Submission to Grocery Retail Sector Market Inquiry

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Background – Sustainable Livelihoods Foundation and UWC PLAAS Centre of Excellence in Food Security

1. The Sustainable Livelihoods Foundation is a non-profit company based in Wynberg, Cape Town. We have strong research interests in understanding the dynamics of the emerging city, which in the South African context largely includes township settlements that fringe the largest metros.

2. To this end we have completed South Africa’s largest specialised censuses of the township economy (2010-present) to better understand the dynamics of retail markets and economic activity in such centres. Our research includes whole-economy censuses of eight township localities on the fringes of Cape Town, Johannesburg, Ekurhuleni and eThekwini. These sites represent over 350,000 residents and 10,049 microenterprises.

3. The DST-NRF Centre of Excellence in Food Security (CoE-FS) is managed by the Institute for Poverty, Land and Agrarian Studies at the University of the Western Cape and the University of Pretoria.

4. The Value Chains project within the CoE has conducted research on the impacts of value chain concentration and consolidation on the informal economy, small farmers, and consumers, including a review of the state of knowledge as well as significant case study research in Cape Town and the Eastern Cape.

5. The SLF and CoE-FS have undertaken to jointly develop and submit a response to the grocery retail sector inquiry.

6. Our submission to this enquiry is based upon the findings of our research (which is our own intellectual property), and our interpretation of these findings.

Summary

Corporate retailers constitute an important element of the core of the South African food economy. Our submission argues that formal sector grocery retail is distorting food economies in ways which disadvantage other stakeholders of food value chains (Greenberg 2016). These effects are felt both upstream in the packaging, processing and production of food as well as horizontally among informal-sector grocery retailers. Some important factors that impact on grocery retailing in the township economy are:

I. Inappropriate government policies (in particular municipal policies towards informal micro-enterprises)
II. Unfair competition from the corporate retailing sector via shopping malls and large chain businesses by creating localised grocery retailing monopolies in the township residential setting.
III. Unfair competition from the corporate retailing sector by government outsourcing of SASSA grants distribution to corporate retailers “captures” an essential revenue stream.

In addition, formal food retailers unfold significant up-stream value-chain impacts: procurement standards are often exclusionary, and participation in formal retail chains is at terms very disadvantageous to small producers, who cannot easily meet stringent quality, cold-chain and reliability standards. This encourages the further consolidation of upstream segments of food value chains spanning production, processing and packaging. This tends to promote the development of a less diversified and competitive food economy.
Furthermore, grocery retailers have immense power in structuring consumer perceptions on food quality and health, from input into apparently neutral dietary-based guidelines to advertising (Greenberg 2016). Through product selection, placement, in-store promotion and advertising, large corporate retailers promote ultra-processed, highly processed and branded products emerging from highly-concentrated, capital-intensive food-processing industries. They thus cultivate a consumer food environment which disadvantages small, local producers and processors to the benefit of the capital-intensive formal food processing industry.

Inappropriate policy commonly includes municipal land use zoning and business permitting within informal economy and specifically township businesses. Land use zoning in townships is primarily for residential use only, and changing zoning to allow for business activities requires cumbersome and technocratic bureaucratic procedures largely out of reach of most informal economy businesses. Conversely formal sector business — in particular South African supermarket chains have the legal and financial means to buy and rezone land to suit their business needs. The unfairness of this competition lies less in the actions of the formal retailers, but in the perpetuation of the structural inequality of South Africa’s economy that favours formal sector business over an emerging entrepreneurial class of township retailers. The outcome of this power imbalance in a community such as Delft South (the case study in this submission) is potentially localised monopolies of grocery trading.

The township informal economy

More than 2.5 million South Africans are known to work in the informal (cash-based, undocumented) economy. The township economy directly serves the over 50% of (economically marginalised and generally Black) South Africans that reside in these localities. In many respects the township economy is an example of organically emerging economic survivalist and entrepreneurial activities conducted by people from considerable social and economic disadvantage. The township economy is both an important feature of the South African landscape, and creates important livelihood opportunities for keeping people out of poverty. The informal economy constitutes a large periphery of formal food value chains (Greenberg 2016). According to Ranchhod et al. (2014) in Cape Town alone there are between 122,000 and 186,000 people employed in the city informal sector. These workers tend to be male, of prime working age, are relatively unskilled and African. They work largely in wholesale and retail trades, with other sizable industries being community and social services, manufacturing, finance and construction. Most of these workers work in elementary occupations, services and sales, and crafts and trades. The township economy comprises myriad of business activities, spread across the great majority of the International Standards of Industry Classification (Charman et al. 2015 document the spread of activities).

