

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date: 1/5/2011

GAIN Report Number:

South Africa - Republic of

Retail Foods

2010 Annual Retail Food Sector report

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Report Highlights:

The report offers U.S. companies interested in exporting consumer-oriented products to South Africa and overview of South Africa's retail food sector, including best products prospects opportunities.

Post:

Pretoria

Executive Summary:

A growing middle-class and increased tourism drove growth in South Africa's retail food sector by nearly five percent in 2009 despite lower than expected economic prospects. Convenience shopping, exemplified by the Woolworth's-chain in South Africa, is a growing trend among middle-to high-income consumer. With a population of around 49 million people, South Africa possesses a modern infrastructure that facilitates relatively efficient distribution of goods to urban centers, townships and rural areas throughout South Africa and Southern Africa. As the tenth largest supplier of food and beverage products to South Africa, the United States faces strong price competition from European and Southeast Asian suppliers. However, sauces, condiments, and other consumer-oriented goods have strong market potential in South Africa given the comparatively limited capacity for food processing in-country.

Author Defined:**SECTION 1. MARKET SUMMARY**

South Africa, a growing retail market with a population of around 49 million people, possesses a modern infrastructure supporting relatively efficient distribution of goods to urban centers, townships and rural areas throughout South Africa and Southern Africa. The South African retail market has been dominated by a few major supermarket chains such as Shoprite, Pick n Pay, Spar and Woolworths, all owned by large South African holding companies.

Since the end of apartheid in 1994, South Africa has experienced rapid growth in its retail food sector. Despite the impact of the global recession, South Africa's retail sales grew by almost five percent to reach \$72 billion in 2009. Of this, food and beverage sales accounted for \$7 billion. Convenience continues to drive growth in South African retail sales, as sales at convenience stores grew by 7.3 percent to reach \$1.4 billion in 2009, food court vendors recorded sales growth of 9 percent to reach \$1 billion in 2009, and street stalls/kiosks recorded sales growth of 12 percent to reach 0.6 billion. The growing demand for convenience has resulted in the expansion of the supermarket retail sector which presents opportunities for U.S. food producers.

The South African food and beverage market is becoming increasingly sophisticated and is supplied by both local and imported products. Retail outlets in South Africa offer the full spectrum of formats available in the United States. The range of retail outlets include convenience drugstores (called cafés), small general-dealers, specialty stores handling a single product line (for example, clothing, electronics, furniture), exclusive boutiques, chain stores (groceries, clothing, toiletries, household goods), department stores, cash and carry wholesale-retail outlets, and co-operative stores serving rural areas. About 90 percent of inventories of consumer-ready products in these stores are domestically sourced. A major phenomenon in South Africa has been the evolution of hypermarkets, which sell large quantities of almost all consumer goods on a self-serve basis. The hypermarkets, located in suburban shopping centers/malls, have put significant pricing pressure on local retailers by purchasing directly from manufacturers and bypassing the wholesaler, typically with lower margins and higher turnover.

South Africa retail chains utilize their in-house import departments or third party distributors/importers to facilitate the purchase and delivery of imported goods. The U.S. exporters can enter the retail sector by dealing directly with the chains headquarters who will direct them to their third party importers.

It may be necessary to appoint an official after-sales agent for products of a technical nature in South Africa. This may be a company that does not import or market the product in question, but rather, because of its geographical reach, technical abilities and market expertise, acts as the certified service agent. Appointing an appropriate after-sales agent is crucial in ensuring that the product develops a respected reputation in the South African market.

1.1 Retail Trade Sales

A table below highlights retail trade sales which rose by 4.9 percent in 2009, with General dealers as the leading contributor with 8.9 percent. Retail trade sales rose by 6.1 in October 2010 compared to October 2009 with the general dealers contributing 4.8 percent. General dealers are non-specialized stores with food, beverages and tobacco predominating.

Table 1. South Africa: 2009 and 2010 Retail trade sales according to type of retailer at current prices (US\$ billion)

Month	General Dealer 2009	Food & Beverage Retailer 2009	Total 2010	General Dealer (YTD) 2010	Food & Beverage Retailer (YTD) 2010	Total 2010
January	2,171	529	2,700	2,410	578	2,988
February	2,154	509	2,663	2,419	561	2,980
March	2,368	543	2,911	2,630	645	3,275
April	2,168	564	2,732	2,433	613	3,046
May	2,216	564	2,780	2,503	632	3,135
June	2,284	543	2,827	2,694	601	3,295
July	2,233	552	2,785	2,649	620	3,269
August	2,267	564	2,831	2,535	609	3,144
September	2,397	554	2,951	2,727	626	3,353
October	2,304	586	2,890	2,598	647	3,245
November	2,404	586	2,990			
December	3,167	813	3,980			
Total	28,133	6,917	35,040	25,598	6,132	31,730

Source: Statistics South Africa

1.2 Retail trends, Consumer tastes and Preferences

- The South African consumer is becoming increasingly health conscious, whereby wellness foods, health and convenience continue to be key drivers.
- There is increased demand for house or private-brand labels as consumers see these products as providing good value during economic difficulties.
- Convenience is expected to remain popular with consumers, as supermarkets will increase the amount of ready-to-eat food items offered at their fresh food departments, deli, home meal

replacement, and bakery departments.

- There is demand for longer store hours or even 24-hour shopping.
- Environmental awareness and ethical behavior such as recycling, waste reduction and organic farming and produce are important to South African consumers.
- Demand for frozen foods will remain strong as consumers lack availability of fresh supplies; particularly for seafood.
- Increased consumption of dairy products such drinking yoghurt, smoothies and ice cream.
- Fresh fruit and vegetables, nuts, grains and legumes are increasingly part of the daily diet for middle to high-income consumers.
- Food labeling is growing in importance, as consumers want to be informed about what they are eating. (Please see South Africa's new draft Consumer Protection Act).
- Trends show that bottled water either premium, imported, flavored, enhanced and oxygenated has achieved success and account for a large portion of the beverage market.
- Although many South Africans choose products according to price, consumers in townships often demonstrate contradictory demands and characteristics. For example, spazas and other informal shops tend to only supply leading brand items because their customers demonstrate strong brand loyalty. Adding to this trend is the fact that the black population's buying power is increasing. Product attributes that may help a product succeed in township markets are lower price, single service package sizes, and shelf-stable products that do not require refrigeration.
- Supermarket retail chains continue to convert or revamp their less successful store brands to a more targeted consumer base in order to boost sales.
- Supermarket chains buying back their franchised outlets to improve quality control.

