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South Africa, Republic of

Retail Food Sector

Report

2001

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Report Highlights:
The continued decline in the value of the rand relative to the dollar is having a negative impact on U.S. agricultural exports to South Africa; however opportunities still exist for U.S. exports of certain niche products to the country. U.S. exports of consumer-ready products face competition from local manufacturers, as well as the European Union, Australia, Malaysia and other Asian countries. Import requirements do not pose significant barrier to U.S. food and agricultural exports to South Africa.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Pretoria [SF1], SF

Executive Summary

South African macroeconomic environment has become more stable in recent years partly because income redistribution has broadened the retail sector in many respects. The share in disposable income among black South Africans has risen significantly and more rapidly in late nineties compared to previous decades. Improvements in the South African economy since the early nineties have helped to increase stability. Inflation and interest rates are lower and declining, and the government deficit as a proportion of national income has declined, however in the past 3 years the South African currency (Rand) has fallen precipitously against major currencies. The decline has accelerated at the end of CY 2001.

Despite the continued slide in the value of the Rand versus the dollar, South Africa continues to offer long-term opportunities for U.S. exporters and investors with the right niche products, resources, ideas and commitment.

South Africa has a market oriented agricultural economy and it is the gateway of the rest of the Southern Africa with an area five times larger than the United Kingdom. The country possesses a modern infrastructure supporting an efficient distribution of goods to major urban centers throughout the region. U.S. exports of agricultural products to South Africa in 2000 totaled US$ 133 million, down 33% from 1998 largely as a result of the devaluation of the Rand versus the dollar. At the same time, South African agricultural exports to the United States increased from US$109 million in 1998 to US$133 million in 2000.

PERFORMANCE OF SOME RETAIL CATEGORIES IN 2000:

A recent study of the performance of the retail sector in 2000, reported the following findings in its April 2001 issue.

Food Products: Although sales of food products increased by 2.5 percent in 2000, in the three preceding years the food sector's share of consumers' disposable income declined 10 percent from 59 to 49 percent. While food sales in Hypermarkets and Supermarkets increased by 9.2 percent, about 1.7 percent ahead of inflation, there was a general decline in food sales in non-major outlets which cater mostly to the lower income wage earners.

Beverages: Sales of beverages increased by 3.7 percent but its share of disposable income has shrunk from 26 percent to 23 percent over the past four years. Coffee and tea, as well as carbonated soft drinks, were also affected; all three sectors recorded real declines.

Confectionery: Sales of confectionery products increased by 7.8 percent. Innovation and new launches are driving the growth in this category, at a pace which is well ahead of other markets. An example is the success of Kit Kat Crunchy (chocolate) which has mainly been responsible for the increased growth of the entire Kit Kat brand for Nestle.

There are a number of possible reasons for the overall decline in sales of food products , the most obvious being a decrease in disposable income. There were about 233 000 job losses in the formal sector alone over the past year, and the average salary increase, at 5.7 percent, was below inflation. Also, a large chunk of expenditure that used to go to the retail sector has been diverted to the cellular telephone industry and the national lottery. Expenditure on cellular phones went from zero to R16 billion in just five years, while its share of disposable discretionary income rose from 1.2 percent to 10.1 percent over the past four years. The expectation is that expenditure on cell phones will continue to increase until market saturation is reached. Cell phone companies are now targeting the lower income wage earners with prepaid usage options. Cumulative revenue from the national lottery has reached R2.3 billion in just over a year, negatively impacting expenditures on food, groceries and toiletries.

Another contributing factor is the price of petrol, which has doubled in normal terms since May 1995. A 40-liter tank cost 75 Rand to fill in 1995, while in November 2001, the price stood at 150 Rand. The increases have had a snowball effect, impacting on the cost of goods as well as on the individual's transportation cost.

* South African Progressive Retail Magazine

II. ROAD MAP FOR MARKET ENTRY

A. Supermarket:

Entry Strategy

There continues to be a competitive marketing environment in South Africa and an increasing concentration of power in the hands of the supermarket groups. The big retail groups all differ in terms of product range and clientele. Shoprite-Checkers and Spar, for example, are very strong in the black areas whereas Woolworth is stronger in the smaller "up-market" segment. Most supermarkets sell their own-label products as well as manufacturer's brands. Products can be imported directly or through agents and importers. One common characteristic among these retail groups is 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. Suppliers pay a nominal fee for this warehouse allowance. There are certain product lines which do not follow this route. Where suppliers have their own efficient transport system, direct deliveries are made. The retail industry prefers to buy directly from local manufacturers. For imported products, some supermarkets prefer to deal directly with U.S. companies, because an import agent or a distributor acting as a middleman can add up to 30% to the cost of the product, resulting in less margin for the supermarket.

