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South Africa - Republic of

Retail Foods

Retail Sector Grows Despite Global Downturn

Post:

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Report Highlights:

In the first six months of 2012, U.S. exports of consumer-oriented products grew by 37% compared to the same timeframe in 2011. Starting August 2012, pork casings and products containing egg and dairy ingredients will have access to this growing market as a result of newly negotiated export protocols.

Executive Summary:

A growing middle-class and increased tourism continue to drive growth in South Africa's retail food sector, despite lower than expected economic prospects. Convenience and Forecourt retail concept in South Africa, which is led by changing consumer lifestyles, is a growing trend for sales. South Africa, being the Gateway to the Southern African region, is increasingly presenting appealing opportunities for the United States. In the first six months of 2012, U.S. exports of consumer-oriented products grew by 37% compared to the same timeframe in 2011. In the past three years, U.S. exports of consumer-oriented products have also grown from \$75 million in 2009 to \$126 million in 2011.

As the fourth largest supplier of consumer-oriented products to South Africa, the United States faces strong price competition due to lower tariff rates for European as a result of the SA-EU Free Trade Agreements. 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. Starting in 2012, pork casings and products containing egg and dairy ingredients will have access to this growing market as a result of newly negotiated export protocols.

SECTION 1. MARKET SUMMARY

South Africa, an emerging market with a population of around 50 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 sector is sophisticated and is mainly supplied by local products; however, imported products are becoming more important. The 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. The South African retail market expects changes in the near future with the entry of Wal-Mart through the Massmart acquisition. It is expected that local companies will need to step up efficiencies in the retail space and product availability.

Since the end of apartheid in 1994, South Africa has experienced rapid growth in its retail food sector. The growing demand for convenience, such as expected long term economic expansion, rising middle class, and changes in consumer preferences, has resulted in the expansion of the supermarket retail sector which presents opportunities for U.S. food producers. Currently about 70 percent of food sales in South Africa are conducted in modern retails, and about 30 percent in traditional shops; whereas in other countries in Africa only 10 percent of food sales are conducted in modern retails.

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 for 2011 and for the first 6 months of 2012. Note that general dealers are non-specialized stores with food, beverages and tobacco products.

Table 1. South Africa: 2011 and 2012 Retail Trade Sales According to Type of Retailer at Current Prices (US\$ million)

Month	General Dealer 2011	Food & Beverage Retailer 2011	Total 2011	General Dealer (YTD) 2012	Food & Beverage Retailer (YTD) 2012	Total 2012
January	2,568	641	3,209	2,506	628	3,134
February	2,483	609	3,092	2,678	648	3,326
March	2,873	694	3,567	2,916	712	3,628
April	2,794	757	3,551	2,565	684	3,249
May	2,744	665	3,409	2,028	472	2,500
June	2,922	692	3,614	2,117	479	2,596
July	2,799	726	3,525			
August	2,759	689	3,448			
September	2,774	654	3,428			
October	2,486	684	3,170			
November	2,588	663	3,251			
December	3,559	981	4,540			
Total	29,664	7,540	37,204	14,810	3,623	18,433

Source: Statistics South Africa

1.2 Retail trends, Consumer Tastes and Preferences

Based on a recent assessment conducted by FAS/Pretoria in collaboration with the private sector, the following trends were discovered:

- 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 caused by the ever rising costs of living in South Africa.
- Convenience is expected to remain popular with consumers, as supermarkets continue to 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.
- 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. (As per the Introduction of the revised Consumer Protection Act in March 2011).
- 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.

- 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: In the first six months of 2012, imports of U.S. consumer-oriented products grew by 37% compared to the same timeframe in 2011. In 2011, imports from the United States totaled \$126 million for consumer-oriented products, an increase of 24 percent compared to 2010. The increase is attributable by 27 percent increase in food preparations (210690) and the competitiveness of U.S. suppliers. Consumer-oriented products such as snack foods, tree nuts, and other consumer-oriented garnered the highest import levels in 2011. Other high value products showing consistent growth over the last five years are food preparations (210690), almonds (080212), salmon (160411), sauces and condiments (210390).

