

# Opportunities and challenges for South African retailers

BY LAURA DURHAM

The South African retail landscape is dynamic to say the least. Retailers are dealing with challenges from all sides: customers' changing buying habits, the ongoing battle between independents and branded retail and the eminent entry of large foreign players, like Walmart.

But it is also full of possibility – as retailers launch new shopping platforms, improve customer communication with loyalty programmes and watch as private label continues to grow in market share.

"It's an exciting time", observes Craig Henry, Nielsen's director of retailer services at the breakfast presentation in April, 'The Retail Landscape in South Africa'.

## The new basket

Consumers in South Africa are among the most pessimistic in the world, with the Europeans leading on that front in Q4 2010, according to the Nielsen Global Consumer Confidence Index, which tracks consumer confidence (online), major

concerns and spending intentions among consumers. Food inflation has been on the rise since January / February this year and this is obviously affecting how much customers are willing (and able) to spend at the supermarket. "The growth rate of FMCG retail sales in South Africa has been declining. Year-on-year, retail sales grew

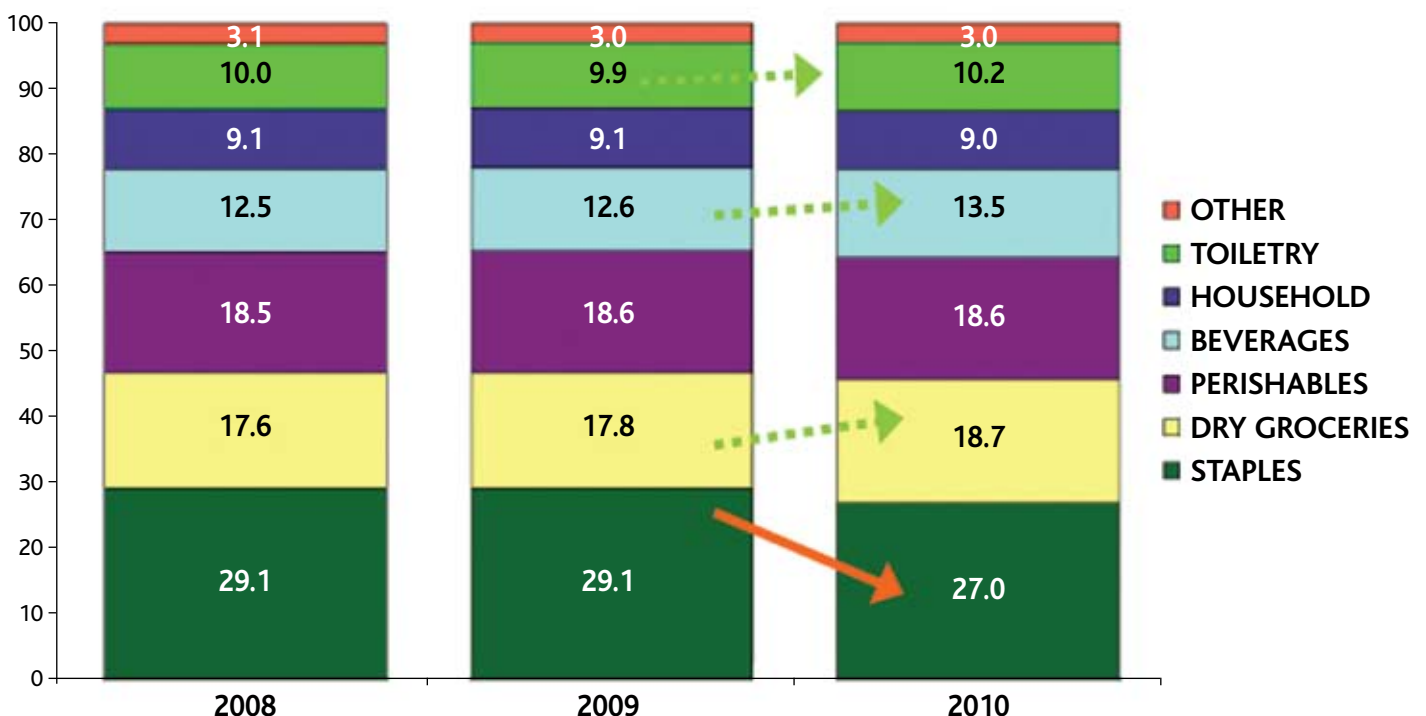
3.3% in 2010, compared to 14.6% in 2009," says Henry. "Price increases account for about 50% of the growth in 2010, compared to almost 82% in 2009," he adds.

The tightening of customer belts has also influenced what they are choosing to spend their money on, notes Henry. Since August last year, the petrol price has gone up 25% – which means that grocery lists have had to become leaner to compensate.

