

# **Determining the investment decisions of South African retail firms' FDI into Africa**

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## **ABSTRACT**

This research investigates the determinants of outward foreign direct investment (OFDI) by South African retailers into Africa. This research advances the understanding of determinants for foreign direct investment (FDI) from developing countries in the retail sector. To date no systematic investigation has considered FDI outflow determinants in the retail sector from developing countries in Africa. South Africa is one of the largest FDI investors on the continent; therefore, it is important to understand what motivates them to invest in Africa. Most of the available literature focuses mainly on FDI from developed countries and is concentrated in the manufacturing sector. South Africa is a developing country and this research conducts a sectoral analysis of the retail sector FDI determinants into Africa. The lack of research on FDI determinants on FDI from developing countries calls for more detailed understanding of the determinants.

A mixed-method approach was employed to ascertain the determinants of South African retail FDI in Africa. This involved an in-depth individual case study of selected companies' financial statements and other hard data, followed by a cross-case analysis of the companies. Interviews were conducted with top management responsible for African retail operations of their respective companies. The sample consisted several retailers as well as related developers. The retailers are chosen based on having operations nationally and investments in more than one country. The developers were included in the sample of interviewees due to the pivotal role they play in facilitating South African retailers' internationalisation process. These operations are conducted through the development of malls and shopping centres presented to retailers expanding business across Africa.

The findings from the research show that market saturation at home, market size in host countries and strategic growth reasons are the major determinants for South African retail FDI expansion into Africa, all with an aim to generate profits to retailers. The South African market is highly saturated with limited avenues for new retail growth. South African retailers are attracted by the large market sizes with little to no formal retail in countries such as Nigeria and Ethiopia. Globalisation has made it important for the companies to grow by expanding abroad or risk failing due to intense competition at home.

The findings offer insight into South African retail FDI determinants into Africa. The research can add an important aspect concerning the current knowledge base of South

Africa's foreign economic policy towards Africa. This research is unique in that it helps advances in the knowledge base concerning the internationalisation programmes of South African retailers by performing cross-case studies to explore the motivations behind the how and why they increase their internationalisation through OFDI.

**Keywords:** Outward foreign direct investment, retail sector, OFDI determinants, free markets, investments, Africa

## OPSOMMING

Hierdie navorsing ondersoek die determinante wat die uitwaartse direkte buitelandse investering (OFDI) deur Suid-Afrikaanse kleinhandelaars na ander Afrikalande bepaal. Die navorsing bevorder veral die begrip rakende die determinante vir direkte buitelandse investering (FDI) in die kleinhandelsektor van ontwikkelende lande. Tot dusver is daar nog geen sistematiese ondersoek oor die determinante, wat die uitbreiding van die kleinhandelsektor na ontwikkelende lande in Afrika beïnvloed, gedoen nie. Suid-Afrika is een van die grootste buitelandse beleggers op die vasteland en dit is daarom belangrik om te begryp wat hulle motiveer om in Afrika te belê. Die meeste van die beskikbare literatuur fokus hoofsaaklik op buitelandse investering deur ontwikkelde lande en konsentreer op die vervaardigingsbedryf. Suid-Afrika is steeds 'n ontwikkelende land en hierdie navorsing fokus 'n sektorale analise van determinante wat die kleinhandelsektor in Afrika bepaal. Die gebrek aan navorsing wat tans oor hierdie determinante in ontwikkelende lande bestaan, noodsaak 'n meer gedetailleerde begrip van hierdie onderwerp en hierdie verhandeling poog om in behoefte te voorsien of ten minste 'n belangrike bydrae te lewer.

'n Benadering van gemengde-metodes is in hierdie studie aangewend om die determinante van Suid-Afrikaanse kleinhandel-investering in Afrika te bepaal. Dit behels diepgaande gevallestudies van geselekteerde maatskappye se finansiële state en ander harde data, gevolg deur kruis-gevalle-analises van die maatskappye. Onderhoude is met topbestuur, wat vir die onderskeie maatskappye se kleinhandelbedrywighede in Afrika verantwoordelik is, gevoer. Die steekproef het uit verskeie kleinhandelsmaatskappye, sowel as verwante ontwikkelaars bestaan. Die kleinhandelaars is op grond van hul nasionaal bedrywighede, uitbreidings en investering wat meer as een land behels, gekies. Die ontwikkelaars is ingesluit in die ondersoeke vanweë die sleutelrol wat hulle speel om Suid-Afrikaanse kleinhandelaars in hul internasionaliseringsprosesse te fasiliteer. Hierdie bedrywighede behels die ontwikkeling van winkelsentrums en geleenthede wat aan kleinhandelaars gebied word om sake oor die hele Afrika uit te brei.

Die bevindings van die navorsing toon aan dat markversadiging op die plaaslike front, markgrootte in gasheerlande en strategiese aksies gefokus op groei die belangrikste aspekte is wat Suid-Afrikaanse kleinhandelaars motiveer om hul sake na ander Afrikaland uit te brei. Die hoofdoel hierby bly egter die generering van wins. Die Suid-Afrikaanse

mark het reeds 'n hoë versadigingspunt bereik wat verdere moontlikhede vir plaaslike groei in die kleinhandel beperk. Suid-Afrikaanse kleinhandelaars word aangetrek deur die groot markgroottes in Afrikalande. Daar is groot verbruikersmarkte met min of geen formele kleinhandel in lande soos Nigerië en Ethiopië nie. Globalisering noodsaak maatskappye om te groei deur hul aktiwiteite na ander lande uit te brei, of die risiko te loop om weens intense plaaslike mededinging te misluk.

Die bevindinge van die huidige studie bied nuwe insig in die determinante wat die investering van kleinhandelsake in ander Afrikalande bepaal. Hierdie navorsing kan ook 'n belangrike aspek oor die huidige kennisbasis van Suid-Afrika se buitelandse ekonomiese beleid teenoor Afrika aanvul. Die navorsing is uniek deurdat dit die kennisbasis rakende die internasionaliserings programme van Suid-Afrikaanse kleinhandelsektor uitbrei. Die navorsing, analises en kruisgevallestudies dra by om te begryp wat kleinhandelsake se motiverings en motiewe is en te verklaar waarom en hoe hulle hul internasionalisering deur uitwaartse direkte buitelandse investering verhoog.