The top ten leading suppliers of consumer-oriented products were Brazil (\$227 million), Netherlands (\$153 million), Germany (\$127 million), the United States (\$126 million), China (\$115 million), France (\$112 million), Italy (\$98 million), United Kingdom (\$78 million), Australia (\$73 million), and Argentina (\$72 million). South Africa's major imported agricultural commodities from Brazil were chicken cuts (020714; from Netherlands were Chicken cuts (020714) and dog and cat food (230910); from Germany were meat of swine (020390) and food preparations (210690); from the United States were food preparations (210690) and lactose syrup (170211); from China were apple juice (200979) and tomato paste (200290); from France were sparkling wine (220410) and whey (040410); from Italy were cocoa preparations (180690) and beer made from malt (220300); from United Kingdom were chicken cuts (020714) and cocoa preparations (180690); from Australia were meat of bovine (020230) and coffee extracts (210111); and from Argentina were grape juice (200969) and chicken cuts (020714).

Exports: South Africa's 2011 consumer-oriented exports to the United States totaled \$154 million. South Africa's most important exports to the United States are wine, fresh citrus, and macadamia nuts. A successful partnership between Animal and Plant Health Inspection Service (APHIS), South Africa's Department of Agriculture, and the Deciduous Fruit Producer's Trust has been setting up a pre-clearance program for fresh apples, citrus, grapes, and pears, which 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 continues to experience growth and is expected to grow due to competition in the internet services providers. Some survey reveals an estimated growth of 40 percent of the internet retail chain in 2011. 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 stores to physically experience a product prior to purchase.

Surveys reveals that retailers are expected to adopt internet retailing, currently Pick n Pay and Woolworths are the two major grocery retailers involved in online sales. Trends indicate 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 several GAIN Report in 2011 on Food and Agricultural Import Regulations and Standards (FAIRS) for South Africa, which can be found at the following links:

[FAS/Pretoria FAIRS Report 2012](#)

[FAS/Pretoria FAIRS Report 2011](#)

Consumer Protection Act: The South African consumers are fully aware of their rights which are reflected in the South Africa's new Consumer Protection Act which became effective March 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 was to cause harm or injury to a South Africa consumer, the 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.

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

Advantages	Challenges
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.	Preference 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.	High import tariff rates faced by U.S. suppliers from European competitors due to the SA-EU Free Trade Agreements.

