



## The Informal Economy of Township Spaza Shops



Sustainable  
Livelihoods  
Foundation

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## Introduction

> The Sustainable Livelihoods Foundation's **Formalising Informal Micro-Enterprises** (FIME) project has been conducting ground breaking research into South Africa's informal economy. SLF researchers have conducted primary research in townships in Cape Town and Gauteng. We have surveyed over 6000 micro-enterprises in nine localities, covering an estimated population of 50,000 households. Of the many micro-enterprises encountered during the extensive field work process, one of the most prominent business types is grocery retailers. Such businesses include spaza shops, tuck shops and house shops. This synopsis describes the informal economy of spaza shops, drawing upon FIME data and published academic research emanating from the research process. Spaza shops are essentially micro-convenience stores which operate in township residential areas, selling groceries, bread, cool drinks, sweets and cigarettes. Spaza shops can be distinguished from tuck shops and house shops by their business turnover, characteristic and distinctive branding and business operation. Spaza shops typically trade seven days a week and operate from early morning until about 10pm. Tuck shops and house shops sell a significantly smaller range of goods, have no branding and tend to operate less frequently.

The FIME research sought to investigate the significance of spaza shops as a component of the informal economy.

In order to learn about the nature of these businesses within the broader township retail market, the research examined the spatial distribution of spaza shops and undertook an in-depth study of the characteristics of ownership, the scope of employment within the business and trading practices.

As part of this study, the research made comparisons of the prices of eight commonly stocked items to better understand the competitiveness between South African and foreign run businesses.

## THE RESEARCH SITES

In Cape Town, where the research process commenced, research was conducted in Brown's Farm, Sweet Home Farm (Philippi), Delft South, and Vrygrond (incorporating the settlements of Capricorn, Overcome Heights and Seawinds). These settlements are home to 36,262 households and approximately 160,000 residents. In Gauteng, the research was conducted in Ivory Park and Tembisa. The various sites were chosen to reflect the dynamics of informality and marginalisation of poor areas and are representative of the predominant human developmental challenges within these cities.

The research method comprised of a detailed a micro-enterprise census and qualitative interviews with every spaza shop owner. Field research was undertaken over the period December 2010 to July 2012.

## MAIN RESEARCH FINDINGS

### Overview

In the Cape Town phase of the research 3860 micro-enterprises were identified by the SLF researchers. Grocery retailing represents 25% of all informal business activity in these sites. A total of 544 spaza shops (14% of all businesses) and 438 house shops (11% of enterprises) were found. It was observed that these businesses were located in a scattered pattern throughout each township locality. The FIME data shows that each business operates within a localised area, providing a service to residents in the immediate vicinity of the shop. This area is often a single street or immediate neighbourhood.

Spaza shops are open long hours as the businesses serve residents throughout the day, both before and after work hours. Much trading occurs between 6 and 10 pm. Historically, many South African spaza shops began as house shops that sold a few items, gradually evolving and changing form as the business grew in size. An emerging business trend in the spaza sector has been the rise of foreign shop keepers who have rapidly come to dominate the market.

South African spaza shops are less competitive than foreign run spazas. The majority of South African spazas are home based businesses, whereas foreign run spazas operate from a semi-detached room, or more commonly, from rented premises (usually renting an existing spaza shop venue). Another differentiating factor is that there are significant numbers of South African women who own spazas, whilst almost all foreign operated spazas are male businesses. Furthermore, most South Africans operate their businesses themselves or draw on family labour, whilst up to two-thirds of foreign shop keepers interviewed in the FIME research were employees.

Some of these employees work under conditions akin to bonded labour. This enables the entrepreneur to minimize their labour costs, whilst employing sufficient staff to operate the business over long hours. The rise of foreign spaza retailers is a direct result of effective competitive capitalist behaviour, with foreign spaza businesses successfully using supply chain networking and price discounting to procure goods more cost effectively. There is also evidence of collective or cooperative ownership. In contrast, as sole traders, South African spazas are unable to match the collective purchasing power and labour advantages of the foreign businesses and have opted to either close their shops and/or focus on commodities in which they can sustain a competitive advantage, notably take away food and liquor retailing.



Interviewing an Ethiopian immigrant shop keeper.



Price competition and 'jealousy' have resulted in tensions and conflict between South African and foreign shop keepers. A Somali shop in Sweet Home Farm.

