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## South Africa, Republic of

### Retail Food Sector

### Report

### 2003

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**Report Highlights:**

South Africa's economic situation and strength of the rand have improved in 2003, and some opportunities exist for U.S. food products in South Africa. The food retail sector continues to expand and supermarkets, convenience stores and forecourts are rapidly becoming the dominant food retail outlets. A boom in the franchise sector, convenience stores, and forecourts, which are good venues for imported products, provide better access and convenience for the consumers. Best prospects for U.S. products include wheat, animal fats, inexpensive frozen animal protein, and further processed grocery products.

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## I. Market Summary

South Africa, with a population of around 44 million people, possesses a modern infrastructure supporting an efficient distribution of goods to major urban centers throughout southern Africa and well-developed financial, legal, communications, energy, and transport sectors. South Africa's unpredictable economy makes medium and long-term planning for food retailers a challenging exercise. There are many players in the food retail industry in South Africa ranging from highly sophisticated retail chain supermarkets such as Pick n Pay, Shoprite-Checkers, Spar, Woolworths, etc; wholesale outlets such as Makro, Metro, Trade Center, Cash & Carry, etc; independent stores such as Biforce Group, Bargain Group, Shield Wholesalers etc; convenience chain stores including forecourts (gas stations with convenience type stores); traditional stores which includes independent stores such as general dealers, cafes, spaza shops, street vendors, hawkers and tuck shops etc, at one end to primitive little street corner stalls at the other end of the retail sector. The South African food and beverage market is becoming increasingly sophisticated and is supplied by both local and imported products.

South Africa has a two-tiered economy, one rivaling other developed countries and the other with only the most basic infrastructure. It therefore is a productive and industrialized economy that exhibits many characteristics associated with developing countries, including a division of labor between formal and informal sectors-and uneven distribution of wealth and income. The formal sector, based on mining, manufacturing, services, and agriculture, is well developed.

**Exports:** In 2002, South Africa's agricultural, fish and forestry exports reached a total of about R34.8 billion up from 26.5 billion in 2001. United Kingdom (3.9 billion), Japan (3.5 billion), Netherlands (R2.4 billion), United States (2.0 billion), and Italy (1.9 billion) were the country's five largest export destinations. In 2003, South Africa's agricultural, fish and forestry exports from January through August reached a total of about R22.0 billion. South Africa's major exported agricultural, fish and forestry products for 2002 were dried and fresh citrus fruit, wines of fresh grapes, undenatured spirits, frozen fish fillets and corn. In 2003, South Africa's major exported agricultural, fish and forestry products from January through August are dried and fresh citrus, wines of fresh grapes, frozen fish fillets and corn.

**Imports:** South Africa's total agricultural, fish and forestry imports for 2002 amounted to R17.3 billion, a 40.3% increase from 2001. The largest value of imports were from Argentina (R1.9 billion), United States (R1.6 billion), Brazil (R1.1 billion), United Kingdom (R1.0 billion), and Malaysia (R1.0 billion). In 2003, South Africa's agricultural, fish and forestry exports from January through August reached a total of about R10.8 billion. Thus far, in 2003 the leading suppliers are Argentina (R1.3 billion), Brazil (R0. 692 billion), United States (R0. 675 billion), China (R0. 648 billion), and Malaysia (R0.609). Cereals, animal fats, whiskey, and hardwood lumber were South Africa's 2002 major imported agricultural, fish and forestry products. Current trends indicate that South Africa will continue to supplement local agricultural production with imports, but imports will represent less than 30% of total retail value.

**Consumer trends:** South Africans enjoy new choices, but price sensitivity rules their behavior. A source survey in 2002 found that 47.8% base their decisions on price and 16.9% buy store brands because they are good value for money. Only 13.4% mentioned quality as a motivator, while 4.3% perceived the store brand to be equal to branded items. Store brand sales in the major stores increased by 0.2% in 2002. South Africa store brand increases have been driven by Pick n Pay Supermarkets and Spar stores with Spar's growth increasing from 9.8% in 2000, 10.8% in 2001 and reaching 11.7% in 2002, while Pick n Pay Supermarkets went from 11.2% in 2000 to 10.8% in 2001, and back up to 11.2% in 2002.

Store brand are outgrowing the market in all categories except toiletries and confectionery. Branded beverages grew by 17.7% while store label beverages saw a 25.8% growth. Household brands grew by 15.6% and store label household products had a 23.9% growth. Checkers Hyper and Shoprite Checkers experienced a decline in share.