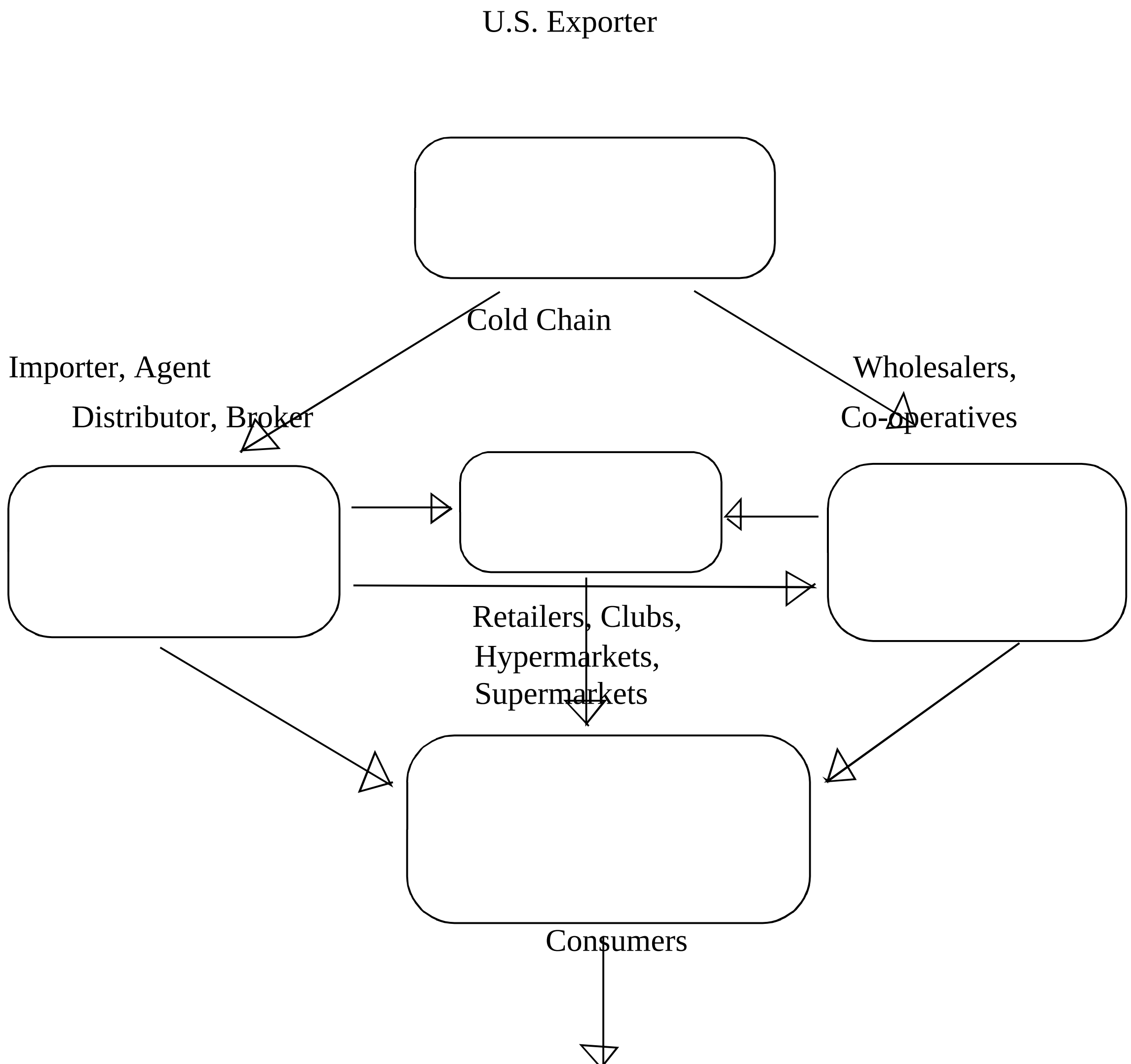
Approximately 90% of South Africa's population is found in areas surrounding the cities of Johannesburg, Cape Town, Durban, Pretoria and Port Elizabeth. South Africa offers U.S. exporters a wide variety of methods to distribute and sell their products. These include using an agent or distributor; selling through established wholesalers or dealers; selling directly to department stores or other retailers; or establishing a branch or subsidiary with its own sales force. When appointing a South African distributor, U.S. exporters should take care to find out if the distributor handles a competing product. Slightly less than 50% of total merchandise sales pass through both a wholesaler and a retailer before reaching the final consumer; about 40% of sales are from the manufacturer to the retailer, 5% from the wholesaler directly to the consumer, and 5% bypass both the wholesaler and the retailer, reaching the consumer directly from the producer or the importer. Many South African manufacturers have established wholesale and retail outlets in the past few years.