## The spatial distribution of spazas

The rise and increasing dominance of foreign run spaza shops can be seen in spatial terms. In each of the research sites, spaza shops are evenly positioned within residential areas. The pattern is consistent in both Western Cape and Gauteng sites. The spatial positioning of spazas shows no indication of clustering, for example in the vicinity of high streets, or strategic positioning on street corners. Their location is highly localised, thus responding to the demand dynamics of residents situated within a small geographic radius (see Figure 1).

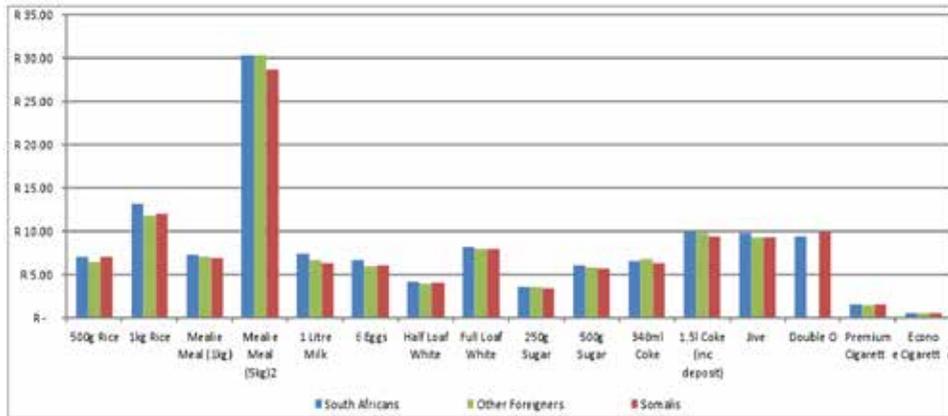
This dynamic mirrors the spatial distribution of liquor retailers. Through a household survey in Delft, the FIME researchers learnt that township residents support their nearest shop so long as it is price competitive and well stocked. The spaza shop market has therefore evolved to provide residents with access to groceries within walking distance of their homes. As most businesses occur after working hours, residents naturally desire spaza shops to be located close to their homes, for ease of accessibility in the face of limited transport opportunities and for safety reasons. Within each of the research sites, the spatial distribution of spaza shops is remarkably similar, with spazas distributed across the geographic terrain to serve neighbourhood market niches. This is clearly noticeable in the case of Delft South where it is hard to imagine a more even distribution of businesses; as illustrated in Map 1.

This map shows how foreign spaza shops have become spatially distributed in the same manner as South African stores, i.e. dispersed within residential areas. In many particular localities, these businesses have been set up in direct competition to local spazas, spatially serving and competing in the same neighbourhood market with well established South African run shops. Within the Cape Town research sites, 56% (294) of spaza shops were found to be operated by South Africans, whilst 46% (249) were operated by foreigners. The majority (80%) of these foreign entrepreneurs (200) are Somali nationals. All the employees in foreign run spaza shops (except in one case) were foreigners, who were frequently of the same nationality as the shop owner. The rise and increasing dominance of foreigners in the spaza market is a relatively new trend in the Western Cape, with the first foreign entrepreneurs reportedly starting shops from c. 2007. In the sites of Delft South and Vrygrond, foreign shop keepers now dominate numerically, whilst in Browns Farm and Sweet Home there are comparatively fewer foreign run spazas due to the predominance of slum conditions, and where local politics adversely influences business opportunities.

## From survivalism to price competition

South African spaza owners have emerged from a long background of stoic survival in oppressive circumstances. For many years their businesses were considered illegal, and even today there are legal

Price Comparison of spaza shops in Browns Farm, Philippi, c November 2011: Sample Size: 157.



uncertainties on the zoning and land use for most spaza shops. Historically, the spaza market had low barriers to entry, thus enabling women and unemployed persons to open shops within their homes. A key feature of the trade that allowed

these businesses to survive was limited price competition between businesses, with shop-keepers agreeing, through informal rule making, to maintain prices at a floor level sufficient to guarantee profitability for all stakeholders.

With the advent of foreign run shops and new competitive strategies, prices have been driven downwards. All shop-keepers are now required to compete on price levels at which

only the most economically powerful businesses can survive. This of course, has brought substantial benefit to the grocery consumer who welcomes price competition.



In order to withstand price competition, South African spazas have increased their sales of alcohol products and / or established 'game' shops where children can play arcade video games.