South Africa is aggressively marketing local products and has introduced the "Proudly South African" campaign whereby consumers will associate the campaign with products and services made in South Africa. Sources report that recognition of the Proudly South African logo has grown from 10% to 64% with 32% of the population having seen the logo on products. Currently 20% - 30% of the population is consciously buying products with the logo on it. South African consumers now enjoy access to organically grown fruits and vegetables while having more brands to choose from on grocery shelves. Retailers, for example Pick n Pay and Boxer have opened stores in the townships, places that have historically been underserved by large supermarket style stores.

Trade sources report that chicken appears to be South Africa's most popular take-away food, with 44% of people who purchased takeaways in the space of a month choosing meals from a specialized chicken outlet at least once. Kentucky Fried Chicken, Chicken Licken and Nando's were voted the top three takeaway venues. Of the 43% who chose chicken (1.8 million people), 66% were black, 18% white, 8% colored and 7% Indian. The research shows that 4.2 million people (26% of the urban adult population) bought takeaways during the month surveyed. Kentucky Fried Chicken came out on top, with 1.2 million buyers, followed by McDonalds (446,000), Nandos (382,000), Spur (322,000) and Steers (310,000).

Franchising in South Africa contributes a massive 11.6% (including fuel) and 6.8% (excluding fuel) to Gross Domestic Product (GDP). The turnover for the franchise sector in South Africa is estimated at R134.7 billion. Turnover excluding fuel is estimated at R78.4 billion. Currently, there are 165 franchisers and affiliates registered with the Franchise Association of South Africa (FASA) and over 6000 franchisees. 89.7% of franchises in South Africa have been locally developed while 10.3% were developed internationally. Franchised convenience stores include: OK Mini Mark (previously 8-Till-late), OK Grocer, Sentra, Value Stores, Friendly Everyday and Friendly Shoppe.

Forecourt stores are a growing part of the South African retail sector, mirroring the international trend. The South African fuel sector (forecourt stores) has entered the convenience franchise market with franchised forecourt stores. BP Express Shop, Caltex Star Mart, Zenex, Engen Quick Shop, Exel Convenience Store, Shell Select and Total La Boutique all offer franchise opportunities with the investment required ranging from R30,000 to over R1 million. Forecourts have shifted in the emphasis from gas sales to added value. The in-store bakery is playing an increasingly important role in convenience and forecourt stores with baked goods forming an integral part of the offering. Convenience chains and forecourts anticipate a boom in convenience breakfasts, and currently programs are undertaken to introduce the breakfast-on-the-go culture to South Africa versus the sit-down breakfast. Industries are getting everything in place for the next big thing in meal solutions.

Trends in distribution channels show that outsourcing has become a major trend and is beginning to take off in South Africa. Outsourcing has a bright future ahead as more and more industries are focusing on their core competencies, contracting approximately 80%-90% of their non-core processes to the third party logistic providers. It is predicted that the outsourcing growth phase will continue for at least the next five years.

Internet sales: Although South Africans have become increasingly involved in on-line commerce, growth had been slower than expected. At the end of 2000, the growth rate was 18%, or 362,000 Internet shoppers. It is estimated that there will be approximately

1,800,000 by the end of 2003. Types of e-commerce transactions that are doing well in the local market include on-line Financial Services, i.e. banking and share dealing. In the food retail sector consumers may log onto the Pick 'n Pay online shopping site ([www.pnp.co.za](http://www.pnp.co.za)) and browse through their virtual aisles for home shopping instead of driving all the way to the store and spending at least an hour pushing a trolley up and down the aisles.

**Government Regulation:** The South African government passed legislation on shopping bags from May 2003 that all retailers have to offer the new 30 micron-government regulated shopping bag for sale, meaning no more free plastic bags for shoppers. No bags of any kind are available free of charge, and the normal charge for a plastic bag is R0.17 or U.S.\$0.03. This measure is intended to reduce waste caused by plastic grocery bags.

### **Advantages and Challenges Facing U.S. Products in South Africa:**

Advantages	Challenges
South Africans are developing a taste for western foods and are willing to try anything once.	Consumers may need to be educated in preparing and eating products.
The growing retail food industry needs imported food and beverage products.	Already acquired tastes and preferences for traditional locally produced products.
Importers and distributors can help develop heavy brand loyalty.	Consumers are price-conscious and do not exhibit brand loyalty. Products must constantly be promoted.
South African importers seek suppliers who can offer reliable and quality products at competitive prices.	Challenges for U.S. suppliers to respond to trade lead inquiries in a time fashion.
South Africa is a gateway for regional markets	Competition is stiff from other countries and locally produced products.
South African consumers view U.S. products as high quality.	Limited knowledge of retailers and consumers of the variety and quality of U.S. products.

