

# A comparative study between tavern license holders and shebeen license holders in Yeoville

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Mini-dissertation accepted in partial fulfilment of the requirements for the degree *Master in Business Administration* at the North-West University

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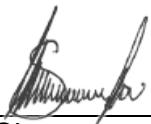
Graduation: October 2020

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## **DECLARATION**

I Mohau Gilbert Modise declare that this research report is my own work. It is submitted in partial fulfilment of the requirements for the degree, Masters of Business Administration at the North-West University Business School.

I declare that this dissertation has not been submitted to any institution before. I declare that this work has not been plagiarised nor did I violate any copyright restrictions. I declare that I gave due reference to all the sources used in the dissertation and listed as references.



Signature

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11 August 2020

Date

## **ACKNOWLEDGEMENTS**

Apostle Paul in his text to the Colossae said, “We can express thankfulness in every part of our daily lives, and whatever you do, whether in word or deed, do it all in the name of the Lord Jesus, giving thanks to God the Father through him” Colossians 3:17.

Let me first express my gratitude and thanks to the Lord, Jesus Christ, my saviour. Through Him, all things are possible. He carried me through the process of completing this project with grace. To my parents **Modupi and Diepollo Modise** who have given up so much to create an environment for us, their children, to succeed in life. I have made a commitment that your efforts will never go to waste, and I will live my life every day as a testimony of the sacrifices you have made.

To my wife and best friend **Mosidi Modise** - let me quote the speech I made on the 5<sup>th</sup> of October 2013. “Not many people have an opportunity to marry their best friend and commit to spending the rest of their lives together”. I know how blessed I am to have you in my life. Thank you so much for the sacrifices you have made in the last three years while I perused this project. Special acknowledgement to my son, **Katleho Modise** who was only three months old when I started this project, I hope this inspires you to pursue your dreams and understand that you have unlimited possibilities in life.

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## **ABSTRACT**

This study primarily focused on the township segment of the liquor industry, and within the township, the research project focuses on the on-premise consumption channel. This segment is dependent on the route to market stakeholders (distributors and wholesalers) that are part of the value chain for supply. The distributors include big corporate outlets such as Makro and Ultra liquor or independent distributors. Taverns play a very critical role in the value chain, which is, where consumers come into contact with brands. This is referred to as the decisive moment for brands because at this point in the value chain, the consumers "vote with their wallets". The biggest challenge for the industry about the township outlets is a lack of data to make strategic decisions. One of the key sources of information that allows suppliers to plan is the actual number of licensed outlets versus unlicensed ones. Type and size of outlets attract a different level of investment, to allow the industry players to be competitive. It is estimated that there are 64 000 licenced and between 180 000 and 250 000 unlicensed outlets in South Africa. Brewers and distillers of alcohol are prohibited by law to do business with unlicensed outlets. South African Breweries (SAB) has attempted to unlock the opportunity to do business with unlicensed taverns with their initiative to target the 'bottom of pyramid' programme called Mahlesedi. This was a tavernier training programme in collaboration with Gauteng Department of Economic Development (2019). The objectives of this programme were to support shebeen owners to apply for licenses, and to assist them with formalising their businesses by provide tools to run their businesses more efficiently. The introduction of shebeen permits by the Gauteng Provincial Government presented an opportunity for the brewers and distillers to expand their markets, hence they supported the implementation of this regulation. The permit system, however, presented challenges for the liquor industry and it was met with a lot of resistance from concerned stakeholders such as liquor traders, community social formations, and many other industry role-players. One example of such resistance resulted in the court case between Yeoville Bellevue Ratepayer's Association and Another versus the MEC for the Department of Economic Development in Gauteng Province (2019). This case highlighted the need investigate the differences between the licenced outlets versus those in operating with a permit. Typical questions include how different are these businesses? What is the real threat of shebeens with awarded shebeen

licences? Lastly, is it the implications of the decision to terminate these permits to liquor suppliers? This study investigates these, and more, shebeen issues.

**Keywords:** shebeen, tavern, beer, Yeoville, permit, brewery, distiller, alcohol

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## DEFINITION OF KEY CONCEPTS

Abbreviation	Meaning
MEC	Member of Executive Council – Province
CBD	Central Business District
YTD	Year to date
3MM	3 Months Moving average
12MM LY	12 Month Moving Last year
12MM TY	12 Months Moving This Year
APC	Alcohol Per Capita Consumption
DTI	Department of Trade and Industry
LA	Liquor Act
ARA	Association for Responsible Alcohol use
HL	Hectolitres – (1 Hectolitre = 100 Litres)
SAB	South African Breweries
ABI	Anheuser-Busch InBev
HSA	Heineken South Africa
WHO	World Health Organization
IAS	International alcohol association
COGS	Cost of goods sold (sales)
LOGS	Logistic and operational cost of goods sold (Supply chain)
KPI	Key performance indicators
NRB	Non-returnable bottle
Heineken	Heineken Corporate brand
CPG	Consumer packaged goods
GDP	Gross domestic products
FMCG	Fast-moving consumer goods
DED	Department of Economic Development (Gauteng Province)
GLB	Gauteng Liquor Board
EOE	Excellent Outlet Execution (Heineken Global standard)

EY	Ernst and Young
CMD	Customer master data

# CHAPTER 1: INTRODUCTION AND OVERVIEW OF THE STUDY

## 1.1 INTRODUCTION

The number of unlicensed outlets has increased dramatically since 1994, particularly in Gauteng. The increase can be ascribed to the escalation in the population migration figures where the villages dwellers move to the cities in hope for employment and a better life. As the informal settlement wave swept across Gauteng, the emergence of illegal shebeens increased. The Gauteng Provincial Government attempted to address this migration trend by introducing a new regulatory framework. In 2003, the Government made an attempt to regularise shebeens as a first step towards including them in the formal liquor distribution environment. This would bring shebeens in line with the provincial liquor act. The MEC published this regulation under Section 141 of the Gauteng Liquor Act (No. 2 of 2003) (SA, 2003a).

This regulation meant that any person who was running a shebeen in Gauteng, could apply to the MEC for a shebeen permit to operate legally. The applicant was not obligated by law to meet any substantive requirements applicable to an applicant who applies for a Tavern or Bottle Store license to the liquor board. Locational issues such as the close proximity to schools or churches were not considered to be disqualifying factors nor were shebeens required to provide separate toilets for males and females. The only requirement was for the shebeen owner to complete "Form 10" which was published with the 2004 regulation. The permit was issued for eight months as per the regulation and within that period, the owner of the shebeen had the responsibility to develop his/her outlet to a level that complies with the act so that they're able to apply for a Tavern or a Bottle Store license (SA, 2014).

According to Smithers (2019), issued shebeen permits have since been extended several times after they were first promulgated in 2004. The first extension was in December 2007, followed by the next extension in 2010 and also in 2012 (SA, 2012). The MEC published a notice of public hearing on the draft regulations intended to convert these shebeen permits to shebeen licenses. Several community associations presented counter-arguments to this draft legislation and questioned if the shebeens would be subjected to the same regulations as taverns and bottle stores. These issues were not addressed before the

MEC published the roll-out of these shebeen licenses. This decision resulted in the court case between Yeoville Bellevue Rates Payers Association versus the Gauteng MEC of the Department of Economic Development to resolve the matter.

## **1.2 PROBLEM STATEMENT**

The main aim of this study was to critically compare and evaluate the trading conduct as well as operational differences between the tavern liquor license traders versus the shebeen liquor permit holders in Yeoville. The discussion of the necessity of the existence of the two traders followed an integrated comparison and contrasting operational designs. The provincial Government of Gauteng province granted both types of traders' licenses to operate their businesses in Yeoville, however, they have different conditions of trade. The problems that the study attempted to address reside primarily in how the different conditions to trade provided for by the regulator influence these businesses operationally. What are the risks associated with converting the temporary shebeen liquor permits to permanent shebeen licenses? The study also investigates how to validate the number of shebeen permit holders against the number of tavern liquor license holders in Yeoville. Topical reports by Brits and Lotriet (2008), Dabechuran (2004), and Mrasi (2016) all attempted to address this issue. However, this study was inspired by the judgment handed down by Judge Elias Matojane at the Johannesburg High Court in the matter between Yeoville Bellevue Ratepayers Association versus The MEC of the Department of Economic Development in Gauteng Provincial Government and the Chairperson of the Gauteng Liquor Board (Matojane, 2017). The association took the two entities to court for allowing the liquor board to issue and convert temporary shebeen permits into permanent shebeen licenses without consultation with the community, which they claim, infringed on their statutory rights.

The empirical study was limited to Yeoville because of the sufficient number of businesses to investigate, convenience and also as a result of limited resources. However, the findings are applicable across Gauteng Province.

## **1.3 OBJECTIVES OF THE STUDY**

### **1.3.1 Primary objective**

The primary objective is to investigate the nature of the relationship between licensed taverns and shebeens with liquor permits.

### **1.3.2 Secondary objectives**

- Secondary objective 1: To determine the differences between regulations and the laws that govern the two entities as well as the compliance thereof.
- Secondary objective 2: To examine the risks associated with converting the temporary shebeen liquor permits to permanent shebeen licenses.
- Secondary objective 3: To evaluate the relationship between the taverns and shebeens and liquor distillers.
- Secondary objective 4: To evaluate the difference in relationship between the outlet (either a shebeen or tavern) and the community in which the outlet operates.

## **1.4 RESEARCH QUESTIONS**

- What are the regulatory framework and municipal by-laws that govern liquor trading in traditional markets for licensed taverns/bottle stores versus permit holding shebeens?
- What is the level of compliance to the regulations, and what are the terms of trading between licensed taverns and permit holders?
- How different is the business relationship between the liquor distillers to that of licensed taverns versus permit holding shebeens?
- What is the relationship between the licensed taverns with the local community versus the relationship the community has with shebeen permit holders?

- What will the impact of converting shebeen permits to shebeen licenses be on the sector and community?

## **1.5 RESEARCH DESIGN**

This study was conducted using a qualitative research design. Qualitative research is very comprehensive and includes an extensive range of approaches and methods found in different research disciplines. Several writers have attempted to capture the important or significant characteristics of qualitative research. At a general level, qualitative research is often described as a naturalistic, interpretive approach, concerned with exploring interior phenomena and taking the viewpoints of the research participants as a starting point (Ritchie *et al.*, 2014).

Sprague (2012) states that, in qualitative research, hypotheses are not formulated or tested. However, hypotheses or "theories" about social phenomena can "emerge" from the research data and findings. The question that needs to be asked is, what is the research question? Besides, what is the best method for answering/investigating the research question? Quantitative and qualitative research both have advantages and limitations, but they pose different kinds of problems. Therefore, it is consistent with the type of questions because the questions need to be answered correctly, irrespective of the data-collection method followed. This study, being a qualitative study, does not formulate hypotheses and investigates the shebeens by interviewing the owners.

## **1.6 LITERATURE REVIEW**

This chapter provides an understanding of the conceptualisation of existing literature on the liquor trade globally, in Africa and specifically in South Africa. The objective of reviewing the literature was to increase the body of knowledge on the subject area of this study. This chapter aims to examine current and historical differences between licensed taverns/bottle stores versus shebeens with permits and how they co-exist in key townships in Gauteng. It is essential to consider the size of the liquor market as well as consumption patterns globally, in Africa and locally in South Africa. It is important to take note of the contribution made by fragmented trade to the industry, as well as the regulatory framework that governs the operations of these trades and how it affects licensed outlets and shebeen permit holders.

Mrasi (2016) states that a literature review aims to review and merge literature from different publications to summarise information from a specific field of research for a wider audience. Mrasi (2016) adds that the review is intended to create a focussed and designed conceptual framework and then the justification for the study. It identifies the gaps in the research that have not been covered by previous researchers, thereby demonstrating the need for the study.

The available literature on this subject area focusses on the impact of the formalisation of the informal sector, which includes shebeens, the impact of changes in legislation (compliance or non-compliance thereof) concerning the liquor industry and the social impacts of alcohol in society. This, therefore, revealed a gap for a study that focusses on the relationship between licensed and unlicensed (formal versus informal) outlets within specific townships in Gauteng.

This chapter presents an overview of existing literature on the economic participation of township liquor traders and the contribution they make to the whole industry. The main areas of the comparison included economic contribution and legal structure that govern these two entities, in South Africa, Africa and globally.

### **1.6.1 Conceptualisation**

There is no universally accepted definition of the alcohol industry. However, alcohol researchers collectively agree that the alcoholic beverage industry includes manufacturing, wholesalers, distributors, and retailers of consumption, and consumption licensed or unlicensed outlets. The production value chain of the industry is closely aligned to the agricultural sector, logistics and transportation industry, capital goods manufacturing as well as the packaging industries (IAS, 2018). (Figure 2.1 in Chapter 2 consists of a process diagram that explains the alcohol industry's value chain).

The study focussed primarily on the end of the industry value chain which consists of the industry's heavy reliance on the route to market stakeholders as part of the value chain. The route market customers include distributors and wholesalers who are responsible for supplying products to the taverns and bottle stores. These customers include big corporate stores such as Makro and Ultra liquor, and also independent distributors like Sun Discount and Love Corner bulk distributors. The most important responsibility of these distributors is

to connect the producers and the customers. They also provide the critical function in the value chain of warehousing and transportation.

This final leg in the value chain connects the consumer with the product, which are retailers (off trade and on trade). Resultantly, they play an instrumental part in the value chain. This could be a result of on-premise outlets (such as taverns, shebeens, pubs, clubs and restaurants), or off-premise outlets (such as the self-services, counter service and group account modern retailer (corporate or franchise stores) where alcoholic drinks are bought and then removed to be consumed at home.

### **1.6.2 Liquor consumption in South Africa**

According to Ndabandaba and Schurink (2012), there is a long-recorded history of consumption of alcoholic beverages in South Africa. It dates back as far as to before colonialisation. African people consumed alcohol, however, unlike today, this practice was preserved for the elders and senior members of the community, who included health practitioners and healers. Only during traditional functions, women and ordinary citizenry were allowed to drink alcohol. Beverages were prepared for everyone and communal consumption. Alcohol abuse was rare. Beverages had a very low alcohol content, and it was strictly used to socialise. As a result, very little governance was required to regulate the consumption of alcoholic beverages.

### **1.6.3 The history of shebeens in South Africa**

As a result of race-based legislation in the early 1900s, the consumption of Western alcohol by black South Africans was not permitted. This changed in the early 1960s, and “shebeens” emerged in the mixed-race areas (such as Sophiatown and Yeoville) and in black townships. The name “shebeen” is derived from the Irish word for an illegal outlet. Shebeens became a central part of people’s lives, providing recreation and relaxation for many migrate-workers. Shebeens also provide the means for many black people to earn an income, particularly women who followed their husbands to Johannesburg in pursue of work opportunities, only to discover a traditional exclusion of women from the job market (Smithers, 2019).

During the 1980s, in an attempt to limit the number of shebeens and to convert them into legal entities, the apartheid government encouraged the conversion of shebeens to

taverns. However, after 1994, the number of shebeens increased dramatically, and as a result, the Gauteng Provincial Government attempted to regulate shebeens as a first attempt towards incorporating them into the formal distribution and consumption of alcohol and to join the mainstream economy. The MEC of Economic Development published a new regulation under section 141 of the Gauteng Liquor Act (No. 2 of 2003) on the 1<sup>st</sup> of November 2004, to regulate the sale and consumption of liquor at shebeens as well as to identify how many shebeens are in operation in Gauteng (SA, 2003a; Spotong, 2018).

#### **1.6.4 Regulation of the liquor trade**

Regulation of access to alcohol has increased drastically in South Africa since 1983 and has become very intense. Different sections of the society concerned with such regulation included government commissions, municipalities, community associations, political organisation and the churches. There are a series of liquor laws in South Africa, which seeks to regulate the manufacture, distribution and sale of liquor products. The Liquor Act (No. 59 of 2003) (SA, 2003b) applies across the whole of South Africa and regulates the manufacture, wholesale and distribution sale of liquor products. The Provincial Liquor Acts apply in the provinces of South Africa and seek to control the distribution and retail sale of liquor to consumers in the specific province (DTI, 2003).

#### **1.6.5 Specific focus areas of the Act that governs operations of taverns according to Gauteng liquor regulations (2013)**

The specific focus areas are:

- Alterations to and extension of licensed premises**

This section states “The holder of a license shall not affect any structural alteration, addition or reconstruction of or to the licensed premises or extend the licensed premises except with the consent of the chairperson of the liquor board”.

- Place for the sale of liquor**

This section stipulates that, “The holder of a license shall not sell liquor at any place other than the licensed premises. The chairperson of the Liquor Board may, on application by the holder of an on-consumption license, grant consent to that holder

to sell liquor on a specified premise." The licensed premise therefor has a defined limited location outside which no liquor may be sold or consumed.

- **Selling liquor to juveniles**

This section states that, "The holder of a license shall not sell or supply liquor on the licensed premises to any person who is under the age of 18 years". It is the responsibility upon the owner to make sure that patrons are over the age of 18 years.

- **Accessibility of licensed premises**

This section stipulates that, "The holder of a license or employee may refuse to admit any person to the licensed premises or any part thereof, refuse to sell or supply liquor to any person". Request any person to whom is in any part of the licensed premises to leave that part, remove from the licensed premises any person who is drunk, violent or disorderly or whose presence on the licensed premises may subject the holder of the license to prosecution under this Act.

- **Storing of liquor**

This provides that, "The holder of a license shall store liquor on the licensed premises unless the chairperson of the Liquor Board, on the application, determines another or an additional place in the district in which the licensed premises concerned are situated, in which liquor may be stored".

- **Place for consumption of liquor**

This section states that, "The holder of every on-consumption license shall ensure that liquor sold there shall be consumed on the licensed premises only".

- **Times of business**

This stipulates that, "The holder of a liquor license may, notwithstanding any law to the contrary, allowed to sell liquor between 10h00 on any day and 02h00 on the following day"

## **1.7 INDUSTRY PERFORMANCE**

### **1.7.1 International**

According to Rickert and Sanger (2015), the global beer industry is faced, for the first time in over 50 years, with the most significant challenges in an ever-changing economic ecosystem. At the same time, the industry is confronted with a flat demand for beer, declining beer volumes, a highly competitive environment, increased product choices, intensified consumer demand for quality services by retailers and increased barriers of entry in the market. All these changes in the industry mark the beginning of a tough period for the industry, and these changes will continue to affect the industry from now on and going forward.

Globally, the industry is seeing a significant opportunity for premiumisation in both developed and developing countries. Key liquor multinationals like ABI, Heineken and DIAGEO still see an opportunity to lead this trend. Compared to wine and spirits, beer is in its early stages of premiumisation globally, providing beer breweries with the opportunity to capture beer's fair share. Jimenez (2018) expects that the premium segment will grow about five times faster than core brands and value brands in the years to come.

### **1.7.2 Africa**

Arthur (2019) predicts that the African beer market will grow faster than other regions over the next five years. This prediction is largely based upon the rising African population, urbanisation, and the increase in the GDP of most African countries. There has also been an increase in the popularity of products manufactured by multinational companies. Even though the beer market used to be highly localised with local beer products dominating the market in every country, international beer brewers such as ABInBev, Heineken, Castel Group and Diageo are experiencing high volume growth on the continent. This growth is ascribed to the premiumisation of international beer brands.

The sub-Saharan Africa region remains one of the fastest-growing regions in the world (PwC, 2016). Either this is reflected by the successful expansion of retailers, globally or African based, in the continent. Manufacturers of consumer goods (FMCG) have also taken the opportunity of this growing region.

### 1.7.3 South Africa

The South African beer industry and market are discussed below.

- **Beer Industry in South Africa**

South Africa has a recognised and globally competitive liquor industry, renowned for producing and marketing a variety of liquor products (beer, wine, spirits and sugar-fermented beverages). The share size of the informal trade compared to the formal trade is significantly larger than the formal trade by volumes; it accounts for approximately 90% of beer volume and half of the wine volumes sold per annum (Nielsen, 2019). The formal liquor market includes all licensed outlets, comprising bars and taverns, retail stores, restaurants and clubs.

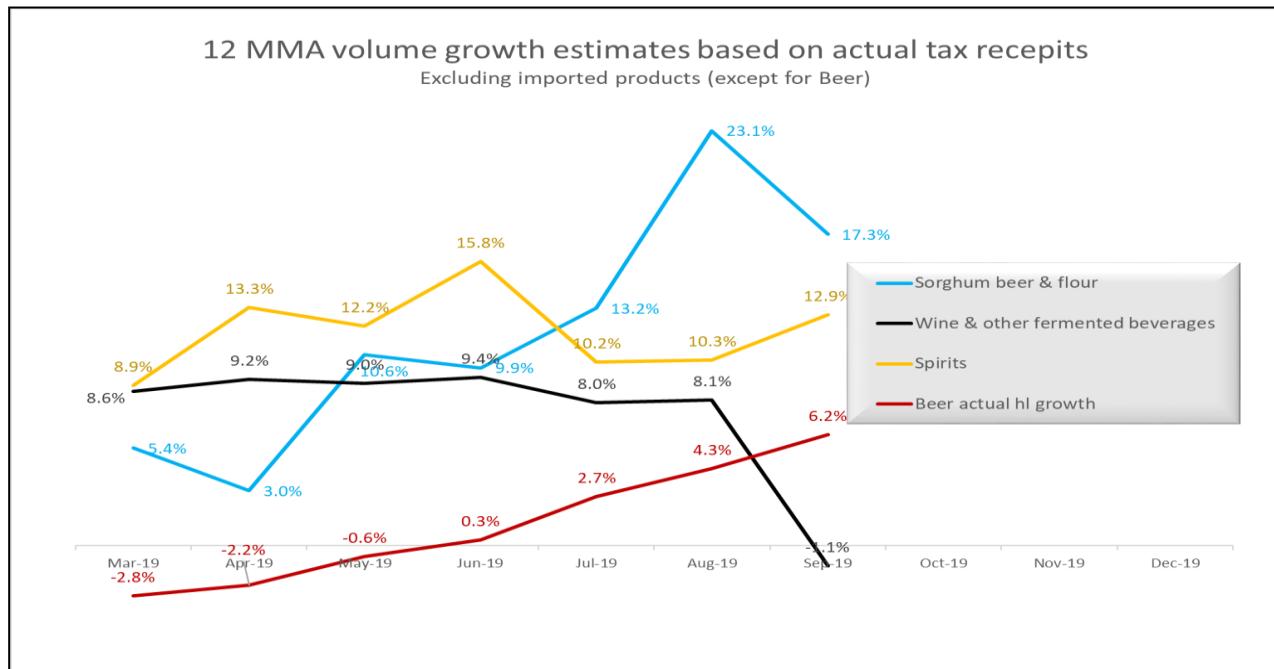
The South African beer sector was historically much localised. SABMiller owners of Castle lager used to have 90% market share of the total beer and 72% of the alcohol market share. SAB gained a considerable position in fast movable consumer goods over time as alcohol become the biggest-selling consumer good after food, accounting for about 50% of the total beverages sold. The size of the local beer market is recorded at 32 million-hectolitre per year to date (South African National Treasury, 2019).

Beer continues to grow stronger in 2019 YTD, currently growing at 6.2% according to the South African National Treasury Q3 Report (originally cited by the Nielsen Q3 Report, 2019) (see figure 1.1 below). These reports also predict that the industry will be growing at 8.3% as at the end of October 2019. Beer is increasingly becoming more affordable relative to other alcohol categories gaining share from spirits in the premium segment and gaining from sorghum beer and wine in the mainstream segment. Growth is seen across both mainstream and premium segments. However premium beer continues to grow ahead at (13.7% YTD) driven by premium brands meeting consumer needs both functionally at the right price points and therefore satisfying overall value equation.

Heineken South Africa and AB InBev contribute to the strong growth in beer. However, Heineken SA continues to grow significantly ahead of AB InBev at the

end of 2018 at 16.9% and 82.7% respectively and the trend continued into 2019 (see figure 1.2) Market share.

**Figure 1.1: Beer volume growth**

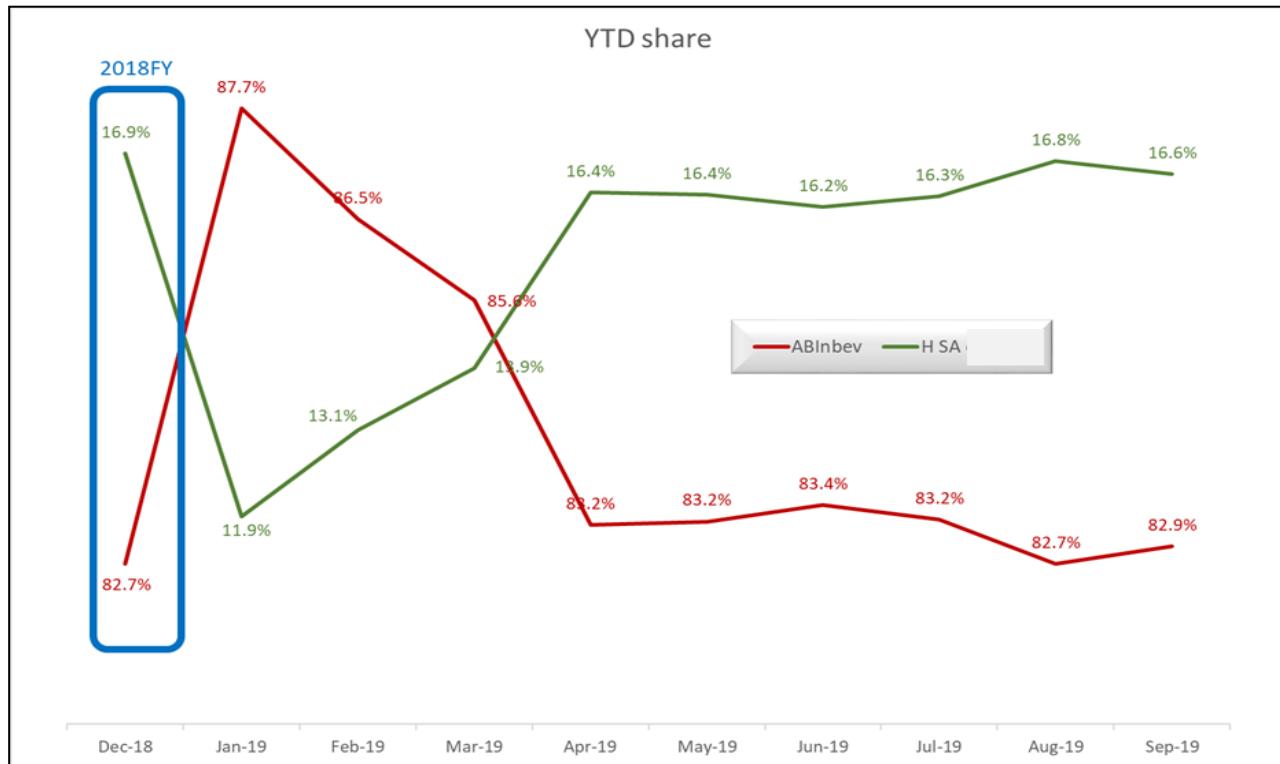


Source: South African National Treasury (2019).