**Sleuteltermes:** Uitwaartse direkte buitelandse investering, kleinhandelsektor, OFDI determinante, vrye markte, investering, Afrika

## **ABBREVIATION**

AEO	African Economic Outlook
AGOA	African Growth and Opportunity Act
AR	Average Revenue
ARDI	African Retail Development Index
BFA	Bureau of Financial Analysis
BMF	Bench Marks Foundation
CAGR	Compound Annual Growth Rate
CEE	Central and Eastern European countries
CEOs	Chief Executive Officers
DMNE	Developed Markets Multinationals Enterprises
EAC	East African Community
EMNE	Emerging Market Multinational Enterprises
EPZ	Export Processing Zones
EU	European Union
FDI	Foreign Direct Investment
GAIN	Global Agricultural Information Network
GDP	Gross Domestic Product
GPQB	Gauteng Province: Provincial Treasury Quarterly Bulletin
GRDI	Global the Retail Development Index
GVA	Gross value added

GVC	Global Value Chain
ICSC	International Council of Shopping Centres
IDP	Investment Development Path
IFDI	Inward foreign direct investments
IMF	International Monetary Fund
IT	Information Technology
JSE	Johannesburg Securities Exchange
LDCs	Less Developed Countries
LRS	Labour Research Service
LSM	Living Standards Measure
M&A	Mergers and Acquisitions
MC	Marginal Costs
MR	Marginal Revenue
MNCs	Multinational corporations
MSM	Massmart Holdings Limited
NEPAD	New Partnership for Africa's Development
OECD	Organisation for Economic Co-operation and Development
OFDI	Outward Foreign Direct Investment
OLI Theory	Ownership, Location and Internalisation
PWC	Price Waterhouse Cooper



RMB	Rand Merchant Bank
ROI	Return on external investments
RVC	Regional Value Chain
SSA	Sub-Saharan Africa
SWOT	Strengths Weaknesses Opportunities and Threats
TC	Total Cost
TNCs	Transnational companies
TR	Total revenue
UK	United Kingdom
USA	United States of America
VECM	Vector Error Correction Model
W&R SETA	Wholesale & Retail SETA
WHL	Woolworths Holdings Limited

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# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 INTRODUCTION AND BACKGROUND**

The purpose of this study is twofold: first, to determine the level of South Africa's intra-Africa foreign direct investments (FDI) outflow; and second, to examine the motives for South Africa's outward foreign direct investments (OFDI) in Africa with special focus on the retail sector. To this end, this chapter is structured as follows and briefly discusses the following: an overview of FDI; South Africa's investment in Africa; the problem statement; the research questions; the objectives of the study; the methodology; the research design and sampling; the data collection analysis; the literature review; the significance of the study and the chapter outline. This study is a first of its kind and conducts a preliminary overview of the determinants of South African retail FDI in Africa.

#### **1.1.1 FDI AN OVERVIEW**

There are as many definitions of FDI as there is literature on this subject. However, it is widely accepted that FDI is an investment development tool made by a company or entity based in one country into a company based in another country. Different types of investments exist, for example, a firm may choose mergers, acquisitions (M&A) and green-field investment as an entry mode in a foreign market. Mergers and acquisitions also known as brown-field investment entails the purchasing of existing production facilities to start new production ventures. Each mode carries with it a varying level of risk and uncertainty in internationalisation (Slangen & Hennart, 2007). Green-field investment is the creation of a new subdivision from the beginning by non-residents or a non-local firm in a host country (Qiu & Wang, 2011).

The purpose of the investing company is to acquire a certain level of ownership in the company in which it is investing. FDI entails the foundation of a lasting interest by a resident enterprise of one economy (direct investor) in an enterprise resident in another economy (direct investment enterprise) different from that of the direct investor (International Monetary Fund [IMF], 1993). The "lasting interest" signals a noteworthy level of control in the management of the enterprise and the continuation of a deep-rooted relationship between the direct investor and the direct investment enterprise. This is usual

evident in the ownership of at least 10 per cent in the voting power of a venture in one country by a resident of another country (Organisation for Economic Cooperation and Development [OECD], 2008). Yang, Wang, Chen and Yuan (2011) in addition view FDI as the result of investment decisions and corporate strategies aimed at dealing with worldwide competition by profit-maximizing firms.

There are numerous advantages associated with FDI. For example, FDI has been identified as a good source of capital for developing countries particularly those that are in Africa, as it is believed that, FDI can assist in closing the gap between savings and investment as noted by Ngowi (2001) and supported by Ajayi (2005). Further, Velde (2006), postulates that, FDI can raise economic growth by increasing the amounts of factors or production through the following: increasing capital or employment directly or indirectly in local suppliers and competitors - in the traditional growth accounting context; or increasing efficiency depending on how these factors are used.

This may be achieved through: the use of superior technology; locating production facilities in high productivity areas; and through productivity spill overs. This view is supported by Aghion and Howitt (1998) who stated that, FDI represents the port through which new capabilities are gained. Importantly, FDI induced productivity change is significant for long-lasting economic growth (for example through spill over to local capabilities). In the same breath, Moolman, Roos and Le Roux (2006) state that, FDI involves the acquisition of a controlling stake in a foreign company or entity and is, thus, more likely to have a greater and longer lasting impact on economic growth.

Whilst, FDI is important for international economic integration, a number of barriers have been identified that affect FDI. For example, Velde (2006) identifies policy barriers to trade and investment as having negatively affected FDI in the past. Policy barriers to trade are defined as a restriction on the international flow of goods and services due to government actions such as through tariffs, an embargo or in the form of restrictions on the repatriation of profits by foreign firms in a host country. Other barriers worth mentioning are political instability, poor infrastructure and lack of manufacturing base in host countries.

For FDI to flourish and to overcome the above highlighted barriers - certain conditions or factors must be in place and these include: political stability; observance of the rule of law; sound economic policies; predictability of government policy; technological advancement; infrastructure and skilled human capital.

Despite not satisfying all of the above highlighted conditions – Africa has remained an attractive destination of FDI for a number of reasons. Basu and Srinivasan (2002) identified market-seeking investment (new markets) as one of the major reasons why Africa has remained a place of choice for FDI. Ajayi (2005) shares the same sentiments and argues that, FDI is responsible for opening new markets in the host country with the purpose of reducing the cost of supplying a market.