In South Africa's very competitive marketplace, it is essential that the U.S. exporters choose or locate 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 or distributors. Once contacts are established, it is advisable to visit South Africa, since firsthand knowledge of the market is highly useful. 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 consumers. 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 customers clearance, port and rail charges, documentation, warehousing, and financing arrangements. Local agents representing foreign exporters outside South Africa who export goods to South Africa, are fully liable under the South African Import Control Law for all regulations and controls 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 interest.

Market Structure

Basic flow of imported food products:



Major Supermarket Profiles

General: Below is a chart of South African 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 preoccupation. 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 groups. Others, like Pick n Pay and Shoprite Checkers group, go head-to-head more on price and "shopping experience."

Retail Name	Ownership	Turnover ($Billion)	Number of Outlets	Location	Purchasing Agent Type

Pick n Pay Group: - P n P Hypers - P n P Supers - P n P Family - Score - Ritevalu	Local/International	19.9	394	Nationwide/local	Direct/Importer
Shoprite Holdings: - Shoprite - Checkers - Sentra - 8 Till Late - Hyperama	Local/International	28.3	570	Nationwide	Direct/Importer
Woolworths - Woolworths - Country Road - Woolworths (franchised)	Local	5.05	236	Nationwide	Direct/Importer
Spar: - Superspar - Spar - Kwikspar	Local/International	1.59	709	Nationwide	Direct/Importer

2000 Rate: 1USD=6.93

Pick n Pay: The company is an investment holding company with two divisions: the Retail Division and the Group Enterprises Division. The retail division sell food, clothing and general merchandise in Hypermarkets, Supermarkets, Family Franchise Stores, and Home Shopping throughout Southern Africa. The group enterprise division manages other group activities including business development, E-commerce, property franchises, corporate supermarkets as well as finding new investment opportunities for the group worldwide. The emphasis of the supermarket division is on total convenience and freshness, with stores aiming to add value through the supply of irresistible fresh food. Pick n Pay has a total number of 394 stores made up of 14 Hypermarkets, 109 Supermarkets, 82 Family Stores, 78 Score Supermarkets and 97 RiteValu. Additionally it owns 50 TM Supermarkets in Zimbabwe and 9 Pick and Pay Auto Center national stores.

Shoprite Checkers: Shoprite is a holding company with investments in supermarkets, property, furniture and fresh produce companies. When Shoprite was acquired in 1979, it had a chain of 8 stores with a turnover of R10.8 million. It has since grown to a R19.6 billion business with more than 570 outlets. Shoprite expanded rapidly as a result of its aggressive acquisition strategy. In 1990 it acquired Grand Supermarkets, and converted its 17 outlets to Shoprite stores, and in 1991 it bought the less profitable Checkers chain, and successfully merged the acquired 170 stores with Shoprite's. In 1997 shoprite acquired the less profitable OK Bazaars group of stores successfully integrated them into Shoprite, Checkers and the Franchise Division. The turnover of Shoprite Holdings in 2000/2001 was R19.6 billion making it the largest food retailer in Africa. New Stores are expected to be opened in Mozambique, Namibia and Angola soon.

Woolworths: Woolworths is a subsidiary of Woolthru Ltd. Woolworths retail's clothing, cosmetics, toiletries, footwear, jewellery and foods under its own brand name. The year 2000 was particularly good for the foods division, as sales rose. Woolworths believes that its success in food retail's can be attributed to its philosophy of providing quality, convenience and innovation. It believes another contributing factor is its ability to recognize and satisfy the needs of its customers who are predominantly of higher income, and seek high standards together with convenience. Woolworths has 236 numbers of stores, comprising of 106 Owned Woolworths, 64 Country Road and 66 Franchised Woolworths. Woolworths' market strategy is to target a particular market rather than to dominate the grocery business.

Spar: The Spar grocery chain emerged in the 1963 when a group of 8 wholesalers was 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 6 distribution centers that supply goods and services to 709 Spar Stores in South Africa. The Spar grocery chain possesses 17,500 stores in 32 countries, employing 180,000 staff throughout Europe, the Far East, Africa and South America. Spar's International sales have reached the US $25 billion mark, which has made it the world's biggest supermarket group.