- **Beer market Share in South Africa**

According to the South African National Treasury (2019), the beer market share is shared between two players ABInBev and Heineken South Africa with 82.7% and 16.9% market share respectively as at the end of 2018 (see figure 1.1 below). In 2019 the consistent progressive shift in market share between these two organisations, driven by the market activity and promotional activity deployed by respective competitors, continued throughout the year (see Figure 1.2).

**Figure 1.2: Market Share**



Source: South African National Treasury (2019).

AB InBev's leadership of the core and affordable segments gives them 82.9% of the total beer market as at the end of the 3rd quarter 2019; that is a dominant position by any measure. However, the residual effects of the AB InBev takeover SABMiller in 2016 in a deal worth \$106bn (more than R1.5-trillion at the time) are still present in the market as depicted by the fluctuation of the market share numbers in figure 1.2. Heineken South Africa is the biggest winner, in this case, having started with only 11.9% in January 2019, closed the 3<sup>rd</sup> quarter on 16.6%. AB InBev started the year strong with product availability while Heineken struggled with consistency supply of their biggest SKU (Stock Keeping Unit) "Heineken 650 ml" to the market.

Mainstream beer moves back into growth to 2.9% in January of 2019, further strengthening in February to 6.5%. However, AB InBev closed at 1.2% due to its premium beer brands. It is important to note that the combination of both premium beer and mainstream beer growth compared to the same time a year before

resulted in 5% in January 2019 (South African National Treasury, 2019). This increase in market share in (Q1 of 2019) was driven by increased focus through deep dealing, extended credit terms for this period as well as incentive programs targeted at distributors and wholesalers. This was followed by price decrease of Carling black label; this strategic move is credited for salvaging AB InBev mainstream portfolio and brought back growth on CBL 750ml that grew by 17% in February 2019 (Nielsen, 2019).

Heineken SA, however, was adversely affected by increased demand on Heineken 650ml which was not fully met. The demand for the Heineken 650ml beer outweighed the supply. Hence customer started switching to AB InBev mainstream brands.

In quarter two of 2019, the total market was growing at 10.3%, according to Nielsen (2019), driven by AB InBev's deliberate focus to gain back lost market share. However, this had a negative impact on their convenience packs as well as Hansa's volumes declining by double digits. Heineken executed a very successful champions league campaign, followed by the launch of Heineken 0.0 and therefore closed (Q2 2019) 16.2% stronger. AB InBev premiumisation strategy with the launch of Budweiser, Stella Artois and Corona is beginning to pay off their international brands portfolio, approaching 25% of market share in the premium beer segment in SA. Hence stable market share in quarter three. Heineken benefited from the volume growth on Amstel in (Q3 2019); Amstel brand grew by 5.6%.

## **1.8 LIQUOR CONSUMPTION**

### **1.8.1 Internationally**

The Japanese Beverage Company conducted consumer research to establish which country has had the highest per capita consumption of beer drinking. Their findings show that, for 24 consecutive years up to 2018, the Czech Republic is the highest per person consumers of beer. In this regard, Smith (2018) makes the point that, as of 2016, the Czechs drank 143.3 litres of beer per person. This is more than the 142.4 litres per person in 2015. Namibia is the 2<sup>nd</sup> most beer drinking nation, followed by Austria and Germany,

Poland in the 5<sup>th</sup>, Ireland 6<sup>th</sup>, followed by Romania and Seychelles in the 7<sup>th</sup> and 8<sup>th</sup> positions, respectively. See Table 1.2 below for the world beer per capita consumption rankings.

**Table 1.1: The world's biggest beer-drinking countries (2016)**

The world's biggest beer drinking countries		Litres per capita
1	Czech Republic	143.3
2	Namibia	108
3	Austria	106
4	Germany	104.2
5	Poland	100.8
6	Ireland	98.2
7	Romania	94.1
8	Seychelles	90
9	Estonia	89.5
10	Lithuania	88.7
11	Belize	85
12	Spain	84.8
13	Slovenia	80.3
14	Slovakia	80.1
15	Croatia	78.7
16	Gabon	77.8
17	Finland	76.9
18	Bulgaria	76.3
19	Panama	75
20	Iceland	75

Source: Smith (2018).

According to IAS (2019), alcohol producers strive to expand their relationship with their existing consumers by increasing the volume of alcohol they consume. For example, in their 2013 Annual Report, ABInBev set a goal to “create new occasions to share our products with consumers” (ABInBev, 2013). This strategy outlines an organisation’s intent to associate specific occasions with specific products in an attempt to ensure that consumers align the occasion with a specific product on their portfolio. ABInBev (2019) claims that insight has enabled them to create and position products for specific moments of consumption. For example, enjoy a beer while watching a sports game or while enjoying

a music festival with your friends. Alternatively, when you are in a relaxed mood after work, celebrating at a party or sharing a meal.

### **1.8.2 Africa**

According to Helicopter View (2017), alcohol consumption is high in the whole of Africa. Still, among the 54 nations, Uganda, Kenya, Rwanda and Namibia are the top four countries with the highest beer consumption per person per year. These four countries have an average of about 10 litres per person per year per capita. However, Uganda's population of 38 million people is the highest, second to Nigeria. Waragi is the most popular alcoholic beverage in the country of Uganda, with an alcohol content of around 42%, which is the highest in the world. Beer only makes up 4% of alcohol consumption in the country, and the balance is between 2% from wine and 96% other beverages.

Kenya is an interesting market for beer and one of the few countries in Africa where women who drink beer is not frowned upon. Women drink as much beer as men in Kenya. Beer has 43% market share in alcohol consumption. However, in Rwanda, beer is currently showing a positive trajectory (Euromonitor (2019) at 8% of consumption relative to traditional homemade drinks such as banana beer, urgwagwa and the fermented honey drinks, ubuki and Ikigage, made from dry sorghum. Namibia is the 5<sup>th</sup> highest per capita beer consuming nation in Africa. In this country beer holds a market share of around 67% of the alcoholic beverages market and its closest competitors are spirits and wine at 20% and 7%, respectively. Although this makes Namibia one of the highest beer consuming nations on the continent, it has a very small population of only 2 million people; the total beer market is therefore relatively small when compared to other African countries.

**Table 1.2: African ranking of high beer volume consumption**

#No	Country	Litres per year	Population
1	Nigeria	12.28	182,202,000.00
2	Uganda	11.93	38,000,000.00
3	Kenya	9.72	2,000,000.00
4	Rwanda	9.1	12,000,000.00
5	Namibia	9.62	2,000,000.00
6	Burundi	9.47	12,000,000.00
7	South Africa	9.46	56,000,000.00
8	Gabon	9.32	1,500,000.00
9	Botswana	7.96	2,000,000.00
10	Tanzania	7.7	52,000,000.00

Source: Helicopter View (2017).

The high level of beer consumption in Africa has attracted the interest from global multinational companies. Although consumption trends reflect a high level of consumption, the number of people who consume alcohol is less. According to Staff Writer (2019), it is estimated that only 31% of the population aged 15 and older consume alcohol, with the majority (69%) abstaining from drinking in South Africa. This is a common trend in most African countries (some even less than 31%).

There has been a general trend towards clear beer on the continent. However, traditional beer still has a substantial market share in the alcohol industry, even though unrecorded. Global alcohol firms have engaged in several commercial strategies to increase penetration of clear beer, including targeting new customers and women, developing unique ‘occasions’ to encourage drinking and to encourage ‘trading up’ to more expensive products.

### 1.8.3 South Africa

Research conducted by Genesis Analytics (2017) show that most South Africans do not drink alcohol. Only 44% of the adult (15+) population has ever had an alcoholic drink, and only 23% are currently consumers of alcohol. However, South Africa has a very high per capita consumption by international standards. The WHO global status report classified South Africa as one of the countries with one of the most dangerous trends of alcohol consumption. South Africa has the highest reported alcohol drinking in Africa. Almost one

in two men (48.1%) and two in five women (41.2%) engage in sporadic heavy drinking (WHO, 2018).

The implication is that those who do drink, drink excessively, which results in binge drinking. There are also high levels of youth drinking and what is of concern, is that 12% of children have started alcohol use before the age of 13, while approximately half of those aged 13-19 have tried alcohol and a quarter engage in binge drinking. It is worth noting that alcohol used in moderation provides an important social and leisure benefit for many responsible citizens who consume without creating harm for themselves or others. According to WHO (2018), the South African adult per capita alcohol consumption is equal to 9.5 litres per person per year. Of this drinking, 26.3% or 2.5 litres per person is homemade and illegally produced alcohol or, in other words, unrecorded alcohol.

The consumption of domestic or illegally produced alcohol may be associated with an increased risk of harm because of unknown and potentially hazardous contaminants in these beverages. APC in South Africa (of 9.5) is above the world average of 6.13 litres, the regional average for Africa 6.2 litres, the average for the Americas 8.7, the average for the South-East Asia region 2.2 litres and the average for the Western Pacific region 6.3 litres. It is, however, below the European regions' APC of 12.2 litres. South Africa has the 75<sup>th</sup> highest APC in the world (Econometricx, 2013).

## **1.9 SOCIO-ECONOMIC CHALLENGES ASSOCIATED WITH ALCOHOL**

While the existence of shebeens may have been effective in providing the means for many black people to earn an income, express rebelliousness against white colonial and apartheid rule, and provided entertainment, alcohol has played a role in the social breakdown of family and community life in black communities. Alcohol contributed towards local, regional and national economies through providing formal and informal employment, an income source and much-needed tax revenue. However, the study cannot ignore the fact that alcohol is one of the four major risk factors for the global non-communicable disease burden in developing countries (Herrick, 2014).

Herrick (2014) continues and states that alcohol abuse is also a critical contributory factor to violence, injury, crime, poor mental health and infectious diseases such as tuberculosis, pneumonia and HIV/AIDS. For the urban poor, therefore, drinking alcohol may be a way of

coping with unemployment and lack of a leisure infrastructure. Poverty makes life perpetually challenging and stressful. This form of coping, however, can often worsen and reinforce individual and collective vulnerabilities.

## **1.10 RESEARCH METHOD**

The scope of the research specifically focused on investigating the nature of the relationship between licensed taverns and shebeens with liquor permits. The qualitative research design was used to investigate and understand the risks associated with converting the temporary shebeen liquor permits to permanent shebeen licenses.

Qualitative research is comprehensive and contains a wide range of methods found in different research studies. However, despite these differences and sometimes-contradictory nature of underlying assumptions about its inherent qualities, several researchers have attempted to capture the essence of qualitative research. Ritchie *et al.* (2014) state that, at a general level, qualitative research is often defined as a realistic, explanatory approach, concerned with exploring phenomena from the inside and taking the perspectives of the research participants as a starting point.

Cooper and Schindler (2014) state that one-on-one interview approaches involve talking to people and recording their answers for analysis. The strength of this method to gather data is primary the flexible nature of the interview process. Interviews as a data collection method do not depend on the ability of the interviewer to have first-hand visuals or any objective perception of the subject under investigation. An interview makes it possible to collect any type of information just by questioning others; this is also true of their intentions and expectations. The thinking on several questions asked respondents was to translate them into codes to remove the influence of meaning or interpretations. Coding was completed by matching of words to numbers, symbols and tags.

The research was conducted with a structured, one-on-one interview, which was used as the tool to collect and gather all data in this empirical case study. The interview structure was adopted from Brits and Lotriet (2008). The interview was designed as a structured interview made up of 20 questions. The interview structure had four sub-sections, Section A: measurement, control and screen the targeted sample, Section B dealt with compliance to legal requirements to have a license or shebeen permit, i.e. location of the outlet and

surroundings, size and space of the outlet, length, and period in this business. Section C dealt with employees of the outlet (Self-run, family, or employed people). Section D business funding, assets, revenue and resources. Data was collected from outlet owners' interviews and it was transliterated into key themes to facilitate a data analysis process. The analysis was conducted using data software systems called Atlas.ti 8.

### **1.10.1 Data saturation**

Some 20 outlet owners were targeted and interviewed 100% responds rate, 50/50 split between the research topics of licenced taverns versus shebeen with permits. Of the 20 respondents contacted, 18 answered all questions giving a response rate of 90%. This sample covered a wide range of targeted demographic outlet owners it was therefore concluded that each subject was satisfactorily covered in the population. The initial plan was to interview 40 outlet owners. However, after interviewing 20 individuals, data saturation was confirmed as no more new data inputs came up from 14<sup>th</sup> interview to 20<sup>th</sup>. Ness (2015) states that data saturation is achieved when there is sufficient information to replicate the study when the ability to obtain additional new information has been attained. A clear trend imaged from the interviews, and therefore, data saturation was assumed. All the collected data was used for analysis.

### **1.10.2 Data richness**

According to Ness (2015), it best to think of data in terms of rich and thick, rather than the size of the sample that was targeted for the interviews. Rich data is a lot of data covering wide subject areas that are detailed, elaborate and different. Thick data, on the other hand, is just a lot of data. A word cloud in figure 1.3 illustrates different subjects covered during the interviews and provided the quality of data that was used for analysis. Atlas.ti 8 successfully matched common words that came from written notes reflected by both tavern owners and shebeen owners. They both have the same expectations from the Government and beer suppliers. The crime was the single most highlighted word from both samples.

### **1.10.3 Word cloud**

The study highlighted the most common word that came from the interviews. As reflected above in terms of data richness, Atlas.ti 8 was successfully used to matched common

words spoken by the interviewee; this was both from taverns and shebeen owners from written notes collected from the interviewer. Word cloud is defined as a visual representation of data from words that have high prominence and frequency in the interview process (Mentimeter, 2019).

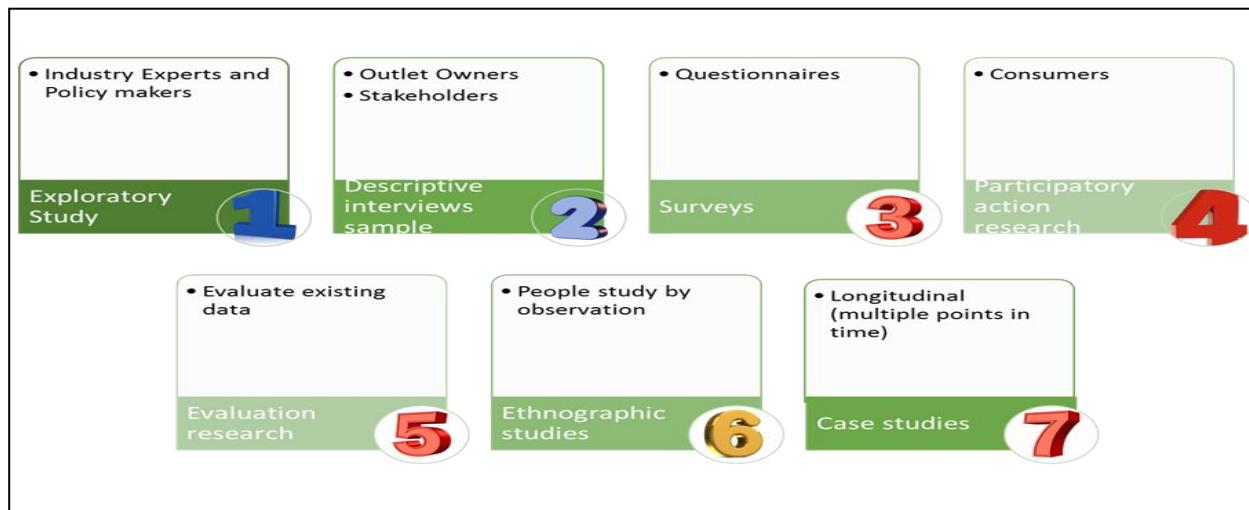
The study was limited to Yeoville (Johannesburg CBD), because of the case between the MEC and Yeoville rate payers' association at the Gauteng High Court, Johannesburg. Sales representatives' from Heineken and Sebenzela servicing this area were trained to conduct customer interviews. Primary data was obtained by interviewing outlet owners and consumers who frequently visit these establishments. Secondary data was collected from sales representatives from liquor manufacturing companies as well as representatives of the Gauteng Liquor board (GLB).

Licence information was collected from SAPS' liquor control department as well as from HEINEKEN customer master data. Secondary data was sourced from literature, magazines, the Internet, Johannesburg high court, provincial government publications and the local and international media.

## **1.11 RESEARCH DESIGN**

The study was limited to Yeoville (Johannesburg CBD) due to time and resource constraints. However, the findings are applicable to the rest of Gauteng Province. The study started with defining the scope of exploration research in chapter 1 followed by field research one-on-one interviews with outlet owners using structured interview questions as well as observation and evaluation of consumer behaviour that is recorded in findings in chapter 3. The extensive literature review included Africa, as well as the rest of the world. Final chapter deals with the findings and conclusions (see figure 1.4 below for the research design).

**Figure 1.3: Research design**



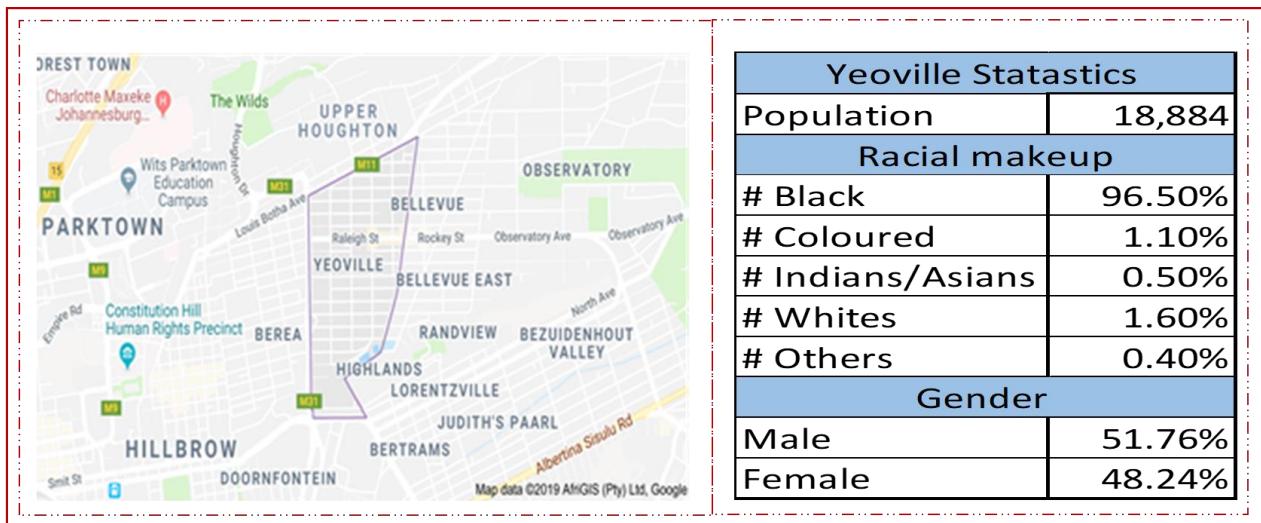
## 1.12 DEMARCTION OF THE STUDY

The study was conducted in Yeoville (Johannesburg CBD) where a total of 237 taverns operate. All of them have valid liquor licenses and shebeens with temporary permits which the Department intends to convert to permanent shebeen licenses. The study measured the relationship between these two variables (licensed taverns and shebeens with temporary permits) with a selection of a sample from this total base. Yeoville is a point of interest in this study because of the case between MEC and Yeoville rate payers' association at the Gauteng High Court, Johannesburg. The association is challenging the legitimacy of the Provincial Government to convert shebeen permits into permanent shebeen licenses without consultation with the community.

## 1.13 TARGETED POPULATION

Yeoville is an outstanding African city experiment. It is hidden in plain sight in the centre of Johannesburg, planned to be a beautiful modern city and consists of a cosmopolitan neighbourhood. It also has a major transport exchange hub where informal markets that serve a large population of pedestrians passing and for the locals. It is also a home to people from around the country and the rest of the continent. Yeoville has a high number of French-speaking people, and therefore, French is one of Yeoville's official languages, alongside the more familiar South African languages (Webster, 2017).

**Figure 1 4: Demarcation of the study**

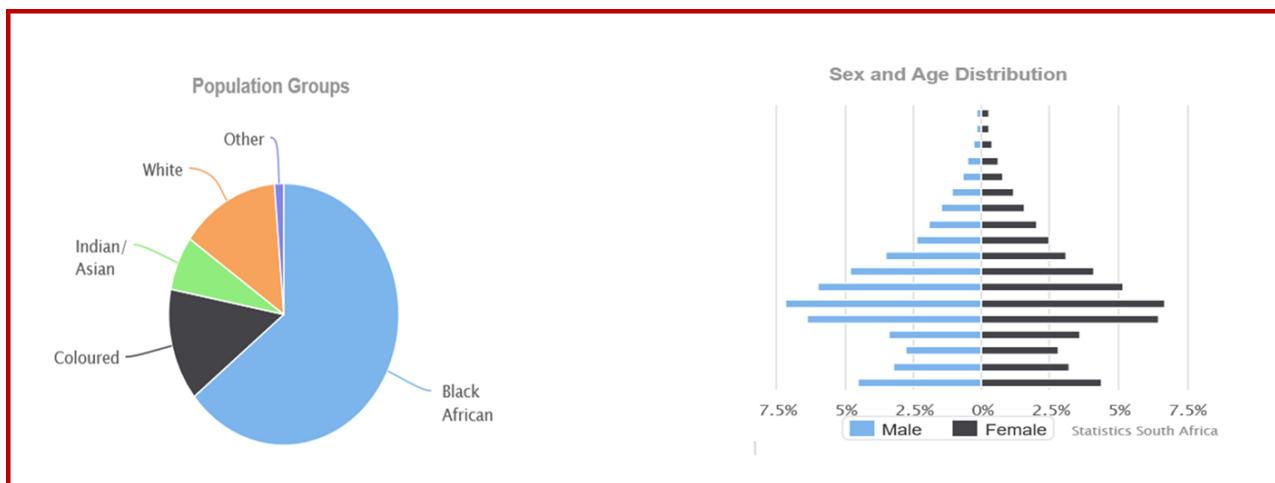


Source: Stats South Africa (2011)

Yeoville is located north-east of downtown Johannesburg. It was developed with the intention to appeal to more affluent residents who were looking for houses in a clean and peaceful environment. Unfortunately, the initial wealthy target market never made it to Yeoville. It attracted mostly lower-middle class and working-class population. Since its formation in the 1940s, Yeoville has been a relatively quiet residential neighbourhood right up to the end 20<sup>th</sup> century (Yeoville, 2015). Around the 1970s, the character of the community started to change as night clubs opened in the area, and it became known as a premier nightspot.

Since the 1990s Yeoville has suffered from several major issues, which include immigration from the rest of the continent, residential turnover, densification and high levels of poverty-related to urban decline. Documented population in Yeoville is recorded as just under 19000 people; however, unconfirmed numbers claim the population is double that size (see figure 1.4 and 1.5) for the demographic of Yeoville (Stats SA, 2011).

**Figure 1.5: Demographics of Yeoville**



Source: Stats South Africa (2011)

## 1.14 RESEARCH METHODOLOGY

### 1.14.1 Population sample

The study population was the owners of taverns and shebeens in Gauteng Province, South Africa, specifically Yeoville. According to Öznur and Rengi (2019) a population is defined as a part of the study group that relates to the full data set that is of interest. Cooper and Schindler (2014) indicate that a sample is a selection of a part of the population of interest. It is the total of units in which we have an interest, which is the collection of individuals, objects or events about which we want to make conclusions. Area sampling methods were used in this study. This method is useful when selecting a sample from a national, regional, area or even a smaller location. The standard deviation of a sample is defined as a quantity that reflects how the numerical data is isolated.

A proportional sample was selected from the 237 licensed tavern liquor holders and shebeen temporary permit holders operating in the study area (Yeoville). In total, 20 from each group from the area, thus generating a sample size of 40 liquor traders. This sample size was regarded to be sufficient because it falls within the range of 1 to 40 interviews (Mason, 2010) However, after interviewing 20 individual's data saturation was confirmed as no more new data inputs came up from 14<sup>th</sup> interview to 20<sup>th</sup>. There was a point in diminishing return to a qualitative sample at that stage.

#### **1.14.2 Sample method**

The research was conducted using a structured, one-on-one interview, which was used as the tool to collect and gather all data in this empirical case study. The interview questions were adapted from Brits and Lotriet (2008).

#### **1.14.3 Data collection instruments – semi-structured questions**

The researcher trained sales representatives from Heineken and Sebenzela to conduct the interviews with the 20 tavern- and shebeen owners. The interviews were conducted during the sales representative's weekly sales visits to the outlets. One-on-one interviews were conducted by respective sales representatives from the different liquor distillers and consumers found on the premises of each of the selected outlets.

#### **1.14.4 Data collection**

Sales representatives from different liquor distillers were utilised to conduct interviews with 20 taverns and shebeen owners. One-on-one interviews were conducted with customers from different sample groups, as well as with observed consumers found on the premises of each of the selected outlets.

#### **1.14.5 Data coding and analysis**

Atlas.ti 8 as a system to analyse data with a clear, descriptive process was followed to analyse findings of the study. Analysing qualitative data can be very confusing due to its unstructured nature. However, data analysis in whatever form can be easily carried out using the right methodology. Data analysis is included in the data collection method of this qualitative study (Neuman, 2014). The process of collecting data and organising information into categories of themes and concepts as well as listing the attitudes and perceptions of outlet owners towards them was analysed. Neuman (2014) offers useful techniques on coding the qualitative data, and the researcher employed them.

### **1.15 ETHICAL CONSIDERATIONS**

In this study, the following ethical features were observed:

- **Informed consent** – the interviewer explained the purpose of the study in detail to all participants in a language they understood and requested that

they sign an “informed consent form” in order to ensure their voluntary participation in the research. See consent letter in Appendix A.