## **II. Road Map for Market Entry**

### **A. Supermarket:**

#### Entry Strategy:

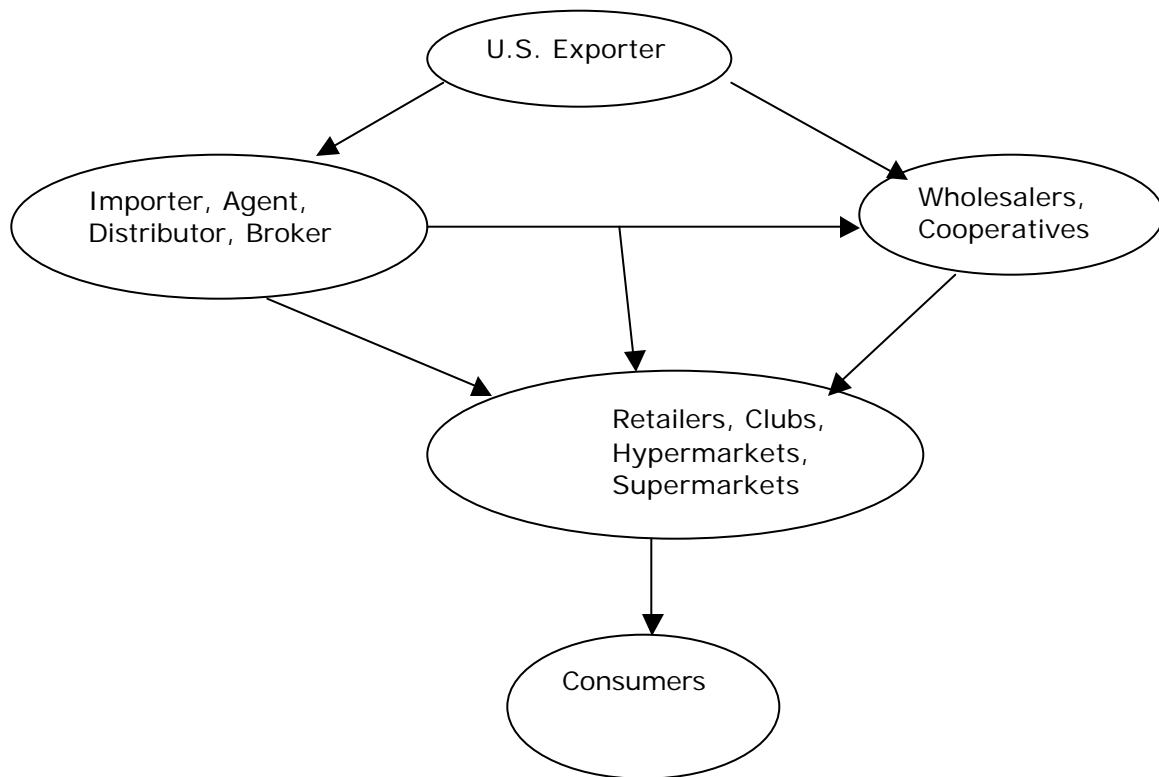
Success in introducing a product depends on heavy promotion and pursuing a product to the consumer. In South Africa's very competitive marketplace it is essential that U.S. exporters choose the correct agent or distributor. Evidence shows that the most successful U.S. company ventures are those that have researched their market thoroughly before engaging in a search for agents and distributors. Once contacts are established it is advisable to visit South Africa since firsthand knowledge of the market is highly useful.

In South Africa the terms "Agent" and "Distributor" have a very specific meaning. Agents work on a commission basis after obtaining orders from customers. Distributors buy and sell products directly to consumers. It is common to appoint a single agent capable of providing national coverage either through one office or a network of branch offices. In addition to their role as the local representatives of U.S. exporters, agents should be able to handle the necessary customs clearance, port and rail charges, documentation, warehousing, and financing arrangements. Local agents representing foreign exporters outside South Africa who exports goods to South Africa, are fully liable under the South African Import Control Law for all regulations and control imposed on imported products. Local agents are required

to register with the Director of Import and Export Control of the Department of Trade and Industry. It is important for a U.S. exporter to maintain close contact with the local agent to track changes in importing procedures and to ensure that the agent is effectively representing his or her interest.