It is important note that FDI operates within the same rules of economic and market competition - in the sense that - investors are always seeking to be the first to enter into a particular market. Porter (1986) is of the opinion that, there are “first mover” advantages in the international market such as becoming a global giant firm. This is because early movers into new markets can benefit from early adaptation and beat the competition that might follow. A similar view is advanced by Tanner (2004), who avers that, companies believe that they will not benefit from future market growth and profit if they do not move early and maintain an international presence, by establishing market space in new markets.

Related to the new market argument, is the desire for companies to fully exploit their product life cycle. The product life cycle by Vernon (1966) illustrates how a firm begins by exporting a new product and later undertakes FDI as it moves through various stages of its life cycle which are the new product stage, the maturing stage and the decline stage.

The *new product stage* is characterised by 100 per cent production in the home market. In the *maturing stage*, the product is manufactured in the domestic market and in foreign markets. Production capacity is built in low-cost emerging markets for worldwide markets in the *decline* stage. The product life cycle however still fails to show why FDI is chosen instead of other forms of market entry. Hymer (1970) has attempted to shed light on this conundrum, by attributing this to the Market Imperfections Theory, which states that, firms resort to FDI to cater for market imperfections that make a transaction less efficient. It is important to note that trade barriers are a form of market imperfection because they result in an inefficient operation of the industry. Despite the explanation of Hymer, it submitted that Market Imperfections Theory fails to justify why FDI is chosen as the most desirable entry method.

This study gathered that many developing countries are faced with a huge demand for employment. In an attempt to address unemployment, governments rely on attracting FDI

particularly in the retail sector that is backed by multinational companies which has the capacity to generate hundreds of jobs within the supply chain system. Therefore, most governments in developing countries have created an environment that allows food retailers to negotiate discounts from multinational suppliers Jan Willem, Josten and Valk (2002). In some cases, this has created a win-win situation as food retailers use their bargaining power to negotiate better deals, while, the multinational companies use their capacity and influence to dominate certain markets. Tanner (2004) agrees with the reasoning when he observes that, food retailing firms gain more bargaining power with suppliers, the more they globalise and centralise their activities usually in the home country.

In a study by Coiteux, Rizzetto, Suchanek and Voll (2014) on why Canadian firms invest abroad and implications for exports, these authors propose that the choice between FDI and exports is one of relative costs. That is exports allow for economies of scale and the spreading of fixed costs for domestic operations. FDI on the other hand, signals additional fixed costs of replicating facilities abroad, but enables the firm to avoid trading and border costs. Oberhofer and Pfaffermayr (2012) eloquently add that, FDI strategy results in higher fixed costs and lower variable costs and vice versa for exports. This means that only productive firms can afford extra fixed costs from duplicating facilities and benefit from lower variable costs. The highly productive firms can substitute exports through FDI, while, the less productive firms must rely on exports and higher variable costs caused by barriers to trade (Helpman, Melitz & Yeaple, 2004).

Chung and Enderwick's (2001) likewise offer that, firms first engage in exporting and gradually increase operations to ownership of foreign production and distribution facilities, as they gain knowledge and experience of host markets. However, the submission can be chided in that it ignores the scenario in which a firm might simultaneously decide to export and use FDI as an entry strategy. Agarwal andc Ramaswami; Mahoney, 1992; Trigg, Griffin and Pustay, 1998 make an important observation when they argue that, exporting allows for internationalisation with low risk and resource commitment, but it also results in less control and low profits for the firm. On the other hand, FDI seeks a higher level of control over foreign operations and usually higher profits compared to exporting. Nevertheless, FDI involves greater risks compared to exporting.

Dunning (1996) sums up the reasons for FDI extrapolated above as: market-seeking; resource-seeking; efficiency-seeking; and strategic-asset seeking.



**Market-seeking** FDI is usually the result of transportation costs and government regulations. It aims at supplying local markets in host countries and may represent a higher level of involvement by the firm. This might be after the success of exports or the expansion into a totally new market by the firm.

**Resource-seeking** FDI such as for minerals or raw materials tends to be location specific. It is intended to secure and access cheap raw materials.

**Efficiency-seeking** FDI is aimed at increasing cost efficiency or economies of scale for example by transferring production to low labour cost countries.

**Strategic-asset seeking** FDI is used to build ownership advantages for a firm's long-term expansion plans at home and abroad.

The theoretical literature of OFDI is credited to the OLI theory as explained earlier on. It has already been established that, the theory fails to explain FDI from other developing countries as they do not follow the same stages provided in the OLI framework. Aykut and Ratha (2004) explains that the increase in developing countries' OFDI may be attributed to the rising wealth in emerging markets, regional trade agreements, and changes in trade barriers. Darby, Desbordes and Wooton (2013) concur with this view when they state that more than one third of the total FDI inflows reported by developing countries in 2010 came from other developing countries. Later, other theories such as the Dunning's Investment Development Path (Dunning & Narula, 1996) and the Imbalance Theory (Moon & Roehl, 2001) were developed to try and explain the shortcomings of the OLI as it relates to developing countries' OFDI.

The discussion below investigates the determinants, that is, push and pull factors for outward FDI from South Africa. Thereafter, the discussion aims to investigate the determinants of South Africa's outward FDI using Dunning's Push Factors theory. Dunning (1978) used the eclectic theory also known as the OLI theory, with "O" for ownership, "L" for location and "I" for internalisation to explain the reasons for OFDI.

## **1.2 SOUTH AFRICAN INVESTMENT INTO AFRICA**

South Africa is a major investor in the South - South cooperation through multinational companies (MNCs). Since 1994, South African firms have had a strong economic and investment footprint throughout the continent and this footprint has been increasing.

During the period 1994 to 2004, of the total FDI flows received by the Southern African Development Community (SADC), more than 22 per cent came from South Africa with the share exceeding 40 per cent in some years. UNCTAD (2011) found that, the share of Africa in South Africa's outward FDI stock rose from 8 per cent in 2005 to 22 per cent in 2009. Further, South Africa was the fourth-largest investor in the rest of the continent through FDI projects between 2007 and 2013. These FDI projects have grown at a compound annual growth rate (CAGR) of 44.2 per cent since 2007 (Ernst & Young's Attractiveness Survey: Africa, 2014).

