

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## South Africa - Republic of

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### South Africa's Food Retail Assessment

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Retail Foods

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#### **Report Highlights:**

February 2012, FAS/Pretoria used EMP resources to conduct a food retail assessment in South Africa. The objective was to obtain a better understanding of the sector, develop new contacts, identify constraints for U.S. products, and to find opportunities for U.S. exporters. Although comparatively small, U.S. exports of consumer-oriented products have grown from \$74 million in 2009 to a record \$131 million in 2011, and represent the largest segment of trade.

## General Information:

February 12-24, 2012, FAS/Pretoria used EMP resources to conduct a food retail assessment in South Africa. The objective was to obtain a better understanding of the sector, develop new contacts, identify constraints for U.S. products, and to find opportunities for U.S. exporters. South Africa, the Gateway to the Southern African region, is increasingly presenting export opportunities for the United States. Although comparatively small, U.S. exports of consumer-oriented products have grown from \$74 million in 2009 to a record \$131 million in 2011, and represent the largest segment of trade. FAS/Pretoria plans to apply the findings of this assessment to focus resources on increasing our share of this expanding market.

## Opportunities in the South African Market:

After comprehensive meetings with various retailers and distributors [1] in Johannesburg, Durban, East London, and Cape Town, it became clear that South Africa's long-term economic expansion, rising middle class, and changes in consumer preferences will result in export opportunities for consumer-oriented products and food ingredients for further processing. For instance, one change is is urbanization, which has resulted in an increasing demand for supermarkets,

**Spar Headquarters in Durban, South Africa**



new

rapid

convenience stores, and “one-stop shops”.

Today, about 70 percent of food sales in South Africa are conducted by modern retailers and about 30 percent in traditional shops [2].

The retail sector in South Africa is well-developed and heavily dominated by a handful of powerful players (see Table 1). In addition, these companies have expanded across the region despite the sometimes difficult business environment in countries like Angola and Zimbabwe. South African retailers now face new challenges with the recent entry of Wal-Mart through the acquisition of Massmart in South Africa. Wal-Mart's expertise and effective distribution system will be a game-changer and will force retail companies to become more creative and efficient.

<sup>[1]</sup> Patleys Food Importers, Massmart, Spar, Shoprite-Checkers, Woolworths, M & L Distributors, Bokomo Foods, and Tiger Brands.

<sup>[2]</sup> In contrast, only 10 percent of food sales are conducted by modern retailers in other African countries.

**Table 1. National market share of major retail chains in South Africa (2009)**

<b>Retailer</b>	<b>Market Share (%)</b>
Shoprite Holdings	42
Pick n Pay Retail Group	35
Spar Group	20
Others	3

Source: GAIN Retail Food Report 2011

Table 1, above, lists the major retail chains and market shares. Most firms are already anticipating upcoming changes in the sector and are adjusting their business plans. One important South African company, which specializes in small-store format, is experimenting with larger stores in Johannesburg, and will focus on adding more than 1,000 new SKU's (Stock Keeping Unit), mostly long-life grocery products. This company currently sources only one percent of their grocery items from the United States, but is interested in attending future U.S. trade shows, such as the private label show. Other companies expressed interest in attending U.S. food trade shows in order to keep abreast of new products and ingredients for the processing market. Our U.S. private-sector assessment found opportunities for U.S. intermediate and consumer-oriented products such as snack foods, frozen foods, maple syrup, corn starch, and whey protein concentrate.

### **Constraints in the South African Market:**

One major challenge for U.S. exporters is that South Africa's food processing sector has been dominated by a few major processors [3]. The dominance of these companies, together with its longstanding relationship with powerful retailers, created an oligopolistic environment that has led to inefficient processing methods, lack of product innovation, and higher prices. This environment was fostered during the Apartheid years. In addition, government policies have supported import-substitution policies in order to create on-farm jobs. As a result, South Africa is self sufficient in a number of food products and over 90 percent of the products offered by retailers are produced domestically.

Another constraint is the recent enforcement of the new labeling regulation from the Department of Health, which has affected the ability of importers to source products from Europe and the United States [4]. The main reason is that suppliers are generally unprepared to alter food packaging and labeling panels just for the comparatively small South African market. Companies we met with expressed concern that the regulation was loosely written and poorly enforced. Large food retail companies complain that they are under greater scrutiny for spot inspections.

<sup>[3]</sup> Tiger Brands, Famous Brands, and Pioneer Foods control close to 80 percent of the industry.

<sup>[4]</sup> For more information on this new regulation, read FAS/Pretoria's FAIRS report from December 22, 2011.

### **South African Consumer Profile:**

An important factor to consider about this market is the complexity of the consumer profile. All retail companies FAS/Pretoria met with discussed how fragmented the market is. The country is a diverse nation with a wide variety of income groups and ethnic and cultural segments. Out of a population of about 50 million, many of these companies focus on the top 10 million consumers. This group is more health conscience, looks for convenience, quality and innovative products. These consumers are concentrated in the main urban areas such as Johannesburg, Pretoria, Durban, and Cape Town. Another 12 to 15 million consumers receive government support through voucher programs and tend to be more price-sensitive. It is important to note that South African consumers in general tend to have a good perception of the quality of U.S. products; however, U.S. companies are increasingly facing competition, as local producers focus on quality and packaging improvement.

### **Opportunities Are Evident:**

A protected domestic market and other barriers to entry have made it difficult for consumers to access the vast variety of U.S. food products. FAS/Pretoria notes that opportunities exist, as long as U.S. exporters are prepared to invest time and resources in the market. This will require a strong marketing strategy, one that exposes importers to the array of U.S. food products through specific U.S. trade shows. The entry by Wal-Mart is another key event in the market that will lead to changes in the food retail sector, both in South Africa and likely throughout the region. All these factors will continue to create new opportunities for U.S. exporters.