Market Structure:

Basis flow of imported food products:



- Retail supermarket chains maintain their own distribution systems, using warehouses to allocate goods to supermarket branches.
- Depending on the arrangements, in some instances imports are handled by the supermarket chain’s head office or by branches themselves.
- Trends in the distribution channels show that some of the supermarkets are moving toward outsourcing the services of warehousing and transportation.

Major Supermarket profile:

Below is a chart of South Africa’s major supermarket chains. There are 2028 supermarket chain stores as show in the table below. For the most part, they offer much the same range of products and brands. Gaining a competitive edge through image and service is their major preoccupation. The retailers work hard at establishing their own particular appeal. Some, like Woolworths and Spar, do this by targeting a particular shopper segment, such as

upper income groups. Others, like Pick n Pay and Shoprite-Checkers group, go head-to-head more on price and “shopping experience”.

There continues to be a competitive marketing environment in South Africa and an increasing concentration of power in the hands of the four main food supermarket retail groups namely, Pick n Pay, Shoprite Checkers, Woolworths and Spar. The big retail groups all differ in terms of product range and clientele and are in fierce competition with each other. One common characteristics among these retail groups is enormous bargaining power. They are all able to dictate their buying terms to suppliers who are expected to deliver products to central depots or warehouses, where the products are then distributed to supermarkets and retail outlet stores. Shoprite-Checkers and Spar, for example, are very strong in the black areas (townships) whereas Woolworths is stronger in the smaller “up-market” segment. Most supermarkets sell their own-label products as well as manufacturer’s brands. The retail industry prefers to buy directly from local manufacturers. For imported products, some supermarkets prefer to deal directly with U.S. companies, because an import agent or a distributor acting as a middleman can add up to 30% to the cost of the product, resulting in less margin for the supermarket

Retail Name	Ownership	Turnover (\$Billion)	Numbers of Outlets	Location	Purchasing Agent Type
Pick n Pay Group: <ul style="list-style-type: none"> <li>- P n P Hypers</li> <li>- P n P Supers</li> <li>- P n P Family</li> <li>- Score</li> <li>- Ritevalu</li> <li>- P N P Minimarket</li> <li>- Boardmans</li> <li>- Franchise</li> <li>- P n P Gas Centers</li> </ul>	Local/International	21.8	411	Nationwide	Direct/Importer
Shoprite Holdings: <ul style="list-style-type: none"> <li>- Shoprite</li> <li>- Checkers</li> <li>- Sentra</li> <li>- 8 Till Late</li> <li>- Hyperama</li> </ul>	Local	Not available	641	Nationwide	Direct/Importer
Woolworths: <ul style="list-style-type: none"> <li>- Woolworths</li> <li>- Country Road</li> <li>- Woolworths (franchised)</li> </ul>	Local/International	Not available	237	Nationwide	Direct/Importer
Spar: <ul style="list-style-type: none"> <li>- Superspar</li> <li>- Spar</li> <li>- Kwikspar</li> </ul>	Local/International	Not available	739	Nationwide	Direct/Importer

2002 Rate: 1USD=8.6

**Pick n Pay:** The Pick n Pay Group is one of Africa’s largest and most consistently successful retailers of food, clothing and general merchandise. The group operates through three divisions, the Retail Division; the Group Enterprises Division; and Franklins Australia, each

with their own Managing Director and Management Boards. The Retail Division manages Pick n Pay branded businesses such as food, clothing and general merchandise in Hypermarkets, Supermarkets, Family Franchise Stores, Mini Market Franchise, Butcheries Meat Centers); and Gas Centers. The Group Enterprise Division manages other non-Pick n Pay branded group activities including Score Supermarkets, Boardmans, Business Development, E-commerce, property franchises, as well as finding new investment opportunities for the group worldwide. Franklins Australia operates 70 stores purchased in Sydney during the year 2002, and these stores are not included in the total number of outlets above. The emphasis of the supermarket division is on total convenience and freshness, with stores aiming to add value through the supply of irresistible fresh food. Pick n Pay has a total number of 411 stores made up of 14 Hypermarkets, 113 Supermarkets, 97 Family Stores, 3 Ritevalu, 36 Mini Market Franchise, 21 Boardmans, 114 Score Supermarkets, 3 Score Supermarkets Franchise, and 10 Pick n Pay Auto Centers. Additionally it owns 53 TM Supermarkets in Zimbabwe.

