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Retail Foods

Retail Sector in South Africa Receives Increasing Attention

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Report Highlights:

South Africa produces various agricultural products of world class high quality for export, but continues to offer window of opportunities for imports. In the first eight months of 2013, U.S. exports of consumer-oriented products reached \$100 million.

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. South Africa produces various products of world class high quality for export, but continues to offer window of opportunities for imports. Convenience and forecourt retail concept in South Africa, which is led by changing consumer lifestyles, is a growing trend for sales. South Africa, considered the gateway and a trading hub to the Southern African region, is increasingly presenting appealing opportunities for the United States. The country retail sector has shown a steady increase over the past few years, and continues to hold opportunities and strong market potential of consumer-oriented products given the comparatively limited capacity for food processing. In the first eight months of 2013, U.S. exports of consumer-oriented products reached \$100 million.

The United States is South Africa's fourth-largest supplier of consumer-oriented products, despite the strong competition the United States face from the European countries which enters South Africa duty free under the Trade, Development and Cooperation Agreement (TDCA).

SECTION 1. MARKET SUMMARY

The South African retail sector is sophisticated. Seventy percent of food sales in South Africa occur in modern retail stores rather than traditional shops. The range of outlets include convenience drugstores (called cafes), small-general dealers, exclusive boutiques, chain stores (groceries, clothing, toiletries, household goods), department stores, cash and carry wholesale-retail outlets, and co-operative stores serving rural areas. Only a few major holding companies control much of the South African retail sector, including Shoprite Holdings, Pick n Pay Retail Group, Spar Group Ltd, Massmart, and Woolworths Holdings Ltd. Supermarkets account for the greatest sales within these companies' profiles. In 2011, South African supermarkets had \$21.3 billion in sales. Over 80 percent of the products in these markets are sourced domestically.

South African grocery chains are quickly expanding throughout Sub-Saharan Africa (SSA). Shoprite has plans to open 171 new stores by June 2014 and 47 of which will be outside South Africa. Pick n Pay now has an African division which manages its stores in 8 countries, including 51 stores in Zimbabwe, which are operated under the company's associate, TM Supermarkets. Woolworths will be expanding their presence in 8 countries where they already have stores, and Massmart, partially owned by Walmart, already has presence in 14 African countries. These companies are responding to the rapid growth in the middle class, the recent demand for more modern retail outlets, and urbanization throughout SSA. A recent article in *The Economist* said, "Of the world's ten fastest-growing economies in the past decade, six were African" (2013, September 21, p. 71). In fact, the article also said, "Sales in Shoprite's supermarkets in the rest of Africa grew by 28% in the year to June, compared with only 9.8% at home." South African's leading retail companies are not only infiltrating the market to increase their presence and sales, but they are also setting the standard for grocery shopping throughout the continent.

Table 1. Presence of South African Retail Outlets in Other SSA Countries



Source: *The Economist*, September 21, 2013, p. 71

South Africa is an emerging market with a growing population of 53 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. 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.

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. It is also important to note that 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 six months of 2012. Note that general dealers are non-specialized stores with food, beverages and tobacco products.

Table 2. 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, product and service levels is growing in importance in South Africa, as consumers want to be informed about what they are eating as per the revised Consumer Protection Act in March 2011. Under the revised act, both retailers and manufacturers can be held accountable for problems found in a product.
- 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.
- Growth in the retail sector prompts development and expansion of shopping malls in South Africa including neighboring countries