According to Page and Velde (2004), 49 per cent of the inward FDI stock in Botswana in 1999 was from South Africa, of which 60 per cent was through a De Beers Diamonds subsidiary. In SADC, in 2003, 25 per cent of its FDI was from South Africa (African Development Report, 2003). Nkuna (2013) contends that South Africa has emerged as an important source of FDI within the African region. Of the USD 72.29 billion FDI from South Africa in 2010, USD 15.23 billion was spent in Africa and this represented about 57 per cent of the total FDI from Africa.

What has contributed to this increase is the signing by South Africa of Bilateral Investment Treaties with a number of African countries and the gradual liberalisation of South African policy on capital outflows. These together with many other developments has led to increased access by exporters into neighbouring countries. For example, favourable labour practices in other African countries, particularly low wages have attracted some South African companies to invest abroad (UNCTAD, 2004).

Another important observation is by Aykut and Ratha (2003) who note the following push factors such as encouraging OFDI: the rising wealth in emerging markets and capital account liberalisation regarding OFDI; government policies encouraging OFDI; regional trade agreements; and changes in trade barriers. As far as the pull factors are concerned, the authors note the following: geographic proximity; ethnic and cultural ties; size of potential market; and also supply of cheap labour.

Darby, Desbordes and Wooton, (2013) assert that more than one third of the total FDI inflows reported by developing countries in 2010 came from other developing countries, while, South-South flows were responsible for up to 90 per cent of the total FDI attracted. This suggests that developing countries are no longer consumers of FDI as has been the norm but are also emerging strong exporters of FDI.

Intra-African foreign direct investment accounted for around 42 per cent of mergers and acquisitions in the African financial sector in the period 1987 to 2008 and 24 per cent of Green-field investment in 2003 to 2007 (UNCTAD, 2013; UNECA, 2013). AACB and World Bank (2012) state that financial sector integration is being driven to this extent by regional banks only in Africa.

The integration in the retail sector into regional value chains by expanding into new markets on the continent by large African supermarket chains is now common, for example Africa's biggest grocer, Shoprite of South Africa, which now has more than 260 supermarkets in 16 African countries. The growth in size, the need to respond to changing demands and behaviours of customers, and growth in technological sophistication has led to the rising levels of internationalisation among retail businesses (Myers & Alexander 2007).

It is essential to note that shopping centres and malls have been increasing on the African continent and some of these are South African investments (Miller, 2006). However, there are some challenges in penetrating the African market such as choosing the right mode of entry Dakora, Blytheway and Slabbert (2010). The lack of a suitable partner and acquisition targets in most countries also makes partnership or acquisition difficult.

What has distinguished South African retailers in penetrating the African market is that they exploit retail markets that have been characterised by large open-air markets and informal trading activities (Dakora *et al.*, 2010). Other business models employed by South African retailers include franchising although the inclination is towards full ownership unless that is prohibited by the domestic laws of a particular country that they are investing in Games (2008). Major South African supermarket groups that have employed these and other models in penetrating the African market are Shoprite, Woolworths, Spar, Massmart and Pick n Pay (Crush & Frayne, 2011).

### **1.3 PROBLEM STATEMENT**

This study focuses on the economic FDI outflows into Africa from South African retailers. This study investigates South Africa's South-South investment through its retail firms to the rest of Africa. Page and Velde (2004) put it this way, Neo-classical researchers regard FDI and international capital flows as closing the savings gap in developing countries as suggested by developments in the Heckscher-Ohlin approach to trade.

According to the Heckscher-Ohlin approach, trade can only be enhanced if capital flows from rich countries to capital poor countries, because capital is scarce in developing countries. In essence, this means that, there should be no outflows from countries in Africa. This cannot be true as argued already and demonstrated in the above statistics. To further defy the Heckscher-Ohlin approach, South Africa was the single largest investor in FDI projects in Africa in 2012. This authenticated by Ernst & Young's 2013 Attractiveness Survey which found out that in 2012 the number of South African FDI projects increased by 23 per cent. In addition, as of 2013, projects directed into the rest of Africa by South Africa, grew by 425 per cent from its pre-crisis levels and FDI capital to the rest of Africa increased almost 2.5 times its 2012 levels, (Ernst & Young's Attractiveness Survey: Africa 2014).

There is a dearth of empirical literature on retail OFDI and not much has focussed on Africa. Most of the retail FDI research that is available has concentrated on developed countries with little attention to developing countries. Existing research on FDI in developing countries has largely been on the manufacturing and not on the retail sector. For this reason, this study seeks to be one of the few research projects that seeks to contribute to the knowledge and debate on this topical subject. The quest to contribute to this subject has triggered the following research questions.

#### **1.4 RESEARCH QUESTIONS**

- What are the determinants of South African FDI in Africa?
- What is the extent to which push and pull factors determine the level of FDI from South Africa?
- Which determinants feature more prominently than others in determining South African FDI in Africa?

#### **1.5 OBJECTIVES**

The main objective of the study is to examine the determinants that motivate South African FDI in the retail sector into Africa.

The Specific objectives are as follows:

- To examine theoretical underpinnings of the determinants of FDI from South Africa into Africa.
- To examine the major determinants that motivate South African FDI in the retail sector into Africa from 2006 to 2016.
- To identify which of these determinants are more prominent in determining South African FDI in the retail sector into Africa.

## **1.6 METHODOLOGY**

This is a qualitative research study focusing on a selected and specific case study. As part of the qualitative research, semi-structured interviews were conducted as a means to validate the findings of the study. Compared to quantitative methodology, qualitative studies utilise smaller samples that allow for comprehensive interviews that examine personal convictions and perceptions which are critical to the nature of the research at hand. That is, they allow open-ended responses that are flexible in structure, diagnostic and more descriptive (Berkowitz, Ramkolowan, Stern, Venter & Webb 2012).

More importantly, a specific case study was chosen as opposed to a random case study because a specific case study examines an occurrence in its actual surroundings Yin (2009:18).

This study investigated factors influencing FDI outflows from South Africa into Africa with special focus on the retail sector. The period under consideration is a 10-year time period from 2006 to 2016.

In addition, both primary and secondary sources were consulted in order to add value to the study. Data for South Africa's OFDI was obtained from South African Reserve Bank publications, World Investment Report, World Bank and the Labour Research Service (LRS) Multinational Corporations database, to have a general understanding of which sectors South African investors are engaged. Furthermore, access to materials was gained from a range of sources including government sources, electronic sources (Internet) and academic sources. Case studies of some of South Africa's major retailers with African investments were examined.

