Do large retailers displace small informal retailers? The case of a Pick n Pay store in KwaMashu, Durban, South Africa.

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ERLN Economic Development at the Sub-National Level

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1. Introduction

- High level of **unemployment** is widely recognised among one of the major socio-economic challenges for South Africa.
- Quarterly Labour Force Survey/QLFS: In the second quarter of 2015, **25%** of the labour force unemployed (Statistics South Africa, 2015).

1. Introduction cont:

- Higher rates of unemployment have multiple roots:
  - 1. **Supply side issues**: poor education and lack of productivity (National Treasury Department, 2011; Department of Labour, 2013)
  - 2. **Demand side issues**: lack of demand for labour by possible employers

1. Introduction cont:

- The **informal sector** is an important component in expanding economic participation and absorb the growing unemployed labour force.
- Little attention paid to its role.
- A neglected component of the economy and has not been recognised in the formal system of law.

1. Introduction cont:

- The South African economy characterised as a dual economy: a *first* (formal) and *second* (informal) economy.
- In an address to the National Council of Provinces in 2003, Thabo Mbeki (former SA President) stated:

“The second economy (or the marginalised economy) is characterised by underdevelopment, contributes little to GDP [gross domestic product], contains a big percentage of our population, incorporates the poorest of our rural and urban poor, is structurally disconnected from both the first and the global economy and is incapable of self-generated growth and development” (Valodia and Devey 2010, 134).

1. Introduction cont:

- Furthermore, SA has a relatively small informal sector employment compared to other developing countries (Kingdon and Knight 2004; Valodia and Heintz 2012; ILO 2013)

Table 1: Informal employment in developing countries			
Region or Country	**Informal employment**	**Employment in the informal sector**	**Informal employment outside the informal sector**
	Non-agricultural employment %	Non-agricultural employment %	Non-agricultural employment %
Latin America			
Brazil	42.2	24.3	18
Colombia	59.6	52.2	9.3
Ecuador	60.9	37.3	24
Sub-Saharan Africa			
Liberia	60	49.5	10.8
Mali	81.8	71.4	11.3
Zambia	69.5	64.6	11.7
South Africa	32.7	17.8	14.9
South and East Asia			
India	83.6	67.5	16.8
Philippines	70.1	72.5	11.5
Thailand	42.3	n.a	n.a

Source: ILO (2013, 10-11)

1. Introduction cont:

- Also, smaller compared to the formal sector
  - The QLFS results for the second quarter of 2015 (Statistics South Africa, 2015):
    - ❑**Formal sector -**accounted for over 10 000 of employees, while the
    - ❑**Informal sector -**accounted for over 2000.
- Among the reasons for this is a growing competitive formal sector.

1. Introduction cont:

- The purpose of this research sought to investigate the significance of small retailers (component of the informal sector) in a growing economy.

2. Literature review: large-scale retail development in second economy areas

- Commercial development has transformed the geographic structure of retailing.
  - Since democracy, the South African retail industry has seen the construction of a new retailscape.
  - Retail centres/shopping malls which tended to locate in more suburban settings are moving into '**second economy areas**' (townships and rural areas)
- Over 160 retail centres developed by 2009 (South African Cities Network , 2010).
- Most often the anchor tenants in these centres are large retailers/national grocery chains such as SPAR, Checkers, etc.

2. Literature review cont:

- Several studies explore factors that influence large-scale retail development:
  - Emerging Black middle class (Tagg, Tustin and Strydom cited in Ligthelm 2008);
  - Formal industry competiveness drives large retailers to seek new markets (Terblanche cited in Mathenjwa 2007);
  - Attempts to bring economic opportunities closer to local communities and provide opportunities for informal retailers to conduct businesses (eThekwini Municipality cited in DPLG and Business Trust *n.d.*)