- **Participants’ confidentiality** was protected – the interviewer committed not to mention any of the respondents by name, any identifiable naming conversion or biographical data.
- **Voluntary participation** – the participants were informed that they could opt-out at any time during the process of completing the interview.
- Participants were requested to **share tavern and/or shebeen information** with the interviewer.
- Obtaining the **company’s confidentiality agreement** – the researcher was granted permission to conduct this study by the General Manager Sales Operations from Heineken, and the study was conducted in line with the university requirements. See Appendix C for the signed copy of permission.
- **Plagiarism** – the researcher signed the plagiarism declaration form, stating that the researcher acknowledged other researchers where necessary. See page (ii) for the declaration.

## 1.16 LAYOUT OF THE DISSERTATION

The layout of the dissertation is clarified in the Table 1.3 below.

**Table 1.3: Layout of the dissertation**

NATURE AND THE SCOPE OF THE STUDY	
Chapter 1	Chapter 1 outlines the background and direction of this study. It includes the purpose, problem statement, , goals and objectives, delimitations and limitations of the study, and concludes with the layout of the research report.

<b>LITERATURE REVIEW</b>	
Chapter 2	Chapter 2 deals with the literature review of this study. This chapter starts with introduction, historical context of the industry and current performance as well as trends at a global level, African and South Africa. Explanation of the two variables are being compared. Lastly, the implications to the sponsor of this study. Empirical questions of the comparison between the two variables.
<b>EMPIRICAL INVESTIGATIONS</b>	
Chapter 3	Chapter 3 discusses the methodology employed to do this study. It begins with the aim of the investigation, followed by the sample, measuring instruments for each variable, the design and method used in the study. Finally, data analysis is explained and described.
<b>CONCLUSION AND RECOMMENDATIONS</b>	
Chapter 4	Chapter 4 presents and reports on the results obtained from the data analysis in this study. It includes the sample results, descriptive outlet owner comments, relationship analysis and highlights the differences between licensed taverns and shebeen permit outlets.  The chapter also discusses the findings and limitations of this investigation and presents conclusions and recommendations.

### **1.17 LIMITATIONS OF THE RESEARCH**

Neil (2012) recommends that the proposal should include implications and limitations. As noted, when discussing the methodology, the study was performed through a qualitative method that cannot escape the inherent bias. The subjectivity is further compounded by

the personal experience of the researcher. At the time of conducting this study, he was employed in the liquor industry as a Trade Marketing Director with over 15 years' experience in this sector. It was very much possible that his direct observations would have influenced the interpretation of data, despite choosing not to employ observation as a tool.

A further limitation of the study is the informal nature of the two selected variables for this study. The shebeen owners are seldom willing to participate in any research work that might expose them or the way they operate their businesses to the authorities. Finally, the change in ownership of this business from South African to Pan African ownership by other people from the rest of the continent, particularly in Yeoville, also presented a challenge. These other owners did not have the historical background of the relationship between the licensed taverns and shebeens with permits, and they owned these establishments illegally.

### **1.18 SIGNIFICANCE OF THE STUDY**

The purpose of the study was to identify structural differences in the operation of taverns with liquor licences compared to shebeens with temporary shebeen permit in liquor trade in Yeoville Johannesburg (CBD). This study was inspired by the judgement handed down by Judge Elias Matojane at the Johannesburg High Court in the matter between Yeoville Bellevue Ratepayers Association against The MEC of the Department of Economic Development in Gauteng Provincial Government and the Chairperson of the Gauteng Liquor Board. The outcomes of this case have significant implications for the industry and the livelihood of these traders. The study is therefore significant to the following groups of people:

#### **1 Shebeen permit holders**

The shebeen owners with permits are the main focus, as this study is aimed directly at establishing how different their businesses are to outlets with a liquor licence. What are possible implications of converting these permits into licenses?

#### **2 Liquor industry**

Liquor industry will loss estimated 10,000-legally trading outlets should the ruling on this case go against the MEC and the GLB. Therefore, the manufacturer must understand the implication of this eventuality should it be a reality. What do they stand to lose in terms on infrastructure loaned to these traders?

### **3 South African Government**

Risk of loss of jobs and increase of unemployment numbers, potentially illegal trading as most of these shebeens will continue to trade. Loss of revenue. Increased Police raids and increase of criminal activity.

### **4 Researcher**

The study will increase the body of knowledge of the researcher concerning the liquor industry and meaningfully contribute a solution to a real problem facing the industry.

## **1.19 CHAPTER SUMMARY**

In this chapter, the scope of the research paper was introduced. The problem statement was articulated, followed by clear objectives of the study. A brief introduction of available literature on this subject included reference to local sources, African sources and then also global sources. The data collection methodology was described, the location defined and the population and sample explained. Limitations of the study were highlighted and the chapter concluded with a brief description of the structure that was followed.

The study articulates the beer market comprehensively in South Africa, Africa and internationally. Chapter 2 will focus on the historical background of the liquor trade with specific focus to beer manufactures. It will give expression to the structure of the industry and stakeholders involved in the value chain. Articulate the implications of each retail channel in the 21<sup>st</sup> century with a specific focus on traditional channels. It will also highlight current performance, trends and regulatory framework of the industry as well as the implications of the changes in regulations. It highlights the consumption patterns in different markets. The chapter will, finally, reflect on the implications of this study to Heineken South Africa and the whole liquor industry.

## CHAPTER 2 LITERATURE REVIEW

### 2.1 INTRODUCTION

This chapter provides an understanding of the conceptualisation of existing literature on the liquor trade globally in Africa and South Africa, respectively. The objective of this chapter on the literature review is to increase the body of knowledge on the subject area. As pointed out in Chapter 1, the aim with this chapter was to examine current and historical differences between licensed taverns/bottle stores versus shebeens with permits and how they co-exist in key townships in Gauteng. It was important to consider the size of the liquor market as well as consumption patterns globally, in Africa and locally in SA. The contribution made by fragmented traders to the industry, as well as the regulatory framework that governs the operations of these trades and how they affect licensed outlets and shebeen permit holders, were also investigated.

According to Mrasi (2016), a literature review aims at reviewing and merging literature from different publications to summarise information from a specific field of research for a wider audience. Mrasi (2016) adds that a literature review is intended to create a focussed and designed conceptual framework and then the justification for the study. It identifies the gaps in the research that have not been covered by previous researchers, thereby demonstrating the need for the study.

The available literature on this subject area focusses mainly on the impact of the formalisation of the informal sector. This includes shebeens and the impact of the changes in legislation (compliance or non-compliance thereof) to the liquor industry. It also includes the social effects of alcohol on the society. Therefore, a gap exists for research that focusses on the relationship between licensed and unlicensed (formal versus informal) outlets within specific townships in Gauteng.

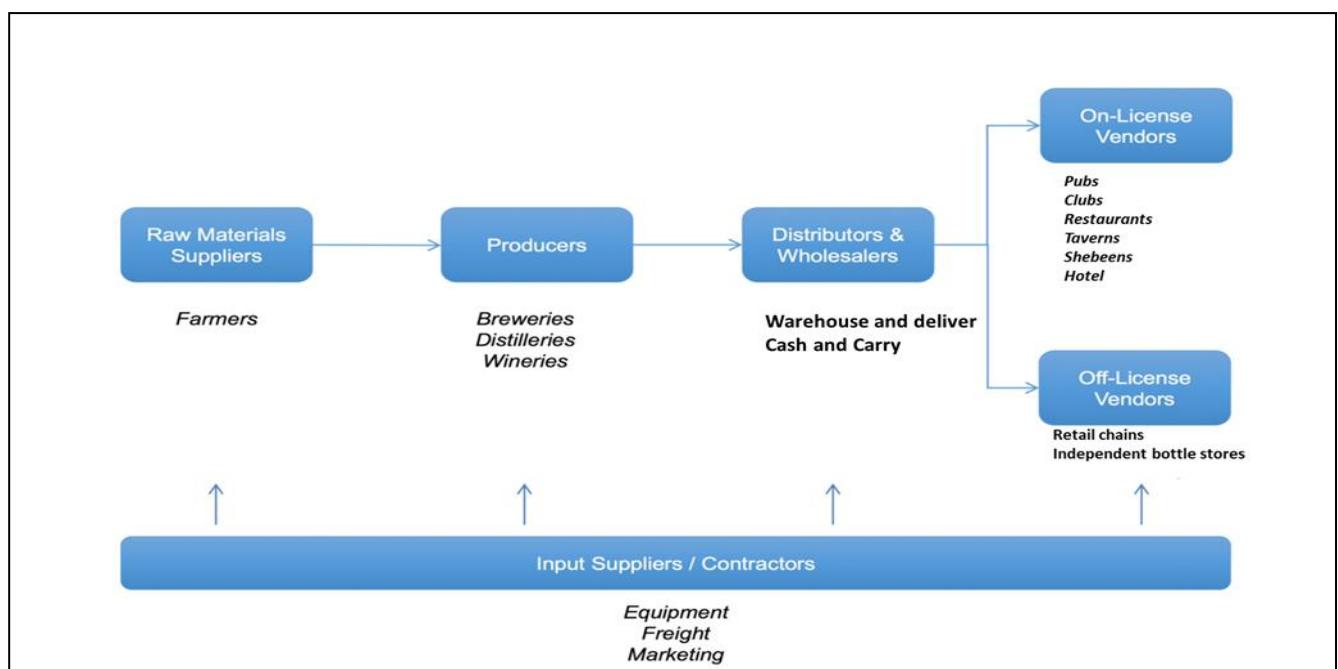
This chapter presents an overview of existing literature on the economic participation of township liquor traders and the contribution they make to the whole industry. The main areas of the comparison included economic contribution and legal structure that govern these two entities in South Africa, Africa and internationally.

## 2.2 CONCEPTUALISATION

The liquor industry value chain includes beverage companies, distillers, wholesalers and distributors, retailers off-premise consumption and on-premise consumption outlets licensed or not licensed. The production value chain of the industry is closely aligned to the agricultural sector, the logistics and transportation industry, capital goods manufacturing, as well as packaging industries (IAS, 2018).

Figure 2.1 illustrates companies that participate in the alcohol value chain and contribute to bringing alcohol to consumers (IAS, 2018).

**Figure 2.1: Alcohol industry value chain**



Source: Institute of Alcohol Studies (2018).

### 2.2.1 Industries that form part of the value chain

#### 2.2.1.1 Farmers

Agricultural crop farmers who supply barley, hops and yeast for beer, apples, grapes and sugar for cider and raw materials to the distillers and breweries for production in the brewing and distilling process.

#### *2.2.1.2 Breweries, Distilleries and Wineries*

Companies that process the raw material into finished products through a process of brewing, distillation and packing the final product into different SKUs (stock-keeping units), for example, AbinBav, formerly known as SAB, Heineken and Distell.

#### *2.2.1.3 Distributors and wholesalers*

- Distributors and wholesalers include other organisations that actively contribute directly or indirectly to the industry as suppliers and contractors. They supply products and services to all other members of the value chain, for example, suppliers of farm machinery, distillation equipment, freight services, marketing agencies, consultancy firms and lobby groups.
- The road to market stakeholders is part of the value chain. They are distributors and wholesalers and they connect producers and customers. This involves warehousing and transportation.

#### *2.2.1.4 Retailers*

- Finally, the retailers (off-trade and on-trade) form a critical part of the value chain, connecting consumers with the product. This could be on-premise outlets (such as taverns, shebeen, pubs, club and restaurants) and off-premise outlets (such as self-services, counter services and group account modern retail (corporate or franchise) stores) where the drinks are bought and then taken away to be consumed at home. Typically, Tops at Spar, Pick n Pay Liquor, Shoprite and Checkers liquor and Game liquor stores would be categorised as off-premise outlets.

#### *2.2.2 Implication of retail off-trade*

Goosen (Modise, 2018) stated in an interview that retail stores (such as modern retail group accounts, i.e. Shoprite, Pick n Pay, Tops at Spar and large wholesalers like Makro) are becoming increasingly important distribution channels for beer breweries. This is at the expense of the traditional independent traders and presents three major challenges for the industry. Firstly, it puts pressure on the manufacturer's margins. Corporate retailers generally operate on tight profit margins, not only concerning specials, but also with regular everyday prices. Secondly, retailers are putting higher demands on distillers and breweries cost of goods sold (cogs) and logistics of goods sold (logs). This means that the

cost of wheels and walls increases because they insist on more frequent product deliveries to reduce their warehousing costs. Thirdly, there is also an expectation for the distillers to manage a demand plan in the retailers' distribution centres and to own reverse logistics throughout their retail network, thus improving store inventory management.

Modern corporate and franchise retailers have driven the concept of revenue management in the industry, for example, by setting inventory gap analysis as well as order fulfilment rate as key performance indicators. These KPIs are used to assess and compare the quality and the standard of service of the different suppliers. Retail buyers do not hesitate to deprioritise a distiller and brewery who cannot supply sufficient stock at the right time and to the right store according to the demand plan and support with promotional initiatives. As a result, this has driven greater flexibility from breweries (Hugo, 2016).

Channel prioritisation has also become a high focus for beer makers, and this has necessitated breweries to build capacity and skills in category management. As shoppers move toward specialised and convenient value offering formats, the stock-keeping units (SKU) such as the 9 packs, 15 packs and 18 packs 330ml non- returnable bottles (nrb), they also enter into the non-returnable retailing in the off-trade market. On the other hand, in the on-trade tavern and shebeen market specifically, there is a higher demand for 500ml cans and a lower demand for the 330ml and 440ml cans. Breweries must find a new balance between volume and price. The large-sized pack format has also seen innovation with the introduction of the 1-litre returnable pack, which offers higher value than the traditional 750ml bottle (Nielsen, 2019).

### **2.2.3 Implications for taverns and shebeens**

Historically, South Africa's race-based legislation in the early 1900s prevented the consumption of alcohol by Western black South Africans and this was the case until the early 1960s. As a result of this ban, "shebeens" emerged in the mixed-race areas such as Sophiatown and Yeoville as well as in black townships. The name "shebeen" is derived from the Irish word for an illegal outlet. Most shebeeners and clients in South Africa do not know the preceding origin of the concept. They believe that the word 'shebeen' is of Zulu origin having been derived from the Zulu adjective 'shibhile', meaning 'cheap'.

The advocates of this view explain that, in the early days of shebeening on the Reef, women were illegally selling liquor and would stand in rows next the road close to the mines. As the clients (mineworkers) approached, the women would shout 'Obam' bushibhile', meaning 'mine is cheaper' - hence the word 'shibhile' which, it is alleged, was pronounced 'shebeen' by white members of the police force (Ndabandaba & Schurink, 2012).

Shebeens have become a central part of people's lives, providing recreation and relaxation for many migrant workers. The consequence of the general prohibition for liquor trade to black people was predictable. Although black people could buy sorghum beer at the municipal beer halls, a large need for other alcoholic beverages developed. Ndabandaba and Schurink (2012) stated that, during prohibition in the USA, an extensive illegal liquor trade emerged and thousands of shebeens supplied their customers with "white liquor" (a traditional homebrewed beer just as dangerous as the local concoctions such as skokiaan). The (Barberton area's shebeens were specifically as notorious for their concoctions.)

Shebeens also provided the means for many black people to earn an income. This was the case with particularly women after the discovery of gold on the Reef resulted in a massive exodus of blacks from rural areas to the developing mining towns to seek employment. The women followed their husbands to Johannesburg in pursuit of work opportunities, only to discover the traditional exclusion of women from the job market (Smithers, 2019).

Smithers (2019) states that exercise by the apartheid government to control liquor consumption in urban centres and the prevention of black women to sell liquor gave birth to the struggle over patriarchy and gender discrimination. The black women challenged this ban, and a number of them emerged as micro-entrepreneurs and forged struggle against the state in urban centres such as Sophiatown and Yeoville. Women became more autonomous and therefore financially independent in urban settlements and most of these female entrepreneurs ran their shebeen outlets from municipal beer halls, which later became a means of economic development in these urban centres.

The existence of shebeens was a stand against apartheid laws that made it illegal to consume liquor or sell it as well as people gathering spaces therefore it was disobedience against the state Charman, Petersen and Govender (2014). The survival of shebeens over decades and through the united strategies of resistance brought about the downfall of state efforts to control black access to alcohol and so dictated the terms on which black persons could consume alcohol. Shebeens have not only functioned as liquor outlets but have also become a central part of life, providing recreation and relaxation for many South Africans.

Prohibition, affecting blacks, coloureds and Indians, was abolished in 1962 (Act 72 of 1961) (SA, 1961) and it was widely expected that this would result at the end of both the illegal liquor trade and shebeens. However, this expectation, based on a rather simple economic argument, did not materialise. The reason for this was because shebeens have flourished since 1962. After all, they fulfil a need in the community far more complex than the mere retailing of liquor. A distinctive characteristic of shebeens is their adaptability to their social environment. Not only have shebeen owners successfully resisted the various attempts by the authorities to stamp out their establishments, but they have also largely neutralised the stigma that was initially attached to shebeens (Ndabandaba & Schurink, 2012).

In the 1980s, in an attempt to limit the number of shebeens and to convert them to legal entities, the apartheid government encouraged the conversion of shebeens to taverns. However, after 1994, the number of shebeens increased dramatically, resulting in an attempt by the Gauteng Provincial Government to regulate shebeens in an attempt to bring them into the mainstream economy and formal distribution as well as consumption of alcohol. The then MEC of Economic Development published a new regulation under section 141 of the Gauteng Liquor Act on the 1st of November 2004, to regulate the sale and consumption of liquor at shebeens as well as to identify how many shebeens are in operation in Gauteng (Spotong, 2018).

### **2.3 THE INTERNATIONAL LIQUOR INDUSTRY**

In 2017, the global liquor market was estimated to have produced and sold over \$1,439 billion, and it is expected to reach \$1,684 billion by 2025 (Allied Market Research, 2018).

The growth of the global alcoholic beverages market is driven by an increase in young adults as well as the demand for premium products. An increase in healthier consumer choices has further accelerated the growth of non-alcoholic drinks under adults. Against this background, the following section deals with current performance, trends and the regulatory framework of the industry as well as the implications of the changes in regulations at a global level.

### **2.3.1 International liquor industry performance**

Rickert and Sanger (2015) state that the global beer industry, for the first time in over 50 years, is faced with the most significant challenges in an ever-changing economic ecosystem. At the same time, it is confronted with flat or declining beer volumes due to decreasing consumer demand, a highly competitive environment, increased product choices, intensified consumer demand for quality services by retailers and increased barriers of entry in the market. All these changes in the industry mark the beginning of a challenging period for the industry, and the changes will continue to affect the industry from now and going forward.

If one looks at the trend in the world's major beer markets, it is clear that the industry is under pressure. For example, in America that is beer's largest market by volume, production declined between 2007 and 2014. Snider (2019) confirms that, even at the end of 2018, the market was flat compared to the previous year. Craft brewers gained 24.2% shares of the \$114.2 billion U.S. beer market and therefore increased sales. In European markets such as Germany, France and the UK, beer volumes declined by roughly 10% between 2007 and 2014.

When interviewed, Swain (Modise, 2019a) stated that cider continues to deliver double-digit growth with the UK and South Africa, leading the growth globally as number one and number two, respectively in this category. South Africa saw the launch of Strongbow flavour variants in 2017/18, and this led to a sales growth in the SA market. The industry is also seeing cider developing strong support in the developed market outside traditional cider markets. In Vietnam, for example, Heineken is using Strongbow to establish the cider category. In the US, craft and variety beers continue to revolutionise the industry with 20% of the total beer consumed being craft beers in 2018/19.

However, the industry is faced with challenging macroeconomic conditions in several emerging markets, especially in Brazil, Argentina and here in South Africa. Unfavourable currency instability has slowed down the pace of growth. Substantial volume, revenue and market share growth in important markets such as Mexico, China, Western Europe, South America and several African countries, including Nigeria, have been a welcome relief. Each of these markets delivered strong performances in their respective premium portfolios (Jimenez, 2018).

Despite challenges, the liquor trade has always managed to endure tough economic times, and the last two years have been no different. In the IRI's Report (2018), "Top Categories Performance Overview in Key European Markets", European Union liquor value growth is ahead of consumer-packaged goods (CPG) by 0.6%. Within the United Kingdom, liquor is the top-performing macro category, reporting an increase of 4.4%.

### **2.3.2 International liquor industry trends**

Beer breweries are not only confronted with volume drop, but competitive pressure has increased dramatically in the premium and super-premium segments. Premium segment enjoyed strong growth and retained attractive profit margins. The fact that economies of scale are less important in these profitable sectors makes it easier for niche suppliers to compete successfully. Throughout the value chain, product innovation has increased rapidly. In the US, craft brewers are now officially challenging the big beer makers. In an environment where overall beer production rose just 0.5% in 2014, the output from small brewers increased by 18%, giving them an 11% volume share of the \$100 billion beer market. This trend is also occurring in Europe, for example, in Italy, there were eight times more new beer products on retailers' shelves in 2012 than in 2007; in the Czech Republic, there was a 5x increase; in Spain a 4x increase and in France a 3x increase (Jimenez, 2018).

IAS (2018) states that, in 2014, there were twice as many new beer products in the UK as in 2013. Germany, which is home to the world's oldest active brewery, was also slow to embrace the craft beer trend, due to the combination of a saturated local producer base and the country's "Deutsches Reinheitsgebot," or purity law. Drafted in 1516, it states that beer can only be made with four items: malted barley, hops, water and yeast. Much like in

the United Kingdom, 2014 was a year in which German beer consumers embraced the new, welcoming production by several US craft beer makers and experimented with home-grown innovations.

Rutishauser (2015) state that, in the lower price segment, private label products are taking increased market share – at the expense of incumbent mainstream beer brands. To fight back, German lager breweries have raised the share of their revenues coming from discounted sales from roughly 20% to more than 70% over the last decade. It is now to the point where German consumers consider these discounts and promotions to be normal. This is part of the reason why inflation was adjusted and this affected retail prices, for example, the prices of beer in Germany are half of what they were in 1993. Although this has taken a toll on margins, it has succeeded in stopping the decline in consumption. In 2014, German breweries saw their first increase in beer volumes in seven years – up 1% from the previous year.

Since 1976, per capita consumption has been declining in Germany, which is one of the biggest markets for beer. This decline represents a one-third decline over time. Some of the reasons noted for this decline include, but are not limited to, changes in consumer demographics, the proliferation of healthier beverage options, ciders and wines as well as tighter regulation, consistent increases in sin tax and continuing global economic slowdown. Even though emerging markets have still shown growth in recent years, very little is done to offset the losses for international brands as the majority of growth in emerging markets is driven by local brewers (WHO, 2018).

### **2.3.3 International liquor industry Regulation**

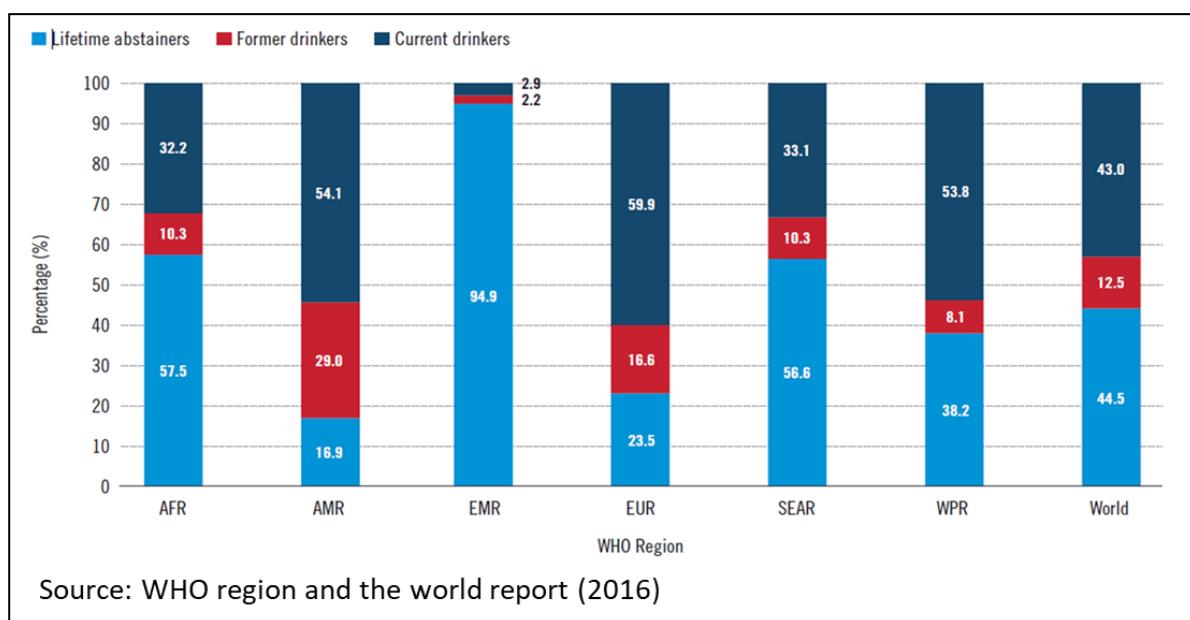
Restricting alcohol accessibility means putting impediments and rules in place on how easy it is to obtain alcoholic beverages, or when, where and to whom it is sold and served. Limiting the availability of alcoholic beverages includes a diversity of measures from sales controls to sales restrictions and age limits – all steps that are generally considered quite effective. The availability can be restricted by either physical or economic means. Generally, in most countries, there is some form of legislation that deals with the production and sale of alcoholic beverages, as they are usually regarded as a special commodity (Herrick, 2014).

Ghebreyesus (2018) states that the rationale behind these regulations varies from quality control of products and public health considerations to elimination of private interest and religious considerations, all of which can provide support for rigid restrictions. The global strategy recommended by WHO is for countries to implement licensing systems to monitor the production, wholesaling and serving of alcoholic beverages. Such as regulating the number and location of retail alcohol outlets, regulating the hours and days during which alcohol may be sold, establishing a national legal minimum age for purchase and consumption of alcohol and restricting drinking in public places.

#### **2.3.4 International liquor industry consumption trend**

According to WHO (2018), globally, in 2016, 57% of the population of legal drinking age did not consume alcohol. Figure 2.2 below gives an illustration of the consumption trend for the last 12 months in WHO regions. The graph in Figure 2.2 is a representative of 3.113 billion people globally of legal drinking age. In this group, some 683 million people (12.5% of the world population) had stopped alcohol consumption (i.e. they had consumed alcohol earlier in life but not in the previous 12 months). It is estimated that half of the global adult population (44.5%), which is 2.429 billion people, those who are of legal drinking age have never consumed alcohol. Some 2.348 billion people (43% of the population) are current alcohol consumers. Therefore, alcohol is consumed by more than half of the people in only three WHO regions, i.e. the European Region (EUR) (59.9%), the Region of the Americas (AMR) (54.1%) and the Western Pacific Region (WPR) (53.8%).