SECTION 2: ROAD MAP FOR MARKET ENTRY

2.1 Supermarkets:

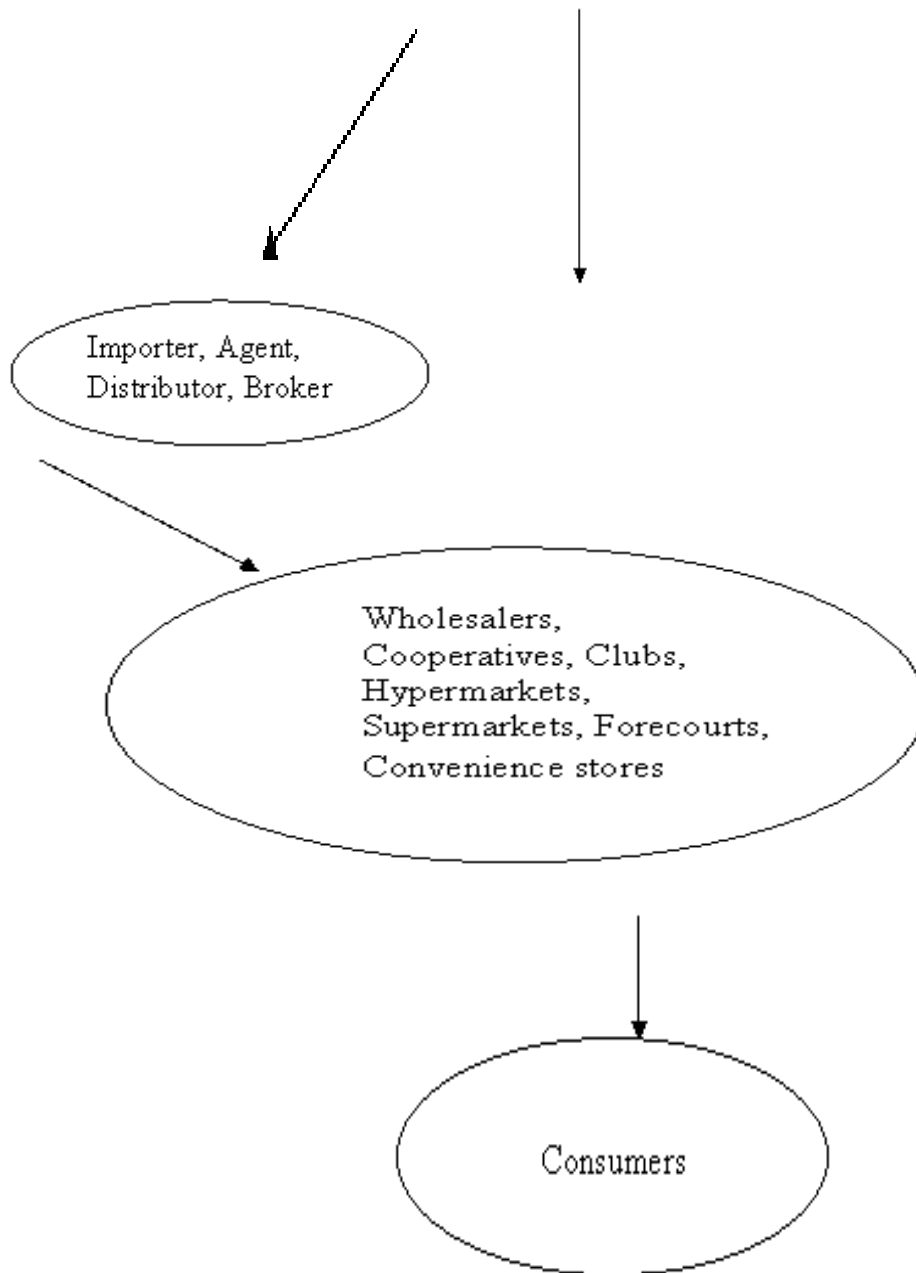
2.1.1 Entry Strategy: Introducing a product successfully depends on strong promotion and product support. In South Africa's very competitive marketplace it is essential that U.S. exporters choose the correct agent or distributor. Evidence shows that the most successful U.S. company ventures are those 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 Sales in Grocery Retailers by Category: Value 2009 – 2011

\$ million	2009	2010	2011
Modern Grocery Retailers	21.19	24.90	26.06
• Convenience Stores	1.94	2.26	2.58
• Discounters	0.21	0.32	0.38
• Forecourt Retailers	0.95	1.10	1.24
• Hypermarkets	1.95	2.21	2.54
• Supermarkets	16.15	18.99	21.31
Traditional Grocery Retailers	16.20	19.65	22.55
• Food/Drink/Tobacco Specialists	6.70	8.09	9.4
• Independent Small Grocers	7.34	8.81	9.94
• Other Grocery Retailers	2.17	2.74	3.22
Grocery Retailers	37.39	44.55	50.62

Source: Euromonitor International

Table 4: South Africa Grocery Retailers Company Shares by % Value 2009 - 2011

% retail value rsp excl sales tax	2009	2010	2011
Shoprite Holdings	18.5	18.2	19.1
Pick n Pay Retail Group	16.2	15.7	15.4
Spar Group Ltd	10.7	9.8	10.0
Woolworths Holdings Ltd	3.9	3.8	3.9
Engen Petroleum Ltd	0.6	0.6	0.6