Food and drink

Food and drink retailing (including groceries) present the predominant township business activity. In Petersen and Charman (pending) analysis of food and drink retailing across eight urban township sites (where we conducted a series of small area censuses of a total 10,049 microenterprises — (see Charman et al. 2015) it is revealed that grocery retailing from house shops (15% of all business outlets), liquor retailing via shebeens (14%), and grocery retailing from spaza shops (11%) are collectively the most common micro-enterprise types across all eight sites (and generally most prominent within each site), collectively comprising 40% of all identified micro-enterprises. Broadening the grocery retailing sector to include allied retailers such as ‘tuck shops’, ‘green grocers’, ‘meat, poultry and fish retail’, the preparation and retailing of food (collectively termed ‘informal foodservice’) of restaurants, and takeaways increases food-related outlets to a collective 3,814 enterprises (38% of all microenterprises). Further adding in all liquor retailing outlets such as shebeens (n=1,431), licensed taverns (n=98), and miscellaneous liquor sales (122), the liquor retail sector is represented by 1,651 outlets (16%). Collectively these food and liquor retailing sectors represent some 55% of all township microenterprises.

The vast majority of township businesses that fall within these categories can be considered to be informal. Most operate from private homes in residential areas to serve immediate local markets within walking distance, have few or no official permits, licenses or legal registration of any kind. The lack of such permits is often due to the considerable challenges to formalise business practices. These include barriers to entry such as complex legal and regulatory frameworks, failure to meet minimum standards and limited administrative and resource capacity to respond to the requirements for business regularisation. Furthermore, the design of residential townships was as predominantly dormitory suburbs from which residents were intended to live, whilst working in other areas of the city. The predominant land use zoning of such localities reflects the intended residential use. Business zoning is rare, as are ‘high streets’ that contain significant concentrations of business activities.

Population densities are extremely high (in some cases rivalling Mumbai and New York) and few people own motor vehicles — meaning that markets are highly localised and concentrated in the township setting.
Mirroring global trends of urbanisation residential township settlements have grown substantively in the last few decades. Many have grown far beyond their original conceived purpose and have virtually become stand-alone cities of shacks, RDP and private housing seemingly randomly interspersed with businesses, traders and economic activities at varied scale. Conversely to being simply a survivalist economy, over 75% of its participants claim to prefer operating their own informal businesses when presented the alternative option of a formal sector retail job at R128 per day (SLC, 2013).

Despite its likely importance for local livelihoods the township economy is structurally weak and hamstrung by being generally ‘thin’ on resources and circulation of cash. Its general geographic isolation, collective low level of skill and competitiveness and social challenges (such as crime) render it vulnerable to shocks and changing markets. There are a number of factors that impact negatively on competitiveness in the township grocery market. Predominant amongst these are the activities of government (in particular municipalities) and the South Africa’s highly concentrated corporate retailing sector.

a. Regulations and by-laws

Land use zoning is an important municipal function that seeks to regulate and manage the various residential and economic activities of a community. Whilst much suburban and ‘formal’ parts of the cities are subject to urban planning and enforcement of land use zoning, there are significant challenges to this approach within the urban township and informal settlement context. The apartheid inspired dormitory design of township settlements and accompanying residential zoning largely prevented business activities occurring in these localities. Yet, as South Africa’s cities have grown in the last few decades many townships have become economic hubs within their own right with organically emerged businesses becoming established to serve increasingly highly concentrated residential populations. In some municipalities (such as the City of Cape Town) an effort has been made to regularise the township land use zoning to incorporate changing uses and the great need for local economic activity within these settlements. In many other cases municipalities have not addressed land use planning concerns to align them to the reality of burgeoning numbers of township microenterprises. Without regularising land use zoning in township settlements many businesses are forced to remain micro-scale and informal. This limits their potential for regularisation, growth and investment. Within the township context the financial, bureaucratic and knowledge barriers for property owners to rezone property from residential to business themselves are considerable. As such the actions of local government with respect to land use zoning presents very real concerns to microenterprise competitiveness. In the case of businesses such as liquor retailing both municipal business zoning and provincial government liquor retail licensing requirements are in place. Without access to licensing lawyers or political influence, in the Western Cape for example, it is a practical impossibility for a township liquor outlet to legitimise.

