to the fact that they are part of that big global village, and there are a lot of laws that need to be changed to make African traders work better with each other, in and out, it’s a hell of a job to actually get through the red tape and make trading easier. So I feel very strongly about it that they should look at that and say listen, as SA become part of the African continent and a leading role player, we should actually form some committee...that makes the trading easy; get [taxes] structured properly.... [so that] a truck can go to and be cleared within an hour going from one border to the next and not stand and wait for four or five days in between borders… I think we [are] just lagging in that process. Moreover, in her research into the conditions of Shoprite workers in Lusaka (Zambia) and Maputo (Mozambique), Miller (2006:36) found that “across the categories of age, gender, skill and permanent or casual status, workers felt misused and mistreated by Shoprite management”. Miller’s research reveals that workers complain about wages, working conditions, hours, and overtime pay. Due to high costs of living, the wages earned could not support their basic needs, although Shoprite’s pay bettered the legislated minimum wage at the time.

In general, the expansion of the Shoprite Group into the rest of Africa has shown that modality is important; and the issue of mode is much more than opening wholly owned stores, franchising and others, as it also concerns the relationship with local producers, suppliers and workers and other stakeholders. Speaking to Fin24 (Shoprite, 2009c), Basson had this to say about going into Africa:

"We can double our African business if we can get rid of all the red tape and all problems of just getting stores and merchandise out there. So it’s really still very, very tough and there is very little help from anybody, be they manufacturers or government from both sides to make the African continent a global trading area like you have in Europe or the Americas.

The review of the Shoprite story, and its African expansion strategies, demonstrate that the mode of entry into African markets is of strategic importance. While it is evident that there are still more opportunities for expansion into African countries, there are significant challenges, and these challenges revolve around the choice of entry mode. Therefore the concept of mode and mode differences are important as businesses have to
take some important decisions about mode. These observations from the Shoprite study suggest the following propositions:

**Proposition #1:** It is not easy getting into African markets; there are significant mode differences which present various challenges.

**Proposition #2:** Components of the modal issues and the nature of the challenges include:

a. Support for local economies, producers and suppliers, and labour is critical;

b. Efficient supply chain management, and good information systems help;

c. Movement of goods across borders can pose logistical problems;

d. Competition emerges as many South African retailers expand into the continent;

e. Government interventions are needed to open up the continent for trade.

The mode is therefore a mix of how these challenges are handled, and this is indicative of the mode choices. Moreover, the challenges regarding support for local producers and labour, and supply chain management are particularly important. South African retailers have come under scrutiny in recent years for dumping South African products in African markets, little support for local labour and pushing local companies out of business (Games, 2008); an issue Shoprite is said to be working hard on (Shoprite, 2008). Also, although most of the newly economically empowered populations of Africa want to spend their money in shopping malls, there are those people who are driven to be concerned about climate change because of the globalisation of the issues of climate change and the significance of carbon footprint management in running a business.

This raises the importance of merchandise range management, as some consumers might prefer locally produced organic products. Therefore, there might be a need for the re-ranging of product lines of South African retailers in their African operations.

The wider significance of the propositions established, and the relationships and interdependencies between them can be investigated by a review of other South African retail businesses moving in the same direction.

**OTHER SOUTH AFRICAN RETAILERS EXPANDING INTO THE REST OF AFRICA**

**Massmart group**

Massmart is a wholesaler and retailer of general merchandise and other streams of goods. Since 1994 the company has expanded its business operation beyond the borders of South Africa to tap markets in the rest of the continent. In its 2008 annual report, it is explained that the company now operates 12 Game stores in 10 sub-Saharan African countries outside of South Africa including: Botswana, Ghana, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Tanzania, Uganda and Zambia; most of the stores are said to perform better (in terms of sales) than their South African counterparts (Massmart, 2008). Other format stores are located elsewhere. The report also indicates that the company buys from local suppliers and also import from different countries including South Africa.

According to the annual report, the excellent performance of stores in Africa caught management’s attention, and “this prompted us to revise our earlier policy to limit our African footprint to one store per country (with exception of Botswana and Namibia)”. As a result there are new stores under development for Malawi, Zambia, Ghana, Nigeria, Angola, and others, as reported.

However, in an interview with fin24 the Massmart CEO, Grant Pattison indicated just how difficult it is to operate in African markets outside of South Africa, especially when it comes to acquiring property (Massmart, 2009). He said “we can work on a property for ten years” and explained how that can hamper their expansion process. Having said that, he also indicated that “the more difficult it is to operate, the more opportunity there is for a good operator” and in the final analysis they do not consider it particularly difficult to operate in foreign African countries (Massmart, 2009).