Total South Africa Pty Ltd	0.2	0.2	0.2
Shell South Africa Marketing Pty Ltd	0.2	0.2	0.2
Sasol Ltd	0.2	0.2	0.2
BP South Africa Pty Ltd	0.2	0.2	0.2
Chevron South Africa Ltd	0.1	0.1	0.1
Others	49.3	50.9	50.1
Total	100.0	100.0	100.0

Source: Euromonitor International

Table 5: South Africa Grocery Retailers Brand Shares by % Value 2009-2011

% retail value rsp excl sales tax	Company	2009	2010	2011
Pick n Pay	Pick n Pay Retail Group Pty Ltd	14.0	14.5	14.1
Shoprite	Shoprite Holdings Ltd	10.0	10.0	10.5
Checkers Supermarkets	Shoprite Holdings	5.0	4.5	4.7
Woolworths	Woolworths Holdings Ltd	3.9	3.8	3.9
Spar	Spar Group Ltd	3.6	3.2	3.2
Super Spar	Spar Group Ltd	3.5	3.1	3.1
Kwik Spar	Spar Group Ltd	2.6	2.3	2.4
Checkers Hypermarkets	Shoprite Holdings Ltd	2.1	2.1	2.2
Tops	Spar Group Ltd	0.9	1.2	1.3
Boxer	Pick n Pay Retail Group Pty Ltd	1.5	1.3	1.3
U-Save	Shoprite Holdings Ltd	0.5	0.6	0.6
Quickshop	Engen Petroleum Ltd	0.6	0.6	0.5
La Boutique	Total South Africa Pty Ltd	0.2	0.2	0.2
Shell Select	Shell South Africa Marketing Pty Ltd	0.2	0.2	0.2
Sasol	Sasol Ltd	0.2	0.2	0.2
BP Express	BP South Africa Pty Ltd	0.2	0.2	0.2
Star Mart	Chevron South Africa Ltd	0.1	0.1	0.1
Sentra Value Stores	Shoprite Holdings Ltd	0.1	0.1	0.1
Score	Pick n Pay Retail Group Pty Ltd	0.7	-	-
Others	Others	50.1	51.9	51.2
Total	Total	100	100	100

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 600 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 including global trends, Pick n Pay entered the market through the British Petroleum (BP) forecourt gasoline stations with an introduction of Pick n Pay Express outlet in the major metropolitan areas across South Africa. 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 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 1,100 outlets in urban and rural locations of 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 437 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 1,602 Spar outlets in South Africa, Botswana, Namibia, and Zimbabwe. Retail formats and brands are comprised of Supermarkets, Supersparks, Sparks, Kwiksparks, 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 182 outlets, and one buying association serving 478 independent retailers and wholesalers, in 11 countries in sub-Saharan Africa such as Botswana, Lesotho, and Zambia. Massmart Holding Ltd was acquired by the US-based retail giant Wal-Mart in June 2011. 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 include 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. According to Trade press, Massmart annual sales up 15 percent during June 2011 through June 2012 which were boosted by Makro Stores which performed exceptionally well, and its newly acquired Rhino Cash and Carry stores in March 2012. Rhino stores are mainly involved in the retail of groceries and liquor to low-income customers in KwaZulu-Natal and the Eastern Cape

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.metro.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 600 convenience outlets. Major retailers and wholesalers own most of the convenience stores. Woolworths Holdings remain the leader in convenience stores. Woolworths Food outlets and Woolworths outlets are co-located at Engen Forecourts Quickshops, a national gasoline chain; Sentra Value stores owned by Shoprite Holdings; Sasol Forecourts joint ventures focus more with the restaurant chains; and Pick n Pay Express outlets with British Petroleum (BP).

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. One of the convenience concept is focus on pre-packed fresh produce and meals, fresh meat, backed goods, and selection of hot meals.