Spaza shops showing the relative distribution of foreign vs South African owned spaza shops: Delft South and Eindhoven, May 2011

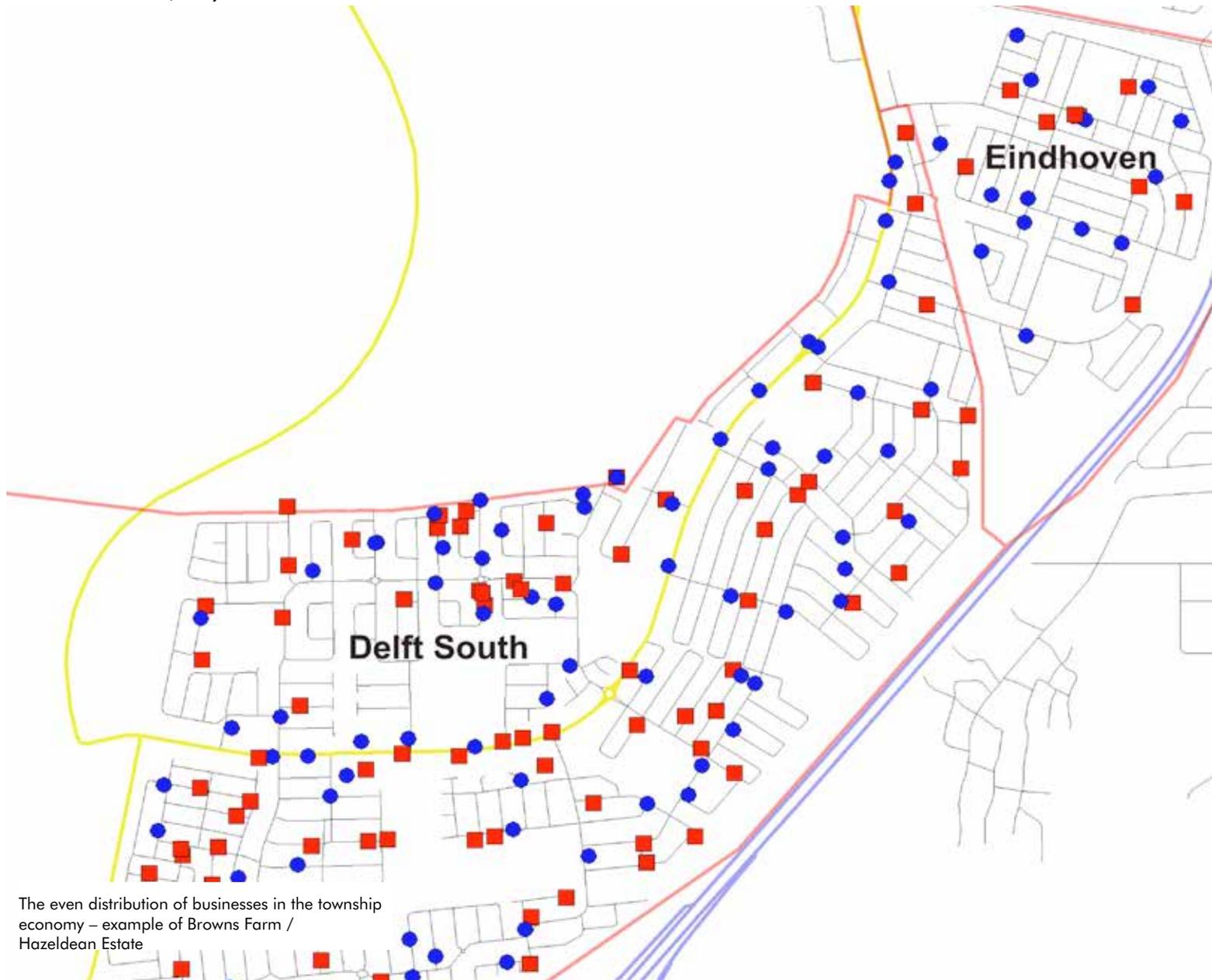
Demographic variable	Data
Households	10,278
Total population	44,827
Coloured population	64%
Black population	36%
Unemployed population (of working age)	61%
Monthly income per capita, Delft South	R732
Monthly income per capita, Eindhoven	R1008

Note: All data, unless otherwise stated, refers to the suburbs of Delft South and Eindhoven and is derived from the Census 2001 and Community Survey 2007

**Map legend**

Spaza Ownership

- Foreign (90)
- South African (89)



The even distribution of businesses in the township economy – example of Browns Farm / Hazeldean Estate

A common perception held within local communities is that foreign shops are cheaper than South African enterprises. In order to test this proposition the research undertook a price survey of 480 spaza shops to compare the retail cost of eight commonly stocked grocery items including: rice, maize meal, milk, bread, eggs, sugar, cool drink and cigarettes. The results from the Brown's Farm case survey are shown in Chart 1.