Staples have decreased in pricing in 2010 and have lost share to Dry Groceries / Beverages / Toiletries, which are at the highest contribution in three years. According to Nielsen's defined basket share of super groups (which excludes fresh products as its panel data), nearly 50% of the average basket is made up of Dry Groceries / Staples (see figure below). Staple categories – such as rice, flour, maize meal and margarine – have experienced deflation over the last year, much to customers' relief. Having to spend less on staples meant that customers could afford to spend more on Dry Groceries, which increased from 17.8 to 18.7%. ▶

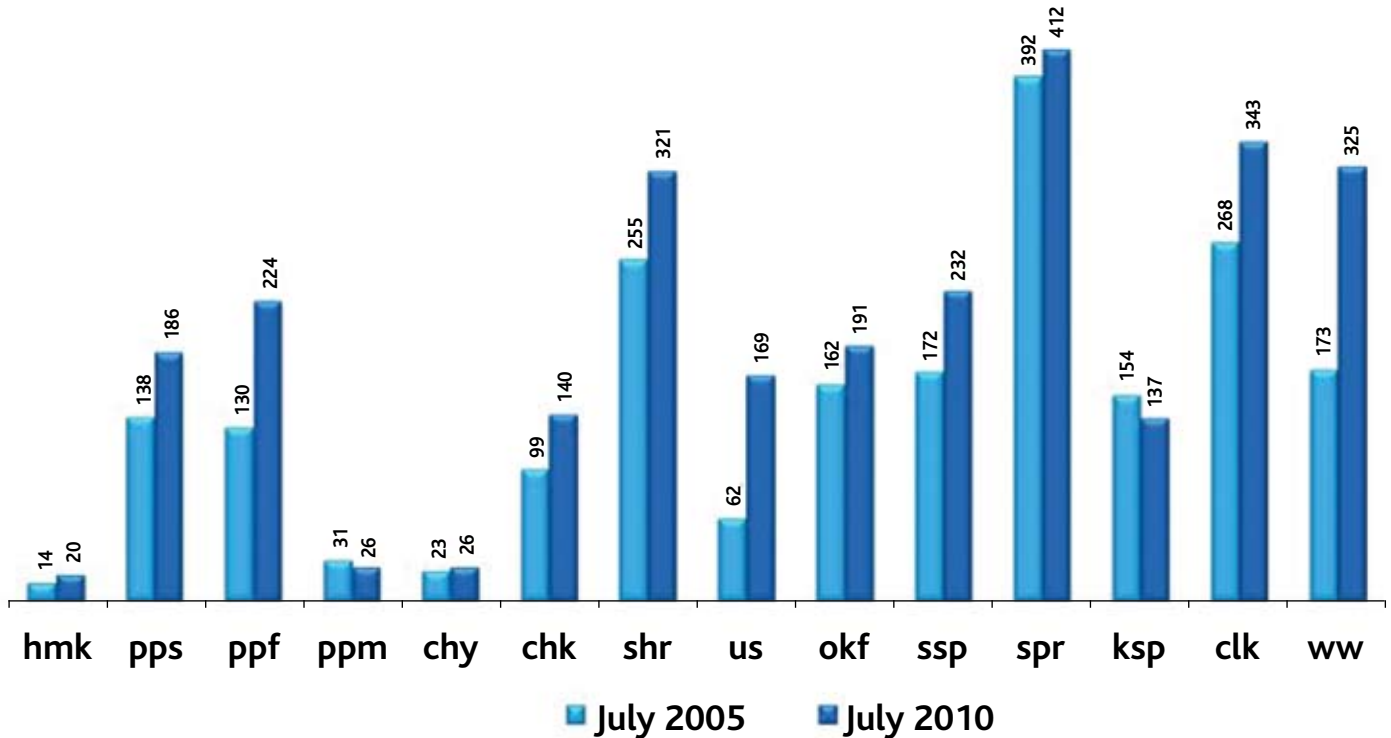
## DEFINED BASKET SHARE BY SUPERGROUP

### Staples losing share of basket with Dry Groceries, Beverages and Toiletry at highest contribution in three years



## STORE NUMBERS TRENDED FOR FIVE YEARS

We've seen massive growth on certain branded supermarkets and it seems set to continue



### TREND TRACKER ►

#### Retail penetration

The battle between independent and branded retail continues and independent stores are still losing ground to the four major retail groups. Henry attributes this to the fact that customers are spending less in the independent stores and even though they are making fewer trips to the branded retail stores, they are spending more per occasion. "But independent retail still has the highest level of penetration despite this sliding over the past three years," he notes.

As a result, the majors have dramatically increased their brand promotion and advertising in the hopes of penetrating more households. Shoprite, in particular has embarked on an intensive marketing and advertising campaign, spending more than any other company (R175 million). Opening new stores, revamping older ones and pushing into the township space more aggressively are all part of the growth strategy of all the retail groups. See figure above for the store numbers across the retail groups – note the massive growth in Pick n Pay Family stores (130 to 224) and Shoprite's U-Save stores jumping from 62 to 169 in five years.