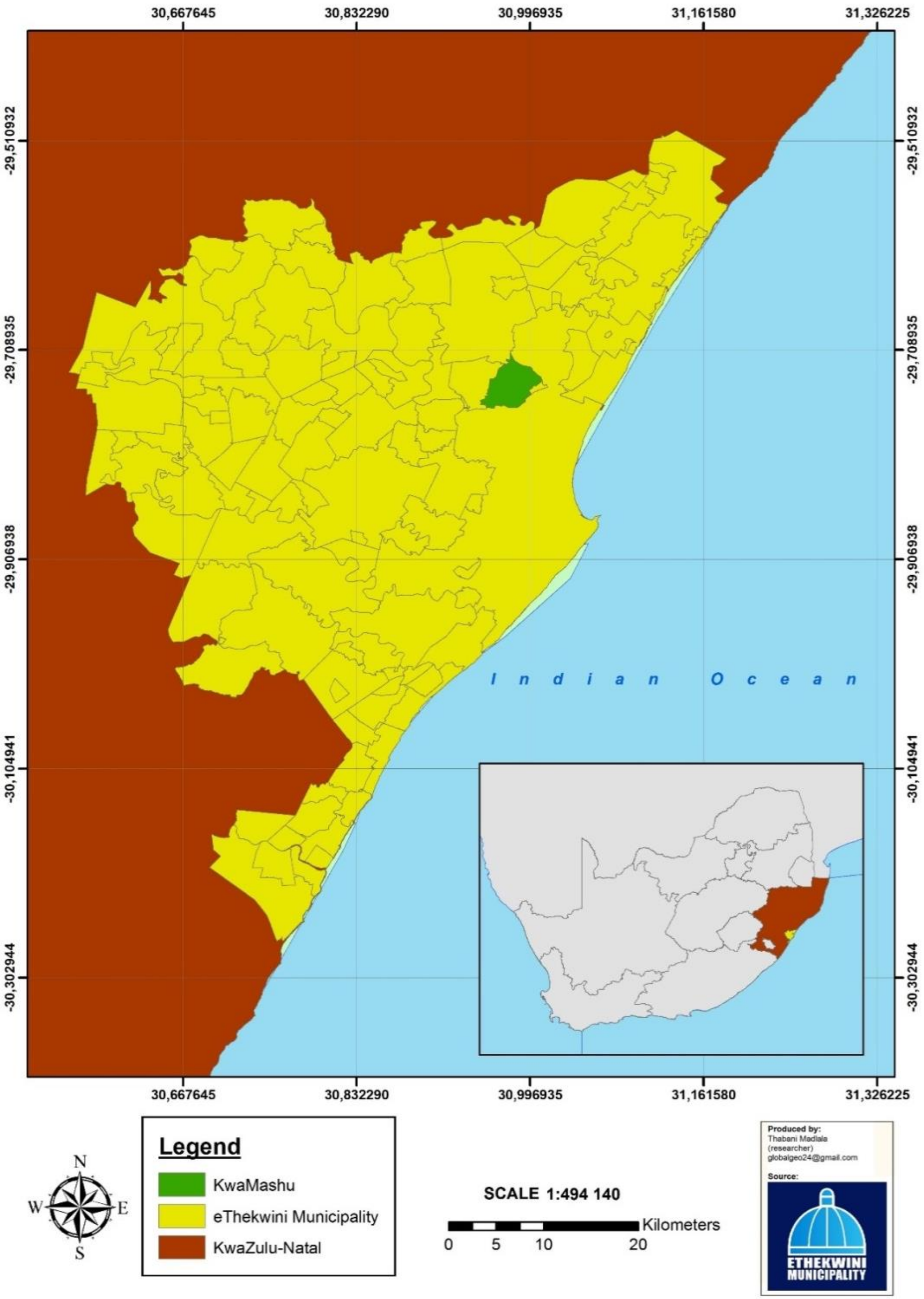
3. Methods

- **Aim**: The critical issue examined whether the expansion of formal sector stimulates or displaces the informal sector
  - The research focused on the character of competition between large retailers and their smaller counterparts, informal grocery shops “spaza shops”, in the KwaMashu township (Durban) since the opening the large retailer Pick n Pay in 2013.
- **Study participants**: informal shop owners

