The internationalisation of supermarkets and implications on suppliers in Southern Africa[1]

Reena das Nair[2]

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[2] Senior Lecturer and Researcher at the Centre for Competition, Regulation and Economic Development. University of Johannesburg. Journal articles and working papers that this paper draws from have been co-authored with Shingie Chisoro and Francis Ziba and are available here.

1. Introduction

Growing urbanisation in many countries in Southern Africa since liberalisation in the early 1990s has spurred the spread of modern supermarket formats. This has affected the retail landscape in urban spaces, but increasingly also in peri-urban and rural areas. The expansion of supermarkets both globally and in the Southern African region has not been limited to geography but has extended to the range of supermarket offerings and multiple formats targeting consumers in all income groups (Reardon and Berdegué, 2002; Weatherspoon and Reardon, 2003; Reardon and Hopkins, 2006).

Globally, this growth and spread of supermarket chains over the past three decades has transformed the way consumers purchase groceries and household consumable products. The 'supermarket revolution', or 'supermarketisation', as it is sometimes referred to, describes a growing share of food products sold through supermarkets. Along with supermarketisation, the 'internationalisation' of supermarkets through foreign direct investment (FDI) outside the home countries in which they were established has been characterised in the literature as occurring in 'waves'. Starting in the early 1990s, these waves saw a rapid catch-up of several countries and regions towards countries in Western Europe and North America that had supermarketised earlier over a much longer period. In these countries and regions, the food retail share of supermarkets increased sharply over a relatively short period of time (Reardon, Timmer and Berdegué, 2004 and 2005; Reardon and Hopkins, 2006; Traill, 2006; Reardon, Henson and Berdegué, 2007). In Africa, the spread of supermarkets has until recently been through FDI emerging from larger African economies.

Supermarketistaion and the internationalisation of supermarkets have important consequences for consumers and suppliers alike. Supermarkets benefit consumers by offering a one-stop shopping experience, a wide range of products and an overall shopping experience that is a package of more than just physical products at convenient locations (Betancourt and Malanoski 1999; Betancourt 2006; Basker and Noel 2013). Sometimes referred to as a 'price–quality–range-service' (PQRS) package, this offering can reduce overall costs for consumers, including transport, time, search, information and storage costs (Dobson, 2015). Competition between supermarkets as they spread into new areas can improve these offerings to consumers.

For suppliers, supermarkets allow for greater alternatives for the sale of their products. The spread of retailers opens up larger markets for suppliers to attain the scale to potentially become more competitive in national, regional and international markets.

The modernisation of procurement methods, escalating requirements and increasing private standards have impacted suppliers, requiring them to invest in developing their capabilities. Supermarkets, as a final link between suppliers and consumers play an important role in driving the development of supplier capabilities and facilitating their climb up 'the ladder' in regional or global value chains (Boselie et al. 2003). Large supermarket chains therefore have significant power and influence over suppliers and their development trajectory. A lack of competition in concentrated markets can lead to abuses of buyer power by supermarkets towards suppliers and can hinder their growth and development (Dobson, Waterson and Chu, 1998; Clarke et al., 2002; OECD, 2015; Dobson, 2015).

Modernisation of procurement systems, such as developments in sophisticated distribution centres, has further allowed suppliers to export their products through regional or global supermarket chain store networks. This has impacted trade patterns, especially inter-regional trade, and has also raised political sensitivities with regards to displacement of local suppliers (Reardon, Henson and Berdegué, 2007; das Nair, 2019; das Nair, Chisoro and Ziba, 2018).

Competitive rivalry between retailers is therefore important for both consumers and suppliers. Concerns have emerged around the possible anti-competitive conduct of dominant supermarket chains worldwide. In Southern Africa, these include conduct that results in rivals being excluded or prevented from locating in shopping malls or centres. Such strategic behaviour affects the course, pace and success of the internationalisation of supermarkets. Oher concerns include the unequal bargaining power, strong buyer power and the demanding requirements of supermarket chains, which often means that small and medium-sized suppliers struggle to supply them. The supplier base continues to be dominated by a few large suppliers who can meet these requirements. This hinders the participation and growth of new entrants and smaller suppliers in the region.

This paper assesses the internationalisation of supermarkets, the factors that affect this and the implications on competition and suppliers in the Southern African region. **Section 2** provides a literature review on supermarket internationalisation globally and on the interaction between supermarkets and suppliers. In **Section 3**, descriptive evidence on the trends in supermarketisation and internationalisation in selected southern African countries is presented, highlighting the different outcomes in the different countries. **Section 4** discusses the findings of the role of supermarket chains in driving regional trade patterns, the implications of their spread on the competitive landscape and the impact this has on supplier development. **Section 5** offers policy recommendations for developing regional suppliers, with supermarkets as key routes to market. This contributes to SADC industrialisation objectives and to goals of the African Continental Free Trade Agreement.

2. Literature review

In the context of retailers, internationalisation can be viewed as the extent to which retailers operate outside their home country. International retail operations have been defined as the operation, by a firm or alliance, of shops, or other forms of retail distribution, in more than one country (Dawson, 1994). This has been measured by different metrics in the literature, for instance, by the value or volume of total sales or profits generated internationally relative to total sales/volumes, or by the growth in the number of stores and the number of countries that a retailer operates in (or geographical spread) (Sullivan, 1994; Ietto-Gillies, 1998; Coe and Hess, 2005; Wrigley and Lowe, 2010; Coe and Wrigley, 2018). Linked to the internationalisation of supermarkets are the terms 'supermarketisation' or 'supermarket revolution', which broadly describes the trend in which retail food sales in a given country or region are increasingly happening through supermarket chains (Reardon, Timmer and Berdegué, 2004; Traill, 2006), marking a shift away of food sales from independent retailers and traditional wet markets.

Demand-side factors traditionally attributed to retailer internationalisation include growing urbanisation, increased per capita income, increased demand for convenience, services, product diversity and quality, and the rise of the middle class (Tschirley 2010; Weatherspoon and Reardon 2003; Battersby and Peyton 2014). Supply-side factors include outward retail FDI by multinationals, spurred by saturation of home markets and greater sales and profitability opportunities in developing countries (Humphrey 2007). These trends in outward FDI follow new market seeking motives of internationalisation where investors search for new markets given limited growth potential at home (Lall and Narula 2004; Narula and Dunning 2000; Dunning 1993). Growing economies of scale and scope, the modernisation of procurement systems including through centralised distribution, efficiency in logistics and inventory management, and the need to diversify risks have also been attributed to the spread of supermarkets.

2.1 Patterns of supermarketisation and internationalisation of supermarket chains

The supermarket revolution globally has happened in a number of waves. The first wave occurred in the more affluent South American countries (such as Brazil, Argentina and Chile), northern central Europe (Czech Republic) and East Asia (excluding Japan and China) in the early 1990s. In these regions, the food retail share of supermarkets increased sharply to 50–60 per cent in 2004 from 10–20 per cent in the early 1990s and as high as 80 per cent in some European countries. The second wave covered the spread in Mexico, Central America, South Africa, Southeast Asia and south-central Europe, although some studies place South Africa as part of the first wave (see Reardon, Henson and Berdegué, 2007). The share of food retailing through supermarkets in these regions grew from 5–10 per cent in the 1990s to between 30 and 50 per cent in 2004. The third wave hit India, China, poorer Latin and Central American countries, and Eastern Europe in the late 1990s and early 2000s with a share of food retailing through supermarkets growing rapidly from 10–20 per cent. The most recent documented wave, the fourth wave, involved mainly eastern and Southern African countries outside South Africa and Kenya, but also other South Asian countries (Weatherspoon and Reardon, 2003; Reardon, Berdegué and Timmer, 2005; Reardon and Hopkins 2006; Reardon, Henson and Berdegué, 2007).

In Africa, South Africa and Kenya were the front runners in the growth of supermarkets in the first round of expansion. Countries in the second round of growth are largely recipients of FDI from South Africa. Weatherspoon and Reardon (2003) predicted that the trend of giant waves of FDI by global multinationals such as Ahold, Walmart and Carrefour that had hit Latin America would probably spread to Africa around 2008.

The predictions in the literature in the early 2000s were that supermarketisation and internationalisation in developing countries would continue to be significant. Especially on the African continent, supermarketisation and internationalisation were predicted to take off rapidly and on a large scale in the mid- to late 2000s. It was predicted that global multinational or transnational supermarket chains (for instance, chains like Walmart, Carrefour and Metro) would enter Africa by around 2008-2010, repeating patterns evidenced in Latin America and East and Southeast Asia (Weatherspoon and Reardon, 2003; Reardon, Timmer and Berdegué, 2004; Traill, 2006).

These chains, and others, have indeed spread internationally, with implications on the levels of concentration in markets. At a global level, the share of the global market accounted for by the largest 100 retail firms has been steadily increasing (Dawson, 2007). In 2013, the constitution of the top 20 transnational retail chains in terms of revenues earned in international markets (dominated by grocery retailers) has been the same for the past decade, although relative positions have changed (see Coe and Wrigley, 2018). This highlights the concentration and dominance of the same small group of grocery retail chains globally who have held these positions for many years. This concentration is reinforced through the high barriers to entry given large economics of scale and scope, and other high sunk costs (Dobson, 2015; Ellickson, 2004).

2.2 Levels of concentration and market power

The high levels of concentration in many markets and the high barriers to entry are reflective of the oligopolistic nature of supermarket chains from an industrial organisation perspective. The International League of Competition Law in 2015 highlighted the degree of concentration in the grocery retail sector in different countries. In Australia, the Netherlands, Austria, Finland and Belgium, the 2- and 3-firm concentration ratios (CR) in the grocery retail sector were between 55 and 87 per cent. Therefore, 2 or 3 firms held between 55 and 87 per cent of the defined markets. The 4-firm CRs in Germany, Sweden and the UK were 85, 80 and 85 per cent respectively (Jenny, 2015). The levels of concentration in

Europe more broadly have also been increasing. In 2000, the top 10 European retailers accounted for 26 per cent of retail sales, and this increased to 30.7 per cent in 2011 (European Commission, 2014).

Theories of imperfect competition predict that such high levels of market concentration can reduce effective competition and can allow sellers (buyers) with market power to increase (reduce) prices. This raises concerns of firms with market power possibly abusing this power, not just in terms of raising prices, but through their strategic behaviour that can exclude rivals. This can have negative effects on consumers and on suppliers.

A type of strategic behaviour that has been prevalent in the retail sector in several countries has taken the form of restrictive vertical agreements between mall owners, landlords or property developers and supermarket chains as anchor tenants. Exclusivity clauses in leases grant anchor tenants the rights to operate as the sole supermarket in the mall/shopping centre. Property owners or landlords would then require permission from the incumbent if they wished to rent space to other ancillary tenants who overlap with the incumbent supermarket's offering. If incumbents refuse to allow new entrants into the premises, competition would be stifled in that location. By its very nature, leases with such clauses are exclusionary. With fewer competing supermarkets in a given location, customers are left with reduced choice in terms of product range, pricing and quality. While there could be efficiency justifications for exclusive leases, those that span long periods of time are more likely to be anticompetitive. Internationally, the Australian Competition and Consumer Commission and the UK Competition Commission have found exclusive leases to be an impediment to competition (Competition Commission, 2015).

Another key area of concern in several countries of the rapid growth of a few, large supermarket chains is the potential impact of the exertion of buyer power on suppliers. Concerns of buyer power of large supermarket chains and the impact this has had on suppliers have emerged in many countries such as the UK, Australia, Japan, Germany, Hungary, Bulgaria, Finland, the Netherlands, Austria and Romania, amongst others (OECD, 2015; Dobson, Waterson and Chu, 1998[3]). This can negatively impact supplier participation and the development of their capabilities, thus also hindering upgrading efforts into higher-value products or into global value chains. Buyer power is exerted mainly through controlling pricing in trading terms by dictating elements such as listing fees, rebates, advertising allowances, promotion fees, payment period terms, settlement discounts and new store openings fees amongst others (Clarke

[3] Buyer power has been defined when a firm or a group of firms, either because it has a dominant position as a purchaser of a product or a service or because it has strategic or leverage advantages as a result of its size or other characteristics, is able to obtain from a supplier more favourable terms than those available to other buyers (OECD, 2013: 23). It has also been defined as a situation where a firm or group of firms obtain from suppliers more favourable terms than those available to other buyers or would otherwise be expected under normal competitive conditions (Dobson, Waterson and Chu, 1998: 5).

et al., 2002; Reardon and Gulati, 2008; OECD, 2015). Supermarkets can also charge slotting allowances that food processors or other suppliers have to pay for to access shelf space or specific placements. Slotting allowances may help retailers screen products and determine which products are more likely to sell. Slotting fees can however also be a means by which retailers can extract rents or share of surplus from processors (OECD, 2013).