2.2.2 Market Structure:

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

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 2010, the total number of street stalls/kiosks grew by four percent to reach 61,142 stalls. 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, high levels of crime (robbery), severe competition, expensive transport, and bad debt or the granting of too much credit. 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 6. South Africa: Street Stalls/Kiosks by Subsector: Units/Outlets 2008 – 2010:

Outlets	2008	2009	2010
Streets stalls/kiosks	57,075	59,360	61,142
Chained Street Stalls/Kiosks	83	88	92
Independent Street Stalls/Kiosks	56,992	59,272	61,050

Source: Euromonitor International

Table 7. South Africa: Street Stalls/Kiosks: Foodservice Value 2008 – 2010

\$ million	2008	2009	2010
Street Stalls/Kiosks	376	557	661
Chained Street stalls/kiosks	6	8.7	10.3

Independent street stalls/kiosks	414	549	651
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Source: Euromonitor International

2.3.4 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. There are an estimated total number of over 3,000 outlets. 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.

SECTION 3: COMPETITION

Table 8: South Africa's Key Export and Import Products and Trading Partners in 2010 – 2012

Product Category and HS Code	Major Suppliers to SA and market share	SA EXPORTS to USA Millions of US\$ January - March			SA IMPORTS from USA Millions of US\$ January - March			Advantages and disadvantages of local suppliers
		2010	2011	2012	2010	2011	2012	
Meat and Edible meat offal (02) South Africa net imports from the World of \$172 million in 2012 versus \$112 million in 2011. South Africa net exports to the world of \$10 million in 2012 versus \$30 million in 2010.	Brazil – 30% Netherlands – 13% Germany – 12% USA minor supplier of 2%.	0	0	0	607	1.9	3.8	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.
Fish and Seafood (03) Net imports from the	India – 28% New Zealand – 11%	6.6	5.5	6.5	336	765	988	South Africa is a net exporter of fish and seafood products.

<p>world of \$38 million in 2012 versus \$36 million in 2011.</p> <p>Net exports to the world of \$123 million in 2012 versus \$126 million in 2011.</p>	<p>Norway – 10%</p> <p>USA- Minor supplier of 2%.</p>							<p>Major export categories are Frozen fish (0303), Other Seafood (0307), Crustaceans (0306), and fillet (0304).</p>
<p>Dairy Products (04)</p> <p>Net imports from the world of \$41million in 2012 versus \$27 million in 2011.</p> <p>Net exports to the world of \$23 million in 2012 versus \$19 million in 2011.</p>	<p>New Zealand – 22%</p> <p>France – 18%</p> <p>Ireland – 13%</p> <p>USA - Supplier of 8%</p>	0	0	0	1.2	2.1	3.2	<p>Dairy products opportunities exist in categories of Milk and Cream (0402), Butter and Other fats and oils (0405), cheese and curd (0406) , Whey and Milk products (0404), and Buttermilk Yoghurt (0403).</p> <p>New Zealand is a member of MFN status countries. France and Ireland are members of the European Union (EU). The EU and South Africa signed a Free Trade Agreement (FTA) in 1999. The agreement will be 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</p>