1.3 Import and Export Trade Data

Imports: In the first eight months of 2013, imports of South Africa consumer-oriented products from the world totaled \$1,301 million. Whereas imports from the United States totaled \$100 million, a slight decrease of 3.73 percent compared to 2012 due to a decline in lactose and lactose syrup (170211) exports products. 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 Netherlands (\$129 million), Brazil (\$128 million), Germany (\$104 million), the United States (\$100 million), China (\$92 million), Italy (\$74 million), United Kingdom (\$73 million), France (\$72 million), Argentina (\$44 million), and Spain (\$36 million). South Africa's major imported agricultural commodities from the world were chicken cuts (020714) and food preparations (210690); from Netherlands were chicken cuts (020714); from Brazil were chicken cuts (020714) and meat & offal (020712); from Germany were meat of swine (020329) and chicken cuts (020714); from the United States were food preparations (210690) and enzymes and prepared enzymes (350790); from China were apple juice (200979) and tomato paste (200290); from Italy were beer made from malt (220300) and cocoa preparations (180690); from United Kingdom chicken cuts and edible offal (020714) and food preparations (210690); from France were sparkling wine (220410) and whey (040410); from Argentina were Apple juice (200979) and chicken cuts and offal (020714); and from Spain were coffee extracts (210111) and meat of swine (020329).

Exports: South Africa's January – August 2013 consumer-oriented exports to the United States totaled \$102 million. South Africa's most important exports to the United States are wine and fresh citrus. 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 set up pre-clearance programs 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.

South Africa exports to the United States under the Generalized System of Preference (GSP) program will continue to enjoy preferential treatment under the African Growth and Opportunity Act (AGOA) until September 30, 2015. AGOA enables 39 eligible Southern African countries to export most product duty free to the United States has seen total African export the United States more than quadruple, and US exports to the Sub-Saharan Africa more than tripled since AGOA inception in 2000.

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 that the retail industry online contributes about 7 percent which is changing the face of retail (order online) and receive goods in four days – which is less than any local physical retailer. 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 a GAIN Report in 2012 on Food and Agricultural Import Regulations and Standards (FAIRS) for South Africa, which can be found at the following links:

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations_Pretoria_South%20Africa%20-%20Republic%20of_3-15-2012.pdf

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 3. 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.
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 the European competitors due to the SA-EU Free Trade Agreements.
Urbanization is steadily increasing (28% in 1980, 40% in 2010).	Locations of supermarkets are optimal now, but may not be as well positioned in five years as city planning expands.

The African population is rapidly expanding. It will triple from 1 billion to 3.6 billion over the next 90 years, with great expansion in the middle class and 50% with disposable income.	There are distinct consumer and regional differences.
There is a rapidly growing young population (570 million people by 2030). Trends show they have interest in processed foods and actively use the Internet and mobile phones.	Price matters as well as brand and quality. Advertising is very important to this population, including word of mouth.
African net imports have steadily increased since 2000 to over \$50 billion. U.S. exports to SSA increased by over 200% from 2002 to 2012 while Europe's exports only increased about 50%.	Europe is still Africa's strongest importer. Through TDCA, the EU has free market access in South Africa and preferential access to SSA.
SSA will have the second highest growth of food sales from 2012 to 2022 to South Asia (~58%).	The consumer base is still widespread and the types of products in demand from the U.S. are still hard to know.
There is more political and macroeconomic stability.	There are still challenges with infrastructure, and political corruption.