A combination of increasing retail concentration and significant barriers to entry limits the choices that suppliers have in terms of the competing means of distributing their goods in many countries (Dobson, 2015). In a number of countries, market inquiries or studies are initiated by competition authorities given such concerns around buyer power (Kobel et al. 2015).

2.3 The impact of modern retail formats and requirements on suppliers

Escalating supermarket requirements

Modern retail formats, requirements and procurement practices can also significantly affect the development and participation of suppliers. A defining characteristic of modern supermarket chains is the heavy investment in infrastructure and supply chain. Large investments include those in distribution centres (DCs), advanced internet technology, data collection and analysis systems, logistics and inventory management, and transport fleets and warehouses in order to get a wide range of products on shelves at the lowest possible costs. Modern supermarkets in many parts of the world have switched to centralised DCs instead of store-to-store procurement (Reardon and Hopkins, 2006). Since Sam Walton started the concept of building distribution centres to service Walmart stores in villages and small towns in the US in the sixties (Reardon and Gulati, 2008), supermarket investments in DCs have been a key pathway to retail modernization. DCs reduce transaction costs, coordination costs and congestion diseconomies. These can outweigh the transport costs to and from DCs that are located in more remote parts of the city (Reardon and Hopkins, 2006). The perishable nature of food further requires supermarkets to make large investments in storage facilities, and supermarkets are increasingly investing in cold storage DCs that can handle perishables. While DCs can also reduce the costs for suppliers, an implication is that small suppliers that only have the scale to supply some stores through localised procurement under a store-to-store model may be excluded. This is also driven by supermarket chains' requirements to maintain consistency across all store outlets nationally.

Supermarkets have also moved away from spot purchases to adopting specialised procurement agents, dedicated wholesalers or procuring directly from farmers and processors. Specialised agents and wholesalers can act as 'channel captains' and enter into relationships (formal contracts, including contract farming or verbal agreements) on behalf of supermarkets with processors and farmers to ensure quality and consistency is maintained. Dedicated procurement agents and wholesalers are usually efficient as they cut costs in terms of search, transaction and coordination costs. They also assist in maintaining private standards and contract terms between supermarkets and suppliers. However, this has shifted power away from small farmers and processors to supermarket chains. This further gives supermarkets more direct influence over pricing, quantities, terms of delivery and product quality. It has the adverse effect of shrinking the supply base by using only preferred suppliers (Altenburg et al., 2016) and bypassing traditional wholesale markets (Humphrey, 2007). A key reason for increased pressure on the supply value chain is the risk faced by supermarkets and increased competition to access shelf space. Humphrey and Schmitz (2002) emphasise the importance of continuity and consistency of supply in terms of non-price competition parameters such as quality, response time, and delivery, all of which affect supermarkets' reputation.

Procurement trends differ for categories of products. Supermarkets tend to source from medium-to-large suppliers of meat, dairy and processed food companies. Fresh produce also tends to be sourced from medium-to-large farmers (Reardon, Henson and Berdegué, 2007), which presents difficulties for small-scale farmers in developing countries especially if they do not supply export markets. Supermarkets tend to only source indirectly from smaller farmers through wholesalers and processors, but even these smaller farmers are those that have better capital assets and equipment, access to infrastructure and are more commercially oriented in that they use hired labour and chemical inputs and thus have training advantages (Reardon and Hopkins, 2006). Supermarkets typically prefer to procure from large suppliers to reduce transaction costs as large suppliers have the capacity to supply all the outlets of a supermarket chain, therefore ensuring sufficient volumes, consistency and quality of products. These changes in procurement practices have had an impact on the development of suppliers in the value chain.

The modernisation of procurement systems has therefore placed considerable pressure on suppliers with regards to the ability to supply the required volumes, maintain consistency, ensure quality, and contain cost of supplying products, amongst other factors as discussed below (Dakora, 2012).

Legal and private standards

Large supermarket chains globally are imposing escalating private quality and processing standards on suppliers (Boselie, Henson and Weatherspoon, 2003; Barrientos and Visser, 2012). This allows them to compete and create points of differentiation from rivals. These standards are over and above the country-specific and basic legal standards that suppliers have to adhere to. In the case of multinational retailers, international standards are often applied in all their operations (Gibbon and Ponte, 2005; Coe and Hess, 2005). Some of these standards however are not triggered by supermarkets, but by collective consumer and social movements. These include sustainability goals, responsible environmental practices, ethical sourcing requirements, fair labour practices, and corporate social responsibility, which may lead to conventions shaped by social movements. (Dallas, Ponte and Sturgeon, 2018).

The capabilities of local suppliers (particularly small-scale farmers, small food processors and producers of household consumable goods) to meet these standards and reach the required scale to compete with imports are important for their sustainability. Suppliers require significant capital, technological, managerial, organisational and financial investments and upgrades to meet these requirements. Marketing of fresh food produce to supermarkets has been particularly difficult for suppliers in developing countries as often the institutional, physical and financial infrastructure support systems are weak (including bar coding, packing houses, cold chains, shipping equipment, credit facilities, standards and certification processes). For fresh fruits and vegetables, sanitary and phytosanitary protocols are extremely important (Tschirley, 2010), especially for producers in developing countries. Suppliers are usually responsible for all activities up until the product is delivered to a DC or a supermarket, and suppliers are solely responsible for the costs of escalating private standards, and the accompanying audits by supermarkets.

2.4 Impact on regional trade

Acquiring the capabilities to meet these escalating standards are directly linked to patterns of trade of products sold through supermarket chains. Supermarkets have evolved to become 'global sourcing companies' and have important implications for regional sourcing, a potentially powerful avenue for growth in agro-processing and manufacturing value chains.

Supermarkets are more likely to source their products via imports if they are foreign-owned chains than if they are locally owned (Altenburg et al., 2016). A range of factors have facilitated this - lower relative costs of sea and air freight, tariff reductions, trade liberalisation, innovations in communications, improved transport systems and increased capital mobility (Brown and Sander, 2007). This is more so the case for regional sourcing, with transport costs being lower from the region given proximity than for deep-sea imports.

When foreign retailers first enter into a host country, they tend to import a large share of their supplies from their home base, and over time, they increase their share of local sourcing (Cattaneo, 2013). Using supermarket experiences in different countries (Shoprite's in Zambia and Madagascar, Carrefour's in Morocco and Tunisia and Metro in Kazakhstan), Cattaneo (2013) highlights three phases of connection to the 'global' value chain:

- Phase 1: Lead retailer in developing country imports most of its products given the lack of capabilities and capacity of local producers to satisfy its requirements and standards.
- Phase 2: As local producers build capabilities and capacity, they begin to grow their supplies to lead retailer.
- Phase 3: Local producers that meet high standards export their products to the retailer's regional/global network.

The duration of each phase is likely to be very dependent on the type of products, the existing level of supplier capacity and capabilities in a given country, as well as country-specific institutional and political factors. Foreign supermarkets are most likely to first source perishable agricultural products locally given the importance of short cold chains for such products. It is often only a few large farmers that can meet the stringent requirements of supermarkets, and it is these that are able to transition to exportation.

2.5 A framework to evaluate both buyer power and upgrading of suppliers?

A framework that adds value to the industrial organisation or competition economic concepts of buyer power is the global value chains (GVC) framework. A value chain describes the full range of activities that firms engage in to bring a product from its conception to end-use (Gereffi and Fernandez-Stark, 2011). GVC analysis evaluates inter-firm linkages and vertical relations regarding design, production and marketing of products, as well as value addition, which involves a chain of activities divided between different enterprises often located in both developed and developing countries.

Evaluating the implications on suppliers of the spread of supermarkets in Southern Africa through a combination of a GVC framework and industrial organisation approaches to buyer power enriches the understanding of global and regional value chains. Elements of each framework and tools for analysis strengthens the other. While there is a rich literature on GVCs, its use in assessing competition dynamics has been very limited to date. It is however an area where competition authorities in developing countries are becoming interested in to better understand and foster conditions where markets can work better.

A value chain approach can provide important insights into vertical dimensions such as the relationship between supermarkets and suppliers. An important contribution of the GVC framework is the governance of the chain and the impact of this on the upgrading and development of players in the chain. Governance is seen as the process of exercising control along the chain through specification of what type of product needs to be supplied, what quantity, at what price and how it should be produced (Gibbon and Ponte, 2005). Governance therefore refers to authority and power relationships that determine the allocation and flow of resources within a value chain (Gereffi, 1994; Dallas, Ponte and Sturgeon, 2018; Gereffi and Lee, 2012; Gereffi and Lee, 2014; Gereffi and Fernandez-Stark, 2011). The governance of value chains offers insights on the distribution of rents and power dynamics at each level and can add to the assessment of buyer power.

The GVC literature has recognised bargaining power as the most common form of power, usually in the context of dyadic and direct relationships between clearly identifiable buyers and sellers. This power has been categorised as 'coercive' power where lead firms 'utilize(s) incentives or sanctions directly to compel another actor to act according to their wishes' (Dallas, Ponte and Sturgeon, 2018: 1). While the

GVC literature has progressed and broadened to include other forms of power (Dallas et al., 2018), there is merit in going deeper into understanding dyadic and direct relationships between buyer and seller in GVCs through assessing buyer power from an industrial organisation perspective. Understanding when and how buyer power is exerted in the region, and the implications this has for supplier participation adds to the GVC literature. Similarly, the competition economics framework which has traditionally narrowly focused on consumer welfare in many jurisdictions can benefit from the wider perspectives a GVC framework offers in terms of the importance of upgrading and participation of suppliers in regional value chains. This allows for tailored policy interventions in value chains to reduce the ability of supermarket chains to extract rents at the expense of supplier participation.

Governance and buyer power are critical to understand opportunities or challenges to supplier upgrading. Upgrading can be categorised as process upgrading (the transformation of inputs into outputs more efficiently by reorganizing the production system or introducing superior technology); product upgrading (moving into more sophisticated product lines); functional upgrading (acquiring new functions to increase overall skill content of activities); and intersectoral upgrading (moving into new productive activities (lateral migration) (Humphrey, 2004; Gibbon, 2004).

Upgrading capabilities requires effort from all stakeholders in value chains including governments. Upgrading initiatives in the supermarket sector can include public and private investments in wholesale infrastructure developments, construction of distribution and warehouse facilities and developing cold chains. It can also include investment in systems to improve the sorting, grading, labelling, tracking, inventory maintenance and managerial systems of suppliers. Suppliers further have to upgrade in plant and machinery to meet food quality, health and safety standards; as well as packaging and logistics requirements.

The GVC framework has the added benefit of allowing for practical policy actions in terms of developing a particular level of the value chain, redistributing rents or upgrading certain actors, particularly in developing countries. This hybrid approach in understanding the impact of the spread of supermarkets on suppliers is utilised in this chapter.

3. Trends in supermarketisation and internationalisation in Southern Africa

The literature on internationalisation and supermarketisation suggests that the level and growth in income per capita is an important consideration for the spread of retailers. Greater income per capita indicates greater spending power. Consistent with the empirical literature, GDP, income per capita levels and population growth indeed appear to be key considerations in the expansion plans for the supermarket chains as reported in the public documents for the listed chains.

However, GDP average levels and growth rates are not the only factors that affects internationalisation. Countries with high GDP growth rates have not necessarily had the highest store growth rate. For instance, countries such as Mozambique, Mauritius and Tanzania have slow growth of supermarkets despite high GDP growth rates, although these generally have lower GDP average levels. Others, like Zambia, have relatively low levels of GDP on average, but have seen high growth rates (Table 1).