3. Methods cont:

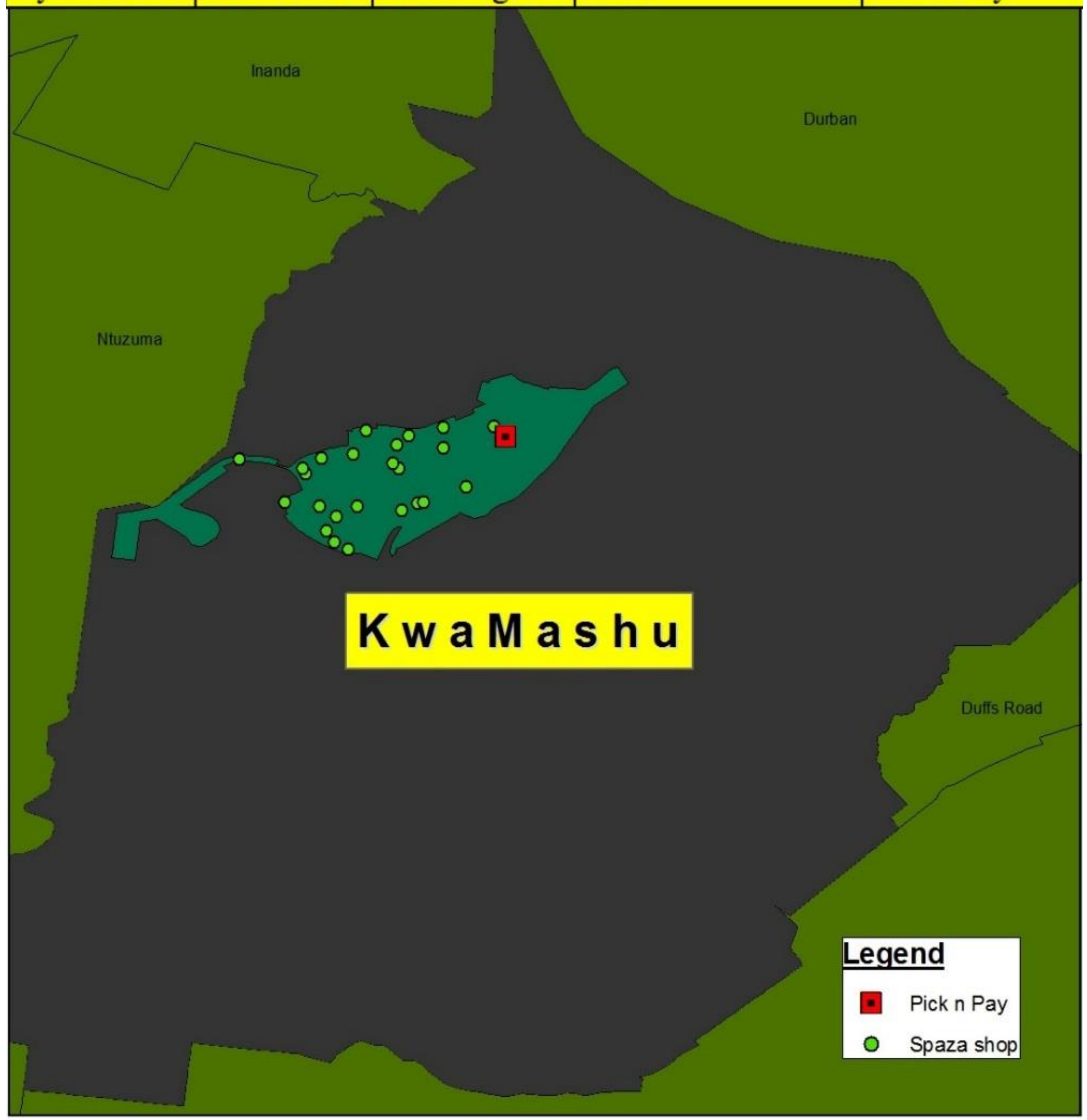
- **Data collection**: fieldwork was undertaken with the local participants in two phases:
  - The first phase produced rich and detailed information regarding the market in the area.
  - The second phase observed changes in the market that had occurred after the first phase of the research.
- The sampling allowed for the selection of shop owners in concentric circles around the shopping centre.