SECTION 2: ROAD MAP FOR MARKET ENTRY

2.1 Supermarkets:

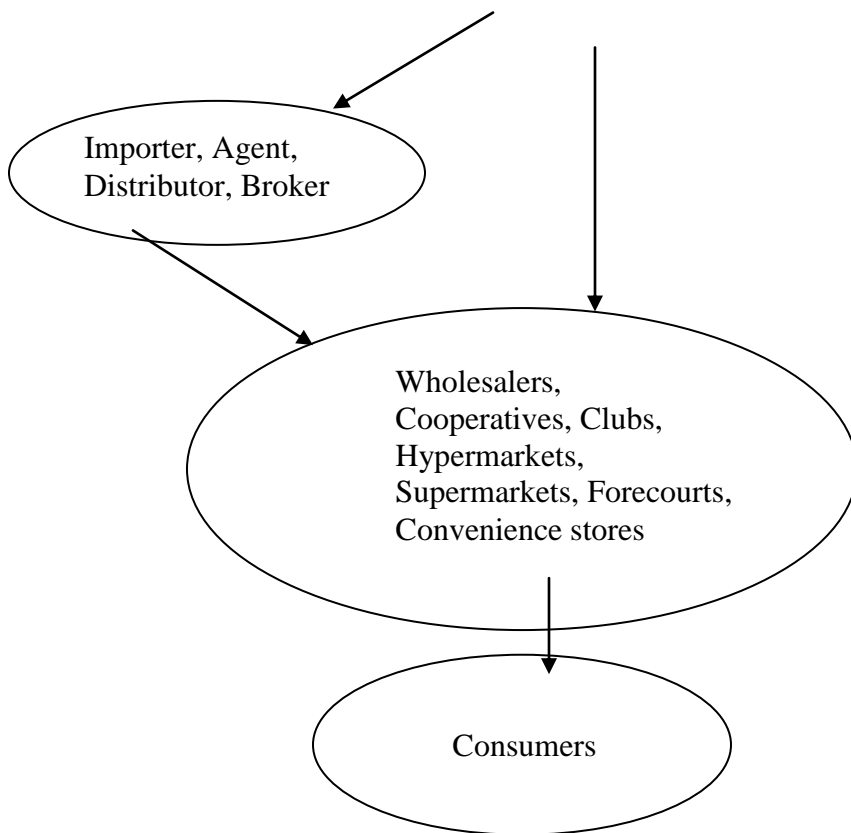
2.1.1 Entry Strategy: Introducing a product successfully depends on strong promotion and product support. In South Africa's very competitive marketplace it is essential that U.S. exporters choose the correct agent or distributor. Evidence shows that the most successful U.S. company ventures are those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

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 4: 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 5: South Africa Grocery Retailers Company Shares by % Value 2010 - 2012

% retail value rsp excl sales tax	2010	2011	2012
Shoprite Holdings Ltd	10.3	10.8	11.2
Pick n Pay Retail Group Pty Ltd	8.8	8.6	8.4
Spar Group Ltd	6.3	6.4	6.7
Woolworths Holdings Ltd	3.9	4.0	4.0
Massmart Holding Ltd	3.7	3.9	3.9
Engen Petroleum Ltd	0.3	0.3	0.3
Total South Africa Pty Ltd	0.1	0.1	0.1
Others	71.4	71.8	71.5
Total	100.0	100.0	100.0

Source: Euromonitor International

Table 6: South Africa Grocery Retailers Brand Shares by % Value 2010-2012

% retail value rsp excl sales tax	Company	2010	2011	2012
Pick n Pay	Pick n Pay Retail Group Pty Ltd	8.1	7.9	7.7
Shoprite	Shoprite Holdings Ltd	5.4	5.7	5.9
Woolworths	Woolworths Holdings Ltd	3.9	4.0	4.0
Checkers Supermarkets	Shoprite Holdings Ltd	2.4	2.5	2.6
Game	Massmart Holding Ltd	1.8	1.8	1.8

Spar	Spar Group Ltd	1.7	1.7	1.8
Super Spar	Spar Group Ltd	1.7	1.7	1.7
Kwik Spar	Spar Group Ltd	1.3	1.3	1.3
Makro	Massmart Holding Ltd	1.1	1.2	1.2
Checkers Hypermarkets	Shoprite Holdings Ltd	1.1	1.2	1.2
Tops	Spar Group Ltd	0.6	0.7	0.7
Boxer	Pick n Pay Retail Group Pty Ltd	0.7	0.7	0.7
Others	Others	70.1	69.7	69.3
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, and continues to dominate the retail chain sector. 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 over 1,700 outlets in urban and rural locations of South Africa and throughout Southern Africa in Angola, Botswana, Democratic Republic of Congo (DRC), Ghana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Tanzania, Uganda, and Zambia including 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 and has acquired Witchery. 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 400 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 now caters the middle to the wealthiest South African consumers with a strong organic food focus and currently growing long life and grocery sections to achieve higher basket sizes. 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.