Table 1: GDP per capita average levels and growth; average urbanisation, 2007–2017

	Average GDP per capita (2007–2017, constant 2010 US$)	GDP per capita growth (annual %) Average 10yrs (2007–2017)	Average urban population % (2007–2017)	Urban population growth (2007–2017 average annual %)
South Africa	7418	0.8	63	2.1
Botswana	6892	2.4	64	3.6
Zambia	1501	3.2	40	4.2
Zimbabwe	956	2.1	33	1.6
Namibia	5508	2.0	44	4.3
Tanzania	761	3.5	30	5.5
Lesotho	1224	3.2	26	2.9
Mozambique	454	3.3	33	4.4
Mauritius	8605	3.8	41	0.0
Malawi	460	2.3	16	3.9
Angola	3622	2.4	61	4.7

Source: World Bank Open Data

Rising urbanisation levels are also claimed to be a driver of both supermarketisation and internationalisation (Reardon, Timmer and Berdegué, 2004; Tschirley, 2010). Aspirational consumption as a result of higher urban incomes and upwardly mobile consumers with changing consumption patterns has spurred retail investment in Africa (Abrahams, 2009). Table 1 above also shows the proportion of urban population for selected SADC countries. South Africa and Botswana have the highest proportions of urban population, followed by Angola. Angola has also had high urban population growth rates (between 2007 and 2017). Only one large chain from South Africa, Shoprite, has grown strongly in Angola, while the other chains have not entered or have a minimal presence. In Tanzania, there is a relatively low proportion of urban population, but one that is growing fast. However, there has been very slow growth of modern retail in the country.

Related to urbanisation, population levels and growth are also considered important factors by the retailers. Growing population means a growing customer bases, and with a combined population of over

900 million (excluding South Africa in 2015), sub-Saharan Africa is clearly attractive. Yet the most populous countries in Africa, like Nigeria, have not seen significant growth of modern supermarkets. Therefore, other factors such as culture, local policies and political economy issues, and proximity to suppliers are important in explaining some of the trends seen in the region. These are discussed in Section 3.1 and 3.2 below.

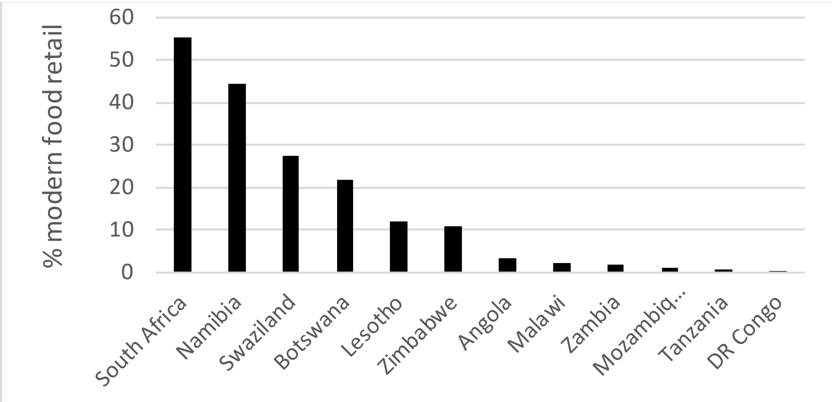
3.1 Spread of supermarkets in South Africa

South Africa has the most advanced grocery retail sector in the Southern African region. It is estimated that supermarket chains hold over 70% of the formal grocery retail segment, with the South African supermarket chains, Shoprite Holdings, Pick n Pay Stores, the SPAR[4] Group South Africa and Woolworths Holdings collectively holding a market share of 72% based on turnover figures for 2015 (Competition Commission, Grocery Retail Market Inquiry, 2019). The balance is held by relatively new entrants Fruit and Veg City (Food Lovers Market), Botswana-owned Choppies and Walmart-owned Game and Cambridge. Other estimates for 2015 (see Figure 1) suggest that modern food retail accounts for a lower 56 per cent of total food expenditure in South Africa (calculated as the percentage of all supermarket sales, both chains and independents, over total food expenditure). Rough shares based on number of stores also show that the main chains hold over 70% of the national market (see Figure 3; das Nair, 2017). Namibia can be seen as an extension of South Africa as it was under South African administration until March 1990. The relatively higher levels of food share through modern formats for Namibia in Figure 1 below are reflective of this, with a strong presence of South African retailers present.

The other countries in the region started their supermarketisation much later than South Africa (as part of the fourth wave identified in the literature), and the internationalisation into selected countries has essentially been mainly about the expansion and extension of South African supermarket chains into these countries.

[4] Not all the SPAR franchises in the region are South African-owned. In Zambia and Zimbabwe, the licences are owned by SPAR International (Netherlands), although SPAR South Africa is increasing its shareholding in these countries.

Figure 1: Modern food retail share in selected countries in Southern Africa, 2015



Source: Formalising African Retail, Sagaci Research, 2017 (underlying data AfDB, IMF and World Bank and Sagaci Research)

Data on South Africa show that the share of packaged food going through formal supermarket and hypermarket channels decreased from 69.7 per cent in 2003 to 65.2 per cent in 2017 (Euromonitor International, 2018), although overall share of sales of packaged food through modern retail channels has remained high in this period (around 80 per cent, but also declining, see Table 2). The share of 'traditional' grocery retailers in packaged food also declined slightly over the period from 14.3 per cent in 2003 to 13.1 per cent in 2017 (Table 2). However, it has not been lost to supermarket and hypermarket formats, but to convenience stores and forecourts, which in South Africa, nonetheless also belong to the large supermarket chains. The growth of forecourts and convenience stores reflects the mature nature of grocery retail in South Africa. Similarly, in fresh food, the share sold through traditional grocery retailers increased between 2008 and 2017, accounting for around 40 per cent in 2017 from 39.4 per cent in 2008 (Euromonitor International, 2018). In both packaged and fresh food categories therefore, the share through supermarkets and hypermarkets has reduced over the period considered. In Table 2, independent retailers are shown under the traditional grocery retailers' category. The traditional grocery retailer category, according to Euromonitor International, is dominated by independent small grocers, but also includes specialist food, drink and tobacco retailers, independent small grocers and other grocery retailers. This also, at least partially, covers informal retail through spaza shops that buy from formal retailers such as cash and carrys and from wholesalers.

In South Africa particularly, but also in the region, there has been a general narrative in the last ten years that growing supermarketisation has been at the expense of independent retailers.[5] This Euromonitor data suggests that supermarketisation has already happened in South Africa, and is now slowing down, and that independent retail has remained resilient. Since the early 2000s, South Africa

[5] See for instance, the terms of reference, submissions and testimony at the Competition Commission of South Africa's Grocery Retail Market Inquiry.

already had mature levels of supermarketisation. This maturity was reached early given apartheid economic planning with highly formalised economic structures serving mainly in white, urban areas. Traditional retailers and informal spaza shops were limited to township areas serving black communities during this time. Following the end of apartheid and zoning restrictions in South Africa, the formal supermarket chains took grocery retail closer to where majority of the population lived. This was seen through their spread into township, peri-urban and even rural areas. The share of food sold through supermarkets, however, did not necessarily increase as a result of this from the early 2000s. Supermarkets and hypermarkets already constituted a large proportion of sales of fresh and packaged food. What did evolve were the formats that the chains introduced in these areas to target lower-income consumers (see Table 3 below). This also led to the evolution of traditional independent grocery retailers to adopt alternative formats of retail through organising under buying groups[6] to compete with the new formats of chain supermarkets. Buying groups address some of the barriers to entry faced by independent retailers such as economies of scale in procurement and logistics, and advertising costs. These are an important alternative retail channel for both consumers and suppliers. While independent retailers have been resilient to some degree in cases where they have been supported by buying groups, these are not direct rivals to the full PQRS offerings of chain supermarkets and compete mainly with the lower-end format offerings of the incumbent chains in peri-urban and rural areas.

As highlighted in the literature review, these trends in supermarketisation are consistent with South Africa being part of the first or second wave of the supermarket revolution where shares of food retailing through supermarkets grew from 10–20 per cent to 50–60 per cent in the first wave and from 5–10 per cent to 30–50 per cent in the second wave between 1990 in 2004). The proportion of food sales through supermarkets and hypermarkets in South Africa was even higher than the literature estimated for the first wave with regards to the packaged food category. The declining supermarketisation in South Africa also points towards new market-seeking motivations for internationalisation, when there are limited growth prospects at home.

[6] The main buying groups - Buying Exchange Company, United Management Services, Independent Cash & Carry Group and Independent Buying Consortium - support many independent retailers under their respective banners.

Table 2: Share of packaged food sold through different retail channels in South Africa, 2003–2017

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
STORE-BASED RETAILING	**99.7**	**99.7**	**99.7**	**99.7**	**99.7**	**99.7**	**99.7**	**99.7**	**99.8**	**99.8**	**99.7**	**99.7**	**99.6**	**99.6**	**99.6**
Grocery Retailers	**94.3**	**94**	**93.8**	**93.6**	**93.5**	**93.4**	**93.2**	**93**	**93**	**92.8**	**92.6**	**92.4**	**92.1**	**92**	**91.9**
Modern Grocery Retailers	**80**	**80.1**	**80.1**	**80.1**	**80.1**	**80.3**	**80**	**79.8**	**79.6**	**79.6**	**79.4**	**79.3**	**79.1**	**79**	**78.8**
Convenience stores	4.9	5.1	5.2	5.5	6	6.3	6.6	6.7	6.8	6.9	6.9	6.9	7	7	7.1
Discounters	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8
Forecourt retailers	4.9	5.1	5.3	5.5	5.7	5.7	5.7	5.8	5.7	5.7	5.7	5.7	5.7	5.7	5.6
Hypermarkets	5.6	5	5	5.5	5.6	5.8	5.8	5.7	5.6	5.6	5.6	5.7	5.7	5.7	5.6
Supermarkets	64.1	64.3	64.1	63.1	62.2	61.8	61.3	61	60.7	60.7	60.4	60.2	60	59.8	59.6
(Supermarkets + Hypermarkets)	***69.7***	***69.3***	***69.1***	***68.6***	***67.8***	***67.6***	***67.1***	***66.7***	***66.3***	***66.3***	***66***	***65.9***	***65.7***	***65.5***	***65.2***
Traditional Grocery Retailers	**14.3**	**14**	**13.7**	**13.4**	**13.4**	**13.1**	**13.1**	**13.2**	**13.3**	**13.2**	**13.2**	**13.1**	**13**	**13.1**	**13.1**
Food/drink/tobacco specialists	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Independent small grocers	9.8	9.6	9.5	9.4	9.6	9.6	9.8	9.9	9.9	9.8	9.8	9.7	9.8	9.8	9.9
Other grocery retailers	4	3.9	3.7	3.6	3.4	3.2	3	2.9	3.1	3.1	3.1	3.1	2.9	2.9	2.9
Non-Grocery Specialists	**0.4**	**0.4**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.6**	**0.6**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**
Health and beauty specialist retailers	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Other foods non-grocery specialists	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Mixed Retailers	**5**	**5.3**	**5.5**	**5.7**	**5.7**	**5.8**	**6**	**6.1**	**6.2**	**6.3**	**6.4**	**6.5**	**6.8**	**6.8**	**7**
NON-STORE RETAILING	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.2**	**0.2**	**0.3**	**0.3**	**0.4**	**0.4**	**0.4**
Vending	0.2	0.3	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Home shopping	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Internet retailing	0	0	0	0	0	0	0	0	0	0	0.1	0.2	0.2	0.2	0.2

Direct selling	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Euromonitor International database, 2018

Note: All grocery retail includes modern grocery retailers (convenience stores, discounters, forecourt retailers, hypermarkets, supermarkets) and traditional grocery retailers (specialist food, drink, tobacco retailers, independent small grocers and other grocery retailers).

Most of the supermarket chains in South Africa have diversified their formats to include hypermarkets, supermarkets, convenience stores at fuel forecourts, liquor outlets and fast food offerings, amongst others (Table 3). Except for Woolworths, which only targets high income customers, all the chains have extended their offerings to multiple branded formats of differing sizes, targeting customers at different income levels. The different formats leverage off a common base in terms of logistics, distribution, sourcing and branding. Supermarket chains thus compete by offering a range of formats, with competition in any given market being between the stores of similar formats. The extent of different formats is more limited outside South Africa, highlighting the relative maturity of South Africa. This shows segmentation of markets, with fewer competitors within segments with the same formats. This has implications for competitive rivalry in given markets.