location of the township of KwaMashu in the eThekwini Municipality

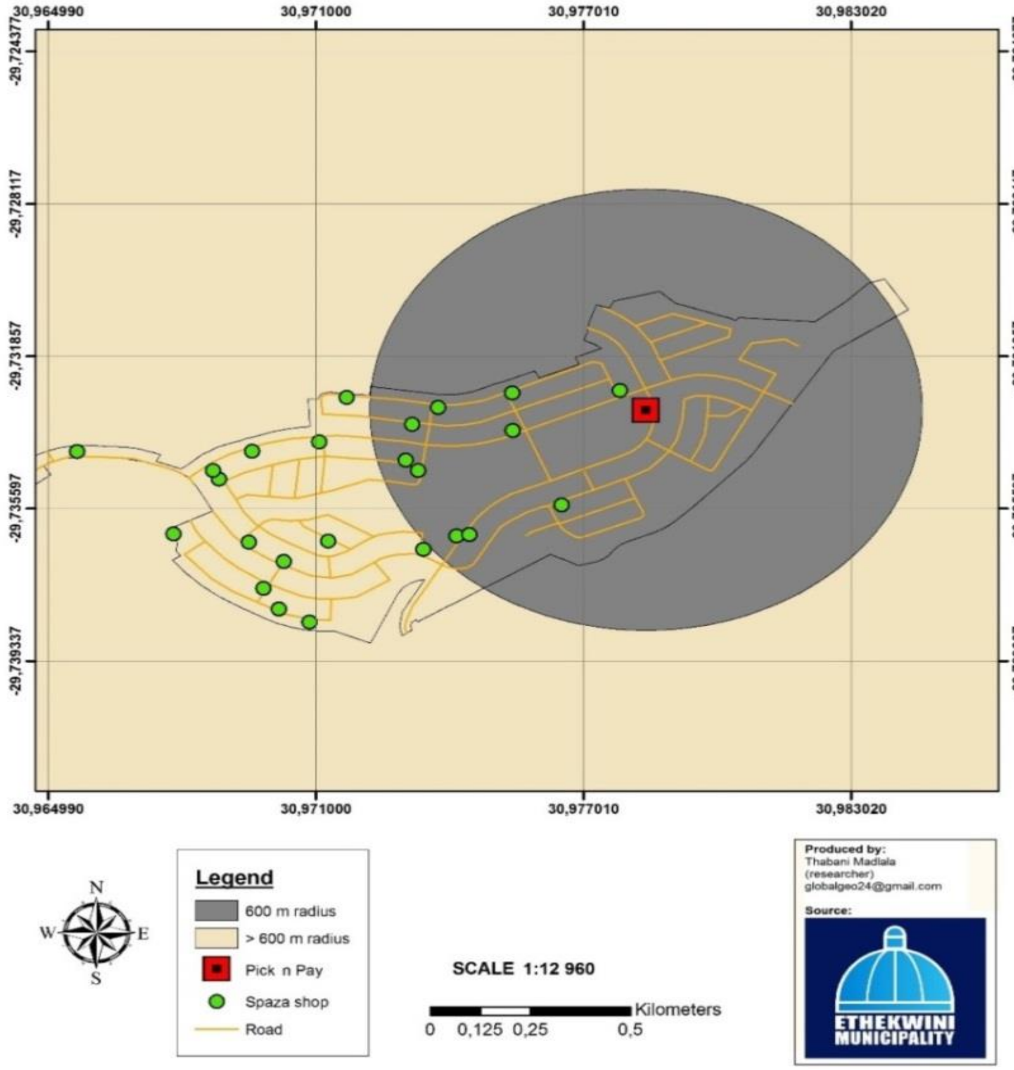


Retail centre in KwaMashu

Retail centre selected for the research study				
Name	Location	Type	Date of development	Anchor tenant
Nyala Centre	KwaMashu	Minor regional	2013	Pick n Pay



3. Methods cont:



Informal grocery shops/spaza shops

Large retailer Pick n Pay

3. Main findings

- Significant differences between informal shops located in a short and long distance from the centre:
  - The larger segment in close proximity to the centre indicated a dramatic decline in
    - consumer volumes;
    - stock movement; and
    - profitability

3. Main findings cont:

Shops in close proximity to the centre

Table 1: Perceived impact on business performance after the development of Pick n Pay – March to April 2014	Stock size		Profits		Customers	
	Number of shops/ shopkeepers	%	Number of shops/ shopkeepers	%	Number of shops/ shopkeepers	%
Increased in large amount	0	0	0	0	0	0
Increased in small amount	0	0	0	0	0	0
The same	1	10	1	10	1	10
Decreased in small amount	2	20	2	20	2	20
Decreased in large amount	7	70	7	70	7	70
Total	10	100	10	100	10	100

Shops located a long distance from the centre

Table 2: Perceived impact on business performance after the development of Pick n Pay – March to April 2014	Stock size		Profits		Customers	
	Number of shops/ shopkeepers	%	Number of shops/ shopkeepers	%	Number of shops/ shopkeepers	%
Increased in large amount	0	0	0	0	0	0
Increased in small amount	0	0	0	0	0	0
The same	3	21.43	3	21.43	3	21.43
Decreased in small amount	8	57.14	8	57.14	8	57.14