1.3 Import and Export Trade Data

Imports: The January - October 2010 imports from the United States totaled \$159 million for consumer-oriented products, an increase of 16 percent. The increase is attributable by increase in 23 percent of food preparations (210690) and the competitiveness of American suppliers. Consumer-oriented products such as processed fruit & vegetables (\$8 million), and fresh vegetables (\$1 million) garnered the highest import levels in 2009. Other high value products showing consistent growth over the last five years are food preparations (200690), almonds (080212), salmon (160411), sauces and condiments (210390). Of importance, is the sale of U.S. export of fresh apples to South Africa in the amount of \$185,000 million for the first time in December 2009.

The top ten leading suppliers of consumer-oriented products were Germany (\$1,792 million), Japan (\$938 million), Brazil (\$421 million), Thailand (\$421 million), Spain (\$244 million), the United States (\$159 million), United Kingdom (\$149 million), Czech Republic (\$128 million), Sweden (\$126 million), and the Netherlands (\$124 million). South Africa's major imported agricultural commodities from Germany were meat of swine (020390) and food preparations (210690); from Japan were food preparations (210690); from Brazil were chicken cuts and edible offal (020714) and meat and offal (020712); from Thailand were other cereals (190490); from Spain were meat of swine (020329) and fresh grapes (080610); from the United States were food preparations (210690) and fresh or dried almonds (080212); from United Kingdom were food preparations (210690) and cocoa (180690); from Czech Republic were food preparations (210690) and dog and cat food (230910); from Sweden were food preparations (210690) and peas (071021); and from the Netherlands were dog and cat food (230910) and food preparations (210690).

Exports: South Africa’s consumer-oriented exports to the United States totaled \$148 million in January-October 2010, an over 2009. South Africa’s most important exports to the United States are fresh citrus, and wine. Cooperation between Animal and Plant Health Inspection Service (APHIS), South Africa’s Department of Agriculture, and the Deciduous Fruit Producer’s Trust in setting up pre-clearance programs for fresh apples, citrus, grapes, and pears has expanded market access for South African fresh fruit exports to the United States and other markets.

1.4 Trends in Online Shopping

South African internet use is still in its infancy, utilized by middle and upper-income consumers who can afford internet access. The online shopping sector experienced a growth of almost seven percent to reach \$700 million in 2009. However, a large percentage of South African shoppers, especially lower income consumers do not have access to internet and are not computer literate, and prefer visit traditional brick and mortar stores to physically experience a product prior to purchase.

The most popular goods to purchase online are cosmetics and toiletries, and toys and games, but not grocery items.

1.5 Food Standards and Regulations

FAS/Pretoria has prepared a GAIN Report on Food and Agricultural Import Regulations and Standards for South Africa, which can be found at the following link ([FAIRS Report, December 2010](#)):

Consumer Protection Act: The South Africa’s new Consumer Protection Act becomes effective April 2011. U.S. exporters who intend to sell goods and services destined for South Africa will have to comply with the new legislation, which includes provisions on product liability and labeling.

The Act states that, “If a defective or incorrectly labeled product were to cause harm or injury to a South Africa consumer, the U.S. manufacturer could become co-defendant together with the local retailer or supplier in product liability litigation”. The Consumer Protection Act places the burden of proof squarely on the shoulders of the supplier, and not on the consumer as in the past. “Strict liability means that the onus is on the supplier to prove that the product was not defective. The South African consumer only has to show harm or loss and that this was caused by the product concerned”. Suppliers will have to be particularly careful about proper labeling of products that need warnings or special instructions for usage. Where any product has a risk of an unusual nature that an ordinarily alert consumer could not be expected to know about, the supplier is compelled to bring this to the consumer’s attention in plain and understandable language.

1.6 Advantages and Challenges Facing U.S. Products in South Africa

Table 2.South Africa: Advantages and Challenges Facing U.S. Products in South Africa

Advantages	Challenges
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South Africans are developing a taste for western foods and are willing to try new products.	Consumers may need to be educated in preparing and eating products.
The growing convenience segment in retail food industry needs imported food and beverage products.	Preferences is for traditional, locally produced products.
Favorable exchange rate, strong rand with the weak dollar make American imports more affordable.	Competition from other countries and locally produced products. Ninety percent of products in the retail outlets are locally produced. South Africa's major retailers have joined forces with the "Proudly South African" (PSA) campaign, launched by the Government, to give PSA suppliers preferential tendering for shelf space, and to promote South African products.
South Africa presents opportunities as a gateway for regional markets.	Consumers are price-conscious and most do not exhibit brand loyalty. Products must constantly be promoted.
South African consumers view U.S. products as high quality.	Retailers and consumers have limited knowledge about the variety of U.S. products.
South African importers seek suppliers who can offer reliable high-quality products, in particular consolidators of mixed containers at competitive prices.	Difficulty for U.S. suppliers to respond to trade lead inquiries in a timely fashion.
Importers and distributors can help develop brand loyalty.	