**Figure 2.2: Percentage of current consumers, former and lifetime abstainers (in %) among the total population of legal drinking age.**



Globally, beer consumption patterns are changing, and more people are making a choice not to drink alcohol. Therefore, this requires the industry to think of new consumer profiles outside the traditional market. Consumers are also becoming more health-conscious, therefore looking for alternative products from the traditional offering. The launch of low and non-alcohol adult drinks globally, even though it accounts for only 5% of the total beer market, is changing the landscape. ABInBev (2019) predicted that 20% of the world's beer production volume would be non-alcoholic or low alcoholic by 2025. The industry has witnessed the tremendous success of Heineken 0.0, Beck's Blue and Budweiser Prohibition, as an alternative offering from their respective mother brands. These brands have been well received in the market. Heineken 0.0, for example, is now available in 38 markets worldwide.

According to IAS (2018), alcohol producers strive to expand their relationships with their existing consumers by increasing the volume of alcohol they consume. For example, in its 2013 Annual Report, ABInBev set a goal to "create new occasions to share our products with consumers". This strategy outlines the organisation's intention to associate specific occasions with specific products in an attempt to ensure that consumers align the occasion with a particular product on their portfolio. ABInBev claims that insight has enabled them to

create and position products for specific moments of consumption, for example, enjoying a beer while watching a sports game or while enjoying music festivals with friends or alternatively, when in a relaxed mood after work or celebrating at a party or sharing a meal.

A great example of companies trying to get consumers to drink more, is the British Beer Alliance, a consortium of major British brewers. They invested close to £5m a year in the marketing campaign with a tag line that says 'There's a Beer for That'. The campaign was aimed at highlighting the variety of beers available in the UK and how these different styles fit in perfectly with the wide range of beer consumption occasions opportunities.

The Japanese Beverage Company conducted a consumer research study and established that the Czech Republic had the highest per capita consumption of beer drinking for the last 24 consecutive years. Smith (2018), in his article in The Telegraph, points that, in 2016, which is the most recent year for which statistics are available, the Czechs drank 143.3 litres per person (up from 142.4 litres in 2015). Namibia follows the Czech Republic, with Austria and Germany in the third and fourth positions, Poland fifth, Ireland sixth and the eighth place went to Seychelles. See Table 2.1 below for the world beer per capita consumption rankings.

**Table 2.1: The world's biggest beer-drinking countries**

The world's biggest beer drinking countries		Litres per capita
1	Czech Republic	143.3
2	Namibia	108
3	Austria	106
4	Germany	104.2
5	Poland	100.8
6	Ireland	98.2
7	Romania	94.1
8	Seychelles	90
9	Estonia	89.5
10	Lithuania	88.7
11	Belize	85
12	Spain	84.8
13	Slovenia	80.3
14	Slovakia	80.1
15	Croatia	78.7
16	Gabon	77.8
17	Finland	76.9
18	Bulgaria	76.3
19	Panama	75
20	Iceland	75

Source: Telegraph (2016)

## 2.4 THE AFRICAN LIQUOR INDUSTRY

Arthur (2019) claims that the African beer market is predicted to grow faster than other regions over the next five years, primarily because of the rising population, urbanisation and an increase in GDP in most African countries. There has been an increase in the popularity of products from multinational companies with consumers. Even though the beer sector used to be highly localised with local beer products dominating in every country, international beer makers such as ABInBev, Heineken, Castel Group and Diageo have seen high volume growth in the continent because of premiumisation.

### 2.4.1 West Africa

According to Arthur (2016), it is important to note that the continent has challenges that prevent optimal performance from the sector. These challenges include but are not limited to, a lack of infrastructure and political instability. These challenges do not only affect breweries on the value chain, but they have also presented severe entry barriers from most modern retailers. West African countries that have embraced the growth of modern retailers such as Nigeria and Ghana are showing tremendous growth in the sector compared to Cameroon and others. Cameroon's lack of infrastructure presents a

challenge for formalised retail businesses hence lack of shopping malls. It is estimated that 98% of retail sales transactions still happen in informal trade. A joint venture between Les Sociétés Anonymes des Brasseries du Cameroun (SABC), France's Castel Group and Heineken holds the highest market share in Cameroon's liquor market. The joint venture is also contracted to bottle and distribute Coca-Cola products over and above successful brewing brands such as Beaufort, "33" Export and Castel. Guinness Cameroon, sole owned by Diageo and Solibra, is also a key player in this market.

#### **2.4.2 East Africa**

East Africa, on the other hand, has shown tremendous economic growth, with countries such as Ethiopia, Rwanda and Kenya leading. In the last 10 years, these countries have seen double digits in economic growth, respectively. They have aggressively invested behind infrastructural development, the agricultural sector, as well as consumer demand and supply. According to Hugo (2016), the alcohol industry benefited from progressive changes in legislation in some Eastern African countries. For example, in Ethiopia, the Government started privatising state-owned breweries in 2010/2011, which attracted the interest of global players such as France's Castel Group, Heineken, Diageo and Bavaria. They all bought existing breweries and invested in new breweries.

#### **2.4.3 Southern Africa**

Southern Africa, which is heavily reliant on South Africa, has experienced remarkable progress from the dawn of democracy in 1994 and has seen a significant decline in GDP, challenges from weak external demand and soft commodity price. South Africa is under pressure from local issues such as the high number of services delivery protest in the last ten years, increasing the unemployment rate (25%) and inconsistent electricity supply. According to Leke (2018), South Africa, with annual beer consumption of 64 litres per capita, still has a high opportunity for growth in the continent. ABInBev (2019) continues to dominate the sector with almost 82% market share and they still view the country as a growth market after acquisition from SABMiller PLC.

#### **2.4.1 The Africa liquor industry Performance**

This study specifically analyses the performance of the liquor sector on the African Continent by focussing on the key growth markets. Typically, positive economic growth,

markets open for international organisations, countries that have opened opportunities for retail and consumer goods and companies willing to expand their operations in the continent, present opportunities to expand the beer market on the continent. The successful expansion of these retailers, either international or African companies, as well as manufacturers of consumer goods (FMCG), reflect the opportunities that exist across the region. Global commerce recognises sub-Saharan Africa as the next frontier for growth.

Hugo (2016) indicated that Ethiopia's beer market doubled from 2010 to 2016. The growth is driven by an increase in population, urbanisation and rising income levels. Ethiopians consume between 4-5 litres of alcohol per annum, compared to other beer markets on the continent. A few years ago, Ethiopian Government proactively started to sell state-owned breweries to private companies. This, therefore, presented a great advantage to global beer breweries. This privatisation of the industry attracted investors willing to challenge strong local brands like St George, which is owned by France's Castel Group.

Dutch beer maker Heineken entered Ethiopia by purchasing Bedele for \$85m and subsequently made an offer to buy Harar breweries for \$78m – both those deals were successful. In 2015, Heineken opened a state-of-the-art brewery in Kilinto valued at \$120m. Shortly after the successful acquisition by Heineken, Diageo followed by purchasing Meta Abo brewery for \$225m, which was, previously state-owned. Bavaria and British asset manager Duet Group invested significantly in Habesha Breweries and Dashen Brewery Plc respectively (Heineken, 2019).

The Angola Government (2019) recently increased import taxes on most alcoholic beverages from 30% to 50% to encourage local production. Breweries are forced to set up local production to manage their revenue. For example, Distell (a South African distiller) established a local production plant in Angola and stopped importing from South Africa. Angolan beer consumption is highest in Africa while they also consume the second most spirits and wines in Africa, following closely behind South Africa. France's Castel and ABInBev have invested significantly in Angola through a joint venture that potentially gives them 90% control of the market. In recent years, the market has seen growth in low and non-alcoholic beverages produced by the company Refriango. Refriango also set up local production, producing a rich portfolio of brands. Wood (2015), managing director of

consumer goods consultancy Aperio, states that Refriango has done significantly better than Coke in Angola with their portfolio of adult beverages.

#### *2.4.2.1 Liquor industry Performance in West Africa*

In West Africa, Guinness Breweries (Diageo) and Accra Brewery (ABInBev) have recently invested in increasing their capacity to solidify their dominance in the market. Nigeria is one of the most profitable markets on the continent, even though it is under pressure from currency devaluation and low sales volumes. International companies like Diageo sell more Guinness beer in Nigeria than the beer's native land, Ireland, and they consider Nigeria extremely strategic. Diageo now faces competition from Heineken, the country's biggest brewer which owns Nigerian Breweries as well as from ABInBev, which only entered the market in 2009 and is already shifting consumer choices. ABInBev created Hero lager, a brand that is positively associated with the Igbo ethnic group which dominates the area in southeast Nigeria, where the company has its main brewery (PwC, 2016).

#### *2.4.2.2 Liquor industry performance in East Africa*

In East Africa, East African Breweries Limited (EABL) faces competition from Keroche Industries, ABInBev and Heineken. In 2014, Distell Group made a successful bid to acquire a 26% share of one of Kenya's spirit manufacturing company KWV holding (LTD). Diageo owned East African Breweries (LTD) that controls 85% of the market in Kenya. SAB leads the Tanzania spirits market owned brand called Konyagi. Spirits portfolio in Tanzania holds the most significant opportunity for brewers; Managing Director of Serengeti Breweries confirms this opportunity in the spirit category Gannon (2016).

Finally, in Zambia SABMiller (ABInBev) owns 91% of Zambian Breweries which manufactures, distributes and markets clear beer in the country and they also own 65% of National Breweries who is a brewer of sorghum beer. National Breweries' leading brand in the country is Chibuku and it has a brewing process that is similar to homemade sorghum beer. Zambian Brewery portfolio of brands include brands such as Mosi and Eagle Lager (Affairs, 2018).

#### *2.4.2.3 African liquor consumption trends*

A study conducted by Helicopter View (2017) shows that consumption in Africa is high, but among the 54 nations, this study focussed on the top five from the top 10 biggest alcohol-drinking countries per person of legal drinking age per annum, (Nigeria, Uganda, Kenya, Rwanda and Namibia). The study was not limited to only alcohol drinkers but also the total population of legal drinking age. Therefor, the figures are different from what the WHO reports.

The numbers in Table 2.2 depict the ten leading countries in beer consumption on the continent of Africa in the year 2017. Nigeria was ranked number 1 at 12.28 litres per person per year due to the size of the population of 182 million people. Beer consumption is historically not significant in Nigeria due to religious reasons as well as informal home-brewed traditional beverages. Beer accounts for 16% of alcohol consumption in Nigeria compared to 84% of other alcoholic and non-alcoholic beverages. The most popular home-brewed alcoholic beverage in Nigeria is Gogoro that has an extremely high alcohol content of 30%-60% and is made from the juice of raffia palm trees.

Uganda, Kenya, Rwanda and Namibia make up the balance of the top five with the highest consumption per person per year (Helicopter View, 2017). These four countries have an average of about 10 litres per person per year. Uganda's population of 38 million people is the highest second to Nigeria. Waragi is the most popular alcoholic beverage in the country of Uganda, with an alcohol content of around 42%, which is the highest in the world. Beer only makes up 4% of alcohol consumption in the country, and the balance is between 2% from wine and 96% from other beverages.

Kenya is an unconventional market for beer and one of the few countries in Africa where women are drinking beer. They drink as much beer as men in Kenya. Beer has 43% shares of alcohol consumption with the difference being other alcoholic categories. However, in Rwanda, beer is showing a positive trajectory (Euromonitor (2019) at 8% of consumption relative to traditional homemade drinks such as banana beer, urgwagwa and the fermented honey drink, ubuki, Ikigage, made from dry sorghum. The last of the top 5 beer consuming nations is Namibia, with a share of around 67% per year, followed by

spirits and wine at 20% and 7% respectively. This makes Namibia 1 of the highest beer consuming nations on the continent with a population size of only 2,000 000.

**Table 2.2: African ranking of high beer volume**

#No	Country	Litres per year	Population
1	Nigeria	12.28	182,202,000.00
2	Uganda	11.93	38,000,000.00
3	Kenya	9.72	2,000,000.00
4	Rwanda	9.1	12,000,000.00
5	Namibia	9.62	2,000,000.00
6	Burundi	9.47	12,000,000.00
7	South Africa	9.46	56,000,000.00
8	Gabon	9.32	1,500,000.00
9	Botswana	7.96	2,000,000.00
10	Tanzania	7.7	52,000,000.00

Source: Helicopter View (2017)

The high level of consumption in Africa has attracted the interest of global multinational companies. Although consumption trends reflect a high level of consumption, the number of people who consume alcohol is less. According to Staff Writer (2019), it is estimated that only 31% of the population aged 15 and older consume alcohol, with the majority (69%) abstaining from drinking in South Africa. This is a common trend in most African countries (some even less than 31%).

There has been a general trend towards clear beer on the continent, however, traditional beer still has a large market share in the alcohol industry, even though unrecorded. Global alcohol firms have engaged in several commercial strategies to increase penetration of clear beer, including targeting new customers and women, developing new ‘occasions’ to encourage drinking and ‘trading up’ to more expensive products.

#### *2.4.2.4 African liquor industry regulations*

In African countries, the sale of alcoholic drinks by a business is regulated under the Liquor (Licensing) Law of each state and province. The Liquor Law requires any business involved in the sale of alcohol to obtain a license from the licensing tribunal of the local government area. The regulation stipulates the different categories of licenses available, depending on the circumstances of the business or business type. For example, there are

tavern licenses, on-trade licenses, off-trade licenses, hotel liquor licenses, club licenses, general wholesale liquor licenses and general retail liquor licenses (Stemsowers & Kohn, 2018).

According to Herrick (2014), there is evidence to support liquor regulators that controlling the availability of alcohol products and access to alcohol by limiting the number of outlets, reducing opening hours, as well as enforcing firmer licensing conditions such as location rezoning which are the most effective ways to reduce alcohol abuse. It is estimated that the ratio of licensed outlets against unlicensed outlets is 1:2:3 and in townships as well as informal settlements on the continent it could be as high as 1:5.

A study conducted by Borges *et al.* (2015) illustrates that African countries have implemented many different alcohol control policies in an attempt to regulate the selling and consumption of alcohol. These regulations are essential when considering that African drinkers consume 13% more alcohol per person than other global consumers. Borges *et al.* (2015) focussed their investigations on four specific categories, namely sin tax which implies price, awarding licenses to trade which centres around the physical availability of the product, promotion and marketing of alcohol products and drink-driving.

Alcohol control policies have been implemented, to some degree, in all African countries. Most countries have alcohol excise tax (sin tax) in place. However, the effectiveness of collection and enforcement is a challenge for some countries. Also, the excise tax is typically not adjusted against inflation in most countries and is therefore eroded over time. This failure to adjust inflation has a negative effect on the price of alcohol in the market. Therefore, alcohol becomes cheaper relative to disposable income. This gap in the pricing matrix makes alcohol affordable and thus margins erode and alcohol consumption increases. The biggest challenge however, for poor implementation and enforcement of excise tax in the industry is the loss of revenue for most governments.

Given the situation that most countries have difficulty in policy enforcement, most have resorted to stringent measures, for example, Botswana increased alcohol tax to 40% in 2010, however, by 2015, it was 55% inclusive of imported goods as well as production cost (Matumo, 2015). Currently, most African governments are considering alcohol-advertising policies, which will result in a total ban on alcohol advertising, promotion and

sponsorship (Jernigan, 2013). Ethiopian lawmakers, for example, introduced a bill to enforce high alcohol tax, as well as advertising bans on alcohol products in February 2019 (logt, 2019).

## **2.5 THE SOUTH AFRICAN LIQUOR INDUSTRY**

South Africa has a recognised and globally competitive liquor industry, renowned for producing and marketing a variety of liquor products (beer, wine, spirits and sugar-fermented beverages). The share size of the informal trade compared to the formal trade is significantly larger than the formal trade by volumes, it accounts for approximately 90% of beer volume and half of the wine volumes sold per annum (Nielsen, 2019). The formal liquor market includes all licensed outlets, comprising bars and taverns, retail stores, restaurants and clubs.

The existence of informal trade was a stand against apartheid laws that made it illegal to consume liquor or sell it as well as people gathering spaces therefore it was disobedience against the state (Charman *et al.*, 2014). The survival of informal trade over decades and through the united strategies of resistance brought about the downfall of state efforts to control black access to alcohol and so dictated the terms on which black persons could consume alcohol. Shebeens have not only functioned as liquor outlets but have also become a central part of life, providing recreation and relaxation for many South Africans.

The growth in liquor outlets provided the foundation for the global success of South African Breweries (SAB) into a dominant global player and the number two world brewer. According to Genesis Analytics (2017), it is estimated that there are between 180 000 - 250 000 individuals trading alcohol in South Africa. One in every six traders in townships and informal settlements operates as informal alcohol trader. It is also estimated that 8 out of 10 informal alcohol traders never attempted to undergo the licencing application process, according to Charman *et al.*, 2013).

Gauteng introduced the shebeen permit system to encourage formalisation of this trade. It was intended to bridge the gap between formal and informal traders. Shebeen permit holders have to adhere to less strict conditions and permits are cheaper.

Charman *et al.* (2013) estimate that there are between 180 000 and 265 000 liquor outlets in the country, of which less than 65 000 are considered to be licensed, and the rest are unlicensed shebeens. The majority of products sold in South African shebeens are legally manufactured by formal, regulated businesses. However, it is important to note that some of the products sold in shebeens are also homemade sorghum beer, brewed in many different ways. These shebeens operate without liquor licenses and usually in violation of various municipal zoning regulations and by-laws. Shebeens can be both informal and illegal enterprises.

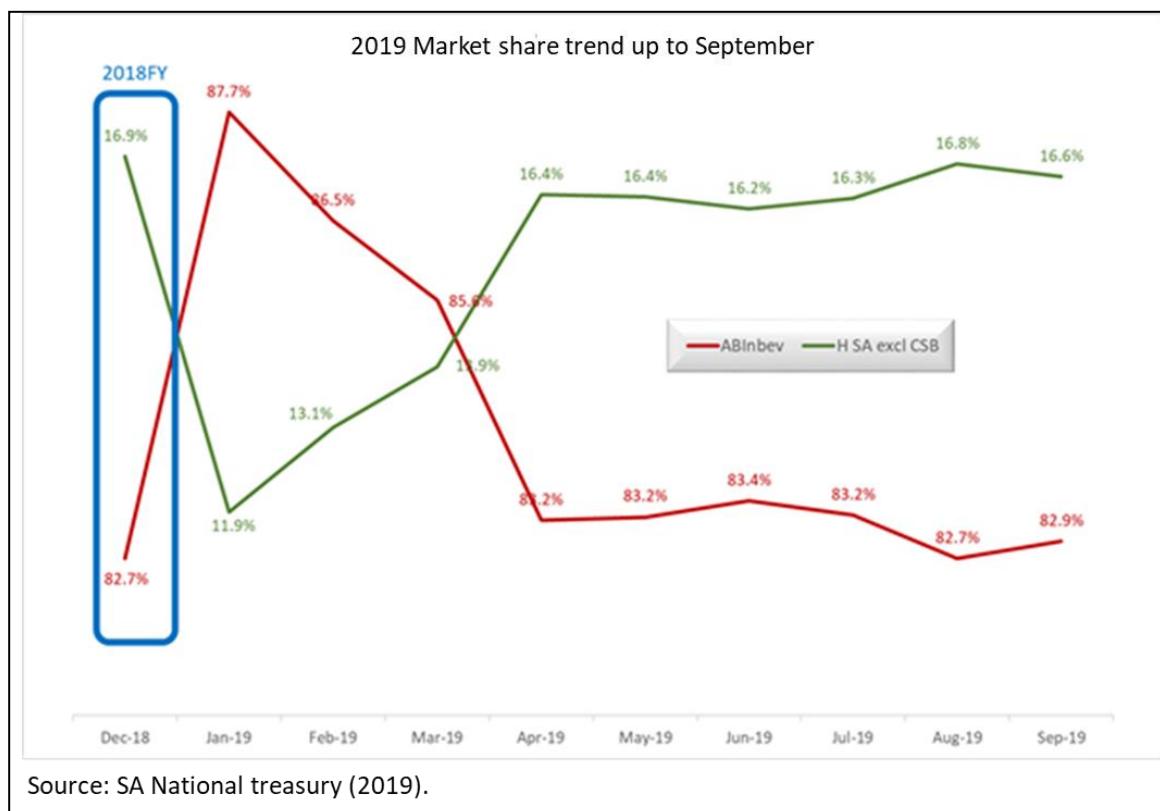
Taverns/bottle stores and shebeens came to existence as a means of poverty alleviation and job creation in townships, therefore forming part of the informal economy within the SMME sector. Developing SMMEs is amongst the main objectives of global governments, especially in developing countries (including South Africa) for the sole reason of alleviating poverty, job creation and economic growth. The majority of liquor retailers operating in the townships ventured into this type of business to provide for their families due to lack of employment opportunities (Mrasi, 2016).

The relationship between liquor outlets and economic development, or the exclusion thereof, has a long and close history in South Africa. The revised 2003 National Liquor Act (No. 59 of 2003) and subsequent provincial acts (SA, 2003b) set out the need to reintegrate the divided licensed and unlicensed trades, the need to address the monopolisation of the trade by a few major players such as SABMiller now InBev, Distell, Heineken and Diageo, and the need to realise Black Economic Empowerment (BEE) goals by facilitating market entry of smaller enterprises (SA, 2003a).

SABMiller's BEE initiatives included their 'Zenzele' share sales to 29 500 black outlet owners and their owner-driver scheme helps drivers buy their trucks, become self-employed and, in turn, employ others. It has also launched a controversial 'bottom of pyramid' programme, the Mahlesedi Tavernier Training programme, partly funded by the Gauteng Department of Economic Development, supporting shebeeners in applying for licenses, running their businesses more 'efficiently' and trading 'responsibly' (Herrick, 2014).

According to the South African National Treasury (2019), the beer market share is shared between two players, namely ABInBev and Heineken, with 82.7% and 16.9% market share respectively as at the end of 2018. There is a consistent progressive shift in shares between these two organisations throughout the year, depending on the market activity and promotional activity deployed by the two respective competitors.

**Figure 2.3: Beer Market Share**



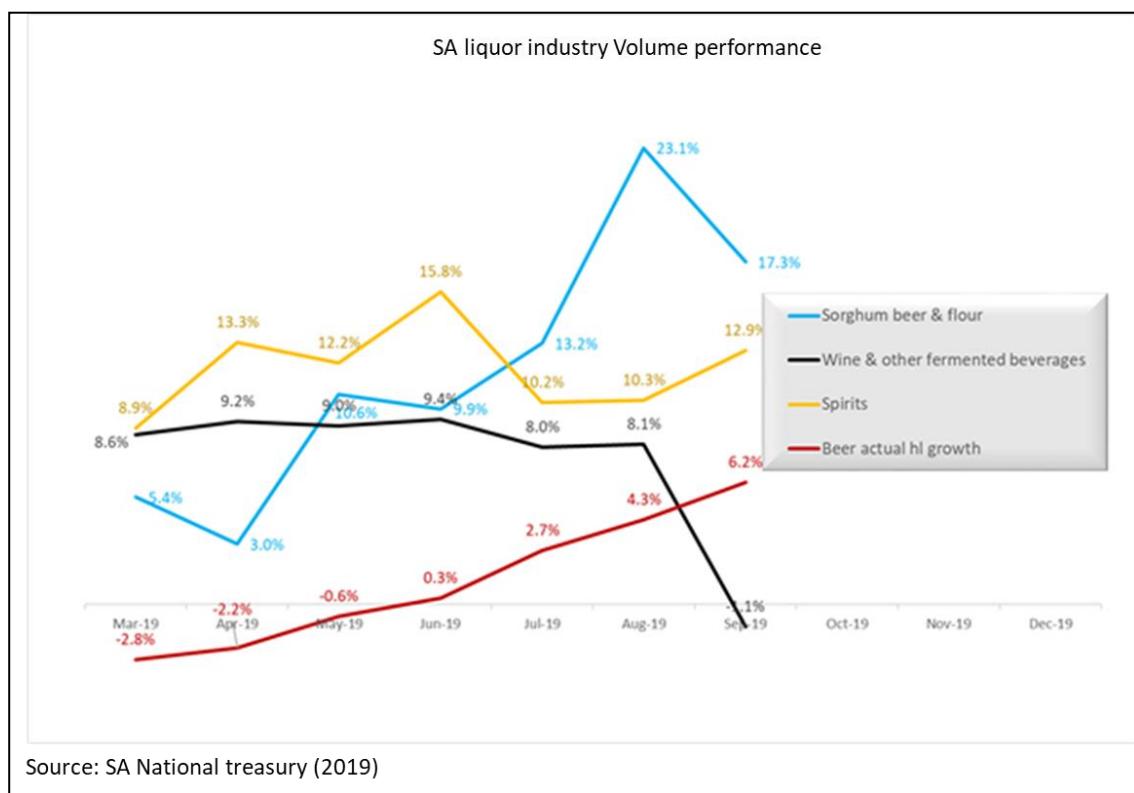
### 2.5.1 South African liquor industry performance

The South African beer sector used to be highly localised. Brewing giant SABMiller used to control about 90% of the total beer market and 72% of the overall alcohol market. The fact that alcohol has been the biggest selling consumer good after food, with beer accounting for about 50% of the total sold, gives it a considerable local position. The size of the local beer market is recorded at 32 million hectolitre per year to date by the South African National Treasury (2019). South African wine, however, has shown a substantial decline in the local market, even though the industry is protected by a 25% import duty to support

local suppliers. Growth in the alcohol category is primarily driven by the growth of the black middle class on a higher income bracket.

The tail end of the industry is under pressure as reflected by Figure 2.4 below, i.e. a volume decline in sorghum beer, wine and other fermented beverages in the short-term. Beer and spirits are on a positive trajectory, beer growing by 6.2% by the end of September with spirits recovering by 12.9% at the end of September after an initial decline.

**Figure 2.4: Alcohol volume**



Despite the challenging market conditions, global liquor breweries and distillers still see a big opportunity in emerging markets with affordable price points. They also see a clear opportunity for volume growth in emerging markets, where per capita consumption volumes are considerably lower than those of developed markets. Liquor breweries still believe in the unique opportunity to lead the growth in the emerging market but responsibly, given the opportunity to launch a diverse portfolio of brands that are tailored to a variety of consumer price points and occasions.