### **1.6.1 RESEARCH DESIGN AND SAMPLING**

According to Auriacombe (2010) research design is the mode established by the researcher on how to react to the research question. EDCON, The Spar Group, The Clicks Group and company Z were the retailers that managed to participate in the interviews. These retailers cover a wide range of retail groups from food, clothing and health and beauty. They also fit the criteria for the sample in terms of company size, operate nationally in South Africa and have investments in more than one country in Africa. A developer RMB Westport managed to engage in an interview and was important to help understand their role in furthering the investment decisions of South African retailers into Africa.

Case study approach allows for an understanding of the uniqueness of a case in all its intricacy (Welshman, Kruger & Mitchell, 2005:193).

### **1.6.2 DATA COLLECTION AND ANALYSIS**

Semi-structured interviews were conducted in the form of in depth interviews of managers from the selected South African retailers. The interviews will try to address questions such as, what drives South African retail OFDI into Africa.

## **1.7 SIGNIFICANCE**

The knowledge emanating from this study may help many organisations that are involved in FDI not just in the retail sector but the principles from this study may extend to other disciplines that are linked to FDI. The following have been identified as possible beneficiaries of this study: MNCs; research and development organisations; government and non-governmental organisations; and policy makers (to influence the design and implementation of policies and strategies). The examination of home country factors can provide important policy insights since governments and policymakers can affect the domestic factors driving outward FDI and have little effect on the host country factors. Data and research in this area is quite limited and this study intends to contribute to filling this gap.

## **1.8 CHAPTER OUTLINE**

This study is divided into the following sections.

## **Chapter 1**

From the above, this chapter discussed the following: the background of the study; the objectives of the study; and the problem statement.

## **Chapter 2**

This chapter discusses the theoretical and empirical framework of the study.

## **Chapter 3**

This chapter builds on the foundation in Chapter 2 and investigates South Africa's FDI retail sector.

## **Chapter 4**

This chapter broadly examines the state of the retail sector in the rest of the African continent.

## **Chapter 5**

This chapter explores the methodology that will be used in conducting the empirical part of the study.

## **Chapter 6**

This chapter presents the data, analyses and interprets the data based on the objectives in Chapter 1. This section will strive to answer the main research objectives and secondary objectives of the study.

Finally, **Chapter 7** draws conclusions and provides recommendations on the subject matter based on findings from the study.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

The aim of this chapter is to examine different authorities that have written on FDI inflows and outflows with particular focus on the rationale behind such investments. Further, this chapter will investigate the determinants of OFDI. It is important to note that, most of the empirical research on OFDI focuses on FDI in developed countries. Research suggests that, there is little empirical work done on home country determinants of OFDI from developing and transition economies. Also, most of the literature has focused on OFDI from Asian countries with little focus on OFDI from countries in Africa. Kolstad and Wiig (2012) affirm this position when they state that, few endeavours have been undertaken to investigate OFDI drivers from developing countries and the little research that has been conducted, has primarily centred on Asian MNCs especially from India and China.

Considering the above, this chapter proceeds as follows: This chapter is structured as follows: the theoretical aspects of FDI; basis of profit maximisation; investment decisions; FDI push and pull factors; South – South OFDI; Empirical findings; internationalisation; country specific literature; OFDI in other countries; FDI and OFDI risk factors; thereafter, the chapter will conclude.

#### **2.2 THEORETICAL ASPECTS OF FDI**

Kiliic, Bayar and Arica (2014) divide the theories explaining FDI inflows and outflows into three groups, namely: micro-level; macro-level theories; and development theories (combination of micro and macro aspects). Micro level FDI theories focus on oligopolistic markets theory, firm specific advantages and eclectic theory among others. The aim of micro-level FDI theories is to try to explain why FDI is preferred by MNCs to other entry modes such as licensing and exporting.

Macro level FDI theories are based on institutional analysis, exchange rate theory and capital market theory among others. FDI is viewed as a form of capital flow between different world economies to explain the determinants and motivations of OFDI. On the



other hand, development theories incorporate Japanese FDI theories and the product life cycle theory to mention but a few.

As mentioned in the introduction FDI theories have not been properly ventilated and Dunning's (1976; 1988) eclectic or OLI theory is an important contribution to FDI theories. The theory posits that for firms to invest abroad they must possess the following elements:

#### I. Ownership advantages (O)

Ownership advantages indicate that firms invest abroad when they possess certain monopoly ownership characteristics that will exceed the cost of doing business in a foreign country against local firms. This can be through superior technology or economies of scale. Chen (2015) further adds that, the ownership advantage can be in the form of a blueprint or patent that makes it possible to create a production process or product that is immune to imitation. The cost advantage that the firm obtains from the ownership advantage must be more than the disadvantages of doing business abroad. According to Eden (2003: 281) ownership advantages in the "eclectic" theory fall into three types and these are:

- Type 1: firm size and better resource capabilities making it possible for firms to achieve more cost efficiency than their rivals;
- Type 2: being a member of a multi-plant organisation, such as economies of scale in non-production overheads;
- Type 3: multi-nationality in particular the ability of a firm to exploit factor endowment differences across markets and countries.

#### II. Location advantages (L)

Location advantages focus on the potential host countries locational advantages in determining which country to invest. The following factors influence location advantages: the distance between the home and host countries; transport costs; market size; and government policies towards FDI. The locational advantage implies that, foreign production of a product is more profitable than home production and export. Locational advantages are used to determine the host country. In this regard, Denesia (2010: 108) divides the specific advantages of each country into three categories:

- Economic advantages comprising of qualitative and quantitative production factors, market size, costs of transport.
- Political advantages: these are the regular and express government policies that influence FDI flows.
- Social advantages: these include the geographical distance between home and host country as well as cultural diversity.

### III. Internalisation advantages (I)

Although “O” and “L” advantages provide the basis for choosing FDI over exports they fail to illustrate why FDI is preferred to licensing. Problems such as identifying the ideal market price for the license and enforcing the license agreements might compel a firm to opt for FDI. Internalisation advantages determine how a firm enters a host country by weighing the benefits of a wholly owned subsidiary against other forms of entry such as licensing and franchising. If the benefits are higher, firms prefer foreign production to franchising and licensing. Amal, Raboch and Tomio (2009) state that, firms are motivated to internationalise their activities by factors such as mitigating coordination and transaction costs - caused by external factors that lessen risks and uncertainties. Further, firms will prefer foreign production compared to franchises and license agreements when the internalisation advantages are higher for cross-border activities.