SECTION 2: ROAD MAP FOR MARKET ENTRY

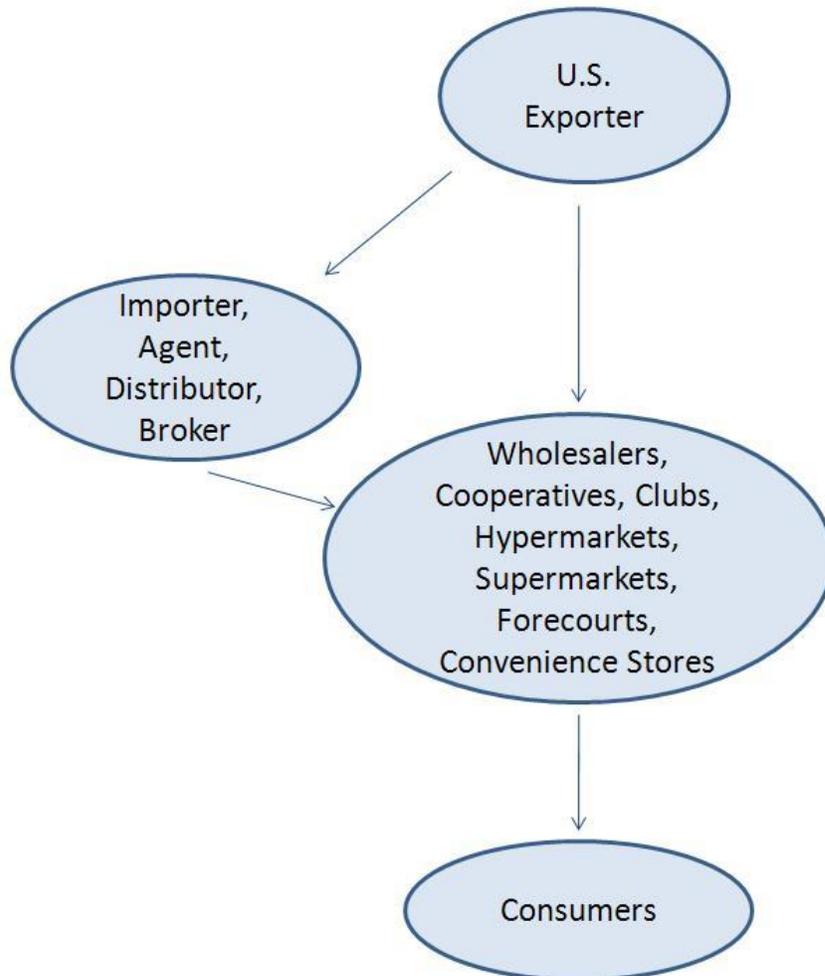
2.1 Supermarket:

2.1.1 Entry Strategy: Introducing a product successfully depends on strong promotion and product support. In South Africa's very competitive marketplace it is essential that U.S. exporters choose the correct agent or distributor. Evidence shows that the most successful U.S. company ventures are those that have researched their market thoroughly before engaging in a search for agents and distributors. Once contacts are established, it is advisable to visit South Africa, since firsthand knowledge of the market is highly useful. Research has shown that new opportunities may be developed in South Africa through aggressive marketing by product sampling and advertising.

In South Africa the terms "Agent" and "Distributor" have a very specific meaning. Agents work on a commission basis after obtaining orders from customers. Distributors buy and sell products directly to their customers. It is common to appoint a single agent capable of providing national coverage either through one office or a network of branch offices. In addition to their role as the local representatives of U.S. exporters, agents should be able to handle the necessary customs clearance, port and rail charges, documentation, warehousing, and financing arrangements. The local agents representing foreign exporters outside South Africa who export goods to South Africa, and the foreign exporters, are fully liable under the South African Import Control Law for all regulations and control imposed on imported products. Local agents are required to register with the Director of Import and Export Control of the Department of Trade and Industry. It is important for a U.S. exporter to maintain close contact with the local agent to track changes in importing procedures and to ensure that the agent is effectively representing his or her interests.

2.1.2 Retail Market Structure

Basic flow of imported food products:



- Retail supermarket chains maintain their own distribution systems, using modern warehouses to allocate goods to supermarket branches.
- Depending on the arrangements, in some instances imports are handled by the supermarket chain's head office, their identified importer or by branches themselves.
- Trends in the distribution channels show that some of the supermarkets are moving toward outsourcing the services of warehousing and transportation.

2.1.3 Major Supermarkets Sales, Shares, and Brands Outlets:

Below is a chart of South Africa's major supermarket chains. For the most part, they offer much the same range of products and brands. Gaining a competitive edge through image and service is their

major focus. The retailers work hard at establishing their own particular appeal. Some, like Woolworths and Spar, do this by targeting a particular shopper segment, such as upper-income groups. Others, like Pick n Pay and Shoprite-Checkers group, go head-to-head more on price and “shopping experience”.

These retail groups in South Africa enjoy enormous bargaining power. They are all able to dictate their buying terms to suppliers who are expected to deliver products to central depots or warehouses, where the products are then distributed to supermarkets and retail outlet stores using their own transportation trucking system. Shoprite-Checkers and Spar, for example, are very strong in the predominantly black areas (townships) whereas Woolworths is stronger in the smaller “up-market” segments.

Major supermarkets retail chains have a presence in the urban and rural areas and continue to open new stores. Most supermarkets sell their own-label products as well as manufacturer’s brands.

The retail industry prefers to buy directly from local manufacturers. For imported products, some supermarkets prefer to deal directly with U.S. manufacturers, because an import agent or a distributor acting as a middleman can add up to 30 percent to the cost of the product, resulting in lower margins for the supermarket.

Supermarkets have recognized the growing demand for prepared food, and compete with convenience stores or quick service stores and have increased the offering of fresh, prepared foods, and ready-to-eat meals. Tables below highlight the South African major retail chains.

Table 3. South Africa: Supermarket Value Sales, Outlets and Selling Space: 2007 – 2009

	2007	2008	2009
Value sales \$ million	12,525	13,030	14,518
Outlets	3,732	3,689	3,595
Selling Space ‘000 sq m	2,817	2,884	2,965

Source: Euromonitor International

Table 4. South Africa: Supermarket Company Shares by Value 2007-2009

% retail value rsp excl sales tax	2007	2008	2009
Shoprite Holdings	34.8	39.4	41.6
Pick n Pay Retail Group	38.8	36.7	34.6
Spar Group	20.4	20.0	20.4
Others	5.9	3.9	3.5
Total	100.0	100.0	100.0

Source: Euromonitor International

Table 5. South Africa: Supermarket Brand Shares by Value 2007-2009

% retail value rsp excl sales tax	Company	2007	2008	2009
Shoprite Supermarkets	Shoprite Holdings	22.2	26.1	26.5
Pick n Pay Supermarkets	Pick n Pay Retail Group	18.8	18.6	17.9
Checkers Supermarkets	Shoprite Holdings	10.5	11.6	13.1