The South African industry performance specifically saw the beer category end the year with a volume growth at 1.1% and category growth continues to be driven by the premium segment. ABI's international and premium portfolios grow with the likes of Castle Lite gaining shares with their 500ml can and 340ml NRB. At the same time, Corona capitalised on the higher spending behaviour of consumers in peak season. Budweiser visibly gained shares (0.63% YTD Dec 2018) driven by the soccer World cup. Heineken gained 2.4% volume shares in 2018, with a share high of 16.9% in Dec of 2018. The strongest contributing brands included Heineken, Amstel and Strongbow Gold (Neilsen, 2019).

Matthee and Townshend (2018) state that a key growth driver for white spirits and craft beer is through flavour exploration and providing healthier product options. Shoppers are switching from whisky to gin and vodka, which have offered exciting innovation. With the number of available products increasing for consumers and the popularity of sharing occasions, further growth is expected from brands that empower their consumers to make individual choices and innovations to meet their needs. Growth in the craft beer product range might be plateauing, but the volume sales are not. These new products are meeting the expectations of their target consumers.

South Africa requires a local growth strategy due to its uniqueness as a country. However, global growth trends are also evident here. Liquor is growing ahead of other CPGs, driven by white spirits and beer. Millennials are the second-largest generation group in Sub-Saharan Africa. According to Information Resources Incorporated's (2019) latest shopper survey, 63% of all South African millennials use their smartphones to research products and store information. Because of this, coupled with the increased ease of access to social media platforms, breweries and retailers can expect continued alignment with global trends.

### **2.5.2 The South African liquor industry regulation**

The Gauteng Department of Economic Development experienced a drastic increase in several unlicensed shebeens from 1994 up to 2003, particularly in Gauteng townships, due to the rise in population. As the informal settlement wave swept across Gauteng, the emergence of illegal shebeens increased. The Gauteng Provincial Government attempted to address this increase through new regulation. Therefore, in 2004, the Government tried

to regularise shebeens as a first step towards bringing them into the formal liquor distribution and sale sector (Charman *et al.*, 2013).

According to Smithers (2019), this move was intended to bring the shebeens in line with the Provincial Liquor Act. The department published the new shebeen regulation under section 141 of the Gauteng Liquor Act (No. 2 of 2003) (SA, 2003a). This regulation allowed any person running a shebeen in Gauteng to apply to the Department of Economic Development for a shebeen permit to operate legally. This would enable the shebeen owners to work freely over two years to build a business that complies with the law, and by so doing, enable them to enter the mainstream economy.

Regulation of access to alcohol has increased drastically in South Africa since 1983 and has become very intense. Different sections of the society concerned with such regulation included government commissions, municipalities, community associations, political organisations and the churches. There is a series of liquor laws in South Africa, which seeks to regulate the manufacture, distribution and sale of liquor products. The Liquor Act (No. 59 of 2003) applies across the whole of South Africa and regulates the production and wholesale of liquor products. The Provincial Liquor Acts apply in the provinces of South Africa and seek to control the distribution and retail sale of liquor to consumers (DTI, 2003).

The Gauteng Liquor Act (No. 2 of 2003) (SA, 2003a) states that tavern owners are required by law to apply for approval to the Gauteng Liquor Board to alternate or extend licensed premises. The holder of a liquor license is not allowed to affect any structural changes, extension or reconstruction of a licensed premise, except only with the approval of the GLB. The terms and conditions of a liquor license are also very prescriptive about the physical address of the licensed outlet.

The license holder is not allowed to sell liquor at any other premises other than at the physical address specified by the license. Only by formal application to the GLB would the board consider an application by the holder of an on-consumption license to grant consent to that holder to sell liquor on a specified premise as a short-term request, e.g. for special events and festivals. Therefore, the licensed outlet has a defined boundary outside which no alcohol may be sold or consumed according to the Gauteng Liquor Act (SA, 2003a).

The regulations go further to give clear direction to the traders concerning selling liquor to juveniles. The holder of a license is prohibited by law from selling or supplying liquor on the licensed premises to any person who is under the age of 18 years. It is incumbent upon the owner to make sure that patrons are over the age of 18 years. The owner is also granted the right to deny or grant any patron access to the licensed premises (the right of admission is reserved). The license stipulates that “the holder of a license or employee may refuse to admit any person to the licensed premises or any part thereof”.

The regulation also makes provision for the storage of liquor by the holder of a license on the licensed premises unless the board approves a secondary storage facility. The outlet owners must be present at the outlet to adhere to the regulated trading hours according to the type of liquor license granted. The holder of a liquor license may, notwithstanding any law to the contrary, sell his or her liquor between 10h00 on any day and 02h00 on the following day for on-premise outlets and off-consumption: 8h00 – 20h00 according to the Gauteng liquor authority.

### **2.5.3 Steps to apply for a liquor license**

The application for a liquor license in terms of Section 23 of the Gauteng Liquor Act (No. 2 of 2003) consists of four steps (SA, 2003a).

#### **Step 1: Consent letter from Municipality**

A Local Authority Approval on a relevant letterhead signed by a designated executing officer of the Town Planning Department of the local municipality and not a Ward Councillor must be provided. The approval can be in the form of a zoning certificate, consent use or rezoning when the whole premises is for business. This is applicable for applications for taverns, pools, clubs, liquor stores and pub licenses. A detailed sketch plan of the premises as approved by the Municipality must also be submitted.

#### **Step 2: Advertisement**

An advertisement of the notice of intention of the application for a liquor license can be submitted during the first week of the month at 149 Bosman Street, Government Printers, Pretoria. Alternatively, for more information, applicants may contact the eGazette at 012 748 6200 or visit their website at [www.gpwonline.co.za](http://www.gpwonline.co.za) (SA, 2020).

**Step 3: Notice of the application must include the following information:**

- Full names of the applicant
- Intended trading name
- Identification number in the case of a natural person or registration number where the applicant is a juristic person, i.e. company or close corporation
- Type of license applied for
- Full address and location of the application
- Names and nature of educational institutions, names and distances to similar licensed premises and places of worship within a radius of one kilometre from the premises

**Step 4: Publish notice of intention to advertise** in no less than two local newspapers circulating within the area in which the proposed premises is situated, i.e. seven days before the lodgement date and affix the notice on the proposed times. According to the Department of trade and industry (2019), to lodge the application in duplicate with the GLB Regional office located at the District or Metropolitan Council the first Friday of the month accompanied by the following information in the Table 2.3 below.

**Table 2.3: Tavern and bottle store checklist**

Tavern and Bottle Store Application check list		Check
1	A detailed written motivation in support of the license applied.	
2	A detailed written description of the premises to which the application relates together with colour photos of the external and internal features of the premises.	
3	Proof of publication of notices in two local newspapers (2 originals).	
4	A certificate of suitability on the person.	
5	Proof of affiliating to an association such as the Gauteng Liquor Traders Association (GLTA).	
6	Proof of payment of the prescribed fee of the license applied.	
7	Clearance Certificate by SARS that the applicant complies with tax laws.	
8	Proof of Lawful Occupation e.g. (Lease Agreement or Title deed).	
9	Proof that the application has been published in the Provincial Government Gazette.	
10	Zoning Certificate	
11	Local authority approval consent use.	
12	Certified ID copy for South Africans and valid work permit for non-South Africans.	
13	A detailed sketch plan.	
14	If the applicant is a Company- Certificate of Incorporation and original	
15	Resolution, Closed Corporation – CK form and resolution if it constituted by more than one member (founding statements).	
16	Compliance with Tobacco Products Control Amended Act 12 of 1999.	
17	Submission of an affidavit for 500 meters radius in the vicinity of a place of worship, educational institution, similar licensed premises, public transport facility or such further distance as the Board may determine or as may be prescribed from time to time.	

Source: Researcher's own compilation

#### **2.5.4 Steps of how to apply for shebeen licenses**

**Step 1:** An application for a shebeen licence must only be made by or on behalf of a person who owns a shebeen permit issued to him or her and verified as valid by the Department.

**Step 2:** An application contemplated in sub-regulation (1) includes shebeen permit holders who applied for liquor licences in terms of section 23 of the Act but whose applications were declined.

**Step 3:** An applicant is solely responsible for the correctness of an application submitted by or on behalf of the applicant in compliance with these regulations.

**Steps 4:** A person may not apply for a shebeen licence unless he or she is 18 years or older.

**Step 5:** An application for a shebeen licence must be lodged with the relevant local committee of the district or metropolitan municipality in which the licence is sought on an application.

**Step 6:** Nature of the premises

The applicant for a shebeen licence, on consumption, must:

- provide restrooms for both males and females;
- provide handwashing facilities at the restrooms; and
- serve light meals.

Table 2.4 below summarises the documentation that an application must be accompanied by.

**Table 2.4: Shebeen liquor licence application checklist**

Shebeen liquor licence Application check list		Check
1	A certified copy of the shebeen permit as verified by the Department;	
2	Colour photographs showing the external and internal features of the premises to which the application relates;	
3	Legible and certified copy of the identity document or of a valid passport;	
4	Proof of the right to occupy the premises;	
5	Menu in the case of a on consumption shebeen licence;	
6	A non-refundable application fee of R50.00; and	
7	Sketch plan of the premises showing the external and internal features of the premises to which the application relates	

Source: Researcher's own compilation

The Board may request any further information and documentation it deems necessary in writing once the application has been lodged. If the application is incomplete, the local committee will not accept such submission and the applicant will be afforded an opportunity to complete and submit all outstanding documents within 14 days. The application should be lodged in duplicate with the GLB Regional office located at the District or Metropolitan Council of first Friday of the month accompanied by the following information:

**Step 7:** An inspector, appointed in terms of section 105 of the Act, must conduct inspections on the premises and submit a report to the Board.

The power of inspectors in terms of the act is applicable to shebeen licence holders. The Board considers and issues a shebeen licence.

**Step 8:** The Board must, when considering the application, take into cognisance the following:

- whether the premises are suitable for the purposes which it will be used as per the inspectorate report; and
- in the case of a shebeen licence, on consumption, whether there are sufficient restroom facilities and whether meals will be served.

Step 9: When the Board is satisfied that the applicant has complied with all the requirements in terms of these regulations, the Board must:

- grant and issue a shebeen licence; or
- refuse the application and provide the applicant with reasons for refusal.

An applicant whose licence has been granted by the Board must pay an issue fee of R100.00.

#### **2.5.5 Formal versus informal outlets**

South Africa has between 180 000 and 265 000 liquor outlets in the country but only 65 000 are trading legally with a license. Therefore, a large share of alcohol is sold through informal liquor traders; this phenomenon is not unique to South Africa, as highlighted in the International and African regulatory environment. Informal trade is larger than the formal, accounting for approximately 90% of beer volume and 50% of standard wine volume sold annually (Nielsen, 2019). Below table compares formal trade with informal trade-specific subjects such as regulations, governance, and how do they access t inventory.

**Table 2.5: Formal versus informal outlets**

<b>FORMAL</b>	<b>INFORMAL</b>
<b>Regulation and governance</b>	
<ul style="list-style-type: none"> <li>- Licensed outlets operate in a formal structure and permitted to sell alcohol under a standard set of regulations which restrict operating hours</li> <li>- All licensed traders are regulated by the National liquor Authority (NLA) and Provincial liquor authorities</li> <li>- In Gauteng Province, they have a second tier of regulation called (shebeen permits) introduced to bridge the gap between licensed and unlicensed</li> <li>- The outlets are required by law to employ people older than 18 years</li> <li>- The density of formal establishment is controlled.</li> </ul>	<ul style="list-style-type: none"> <li>- Outlets do not have the documents that permit the selling of alcohol</li> <li>- The informal establishment do not conform to operating times as per the regulation</li> <li>- It's difficult for the regulator to define the size of the market</li> <li>- The density of shebeens is greater in informal settlements within a localised set up within walking distance for residence as well as next to commuter zones, i.e. taxi and bus stops</li> <li>- Regulation is difficult to enforce with the high level of corruption reported in attempts to police shebeens. High levels of harassment and confiscation from the police</li> <li>- Employment of family member's often than not their minors</li> <li>- No tax contribution</li> </ul>

<b>Buying stock and selling</b>	
<ul style="list-style-type: none"> <li>- Stock is bought from licensed breweries and distillers, wholesalers and distributors</li> <li>- These licensed outlets operate within the township, and they interact with informal outlets as they are located within proximity to each other therefore these licensed traders also sell to the unlicensed</li> </ul>	<ul style="list-style-type: none"> <li>- Stock is bought directly from licensed taverns, bottle stores and wholesalers</li> <li>- Anyone can buy alcohol from the shebeen including minors for their own consumption or send by the parent</li> <li>- Shebeens provide economic opportunity to blacks entrepreneurs and the unemployed, particularly women. 50% of shebeens are owned by women</li> <li>- There are livelihood factors encouraging women to operate a shebeen as a survival strategy, it enables them to have a consistent income and support their families</li> <li>- Shebeens continue to exist as a consequence of historical conditions in the country that prevented consumption and ownership of alcohol business by blacks</li> </ul>

### **2.5.6 South African consumption trends**

According to research conducted by Genesis Analytics (2017), most South Africans do not drink alcohol. Only 44% of the adult (15+) population has ever had an alcoholic drink, and only 23% are currently consumers of alcohol. However, South Africa has a very high per capita consumption by international standards. WHO global status report ranked South Africa as one of the countries with one of the most dangerous trends of alcohol consumption. South Africa has the highest reported alcohol consumption in Africa, almost one in two men (48.1%) and two in five women (41.2%) engage in heavy episodic drinking (WHO, 2018).

The implication is that those who do drink, drink excessively with heavy drinking occasions that result in binge drinking. There are also high levels of youth who drink and what is of

concern is that 12% of children have initiated alcohol use before the age of 13, while nearly half of those aged 13-19 have tried alcohol and a quarter engages in binge drinking. It is worth noting that alcohol used in moderation provides an essential social and leisure benefit for many responsible citizens who consume it without creating harm for themselves or others. According to the WHO (2018), the South African adult per capita alcohol consumption is equal to 9.5 litres per person per year. Of this consumption, 26.3% or 2.5 litres per person was homemade and illegally produced alcohol or, in other words, unrecorded alcohol.

The consumption of domestic or illegally produced alcohol may be related to the increased risk of harm due to unknown and possibly dangerous contamination in the production of these beverages. The annual per capita consumption in South Africa of 9.5 litres is above the world average of 6.13 litres and the regional average for Africa of 6.2 litres. South Africa has the 75<sup>th</sup> highest APC in the world (Econometricx, 2013).

The South African liquor industry presents a complex problem for policymakers, as it does in many other countries of the world. The industry makes a significant contribution to employment, domestic output (GDP), taxation and export earnings and should be regarded as an essential component of the local economy. The upstream and downstream activities in the alcoholic beverage value chain generate additional income and tax revenue, inducing further economy-wide benefits. Helicopter-view (2017) makes the point that alcohol is a lot more expensive in South Africa than in Gabon which is a small country by population relative to SA, even though the two countries' per capita consumption is so close to each other at 9.5 litres and 9.3 litres respectively.

In South Africa, beer has the high share of 56% of consumption relative to other categories, while 17%, 16% and 11% come from wine, spirits and 'other' beverages respectively. The most popular beer brands are Castle and Black Label and the country's extensive wine vineyards, particularly in Stellenbosch and the Western Cape, produce some of the world's most popular wines as well.

Globally, beer volumes are under pressure. However, the South African beer market is still growing, even though nominal. This trend requires the industry to think of new consumer profiles outside the traditional market. Consumers are also becoming more health-

conscious, therefore looking for alternative products from the traditional offering. Heineken 0.0, Castle free and Savanna non-alcoholic beverages were launched as alternative offerings for their respective mother brands and have been very well received in the market (Affairs, 2018). This is reflected in the performance of Heineken South Africa since the demerger with Diageo in 2015. Heineken has since enjoyed considerable success both in volume and market share lead by the Heineken brand. Heineken International is also delivering top-line growth.

### **2.5.7 Background and performance of Heineken**

Heineken has enjoyed the fastest sales growth in its core brand (Heineken brand) in a decade, supported by the launch of a non-alcoholic beer. Despite the decline in profit, the world's second-largest brewer recorded growing sales in major markets, and the beer maker delivered superior top-line growth for shareholders in 2018. The Heineken brand grew with 7.7%, its best performance in over a decade, with Heineken 0.0 now available in 38 countries. The Amsterdam-based brewer posted profits of 1.9 billion euros for 2018, down 1.6% on the year before and based on total sales of 26.8 billion euros, increased by 3.7%. Heineken sales grew by double digits in Brazil, Britain, Germany, Mexico, Nigeria, Poland, South Africa and Russia, while China returned to profit. Founded in the 19<sup>th</sup> century, Heineken produces and sells more than 250 brands including Desperados tequila-flavoured beer, Sol, John Smith's and Strongbow cider. It employs about 80 000 people in 70 countries around the world (SABC News, 2020).

In his interview in Inside beer on 09 October 2019, Van Loo, (Modise, 2019b) stated that South Africa features prominently in the world of Heineken and that South Africa is one of five regions globally with consistent growth for the last three years. Heineken in South Africa continues to grow by a million hectolitres year on year. A testament to the importance of the South African operating company, is the investment of ZAR 952 million (USD 66.51 million) to enlarge the brewery from 5.3 million hectolitres to 7.5 million hectolitres by 2020 (Inside beer, 2019). The company has already started construction work in its 9-year-old brewery, which was built as a joint venture between Heineken, Diageo and NBL.

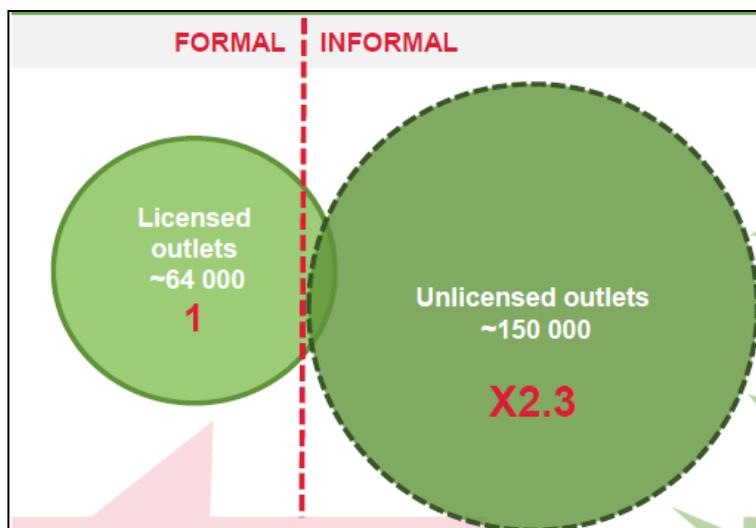
The success of Heineken in South Africa is built from the company vision “To be the fastest growing beer and cider, building a sustainable foundation for the future” underpinned by four strong pillars (Heineken, 2019):

- Drive top-line growth, which speaks to volume, value and market share gain.
- Drive end-to-end performance targeting business efficiencies and cost management.
- Engage and develop people as people and brands are central to the core of Heineken, and
- Brew a better world, which is our responsibility to preserve the environment and contribute meaningfully to the objective of building a just and equal society.

#### **2.5.8 Implications of formal and informal trade to Heineken SA**

Genesis Analytics (2017) estimates the ratio of licenced to unlicensed outlets to be 1:2.3 with licensed outlets recorded at 64 000 and unlicenced estimated to be in the range of 150 000. However, in some townships, this ratio could go as high as 1:5 due to the density of the informal settlements. See below Figure 2.5 for an illustration of the ratio between licensed and unlicensed outlets.

**Figure 2.5: Ratio of licences to unlisenced outlets**



Source: Genesis (2017)

Heineken currently services 64% of the licensed outlets, which is about 42 000 of the 65 000 outlets. A key sales strategy is to gain market share. Therefore, they need to increase the number of outlets being serviced by the sales team. Heineken uses dual methods of servicing the market, for formal retail on and off-trade, directly employs their sales force. In terms of fragmented trade, which counts for about 77% of the visited base, its split between Heineken South Africa sales force and an out-sourced external company, called Sebenzela, on a 40/60 split respectively. Heineken, as is the case with all other liquor distillers, is faced with the challenge of the risk of 11 000 outlets currently in possession of liquor permits and not liquor licenses (EOE, 2018).

Heineken has a keen interest in the matter between Yeoville Bellevue Ratepayer's Association and Another v MEC for the Department of Economic Development in Gauteng Province, heard in Gauteng High Court. The potential risk of loss of 11 000 outlets in Gauteng alone poses a serious risk for the beer maker, not only through the loss of market share but also a capital investment. On average, an outlet with a permit receives an annual investment close to R20 000 a year. This includes one or two fridges, price communication board and promotion material for every quarter. Heineken has also in recent years rolled out a point of sales system to support taverns and shebeens, to improve the shopping experience and to professionalise the tavern owners.

Many questions in Heineken are continued to be asked, including what the difference between license holders and shebeen permit holders is. Currently, Heineken services the fragmented (township) trade outlets with two different sales reps in the same sales geographic area, one from Heineken and the other one from Sebenzela. The hypothesis in the business is that they both do the same job, therefore, regardless of the size and type of the tavern, Heineken has the opportunity to increase penetration and services more outlets by sending one of the two sales reps to cover more outlets. Main market (township) channel these two entities are treated differently by other suppliers other than Heineken South Africa (Heineken, 2019).

## **2.6 KEY SUCCESS FACTORS IN TRADITIONAL TRADE (TOWNSHIP)**

EY-Parthenon (2018) reports on taxing conditions creating barriers of entry for established retailers in fragmented trade. However, the beverages category has proven to be resilient

against the consolidation of the retail space. Over the past decade, South Africa has, similar to Latin America, maintained the majority of shares in the traditional trade even though large retail groups have acquired strategically located real estate in many townships in the country. Their assumption was that modern trade would quickly capture the market if they set up business on prime locations. While the share of modern trade in recent years has shown an increase in black townships, traditional trade (taverns and bottle stores) remains an important determinant of the success of beverage breweries in South Africa.

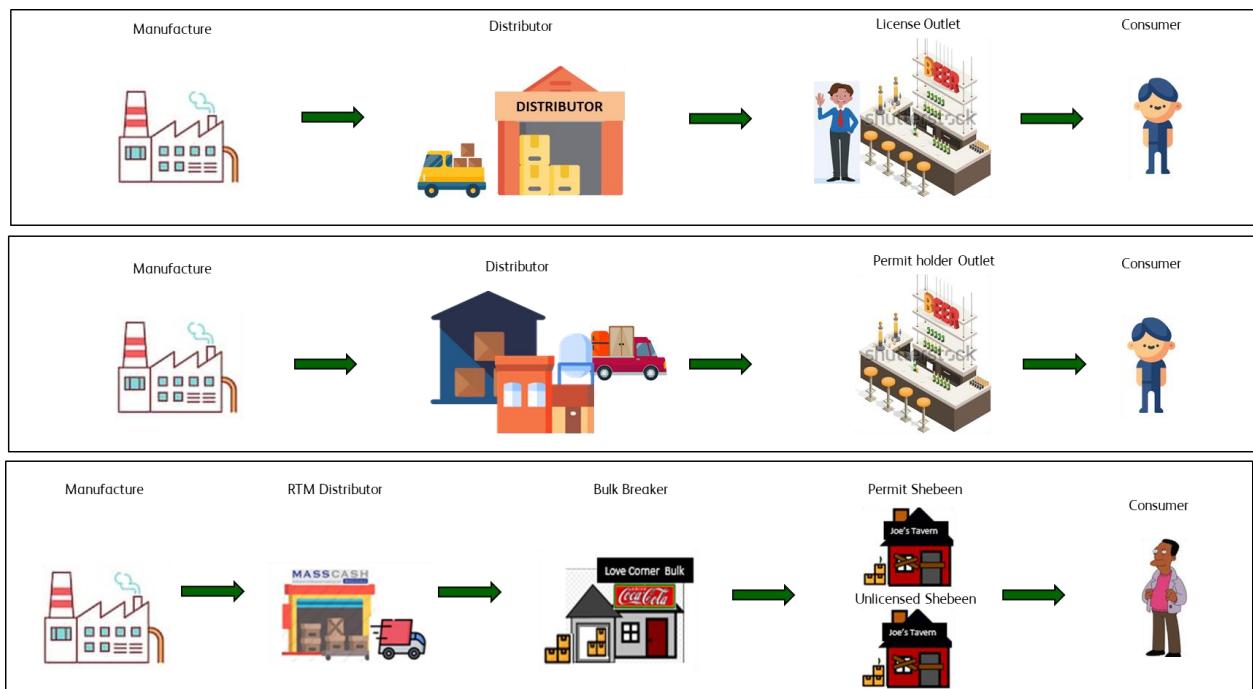
A key success factor of the extraordinary story of SAB was the inherent ability and capacity to distribute SAB products and deliver to every single licensed outlet in the country. SAB supplied and delivered products to customers within 24 hours of placing an order (Van Kralingrn, 2016). It is worth noting that many of the customers order larger volumes so that they could receive deliveries on the same day they placed their order. Van Kralingrn (2016) also makes the point that beer is a scale business and that the bigger the volumes, the more profitable the beer brand becomes. This is one of SAB's strengths.

SAB also invested in an owner-driver scheme that assisted their staff in buying their own trucks and by so doing, increased distribution penetration. SAB was furthermore instrumental in increasing the number of licensed outlets in Gauteng with their controversial 'bottom of the pyramid' Mahlesedi tavernier training program. This program was partly funded by the Gauteng Department of Economic Development (2019), to support shebeeners to apply for licenses, business training and trading responsibly (Herrick, 2014).

The success of Heineken depends on the recognition that, to win and gain market share, the business needs to attack the competitor's strong point, which is traditional trade (townships). Unfortunately, Heineken cannot afford the exorbitant cost and 5–10-year timeline required to build distribution networks capable of servicing customers throughout the country. While this conundrum persists, it does not prevent Heineken South Africa to pursue a hybrid route to market models similar to Latin America, who is now able to do so with modest exposure and capital expenditure (EY-Parthenon, 2018).

Heineken South Africa route to market is a hybrid route to market strategy. Figure 2.6 below illustrates the current route market strategy for Heineken. Taverners and bottle store owners can buy directly from Heineken if they so wish with a minimum order quantity of 15 cases per order. However, the value chain rests entirely in the hands of a consolidating distributor network which includes big corporate stores like Masscash or independent ones like Sun Discount in the Vaal or Love Corner bulk distributors in Daveyton. This route to market model has allowed Heineken to penetrate the market and allow taverns/bottle stores to access stock “products”. This has created the availability of products that Heineken would not have been able to manage the recommended selling price of Heineken products (EOE, 2018).