Table 3: Formats and offerings of the main supermarket chains in South Africa

	Shoprite	Pick n Pay	SPAR	Woolworths	Walmart/ Massmart	Fruit and Veg City	Choppies
Formats:							
Supermarket	✓	✓	✓	✓	✓	✓	✓
Hypermarket	✓	✓	✓	x	✓	✓	✓
Low-to-middle income segment supermarket	✓	✓	✓	x	✓	✓	✓
Wholesalers, cash and carry's, hybrids	x	x	x	x	✓	x	x
In store delicatessens	✓	✓	✓	✓	✓	✓	✓
Convenience store at fuel forecourts	x	✓	✓	✓	x	✓	x
Offerings (in addition to groceries and/or as separate outlets):							
Financial and other services	✓	✓	✓	✓	✓	x	✓
Fast food outlets	✓	✓	✓	x	x	✓	✓
Liquor outlets	✓	✓	✓	x	✓	✓	x
Furniture	✓	x	x	x	✓	x	x
Clothing	✓	✓	x	✓	✓	x	✓
Pharmacy	✓	x	✓	x	x	x	x
Other (electronics, DIY)	x	x	x	x	✓	x	x

Source: Websites and annual reports. Supermarkets and hypermarkets include food, general merchandise and personal care.

3.2 Spread of supermarkets in Southern Africa

The saturation of supermarkets in the South African market provides motives for the internationalisation of South African chains. The infiltration of multinationals and transnational retail chains from other countries outside the region has however not been as significant in Africa as the early literature predicted. Only three of the top 20 global grocery retailers (Coe and Wrigley, 2018) – Walmart, Carrefour and Casino – were present in Africa in 2018, with only one chain – Walmart – in Southern Africa. Carrefour, Metro and Casino are further operational in other parts of Africa, although to a very small degree. Walmart acquired an existing store network through its takeover of South Africa's Massmart in 2011. The number of grocery retail outlets of Walmart is still much less than the South African chains and in fewer countries in the region. Its expansion into the continent in terms of supermarket offerings has been limited. Instead, in Africa, it is mainly a handful of supermarket chains from South Africa and Kenya that have spread in the Southern and East African regions respectively.

South Africa, Botswana, Zambia and Zimbabwe were selected for the UNU-WIDER research. In the Southern African region, most supermarkets are South African-owned. Therefore, an evaluation of the South African supermarket sector is an appropriate starting point to understand dynamics in the region. As the only other African multinational chain in the region, Botswana's Choppies Enterprises has entered and grown rapidly in SADC in the past 10 years, recently entering East Africa. Its growth trajectory provides insights on internationalisation, as well as barriers to entry. Zambia has seen relatively fast-growing GDP, with a growing presence of South African supermarkets. This growth of foreign chains highlights the relatively low barriers to entry for supermarket chains in Zambia, including limited competition and few restrictions to FDI. Zimbabwe is studied given the relatively weak presence of South African supermarket chains, despite it being an immediate neighbour to South Africa. The reasons for this are discussed below and include political economy considerations.

Table 4 shows the main chains operating in Southern Africa and their ownership. What is seen is more a 'regionalisation' of mainly South Africa chains and more recently, Botswana-owned Choppies in the SADC region (see also Barrientos et. al., 2016; Crush et al., 2017). Transnational chains like Walmart and SPAR International, although present, have not grown as rapidly as the South African chains and Choppies.

Table 4: Formal supermarket chains operating in selected Southern African countries and their ownership

Botswana	South Africa	Zambia	Zimbabwe
Ownership: South African			
Shoprite	Shoprite	Shoprite	
Pick n Pay	Pick n Pay	Pick n Pay	TM/Pick n Pay – Zimbabwe/SA JV

Food Lovers' Market	Food Lovers' Market	Food Lovers' Market	Food Lovers' Market
Woolworths	Woolworths	Woolworths	
SPAR Group	SPAR Group		
Ownership: Global			
Game/Walmart – USA	Game and Cambridge/Walmart – USA	Game – USA SPAR International – Netherlands	SPAR International – Netherlands
Saverite (Walmart) – USA		PoundStretcher – UK	
Ownership: Other African			
Choppies – Botswana	Choppies – Botswana	Choppies – Botswana	Choppies – Botswana
Shoppers (Sefalana) – Botswana (only national)		Melissa – Zambia (only national)	OK Zimbabwe – Zimbabwe (only national)
			Food World – Zimbabwe (only national)

Source: Author's own compilation from annual reports and interviews

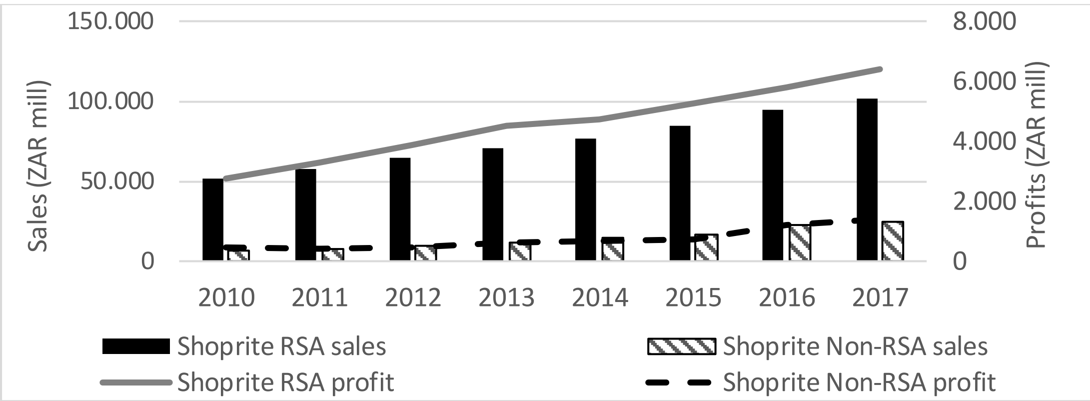
As described in Section 2, in the early 2000s, it was predicted that global multinationals supermarket chains would enter Africa by around 2010. While US' Walmart indeed entered Southern Africa in 2011 through the acquisition of South African Massmart Holdings, its entry in grocery retail through its Game and Cambridge store network has been relatively recent. The growth of these stores has also been very limited, especially outside of South Africa.

Regional supermarket chains have been more successful in Southern Africa than transnational retail chains. This suggests that there may be specific location advantages that have allowed regional supermarket chains to grow more rapidly in the region. One such location advantage is the proximity to strong supplier networks in South Africa, built over many years by the South African chains, around which sophisticated distribution systems and supply networks have been developed. The South African chains import significantly from their suppliers in South Africa for their store networks in the region as seen in regional trade flows assessed in Section 4.1 below.

Other factors that have affected internationalisation in Southern Africa include local policies and political economy dynamics. These have clearly affected the pace of internationalisation in the region. For instance, policies like the indigenisation requirement in Zimbabwe to have 51% local ownership of FDI under the 2011 Indigenisation and Economic Empowerment requirement (Chigumira et al., 2016) impact how easily multinational retailers can enter and grow in Zimbabwe. South Africa's Pick n Pay therefore has had to enter through a joint-venture with Zimbabwean chain, TM Supermarkets. Similarly, the national protection of certain local food industries, like cooking oil or poultry, and 'soft' local content policies in some of the SADC countries limit the ability to expand if there is lack of local production capacity. Political economy dynamics, such as preferential treatment towards certain players by governments (which has included import tariff and tax concessions, amongst other favourable treatment towards certain chains in the selected countries) or lobbying by powerful interest groups for support for specific industries further has an impact on the pace of spread.

Shoprite Holdings is the largest chain in terms of store numbers and revenue in the region. While having grown in terms of store numbers and revenues outside South Africa (Figure 2), it has not grown significantly beyond the region.

Figure 2: Shoprite's South Africa and non-RSA supermarket sales and profits, 2010– 2017

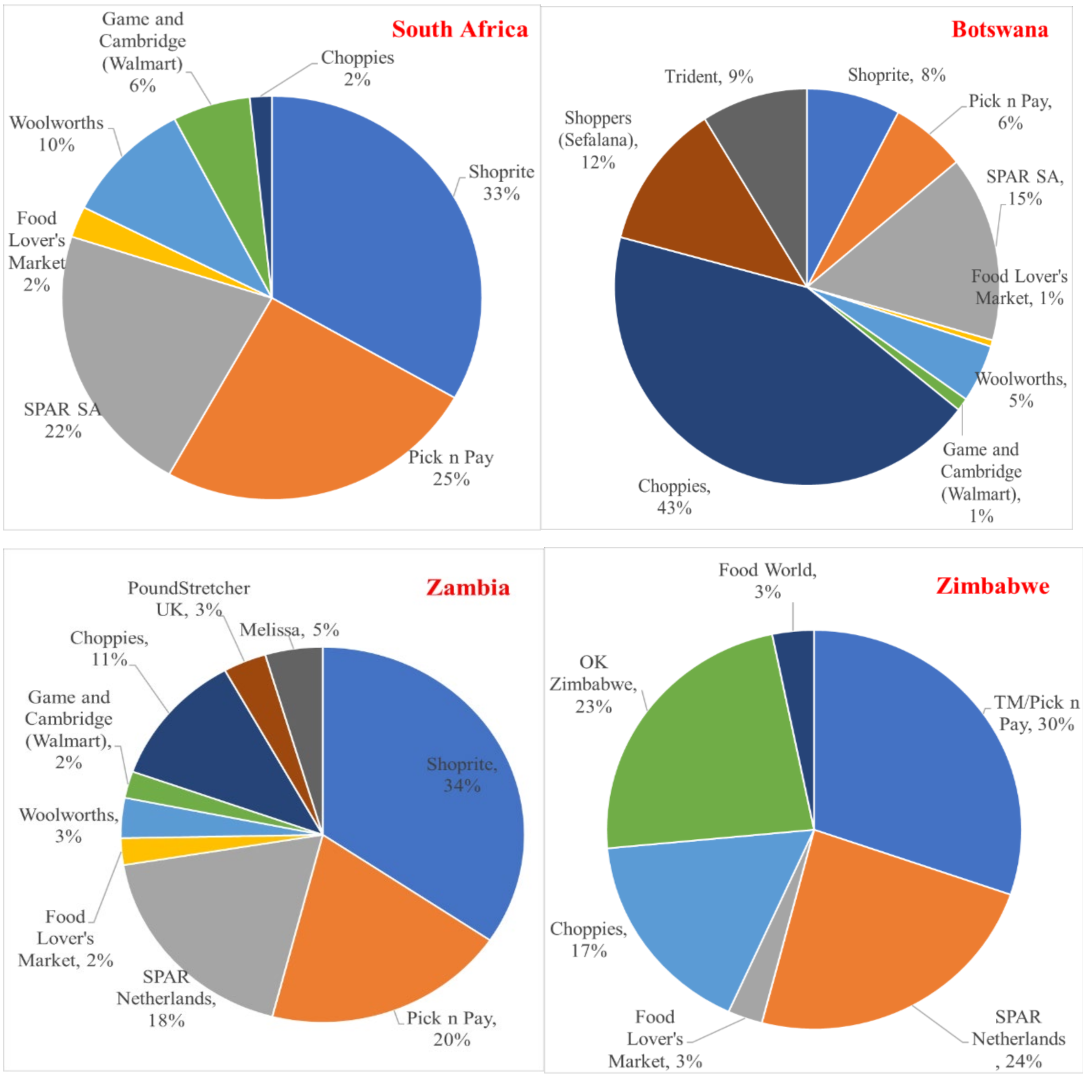


Source: Shoprite annual reports
Note: The sales figures represented by bars are on the primary (LHS) axis, while the profit figures represented by lines are on the secondary (RHS) axis

Estimated proportions of supermarket chains in terms of store numbers in each of the selected countries is shown in Figure 3 below. South African supermarket chains accounted for significant proportion of the number of supermarket stores in selected Southern African countries (Zambia (59 per cent), Botswana (35 per cent) and Zimbabwe (33 per cent, although this is through the TM JV)[7] in 2017.