**Truworths**

Truworths is one of the leading South African apparel retailers, selling multiple brands of women’s, men’s, teenager’s and children’s fashions and related products (Truworth, 2008). Truworths is an investment holding company with subsidiaries. Like other South African retailers, the group is expanding into the continent, and currently operates 25 franchised stores in both foreign African countries and in the Middle East (Truworths, 2009). Unlike the Shoprite and Massmart Groups, however, Truworth’s strategy for expansion has been through franchising. The group has a presence in the following African countries beyond the borders of South Africa: Botswana, Ghana, Kenya, Lesotho and Tanzania under its multiple brand labels. However, reports of how well those franchised stores perform are not indicated.

**Woolworths**

Woolworths, like Truworths, is one of the major fashion and accessories retailers in South Africa; the company also operates a supermarket chain and pharmacies. It operates nationwide and also offers franchise opportunities, both in the local market and foreign African
countries (Woolworths, 2008). As reported, the company operates franchise stores in foreign African countries, including Botswana, Ghana, Kenya, Lesotho, Mauritius, Mozambique, Namibia, Nigeria, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. The performance of the franchised foreign operations is, however, not indicated (Woolworths, 2009).

**RETAIL MARKET OPPORTUNITIES IN AFRICA**

Retail opportunities in Africa are extensive, as some African countries are experiencing strong economic growth and are benefiting from political reforms. The “doing business” report of the World Bank (2008) indicates an increasing trend of countries implementing reforms to facilitate cross-border trade globally, and shows that Africa is at the forefront of this trend. The report observes that Ghana, Kenya, Mauritius, Rwanda and Tanzania have all reformed in recent years, and that African countries such as Botswana, Mozambique and Rwanda and Ghana have been able to create positive and stable governments. The resultant boost in their economies has been noticed, and the opportunities are clearly visible (Mahajan and Gunther, 2009).

As well as economic expansion, it is worth noting that the combined population of African countries is also growing rapidly. With Africa still showing the highest birth rate, its population is projected to reach two billion by 2050, despite average life expectancy remaining low (Venter et al., 2007). Within African countries there is a growing highly-educated labour force, that can make a contribution to companies expanding into the continent; there is also a growing proportion of middle-income earners who seek to enjoy the services of these companies.

In talking about the continent’s market size, potential and opportunities, Mahajan and Gunther (2009:3) help to put things in perspective:

> Africa has more than 900 million consumers. Despite the challenges, every day they need to eat. They need clean water. They need shelter, clothing, and medicine. They want cell phones, bicycles, computers, automobiles, and education for their children. Businesses are already seizing these opportunities in building markets across Africa.

As we have noted, prominent among the companies seizing opportunities in Africa are South African retailers, and this is evident in the rising shopping malls and South African retail stores in cities across the Continent (Miller, 2006; Mahajan and Gunther, 2009). Moreover, the increased communications connectivity and usage in African countries also opens up a lot of opportunities. The information economy report hailed this technology expansion as the source of the strong wave of innovation that changed the face of the global economy during the last quarter of the 20th century” (United Nations, 2007). With the launch of the East African Submarine Internet cable, that connects Eastern and Southern African countries to the rest of the world in cheaper and faster ways, ICTs will continue to be a positive factor.

However, Mahajan and Gunther indicate that most emerging markets have serious problems that cannot be ignored by businesses operating within them, and Africa has its own unique situation; this issue is discussed under the next heading.

**DIFFICULTIES IN THE INTERNATIONALISATION PROCESS**

Infrastructure (including transport, electricity, water, sanitation, medicine, and technology) has always been at the forefront of challenges faced by companies operating in Africa, but these challenges actually present opportunities to businesses that can meet them (Mahajan and Gunther, 2009). All the same, it is still difficult and costly to move goods from one country to another when there are poor rail and road networks (Economist Newspaper, 2008). This poses logistical difficulties for retailers who need to move perishable or fast-moving consumer goods from warehouses to stores, in geographically far-flung locations within the continent, as indicated earlier in the discussion of Shoprite.

Additionally, cross-border trade is affected by road blocks, red tape and slow custom clearances at most borders. As explained in his interview with Fin24 (Massmart, 2009), the CEO of Massmart said “[When] we supply goods into Lagos, it might take 12 weeks on the water, [but it can take] 14 weeks to clear”. Obviously, this precludes any consideration of the supply of fresh products.

**Conclusion**

As international retailing becomes a reality in Africa, the complexities of the phenomenon, coupled with the unique African situation, need academic attention to help demystify the process. South African retailers have moved into the continent quite cautiously, and most are achieving growth, in some cases even more than within their home operations. This generally positive experience merits more study so that it can be understood and used to accelerate the benefits for all, especially the African consumer.

This paper has focused on the mode of internationalisation as an important issue that demands the attention of retail managements considering moving into Africa. For example, it is interesting that Shoprite and general merchandise retailer, Massmart have opened
their own stores, whereas clothing retailers, Truworths and Woolworths operate via franchising. As a result, while Shoprite and Massmart have full ownership and control over their operations in foreign African countries, they nevertheless have to shoulder the challenges in those markets as discussed. In the case of their franchised counterparts, this has been avoided, at the cost of ownership and some control. It is already evident that there are many variations on these simple themes that all need to be studied and understood.

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