**Figure 2.6: Product flow and distribution diagram from manufacture to consumer.**



Source: Researcher's own compilation

Management of cost to service is a critical strategy for Heineken's success in South Africa. HSA services 64% of the license outlets with a dual sales service model as discussed earlier in this chapter, and this allows them to get to more outlets daily. When interviewed, Shabangu (Modise, 2019c) explained that, in terms of Heineken's sales representative resourcing model, everyrep that Heineken employs directly is equivalent to three

Sebenzela sales reps. One sales rep employed directly by Heineken is only able to service 120 outlets in the township in a month. In contrast, three Sebenzela sales reps can service 450 outlets within the same period. This strategy has allowed Heineken to penetrate fragmented trade at less cost than their competitors.

## **2.7 INDUSTRY TREND TOWARDS INCREASING MARKET COVERAGE**

Sales penetration trend in the industry is to outsource sales services to third party suppliers that allow the distiller and brewery to visit more customers regularly. This outsource strategy gives opportunity to small, medium and micro enterprises to participate in the value chain by supplying sales representative services that focus on the lower tiers of the market. The indirect distribution model is also gaining momentum with many suppliers choosing to contract big distributors to deliver the product to the rest of the market at less cost than if they did themselves. These trends, therefore, perpetuate the nature of fragmented trade. Consequently, the liquor trade must continue to license more outlets that can contribute to the growth of the industry as well as add to the tax revenue of the country. The risk that is posed by the termination of 10 000 temporary shebeen permits in Gauteng has severe implications for the industry.

## **2.8 CHAPTER SUMMARY**

The formalisation and regulation of shebeens have posed an exciting challenge for the liquor industry at large, and are often being met with a lot of resistance from the concerned stakeholders. These stakeholders, such as liquor traders and many other various players, was part and parcel of the court case between Yeoville Bellevue Ratepayer's Association and Another versus the MEC for the Department of Economic Development in Gauteng Province. On 1 November 2017 the Gauteng High Court, Johannesburg found in favour of the Yeoville Bellevue Ratepayers' Association ("the Association") by declaring the Gauteng Liquor Regulations on Shebeen Licenses published in 2013 invalid ("the Regulations").

The effects of alcohol in society are not unknown, and in certain economically depressed areas, these effects can be catastrophic. This makes the effective regulation of liquor outlets such as shebeens necessary to safeguard communities from the impact of alcohol whilst allowing shebeen owners to enjoy the economic benefits from trading liquor. One of the objectives of Government's policy on alcohol is to provide access to the economic

opportunities offered to the industry to those who were previously excluded from the liquor industry due to apartheid (Ngidi & Motsiri, 2017).

The legal challenges of the industry concerning the distinction between licensed taverns and shebeens with permits are summarised perfectly in the judgment by Judge K.E Matojane (2017) Judge of the High Court. The court accepted the existence of shebeens in South Africa as a source of income for several people, and a phased-in approach of the regulatory regime is therefore necessary. As such, the court ordered that the declaration of invalidity was suspended for two years to allow the MEC to publish regulations that accord with the objects of the act and most importantly, allow affected communities to participate in the decision-making process. This finding, means that licensed taverns/bottle stores and shebeens with permits will continue to co-exist at least for the next two years from the date of this judgment (SAFLII, 2017).

The liquor industry is recognised internationally, in Africa and South Africa for its positive contribution to economic growth and employment creation. Despite challenges confronting the world economy, the industry is resilient and still showing growth. The regulatory environment is becoming more stringent in an attempt to curb alcohol abuse. As indicated, the objectives of this study were to investigate the nature of the relationship between licensed taverns and shebeens with liquor permits. Chapter 3 will explain the research methodology employed and clarify the empirical analysis of the study

## **CHAPTER 3: EMPIRICAL INVESTIGATION**

### **3.1 INTRODUCTION**

The impact of fragmented trade on the liquor industry was discussed in Chapter 2. How these issues affect licensed taverns, and shebeens with liquor permits were also addressed. Furthermore, a comparison and evaluation of the trading patterns, as well as operational differences between taverns with liquor licenses and shebeens with liquor permits in Yeoville, was tested. The study also compared the conditions to trade between these two entities as provided for by the regulator. Data was collected from tavern owners and shebeen owners in Yeoville for interrogating commonalities or differences. As stated in previous chapters, there are two types of outlets in this area, namely licensed taverns and shebeens with permits. Data was collected from equal samples of both these entities.

### **3.2 RESEARCH METHODOLOGY**

#### **3.2.1 Primary objective**

The primary objective of this study was to comparatively investigate the nature of the relationship between licensed taverns and shebeens with liquor permits and to determine the advantages and disadvantages of either of the two certificates to trade liquor.

#### **3.2.2 Secondary objectives**

- To determine the differences between regulations and the laws that govern the two entities as well as the compliance thereof.
- To investigate the risk associated with converting temporary shebeen liquor permits to permanent shebeen licenses.
- To evaluate the relationship between the taverns/shebeens and the liquor distillers.
- To evaluate the difference in the relationship between the outlet (either a shebeen or tavern) and the community in which the outlet operates.

This study was conducted using a qualitative research design. Qualitative research is broad and includes a wide range of approaches and methods found in different research disciplines. However, despite this diversity and sometimes-conflicting nature of underlying assumptions about its inherent qualities, several writers have attempted to capture the essence or to define the characteristics of qualitative research. Ritchie *et al.* (2014) state

that, at a general level, qualitative research is often described as a naturalistic, interpretive approach, concerned with exploring phenomena from the interior and taking the perspectives of the research participants as a starting point.

Qualitative methodology refers to the broadest sense to research that produces descriptive data, people's own written or spoken word and observed behaviour. Antwi and Kassim (2018) state that qualitative methodology is similar to quantitative methods in that it is more than just a data-gathering technique; it is the way we approach the empirical world.

The qualitative research process of Antwi and Kassim (2018) considers these seven key concepts of qualitative research:

- Qualitative researchers explain meaning people attached to things in their lives. Important aspects of the phenomenological perspective, hence, qualitative research, is understanding people from their frames of reference and experiencing reality as they experience it. Qualitative researchers empathise and identify with people they study to understand how those people see things.
- Qualitative research is inductive. Qualitative researchers develop concepts, insights and understanding from patterns in the data rather than collect data to assess preconceived models, hypotheses or theories. In qualitative studies, researchers follow a flexible research design.
- In qualitative research, the researcher looks at settings and people holistically. People, settings or groups are not reduced to variables but viewed as a whole. When we look at people as words and act as statistical questions, we can lose sight of the human side of social life. When we interview people qualitatively, we get to know them personally and experience what they're experiencing in their daily struggles in society.
- Qualitative researchers are concerned with how people think and act in their everyday lives. Qualitative research is also known as the naturalistic approach. This means that strategic observation parallel to how people act in the course of their daily lives, are adopted.

- The goal of qualitative research is to study how things look from different points of view. For the qualitative researcher, all perspectives are worthy of study. In qualitative research, the less fortunate and ignored by society often receive an opportunity to express themselves.
- Qualitative researchers emphasise the mindfulness of their research. They are designed to ensure a close fit between the data and what people actually say and do.
- Qualitative researchers emphasise that there is something to be learned in every setting and group. No aspect of social life is too ordinary or insignificant to study.

Antwi and Kassim's (2018) key principles of qualitative research are supported by seven essential considerations (Statistics Solutions, 2019):

- **Research questions.** Specific research questions are better answered with qualitative research. A study that seeks to understand, explore and describe occurrences, rather than to find definitive answers, are best served by qualitative research.
- **Method of data collection.** There are multiple forms of data collection to follow when conducting qualitative research, for example, interviews, focus groups, surveys and extensive literature reviews. Some researchers choose to use a combination of these methods to conclude.
- **Data collection tools.** It is critical to avoid leading questions when conducting qualitative research. A set of questions should be carefully examined and if possible, a second opinion whether one is using surveys, focus groups or interviews should be obtained.
- **Planning data analysis** requires more than just identifying results or compiling a list of facts. It is critical to select specific themes to focus on the purpose of the study.

- **Research supervisor.** It is critical to consult with the research supervisor to work through the qualitative analysis, irrespective of the researcher's knowledge of the subject in question.
- **Early data analysis.** The data should be searched to pick out early findings that the researcher may want to explore in-depth. In a qualitative study, this can take the form of focus groups with small sample size or doing a few interviews.
- **Clean and easy are not always the best.** Instead, questions and data should drive the research methods and qualitative analysis that is undertaken in the project.

### 3.3 RESEARCH QUESTIONS

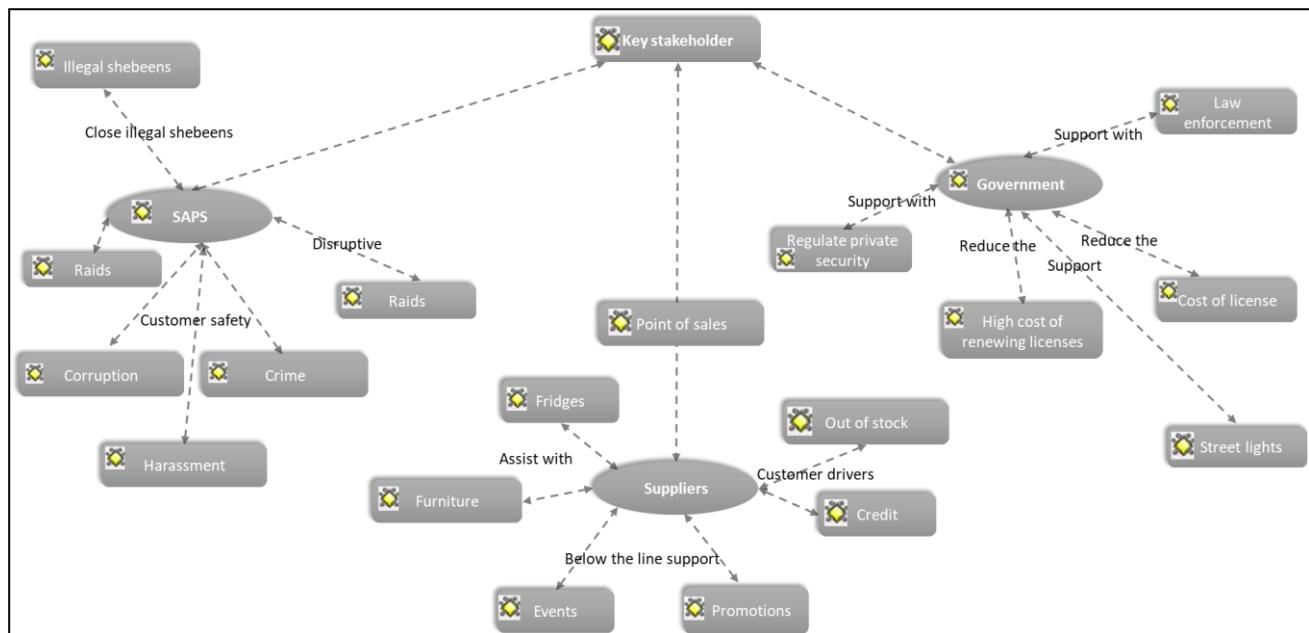
The empirical research into the comparative study between tavern license holders and shebeen license holders started once ethical clearance was approved and consent to conduct customer interviews was granted by General Manager Sales Operations at Heineken. The research project was guided by a clearly set objectives, and it concluded with clear recommendations. As reflected in Chapter 2, the research intended to investigate issues affecting taverns and shebeens within the fragmented liquor trade. Therefore, the literature reviewed highlighted the importance of this channel to the industry.

Data collection in a qualitative study usually uses data collection methods that stimulate people's accounts or views about specific events. It requires structured questions about data collection methods; therefore, not open-ended conversational interviewing. According to Percy *et al.* (2015), data collection using a qualitative instrument is not about phenomenology, participant and non-participant field observation from ethnography. It instead requires semi-structured or fully structured interviews or questionnaire surveys.

This research was conducted with structured, one-on-one interviews, which were used as a tool to collect and gather all data in these empirical investigations. The structured interview process was adopted from Brits and Lotriet (2008). The interview was designed as a structured interview made up of 20 questions. The interview structure had four subsections, namely *Section A: measurement, control and screen the targeted sample*; *Section B: dealt with compliance to legal requirements* to have a license or shebeen

permit, i.e. location of the outlet and surroundings, size and space of the outlet, length and period in this business; *Section C*: dealt with employees of the outlet (self-run, family, or employed people), and *Section D*: business funding, assets, revenue and resources. Data was collected through outlet owners' interviews, and it was transliterated into key themes to facilitate the data analysis process. The analysis was conducted using a data software system called Atlas.ti 8.

**Figure 3.1: Specific group networks identified key stakeholder's**



Source: Researcher's own compilation

The data analysis phase of the research project started with the development of the project scope and uploading content, followed by studying the database in Atlas.ti 8. According to Hart (2018), the development of a database is one of the tactics to enhance reliability in the study. The database used included focus customer notes, interview questions, observation notes from the interviewer, a literature review, customer master data and additional documents from an electronic sales execution measure tool (SEM) provided by GM sales operations at Heineken.

After the development of the database in Atlas.ti 8, codes were assigned according to the below framework:

- Control and measurement
- Length of the period in business
- Surrounding environment
- Size of the outlet
- Workforce (staff)
- Business assets and resources
- Supplier support

The coding framework was supported by the grouping of specific networks within the database. Figure 3.1 illustrates the specific group networks identified.

### **3.4 RESEARCH DESIGN**

The study was limited to Yeoville (Johannesburg CBD) due to time and resources. However, the findings are applicable to the rest of Gauteng Province. The study was initially piloted with critical stakeholders who have been in the industry for an average of 20 years and who were actively involved with Government, liquor associations and shebeen owners after the introduction of liquor permits in 2004. The intention of conducting a pilot study with selected industry players, was to establish the viability of the research project. As stated by Kamberelis and Dimitriadis (2016), focus groups are collective conversations or group interviews. They can be small or large, directed or nondirected. Focus group discussions were conducted with Kenneth Mapengo, Sanele Tshabalala, Maruping Phuthi, Millicent Maroga and Given Shabangu. All the members of the focus group have personal experience with both taverns with licenses and shebeens with permits.

The study was conducted with outlet owners in Yeoville (Johannesburg CBD). A sample representation was selected from a total population of 237 licensed taverns with valid liquor licenses and shebeens with temporary permits from Heineken customer master data base. The population is defined as part of the study group that relates to the full data set that is of interest. Cooper and Schindler (2014) state that the sample is a part or number of participants representative of the whole population. 10 outlets from taverns and 10 from shebeens were randomly selected, thus generating a proportional sample size of 20 liquor traders in the area. Proportional sampling is defined as method for gathering participants for a study and it is used when the population is composed of several subgroups that are

different in numbers. Their relative closeness to the population determines the number of participants from each sub-group

The study was limited to Yeoville (Johannesburg CBD), because of the case between the MEC and Yeoville Rates Payers Association at the Gauteng High Court, Johannesburg. Sales representatives from Heineken and Sebenzela servicing this area were trained to conduct customer interviews. Primary data was obtained by interviewing outlet owners and consumers who frequently visit these establishments. Secondary data was collected from sales representatives from liquor manufacturing companies as well as representatives of the Gauteng Liquor board.

Licence information was collected from the SAPS' liquor control department as well as from Heineken customer master data. Secondary data was sourced from literature, magazines, the Internet, the Johannesburg High Court, Provincial Government publications and the local and international media.

### **3.5 SAMPLING DESIGN**

The size of the sample in qualitative studies is often a point of contention for many researchers, as discussed in Mason's (2010) paper on "Sample Size and Saturation in PhD Studies - Using Qualitative Interviews". The question is always, how much is enough to reach a point of saturation? As stated in the mentioned paper, many factors can determine the size of the sample. However, many authors suggest any number between 10 – 60 as acceptable. However, none of them present empirical arguments. In this regard, we concluded on 20 interviews as the point at which no new information was presented during the interviews. Qualitative samples are used to define the purpose and aims of the study, and this is followed by designing a study schedule, conducting the interviews and analysing data for findings.

The quality of the outputs depends very much on the skills and experience of the interviewer (Mason, 2010). However, the interviewer also affects the quality of data collected. Therefore, the sample size becomes irrelevant, as the quality of data is the measurement of its value.

The size of the sample was determined after considering several limitations. Key limitations imposed by the study included the time, safety and security of the interviewer as well as geographical constraints. The field interviews were conducted soon after the second stint of xenophobic attacks in Johannesburg CBD, and this posed a safety risk to the interviewer as well as limited time in which to collect the required data. There are many outlets between town and township, and the research was narrowed down to Yeoville representing the town and Alexandria representing township.

The Gauteng Liquor Act (2003a) refers to a legalised outlet as the only recognised legal entity to sell liquor. The process of legalisation for both tavern licences and shebeen permits was described in detail in Chapter 2. A comparison can be drawn by interviewing outlets that have licenses and permits that have been trading for a period of time. The split between taverns and shebeens was 50%.

### **3.6 DATA COLLECTION DESIGN**

The sales representatives from Heineken and Sebenzela were trained on how to conduct a structured interview with customers. The interviews were used as a tool to collect and gather all data for this empirical case study. The questions used were adopted from Brits and Lotriet (2008). The sales representatives from Heineken and Sebenzela interviewed 20 tavern and shebeen owners. The interviews were completed during the sales representatives' sales visit to the outlets. The interviews were followed up with telephonic calls to clarify specific questions for the study and to guarantee a high completion rate. All interviewees were presented with consent forms to guarantee confidentiality, and the interviews were conducted using a semi-structured interview method to allow the outlet owner to continue to assist patrons, as most of them were behind the counter during the interviews.

The semi-structured questions were prepared before the interview to allow the interviewee to be comfortable with and during the discussion. No specific sequence was followed during the interview. Therefore it was flexible, and the discussion followed a logical flow. This format of questioning allowed the interviewee the comfort of giving accurate responses, and to express themselves clearly regarding their passionate topics. The objective was to allow the interviewer and the respondents to communicate ideas freely

and accurately. The outcome of all interviews was satisfactory. The results were analysed and used to draw conclusions and make recommendations.

### **3.6.1 Data saturation**

A total of 20 outlet owners were targeted and interviewed 100% participation in the interviews; (50/50) between licenced taverns and shebeen with permits. Of the 20 respondents contacted, 18 answered all questions giving a response rate of 90%. This sample covered a wide range of targeted demographic outlet owners. It was therefore concluded that each subject was satisfactorily covered in the population. The initial plan was to interview 40 outlet owners. However, after interviewing 20 individuals, data saturation was confirmed as no more new data inputs came up from 14<sup>th</sup> interview to the 20<sup>th</sup>. Ness (2015) states that data saturation is achieved when there is sufficient information to replicate the study when the ability to obtain additional new information has been attained. A clear trend imaged from the interviews, and therefore, data saturation was reached. All the data collected was used for analysis.

### **3.6.2 Data richness**

According to Ness (2015), it is best to think of data in terms of rich and thick rather than the size of the sample being targeted for the interviews. Rich data is a lot of data covering wide subject areas that are detailed, elaborate and different. Thick data, on the other hand, are just a lot of data. A word cloud in Figure 1.3 illustrates different subjects covered during the interviews and provides the quality of data that was used for analysis. Atlas.ti 8 successfully matched common words that came from written notes reflected by both tavern owners and shebeen owners. They both have the same expectations from the Government and beer suppliers. Crime was the single most highlighted word from both samples.

## **3.7 DATA GATHERING**

Preparation and structure of the questionnaire were informed by the objectives of the study and developed according to the literature review in Chapter 2. For the study to be successful, the questions used in the questionnaires had to be related to the empirical investigation. The questions also include the relationship between the taverns/shebeens and liquor breweries and distillers to give an insight of the relationship between the

supplier and customer. The questions further explored the route to a market model used by these owners to access products, i.e. directly from the supplier or through distributors and wholesalers.

The interview questionnaire follows the format presented below with section A-D. See Appendix 3, and the outcomes are presented in the research findings below.

The interview schedule has four sections. They deal with:

- Section A - Measure, control and screening
- Section B - Length of the period in business, surroundings and space available in the outlet
- Section C - Staff (Workforce)
- Section D - Business assets and resources

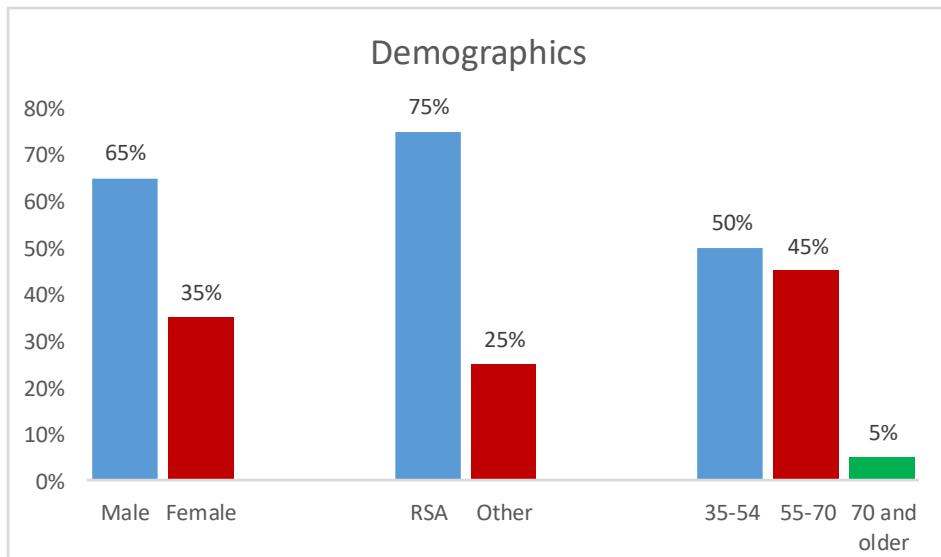
The survey questionnaire attached in Appendix 3 was designed by formulating a total of 45 questions divided into the above-highlighted areas as identified according to the literature review and adopted from Brits and Lotriet (2008).

## **3.8 RESEARCH FINDINGS**

### **3.8.1 Section A - Measure, control and screening**

Section A in the interview dealt with demographics and biographics, ownership, age, relationship to the business, as well as involvement in the day-to-day running of the business. It also dealt with the status of the liquor licence and/or shebeen permit. Interviews were conducted with 20 respondents from taverns with licences and shebeens with permits. As presented in Figure 3.3, the majority of these outlets are owned by men at 65% and only 35% by women in the area. More women have licenses than permits, driven by the need to comply with the law. 50% of the outlet owners are between the ages of 35-54 years which indicates that more younger people own outlets in the area than older generations.

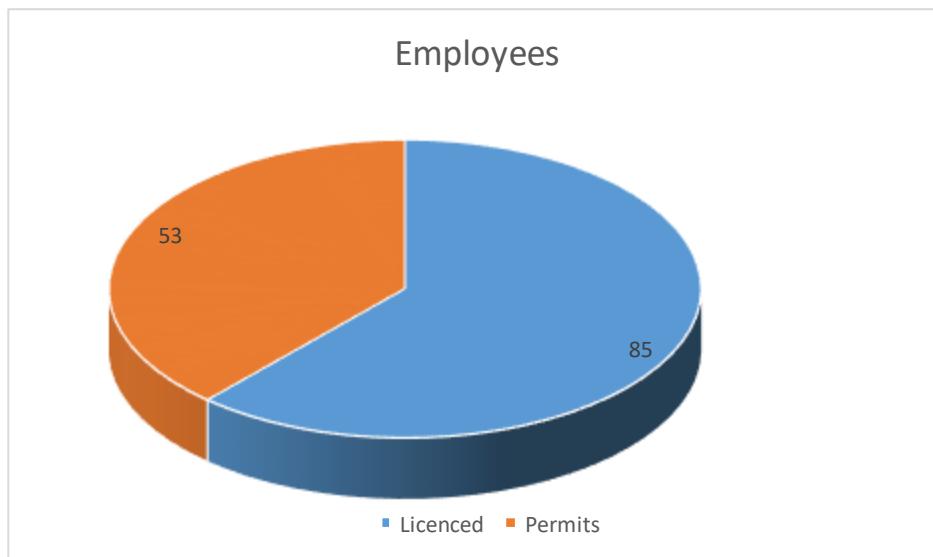
Figure 3.2: Gender, nationality and age group of the outlet owners



Source: Researcher's own compilation

Figure 3.4 below highlights the reality that finding work in the current economic climate in the country is difficult; therefore, many people find work in these family businesses. Fragmented trade also contributes positively to reducing the unemployment rate in the country, as explained in the literature. Tavern license holders recorded the highest number of people working, namely 85 versus 53 shebeen holders. There is no significant difference between the nature of employment between shebeens with permits and taverns with licences. Resultant to high employee turnover rates in this segment of the liquor trade, these numbers vary between shebeens and taverns. People don't work at these outlets for an extended period. It is mostly vacation work, i.e. children of outlet owners who work at the outlet when they are on school holidays or while looking for permanent job. It is a similar trend as well for the general public.

**Figure 3.3: Employment creation comparison between taverns versus shebeens**



Source: Researcher's own compilation

As stated in Chapter 2 of this study, one of the requirements for applying for a liquor licence or permit, is that the owner must be fully operational as well as personally involved with the day-to-day running of the outlet. The results indicate that more taverns are operated by managers compared to shebeens and shebeens are mostly owner-managed. Therefore, there is higher compliance with this requirement by licenced outlets.