The Spar Group Limited: 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 over 1,600 Spar outlets in South Africa, Botswana, Namibia, and Zimbabwe. Retail formats and brands are comprised of Supermarkets, Supersparks, Spars, 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. For more on the group visit www.spar.co.za

Massmart Holdings: Massmart is a South African-based 3rd largest distributor of consumer goods in Africa focused on wholesale and retail formats with 377 stores in Africa and 44 stores in sub-Saharan Africa such as Botswana, Lesotho, Mozambique, Namibia, Swaziland and Zambia. It is a leading wholesaler of general merchandise, home improvement equipment and supplies, and the

leading wholesaler of basic foods each focused on high volume, low margin, low-cost distribution of mainly branded consumer goods. The Massmart Holding Ltd was acquired by the US-based retail giant Wal-Mart in June 2011 and has grown its footprint since then. The acquisition is yielding South African consumers positive results as can be seen by the general price cuts being introduced within the retail market. It is estimated that about 80 percent of the food products is sold through the group warehouse club discounting such as Makro currently with 19 warehouse clubs in South Africa with a projection of 23 stores in 2015; Mass discounters such as Game with some of the stores providing food offerings and Dion wired; the group Masscash brands wholesaling outlets such as CBW, Jumbo Cash & Carry, Cambridge Food and Shield, are then sold on through the small businesses such as spaza, street hawkers/kiosks and some of the informal traders; and Massbuild wholesale stores of Builders Warehouse, Builders Trade Depot, and Builders Express. Visit the group website at: www.massmart.co.za for more information. Servistar and Rhino Cash and Carry stores are mainly involved in the retail of groceries and liquor to low-income customers in the 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, garage forecourts stores, 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 or www.metcash.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. The total number of street stalls/kiosks is estimated at over 60,000 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, poultry products (whole chickens, cut pieces, necks, chicken feet, offal 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 other than offal and poultry products. 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 7. 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 8. 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

Source: Euromonitor International

2.4 Forecourts Stores

Forecourt retailers, or gas stations, are becoming increasingly popular in South Africa due to a growing consumer 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

3.1: South Africa's Key Export and Import Products and Trading Partners in 2011 – 2013

Product Category and HS Code	Major Suppliers to SA and market share	SA EXPORTS to USA Millions of US\$ January - August			SA IMPORTS from USA Millions of US\$ January - August			Advantages and disadvantages of local suppliers
		2011	2012	2013	2011	2012	2013	
Meat and Edible meat offal (02)	Brazil – 33% Netherlands – 14% Germany – 11% USA minor supplier of 4%.	118	1.1	8.4	7.5	10.0	12.3	South Africa is a net importer of meat and meat products. The pattern of imports opportunities in this

<p>world of \$43 million in 2013 versus \$30 million in 2012.</p>								<p>category is variable and depends largely on local conditions. Brazil member of most-favored-nation status countries, whereas Netherlands and Germany are , members of the EU countries with goods entering South Africa free of duties.</p>
<p>Fish and Seafood (03)</p> <p>Net imports from the world of \$78 million in 2013 versus \$91 million in 2012.</p> <p>Net exports to the world of \$292 million in 2013 versus \$304 million in 2012.</p>	<p>India – 30%</p> <p>Norway – 17%</p> <p>China – 9%</p> <p>USA- Minor supplier of 0.91%.</p>	19.2	18.8	17.9	3.5	2.7	712	<p>South Africa is a net exporter of fish and seafood products. Major export categories are Frozen fish (0303), fillet (0304), crustaceans (0306), and other Seafood (0307).</p>
<p>Dairy Produce (04)</p> <p>Net imports from the world of \$87million in 2013</p>	<p>France – 22%</p> <p>New Zealand – 19%</p> <p>Germany</p>	4	7.2	9.2	3.0	133	6.8	<p>South Africa is a net exporter of dairy products.</p>