**Shoprite Checkers:** Shoprite is a holding company with investments in supermarkets, property, furniture and fresh produce companies. Across its operations, Shoprite now owns 641 stores in 14 countries. It plans to open a further 32 stores outside South Africa in existing territories, as well as Angola, Ghana and India in 2004.

**Woolworths:** Woolworths Holdings Limited (WHL) is a South African-based retail group that operates locally and internationally through two subsidiaries. Woolworths (Proprietary) Limited operates and franchises stores in South Africa, Africa and the Middle East; and Country Road Limited, listed on the Australian Stock Exchange, operates in Australia, New Zealand and Singapore. Woolworths offers select ranges of apparel, cosmetics, toiletries, footwear, jewellery and food under its own brand name. Country Road offers apparel and home ware in Australia under its own brand name. Woolworths has 237 stores, including 111 Owned Woolworths, 82 Franchised Woolworths, and 44 Owned and Franchised Country Road outlets.

**Spar:** The Spar organization is made up of two types of members: Spar Retailers who are independent store owners, and Spar Distribution Centers, which provide leadership and services to the Spar Retail members. Both members belong to the Spar Guild of Southern Africa, a non-profit company set up to coordinate and develop Spar in Southern Africa. The members pay subscriptions to the Guild, which uses these monies to advertise and promote Spar. The Spar grocery chain emerged in the 1963 when a group of 8 wholesalers was granted exclusive rights to the Spar name in South Africa, to service 500 small retailers. A number of mergers and take-overs followed, and today all but one of the wholesalers are owned by the Spar Group Limited which operates 6 distribution centers that supply goods and services to 739 Spar Stores in South Africa comprising of 75 Superspar, 475 Spar, and 189 Kwikspar.

## **B. Convenience Stores**

### Entry Strategy:

Major wholesalers and retailers own most of the convenience stores in South Africa, and contact has to be made direct with wholesalers and retailers concerned. Convenience stores operate on extended shopping hours. As with supermarkets, success in this field depends on heavy promotion and pursuing a product to the consumer.

### Market Structure:

The market structure is covered in detail under the supermarket section of this report.



Major Convenience stores profile:

Retail Name	Ownership (Local or Foreign)	Turnover (\$M)	Number of Outlets	Location	Type of Purchasing Agent
Friendly Shoppe's (previously known as Foodies Convenience)	Convenience stop shop owned by Metcash Wholesaler	Not available	53	Nationwide	Direct/Importer
30 OK Mini Mark (previously known as 8-Till late); and 85 Sentra	Convenience stop shops owned by Shoprite-Checkers	Not available	105	Nationwide	Direct/Importer

**C. Traditional Markets**Entry Strategy:

Food retailers in South Africa range from highly sophisticated supermarkets at one end to primitive little street corner stalls. Previously, predominantly black townships were virtually unserved in terms of retail infrastructure. Informal market retailers cater to the needs of the residents via independent grocery stores such as cafes, general dealer stores and several informal South African retail concepts (tuck shops, shebeens, taverns and spazas) including hawkers (known as street vendors). With the end of apartheid, major retailers have extended their services to these townships as well but spaza shops are making their presence felt. Marketers saw the spaza as the beginning of a new form of township convenience retailing, conveniently close to consumers, and open at extended hours.

Spaza shops are defined as small retail enterprises operating from a residential stand or home, engaged in the trading of consumer goods. Spaza shops operating mainly in the townships are making their presence felt in the local retail market. It has been estimated that spaza retailers captured about 2.8% or R7.4 billion of the South African retail trade in 2001. What is more, the findings of the source reveal that the turnover of spaza retailers in 2000 was larger than the combined turnover of branded superette stores operating in South Africa. About 70% of micro-businesses in South Africa are concentrated in the trade sector.

On average, start-up investment for spaza shops amounts to just over R4,000 mainly financed by private savings or loans from relatives or friends. Average employment amounts to almost 3 employees per business. Considering that the number of spazas may amount to over 100,000, this sector of the national economy could be providing between 230,000 to 290,000 jobs, and supporting more than a million people. The most important products sold by spaza shops are (in descending order): soft drinks, cigarettes, paraffin, candles, maize meal, alcoholic beverages, bread and sugar.