Decreased in large amount	3	21.43	3	21.43	3	21.43
Total	14	100	14	100	14	100

Source: Field Survey (2014)

3. Main findings cont:

- The evidence confirms a competitive product market between informal shops and large retailers:
  - Shop owners indicated that they had lost market sales of some products.
  - Products most affected: bread

"Sales of loaves of bread declined significantly and most end up expiring as very few customers purchase from me, resulting in financial loss. As a result, I no longer order many cases [trays] of bread from a wholesale bakery. Sometimes I buy few loaves of bread at Pick n Pay" (shop owner) .

- **Commonly stocked items**

Table 3: Price comparison between informal shops and Pick n Pay in KwaMashu, Durban.

Food product			Spaza shops (average)	Pick n Pay	Other large retailers (Shoprite)
Item	**Weight/Mass**	**Brand**	**Price**	**Price**	**Price**
1.Rice	500g	*Aunt Caroline*	R8	N/A or DNS	N/A or DNS
2. Rice	1kg	*Aunt Caroline*	R12	N/A or DNS	R10.79
3. Maize meal	1kg	*Ace*	R8.50	R6.79	R6.99
4. Maize meal	5kg	*Ace*	DNS	R28.99	R31.99
5. Milk	500ml	*Clover*	R6	R8.29	R7.99
6. Milk	1l	*Clover*	R12	R11.99	R11.99
7. Half-dozen eggs	-	No brand	R9	R8.99	R9.99
8. Half-white loaf	-	*BB Bakeries*	R5	DNS	DNS
9. Full white loaf	700g	*BB Bakeries*	R10	R5.99	R9.19
10. Half-brown loaf	-	*BB Bakeries*	R4.50	DNS	DNS
11. Full brown loaf	700g	*BB Bakeries*	R9.50	R5.49	R7.99
12. White sugar	250g	*Huletts*	R4	N/A or DNS	N/A or DNS
13. White sugar	500g	*Huletts*	R7	R6.49	R6.99
14. Soft-drink	330ml	*Coca-Cola* coke	R7	R7.49	R6.99
15. Soft-drink	2l	*Coca-Cola* coke	R17	R13.99	R14.89