The following (map 1) shows the extent of township enterprises in Philippi, Cape Town and overlays land zoning. In short, such zoning enforces informality – as there are no opportunities for enterprises to enter the formal sector due to their common illegality of operations in the selected land use zones. Land zoning such as the (relatively new) City of Cape Town Integrated Zoning Scheme has been overlain on communities long after businesses were established in these sites, and commonly does not reflect the local economic or business dynamic. This has important implications for microenterprises that require operational licences, apart from those businesses whose scope and scale is accommodated within the land use scheme. The inability of such enterprises to alter land zoning without extensive and expensive processes makes their barriers to formalisation prohibitive.
In the Western Cape, where provincial liquor legislation applies, supermarket liquor retailers have taken full advantage of the inability of microenterprise to formalise and appear to have moved at pace to serve the township sector. The implications of the Western Cape Liquor Act (2010) which has closed township liquor outlets, has meant the subsequent movement into the township of high street, supermarket and mall-based liquor retailing. In the case of liquor retail and street trade there are many examples of state action to limit informal business activity in townships on the basis of licensing – primarily led by SAPS and City of Cape Town Law Enforcement. Administrative penalty fees set at a proportion of property value are charged by City officials for businesses that transgress land use rights – with a selectively imposed fine for a liquor trader in Mitchells Plain exceeding R20,000. It is highly problematic that many township businesses are effectively in a state of “enforced informality”, whilst formal sector businesses have the scope, resources and power to move to the same localities and change land use zoning to suit their needs. This undermines their potential for competitiveness.

Mapping of supermarket locations in Cape Town (Peyton et al. 2015) and Johannesburg (Kroll 2016) conducted by AFSUN in partnership with UCT and Wits reveal that supermarkets are preferentially located in the more affluent areas of these cities, close to major vehicular transit routes. The financial and legal resources food grocery retailers are able to leverage thus enable them to take advantage of positions that facilitate access to wealthier clienteles, especially those with access to private vehicular transport. This being said, Battersby and Peyton note a rapid expansion of supermarkets into poor areas of Cape Town. The impact of supermarket entry into townships is ambiguous and contentious.
b. The impact of the entry of supermarket chains into townships, peri-urban areas and rural areas and the informal economy.

Recent years have seen a large push by supermarket retailers to the fringes of urban residential township settlements. Either independently, or in large shopping mall developments these businesses are increasing their access to township customers through these new outlets. Not all of the outcomes of this change have been negative – for it is likely these businesses have introduced a wider array of customer choice and price discounting to economically marginalised township consumers. During the SLF research process in eThekwini (KwaMashu) Pick n’ Pay opened a supermarket in the centre of the research site (2013). At that time a researcher working with SLF in that field investigation, Mr Thabani Madlala, collected data on spaza shops and their business dynamics in the face of the new supermarket arrival. Mr Madlala subsequently produced a Masters Thesis entitled “Do large retailers displace small informal retailers? The case of Pick n’ Pay in KwaMashu” (Madlala 2015). His key indicative findings from 29 local spaza shop owners include;

- From a structural perspective there is a case to be made for analysing both informal and formal grocery sectors together as there are many cases of informal and formal enterprises being linked together in one way or another (Skinner 2005, Chen 2007, Valodia and Devey 2012)
- The new Pick n’ Pay has become a product distributor to some spaza shops – effectively that some retail outputs of Pick n Pay become input stock for some spaza shops
- Pick n’ Pay has not directly affected local spaza shop employment, but strong evidence points towards the role of the supermarket in that it “retards spaza shop growth”
- Some new spaza shops did open after the arrival of Pick n’ Pay although the longer term impacts are yet to be understood. The total number of spaza outlets increased in number in the immediate aftermath of the supermarket arrival – although all were informal and extra-legal in nature. It is unknown if, five years later this trend has continued or been maintained. This fits with Valodia’s (2007) assertions that having a small business close to a large market can be advantageous to building customer numbers
- Conversely spaza outlets further away appear to have experienced a decline in business
- The Pick n’ Pay supermarket had a direct impact on products traded from spaza shops such as loaves of bread. Their widely advertised opening specials included R5.00 loaves of bread. This meant many spaza outlets were subsequently unable to sell their own stock and incurred financial losses.
- Spaza shops responded to the arrival of the supermarket with increasingly competitive business strategies and changing product lines and mixes.
- Pick n’ Pay used a discounting strategy on its arrival in KwaMashu including the discounting of up to 40% to attract people into the business. This discounting was discontinued once consumers altered their purchasing behaviour in the favour of regular shopping at the supermarket