[7] Revenue or sales data by country for each supermarket is a better measure of relative size in each country. This data is, however, not consistently publicly available per country for all supermarkets.

Figure 3: Proportion of stores of formal supermarket chains in selected Southern African countries, 2017



Source: Author's own compilation from annual reports and interviews

Note: These only include grocery retail outlets of the chain as far as possible. It also does not include independent retailers and retailers under buying groups.

Figure 3 however does not show the extent to which independent retailers, both formal and informal, participate in these countries. The formal independent and informal retail landscape in each country differs widely.

4. The role of supermarket chains in driving regional trade patterns, and the impact on competition and supplier development

4.1 Impact on intra-regional trade

The expansion of supermarkets is driving important changes in the trade of food and household products within the region. Increased intra-regional trade reveals improving capabilities of suppliers as it shows that suppliers who are exporting have engaged in upgrading to meeting the standards and requirements of supermarket chains.

Table 5 uses trade data to show trends in export values from South Africa to the SADC region between 2001 and 2018. The products selected include those that are part of a typical basket of products that customers would purchase from supermarkets, such as fresh fruit and vegetables, fish and meat, processed food products like coffee, tea, milled products like maize meal and flour, cooking oils, sugar and confectionery, dairy products and beverages. It also includes household consumables like soaps and detergents. Cereals (such as wheat, rice, rye, barley, oats, maize, corn), although not processed to the degree of the products mentioned above, are also included.

A large proportion of supermarket products in Botswana, Zambia and Zimbabwe, and in the rest of the region, are imported from South Africa. Past studies have also highlighted this (see Emongor and Kirsten, 2009; Ziba and Phiri, 2017). The value of South African exports of supermarket products to the region has been growing, highlighting the importance of the region to South African suppliers. This is largely a result of the South African supermarket chains with store networks in host countries continuing to import from their established supplier bases in South Africa as they spread (see also Goldstein, 2003; Charalambides, 2013; Bronauer and Yoon, 2018). The rapid growth of South African exports into the region is closely linked to the supermarket take-off mainly South African chains which started in the early 2000s (concurring with past studies that claim that the growth of supermarkets is associated with increased trade of processed foods (Reardon and Weatherspoon, 2003)). This happens essentially through 'intra-firm' trade within supermarket chains, importing from South Africa mainly through their DCs located in South Africa.

Both Pick n Pay and Shoprite serve their stores in the region through massive DCs located mainly in South Africa. Shoprite's centralised distribution network enables the management of the supply of products to its stores across the continent. Choppies Enterprises also has five DCs across eight countries for groceries, as well as fresh and perishable produce DCs into which it imports products from South Africa and deep-sea sources. The rise of regional procurement systems by South African supermarkets stimulates intra-regional trade in SADC. As noted by Weatherspoon and Reardon, this is through 'essentially using the powerful logistical mechanisms of supermarket procurement systems to collapse the fragmentation of markets' (2003: 14).

As seen in Table 5, the compound annual growth rate (CAGR) of all exports from South Africa to the SADC region was around 12 per cent between 2001 and 2018. The growth of exports of a number of supermarket products (11 out of the 15) have matched or outstripped this average growth rate in all product exports.[8] There are obviously also other factors that affect these patterns of exports that are not directly linked to supermarket expansion (such as demand-side considerations, tariff and non-tariff barriers).

This trade however has generally mainly been one way, with South African supermarkets in the SADC region importing from their established supplier bases in South Africa. A key reason for this skewed pattern of trade is the lack of capabilities of suppliers in the host countries that South African supermarkets operate in, which negatively affects the reliability, quality and consistency of supply by local suppliers, as well as the ability to supply large volumes for all stores within the chain. This has been compounded by onerous requirements and buyer power of supermarket chains discussed in Section 4.3 below. South African imports of supermarket products are instead mostly from deep-sea markets.

The potential for large supermarket chains to be strong catalysts for more equal two-way trade in the region is substantial. This is especially the case for suppliers of value-added products in countries that have the potential to manufacture consumer products that are demanded in the region. Presently, trucks of the main supermarket chains leave South Africa full of products but come back to South Africa from the region largely empty.

There are also other reasons for this skewed trade. Tariff and non-tariff barriers impact trade of supermarket products. Despite the countries being part of SADC, each country pursues its own policies to protect respective national industries and local suppliers. These restrictions are a lever which can be deployed by governments, including in response to local lobby groups. These restrictions can take many forms, including local content requirements and trade restrictions. Local content policies require MNEs to source a minimum proportion of goods locally (Altenburg et al, 2016).[9] The different countries further have different import restrictions that serve to protect local manufacturing industries. Some of these import restrictions, such as duties and quotas, are put in place following heavy lobbying by powerful interest groups and in many cases, serve to support a handful of powerful producers/manufacturers. This affects the internationalisation of supermarkets, especially in countries

[8] It should be noted however that the use of CAGRs only offer very high-level insights on the trends in the growth in exports. There is considerable variation within years and a simple CAGR masks these nuances.

[9] There are implications for enforcing local content and local sourcing requirements under World Trade Organisation (WTO) law. The significance of this on regional supplier development requires further research.

where a large proportion of products is imported given very limited local manufacturing capacity and capabilities. In the selected countries, protectionist measures are strongest in Zimbabwe with high import duties levied on a range of supermarket products (such as cooking oil, maize meal, rice, salt and wheat flour). In Botswana and Zambia there have been outright bans on imports of poultry and maize meal, and other non-tariff barriers such as vitamin A fortification for sugar and non-GMO requirements for grain (in Zambia). While South Africa, Botswana and Zambia have 'softer' local content requirements for supermarkets, Zimbabwe's competition and tariff by-laws set a hard threshold that stipulate supermarkets are to procure at least 20 per cent of products locally (Chigumira et al. 2016).

Table 5: South Africa's exports of supermarket products to SADC (2001–2018), Value in US$ thousands

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	CAGR
All products	3030030	3041804	3634628	4119952	5012936	5250319	6456586	8945898	7239417	19954518	22727881	23728310	23608438	23820684	20438773	18572435	20252990	21737888	12%
Fish and crustaceans, molluscs and other aquatic invertebrates	9866	9806	10469	11016	13941	19783	16670	12338	15596	41687	48579	48615	56839	52463	44411	42002	38361	39573	9%
Cocoa and cocoa preparations	4995	6685	8449	8447	15622	10837	11455	14342	18572	44541	51085	48090	44787	54176	49210	40847	50882	49580	14%
Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	4979	5483	6654	8399	7469	9728	9950	10579	12404	66063	77765	84494	76540	78754	72932	68981	82152	73362	17%

Coffee, tea, maté and spices	9866	7971	7130	9772	7503	10883	8364	12007	16972	83621	87109	95688	95575	100046	91576	86081	102511	108167	15%
Products of the milling industry; malt; starches; inulin; wheat gluten	27837	50166	29269	16808	112920	21379	18722	68246	94957	160462	176429	205043	227288	203204	171515	184881	160762	128553	9%
Edible fruit and nuts; peel of citrus fruit or melons	18098	23125	34082	38734	19537	31889	37735	38354	36731	138213	138650	143833	148637	137805	131678	122697	131121	139137	13%
Meat and edible meat offal	13904	16774	13400	10032	7681	8208	9935	16221	41868	201944	193711	170233	157038	185986	172732	154787	175702	156091	15%
Edible vegetables and certain roots and tubers	13881	15335	21635	20027	21088	25532	24892	27300	29626	153670	165357	163553	162321	166465	147980	162207	169277	165361	16%
Animal or vegetable fats	25435	24409	27564	27861	27253	28397	27071	47351	99353	248927	335605	352457	268725	257174	228882	237125	224911	214925	13%

and oils and their cleavage products; prepared edible fats; animal ...																			
Cereals	40693	145064	137499	93132	217080	130162	31620	503497	172598	316581	349596	375667	444115	463105	344852	409920	300854	217808	10%
Preparations of cereals, flour, starch or milk; pastrycooks' products	14006	15419	18982	17291	16629	19936	26342	41782	57522	171586	199479	203585	209052	220515	200494	191213	220383	224273	18%
Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere ...	26461	37368	36059	29905	22352	27262	29900	46641	66705	223074	236418	258960	280101	286834	244831	205146	250156	238849	14%

Preparations of vegetables, fruit, nuts or other parts of plants	15026	18881	25471	24590	26953	31065	36762	52127	73641	233760	245016	240168	231677	258489	242304	220540	247042	256120	18%
Sugars and sugar confectionery	70761	73574	91120	86193	46354	104842	111168	108989	138065	373485	351624	350418	409855	331744	234392	206091	243066	276244	8%
Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial ...	56779	48157	61930	64200	69499	83161	77051	106935	141856	364099	429195	420413	440065	401602	381253	339911	388223	406801	12%

Source: TradeMap (based on UN Comtrade)

4.2 Impact on competition

Notwithstanding the slower than expected internationalisation, the spread of supermarkets in the region has impacted the competitive dynamics in markets and has had significant implications for consumers and suppliers. In turn, the pace of internationalisation and supermarketisation has also been affected by competitive dynamics in markets.

In South Africa, the exertion of market power of the large supermarket chains has been an area of concern for competition authorities. In South Africa, the Competition Commission (CCSA) undertook a Grocery Retail Market Inquiry (GRMI) looking into various concerns of market power. Even prior to the inquiry, complaints were lodged against the large supermarket chains engaging in strategic behaviour to maintain their first-mover advantage. This was mainly with respect to 'locking in' of lucrative store sites by entering into long-term exclusive leases with property developers in shopping malls.[10] Following such complaints and other concerns, such as buyer power of supermarkets and the displacement of independent retailers in townships, the CCSA investigated this as part of the GRMI.

The use of exclusive leases in shopping malls is a historically widespread practice in South Africa. Supermarket chains enter into leases in prime shopping locations with property owners that contain exclusivity clauses. This prevents new entrants from locating in these retail spaces, limiting their ability to enter or expand. An outcome of incumbency advantages and path dependency, this conduct acts as a barrier to entry and expansion and entrenches the position of the incumbents. The first movers who are able to access mall space secure themselves against competition in that space by entering into such leases as anchor tenants in that mall. This allows them to grow at the expense of rivals, thereby making it easier to secure other lucrative retail spaces in the future.

Competition concerns around this practice have been exposed both by large supermarket chains and by smaller independent retailers alike. Fruit and Veg City lodged a complaint to the CCSA on not being able to access mall space for this reason when it started growing in the early 2000s. More recently, complaints were lodged by Walmart's Game on being refused to expand into grocery retail offerings (from its previous model of only non-grocery offerings) in malls in which the incumbent anchor supermarket tenant had exclusive leases in place.

Neither Fruit and Veg City nor Game was successful in winning these complaints before the competition authorities. This is as a result of the way the Competition Act has been interpreted in the past and the

[10] Competition Commission Media Release: Competition Commission findings of the supermarket industry probe, 27 January 2011. See also: http://www.compcom.co.za/wp-content/uploads/2015/03/Competition-Commision-January-Newsletter-WEB.pdf

emphasis that the authorities have placed in proving substantial effects of the conduct on end consumers often only through price effects. Complainants are often not able show that their exclusion results in a substantial lessening of competition in terms of higher prices. Limiting the scope of effects on consumers to just this is a static and narrow approach and dismisses the importance of the process of effective competitive rivalry itself and the potential for new chains to enter and grow to be even more effective competitors to the incumbents in the future. Non-price dimensions in which supermarkets compete such as location, format, range, quality, convenience, ancillary offerings, a one-stop-shopping experience, ambiance and others, are not considered when only looking at price effects. As discussed under Table 3 above, markets are segmented by format, with similar formats competing more closely with each other. While large incumbents are likely to be able to offer lower prices than new entrants and independent or specialist retailers given economies of scale, this is only one dimension of offering in the PQRS bundle. New entrants and independent retailers may be able to effectively compete on other dimensions. Further, the significance of 'mall culture' in South Africa, and the costs of transportation, may mean that a mall is a relevant market on its own for antitrust purposes. Exclusive leases that incumbent supermarkets enter into have the effect of preventing entry in a given mall, potentially undermining the dynamic process of competitive rivalry.