Spar	Spar Group	12.3	11.2	11.6
Pick n Pay Family Stores	Pick n Pay Retail Group	10.1	10.4	10.5
Super Spar	Spar Group	7.7	8.4	8.5
Boxer	Pick n Pay Retail Group	4.0	4.4	4.1
Score	Pick n Pay Retail Group	4.6	2.9	1.8
Pick n Pay Minimarkets	Pick n Pay Retail Group	1.2	0.3	0.4
Kwik Spar	Spar Group	0.4	0.4	0.3
Others	Others	8.1	5.6	5.5
Total	Total	100	100	100

Source: Euromonitor International

Table 6. South Africa: Supermarket Outlets by Brand 2007 – 2009

Sites/outlets	Company	2007	2008	2009
Spar	Spar Group	492	468	445
Shoprite Supermarkets	Shoprite Holdings	300	306	320
Pick n Pay Family Stores	Pick n Pay Retail Group	200	223	282
Super Spar	Spar Group	164	185	250
Pick n Pay Supermarkets	Pick n Pay Retail Group	161	170	155
Checkers Supermarkets	Shoprite Holdings	115	119	137
Kwik Spar	Spar Group	263	256	128
Boxer	Pick n Pay Retail Group	77	94	87
Score	Pick n Pay Retail Group	127	84	17
Pick n Pay Minimarkets	Pick n Pay Retail Group	46	14	8
Others	Others	1,787	1,770	1,766
Total	Total	3,732	3,689	3,595

Source: Euromonitor International

Pick n Pay: The Pick n Pay Group is South Africa's second largest supermarket retail chain with head offices based in Cape Town and Johannesburg. Pick n Pay has over 15 percent of the retail market share with over 500 stores in the South African food sector. The group has outlets in South Africa, Southern Africa, and in Australia through its Franklin outlets. To take advantage of the South Africa fast growing demand for convenience shopping, in 2009 Pick n Pay entered the market through the British Petroleum (BP) forecourt gasoline stations with an introduction of Pick n Pay Express outlet. The group offers three private label ranges such as Pick n Pay (straightforward, no-frills packaging); Pick n Pay Choice (good quality at lower price than branded products); and Pick n Pay Foodhall (high quality products at a premium). The Retail Division manages Pick n Pay branded businesses such as food, clothing and general merchandise in Hypermarkets, Supermarkets, Family Franchise Stores, Mini Market Franchise, Clothing, Butcheries Meat Centers, and Gas Centers. The Group Enterprises Division operates the Group's other non-Pick n Pay branded group activities including Score Supermarkets, TM Supermarkets, property franchises, and Go Banking, as well as finding new investment opportunities for the group worldwide. Pick n Pay retail formats and brands are found in Hypermarkets, Supermarkets, Discount Supermarkets, Franchise stores*, Clothing Stores, Liquor stores, Pharmacies, Score, Boxer supermarkets, Boxer hardware stores, TM Zimbabwe, Franklins/Australia – corporate, and Franklins/ Australia – franchise. *Includes Score stores which were converted to Pick n Pay Family franchise stores in 2009.

The emphasis of the supermarket division is on total convenience and freshness, with stores trying to add value through the fresh food supply chain. Traditionally, Pick n Pay Score supermarkets have had a presence in townships when other retailers have stayed away. Pick n Pay is the most modest of the high-

end super market chains. Price points are similar to middle- to high-income supermarkets in the United States.

Shoprite Holding: Shoprite is a South Africa's largest food retailer and has about 34 percent market share of the food retailing market. Shoprite caters to the broad middle to lower-end of the consumer market with a focus on private label or branded products on food for their more price-conscious consumers. The group consists of about 1,800 outlets in South Africa and throughout Southern Africa (Angola, DR Congo, Ghana, Mozambique, Namibia, and Zambia) Nigeria and India. The retail formats and store brands are comprised of Shoprite supermarkets, Checkers Supermarkets, Checkers Hypers, Usave stores, distribution centers supplying group stores with groceries, non-foods and perishable lines, OK Furniture outlets, OK Power Express stores, House & Home stores, and Hungry Lion fast food. Through its OK Franchise Division, the Group procures and distributes SKUs to the OK Minimark convenience stores, OK Foods supermarkets, OK Grocer stores, Megasave wholesale stores, Sentra stores, and Value Stores. Shoprite Holdings with its Checkers brand remain the sole player in the hypermarkets in South Africa.

Checkers Hypers have a special section devoted entirely to imported foods as well as kosher and halal sections. Checkers Hyper chain targets middle to high-income groups. Shoprite Checkers are similar to a Shoppers Food Warehouse type of shopping experience. Shoprite Head Offices are based in Cape Town, South Africa.

Woolworths: Woolworths Holdings Limited (WHL) is a South African-based retail group chain that operates locally and internationally through two subsidiaries. Woolworths (Proprietary) Limited, and Country Road Limited in Australia. Woolworths Proprietary operates and franchises stores in South Africa, Africa and the Middle East; and Country Road Limited, listed on the Australian Stock Exchange, operates in Australia, New Zealand and Singapore. Woolworths offers select ranges of apparel, clothing, cosmetics, toiletries, footwear, jewelry and food under its own brand name. There are about 400 Woolworths outlets stores. Woolworths stores presence are mainly in shopping malls or shopping centers, and currently are opening food stand-alone stores in convenient suburban locations, including Owned Woolworths, Franchised Woolworths, and Owned and Franchised Country Road outlets.

Woolworths caters to the wealthiest South African consumers with a strong organic food focus. In focusing on quality, Woolworths utilizes a high degree of contract farming to supply fresh produce and prepared convenience foods. Contract farming has enabled Woolworths to carry a wider range of gourmet items, but often faces supply issues due to compliance issues with contract terms.

The "Woolies" shopping experience isn't as up market as a Dean and DeLuca, but it's comparable to the Whole Foods or Trader Joe's shopping experience in the U.S. They carry a relatively small number of branded products, instead promoting their own Woolworths branded private label products. Price points are slightly higher than Checkers and Pick n Pay but relatively comparable to similar retail markets in the U.S. Woolworths operates in other African countries such as Botswana, Kenya, Namibia and Ghana, with plans underway to expand to Angola, Mozambique, Zambia, and Uganda.