In certain product lines and quantities, township informal grocery retailers and foodservice (take-away, street and restaurant food) outlets appear to trade in niches different to the activities of supermarkets. In many respects the informal food retail sector represents an increasingly efficient use of food resources such as full nose-to-tail consumption of meat, and blemished fruits and vegetables not tradeable in supermarkets. These township enterprises use a variety of business strategies to keep prices low but tend not to overtly compete with one another where it can be avoided. Many of the foods found in the informal sector are reasonably cheap per unit and are purchasable in small quantities in ways commonly not possible from supermarkets and large outlets (Petersen & Charman pending). Such trading fills a market niche in informal grocery products that allows for continued business operations in spite of the emergence of formal supermarkets and wholesalers on the geographic fringes of the township economy (Crush and Frayne 2011).

That said, it is clear that the arrival of supermarkets into the township setting does present a range of broad community and business impacts. The ability of supermarket chains and their holding companies to influence municipal regulation and land use zoning presents a major inequity compared to the limited power and state
embrace of microenterprises. It is apparent that the business and policy environment greatly favours the rise of formal businesses over and above the emergence of a new class of township entrepreneurs.

At present supermarkets are aggressively expanding both their footprint and product range. In the last decade most major supermarket chains have not only gained liquor licenses (to sell wine) but are also opening specialised liquor outlets (retailing all commercial liquor products) directly adjacent to their supermarkets and township settlements to capitalise on the latent demand. Combining groceries and liquor together allows supermarket businesses to capture a range of demand streams which are already served in the township economy by informal businesses. Furthermore, combining business legitimacy with complex formalisation processes (liquor licensing, land use rezoning) actively restricts the growth and opportunities for informal enterprise.

A related issue is the payment of SASSA grants through formal-sector grocery retailers. While this leverages the broad footprint of formal-sector distribution networks and infrastructure and thus extends the reach and accessibility of grants, it also disadvantages informal grocery retailers, especially in rural areas, where grants payments formed an important income stream for local informal grocery retail. The total amount distributed by SASSA in 2015 was ZAR 16.9 billion, and a significant portion of this is now distributed by corporate grocery retailers including Pick ’n Pay, SPAR, and Shoprite. By paying these grants through formal-sector grocery retailers, consumers are encouraged to spend their grants at these retailers, thereby capturing a major revenue stream for corporate retailers and re-directing it away from the local informal economy. Media reports suggest that some retailers have exploited this situation. This compromises the viability of informal trade, especially in areas where grant access points are remote (Kroll 2016). This arrangement between corporate-sector retail and government grant programme can be argued to contribute to an economic and regulatory environment which disadvantages informal traders.
**Further points of consideration from the CoE Food Security**

Beyond the issues raised earlier, research further shows the impact of supermarkets into the following dynamics;

**Impacts on upstream value chains**
The procurement standards and contracts of formal-sector grocery retailers unfold significant impacts on up-stream value chains, including labelling and packaging, processing, and manufacturing. Currently, these standards are exclusionary, favouring large, capital-intensive corporations while disadvantaging small, independent operators. The formal market is a particularly hostile environment for smallholder farmers as supermarket business practices favour large producers who can guarantee volumes and quality, according to schedules set long in advance and with the capital necessary to carry costs including labelling, standards compliance, refrigeration and transport (Van der Heijden & Vink 2013). These standards thus disadvantage smaller producers and suppliers and hinder their ability to compete. Furthermore, current standards and contracting contribute towards intensive monocultural factory-farming which erodes ecosystems and thereby compromise the long-term sustainability of rural economies, as well as favouring exploitative labour practices in farming.

**Impacts of Financialisation**
“Financialisation is a process whereby financial markets, financial institutions and financial elites gain greater influence over economic policy and economic outcomes.” (Greenberg 2016b) Some of the large grocery retail corporations (eg Woolworths) are themselves major agribusiness shareholders. Financial institutions have great influence over agribusiness management decisions, favouring consistent and often high returns to investors, sometimes demanding up to 25–30% annual returns (Isakson, 2013). This favours large-scale agri-businesses and disadvantages smaller producers and processors, who are unlikely to benefit from the availability of capital and are unable to meet the demands for consistent and high returns on investment.