"In particular, the competition is most intense when it comes to food," says Henry. "An all-out food fight is taking place as food grocers are seizing the moment to grab a share of sales adjacent to the traditional food basket. Ready-to-eat (RTEs) meals and in-store solutions in food are targeting out of home eating," he says. Groups that have chosen to diversify their business – into liquor, pharmacy, hardware and forecourt collaborations – are seeing tremendous growth (faster than their core business units). For example, Spar has over 400 Tops liquor stores; quite a significant portion of formal liquor retail in the country. Another good example of diversification is the collaborative formats between retailers and forecourts, such as Woolworths & Engen, Freshstop & Caltex, Pick n Pay & BP.

#### Evolving retailer strategies

Following the trend from their international counterparts, retailers are becoming better at driving margin and are doing so through three strategies, according to Henry:

##### 1. Evolving infrastructure

Retailers have embraced the idea of infrastructure for profit (some sooner than others) and the move to central distribution, rather than the direct to

store delivery (DSD) model, has pushed efficiencies back up the supply chain.

Retailers also need to have flexible retail formats. For example, "South Africa has seen an explosion of online shopping with internet PC users hitting the 6 million mark. 71% of these are confirmed internet shoppers with 50% having done so over the festive period," says Henry. But there is clearly still a lot of room for improvement in this space. At the moment the online grocery shopping experience is very much category driven, which is completely different to how a customer would typically shop a physical store. Henry suggests that retailers create an online experience that mimics a typical shopping flow (for example, starting off with fresh produce – leading on to the bakery – on to other service departments – then dry groceries and finally ending off at general merchandise).

##### 2. Effective consumer targeting

Retailers have also realised that a supermarket cannot have a 'one size fits all' blueprint because South Africa is just too diverse – with customers differentiated across regional, cultural and religious lines (at least!). For example, one Pick n Pay Family store must try and cater for

a customer base made up of a Jewish community, a mid-income working class segment, as well as walk-ins from the busy main road it looks onto! Knowing your customer base is therefore essential.

### 3. Consumer loyalty

Continuous shopper engagement has now become essential for retailers. Pick n Pay's launch of Smart Shopper – the loyalty card that earns shoppers discounts for future trips – has seen a great response from customers. And then there is, of course, the Clicks ClubCard and Dis-Chem's loyalty card, which allow customers to load on medical prescriptions at their in-store pharmacies, which have been around for ages.

"Loyalty programmes like these are a very powerful vehicle by which retailers can minimise promotional spend, in other words, throw less margin away," says Henry. The opportunity is there but it is up to retailers how they manage this loyalty data to improve promotional decisions.

Retailers need to engage and compete in a digital / social media world. "Your new store greeter is no longer a pensioner with a sash and a smile – it's a cell phone,"

he says. Just take, for example, Spar's My Spar promotion and Pick n Pay's mobi site. Interestingly, consumers in developing countries (like SA) are more likely to own a smart phone than those in developed nations – due to the lack of fixed lines etc. "The opportunity is there – the challenge is how to manage that space," Henry adds.

### The growth of private label


Private label or house brand products have shown significant growth over the past few years. This can no doubt be attributed to customers' recessionary buying habits (trading down) and improved perceptions – of packaging, quality and value-for-money – thanks to label revamps and increased prominence in-store. But there is still a lot of room for growth, says Henry. In Switzerland and the UK, for example, private label contributes 40% plus to the retail market. In South Africa, that figure is around 10.5% (minus fresh). What drives this growth? "Price and promotion intensity, category differentiation, weaker brand differentiation and the rate of innovation," says Henry.

The figure below shows the top ten private label categories of food.

### The Walmart effect

"The bottom line is that it will probably go ahead. It is going to be good for the industry. It will be good for all of us if we understand how to manage it well," says Henry. As industry leaders in supply chain, local suppliers are going to have to make sure that they are aligned to global terms and best practices in pricing. To then leverage any efficiencies to the rest of the supply chain, suppliers will need to take lessons learnt from the Walmart deal to other retailers. "It's going to optimise solutions across the board," he says.

And local suppliers may get the opportunity to leverage off a global network. Walmart is an industry leader at supply chain management/sourcing and local manufacturers can be expected to leverage this into efficiencies locally.

There are mixed views and opinions on how consumers will stand to benefit. Better pricing? Better experience? "South African retailers are already delivering well in this area so it will be interesting to see what Walmart can bring to the table that is clear to local consumers here in South Africa who are known to be highly price-driven." 

## RETAILER BRAND SHARE OF FOOD

### Top 10 categories by value

Average = 18.1%