Spar: The Spar organization consists of two types of members: Spar Retailers, who are independent store owners, and Spar Distribution Centers, which provide leadership and services to the Spar Retail

members. Both members belong to the Spar Guild of Southern Africa, a non-profit company set up to coordinate and develop Spar in Southern Africa. The members pay subscriptions to the Guild, which uses these monies to advertise and promote Spar. The Spar grocery chain emerged in the 1963 when a group of eight wholesalers were granted exclusive rights to the Spar name in South Africa to service 500 small retailers. A number of mergers and take-overs followed, and today all but one of the wholesalers are owned by the Spar Group Limited, which operates six distribution centers that supply goods and services to about 1,400 Spar outlets in South Africa, Botswana, Namibia, and Zimbabwe. Retail formats and brands are comprised of Supermarkets, Supersparks, Spars, Kwikspars, Build It, and TOPS. TOPS is the Spar Group's liquor chain, the biggest in South Africa.

All stores are independently owned, and many of the purchasing decisions are made at the individual store level. Spar targets high-income consumers and locates its stores in more up-market neighborhoods. Shopping at a Spar can be similar to shopping at an upmarket Giant or Shaw's in an up-market neighborhood in the United States.

Massmart Holdings: Massmart is a managed portfolio of ten wholesalers and retail chains, each focused on high volume, low margin, low-cost distribution of mainly branded consumer goods, through 228 outlets, and one buying association serving 478 independent retailers and wholesalers, in 11 countries in sub-Saharan Africa such as Botswana, Lesotho, and Zambia. The US-based retail giant Wal-Mart is in the final stages of purchasing South Africa's Massmart. The Massmart group is the third largest distributor of consumer goods in Africa, the leading wholesaler of general merchandise, home improvement equipment and supplies, and the leading wholesaler of basic foods. It is estimated that about 90 percent of the food products is sold through the group warehouse club discounting such as Makro; and the group food wholesaling outlets such as CBW, Jumbo and Shield, are then sold on through the information retail market such as spaza, street hawkers/kiosks. Wholesale stores includes Makro, Game, Dion, Builders Warehouse, Shield, Delarex, Feds DIY, Servistar, CBW, and Jumbo. Visit the group website at: www.massmart.co.za for more information.

Metcash: Metcash Africa is the largest distributor of groceries and fast moving consumer goods (FMCG) on the African continent. It has extensive franchise retail interests in South Africa and operates in other African countries (Malawi, Namibia, Lesotho, and Swaziland,). The brand stores include Metro Cash and Carry, Trade Centers, Liquor World, Stax, Friendly Warehouses, Alliance Cash & Carry, Seven Eleven, Lucky Seven, Buy Rite, Viva-Supa-Save, and Pop-In, with private labels such as (Family Favorite, Astor, and Golden Circle). Metro liquor stores such as Liquor World and Liquor Warehouse offers consumers a range of imported liquor are conveniently located next to Trade Centers and Metro Cash and Carry outlets. For more information visit the group website at www.metcash.co.za

2.2 Convenience Stores

2.2.1 Entry Strategy

Convenience is a relatively new trend in the South Africa's fast moving consumer goods market, and continues to be key growth factor of the South Africa retail trade. There are around 662 convenience outlets. The current sales value of convenience stores grew by 7.3 percent to reach \$900 million in 2009. Major retailers and wholesalers own most of the convenience stores. Woolworths Holdings remained the leader in convenience stores in 2009 with a 34 percent market share. To highlight products

in-store, Woolworths Food outlets and Woolworths outlets are co-located at Engen Forecourts Quickshops, a national gasoline chain; Sentra Value stores owned by Shoprite Holdings with a value share of 5 percent; Sasol Forecourts joint ventures focus more with the restaurant chains; and Pick n Pay Express outlets with British Petroleum (BP) entered the forecourts in 2009.

Convenience stores operate on extended hours or in some instances they are open 24 hours. South Africans appreciate and typically shop at convenience outlets because they are perceived as time saving, well lit, safe and convenient.

2.2.2 Market Structure:

The market structure is covered in detail under the supermarket section of this report.

2.2.3 Convenience Stores Sales, Shares and Brand Outlets:

Table 7. South Africa: Convenience Stores Value Sales, Outlets and Selling Space: 2007 – 2009

	2007	2008	2009
Value sales \$ million	1,291	1,320	1,325
Outlets	619	617	662
Selling Space '000 sq m	137	141	144

Source: Euromonitor International

Table 8. South Africa: Convenience Stores Company Shares by Value: 2007 – 2009

% retail value rsp excl sales tax	2007	2008	2009
Woolworths Holdings Ltd	88	94	95
Shoprite Holdings Ltd	4.4	3.8	3.6
Others	7.9	2.4	1.8
Total	100	100	100

Source: Euromonitor International

Table 9. South Africa: Convenience Stores Brand Shares by Value: 2007 - 2009

% retail value rsp excl sales tax	Company	2007	2008	2009
Woolworths (Engen Gas stations outlets)	Woolworths Holding Ltd	65	67.4	66.4
Woolworths Foods	Woolworths Holdings Ltd	22.7	26.4	28.3
Sentra Value Stores	Shoprite Holdings	4.4	3.8	3.6
Others	Others	7.9	2.4	1.8
Total	Total	100	100	100

Source: Euromonitor International

Table 10. South Africa: Convenience Stores Outlets by Number: 2007 – 2009

Sites/Outlets	Company	2007	2008	2009
Woolworths Foods	Woolworths Holdings Ltd	102	120	110
Sentra Value Stores	Shoprite Holdings Ltd	66	58	55
Woolworths (Engen Gas station outlets)	Woolworths Holdings Ltd	35	39	42
Others	Others	416	400	455
Total	Total	619	617	662

Source: Euromonitor International

2.3 Traditional Markets

2.3.1 Entry Strategy:

Food retailers in South Africa range from highly sophisticated supermarkets at one end to rudimentary street corner stalls at the other. In years past, predominantly black townships were virtually unserved by large-scale food retailers. The informal retail sector in South Africa is continually growing and is increasingly recognized by manufacturers and wholesalers as an important delivery channel of goods to consumers. Informal market retailers cater to the needs of the residents via independent grocery stores such as cafes, general dealer stores and several informal South African retail concepts (tuck shops, shebeens, taverns and spazas) including hawkers (street vendors), kiosks, take-aways and fast foods. In 2009, the total number of street stalls/kiosks grew by four percent to reach 59,360 stalls accounting to a sales value of \$0.6 billion. With the end of apartheid, major retailers have also extended their services to these townships. Marketers saw the spaza as the beginning of a new form of township convenience retailing, conveniently close to consumers, and open at extended hours. Informal traders are generally defined as retailers that are not registered for VAT.

