Internationalisation of supermarkets and the impact on food value chains in Africa

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Supermarkets - A growing route to market

- Another dimension of increases in economic concentration that affect food production and food value chains in Africa
- Rapid increase in the demand for food, esp. processed food, in Africa due to urbanisation, increased GDP/capita etc.
- Food products increasingly sold through supermarkets – shaping consumption, routes to market & regional trade in Africa
- But spread in southern and East Africa dominated by a handful of chains
  - Shoprite, Pick n Pay, SPAR, Woolworths, Fruit and Veg, Choppies, Walmart (over 70% of s. African formal markets)
  - Nakumatt, Tuskys, Uchumi, Naivas Ukwala (collectively dominant in formal markets)
- Also penetrating lower-income and rural markets

Spread of regional and global retailers in Africa

- Internationalisation of retailers (better economies of scale & scope, efficient procurement & distribution systems etc.)
- Spread through M&A and organic growth
- Largest are regional chains
- But international chains -Walmart, Carrefour, Pound Stretcher, SPAR (Netherlands) - have also entered Africa
- A.T. Kearney Global Retail Development Index™ ranks 30 developing countries for retail investment, based on relevant macroeconomic & retail-specific variables

2016 Rank	Country	Population (mill)	GDP/ capita, PPP	National retail sales, $bill
14	Morocco	34	8,194	39
18	Algeria	40	14,163	42
19	Nigeria	182	6,185	125
21	Cote d'Ivoire	23	3,304	13
23	Zambia	15	4,165	11
26	Tunisia	11	11,450	15
27	South Africa	55	13,197	102
28	Ghana	28	4,216	15
29	Kenya	44	3,246	26
30	Egypt	89	11,262	133

Source: 2016 AT Kearney Global Retail Development Index™ Rankings

- In 2016, index had **10** African countries in the Top 30
- Identifies most attractive current and future markets

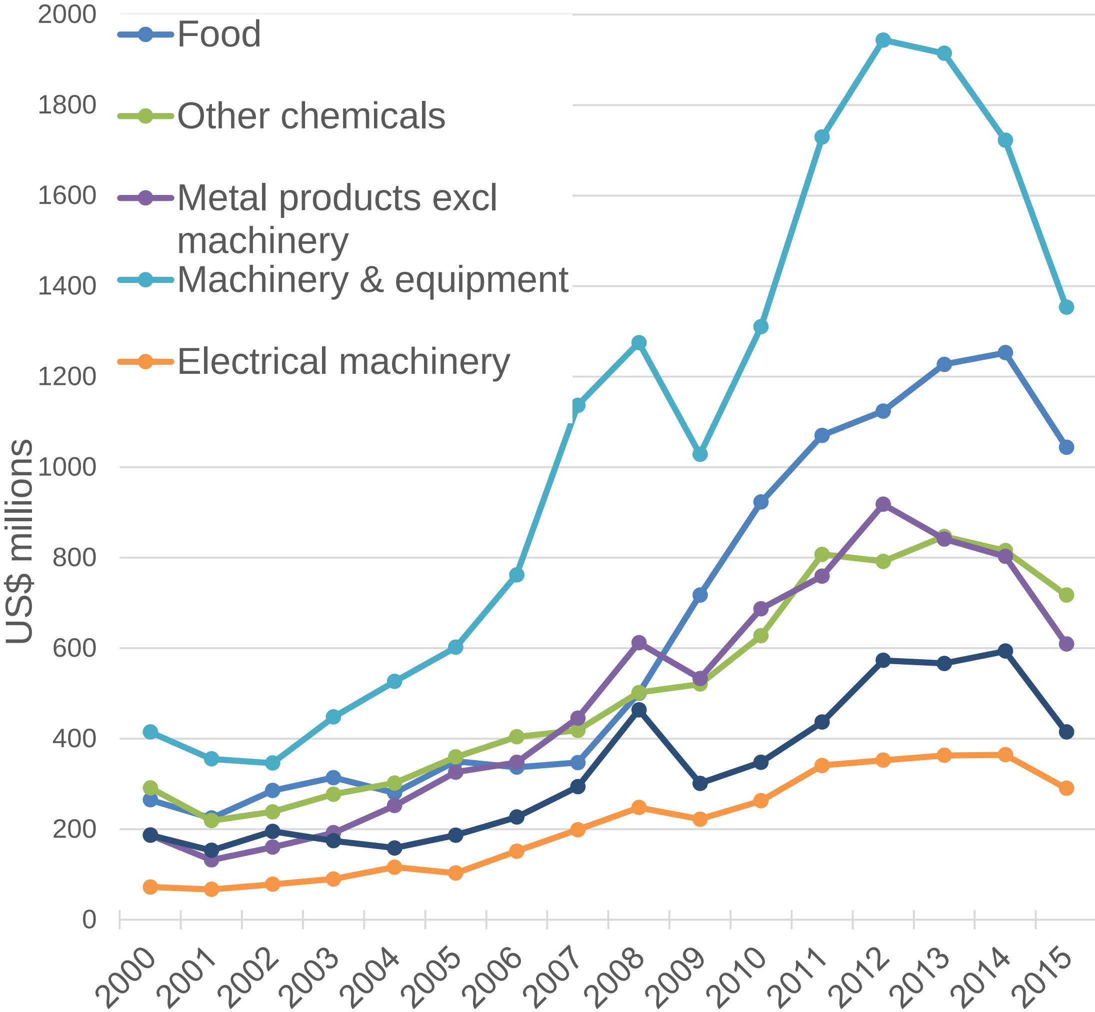
Governance of value chains and market power

- This rapid current and projected future growth by a few large chains has led to concerns of abuse of buyer power and impact on supplier development
- Anticompetitive conduct has serious implications for consumers and food suppliers
  - Conduct often ‘exported’ across the region
- Market power seen in exclusionary strategies towards rivals:
  - Exclusive leases in malls (concerns in SA, Kenya, Zambia, Botswana)
    - National competition authorities looking into this through retail market inquiries (SA, Kenya). Some have mandated discontinuation of exclusivity (Botswana)
  - Control over space and logistics
- Important to understand the changing nature of control, governance and market power and impact throughout food value chains
  - A regional ‘value chain’ approach can complement traditional IO approach in such assessments

Implications on food suppliers

- Bargaining/**buyer power** over suppliers on trading terms:
  - Supermarkets 'govern' the supply chain, effectively controlling upgrading opportunities for suppliers
  - Impose private standards; packaging, safety, quantity & quality requirements; private label requirements
  - Typically only large suppliers are able to meet these requirements; capabilities in the hands of a few large, lead suppliers
  - Small and medium-sized food processors struggle to participate in Africa
- Concerns of buyer power in southern and East Africa; ongoing retail inquiries by authorities investigating this (SA, Kenya)
- Interaction of Global and Regional Value Chains?
  - Regional markets, opened up through supermarket networks, are a stepping stone to global markets for suppliers once they build capabilities and scale

Rapid increase in demand for processed food: South Africa's leading exports to SADC countries (US$)



Source: Quantec. Note: excludes petroleum, basic chemicals, and basic metals

- Continued urbanisation & premature deindustrialisation increases pressure for development of capabilities in food processing
- SADC region has persistent & growing trade deficit in food, despite improved agricultural production
- Requires improved performance & capabilities of food suppliers
- Supermarkets can contribute to building supplier capabilities
- Regional retail strategy/charter/code of conduct and supplier development programmes are important