The ambit of the GRMI is however wider than applicable provisions of the Competition Act currently, allowing it to address conduct that has an adverse effect on competition if any feature, or combination of features, prevents, distorts or restricts competition in that market. Indeed, the 'first-mover' advantage of supermarket chains into malls, and the subsequent lock-in of these spaces, has recently been found in the Commission's preliminary Inquiry report to have resulted in the distortion of competition. This includes hindering the entry and expansion of smaller 'challenger' retail chains and independent stores, including specialist retailers. The bargaining power of the large supermarket chains means they have been able to require exclusive leases with property developers which have effectively made the chains the custodians of retail development within malls in South Africa. The Inquiry found that exclusive leases reinforced the high levels of concentration in the formal retail segment; entrenched incumbency by the national supermarket chains; and raised barriers to entry for small and independent retailers. The exclusion of other retailers is compounded, as found by the Inquiry, by property developers being forced to transfer costs onto other retail tenants in malls as the large chains have the power to bargain for lower rental rates. This further increases the costs of access to malls for challenger retailer chains and independent stores, with widespread implications for broader economic participation.

Preliminary recommendations by the Inquiry include immediately ceasing to enforce the existing exclusive leases with respect to speciality stores, not including exclusivity clauses in new leases or extensions. and the phasing out over three years of any exclusivity clauses in existing leases with respect to other grocery retailers. These appear appropriate given the positions already attained by the major chains.

Relationships between South African property developers and supermarket chains extend throughout the Southern African region. It is often the same set of South African supermarkets and property developers that operate in the region, and similar concerns have emerged in other countries (for instance in Botswana and Zambia). This affects the pace of the spread of chains in the region. The Competition Authority of Botswana (CAB) has also inquired into practices that affect suppliers (Bagopi et al., n.d), as well as competition in retail and wholesale markets in Botswana (Mokubung, 2014). Emanating from a recommendation from the latter inquiry, the CAB subsequently undertook another inquiry into the nature and state of competition in the Botswana shopping mall retail property market (Bagopi and Daman, 2016). The Competition and Consumer Protection Commission (CCPC) of Zambia has also investigated conduct relating to supermarkets in shopping malls.

4.3 Impact on suppliers

Supermarkets have substantially affected food supply chains in the region – from their evolving procurement methods and requirements, to their negotiation of trading terms in supply agreements and private standards. Even with alternative retail channels present, supermarket chains are an important route to market in the region and play a gatekeeper role for suppliers of food and household consumable products in accessing wider national and regional markets.

As discussed in the literature review, this offers huge opportunities to suppliers to develop their capabilities. However, by exerting significant power and control over suppliers, large supermarket chains control production through setting and enforcing product and process parameters. Further controlling trading terms in the contracts with suppliers and exerting buyer power over them affects supplier margins and their ability to participate in supply chains.

The analysis here utilises both qualitative and quantitative data from a combination of primary data from field interviews and secondary data from trade and statistics databases. As part of the UNU-WIDER studies, over 170 tailored semi-structured interviews were conducted in Botswana, South Africa, Zambia and Zimbabwe, with supermarkets, suppliers[11], wholesalers, independent retailers, industry associations, competition authorities and government departments. This included a survey

[11] A range of different sized suppliers were interviewed to understand the respective challenges each group faced. Suppliers included fresh produce suppliers, millers, bakers, poultry producers, dairy producers, confectionery producers and light manufacturers of household consumable products (like soaps and detergents manufacturers).

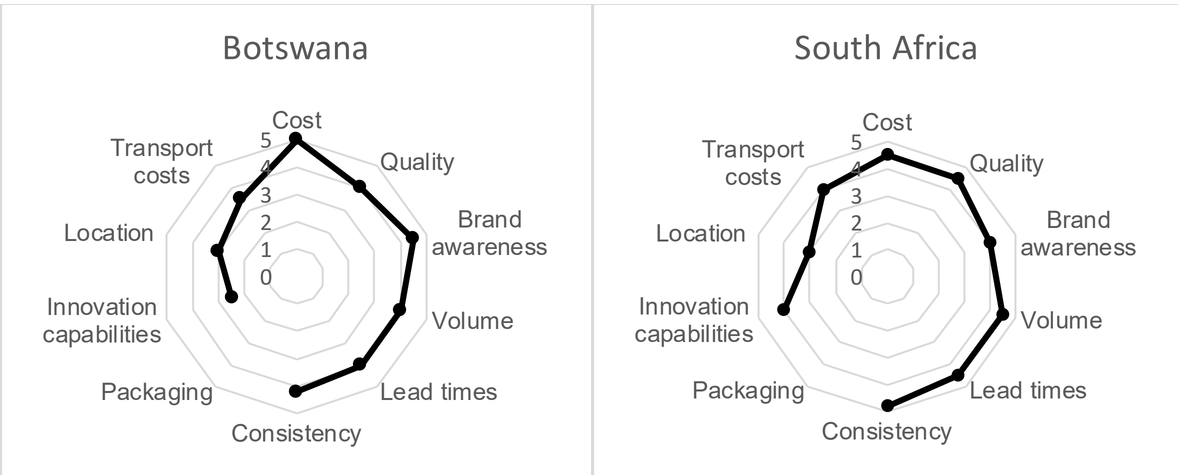
conducted in Zambia by Ziba and Phiri (2017) on suppliers. Broad insights are further drawn from over 50 interviews in further studies undertaken for the Department of Trade and Industry in South Africa.[12]

Supermarket requirements

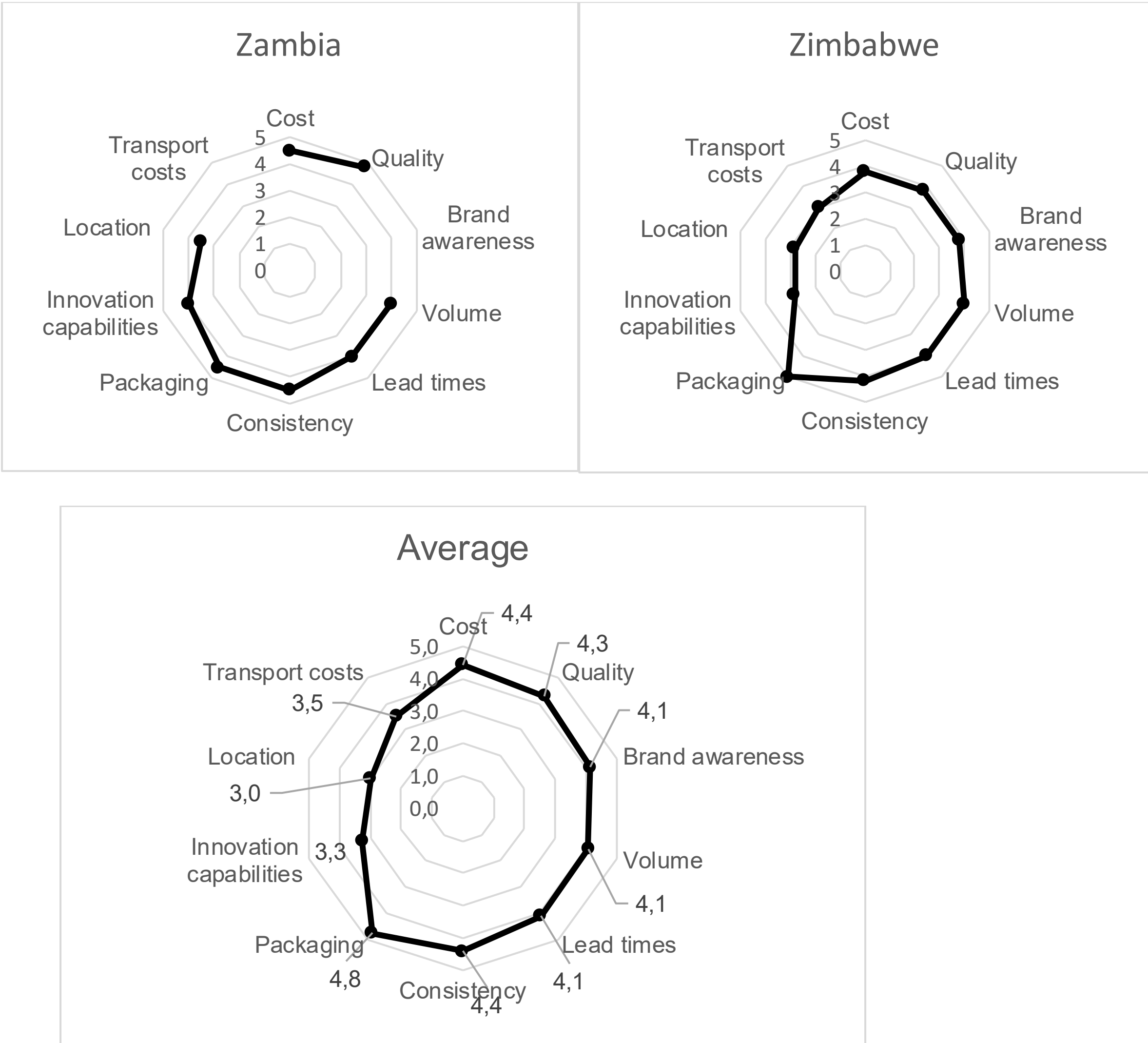
The interviews revealed the various requirements that suppliers have to adhere to in order to successfully supply supermarkets in Southern Africa. These can be understood as 'critical success factors' that need to be met to supply supermarkets. Supermarket chains are often the lead firms in food and other household consumable value chains and govern and shape requirements that suppliers need to adhere to.

In the UNU-WIDER studies, suppliers interviewed were asked to rank factors that were important requirements in supplying supermarkets on a Likert scale of 1 to 5 – with 1 being not important and 5 very important. Comparing these with what the supermarkets themselves consider to be important factors when they procure from suppliers helps in triangulating findings. Figure 4 shows the results in each country and on average across countries from the suppliers' perspectives and Figure 5 that follows shows results from the supermarket's perspectives.

Figure 4: Critical success factors: Perspectives of suppliers



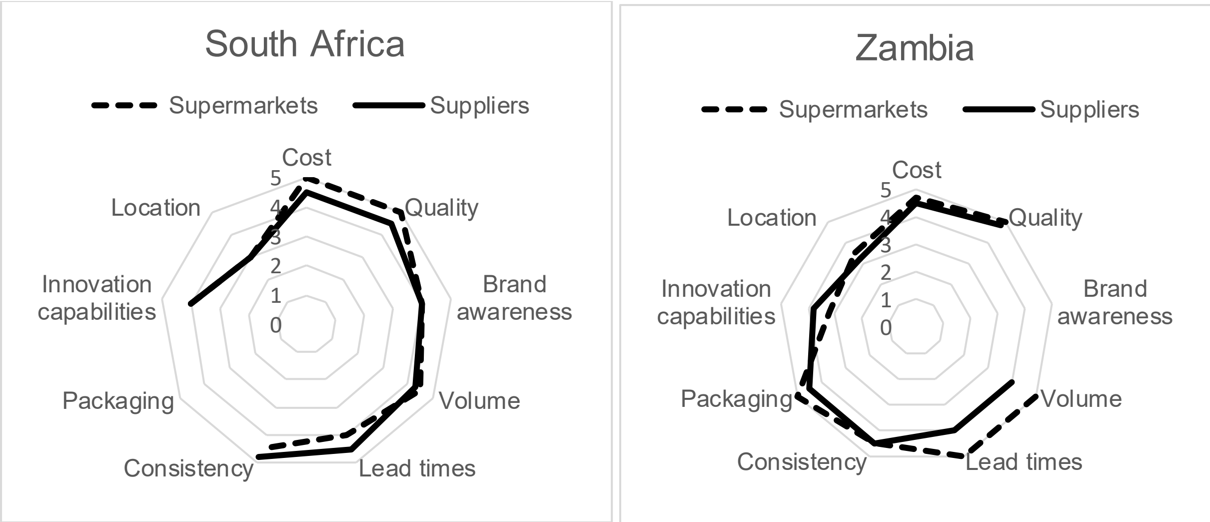
[12] Das Nair, Nkhonjera and Ziba (2017), Bosiu, Chinanga, Das Nair and Mondliwa (2017) and Das Nair and Chisoro-Dube (2015b).