Spaza shops are defined as small retail enterprises operating from a residential stand or home, engaged in trading consumer goods. Spaza shops operating mainly in the townships are making their presence felt in the local retail market. Products traded include food and nonfood products.

The informal retail market in South Africa is acknowledged as an important delivery channel of goods to customers. However, the view is held that this sector may have peaked, as more formal shopping centers are being developed in the previously disadvantaged areas. Currently, more stores are trading seven days a week, creating greater convenience for shoppers. Sunday trading is becoming increasingly important as the trend towards convenience continues. End of the month shopping remains extremely significant.

On average, start-up investment for spaza shops amounts to less than \$1000. Spazas are mainly financed by private savings or loans from relatives or friends. Average employment amounts to about three employees per business. Considering that the number of spazas may be 100,000, this sector of the economy may provide 230,000 to 290,000 jobs, and support more than one million people. The most important products sold by spaza shops are (in descending order): soft drinks, cigarettes, paraffin (liquid petroleum for home use burner stoves), candles, maize meal, alcoholic beverages, bread, and sugar.

There is now growing awareness among manufacturers and producers of the importance of the spaza retailers as a marketing channel. More than 20 percent of spaza owners report that products such as soft drinks, dairy, and bakery products are now delivered to their shops. The most serious problems encountered by spaza owners are inventory shortage or access to finance (38.8 percent), high levels of crime (robbery, 25 percent), severe competition (20.6 percent), expensive transport (19.7 percent), and bad debt or the granting of too much credit (17.1 percent). Although spaza retailers are often seen as survivalist enterprises, it is clear spazas are becoming not only a permanent phenomenon on the South African economic scene, but more sophisticated and closely linked to the rest of the economy than commonly perceived.

Despite the significance of the informal retail market, imported product is rarely featured at these outlets. Informal retailers do not have the capacity to buy imported goods directly and rely mostly on

sourcing their products from local wholesale markets.

2.3.2 Market Structure:

The market structure is covered in detail under the supermarket section of this report.

2.3.3 Traditional Stores Sales, Outlets and Brand:

Table 11. South Africa: Street Stalls/Kiosks by Subsector: Units/Outlets 2007 – 2009:

Outlets	2007	2008	2009
Chained Street Stalls/Kiosks	77	83	88
Independent Street Stalls/Kiosks	54,278	56,992	59,272
Street stalls/kiosks	54,355	57,075	59,360

Source: Euromonitor International

Table 12. South Africa: Street Stalls/Kiosks: Foodservice Value 2007 – 2009

\$ million	2007	2008	2009
Chained Street stalls/kiosks	7	8.1	9
Independent street stalls/kiosks	427	502	562
- Independent Street Stalls/Kiosks	434	510	571

Source: Euromonitor International

Table 13. south Africa: Global Brand Owner Shares of Chained Street Stalls/Kiosks 2007- 2009

% Value	Global Brand Owner	2007	2008	2009
Hot Dog Cafe'	Hot Dog Cafe' Franchise (Pty) Ltd	75.3	71.3	68.6
Others	Others	24.7	28.7	31.4
Total	Total	100.0	100.0	100.0

Source: Euromonitor International

2.4 Forecourts Stores

Forecourt retailers, or gas stations, are becoming increasingly popular in South Africa due to a growing demand for convenience purchase on a daily basis. Outlet growth of eight percent in 2009 saw the total number of outlets reach 3,247. Consumers attracted to convenience shopping contribute to sales at forecourt stores. Forecourts retailers are expected to record continued growth as a number of new petrol stations open throughout the country. The inclusion of popular retail brands within forecourt retailers will likely contribute to the number of consumers visiting these stores. South African restaurant chains saw a niche in the sector, and are now entering the forecourt market.

Recent trends in the food sector confirm increasing demand in the extended choices of food and drink that includes dishes such as: pap (corn-based staple) and meat, lasagna or roasted vegetables; ready-made and packaged items such as sandwiches, microwavable foods, salads, fresh produce, meat pies, biltong (jerky), home meal replacements, cheese, yoghurt, milk, baked goods, sweets, and chocolates.

Table 14. South Africa: Forecourt Retailers: Value Sales, Outlets and Selling Space 2007 – 2009:

	2007	2008	2009
Value sale \$ million	1,142	1,109	1,199

Outlets	3,181	3,009	3,247
Selling Space '000 sq m	410.7	401.1	411.3

Source: Euromonitor International

Table 15. South Africa: Forecourt Retailers Company and Brand Shares by Value 2007 – 2009:

% retail value rsp excl sales tax	Brand	2007	2008	2009
Woolworths Holdings Ltd	Woolworths	25.7	31.4	31.2
Total South Africa (Pty) Ltd	La Boutique	8.5	8.5	8.0
Shell South Africa Marketing (Pty) Ltd	Shell Select	7.4	5.9	6.0
BP South Africa (Pty) Ltd	BP Express	6.9	5.7	5.3
Chevron South Africa Ltd	Star Mart	5.2	5.0	4.5
Sasol Ltd	Sasol	4.2	2.2	2.6
Others	Others	42.1	41.4	42.4
Total	Total	100.0	100.0	100.0

Source: Euromonitor International

Table 16. South Africa: Forecourt Retailers Outlets by Brand 2007 – 2009:

Sites/Outlets	Company	2007	2008	2009
La Boutique	Total South Africa (Pty) Ltd	256	247	251
Shell Select	Shell South Africa Marketing (Pty) Ltd	300	230	250
Sasol	Sasol Ltd	365	185	235
BP Express	BP South Africa (Pty) Ltd	230	183	185
Star Mart	Chevron South Africa Ltd	195	182	178
Woolworths	Woolworths Holdings Ltd	35	39	40
Others	Others	1,800	1,943	2,108
Total	Total	3,181	3,009	3,247

Source: Euromonitor International

SECTION 3: COMPETITION

Table 17. South Africa: South Africa's Key Export and Import Products and Trading Partners between 2007 – 2009

Product Category and HS Code	Major Supply countries and strength of supply	SA EXPORTS to USA Millions of US\$			SA IMPORTS from USA Millions of US\$			Advantages and disadvantages of local suppliers
		2007	2008	2009	2007	2008	2009	
Meat and Edible meat offal (02)	Brazil – 46% Australia – 12% Canada – 12%	0.07	0.07	0.00	7.3	6.7	6.7	South Africa is a net importer of meat and meat products. The pattern of imports in this category is variable and depends largely on local conditions. Brazil, Australia and Canada are members of Most Favored Nations (MFN) status countries.
South Africa net imports from the World of \$299 million in 2009 versus \$297 million in 2008.	USA minor supplier of 2%.							
South Africa net exports to the world of \$118 million in 2009 versus \$91 million in 2008.								