**Figure 3.4: Owner operated outlet compared to permit holders**



Source: Researcher's own compilation

### **3.8.2 Section B dealt with the length of the period in business, surroundings and space available in the outlet.**

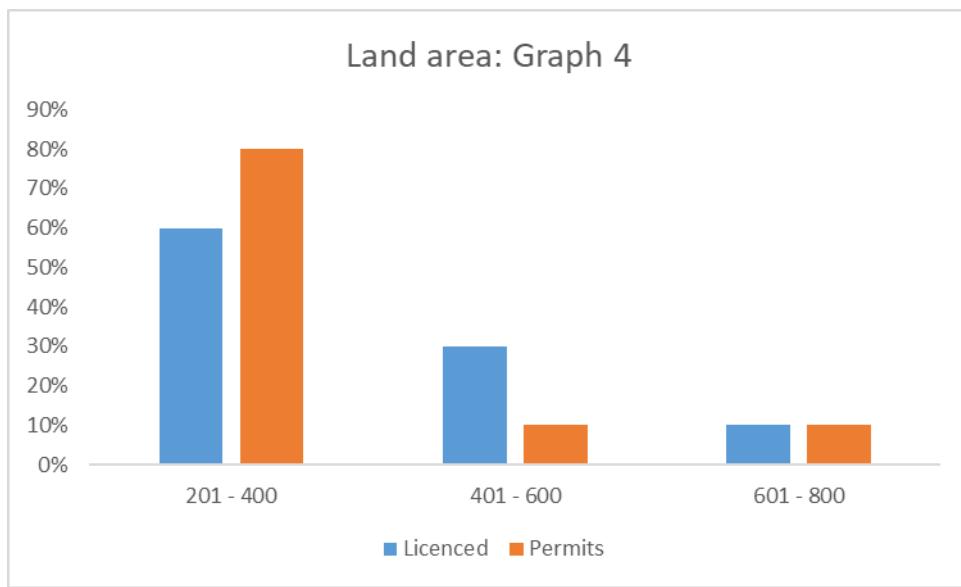
On average, both sets of sampled outlets have been operational for more than ten years. All interviewed outlet owners stated that they only started operating after being awarded licences and permits. The hypothesis that most outlets operate illegally before receiving licenses or permits was not confirmed. The next question regarding business location and surroundings is important as it determines whether the outlet is compliant with the requirements for the licence. The results indicate that all interviewed outlets are next to other businesses such as liquor stores, hair salons, as well as other taverns/shebeens and 55% of them, are in a residential area. However, most of the shebeens are next to schools, community halls and churches which is an infringement of the requirements when applying for a licence.

As discussed, the regulator is against it that places such as schools, churches and community halls be located next to liquor outlets. Licensed outlets do not indicate being next to any of the above, which means that the Government's application requirements have been met. However, for permit holders, the following responses were indicated: 23% shebeens are located within a perimeter of 500 meters from schools, 20% is close to

churches, and 10% are close to a community hall. These permit holders will face severe difficulties when applying for licenses, and they will need to relocate to a re-zoned business location to be compliant.

As indicated in the application process, to be considered for a licence, the answer to question B4 regarding the size of premises or land area is very important. This is a requirement of the municipal by-laws. The research showed that 60% of license holders operate their businesses on an area between 201-400 square metres of land, while 80% of the permit holders operate on the same size land area. Therefore, there is no significant difference between the two research samples concerning compliance of not less than 200 square meters of land. Similarly, both research samples have outlets with the highest land area of 601–800 squares. 10% in both samples operate from premises of this size.

**Figure 3.5: Size of the premises (Land area)**



Source: Researcher's own compilation

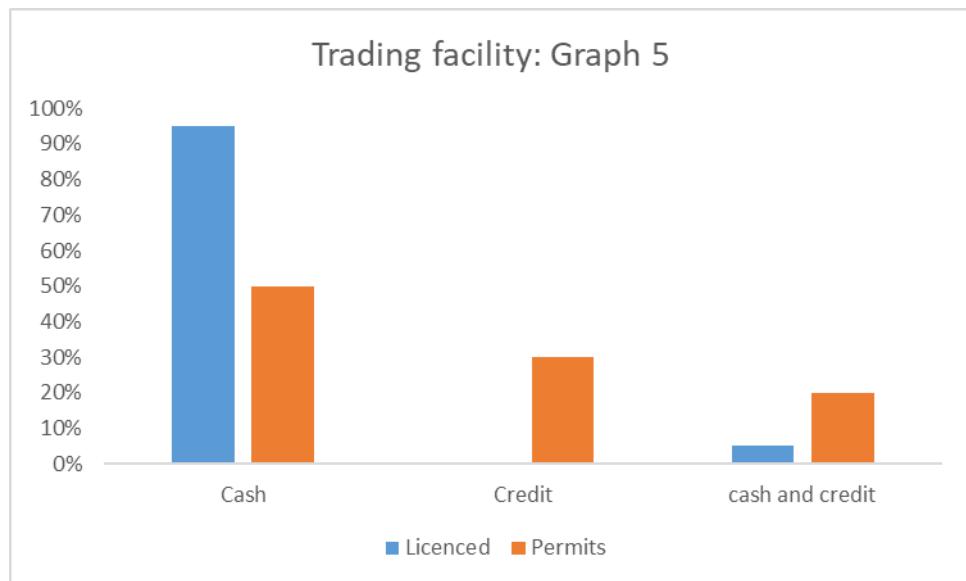
The next question determines adherence to a municipal requirement regarding separate restrooms which must be supplied to consumers (male and female). The research indicated that both segments respect and adhere to this requirement. Only outlets under renovations or construction workers were not compliant, which was a temporary arrangement. However, the application to do these alterations to the outlet was not

submitted to the liquor board for consideration. This, therefore, highlights a lack of compliance concerning the licence requirement to notify the liquor board of any changes to be done at the outlet.

Another requirement from municipal by-laws is the provision of sufficient parking space. The finding showed that only 2 outlets out of the 20 surveyed had adequate parking space. This, therefore, does not comply with the requirements for a licence and is a similar outcome for both licence and shebeen permit outlets. In section B question B8–B9, the question of availability of store room was addressed. Storage space is important for both outlets and breweries. The licence application requirement states that a licenced outlet should have a minimum capacity to hold 20 cases per week. 95% of all outlets surveyed meet this requirement. Therefore, there is no significant difference between shebeen permit holders and licenced taverns.

It is important to highlight that both licenced outlets and shebeen outlets rely on distributors for the supply of products. Only one out of the ten shebeens interviewed bought stock directly from the suppliers, and only three of the ten licenced taverns indicated that they purchased inventory from suppliers. In terms of trading facility, 95% of the shebeens bought on COD, while 80% of the taverns used a combination of COD and a credit facility.

**Figure 3.6: Utilisation of trading facility comparison between taverns and shebeens**



Source: Researcher's own compilation

A significant number of outlets interviewed collected stock themselves from the distributors. This presents an opportunity for the manufacturers to manage recommended selling prices in the value chain. When traders deliver the inventory, they include the transportation cost in the selling price of the product. This challenge is also not unique to any particular side of the two spectrums of the researched population.

### **3.8.3 Section C – Staff**

The workforce employed by fragmented trade was addressed in section A. In terms of the specific details including the relationship between the staff and the owner, gender, job profile and level of education, outlet owners were reluctant to share this information. The interviewer attempted also to establish if these outlets employed people permanently or temporarily and if they complied with requirements of the law in terms of permanent versus temporary. In both licenced taverns and shebeens, most employees are permanently employed, and no evidence was presented concerning compliance to minimum wage and/or if the employees are registered for UIF.

### 3.8.4 Section D - Business assets and resources

Section D of the interview process addressed the capability of the outlet to raise funding to start the business and the ability to operate with or without support from liquor suppliers. A greater number of outlet owners raised capital from the family to start the business, and a few funded the outlet from their other businesses. Most of the surveyed outlets carry 90% of the liquor portfolio in their outlets. These traders are heavy reliant on the liquor suppliers for outlet assets such as refrigerators and outlet infrastructure. All outlets use supplier fridges, only three shebeens out of 10 interviewed had their own fridges, and only seven out ten taverns had their own fridges. Table 3.1 below highlights that, on average, shebeens have six fridges supplied by the breweries and taverns have eight fridges per outlet.

**Table 3.1: Outlet owned fridge versus supplier provided a fridge**

Name	Supplier fridges	Own fridges	Name	Supplier fridges	Own fridges
Orlando Car Wash	6	0	Pat's tavern	13	3
Steve's Place	9	2	Nkele's tavern	7	1
Trees	3	3	Tshidi's tavern	14	4
Matshidiso's Place	11	2	Mavhungu's tavern	14	3
Paulina's	7	0	L Creche	5	1
Chez Mungiza	21	5	The Lowdown	6	0
Rich man, poor man	2	0	Time Square	7	1
Zebra Pond	2	0	Emir Joint	3	2
Thabo's Place	2	0	Mathandis Inn	8	0
Zama-Zama	4	2	Ekhaya	9	0

Source: Researcher's own compilation

The next section indicates the ability of outlets to record business transactions. Part of the requirements for licences is for the outlet to record all transactions for VAT compliance as well as for personal tax income. 65% of outlet owners take this responsibility upon themselves while 35% still leave it up to their staff, and this is not treated differently by both license and permit holders. Due to the high amount of transactions handled by the outlet, possible risks of compliance exist due to financial illiteracy. Only a small number of outlets indicated that they had bookkeepers to record business transactions and balance their books due to the cost associated with these services.

The following question in section D8 addressed the requirement for outlet owners to belong to an organised structure to facilitate easy communication with the authority and protection from victimisation by other stakeholders, i.e. SAPS. However, only 15% of outlets interviewed belonged to an association such as SALTA and mostly shebeen permit holders. Most taverns memberships have either been cancelled, or it has lapsed. One of the reasons for not affiliating can be ascribed to the cost of membership.

In section D9, the researcher attempted to establish the interest that shebeen permit holders show to apply for licenses, and if they understand the process to obtain a licence. Some 90% of the respondents were aware of the process, and had also been attempting, with little success, to formalise their establishments. However, a few expressed a view that they didn't see the need to apply for licences. There is no distinctive difference then between shebeen permit holders and licenced outlets as they enjoy the same benefits. Section D10/11 dealt with the advantages and disadvantages of possessing a liquor licence as per the legal requirements (Liquor licence, 2017).

**Table 3.2: Advantages and disadvantages of possessing a liquor licence**

#No	Advantages	Disadvantages
1	Opportunity to qualify for a business loan to upgrade business premises	Due to saturation, Government might decide to stop issuing liquor licenses
2	Can operate within the law and avoid constant harassment from the Police	Limited operating hours versus bottle stores encourage non-compliance to the law
3	Give us access to more resources and assistance from suppliers and government	Tax burden and compliance come at a cost to the business
4	Avoid the risk of closing down should the permits be terminated	Converting shebeen permits to shebeen licenses will lead to market saturation and therefore less growth in the industry
5	The outlet would not close down, staff keep jobs, the license renewal process is easy	

Source: Researcher's own compilation

Figure 3.7 Below illustrates a hit map of all marketing initiatives that outlet owners use to market their businesses.

- Promotions and activations from different suppliers: this is used to attract customers to the outlet as they stand a chance to win collectable items, i.e. t-shirts, caps and free product.
- Tavern/Shebeen stokvels is a group of individuals that come together with an intention to save or invest collectively, governed by the constitution of the stokvel. Tavern owners also use this platform to support each other by saving on gathering and promoting their outlets.
- Tavern owners also use social media to promote specials and special events taking place at their outlets.
- Good quality service is also a very strong and cost-effective part of the marketing mix used by an outlet to benefit from customer word of mouth.

**Figure 3.7: Marketing activities employed by the outlet owners**



Source: Researcher's own compilation

Finally, in section D18-20 of the questionnaire, the researcher attempted to establish the challenges that outlet owners are faced with in running their businesses successfully. The

intention was to show that both sets of the surveyed sample have the same challenges. This question related to their attitude towards regulations, community, SAPS and liquor suppliers.

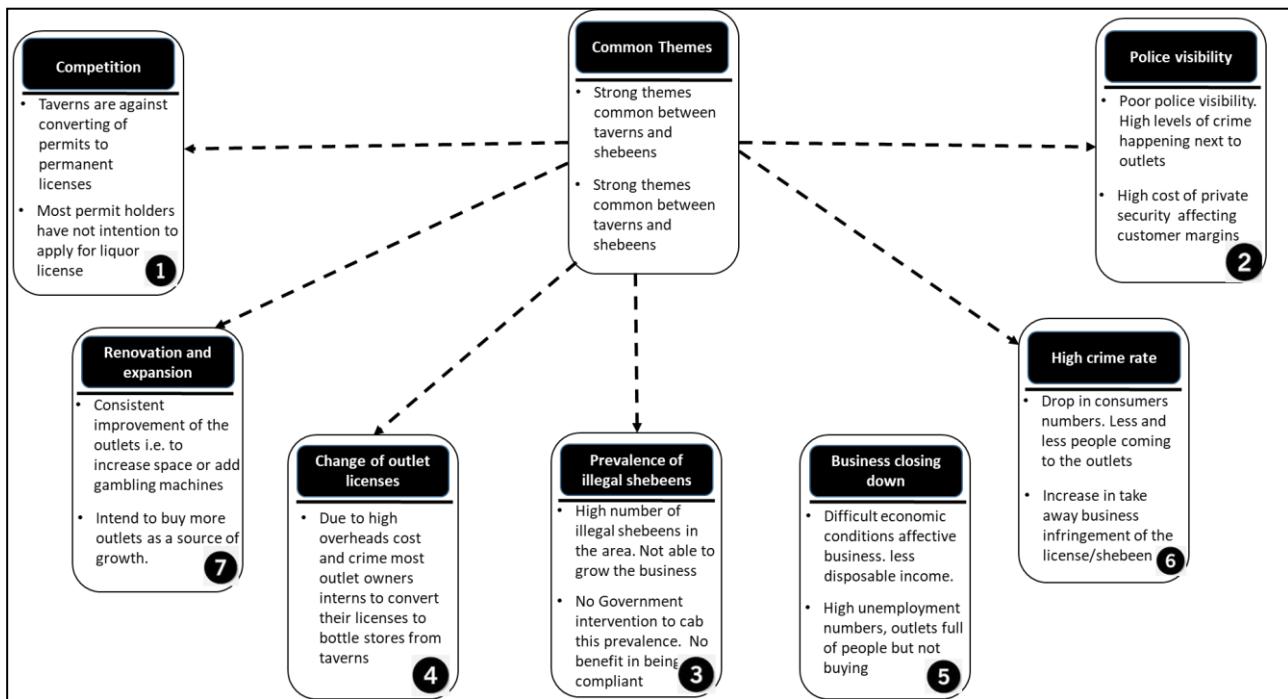
**Table 3.3: Impact and challenges of the liquor traders**

Outlet	Regulation	Community	SAPS	Suppliers
Shebeen	Positive	Negative impact highlighted by Xenophobic attacks	Positive however cautious due to bribery during raids	Positive but need more support
Taverns	Positive	Negative impact highlighted by Xenophobic attacks	Positive however cautious due to bribery during raids	Positive but need more support

Source: Researcher's own compilation

Support required from the Government by license and permit holders can be summarised as follows: both permit holders and licensed outlets expressed a need for high police visibility to reduce the high level of crime in the area. Financial assistance was highlighted as a key requirement for both shebeens and taverns. Here a need exists for assistance specifically from the government and for training in regulations and requirements. Some of the tavern outlet owners were unfortunately against converting their current shebeen permits to shebeen licences as this represented high competition and market saturation. The general feeling was that there were already too many licenced outlets in the area with the addition of illegal trading.

**Figure 3.8: Indicates common themes defined in Atlas.ti 8**



Source: Researcher's own compilation

Enterprise development and workshops regarding liquor abuse were also requested by the outlet owners as means to contribute positively to the Government's agenda to reduce alcohol abuse in society.

The support required from liquor distillers was to be assisted with more promotions at the outlets as well as infrastructure support, renovations and provision of furniture.

### 3.10 CHAPTER SUMMARY

This chapter began with a literature review regarding the research process, including the methods of preparing a questionnaire and of gathering and analysing data for the empirical study. Questions were specifically formulated to examine the relationship between taverns with liquor licenses and shebeens with permits; interviews were conducted one-on-one with the outlet owners and staff involved in the management and general activities of the outlet.

Results illustrated the outcome of the questions that explained the comparison. The details of each question were discussed, and comments were made on the factors as perceived at this moment in licensed and permit holder shebeens in Yeoville. Conclusions from this study and recommendations to address identified gaps are presented in Chapter 4.

## **CHAPTER 4: CONCLUSIONS AND RECOMMENDATIONS**

### **4.1 INTRODUCTION**

In this chapter, the overall conclusion and recommendations, as well as the relationship between empirical findings and the literature, are discussed. Furthermore, the objectives of the study are evaluated against the outcomes achieved, and recommendations are made for the industry and Heineken South Africa, specifically as the sponsor for this study. Recommendations for future research on this subject are also presented.

The purpose of the study was to critically compare and evaluate the trading patterns as well as operational differences between taverns with liquor licenses and shebeens issued with liquor permits by the Gauteng Government in Yeoville. Due to limited literature on this subject, specifically given the natural sensitivity because of the high prevalence of illegal trading in this segment of the market, a literature review was done about the liquor industry globally, in Africa as well as locally in South Africa.

Brits (2008) published a work concerning fragmented trade, licensed and unlicensed outlets in South Africa in 2008. However, the focus of this study was, firstly, to explore the impact of formalisation on the informal sector. Firstly, Brits (2008) recommend that future studies should include a contribution of informal redistributors and runners in the industry. Secondly, future studies should investigate the impact of unlicensed outlets on the community when it comes to sexual abuse and harassment of community members living next to shebeens. Lastly, attention should be paid to the economic contribution of the informal outlets to Government and revenue once licensed. This, therefore, gives rise to the opportunity to investigate the co-existing relationship between taverns with licenses and shebeens with permits.

### **4.2 EVALUATION OF THE STUDY**

This study was inspired by the judgment handed down by Judge Elias Matojane (2017) at the Johannesburg High Court in the matter between Yeoville Bellevue Rate Payers Association against The MEC of the Department of Economic Development in Gauteng, Provincial Government and the Chairperson of the Gauteng Liquor Board. The research was conducted using a structured interview process. Structured questions were used as a

method to collect and gather all data in this case study. The interview questions were adopted from the study performed by Brits and Lotriet (2008).

The purpose of this study was to conduct qualitative research in Yeoville Johannesburg central business district to investigate the nature of the relationship between licensed taverns and shebeens with liquor permits. Further to this primary objective, the study also aimed to determine the difference between regulations and governance of taverns with licences versus shebeens with liquor permits and to investigate the risk associated with converting temporary shebeen liquor permits to permanent shebeen licenses. Lastly, the aim was to test the relationship between these liquor traders and liquor suppliers as well as in the communities where they operate.

Chapter 3 outlined the empirical investigation, which was utilised in this study and Chapter 4 hypothesises the results of the data analysis. In this particular study, the lived experiences of the tavern and shebeen owners operating their businesses in and around Yeoville under difficult conditions competing for business were investigated. As discussed earlier in this chapter, the study aimed to make sense of the challenges that are brought about by the existence of these two different certificates to operate with different sets of rules.

#### **4.3 MAIN FINDINGS FROM THE STUDY**

- Lack of compliance of shebeen permit holders to the required radius distance to community immunities, i.e. schools, place of worship and community parks.
- Most shebeen owners have no interest to apply for liquor licences. This presents a high risk in the community.
- There is intense competition between taverns and shebeens, however, shebeen owners are more organised as a collective, and they speak in one voice. They belong to a liquor association, unlike tavern owners.
- Visible policing to prevent crime.
- A high frequency of Police raids in shebeens as compared to taverns. This could be unsettling for consumers and sometimes comes at a cost to the shebeen owners, i.e. paying bribes due to lack of compliance with the rules.

- In terms of the actual size and space of the outlet, there was very little difference between the two research subjects. They had the same problem with providing parking for customers, for example.
- With regard to the provision of equipment and assets by suppliers, there is no substantial difference between taverns and shebeens.
- Firstly, access to stock was a challenge for most shebeens, as they did not get direct delivery from suppliers. Secondly, they did not have access to credit made available by suppliers if you buy direct.

#### **4.4 CONCLUSIONS ON THE BASIS OF THE EMPIRICAL STUDY**

There are an estimated 180 000 to 250 000 liquor outlets in the country, but less than 65 000 are considered licensed. Therefore, the majority of outlets selling liquor in South Africa are unlicensed shebeens, according to Genesis Analytics (2017). The attempt by the Gauteng Provincial Government to address the increase of illegal shebeens by introducing shebeen permits regulatory framework in 2004 was to stop this increase. This intention to formalise the operations of the illegal shebeens did not only present an opportunity for the traders to be compliant with the law but also offered economic benefits.

These legalised entities have the opportunity to deliver a significant economic contribution to the economy of the province. However, the challenge with the introduction of this opportunity for shebeen owners is the impact it has on the legally trading outlets in the area. Primarily, the reason that the Gauteng Provincial Government still has not found a solution for these permit holders is because the authorities have not considered the impact that this decision would have on the existing legally trading outlets.

The factors that have plugged the industry then continue to be a challenge, for example, compliance to no outlet should be within a 500-meter radius of the already licensed outlet when filling a new license application. The regulator needs to harmonise the relationship between these two entities to make formalisation of shebeen permit holders a reality. The various contributors must address the factors affecting the process, hence the suggested recommendations and solutions that are found in this chapter.

Table 4.1 below indicates areas of commonality and differences between taverns and shebeens. The questions shown in the table can be referenced in Appendix 3 from a detailed questionnaire.

**Table 4.1: Differences between taverns with licenses and shebeens with permits**

	Activity	Tavern	Score	Shebeen	Score
Governance	Owner managed outlet	70%	✓	60%	✓
	Length in business	>5 years	✓	>5 years	✓
	Business radius to community amenities	100%	✓	45%	✗
	Business re-zoned	100%	✓	0	✗
	Provision of separate toilets (5% Tavern renovations)	95%	✓	100%	✓
	Provide parking area	0	✗	5%	✗
	Store room (20 cases and above)	100%	✓	100%	✓
	Land Size of the outlet	100%	✓	100%	✓
Business trading	Average sales per week	484 cases	✓	173 cases	✗
	Average days of ordering a week	3 Days	✓	3 Days	✓
	Collect	100%	✓	60%	✗
	Trading facility	50%	✓	5%	✗
	Capital (Family funded)	70%	✓	100%	✓
	Full portfolio	100%	✓	100%	✓
	Marketing activity	100%	✓	100%	✓
	Average cold space by outlet	5 Fridges	✓	4 Fridges	✓
Stakeholders	<b>Government</b>				
	# Illegal shebeens	100%	✗	100%	✗
	# High crime levels	100%	✗	100%	✗
	# Poor police visibility	100%	✗	100%	✗
	# Bribery and corruption	100%	✗	100%	✗
	# Enterprise development	100%	✓	100%	✓
	<b>SAPS</b>				
	# High crime levels	100%	✗	100%	✗
	# Poor police visibility	100%	✗	100%	✗
	# Bribery and corruption	100%	✗	100%	✗
	# Police harassment	100%	✓	100%	✗
	<b>Suppliers</b>				
	# Product availability	100%	✓	100%	✓
	# Promotions	100%	✓	100%	✓
	# Credit	100%	✓	100%	✗
	# Equipment, furniture and POS	100%	✓	100%	✓

Source: Researcher's own compilation

Table 4.2 below addresses the secondary objective of the study by highlighting the advantages and disadvantages of having licenses versus liquor permits, as stated by both sets of sample groups during the interviews.

**Table 4.2: Advantages and disadvantages of possessing a liquor license**

#No	Advantages	Disadvantages
1	Opportunity to qualify for a business loan to upgrade business premises	Due to saturation, the government might decide to stop issuing liquor licenses
2	Operate within the law and avoid constant harassment from the Police	Limited operating hours versus bottle stores encourages non-compliance to the law
3	Gives us access to more resources and assistance from suppliers and government	Tax burden and compliance come at a cost to the business
4	Avoid the risk of closing down should the permits be terminated	Converting shebeen permits to shebeen licenses will lead to market saturation and therefore less growth in the industry
5	The outlet would not close down, staff keep jobs, the license renewal process is easy	

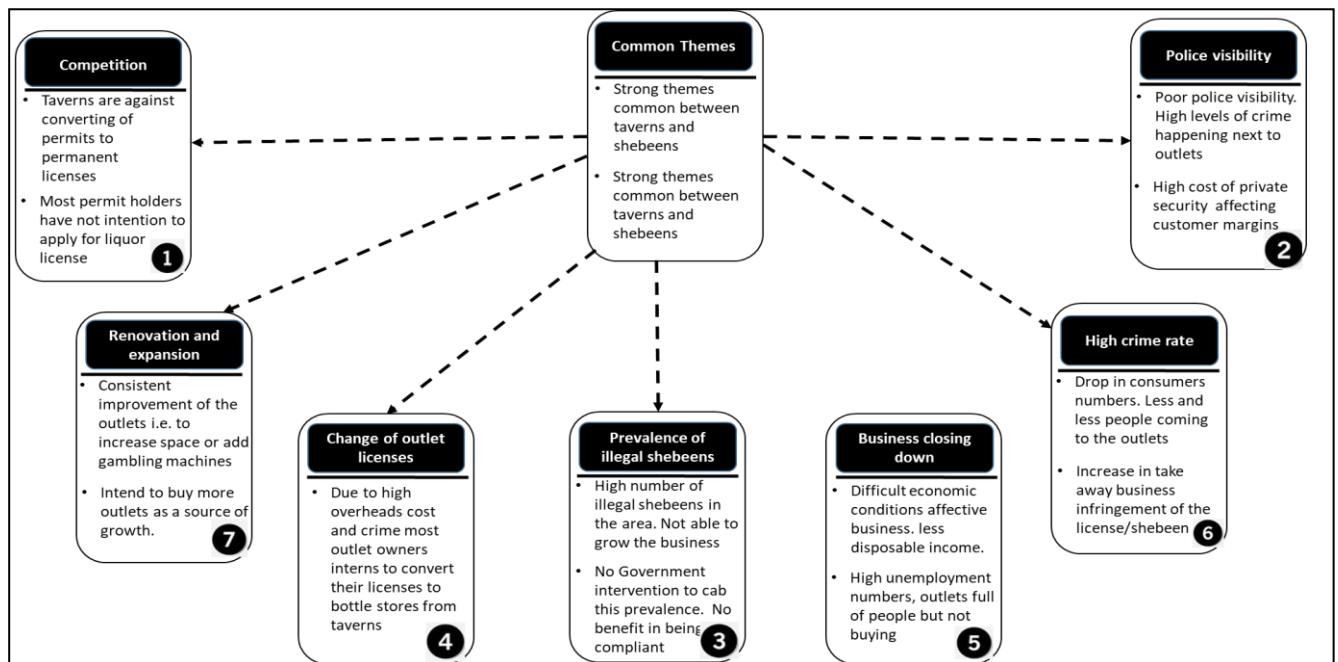
Source: Researcher's own compilation

#### **4.4 THEMES FROM THE FINDINGS**

This section of the study focusses on the common findings identified in Chapter 3. The findings have been divided into themes derived from database analysis using Atlas.ti 8 (see Figure 4.3 below). Each theme is followed by its respective recommendation. As previously stated, the data is referenced from one-on-one interviews conducted with outlet owners of licensed taverns and shebeens with permits.