Source: Field Survey (2014)

* Note: N/A – not available at the time of data collection
DNS – does not stock
g – gram
l – litre
kg – kilogram
ml – millilitre

3. Main findings cont:

- Additionally, out of the five former shop owners interviewed, one of the participants went out of business due to loss of customers after the store opened.

3. Main findings cont:

3.1 links between large retailers and informal shops

- Some shop owners in close proximity to the centre indicated that the opening of the store had some benefits for their businesses
  - Drawing in consumers from surrounding communities
  - Benefit from the exposure and to foot/passing traffic

Some shop owners reported:

- *"When people [consumers] find that Pick n Pay is closed [after trading-hours], they tend to buy small products from me"*
- *"I used to source goods such as loaves of bread from large wholesalers but now I purchase them at Pick n Pay because they are cheaper;*
- *"Pick n Pay benefits my business as I do not have to hire a vehicle to get some goods at wholesalers. Instead, I purchase some products at Pick n Pay as it is closer to my shop"*

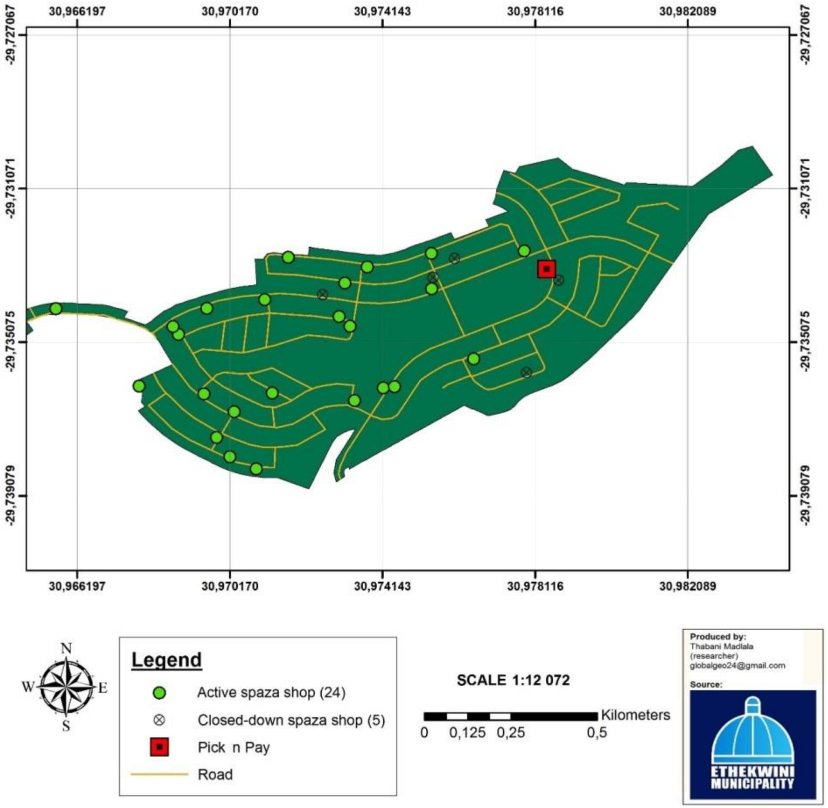
3. Main findings cont:

- During the second phase of the field research:
  - New shops discovered surrounding the centre