								South Africa major export categories are (0207) - poultry meat offal, and (0208) - other frozen of fresh.
<p>Fish and Seafood (03)</p> <p>Net imports from the world of \$102 million in 2009 versus \$105 million in 2008.</p> <p>Net exports to the world of \$391 million in 2009 versus \$472 million in 2008.</p>	<p>India- 25%</p> <p>Norway -7%</p> <p>New Zealand - 7%</p> <p>USA- Minor supplier of 2%.</p>	33	27	21	5.4	8.7	2.3	<p>South Africa is a net exporter of fish and seafood products. Major export categories are (0303) – frozen fish, (0304) – Fillet, (0307) – Other Seafood, and 0306 – crustaceans, other seafood</p>
<p>Dairy Products (04)</p> <p>Net imports from the world of \$77 million in 2009 versus \$100 million in 2008.</p> <p>Net exports to the world of \$77 million in 2009 versus US\$ 54 million in 2008.</p>	<p>France - 19%</p> <p>New Zealand – 13%</p> <p>Argentina – 11%</p> <p>USA a supplier of 6%</p>	0.01	0.07	0.02	1.8	1.5	6	<p>Dairy products opportunities exist in categories of (0406) – cheeses, and (0405) – butter, and powdered milks. Less dairy products were imported during 2009 than 2008.</p> <p>New Zealand is a member of MFN status countries. France and Argentina are members of the European Union (EU). The EU and South Africa signed a Free Trade Agreement (FTA) in 1999. The agreement will be</p>

								phased in over a ten to twelve year period and will essentially liberalize 86% of South Africa's imports from EU and about 95% of EU imports from South Africa. The overall agreement meets WTO requirements of 90% coverage.
Edible Fruit and Nuts (08) Net imports from the world of \$66 million in 2009 versus \$74 million in 2008. Net exports to the world of \$1.62 billion in 2009 versus \$1.67 million in 2008.	United States – 13% Spain - 13% Turkey - 8% The United States is a major supplier of almonds (080212) with a market share of 90 percent.	47	50	51	9.6	6.4	8.5	South Africa is a net exporter of dried fruits and a net importer of nuts. Major export categories are 0805 – fresh and dried citrus, 0806 – fresh & dried grapes, and 0808 – fresh apples and pears. A small market exists for imports of dried exotic fruits, and opportunities exist for shelled hazelnuts, desiccated coconut, cashew nuts and shelled almonds.
Spices, Coffee, and Tea (09) Net imports from the world of \$124 million in 2009 versus \$146 million in 2008. Net exports to the world of \$43 million in 2009 versus \$38 million in 2008.	Malawi - 21% Vietnam – 15% India – 12% US minor supplier of 0.2% with slight increase in imports of categories (090111), and (090204)	5.2	4.6	4.3	0.59	0.12	0.24	South Africa is a net importer of spices, coffee and tea. Imports supplements local production which tends to be insufficient to meet local demand. Malawi is a member of MFN status countries.
Prepared Meat, Fish (16)	Thailand – 76% China – 7% India – 3%	0.11	0.01	1.3	1.1	3.2	1.0	South Africa is a net importer of prepared meat, and fish products.

<p>Net imports from the world of \$154 million in 2009 versus \$130 million in 2008.</p> <p>Net exports to the world of \$48 million in 2009 versus \$40 million in 2008.</p>	<p>The United States enjoys a dominant position in the canned salmon (160411) market, holding a market share of 80 percent with UK holding 12 percent. Thailand dominates sardines (160413) with 91 percent of market share, and 93 percent of tuna (160414) market share. China leads markerel (160415) with 40 percent.</p>							
<p>Sugars and Sugar Confectionery (17)</p> <p>Net imports from the world of \$138 million in 2009 versus \$115 million in 2008.</p> <p>Net exports to the world of \$418 million in 2009 versus \$247 in 2008.</p>	<p>Brazil – 48% Colombia – 9% China – 7%</p>	8.2	0.1	20	15	11	6	<p>South Africa is a net exporter of sugar. The majority of imports are in the category of other sugar products in solid form, such as cane and beet sugar (1701).</p> <p>Brazil and Columbia are members of MFN status countries.</p>
<p>Preserved Food (20)</p> <p>Net imports from the world of \$140 million in 2009 versus \$135 million in 2008.</p> <p>Net exports to the world of US\$ 397 million in 2009 versus US\$ 386 million in 2008.</p>	<p>China – 33% Argentina – 14% Italy – 9%</p> <p>USA – Minor supplier of 3%.</p>	15	20	19	2.3	2.2	4.6	<p>South Africa major export categories are (2008) – other fruit nut; and (2009) – fruit + vegetable juices.</p> <p>Argentina is a member of MFN status countries; whereas Italy is a member of EU states.</p>
Miscellaneous Edible	USA – 18%	14	15	12	31	36	33	South Africa is a