There is now growing awareness of the importance of the spaza retailers as a marketing channel among manufacturers and producers. More than 20% of spaza owners report that products such as soft drinks, dairy and bakery products are now delivered to their shops. The most serious problems encountered by spaza owners are shortage of trading stock/finance (38.8%), high level of crime and robbery (25%), severe competition (20.6%), expensive transport (19.7%), and bad debt or the granting of too much credit (17.1%).



Although spaza retailers are often seen as survivalist enterprises, it is clear spazas are becoming not only a permanent phenomenon on the South African economic scene, but more sophisticated and closely linked to the rest of the economy than commonly perceived.

#### Market Structure:

The market structure is covered in detail under the supermarket section of this report.

#### Traditional Market profile:

Wet markets in South Africa have traditionally been similar to those in most developing countries. Informal market retailers cater to the needs of the residents via cafes and several informal South African retail concepts (tuck shops, shebeens, taverns and spazas) including hawkers (known as street vendors). With the end of apartheid, major retailers are extending their services to these townships as well, but spaza shops are making their presence felt in townships as township convenience retailing.

### **III. Competition**

**Exports:** In 2002, South Africa's agricultural, fish and forestry exports reached a total of about R34.8 billion up from 26.5 billion in 2001. United Kingdom (3.9 billion), Japan (3.5 billion), Netherlands (R2.4 billion), United States (2.0 billion), and Italy (1.9 billion) were the country's five largest export destinations. In 2003, South Africa's agricultural, fish and forestry exports from January through August reached a total of about R22.0 billion. South Africa's major exported agricultural, fish and forestry products for 2002 were dried and fresh citrus fruit, wines of fresh grapes, undenatured spirits, frozen fish fillets and corn. In 2003, South Africa's major exported agricultural, fish and forestry products from January through August are dried and fresh citrus, wines of fresh grapes, frozen fish fillets and corn.

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Market promotions by other European countries such as United Kingdom are similar to USDA organized programs such as food shows, in-store promotions, and trade missions. South Africa is aggressively marketing local products and has introduced the "Proudly South Africa African" campaign with products and services made in South Africa. Trade source reports that recognition of the campaign has grown from 10% to 64% with 32% of the population having seen the Proudly South African logo on products.

#### IV. Best Product Prospects

##### A. Products Present in the Market Which have Good Sales Potential:

Products	1999	2000	2001	2002
Course grains	32.7	8.7	2.2	46.6
Planting seeds	6.9	11.8	7.4	12.5*
Pulses	0.5	1.4	0.20	2.8
Wheat	12.7	15.6	4.4	8.6
Vegetable oils	0.9	2.7	1.9	3.8
Animal fats	0.8	0.7	1.2	5.3
Hardwood lumber	13.8	18.2	9.4	11.2

Total U.S. exports of agricultural, fish and forestry products to South Africa totaled just over \$168 million in CY 2002. Rice, maize, planting seeds, hardwood lumber, wheat and animal fats were South Africa's major imported agricultural commodities. The US is one of the major suppliers of rice and wheat to South Africa and has increased sales in several consumer-oriented products. One of the growth areas is in intermediate agricultural products, where for instance, planting seeds increased from (\$7.4 million) in 2001 to (\$12.5 million) in 2002. This is the largest export level of planting seeds since CY 1970. Animal fats increased from (\$1.2 million) in 2001 to (\$5.3 million) in 2002.

##### B. Products Not Present in Significant Quantities but Which have Good Sales Potential:

The retail food sector continues to expand and supermarkets chains and convenience stores are rapidly becoming the dominant retail outlets. South Africans have always been big meat eaters, with fish often a second choice for shoppers. The demand for fish has increased and now more consumers are eating fish as a healthy alternative to meat as they realize the positive benefits of adding fish to their diets. Fish is anticipated to grow in sales in the South African market and imports have increased 40% from January to August 2003 when compared with 2002.

##### C. Products Not Present Because They Face Significant Barriers:

Most retail food products may be imported into South Africa with little or no import restrictions. However, there are import requirements and other factors that will affect U. S. agricultural imports, mainly non-tariff barriers, such as veterinary and health requirements, labeling, food safety requirements, and shelf life requirements. In July 2000, South Africa imposed prohibitive anti-dumping duties on U.S. chicken leg quarters, an action that has virtually cut off U.S. poultry exports to South Africa.

#### V. Post Contact and Further Information

If you have any questions or comments regarding this report or need further assistance, please contact AgPretoria at the following address:

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For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service's website at: <http://www.fas.usda.gov>