Source: Supplier interviews, 2015 and 2016. South Africa: N=11. Botswana: N=5. Zambia: N=48. Zimbabwe: N=15. Note: not all the suppliers provided answers to this question. In the case of Zambia, distance to supermarket is used as a proxy for location. The Zambian numbers include the survey.
Scale: 1 being not important and 5 very important.

Supermarkets on the other hand ranked most factors higher than suppliers did (on a 1 to 5 Likert scale) (see Figure 5 below). For Zambia and South Africa, the interviews collected comparable data from supermarkets. This data was however not consistently gathered from supermarkets in Botswana and Zimbabwe and results for these countries cannot be presented.

Figure 5: Critical success factors: Perspectives of supermarkets vs suppliers



Source: Supermarket and Supplier interviews, 2015 and 2016.

Note: Not all respondents provided answers to this question. In the case of Zambia, distance to supermarket is used as a proxy for location.

Scale: 1 being not important and 5 very important.

On average, the most important factors in supplying supermarkets from the perspective of suppliers was packaging, followed by costs, consistency and quality. From the supermarkets' perspective in South Africa however, cost and quality were ranked highest, and these factors were ranked higher than how suppliers ranked them. Lead times and consistency were ranked lower by supermarkets than by suppliers in South Africa, while the other factors were ranked similarly. In Zambia however, almost all the factors were ranked higher by supermarkets than by suppliers. Packaging, lead times, volume and quality were ranked highest by supermarkets. This suggests that there may be some information asymmetries between supermarkets and suppliers in Zambia, and that local suppliers might not be as in tune with what supermarkets are looking for or understand the importance of certain factors.

However, the average for packaging in Figure 4 (suppliers) is just for Zambia and Zimbabwe given that the suppliers in South Africa and Botswana spoke about packaging under innovation capabilities. This is because for these suppliers innovative solutions were found for problems in packaging. Given the larger sample size of suppliers interviewed including as part of the survey by Ziba and Phiri (2017) in Zambia, this result is important, and the significance of packaging was also emphasised by suppliers in Botswana and South Africa in their responses under investments in upgrading. Brand awareness, volume and lead times were also considered important. Innovation capabilities, transport costs and location were ranked as relatively less important.

Innovation in packaging was undertaken by a number of suppliers to continue to supply supermarkets. Supermarket chains are driving the need for local suppliers to invest in better packaging so that they can more effectively compete with imported products on shelves. Supermarkets, as part of their efforts to differentiate their offerings from their rivals, also drive packaging requirements. Investments in packaging are undertaken by suppliers across the spectrum – for high- and low-value products, high- and low-income targeting supermarket chains and by small and large suppliers. Packaging was also found to be a major constraint for suppliers of higher-value products like soaps, cosmetics and detergents in South Africa and Zambia, especially for new entrants (Bosiu et al. 2017). It plays a very important role in shaping consumer preferences and driving sales in these markets given consumer loyalty. In product categories where there is a high level of brand loyalty especially from low-income consumers who have limited disposable income to test new brands, branding and packaging is critical. For new entrants in these product categories, substantial investment is needed to upgrade their branding and their packaging to gain loyalty for their product. Large players are also continuously upgrading their packaging capabilities to supply supermarkets.

Such investments in packaging build the capabilities of suppliers and improve their competitiveness even in global markets. It also builds linkages to third-party packaging firms if these capabilities are not developed in-house by suppliers. These and further linkages with suppliers of packaging materials, such as plastics, paper and glass, in turn develop industrial capabilities in upstream levels of value chains.

The ability to be cost competitive in the supply to supermarkets was also ranked highly as shown. The importance of cost is irrespective of the type of product supplied and whether supply is for a single store, nationally or regionally across multiple stores. Supermarkets place pressure on all suppliers to reduce their cost of supply. The cost to supply a product is dependent on many things, including the negotiation of trading terms, scale of production, costs of labour and raw materials, transport, and finance. Larger suppliers have an obvious cost advantage given scale economies. Supermarkets push suppliers to supply at the lowest price possible, yet they impose additional costs on suppliers making it difficult to achieve these lower prices (discussed under buyer power below). Being able to impose onerous trading terms highlights the power that large chains have in the value chain and how they can squeeze the margins of suppliers. Suppliers in the region have had to invest in various forms of upgrading to reduce costs and increase efficiencies to supply supermarket chains.

Quality and consistency of supply were also ranked relatively high by both supermarkets and suppliers. Supermarkets require suppliers who can supply consistently in terms of providing high-quality goods and in terms of being able to maintain consistent supply to all outlets. A concern in the countries in the region is that suppliers are not able to consistently supply stores in a chain, even if they are able to produce quality products. Erratic suppliers not only disadvantage customers who are loyal to the product but are costly in terms of the supermarket's reputation.

Basic quality standards are not set by supermarkets but by legislation. In terms of legal requirements, each country in the region has its own legal standards that suppliers have to adhere to. Some of these standards are enforced by the respective national bureaus of standards in each country such as the South

African Bureau of Standards (SABS), Zambian Bureau of Standards, Botswana Bureau of Standards and Standards Association of Zimbabwe. Because the standards in the different countries are not harmonised across the region and with SABS, it is difficult for suppliers in the other countries to compete with South African suppliers for shelf space in South African supermarkets even in their own countries. Proving that their products are of equal standards to South African standards raises additional costs for suppliers in the region. This further creates barriers to intra-regional trade, skewing trade patterns from South Africa further. There is an even bigger gap between these local standards and international standards as discussed below, making participation in GVCs particularly hard.

There are also food safety, health and safety, environmental, packaging and labelling standards enforced through other regulatory bodies. In South Africa, these standards include legislation that governs the manufacture, sale and importation of foodstuffs, cosmetics and disinfectants with hygiene specifications. They deal with issues of hygiene at the point of production, general consumer protection and food safety. They also include the conditions under which food is stored, transported, maintained and consumed. Labelling and advertising of foodstuffs regulations were also introduced in March 2012 (Von Broembsen, 2016).

These are basic standards that serve to protect consumers and are essential for food safety. Whether suppliers supply supermarket chains or not, they have to adhere to these standards and therefore investments to meet these standards are not driven by supermarket chains alone. Suppliers to informal channels however sometimes flout these regulations.

Private standards however are set by supermarkets when they demand certain quality requirements that are over and above these basic legal standards. To adhere to these, suppliers have had to invest in processes, machinery and equipment, as well as safety and quality management systems. These can result in barriers to entry for suppliers.

Supermarket chains, particularly the South African chains, impose private standards on suppliers. In South Africa, supermarket chains often require that suppliers have HACCP (Hazard Analysis and Critical Control Point) accreditation, an internationally recognised system for reducing the risk of safety hazards in food. HACCP has been gazetted as part The Foodstuffs, Cosmetics and Disinfectants Act, but is not yet mandatory in South Africa. However, suppliers interviewed in South Africa are investing in HACCP to ensure that they can supply supermarkets that demand this. In Zambia, while HACCP is fully operational, it is voluntary and implemented only by large companies that can afford it, such as Trade Kings (Ziba and Phiri, 2017; Das Nair, Nkhonjera and Ziba, 2017). Such companies supply supermarket chains and have invested in HACCP because the benefits of complying enable their growth across the region. In Botswana, HACCP is on the list of standards although not compulsory. Again, certain suppliers in Botswana nonetheless have invested in it. In Zimbabwe, HACCP is compulsory, and like in Zambia, the costs of adhering to it are very high. In some cases, suppliers are taking it upon themselves to get higher accreditations such as FSSC 22000 (Food Safety System Certification), an international accreditation, to gain a competitive edge over local rivals and imports. Sizeable investments by a large confectionery producer in South Africa in the past ten years were made in improving quality standards, including investing in FSSC 22000 accreditation, and in new machinery and replacement capital. Estimates in 2016 in South Africa were that HACCP can cost as much as US$ 5,500 and FSSC 22000 can cost up to US$ 13,800 per annum, with additional US$ 6,900 annual fees for maintenance. Suppliers further have to consider investing in Local and Global GAP (Good Agricultural Practice) if they want to export to European supermarkets. In Southern African countries, a stepping-stone initiative, 'local GAP' is a more cost-effective solution for suppliers by providing an entry level to Global GAP certification.

For some supermarket chains, like Woolworths, even higher private requirements such as sustainable farming requirements under its 'Farming for the Future' initiative, are closely related to its niche positioning in the market and therefore are governed by its strategy. Some of these additional standards are demanded deliberately by supermarkets to differentiate them from rivals and is used as a competitive tool rather than to adhere to minimum regulations (Davis, Kaplinsky and Morris, 2018).

The costs of adhering to private standards imposed by supermarkets are mostly borne by the supplier, making it increasingly costly to supply formal supermarket chains, especially for small- and medium-sized suppliers. It is not always the case that suppliers are compensated for the additional costs in terms of higher prices and they still have to compete against cheaper imports. Independent retailers, on the other hand, often have lower, if any, private standards.

Some suppliers have nonetheless upgraded to meet growing supermarket quality standards in the region. This upgrading, as explained by Ponte and Ewert (2009), is not neatly captured in the traditional 'process' (producing more efficiently) or 'product' upgrading categories (moving into more sophisticated product lines) in the literature. Investing in accreditations involves improvements in production processes even when not necessarily producing higher-value products. The forms of product upgrading by suppliers that have served to reduce costs have also improved quality. Supermarkets' private standards on quality are driving these investments in value chains. This push over and above basic legal requirements allow suppliers to climb the ladder towards accessing export markets.

However, as interviews also revealed, most producers of food products in the countries assessed can only afford to adhere to their local/national minimum-required quality and food safety standards as the interviews revealed. Significant investments are required, and suppliers with scale are better able to spread the fixed costs of investments.

Another critical factor is being able to supply sufficient volumes across multiple stores in the networks of supermarket chains. Suppliers have to have sufficient scale to meet the demands of all stores in a chain. Needing to increase volumes of production is an important aspect that has been amplified by the spread of chains and by the changes in procurement practices of the main chains through DCs. These two features of modern supermarket chains– the requirement to supply all/most outlets of corporate supermarket chains to maintain consistency of offerings and the centralised procurement methods that support this – has put pressure on suppliers to grow volumes to supply a much larger regional store network. This makes it difficult for small suppliers and new entrants to start supplying supermarket chains as they often do not yet have sufficient scale to supply all outlets nationally.

Acceptable lead times, although scored relatively highly by supermarkets in Zambia, were scored lower on average by supermarkets in South Africa and by suppliers. Short and accurate lead times are important for forecasting and replenishing stock and is especially important for fresh products with short shelf lives (bread, fresh milk, fresh fruits, vegetables and poultry). A higher proportion of these types of products thus tends to be sourced locally rather than from other countries in the region. Past studies have found that supermarkets source majority of their fresh produce locally (Fessehaie et al, 2015b; Ziba and Phiri, 2017) and that supplying supermarkets has had a positive impact on the incomes of small-scale farmers in countries like Zambia (Emongor and Kirsten, 2009).

Linked to both lead times and costs to supply are issues of transport costs. Location of suppliers relative to supermarkets and transport costs were ranked as a relatively less important factor in supplying supermarkets or distribution centres. Yet, location of suppliers clearly affects logistics costs in the supply chain. The suppliers essentially have to absorb any transport cost disadvantages they may have relative to their competitors. Depending on supermarket requirements, suppliers either deliver directly to stores, DCs or third-party warehouses affiliated with transport companies. In some cases, large suppliers noted that they were forced to use the supermarket-nominated transport company. Other suppliers internalise transport cost by owning their transport fleet. Suppliers who supplied multiple store outlets highlighted that delivering to a DC saved them considerable transport costs by delivering to a single destination. It is the supermarket chain that ultimately dictates what the delivery requirement is, and suppliers bear all the costs of transporting or distributing the product, highlighting again the degree of power the supermarket has in supply chains.