<p>Preparations/Processed Fruit & Vegetables (21)</p> <p>Net imports from the world of \$179 million in 2009 versus \$218 million in 2008.</p> <p>Net exports to the world of \$184 million in 2009 versus \$166 million in 2008.</p>	<p>Netherlands – 10%</p> <p>Germany – 8%</p>							<p>net exporter of processed fruits and vegetables.</p> <p>Opportunities exist for imports in the category of other food preparations (2106), canned peas, and grape and apple juice which are used as a base for other fruit juices, prepared and preserved tomatoes, and fruit pulps.</p> <p>Netherlands and United Kingdom are members of EU states.</p>
<p>Beverages (22)</p> <p>Net imports from the world of \$468 million in 2009 versus \$432 million in 2008.</p> <p>Net exports to the world of \$1.04 billion in 2009 versus \$1.044 billion in 2008.</p>	<p>United Kingdom – 37%</p> <p>Netherlands - 24%</p> <p>France – 9%</p>	68	65	62	32	27	27	<p>South Africa is a net exporter of alcoholic beverages. Major export category is of category 2204 – the wine of fresh grapes. The import market of category (2208) is dominated by well known brands from the UK having a market share of 69 percent whereas US holds 10 percent. The South African appetite for American spirits in this category has grown over the last three years.</p> <p>U.K., Netherlands and France are members of EU states.</p>

Source: World Trade Atlas

SECTION 4: BEST PRODUCTS PROSPECTS

A. Products Present in the Market Which Have Good Sales Potential:

Five-year trends show that some U.S. consumer-oriented agricultural exports to South Africa are

growing. Of interest is the processed fruit & vegetables; and fresh vegetables categories, which reached the highest export levels in 2009. Within this category, sauces and condiments (HS 210390), Fruits prepared preserved (HS 200899), dried grapes (080620), food preparations (HS210690) have shown consistent and substantial increases, including sauces and condiments (HS210390). Other high value exports that have shown sustained growth are almonds (HS080212), canned pink salmon (HS160411), whiskies (HS220830), and vegetable seeds (HS120991).

According to 2009 data, the United States is the leading supplier of almonds, canned salmon, and other food preparations in the market, holding 90 percent, 80 percent and 20 percent market shares, respectively. The distilled spirits (whiskey) market is significantly different, with the United Kingdom holding the largest market share of 77 percent. United States distilled spirits exports to South Africa declined in both 2008 and 2009 and currently hold only 10 percent market share. Sales of U.S. distilled spirits declined just over two percent in 2009. This decline is likely due to the fact that American products (Jack Daniels, Woodford Reserve, Buffalo Trace, and Knob Creek, for example) were not price competitive and lack brand awareness among South African consumers.

Table 18. South Africa: Products with Good Sales Potential

Product Category	2009 South Africa Imports from the World (\$1,000)	2009 U.S. Exports to S.A. (\$1,000)	Percentage of Annual Import Growth U.S.	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for U.S.
Whiskies HS220830	202	23	-0.48	1.54	United Kingdom (77%) has large market share and a first mover advantage, and US 11%.	American brands are lack brand awareness among South African consumers.
Almonds HS080212	6	5.0	-1.60	Free		U.S. has largest market share of 90%.
Salmon HS160411	1.2	1.0	-68	25%		U.S. has the largest market share of 80%.

Food Preparations HS210690	115	23	-7.62	Varied		US has the largest market share of 20%. American brands are becoming increasingly popular given their high quality attributes.
Vegetable Seeds HS120991	21	3.7	-14	Free	Netherlands leads sector with 36% Market Share, while US has 17%.	

Source: World Trade Atlas

B. Products Not Present in Significant Quantities Which Have Good Sales Potential:

- Organics
- Counter seasonal apples, dried grapes, pomegranate, stone fruits, etc
- Baking inputs
- Sweeteners (lactose, glucose and syrup)
- Breakfast cereal (corn/grit meat)
- Mineral water (natural/artificial/sweetened/flavored)
- Fruit and vegetables preparations
- Products not currently available or known about in South Africa, such as new food ingredients, condiments and snack foods
- Frozen turkey cuts and edible offal, chicken offal, and frozen swine cuts
- Ground nuts
- Flavorings (malt)

C. Products Not Present Because They Face Significant Barriers:

Poultry: United States poultry exports to South Africa are restricted by an anti-dumping duty in tariff number 0207 14 90 (bone in cuts, include the chicken leg quarters), instituted in 2000, which has caused imports from the US to drop significantly.

The United States sought to have the anti-dumping ruling reviewed in 2005, but the South African industry successfully opposed the application and the measure was extended to 2011. During the December 2010 U.S.-South Africa Strategic Dialogue discussions, the U.S. made it clear that the antidumping measure on U.S. poultry has been a longstanding trade irritant and has had a significant impact on U.S. poultry exports. The South African Government responded that it understood the U.S. concerns agreed that the continued imposition of AD duties is an issue that needs to be resolved. The general rate of duty for this tariff number is 220 c/kg (in Rand). For the EU the rate is 165 c/kg and for the SADC-countries it is free. The anti-dumping duty on product from Tyson Foods is 224 c/kg, from Gold Kist Inc. it is 245 c/kg and 696 c/kg from any other United States producers.

Fresh and chilled whole birds are allowed in free of duty while the general tariff on frozen whole birds is 27 percent ad valorem, 20.25 percent on product from the EU and free from the SADC-countries. Boneless cuts (mainly chicken breasts) are a high quality product also used in the food service industry.

The general rate of duty on these products is 5 percent, 3.75 percent from the EU and free from the SADC countries. Mechanically Recovered Meat used in the processing and canning industry is allowed in free of duty. For chicken offal the general rate of duty is 27 percent but product from the EU and SADC-countries is duty free.

Beef: South Africa's national beef herd is currently estimated at 14.1 million. Beef production in South Africa is projected to decrease slightly over the two years because of weak domestic demand driven by lower than expected economic growth. Importers struggle to compete with local producers because of the current import duty of 40 percent ad valorem or R2.40/kg except from SADC countries from where imports are free. U.S. beef into South Africa are banned since 2003. There are, however positive signs that the ban might be lifted in the near future. Beef exports from South Africa were approximately \$24 million in 2009, and were destined primarily for African markets.

SECTION 5: POST CONTACT AND FURTHER INFORMATION

If you have any questions or comments regarding this report or need further assistance, please contact AgPretoria at the following address:

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For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service's website at: <http://www.fas.usda.gov>

Post acknowledges the following Sources: The Euromonitor International, the Retail industry publications and their websites; the National Statistics of South Africa, trade press, Global Trade Atlas, and trade industries interviews.