<p>versus \$125 million in 2012.</p> <p>Net exports to the world of \$86 million in 2013 versus \$67 million in 2012.</p>	<p>- 11%</p> <p>USA - Supplier of 7%</p>						<p>Dairy products opportunity for import 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</p>
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								and will essentially liberalize 86% of South Africa's imports from EU and about 95% of EU imports from South Africa. The overall agreement meets WTO requirements of 90% coverage.
<p>Edible vegetables (07)</p> <p>Net imports from the world of \$85 million in 2013 versus \$96 million in 2012.</p> <p>Net exports to the world \$69 million in 2013 versus \$64 million in 2012.</p>	<p>China – 3(% Canada – 7% Kenya – 6%</p> <p>USA supplier of 5%</p>	687	179	312	2.0	2.4	4.7	South Africa is net importer of dried legumes category (0713).
<p>Edible Fruit and Nuts (08)</p> <p>Net imports from the world of \$68 million in 2013 versus \$75 million in 2012.</p> <p>Net exports to the world of \$1,977 million in 2013 versus \$1,789 million in 2012.</p>	<p>Mozambique – 23% USA – 14% Vietnam – 7%</p> <p>The United States is a major supplier of almonds (080212)</p>	48	56	58	8.3	10.9	9.8	South Africa is a net exporter of citrus fruits (0805), fresh apples and pears (0808), fresh and dried grapes (0806), and nuts (0802);

	with a market share of 89 percent.							and importer of some nuts. A small market exists for imports of dried exotic fruits, and opportunities exist for shelled hazelnuts, desiccated coconut, cashew nuts and shelled almonds. Mozambique member of Southern African Development Community (SADC) with free trade area with SADC 14-member region.
Rice (10) Net imports from the world of \$452 million in 2013 versus \$388 million in 2012. Net exports to the world of \$16 million in 2013 versus \$17 million in 2012.	China – 37% India- 30% Thailand – 27% USA minor supplier of 0.34%	9	5	3	1,055	1,439	1,515	South Africa does not produce any, so opportunity exists in this category mainly (100630), semi or wholly milled rice imported in bulk and packaged

								in South Africa.
<p>Vegetable oils excluding soybean oil (15)</p> <p>Net imports from the world of \$376 million in 2013 versus \$523 million in 2012</p> <p>Net exports to the world of \$44 million in 2013 versus \$62 million in 2012.</p>	<p>Indonesia – 34%</p> <p>Malaysia – 24%</p> <p>Argentina – 16%</p> <p>USA minor supplier of 0.55%</p>	415	219	452	16	3	2	<p>South Africa is a net importer of both oilseeds and edible oils and fats. Opportunities exist in category (151190) and (151211). Also there is a demand in edible soya products which continues to increase.</p>
<p>Prepared Meat, Fish (16)</p> <p>Net imports from the world of \$165 million in 2013 versus \$148 million in 2012.</p> <p>Net exports to the world of \$55 million in 2013 versus \$46 million in 2012.</p>	<p>Thailand – 79%</p> <p>China – 11%</p> <p>India – 2%</p> <p>The United States enjoys a dominant position in the canned salmon (160411) market, holding a market share of 58 percent.</p>	11	192	121	1.1	607	2.0	<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</p>	<p>Brazil – 55%</p> <p>China – 8%</p>	12	657	723	12.3	16.5	13.4	<p>South Africa is a net exporter of</p>

<p>the world of \$175 million in 2013 versus \$159 million in 2012.</p> <p>Net exports to the world of \$205 million in 2013 versus \$128 million in 2012.</p>	<p>USA- 7%</p>							<p>sugar. The majority of exports and imports are in the category of other sugar products in solid form, such as cane and beet sugar (1701), and a little bit in sugars (1702).</p> <p>Brazil member of MFN status countries.</p>
<p>Preserved Food (20)</p> <p>Net imports from the world of \$154 million in 2013 versus \$161 million in 2012.</p> <p>Net exports to the world of \$329 million in 2013 versus \$323 million in 2012.</p>	<p>China – 37%</p> <p>Argentina – 14%</p> <p>Italy – 8%</p> <p>USA – Minor supplier of 4%.</p>	<p>16</p>	<p>14</p>	<p>11</p>	<p>6.0</p>	<p>5.1</p>	<p>6.1</p>	<p>South Africa is a major exporter of preserved foods of categories fruit juices (2009), and fruit and nuts (2008). 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 \$202</p>	<p>USA – 14%</p> <p>Germany – 13%</p> <p>Netherlands – 9%</p>	<p>11</p>	<p>10</p>	<p>9</p>	<p>25</p>	<p>29</p>	<p>29</p>	<p>South Africa is a net exporter of food preparations (2016 and sauces</p>