**Consumer Food Environments**
Through store location, product selection and in-store placement and promotion of goods, formal-sector retailers play a profound role in shaping consumer food environments.

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**Case study: A new mall in Delft South**

**The convergence of supermarket chains and municipal planning – “a perfect storm” of municipal planning and corporate power to undermine township microenterprise**


Some years ago the City of Cape Town sold off a 9.7 ha site adjacent to Delft to Shoprite Checkers (Pty) Ltd (whose co-founder and Chairman; Christo Wiese has a personal fortune estimated at R93 billion). In 2016 it was announced that a shopping mall would be constructed on the site with a proposed investment of R170m. According to the article “The City’s property management department has been facilitating the development of this site over the past few years and has been informed that the construction of the bulk services was due to commence soon”. In terms of broader investment, it is claimed that the developer will make a R2m contribution to developing a facility of the city’s choosing, create 240 “housing opportunities” (in a private property development), and employ local labour in the “different stages of development” of the mall. Delft South (population ~40,000) had over 1,600 microenterprises in 2015. These enterprises are shown in map 2:
Once again land use zoning renders the great majority of these enterprises as illegal or at least extra-legal, hindering their potential for formalising (map 3).

Despite the enthusiastic response by the City of Cape Town as to the positive impacts of the mall there is no evidence that this development will bring about economic opportunity to any of the resident microenterprises within the Delft community. There is no mention of the mall being compelled to make space for Delft township
businesses of any nature. Moreover, important research such as the above study has not been consulted by the City of Cape Town in the approval of the mall vis a vis their assessment of the socio-economic impact that the mall could have on local businesses.

Based on the parent company ownership, it is most likely that the tenanted businesses will include some or all of the following outlets that fall within their group;

- Shoprite
- Checkers
- Checkers Hyper
- Usave
- Computicket
- OK Furniture
- MediRite Pharmacy
- LiquorShop
- Hungry Lion

Supermarkets and shopping malls virtually always include high street supermarket, liquor and take-away businesses within their tenants and services. These three business outlets alone directly compete with over half the township economy.

By actively facilitating development of shopping malls in the vicinity of the township, yet making no allowance for informal business, local government and big business form a highly effective partnership to outcompete and dominate over the township retail grocery sector. Further to this outmanoeuvring, the new mall will form a localised monopoly of formal retail businesses – against which no township grocery retailer can ever expect to prosper or grow beyond its current informal status. In South Africa’s economy of entrenched inequality this scenario is highly problematic.

**Going forward**

Much of the change required to level this playing field and limit the unfairness of structural conditions falls to government. Firstly, there is a critical requirement to ease the legal and technical processes for formalisation of informal businesses to take place. This includes activities such as amending and relaxing town planning laws to incorporate the residential reality of township informal grocery retailing, and easing the requirements for permitting and licensing in order to bring township business into a regulatory framework. Without such actions these enterprises will never have the opportunity to legitimise and grow. Furthermore, future shopping mall developments must be compelled to incorporate (eg) 25% or more space for local township businesses. Explicit provision for secure, hygienic and appropriately-sheltered trading facilities ought to be incorporated in all planning and design for retail spaces in malls, as well as around key transit nodes like bus and train stations and along high streets and similar transit corridors. Enhancement of independent SASSA payout systems with similar reach and security should be pursued, with particular emphasis on how these can be located to enhance benefits to informal traders. To address up-stream counter-competitive impacts of formal sector grocery retail, retailers should be incentivised or regulated to revise existing or establish novel standards which favour the development of local and small-scale suppliers, including processing standards that meet safety and consistency requirements while encouraging equitable terms of participation and risk management to facilitate the emergence of forward-linkages into formal food value chains. This could include incentivising supplier relationships with local/small-scale producers, as well as development of more appropriate standards for products of small farming and processing enterprises, along with branding and labelling which increases the visibility and desirability of products sourced locally or from small-scale farmers. Such requirements and associated standards can set important impulses for up-stream suppliers in manufacturing and packaging to develop business models and products that are more inclusive and which counter trends towards market consolidation.
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