								agreement meets WTO requirements of 90% coverage.
<p>Edible Fruit and Nuts (08)</p> <p>Net imports from the world of \$29 million in 2012 versus \$22 million in 2011.</p> <p>Net exports to the world of \$555 million in 2012 versus \$515 million in 2011.</p>	<p>Mozambique – 15%</p> <p>USA – 13%</p> <p>Vietnam – 11%</p> <p>The United States is a major supplier of almonds (080212) with a market share of 92 percent.</p>	2.7	2.5	5.7	2.5	3.1	3.9	<p>South Africa is a net exporter of dried fruits and a net importer of nuts. Major export categories are 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.</p>
<p>Prepared Meat, Fish (16)</p> <p>Net imports from the world of \$49 million in 2012 versus \$31 million in 2011.</p> <p>Net exports to the world of \$16 million in 2012 versus \$14 million in 2011.</p>	<p>Thailand – 66%</p> <p>China – 9%</p> <p>Peru – 6%</p> <p>The United States enjoys a dominant position in the canned salmon (160411) market, holding a market share of 52 percent.</p>	260	0	42	947	514	279	<p>South Africa is a net importer of prepared meat, and fish products.</p>
<p>Sugars and Sugar Confectionery (17)</p> <p>Net imports from the world of \$70 million in 2012 versus \$45 million in 2011.</p> <p>Net exports to the world of \$30 million in 2012 versus \$32 in 2011.</p>	<p>Brazil – 46%</p> <p>USA- 9%</p> <p>Malaysia – 7%</p>	169	209	214	1.4	3.3	6.6	<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 \$72 million in 2012 versus \$46 million in 2011.</p> <p>Net exports to the world of \$107 million in 2012 versus US\$ 108 million in 2011.</p>	<p>China – 45% Argentina – 12% Italy – 7%</p> <p>USA – Minor supplier of 3%.</p>	3.0	3.8	3.0	1.5	1.7	2.0	<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>
<p>Miscellaneous Edible Preparations/Processed Fruit & Vegetables (21)</p> <p>Net imports from the world of \$74 million in 2012 versus \$66 million in 2011.</p> <p>Net exports to the world of \$69 million in 2012 versus \$66 million in 2011.</p>	<p>USA – 15% Netherlands – 12% Germany – 10%</p>	2.9	2.9	3.0	10	9	11	<p>South Africa is a net exporter of processed fruits and vegetables. 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 \$113 million in 2012 versus \$110 million in 2011.</p> <p>Net exports to the world of \$247 million in 2012 versus \$235 million in 2011.</p>	<p>United Kingdom – 48% Ireland – 6% France – 6%</p> <p>USA – Supplier of 5%</p>	14	16	20	3.4	4.5	5.2	<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 72 percent whereas US holds 4 percent. The South African appetite for American spirits in this category has decline due to price competitive from EU countries include low import tariff rates</p>

								paid by those countries.
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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 are the consumer-oriented, snack foods, tree nuts, and other consumer-oriented categories, which reached the highest export levels in 2011. Within this category, sauces and condiments (HS 210390), fruits prepared preserved (HS 200899), and food preparations (HS210690) have shown consistent and substantial increases. Other high value exports that have shown sustained growth are almonds (HS080212), canned pink salmon (HS160411), vegetable seeds (HS120991), and whiskies HS 220830).

According to 2011 data, the United States is the leading supplier of almonds, canned salmon, fruits prepared preserved, sauces and condiments, and food preparations in the market, holding 91 percent, 70 percent, 47 percent, 24 percent and 19 percent market shares, respectively. The distilled spirits (whiskey) market is significantly different, with the United Kingdom holding the largest market share of 79 percent. There is an increase of 16 percent United States distilled spirits exports to South Africa in 2011 with 7 percent market share. This increase is due to the fact that American products (Jack Daniels, Woodford Reserve, Buffalo Trace, and Knob Creek, for example) are price competitive and an increase in brand awareness among South African consumers.

Table 9. South Africa: Products with Good Sales Potential

Product Category	Jan – March 2012 South Africa Imports from the World (\$1,000)	Jan – March 2012 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	60	1,487	-11.93	1.54	United Kingdom (85%) has large market share and a first mover advantage, and US 2%.	American brands are lack brand awareness among South African consumers.
Almonds HS080212	2.9	2.7	126.90	Free		U.S. has largest market share of 92%.
Salmon HS160411	331	172	-59.16	25%		U.S. has the largest market share of 52%.

Food Preparations HS210690	42	10	5.44	Varied		US has the largest market share of 19%. American brands are becoming increasingly popular given their high quality attributes.
Vegetable Seeds HS120991	10	2	17.27	Free	Netherlands leads sector with 26% Market Share, while US has 20%.	

Source: World Trade Atlas

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

- Pork casings
- 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.

Beef: 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. 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.

SECTION 5: POST CONTACT AND FURTHER INFORMATION

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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>

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