The sample was randomly selected from 237 outlets in the area. The population consisted of taverns and shebeens in possession of both licenses and permits. Initially, 40 outlet owners were selected to be interviewed. However, after 20 were interviewed, data saturation was reached. The interviews conducted reached a point of diminishing return at the 20<sup>th</sup> interview. At this point, the indications were that, if the interviews continued further, they would not yield additional information.

**Table 4.3: Common themes**



Source: Researcher's own compilation

#### 4.4.1 Theme one: Competition between permits and licences outlets

Research question: What impact do you think formalisation of shebeens in the form of liquor licenses will have on your business?

The research findings indicate that, even though the permit holders feel that being issued with liquor licenses is good for their businesses, a higher number of permit holders do not expect any fundamental difference in how their businesses perform.

Mr. Stephen Molapo of Steve's place (Shebeen owner)

*"The impact will be minimal; most shebeen permit outlets are established business already".*

Mrs. Paulina Mololo (Tavern owner)

*"More outlets with liquor license mean saturation and therefore less growth for her business"*

This highlighted the contradiction between the shebeen permit holders and licensed taverns. In response to challenges facing their businesses today is the intensive competition in this sector given several licensed/shebeen permit outlets as well as the cost to renew a liquor licence.

Mr.Bikuki Ntango from Chez'Mungisa shebeen

*"There is no significant difference between tavern licence and shebeen permit. Therefore I have no intention to apply for a liquor licence. The cost associated with renewing tavern licences every year are exorbitant."*

### **Theme one: Recommendation**

The regulator needs to consider conducting audits in collaboration with SAPS. All outlets issued with licenses and permits since the introduction of the Gauteng Liquor Act of 2004 should be audited. The intention of the audits should be to establish which outlets comply with the requirements of their licenses to trade. Therefore, those in breach of the conditions of their licenses should be suspended to terminate, should they fail to address the audit findings. This will allow the regulator to close gaps of new applicants who are currently permitted holders without necessarily increasing the number of new entrants in the market.

#### **4.4.2 Theme two: Police visibility in the area**

Research question: What impact does the following have on your business? (Crime, SAPS raids and liquor suppliers).

One of the critical findings of the study is the need for visible policing in Yeoville and surrounding area. In recent times, we have seen Yeoville suffered several xenophobic attacks, as reported by Dlulane (2019).

Mr.Bikuki Ntango from Chez'Mungisa shebeen

*"The xenophobic attacks had a direct impact on our businesses. Over and above these attacks, Yeoville has seen high levels of crime which has resulted in many big businesses in the areas closing down."*

Considering the size and location of these outlets, especially those located in low-income areas, the lack of capacity from the South African Police Service to attend to a large number of criminal cases poses a severe security risk. Many of the outlet owners consider contributing a minimal fee towards hiring a neighbourhood security company to patrol near their businesses and attend to emergency calls from businesses in Yeoville.

Crime levels have directly affected both taverns and shebeens. The typical response from all the participants in the interviews to the question highlighted above is that high levels of crime in the area are affecting businesses. Consumers do not feel comfortable and safe to come out at night.

Paulina Mololo from Paulina's place (Shebeen owner)

*"Crime is affecting our business people do not come to outlets at night due to safety therefore we are forced to hire private security companies due to lack of police visibility."*

Even when police conduct raids at the outlets, which is a positive action that assists with crime prevention, consumers usually leave the outlet immediately after the raids as they feel harassed by the police.

### **Theme two: Recommendation**

Outlet owners should indeed pursue the idea of contributing a minimal fee towards hiring a neighbourhood security company to patrol in and around their businesses in Yeoville as well as to escort customers leaving the outlet. The cost of hiring a security company with the armed response for a liquor outlet is high. This is besides the fact that many private security companies are not keen on taking on liquor outlets as clients because of prevalent conflict and fights taking place in some outlets.

#### **4.4.3 Theme three: A high number of illegal shebeens**

Research question: What do you think of the future of liquor trading in Yeoville, Gauteng and nationally?

The liquor industry in fragmented trade is already saturated with licensed and shebeen permits, however, outlets face competition from illegal shebeens in the area. These shebeens do not comply with any regulation, and they operate with minimum overheads. They are therefore able to ask non-competitive prices. This will affect the industry negatively in the end. Taverns will experience no real growth because of the prevalence of unlicensed shebeens.

Lerato Lehabe Tavern owner

*“Too many outlets permit holders, illegal shebeens not following the regulation. The industry has minimal prospects for growth due to a large number of illegal trades including permit holders.”*

#### **Theme three: Recommendation**

Law enforcement should clamp down illegal shebeens through regular police raids in the area. SAPS can utilise associations such as Yeoville Bellevue Rate Payers Association and other community organisations to close down illegal operators.

#### **4.4.4 Theme four: Convert tavern license into a bottle store**

Research question: Do you want to apply for a license?

A large number of outlet owners interviewed strongly believe that the industry will continue to grow; therefore, the majority are planning to upgrade their outlets. Liquor license holders are exploring the opportunity of applying for bottle store licenses, as they believe bottle stores have longer trading times than taverns. High crime levels in the area are also contributing to the need to convert tavern licenses to off-trade bottle store licenses.

Mr Sikhumbuzo Shezi from the Lowdown

*“Due to high short trading time and crime in the area, I intend to convert my on-premise license to a bottle store license due to longer trading times.”*

#### **Theme four: Recommendation**

The Liquor Board should conduct workshops to advise traders about the difference between an on-premise consumption versus off-premise consumption outlet. Corporate affair departments from suppliers support them. Outlet owners need to compare the benefits and shortcomings of each of these licences and therefore make an informed decision. The benefit to the Police however of this conversion would be a reduction in crime. The high number of crimes associated with alcohol, happen at night.

#### **4.4.5 Theme five: Big businesses in the area are closing down.**

*Research question: What do you think of the future of liquor trading in Yeoville, Gauteng and Nationally?*

Yeoville, like most historic mining towns, is affected negatively by the economy. Big businesses in the area have closed down, resulting in a high unemployment rate. The formalised retailer sector has also moved out of the area to Maboneng precinct and to Alexandra township.

Bikuki Ntangu from Chez Mungiza (Shebeen)

*“The liquor industry is going down, all big businesses in the area are closing down due to slowdown of the economy.”*

#### **Theme five: Recommendation**

Global trends suggest that beer consumption is very resilient against economic reception. According to Global data (2016), beer production and consumption are expected to continue to grow between 2016 and 2021. This growth will primarily be driven by developing markets in Africa and Asia. The researcher would advise traders to continue to invest in their outlets as the growth trend will continue. People drink when they are happy as well as when they are under strain. For some, drinking is their only outlet to release and relax.

#### **4.4.6 Theme six: High crime rate**

Linked to theme two is the high crime rate. Research question: What impact does the following have on your business: crime, SAPS raids and liquor suppliers?

Many outlet owners are seeing a decrease in consumer numbers. Less and fewer people are coming to the outlets fearing for their safety. On-premise outlets are experiencing an increase in take-away business which is an infringement of the license/shebeen, and they are therefore risking suspension of their licences by the authorities.

Thandi from Mathandi's Inn

*"Despite our best intentions to comply with the law, it's proving to be difficult. We are unable to provide security for our customers due to the cost of private security companies. Therefore customers prefer to buy take away".*

### **Theme six: Recommendation**

Outlet owners should indeed pursue the idea of contributing a minimal fee towards hiring a neighbourhood security company to patrol in and around their businesses in Yeoville as well as to escort customers leaving the outlet. The cost of hiring a security company with the armed response for a liquor outlet is high besides the fact that many private security companies are not keen on taking on liquor outlets as clients because of prevalent conflict and fights taking place in some outlets.

#### **4.4.7 Theme seven: Renovation and expansion**

*Research question: What are your future plans for your business?*

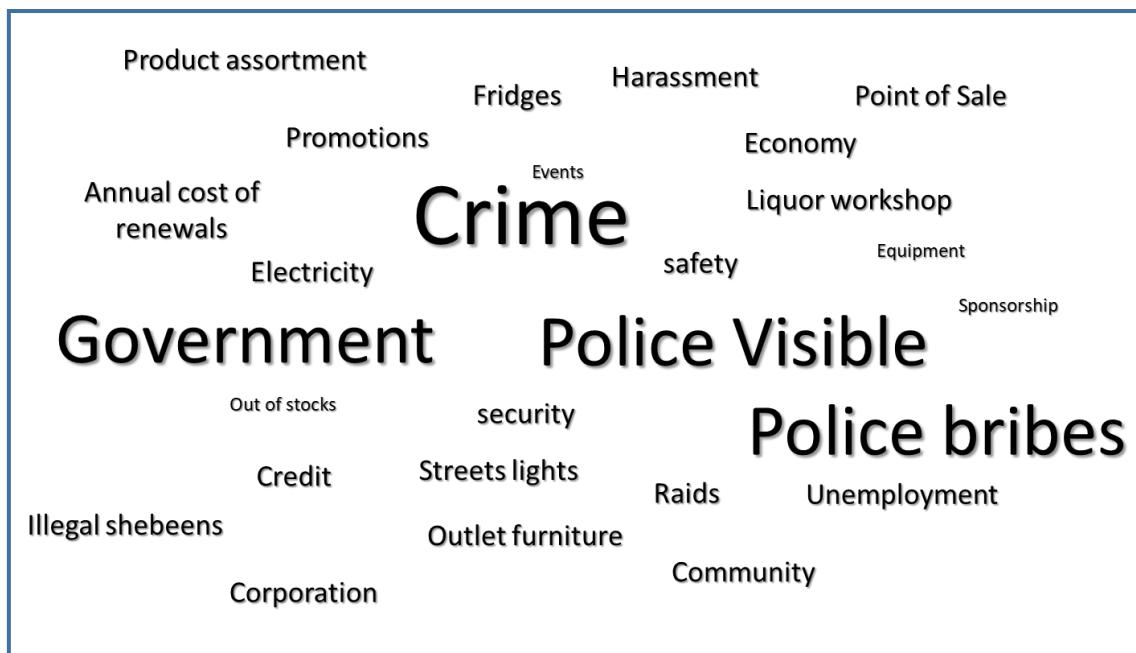
Due to margin pressure and lack of customers, outlet owners are consistently trying to improve their outlets and differentiate themselves from others in the area, i.e. to increase space, putting in snooker tables and gambling machines, while others intend to buy more outlets as a source of growth.

### **Theme seven: Recommendations**

initiatives to pull more customers and keep them for longer in the outlet. If the outlet owner is renting out space in the outlet for gambling machine, meaning they don't own them this could be a great source of revenue. The problem with owning these machines is high cost of maintenance.

Figure 4.4. below highlights most common words spoken by the outlet owners. Atlas.ti 8 was successfully used to matched common words spoken by the interviewee. Word cloud is defined as a visual representation of data from words that have high prominence and frequency in the interview process (Mentimeter, 2019). The word cloud draws clear parallels between the taverns with liquor licence and shebeens with permits. As reflected in the common themes in section 4.4 above the same applies to the word cloud. The size of the word in the cloud reflects the number of the frequency the word was repeated.

**Figure 4.1: Word cloud**



Source: Researcher's own compilation

#### **4.5 SIGNIFICANCE OF THE STUDY**

The study achieved the primary objective as presented in Table 4.2, namely a comparison between taverns license holders and shebeen permit holders. This table illustrates that there is no significant difference between license holders and permit holders. This framework can be used as a guideline in the current discussion between the Gauteng Provisional Government and the Gauteng Liquor Board to support the promulgation of the regulations that seek to legitimise or phase in licensed shebeens under the act.

Furthermore, the possible risk of Heineken losing 10 000 outlets from their CMD can be evaded. It does not seem likely that these shebeen permits will be terminated. The adverse finding in this matter would have had catastrophic repercussions for the industry, given the infrastructure and assets deployed at these outlets. For example, the sample of outlets used for this study currently has 153 fridges, received from the suppliers at the cost of R12 000 a refrigerator. That was a risk of R1,836,000 if one ignores the depreciation value of these assets.

Throughout this study, the universal message was consistently highlighted, and the contribution made by the fragmented trade to the industry and the economy acknowledged. Taverns and shebeens play a critical role in the economy and they need to be supported with a process of formalisation as part of the Department of Small Businesses. The Department needs to play a central role in facilitating the conversion of these permits into liquor licenses.

#### **4.6 LIMITATIONS OF THE STUDY**

The field interviews were conducted soon after the second stint of xenophobic attacks in Johannesburg CBD and this posed a safety risk for the researcher. Neil (2012) recommends that a research study should include implications and limitations. As noted, when discussing the methodology, the study was executed through a qualitative method that could not escape the inherent bias. The personal experience of the researcher further compounds the subjectivity. At the time of conducting this study, he was employed in the liquor industry as a Trade Marketing Director with over 15 years' experience in this sector. It was very possible that his direct observations would have influenced the interpretation of data, despite choosing not to employ observation as a tool.

A further limitation of the study was the informal nature of the two selected variables for the study. The owners are seldom willing to participate in any research work that might expose them or the way they operate their businesses to the authorities, especially the shebeens. Another challenge was the change in ownership of this business, moving from South African ownership to Pan African ownership (other people from the rest of the continent), particularly in Yeoville. These owners did not have the historical background of

the relationship between licensed taverns and shebeens with permits. Lastly, they owned these establishments illegally.

#### **4.7 RECOMMENDATIONS FOR FUTURE RESEARCH**

The face of the liquor trade is changing in South Africa. Foreign nationals own more and more outlets. Furthermore, data is the new currency in fragmented trade. Historically, little to nothing was known about the opportunities in the townships, however, with the introduction of apps and point of sales systems, information is becoming more and more available. In China, for example, Alibaba has deployed a retail technology to one million ma and pa stores. According to Which-50.com (2018), this LST (Ling Shou Tong) system is designed to help these SMEs (ma and pa stores) by providing a platform where operators can analyse sales and operations data, turning it into insights.

This study can be extended to include:

- Changing ownership patterns of taverns and bottle stores in central business districts. It could be in Johannesburg, Pretoria and Durban.
- The impact of the availability of transactional data in fragmented trade and how this will change the relationship between taverns and liquor suppliers in South Africa.
- Pending the outcomes of the case between Yeoville Bellevue Rate Payers Association against The MEC of the Department of Economic Development in the Gauteng Provincial Government and the Chairperson of Gauteng Liquor Board, the study can be revised to look at the impact of the decision of the Gauteng High Court in this matter.

#### **4.8 CHAPTER CONCLUSION**

This final chapter concluded the study by achieving the primary and secondary objectives. It also presented the similarities and differences between taverns with liquor licences relative to shebeens with liquor permits (refer to Table 4.1). The context can be used by the regulator to present arguments against material differences between these two research subjects. Also, liquor distiller can use the recommendations to improve trade execution within fragmented trade. The future implication of the co-existence of the two issues was also tested and presented clear findings.

Finally, in this chapter, the researcher presented recommendations for future research and highlighted the possible future for fragmented trade.

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## **APPENDIX A: INTERVIEW CONSENT LETTER**

### **INTERVIEW CONSENT LETTER**

34 Caprivi Complex 2

449 Octave Street

Radiokop

1724

13 June 2019

### **LETTER OF INFORMATION AND CONSENT: A COMPARATIVE STUDY BETWEEN TAVERN LICENCE HOLDERS AND SHEBEEN LICENCE HOLDERS IN YEOVILLE.**

Dear participant,

I am currently undertaking a research project that aims to understand and compare the operational difference between licensed taverns and shebeens with shebeen permits in Yeoville.

I hereby kindly invite you to take part as a participant in this study. The interview will take approximately 15 to 25 minutes. Participation is voluntary and you are free to withdraw from the study at any time. The information you give will only be used for research purposes, and your identity and individual answers will be kept confidential.

Should you wish to discuss this further please feel free to contact me or my supervisor Prof Ronnie Lotriet, Tel: 018 299 1415 or email: [ronnie.lotriet@nwu.ac.za](mailto:ronnie.lotriet@nwu.ac.za).

Your assistance will be much appreciated,

Yours faithfully,

Mohau Gilbert Modise

+2776 420 3848

[Mohau.modise@heineken.com](mailto:Mohau.modise@heineken.com)

Please complete the following as confirmation of your willingness to participate in this research project

Please  
initial  
box

1. I confirm that I have read and understood the information sheet (Version ..... dated ..... ) for the above study. This has also been explained to me and I have had the opportunity to ask questions.
2. I understand that my participation is voluntary and I am free to withdraw at any time, without giving any reason. The information I give will only be used for research purposes, and my identity and individual answers will be kept confidential.
3. I have been given the opportunity to ask questions and have had them answered to my satisfaction.
4. I understand that the outcomes of this research project will be stored by the university and may be shared with students for future research projects.

I, ....., have adequately discussed the study with the researcher, understand that I may withdraw from it at any time without giving reasons, and voluntarily agree to participate by being interviewed.

Signature:..... Date.....

## APPENDIX B: INTERVIEW QUESTIONS

### Scheduled one on one interview

Yes. we can do the interview now	1 continue
No. I am not willing to participate in the study	2 close the interview

### SECTION A: MEASURE CONTROLS AND SCREENING

A1	Place of interview	1	
		2	
		3	
A2	Record gender	Male	1
		Female	2
A3	Nationality		
A5	Which of the following generation groups where you born?  Read out the options to participants	The greater generation	1
		The silent generation	2
		The baby boomer	3
		Generation X (Gen X)	4
		Xennials	5
		Generation Y (Gen Y)	6
		Centernnials	7
		Generation Z (Gen Z)	8
A6	What position do you hold in this outlet?	I am the owner	1
		I am the manager	2
		I am the share holder	3
		I am an employee	4

A7	Which of the following statements apply to you personally regarding procurement and signing for stock as well as the administrative day-to-day running of outlet.	Are you directly involved in the ordering/buying of stock, signing for it and am familiar with the financial and general administration that goes on in the shebeen,	1	Ask to be connected with the person within the outlet who is involved and start the interview from the beginning.
		I am not directly involved in the ordering/buying of stock or signing for it, nor am I familiar with the financial and general administration that goes on in the shebeen.	2	
A8	Under which of the following categories does your shebeen fall? (Please note that this information will be kept confidential).	We have a license to sell liquor	1	Check liquor license
		We have a shebeen permit to sell liquor	2	
		We have neither permit nor license to sell liquor	3	Close the interview
		1 do not know	4	
		Others	5	

#### SECTION B: LENGTH OF PERIOD IN BUSINESS, SURROUNDING AND SPACE OF OUTLET

Interviewer: I would like us to talk about the operations of the business and surrounding environment.			
B1	In which year did your start operating as a place that sells liquor?	Write in the year	
B2	In which year did you get your license or permit to sell liquor	Write in the year	
B3	Which of the following places/centres is situated within 500 meters from your outlet?	Another shebeen or tavern	1
		Retail liquor store	2
		Hair salon	3
		School	4

		Butchery	5	
		Church	6	
		Community hall	7	
		None of the above	8	
		Others	9	
B4	What is the size of the premise in which the shebeen is situated?	100 -200 square meters	1	
		201 - 400 square meters	2	
		401 - 600 square meters	3	
		601 -800 square meters	4	
		801 - 1000 square meters	5	
		Over 1000 square meters	6	
Interviewer's note: Question B3 and B4 must be observed, compare your estimates with the answer given by the respondent.				
B5	Ask all: Are there separate toilets for males and females available for your customers?	Yes	1	Reason
		No	2	Reason
B6	Is there parking space available on the premises where customers park their cars?	Yes	1	
		No	2	Reason
B7	Is the building of the outlet rezoned as business premises?	Yes	1	
		No	2	
		Don't know	3	
B8	Does the outlet have a storeroom where liquor stock is stored?	Yes		
		No		Skip to question 11
B9	If answered Yes in B8: How many cases of beer and cider can you pack in your storeroom?	Write in the number of cases?		

B10	How many cases of beer and cider do you sell a week?	Write in the number of cases?		
B11	How many times do you buy stock a week?	Write in the number of times?		1
B12	Do you collect or get delivery of stock?	Self-Collect	1	
		Delivery from Supplier/Distributor	2	
		Runners	3	
		Others (Please specify)	4	
B13	Are you buying direct from the supplier or from a distributor/wholesaler?	Distributor/wholesaler	1	
		Supplier 1, Write in the name of the supplier:	2	
		Supplier 2, Write in the name of the supplier:	2	
		Others, Write in the name of the supplier:	2	
B14	In which of the following ways do you pay for your order?	Cash		
		Electronic funds transfer	1	
		Cheque	2	
		Credit facility	3	
		Debit card	4	
		Others (Please specify)	5	

**SECTION C: STAFF**

C1	How many employees are currently employed by the outlet on a full time basis?	Write in the number of employees			
C2	How many employees are employed on a part-time or contract basis?	Write in the number of employees			
C3 Please provide the following details about your employees. Please note that the information will not be disclosed to any third party, and will be used solely for research purposes.					
Gender & age of employee. - i.e. F 20yrs	Job Title i.e. Cleaner	Job description – i.e. customers service	Level of education i.e. (Matric/Diploma)	Relationship to owner?	Number of years employed.
1					
2					
3					
4					
5					
6					
7					
8					
9					

**SECTION D: BUSINESS, ASSETS AND RESOURCES**

D1	How did you raise capital to start the business?	Family funding		
		Funded from other business		
		Bank loan		
		Others		
D2	Which of the following alcoholic drinks are sold in your outlet?	Beer	1	
		Cider	2	
		Brandy	3	
		Vodka	4	
		Whisky	5	
		Sorghum beer	6	
		Others	7	
D3	Does the outlet have a facility for customers to drink the liquor on the premises (drinking area)?	Yes	1	
		No	2	
D4	Ask only if the answer to D4 is Yes: Do most of your customers drink their alcohol on your premises or take away?	On premise	1	
		Take away	2	
		Cannot tell	3	
D5	How many display fridges do you have in your outlet?	Write in number of fridges		
D6	Do you own the display fridges or do the suppliers provide them?	Own – write in the number	1	
		Suppliers – write in the number	2	
D7	Ask all: Who is responsible for recording business transactions in the outlet? Day-to-day basis?	The owner	1	
		Members of the owners family	2	
		The outlet manager	3	
		Book keeper	4	

		Others (Please specify)	5	
D8	Please mention any business or liquor associations that your outlet belongs to. Please give a short description of the association.	1.....		
		2.....		
		3.....		
D9	Shebeen permit only. You mentioned earlier in the interview that you do not have a liquor license but a permit, are you aware of procedure to follow to apply for a liquor license?  Do you want to apply for a license?	Yes	1	
		No	2	
D10	What do you think are the advantages of having a liquor license?	1.....		
		2.....		
		3.....		
D11	What do you think are the disadvantages of having a liquor license?	1.....		
		2.....		
		3.....		
D12	Shebeen permit holders: What impact do you think formalisation of shebeens in the form of liquor	1.....		

	license will have on your business.	2.....
		3.....
		4.....
D13	How do you market and promote your business?	1.....
D14	What are the challenges facing your business today?	1.....
D15	What the benefits of having this business?	1.....
D16	What are your future plans for your business?	1.....
D17	What do you think of the future of liquor trading in Yeoville, Gauteng and Nationally?	1.....
D18	What impact does the following have on your business? Read them out and probe for more?	Government regulations.....
		Community and civic organisations.....
		SAPS raids.....
		Crime.....
		Minimum wage.....
		Financial support.....

		Liquor manufactures.....
		Municipality by laws.....
D19	What support do you need from the following? Read out	Liquor Suppliers.....  Government.....
D20	Do you have a mentor or a business coach that helps you with managing your business?	1.....

***THANK RESPONDENT FOR THE INTERVIEW AND CLOSE***

Respondent Name:.....

Interviewer's Name:.....

Outlet Name:.....

Date:.....

Physical address:.....

Time Started:..... Ended:.....

Cell Number:.....

Checked by:.....

Backchecked by:.....

Signed.....

## APPENDIX C: APPROVAL LETTER FROM HEINEKEN



### HEINEKEN South Africa

Inanda Greens, 54 Wierda Road West,  
SANDTON, 2196, South Africa  
P.O. Box 6146, RIVONIA, 2128,  
Tel: +27 10 226 5000

Dear Mr. Theo Venter

This letter confirms that I have granted Mohau Modise – 21986193 permission to conduct one on one interviews with 40 customers trading with liquor license or liquor permits in and around YEOVILLE for Mini-dissertation in partial fulfilment of the requirements for the degree in Masters of Business Administration.

Once the research is completed; we would like the findings of this research project to be made available to HEINEKEN SOUTH AFRICA

Kind Regards

A handwritten signature in black ink, appearing to read "Given Shabangu". Above the signature, the Heineken logo is written in a stylized, cursive font.

Given Shabangu  
General Manager – Sales Operations  
HEINEKEN South Africa

E [given.shabangu@heineken.com](mailto:given.shabangu@heineken.com)

T +27 (0) 10 226 5148

C +27 (0) 82 628 0195

[www.heineken.com](http://www.heineken.com)

Inanda Greens, Building 1, 54 Wierda Road West, Weirda Valley, Sandton, 2196, Gauteng, South Africa

## APPENDIX D: LANGUAGE EDITING CERTIFICATE



Dynamic Language &  
Translation Specialists

Antoinette Bisschoff  
71 Esselen Street,  
Potchefstroom  
Tel: 018 293 3046  
Cell: 082 878 5183  
[Language@dlts.co.za](mailto:Language@dlts.co.za)  
CC No: 1995/017794/23

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Monday, 10 August 2020

To whom it may concern

**Re: Confirmation of language edit, typography and technical precision**

The MBA dissertation by **M Modise, "A comparative study between tavern license holders and shebeen license holders in Yeoville"** was re-edited for language, typography and technical precision. The referencing and sources were checked and comply to the Harvard guidelines specified by the NWU Reference guide (2020).

Final, last minute corrections remain the responsibility of the author.

**Antoinette Bisschoff**

**BA Languages (UPE – now NMU); MBA (PU for CHE – now NWU); Translation and Linguistic Studies (NWU)**

Officially approved language editor of the NWU since 1998  
Member of SA Translators Institute (no. 100181)

## APPENDIX E: TURNITIN DIGITAL RECEIPT

21986193:Mohau\_Gilbert\_Modise.\_MBA-Title\_Mini-Dissertation.\_Final.V2.0.pdf

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