The challenge with Dunning’s “eclectic” theory is that it requires all three conditions to be satisfied before a firm considers FDI. Developing countries have defied the Dunning theory in that they still attract FDI despite most them not providing adequate ownership advantages. This has resulted in the extension of the OLI framework to explain FDI from developing countries using the Investment Development Path (IDP) (Dunning, & Narula, 1996).

The IDP theory proposes that a country’s investment development cycle is contingent upon a country’s economic development level. The development levels are divided into five stages. Stage 1 is associated with no inward foreign direct investments (IFDI) or OFDI. This is because a country’s locational (L) advantages are insufficient to attract any FDI. The disadvantages may be caused by lack of infrastructure, uneducated labour force and low per capita income. In stage 2, IFDI starts to emerge and rise in relation to very low or non-existent OFDI.

The expansion and development of the domestic firm generates some “L” advantages providing the option of domestic production for some foreign firms. OFDI in this stage is mostly market seeking, trade-related and usually caused by government push factors such as export subsidies. In stage 3, OFDI increases but it is still surpassed by IFDI in both stages. There is a change as local firms develop ownership (O) advantages like those of foreign firms. OFDI exceeds IFDI in stage 4. Once in stage 4, local firms possess the capabilities to compete with foreign firms and to enter international markets. OFDI finally offsets IFDI in stage 5 (Iacovoïu & Panait, 2014).

In addition to the above theories, this study briefly discusses the Japanese FDI theories advanced by Kojima and Ozawa (1984). These theories are part of the development theories and provide for three waves of FDI, namely:

- Economic development begins from under-developed based on labour costs and there is also IFDI;
- Developing economies associated with IFDI and OFDI;
- Development through serious innovation and competition.

The theory postulates the notion that Japanese firms were forced to invest abroad after being incapable of competing domestically (Nayak & Choudhury, 2014). Companies are willing to take on such an investment if there have a comparative disadvantage of producing in their own country. Under this theory, OFDI is used as an escape response by firms that have failed to compete in the domestic markets. However, this theory does not take into cognisance the internationalisation of competent firms. Japanese FDI theories are criticised for completely ignoring the drivers for OFDI particularly for firms that compete favourably in the domestic market and still engage in OFDI.

Moon and Roehl (2001) introduced the imbalance theory to try to explain the inadequacies of existing theories in explaining FDI that occurs in less developed countries (LDCs), especially the way LDCs invest in developed countries. The theory is derived from Penrose’s (1959) firm resource portfolio imbalance, notwithstanding that, Penrose gave little attention to FDI. This was because investors from developing countries rarely possessed ownership advantages equal to or surpassing those of firms from developed countries. According to the imbalance theory, firms experience both advantages and disadvantages.

However, conventional theories focused on the ability of a firm to exploit its advantages whilst being inconsiderate to the disadvantages as drivers of FDI. Yim (2013) emphasises that, the imbalance theory can be used and expanded to the entire chain of a firm's operation and not only limited to strategic assets and firm resources. Further, the imbalance theory best explains market seeking. Below is a discussion on the type of investment and mode of market entry beginning with the theoretical basis of profit maximisation.

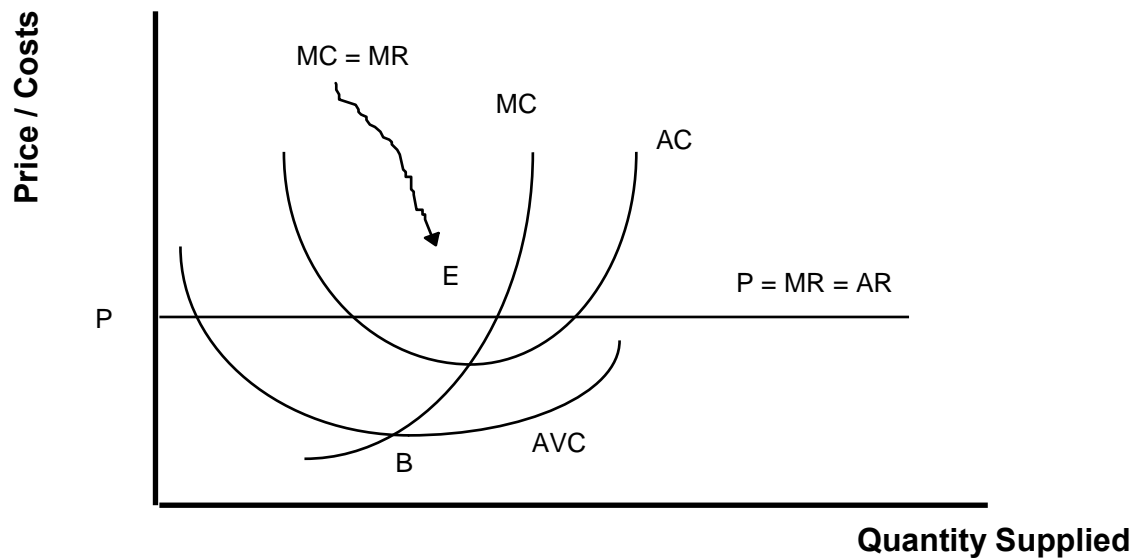
### **2.2.1 THEORETICAL BASIS OF PROFIT MAXIMISATION**

Frank (2008) defines profit (economic profit) as the difference between total revenue (TR) and total costs (TC), in which TC are all the costs associated with resource use by the firm. Economic principle assumes that firms are driven by a profit motive. When a firm does not strive to achieve maximum profit and minimum cost out log, it will eventually be liquidated and forced to leave the industry (Mankiw, 2014). The neo-classicals assumed that the principal purpose of a business firm is profit maximisation and that profits were maximised when marginal costs (MC) where equal to marginal revenue (MR). They were also of the view that this occurred when MC intersects with MR from below. This observation is supported by Jehle and Reny (2011) who opine that, decision making by firm owners on acquiring and combining inputs as well as marketing output is aimed at maximising profits. However, the authors agree that this may not be the only motive of the firm.

Under perfect competition all firms are price takers and quantity adjusters. That is, they only have control over the quantity they supply in the market and not the price they charge for their goods. In conditions of perfect competition MR is equal to average revenue (AR). MR is horizontal since price (P) is determined by the market. Therefore, profit maximisation occurs when  $MC=MR=AR$  (P). This can be seen in figure 2-1.