<p>million in 2013 versus \$187 million in 2012.</p> <p>Net exports to the world of \$193 million in 2013 versus \$197 million in 2012.</p>								<p>preparations (2103). Opportunities exist for imports in the category of canned products, and grape and apple juice which are used as a base for other fruit juices, prepared and preserved tomatoes, and fruit pulps.</p> <p>Germany and Netherlands are members of the EU states.</p>
<p>Beverages (22)</p> <p>Net imports from the world of \$323 million in 2013 versus \$316 million in 2012.</p> <p>Net exports to the world of \$793 million in 2013 versus \$706 million in 2012.</p>	<p>United Kingdom – 49%</p> <p>Italy – 11%</p> <p>France – 9%</p> <p>USA – Supplier of 6%</p>	43	49	53	19	23	18	<p>South Africa is a net exporter of alcoholic beverages. Major export category is of category 2204 – the wine of fresh grapes. Opportunity exists for import specialty whisky (2208) brands dominated by UK</p>

								brands having a market share of 66 percent whereas US holds only 5 percent. The South African appetite for American spirits has declined in this category due to price competitive from products from the EU countries (UK, Italy and France) which enters South Africa duty free.
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Source: World Trade Atlas

3.2: South Africa's Trade Agreements with other Nations

South Africa signed multilateral and bilateral trade agreements with other nations, whereby some countries products enters South Africa duty free or South Africa as a founding member of World Trade Organization (WTO) extend most-favored-nation (MFN) rate of duty treatment to other members. Included are the important links to note for trade related agreements.

- **The World Trade Organization webpage:**
www.wto.org
- **The South African Revenue Services webpage:**
<http://www.sars.gov.za/Legal/International-Treaties-Agreements/Trade-Agreements/Pages/default.aspx>
- www.bilaterals.org

- **South Africa trade with EU link:**

<http://ec.europa.eu/trade/policy/countries-and-regions/countries/south-africa/>

3.3: Tariffs

Harmonized tariffs codes to view the rate of import duties are available on www.cargoinfo.co.za

SECTION 4: BEST PRODUCTS PROSPECTS

4.1. 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, eggs & products, dairy products, fruit & vegetable juices, tree nuts, snack foods NESOI, and non-alcoholic beverages (excluding juices), which reached the highest export levels in 2012. Other high value exports that have shown sustained growth are almonds (HS080212), canned pink salmon (HS160411), vegetable seeds for sowing (HS120991), and whiskies HS 220830).

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

- Pork casings
- Organics food products especially organic baby foods such as lactose-free milks, soya formula, cereals, beverages such as baby tea range, etc
- Counter seasonal apples, dried grapes, pomegranate, stone fruits, etc
- Baking inputs
- Whey products (HS 040410)
- Sugar confectioneries (HS 170490)
- Dog and cat food (HS 230910)
- Cocoa preparations (HS 180690)
- Sweeteners (lactose, glucose and syrup)
- Breakfast cereal (corn/grit meat)
- Mineral water (natural/artificial/sweetened/flavored) (HS 020210)
- 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 (HS 020727, and chicken offal (HS 020712),
- Frozen swine cuts (HS 020329)
- Ground nuts (HS 200819)
- Enzymes and prepared enzymes (HS 350790)
- Breads, pastries, cakes and similar baked products (HS 190531 and 190590)
- Flavorings (malt)
- Peanuts (HS 200811)
- Milk and cream concentrated (HS 040210)
- Sparkling wine (HS 220410)
- Non alcoholic beverages (HS 220290)
- Grape juice (HS 200969)
- Tomatoes prepared or preserved (HS 200290)

4.3. 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, has caused imports from the US to drop significantly. New increased duties on top of the anti-dumping which came into effect September 30, 2013 is 37 percent from 17 percent.

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 as the United States now has Negligible Risk under the OIE.

SECTION 5: POST CONTACT AND FURTHER INFORMATION

If you have 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>

Post acknowledges the following Sources: The Euromonitor International, the Retail industry publications and their websites; the National Statistics of South Africa, trade press, Global Trade Atlas, and trade industries interviews.