B. Convenience Stores:

Entry Strategy

Most of the convenience stores in South Africa are owned by major wholesalers and retailers, and such contact has to be made direct with wholesalers and retailers concerned. Convenience stores operate on extended shopping hours.

Market Structure

The market structure is covered in detail in other sections of this report.

Major Convenience Type Store Profile

Retail Name	Ownership	Turnover ($M)	Number of Outlets	Location	Purchasing Agent Type

Foodies Convenience	Local	Convenience stop shop owned by Metcash Wholesaler	n/a	Nationwide	Direct/Importer
8-Till Late	Local	Convenience stop shop owned by Shoprite Checkers	20	Nationwide	Direct/Importer
7-Eleven	Local	Convenience stop shop owned by Pick n Pay	31	Nationwide	Direct/Importer

Seven Eleven: Seven-Eleven Africa is operating in three of the nine Provinces of South Africa, namely, Gauteng Province, Eastern Cape and Kwa-Zulu Natal Province. Pick n Pay holds a 60 percent share in Seven-Eleven Africa with Seven-Eleven Corporation holding 40 percent. All of the Convenience Stores listed above were just introduced after the first democratic election in 1994 by the major retail groups, recognizing that their mainstream brands like Pick n Pay and Shoprite Checkers would not easily be extended into the emerging markets. Additionally, most gas stations in South Africa have convenience stop shops.

C. Traditional Markets:

Food Stores in South Africa range from highly sophisticated supermarkets at one end to primitive little street corner stalls. Previously, predominantly black townships were virtually unserved in terms of retail infrastructure. Informal market retailers cater to the needs of the residents via cafes and several informal South African retail concepts (spaza shops, tuck shops, hawkers, shebeens and taverns). With the end of the apartheid, major retailers are extending their services to these townships as well.

III. COMPETITION

U.S. exports of consumer ready products face stiff competition from the European Union, Zimbabwe, Australia, Malaysia and other Asian countries. The U.S. is one of the major suppliers of wheat and rice to South Africa. Imports from Zimbabwe include staple food such as meat, (fish), vegetables, (coffee,cocoa and tea), and rice, although current difficulties will likely reduce imports from that country.

Australia is a significant exporter of food preparations, dairy products, oilseeds, edible oils and fats, and fish and crustaceans. Imports from Malaysia include dried fruits, cocoa, spices and spicy products, oilseeds, edible oils and fats.

IV. BEST PRODUCT PROSPECTS

A. Products Present in the Market which have Good Sales Potential

Current trends indicate that South Africa will continue to supplement local agricultural production with imports. Total agricultural imports amounted to $1,932 billion in 2000. Principal imports included rice ($135.5 million), wheat ($99.2 million), protein meal ($67.8 million), food preparations ($49.8 million) and sunflower-seed ($45.3 million). The US is one of the major suppliers of rice and wheat to South Africa and has increased sales in several consumer oriented products.

B. Products not Present in Significant Quantities but which have Good Sales Potential

One of the growth areas is intermediate agricultural products where, for instance, sales of U.S. confectionery products, planting seeds and wood products are growing.

The best prospects for future US agricultural product sales to South Africa include the following products: consumer oriented products, forestry products and intermediate products.

Table: US agricultural exports to South Africa (million US Dollars).

	1997	1998	1999	2000	2001 Forecast
Consumer oriented products	78.0	59.3	37.7	32.0	35.0
Forestry Products	34.0	21.3	20.6	27.2	30.0
Hardwood Lumber	24.6	14.4	13.8	18.2	20.0
Panel Products	6.9	4.7	4.3	7.0	8.0
Intermediate Products	18.7	33.4	26.0	23.8	25.0
Planting Seeds	11.0	6.5	6.9	11.8	12.5

Demand for snack food is small but rapidly growing as a result of innovation and new launches. Continued interaction between U.S. suppliers and, South African importers as well as consumers of processed food products through events such as trade shows, trade missions and instore promotions are the key means for increasing U.S. exports to the country.

C. Products Not Present Because They Face Significant Barriers

Most retail food products may be imported into South Africa with little or no import restrictions. However, there are import requirements as other factors that will affect U.S. agricultural imports, including tariffs; tariff-rate quotas; preferential trade agreements with other countries; taxes or levies; anti-dumping; licensing; food safety requirements; and shelf life requirements. High anti-dumping duties currently imposed on U.S. poultry meat exports to South Africa, has effectively cut off U.S. exports of poultry meat to the country.

V. POST CONTACT

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