Profit maximising firms invest in production facilities abroad to make use of locational advantages created by a host country's resource endowments and geographical position (Friedman, Gerlowski & Silberman, 1992). The production facilities are replicated at a profit maximising site in the host country.

**Figure 2-1: Profit maximising**



Source: Mankiw, 2014

### **2.2.1.1 INVESTMENTS**

Retail businesses expanding to other African regions normally operate in different market segments serving various customer profiles.

Expansion into Africa may be economically efficient and dynamic for retailers. The greater labour-intensity of these retailers has been noted, but this is no guarantee of superior performance. In theoretical terms, what is needed is to establish a firm that has a higher economic return to the resources committed to it than in other regions.

A higher return to a retail firm can be expressed as:

$$(VA_A - L.w_A)/K r_A > (VA_{SA} - L.w_{SA})/K r_{SA} \quad (\text{eq.1})$$

Where VA is the value added, L is units of labour, K is units of capital in monetary terms, w is the cost of employing a worker (the opportunity cost labour), r is the expected economic return on capital (opportunity cost of capital) and the subscripts A and SA refer to various firms.

Each variable is expressed per unit of standard output, for example, VA is value per unit of output, L is the number of workers per unit of output and K is the value of capital per unit of output.

Equation 2 can be written as

$$(VA_A/Kr_A - Lw_A/Kr_A) > (VA_{SA}/Kr_{SA} - Lw_{SA}/Kr_{SA}) \quad (\text{eq.2})$$

Firms operating in African countries are generally labour intensive, hence,  $(L/Kr_A > L/Kr_{SA})$ . For the equation 2 to hold, labour intensity should be offset either by higher capital productivity in smaller firms such that  $(VA_A/Kr_A > VA_{SA}/Kr_{SA})$  or lower economic wages  $(w_A < w_{SA})$ , alternatively, a combination of both.

Although wage rate tends to be higher in South African firms, there is no guarantee that this or a capital productivity differential will be sufficiently high to offset the larger labour to capital ratio in African firms. Insofar as this type of economic return calculation has been carried out, it suggests that African firms might be more efficient (Weiss, 2011:166). Generalisation about the impact of size on efficiency and growth prospects must be qualified by reference to the different sub-sectors of retail since the impact of scale on unit costs (economies of scale) can vary between activities.

Weiss, 2011:167) established that the existence of economies of scale in developing countries in some sub-sectors are modest. Generally, small firms in Africa may witness a decrease in their unit costs of production if they can survive long enough. Other factors that may make a difference to average unit costs for some sectors include moving from small to medium size and/or moving to another region.

However, beyond a certain output level which varies between sub-sectors, further expansion may have little effect on unit costs. Therefore, scale effects will vary, depending on what region or size of the firm is being considered and the branch or sub-sector in which it is located (Weiss, 2011:167).

### **2.2.1.2 GENERAL REASONS WHY COMPANIES DECIDE TO INVESTMENT AND ENGAGE IN MULTI-PLANTS**

Companies that globalise their business flourish quickly and have less chances of failure than companies that stay or only do business in their home country (Briggs, 2013). One of the main reasons why firms internationalise is the desire for firm growth Twaroska and

Kakol (2013). In addition, the profit maximisation and use of a firm's assets base to boost its growth have been cited as some of the reasons why firms engage in foreign production as opposed to other forms of investment such as selling licenses and patents (Blomstrom & Kokko, 2000). Below is a brief discussion on selected reasons why companies decide to invest and engage in multi-plants.

#### I. Increase sales and Improve profits

An increase in sales will most likely increase the company's overall revenue. This is because most of the world's population lives outside of any individual country therefore there is a high chance of increasing the market for their products (Briggs, 2013). The need to increase profits remains a major motivator for firms to invest abroad, for example firms may decide to enter markets abroad that have the potential for high profits.

#### II. Trade barriers

Market Imperfections Theory by Hymer (1970) states that firms resort to FDI to cater for market imperfections that make a transaction less efficient. Trade barriers are a form of market imperfection because they result in an inefficient operation of the industry. In their study on why Canadian firms invest abroad and implications for exports, Coiteux, Rizzetto, Suchanek and Voll (2014) state that, the choice between FDI and exports is one of relative costs. That is exports allow for economies of scale and the spreading of fixed costs for domestic operations. FDI on the other hand signals additional fixed costs of replicating facilities abroad, but enables the firm to avoid trading and border costs. This implies that, only highly productive firms can substitute exports through FDI while the less productive firms must rely on exports and higher variable costs caused by barriers to trade (Helpman, Melitz & Yeaple, 2004).

#### III. Short – term security

Firms may also invest to ensure that the business will be less susceptible to periodic fluctuations and downturns in the home country when they have operations in other countries that are more stable (Briggs, 2013).

#### IV. Economies of scale

Exporting makes it possible to grow a business with products that have more worldwide acceptance. Economies of scale are achieved when increased output production results in a decline in per unit costs due to the spread of fixed costs.

#### V. Education

Firms are not only motivated to invest abroad by monetary gains. They may invest to learn from the best in order to be the best.

#### VI. Controlling expenses

Firms might decide to reduce overhead costs by locating plants in host countries with deflated currencies Twaroska and Kakol (2013).

#### VII. Competitiveness

To safeguard against competitors and potential competitors or gain an advantage over them such as first mover advantages companies may decide to invest abroad (Blomstrom & Kokko, 2000).

It is important to note that, the above reasons are not exhaustive, however, one must understand that the above reasons influence the choice of investment by a firm. Further, the above reasons have an impact on the method that the firm will choose to make an entry into a particular market in a specific country or countries.

### **2.2.2 TYPE OF INVESTMENT AND MARKET ENTRY**

The foreign market entry mode is of strategic importance because the performance of the investing firms can be affected by choice of entry Amighini, Cozza, Giuliani, Rabellotti and Scalera (2015).

In a survey sample of 138 Chinese firms with foreign investments, Cui and Jiang (2009) established that, host market entry is affected by the firm's tactical fit and aspiration of coordinating FDI in the host market. Their findings suggest that high growth host markets are associated with joint venture entry modes and Chinese firms are a good example. On the other hand, when a firm's goal is globalisation, asset seeking FDI or there is serious industry competition in the host market, their primary entry mode is through wholly owned subsidiaries.