The evidence shows that foreign operated spazas are indeed cheaper in all commodities, with the exception of cool drinks in certain sites, like Delft. The price difference is not great (savings of between R 0.20 and R 0.50 on some items) but is sufficiently large to divert business away from established shops to the foreign run spazas. South African spaza shops have been forced to respond to this competition, resulting in considerable financial strain as they are unable to compete with low margins in the foreign run spaza shops on every day necessities such as bread and milk. The researchers came across numerous businesses that were unable to survive in this highly competitive market and had to close shop. A shop keeper in Delft, for example, told the researchers that her daily sales of bread rapidly declined from 200 to 10 loaves. In many cases, the South African shop keepers who were unable to compete have surrendered their enterprises, with some choosing to rent out their business to a foreign entrepreneur. The rate of shop rental varies from R800 to R3500 per month, with R1500 (inclusive of water and electricity) considered to be standard rate.

### Cheaper groceries through controlling supply chains

The FIME research found that foreign spaza shops are more competitive because the spaza entrepreneurs have greater finances and are able to gain additional advantages through supply chain and labour efficiencies. Their competitive advantage is evident in the scale of investment (approximately R45,000 on average) within start-up businesses, compared to R1500 on average for South Africans. Importantly, the majority of foreign spaza shops in our survey are either owned through a shareholding agreement or single entrepreneur owning several stores. The financial backing from these ownership models allied with the benefit of ethnic business networking enables foreign spaza shops to purchase within buying collectives and achieve economies of scale. Apart from having lower unit transaction costs (such as transport and labour), their greater purchasing power enables these collectives (similar to large enterprises) to secure more favourable terms from wholesalers and obtain direct supply linkages to manufacturers. The net result of these advantages is that foreign spazas are able to obtain goods at a lower cost than their South African competitors.

The success of foreigners within the spaza market has been achieved through the careful positioning of businesses to operate within a spatial niche, wrestling the local market from existing stores through the use of price discounting to drive out competitors. This transition has benefited township customers who have been able to procure cheaper groceries and have access



Used shipping containers have enabled foreign shop-keeper to locate their business in a favourable position to compete with established store.



Spaza shops provide a meeting point where youth congregate. A Somali run store in Delft South.



Spaza shops sell a limited range of grocery products, cosmetics and household necessities.

to a greater variety of goods. However it has also greatly impacted the development of indigenous entrepreneurship. It would be difficult for a South African running a tuck shop or house shop for example, to expand their business into a spaza shop in the face of stiff price competition. Another concern of local business owners is that much of the economic value now generated within the spaza shop market (including wages) is exported from the township economy to the home base / country of these foreign entrepreneurs and workers. A further concern, in the Western Cape context, is the role of foreign shops in providing access to contraband goods. We found illegally manufactured tobacco products in 59% of foreign run spazas in Vrygrond, 90% in Delft, 45% in Browns Farm, 66% in Sweet Home Farm, as opposed to 38%, 75%, 8% and 13% respectively in South African spazas.

## POLICY CONSIDERATION

The transition of business ownership from South Africans to foreign nationals in the township spaza market has brought about benefits to consumers through creation of cheaper prices for goods and greater product diversity. It is important that the advantages of business competition be recognised. Yet the process through which a more competitive spaza shop market has emerged does not necessarily guarantee long-term benefits to the consumer. The pattern of ownership indicates that entities with common interests (either in share ownership or through ethnic networks) have obtained a monopolistic position within geographic

areas. Once localised competition has been eliminated, there is a risk that these groups may increase prices. Further research is required to monitor this development. The position of the small South African shop keeper should also be considered. The dominance of foreign shop keepers in the grocery retail sector could harm the livelihoods of South Africans operating tuck shops and house shops. Whilst the entrepreneurship of foreign investors in the township economy should be welcomed, the terms on which spaza shops operate needs to be formalised. All spaza shops should require a trading licence, requiring adherence to the laws of residence, employment, taxation and municipal regulations. Regulation should be made simple, based on recognition of the economic position of spaza shops within the township economy and their role in providing access to basic necessities for local consumers.

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