

The informal sector in SA in 2018

At a recent forum, the CEO of Trade Intelligence, Maryla Masojada, took the participants through the main drivers that enable the informal FMCG sector grow and prosper in SA at a faster rate than the conventional "modern and organised" supermarket sector.

At the start, Masojada outlined the current economic factors that affect all businesses, ranging from the growth in GDP (3,1% in the last quarter of 2017) to the consumer-confidence index (still negative, but on a better trend than the last four years) to food inflation (4% as at February 2018, with some evident deflation in bread and cereals, fruit and oils/fats) to the ratio of household disposable income to debt ratio (still an incredible 72% of consumer income accounts for debt).

Masojada reminded the audience of the pending petrol price increases and the huge unemployment rates that still prevail in the country. Irrespective of the negatives, some positives were evident with the election of the new president, Cyril Ramaphosa, but the fruits of an upturn were still elusive, as the business community was uncertain about the land issue and wanted to see concrete results in stamping out corruption and justice taking its course for those who have abused their power.



Winners and losers?

The accompanying illustration indicates the complicated range of offerings that the South African consumer have at their doorstep, not counting the informal sector.

Many of these "organised" retailers are starting to encroach onto the informal sector. Examples are Pick n Pay with its spaza supply programme and the branding of specific spaza shops; which in turn makes the environment at the lower end of the market even more competitive than in the past.

To illustrate the proliferation of new outlets, net growth of 1 500 new stores is now supported by empirical data. The food-buying pie is growing but those servicing the pie are growing at a much faster rate!

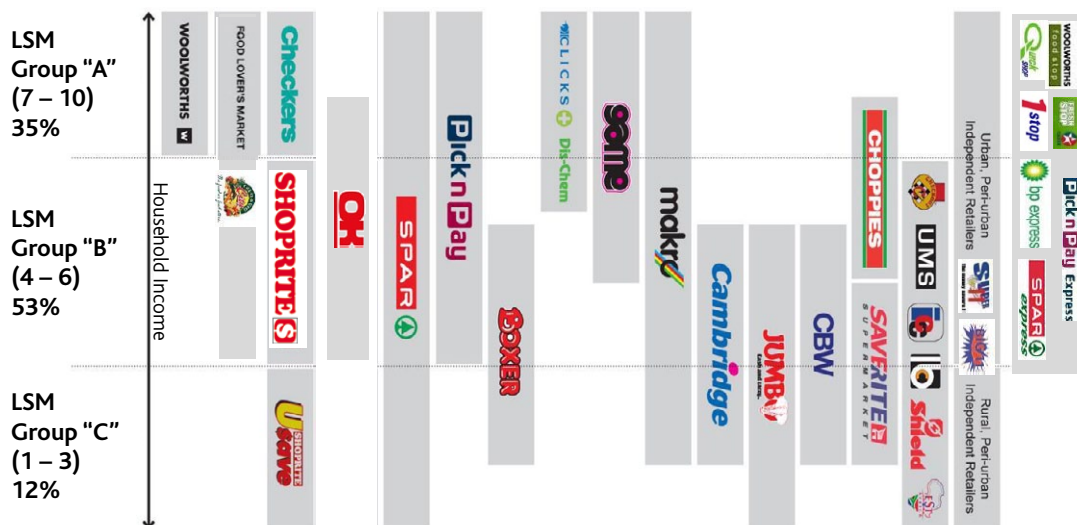
The independent wholesale sector

Masojada introduced the audience to the various players in this industry (ten major names and a proliferation of others) and the leaders according to Trade Intelligence are UMS, IBC, Jumbo/Shield and EST. Most

The South African Food and Grocery Retailing Landscape | The Market

Highly proliferated and increasingly concentrated playing field

Formats



+ - 1,500 4-year net new stores

Corporates continue to encroach on 'wholesale territory'

- Increasing Hyper movement into hybrid/bulk trading
- Investment in small format "spaza" formats (PnP)
- Servicing the bottom end consumer
- Independents stretched to compete

of them have developed specialised buying groups and in some cases, even branded outlets to address a variety of audiences.

The wholesalers are also major players in supplying the spaza sector, which has become the biggest growth area in informal food retailing in South Africa. These small stores, mainly owned by foreign nationals, such as Somalis and other Africans, Bangladeshis and other Asians, including Chinese, have mushroomed all over the country in areas ranging from traditional black townships to many rural towns. They play a vital role in the feeding of the nation and to many South Africa house/property owners, they have become a source of income, as the foreigners rent premises from South Africans.

The size of the cake

Trade Intelligence estimates that the informal market in SA is valued at R164 billion, which represents between 30% and 40% of the total food spend in the country.

It estimates that the sector consists of over 155 000 informal traders, ranging from general dealers and large local supermarkets to small/medium superettes to counter service/house shops/spazas and finally, table top hawkers. Thirty nine percent of the owners own smart phones and are able to place orders on line, as they do not have the time to shop physically.

Township independent supermarkets are on the decline, while the emergence of spazas has taken over this area of activity and, it is estimated, that up to 77% of the country’s population shops in the informal sector from time to time.

When they do shop around, the informal traders visit major outlets, especially the wholesalers, mainly on Mondays and Fridays, but spend no more than 30 to 60 minutes per visit, as they have to return to base.

The majority of the shopping trips are predetermined with prepared lists of staples and other requirements, but they do get tempted to buy when special displays and/or prices are available.

The main drivers of this market

Masojada shared the factors that will influence this market to spend more time and money in the wholesale sector. They are as follows:

- Value for money is a necessity – these consumers (informal traders) are extremely conscious and knowledgeable about the price:value equation
- Private label – many wholesale outlets are busy developing their own brand products. These have been well received by the traders
- Convenience – the informal sector shopper is looking for convenience both in terms of the outlets as well as the range of products stocked
- Evolution and consolidation of wholesale – many traditional wholesalers have developed into a hybrid model which provides goods and services to both bulk buyers and single item shoppers, while some outlets are merging or creating associations to improve their buying and selling powers

- Channel blurring – the major chains are also active in the informal sector market. Shoprite and USave, as well as SPAR, have been in these areas for years and now Pick n Pay not only supports the spaza business but also runs special spaza programmes at its Hypermarkets to supply these traders
- The impact of data and technology – new smart phone and computer ordering systems are being developed by some wholesalers and the shoppers are becoming more and more sophisticated when using their buying budgets

There is no doubt that the informal market has a big impact on manufacturers, retailers, wholesalers, distributors and the consumer.

The question is – where do you fit in and how do you make the most of this amazing phenomenon?



Why are foreigners taking over the spaza market?

The spaza market is open to anyone who is prepared to do ALL this:

- Be available to trade from 5am to 11pm, 7 days a week
- Have a bed/mattress at the back of the store for rest, as one normally sleeps on the premises
- No social life
- Join up with others to buy in bulk (the Gauteng Somali buying power is rumoured to be worth millions of rands)
- Sell at low margins but in large volumes
- Give credit to old ladies (“gogos”) until they get their SASSA pension money
- Give extra friendly service to all shoppers irrespective of age (children are big buyers in spaza shops)

It appears that our fellow South Africans prefer to collect rent, rather than abide by all of the above trading conditions. They should not complain when the market is taken over by foreigners!