Brand awareness was ranked by suppliers on average the same as ability to supply sufficient volumes and lead times but considered less important by supermarkets in South Africa. Brand awareness is important amongst lower-income customers in the region. Such customers have little disposable income and are less flexible to try new brands, preferring to stick with tried and tested brands. A Nielsen Global Premiumisation Survey of 2017 shows that consumers moving up the economic ladder are attracted to aspirational brands that signal that they have achieved a certain level of success. Branded products provide assurances of quality and are less risky in terms of money being wasting on new products that may not fulfil expectations. This is the case in South Africa not just for premium electronics and clothing, but for supermarket products like meat or seafood, coffee and tea and dairy as the survey found (Koigi, 2017). Suppliers therefore have to invest significantly in building brand awareness and loyalty through advertising, promotions, free sampling, point of sale material, merchandising and marketing material. Branding is also closely linked to packaging as discussed earlier.

Innovation capabilities were considered relatively less important by suppliers and supermarkets although there was a recognition that innovation, either in product range or packaging, was important to maintain competitiveness especially with deep-sea imports. Forms of innovation undertaken by suppliers in the selected countries included investments in packaging, investments in the quality of existing products and introducing new, more sophisticated higher value-added products. In the GVC literature this is also classified as product upgrading. Such upgrading occurs regularly in the dairy industry, with new flavours of drinking milk, milkshakes and yoghurts being introduced as part of the suite of products sold through supermarket shelves. In the poultry sector, in addition to supplying whole and cut chicken, poultry producers in South Africa have invested in plants to produce value-added, processed crumbed chicken and chicken nuggets. Poultry producers in Botswana have also invested in producing free-range chicken to cater for the needs of Woolworths and meat producers have invested in capital equipment in slaughterhouses. In the sugar confectionery sector, new concept sweets are being developed, for instance, flavours and colour that merge upon chewing to produce a new and distinct flavour. Even in the most basic commodity-type staple product like maize meal, there has been some innovation to create differentiated products by medium-sized players, for instance, pre-cooked and flavoured maize meal. Sophisticated upgrading has also happened in the South African fresh fruit sector in the form of higher value, new cultivars and varieties of fruit. There is strong institutional support for industries like fruit in South Africa to upgrade to meet international standards through industry associations. Innovation is also seen in forms of inter-sectoral upgrading, with firms moving into new productive activities.

Suppliers have had to invest in upgrading their capabilities to meet all these requirements. This has allowed some of them to attain scale and produce higher-value products, and in certain cases, better equipped them to enter global markets. However, investments in upgrading to meet the various requirements of supermarkets is not easy for all classes of suppliers. It is often large, multinational suppliers that are able to invest in such upgrading, or suppliers like in the fruit industry that have strong, coordinated institutional support. Upgrading requires capital for investment, and access to finance in the region is expensive (Banda, Robb and Roberts, 2015; Chigumira et al. 2016; Ziba and Phiri, 2017). There is also a lack of technical capabilities and skills in the region as highlighted across interviews and past studies. This has the effect of increasing concentration at the supplier level, with large lead firms that have been able to upgrade and increase their exports through supermarket networks in the region. Small- and medium-sized suppliers are often excluded from supermarket value chains and are limited to supplying alternative routes to market.

Supermarket buyer power

Upgrading and developing capabilities do not automatically ensure access to supermarket shelves. The exertion of considerable buyer power by supermarkets can, and has, resulted in the exclusion of suppliers in the region, irrespective of investments made. The interviews revealed the various ways in which, through the unbalanced bargaining power of large supermarket chains, buyer power can be exerted through trading terms.

In Southern Africa, supermarket chains, through trading terms, impose a range of discounts and other components that are subtracted from a list price. This reduces the prices that suppliers can ultimately get for their products and, in this sense, imposes additional costs (over and above the costs of production) on them. The following are the main cost categories that supermarket chains in South Africa charge suppliers (Table 6). Certain of these costs are also imposed by chains in the region.

Table 6: Categories of discounts, rebates, fees and allowances charged to suppliers by supermarket chains

Basic rebates (fixed percentage or variable volume based)	Slotting allowances
Advertising allowances or rebates (newspapers, TV, radio, pamphlets)	Swell allowances
Listing/Support fees	Joint product promotion allowances
Settlement discounts	Fridge space fees
Growth Incentive discounts	Channel allowances
Trade discounts	Efficiency allowances
Data sharing allowances	Category management fees
Merchandising allowances	National/Theme promotion fees
New store opening allowances	Distribution/Warehousing allowances
Wastage allowance/returns/backhaul fees	Quality assurance allowances
Shrinkage fees	Ad hoc spend

Sources: Interviews with suppliers; Elite Star submission and testimony of Shoprite employees at the GRMI

The charging of certain categories of costs, such as listing fees, slotting allowances, advertising and promotional charges, in addition to a range of other charges, may be exploitative, without justifications provided for the magnitude of the fees and their relation to costs. Cumulatively, the various fees can add up to 10-15% off the price of the product sold to supermarkets, placing considerable strain on supplier margins. Negotiations of these terms are often skewed towards supermarket chains and can result in the margins of smaller suppliers being squeezed and in their exclusion from supply chains. In the UK and Australia, regulation specifically protects suppliers against such potential abuses (das Nair, 2019).

Suppliers of private label or house brand products to supermarket chains in the region also expressed concerns of buyer power. Private labels are becoming successful fast-sellers in Southern Africa as they compete with branded alternatives on price, value and quality, particularly for cost-conscious customers. Every major supermarket chain has a wide and growing range of private brand products. However, the relationship between the supermarket chains and suppliers of private label or house brands represents more captive or hierarchical governance structures in which supermarkets completely control the production parameters and margins that the suppliers can make. Once committed to producing house brands, this capacity is captive to the supermarket chain, so the suppliers' outside options to sell to are reduced. This increases the bargaining position of supermarkets which allows them to extract greater surplus from suppliers (OECD, 2008).

Exertion of buyer power can hinder upgrading efforts into higher-value products or into global value chains. Small- and medium-sized suppliers are often excluded from supermarket value chains and are limited to supplying alternative routes to market. While buyer power can lead to lower end prices, these may not necessarily be passed on to consumers given the high concentration at the supermarket level. The long-term effects of buyer power can result in suppliers exiting the market, which ultimately could lead to higher prices for consumers. While larger, multinational suppliers may have countervailing power, small and medium-sized suppliers are often forced to take the terms imposed on them by large supermarket chains.

The Competition Commission's GRMI in its provisional report also identified concerns with the buyer power of supermarkets. This dovetails with the amendments to the Competition Act now in force which target buyer power as a specific competition concern. The Inquiry recommended a code of conduct and a regulatory framework to oversee the grocery retail sector. This would include the appointment of an ombudsman to act as arbitrator in disputes and refer cases of abuse of buyer power to the Commission. These proposed interventions are similar to what has already been implemented in countries like the UK, Australia, Namibia and Kenya. The UK has a Groceries Code Adjudicator (that oversees a mandatory code of conduct) and Australia has a Food and Grocery Code of Conduct (voluntary code), both of which followed inquiries by competition authorities. The Namibian Retail Sector Charter of 2016 which has provisions on how supermarkets should treat local Namibian suppliers, has been spearheaded by the Namibian government.[13] These initiatives all aim to deal with the unequal power dynamics between supermarket chains and suppliers, which can lead to the exploitation and exclusion of suppliers. Such moves need to be complemented by supplier development initiatives such as private

[13] For a study on the conceptualisation and impact of the Namibian Retail Sector Charter, see das Nair and Landani (forthcoming).

sector-led programmes undertaken by various supermarket chains that have the potential to be scaled up and replicated in the region. Few countries have combined both behavioural conditions in a code of conduct with building of supplier capabilities through supplier development programmes. In the Southern African region, Namibia is the first country to do this formally through its voluntary retail sector charter. The Namibian government signalled its commitment from the inception and understood that, from its side, it would have to address infrastructure backlogs and the cost of utilities to assist suppliers. In this regard, there are several complementary investments by government, for instance, developing local barcoding facilities. Having a 'custodian' for the charter through the Namibia Trade Forum as the institution which oversees the workings of the Charter further assists with compliance and more concrete outcomes and reduces the risk of capture.

5. Policy recommendations

The growth of supermarket chains in the region creates opportunities for food processors and light manufacturers, providing great potential to stimulate and revive these industries. This is in line with objectives of the SADC Industrialisation Strategy and Roadmap (2015).[14] The trade patterns in selected food and household consumable products revealed the importance of supermarkets in driving inter-regional trade. Supermarkets can drive supplier development which can create mutually beneficial trade relationships in the SADC region, or indeed across the continent as envisioned under The African Continental Free Trade Agreement.

However, there are restrictions to such trade due to local content policies, import duties and import quotas that serve to protect national industries. Although local content initiatives have not always been strictly enforced and are at different stages of implementation in the different countries, they are not aligned with an agenda to develop suppliers to regional markets. If supermarkets are to become a key route to regional markets for suppliers, then the country-level policies and laws that currently exist need to be harmonised across the region with a wider view of developing regional value chains. Such policies could be specific to the supermarket industry, in which, for instance, governments and supermarkets jointly determine a proportion of space on supermarket shelves to be allocated to products manufactured within SADC. There are further benefits in harmonising standards across the region to create greater acceptance of products from outside South Africa.

Opening the region to trade alone is not sufficient to guarantee sustainable supply to supermarkets. Suppliers also need to continue to invest in building their capabilities to ensure they meet supermarket requirements. Successfully developing supplier initiatives requires a larger, long-term and

[14] Available at https://www.ilo.org/wcmsp5/groups/public/---africa/---ro-addis_ababa/---ilo-pretoria/documents/meetingdocument/wcms_391013.pdf, accessed in January 2018.

commercially oriented approach by supermarkets in partnership with governments. Supermarkets must be intimately involved in designing, structuring and managing the programmes, as well as in identifying and developing the suppliers qualifying for the support. It cannot purely be financial support without any long-term capability development.

Public and private partnerships in investments in infrastructure developments, construction of distribution and warehouse facilities, and cold chains are also critical to support the initiatives of supermarkets. Suppliers selected as part of programmes need to make complementary investments to ensure that their products meet the requirements of supermarkets, with the goal of becoming self-sustainable beyond a certain size. Past research has suggested ways in which governments in the region can play a strong facilitating role in enabling investments. In the case of packaging for instance, which has been identified as a critical success factor, regional 'centres of excellence' for innovation in packaging material, prototyping and testing can be set up. Such facilities are critical particularly for suppliers to penetrate deep-sea export markets with stringent regulations on the testing of products (Bosiu et al., 2017).

Market failure in the provision of finance in the region is also a key barrier to entry for new players in grocery retail. The role of development finance institutions in providing this finance needs to be reviewed, in light of some of the structural and strategic barriers that new businesses face in the region.

The research further showed that supermarket chains in the region have significant buyer power, the exertion of which is seen in the negotiation of trading terms and the imposition of private standards. This results in additional costs for suppliers, thus squeezing their margins and limiting their participation in value chains. The international experience has shown that codes of conduct or a retail charter between suppliers and supermarkets are a useful way to control the exertion of buyer power and have been identified as an effective approach to level the playing field and reduce information asymmetries between suppliers and supermarkets. This has recently also been recommended by the Competition Commission of South Africa's Grocery Retail Market Inquiry. South Africa needs to adopt such a code of conduct for supermarkets, with an ombud to apply the code. This can build on existing codes, such as the Namibian Retail Charter, and extended to become a regional code to support regional suppliers given that it is largely the same retailers that operate in the different countries in the region.

Finally, municipalities, local government and the competition authorities also play important roles in actively fostering a competitive environment and opening up markets for a diversity of retail models. As shown in the research, a diversity of retail models and greater competition between and within formats, benefits both consumers and suppliers and reduces the risk of anticompetitive behaviour. Municipalities must ensure participation of independent retailers as part of rezoning processes. Local governments should encompass open and flexible retail space in planning to ensure a mix of formats. As it stands, there are limited or no policies or regulations specifically promoting inclusivity and growth of independent retailers although, in South Africa, the retail inquiry has raised awareness around these issues. Together with the long delays that are common in getting land rezoned for retail purposes by municipalities, the lack of clear policies to actively support independent players means that they are often excluded from the market.

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