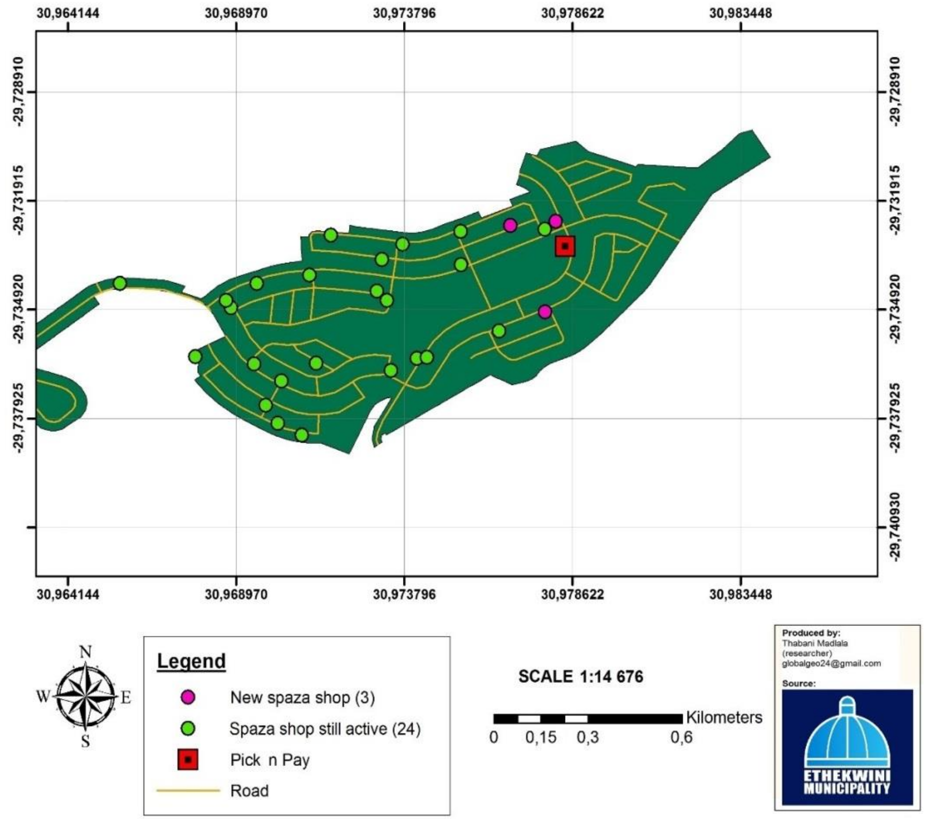
nodal integration/economies of agglomeration

The changing face of the retail landscape

First phase (March-April 2014)



Second phase (July 2014)



3. Main findings cont:

- Prices of commodities were almost the same.

  E.g loaf of bread (white) had increased to R10.40 from Pick n Pay compared to R11 from informal shops

3. Main findings cont:

3.2 Competitive response from informal shops to large retailers

- Some informal shops have assessed their strengths and weaknesses, providing merchandise mix where there is little direct competition
  - Selling clothes and providing take-away food

3. Main findings cont:

- Informal shops have slight advantages because they have longer trading hours compared to large retailers.
  - Much trading occurs between “7 am and 8 pm”, whilst the large retailer is from “8 am to 6 pm”

4. Recommendations and policy implications of the empirical findings

- Commercial development of large retailers is one of the government's strategies to address unemployment in South Africa.
- There is a belief that if a large store is opened in the trade area it is going to capture a considerable amount of trade.
- The government focuses much on large industries which is hoped to contribute to GDP.
- Little attention has been paid to a competitive market that exists between large retailers and their smaller counterparts.
- The findings of this study suggest that government needs to carefully weigh the costs and benefits of associated with the development of large businesses.
- It is therefore recommended that there should be a broader understanding of spatial competition in dynamically evolving industries.

5.Conclusion

- A large retailer's impact is highly localised, with the greatest impact being on informal shops adjacent to the mall.
- As is evident in the present study, large retailers and informal shops compete within the same product market.
- Informal shops struggle to compete on price with larger chains.
- It is considered that the government sector needs to weigh the costs and benefits of commercial development in secondary economy areas.

The End

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