Madhok and Keyhani (2012) conducted a study to explore the prompt globalisation through acquisitions in developed markets of many emerging market multinationals (EMNE). They established that acquisition allows the firms to overcome what is termed “liability of emergingness”. The “liability of emergingness” is an added investment barrier that EMNEs have to overcome. As noted by Amighini *et al.* (2015), EMNE are continuously using joint ventures and M&A in their globalisation strategies. These modes allow investors’ expeditious foreign market entry and access to strategic assets such as distribution networks and prestigious brands.

This is in line with Globerman and Shapiro’s (2009) findings on Chinese FDI in the United States of America (USA). The study illustrates that Chinese firms favour acquisitions compared to green-field investments due to the insufficient experience of their managers and huge cultural distance. The following sub-section will consider push factors for OFDI.

### **2.2.3 PUSH FACTORS FOR FDI**

Groger-Suzuki (2005) states that, push factors for OFDI are grouped into extraneous and endogenous factors. Extraneous factors consist of: political; economic; social factors; restrictive and regulatory environment; anti-business culture; low growth potential; mature markets; and population stagnation. Likewise, Wrigley and Lowe’s (2010) maintain that OFDI arises because of tightly regulated home markets. Describing the major push factors for the Malaysian OFDI, Ariff and Lopez (2007), identify rising wealth for individuals, corporations and a pro-investment government as some of the leading push factors.

Endogenous factors include the retail structure and internal issues. UNCTAD (2007) identified the following endogenous factors: a saturated and hostile competitive environment; advantages in the firm’s strategy; and an unfamiliar cultural climate. These may hinder OFDI from home markets. Sauviant (2005) shares the same sentiments by stating that, competitive pressures at home are exacerbated by foreign competition through IFDI and imports.

Buckley, Clegg, Cross, Liu, Voss and Zheng (2007) investigated the determinants of Chinese OFDI with a focus on variables such as institutional factors, special ownership advantages and capital market imperfections. The authors established that, OFDI was correlated with high levels of political risk. Furthermore, OFDI is determined by both the micro and macro-economic level in the home market Groger-Suzuki (2005).

Below is a discussion on the pull factors for FDI.

#### **2.2.4 PULL FACTORS FOR FDI**

Pull factors are the determinants in the host country responsible for attracting FDI into that country. These may include: market size; economic stability; growth prospects; infrastructure; labour costs; and trade openness. A panel data analysis by Ranjan and Agarwal (2011) found out that, the above factors as potential determinants of inward FDI in Brazil, Russia, India, China and South Africa (BRICS) member states. The stable macro-economic conditions and lower inflation have enabled some countries in SSA such as Botswana to attract Chinese FDI in the construction industry (Mlachila & Takebe, 2011). In the case of Botswana, additional pull factors include economic liberalisation, deregulation, privatisation and preferential trade schemes as useful pull factors for Chinese FDI in SSA.

Bevan and Saul (2004) investigated the determinants of FDI into European transition economies. The authors used the panel data analysis of bilateral FDI flows from Western European Union (EU) countries into Central and Eastern European countries. Their findings suggest that FDI is determined by host market factors such as geographical proximity, market size and the labour cost per unit. This corroborates with the findings Nonnenberg and Cardoso de Mendonca's (2004) who established the positive correlation between FDI and host market factors such as trade openness and macro-economic performance. Below is a discussion on the empirical determinants of OFDI.

#### **2.3 EMPIRICAL FINDINGS ON DETERMINANTS OF OFDI**

The increase of capital investments in some developing countries and uncertainty surrounding, unstable financial flows, such as the financial crises has led to the rise in developing country OFDI Dahlberg (2005). A good example is the 1997 East Asian financial crisis, which resulted in a surge in the South-South FDI.

In a Bangladesh study spanning from 1972 to 2007, Rahman (2011) by using the multivariate granger causality and Johansen co-integration to examine the relationship between foreign investment and international trade established that a co-integration relationship exists among export, imports and FDI. Nonetheless, FDI is revealed to granger-cause imports and not exports, and contrary to expectations, trade does not granger cause FDI. Brooks (2008: 298) defines granger-causality as a statistical concept

that implies the correlation between the present value of a variable and the previous values of others. The next section examines literature on why firms have been expanding or moving into other countries.

### **2.3.1 INTERNATIONALISATION**

Empirical research from the 1980's disputes the proposition that retailer internationalisation was mainly a reactive response to unsuitable home market conditions (Alexander, 1997). This corresponds with Williams' (1992) findings on British retailers' internationalisation that their decision to move into foreign environments was pro-active for most firms. They aspired to obtain profit growth through a successful trading formula, while limited growth at home was less evident as an expansion driver into foreign markets. McGoldrick and Fryer (1993) assert that, the push factors for a retailer's internationalisation vary over time. As firms attain more experience in global expansion, objectives are modified and the need to take advantage of trading competencies becomes more important. Similarly, Akehurst and Alexander (1995) are of the view that, for major retailers that intend to remain relevant, internationalisation becomes essential. This is because internationalisation creates possibilities for operational development, which are scarce in exclusively domestic retail markets.

Lahouasnia (2010) indicates that the internationalisation of retailing report suggests that retailers from many developed markets have been pushed to look for new market opportunities due to home market saturation. According to the report the biggest drivers of the global retail expansion are domestic market saturation and the high growth rate of developing markets. To avoid falling margins and sales, retailers from saturated home markets in developed countries try to distinguish themselves through internationalisation (Hanf & Pall, 2009).

In their study on the patterns of internationalisation of Chinese and Indian firms, Athreye and Kapur (2009) found some familiar components. The authors postulate that, the rapid growth experienced in recent decades, by both countries, has resulted in substantial portfolio capital and inflows of FDI. Augmenting the high rates of domestic saving, these inflows generated large macro-economic level capital reserves that led to the mitigation of policy restrictions on capital outflows. They account for the rise in OFDI, because of the elementary global financial markets credit conditions. Therefore, internationalisation occurred spontaneously for Chinese and Indian firms as policies became more relaxed

towards OFDI. Das and Banik (2015) confirm this, stating that the process of globalisation and economic development results in OFDI occurring naturally.

In China, distortions in the financial intermediation process, combined with a high rate of private savings, may have driven down the rate of return on domestic investments, forcing firms to look overseas for lucrative opportunities. Morck, Yeung and Zhao (2008), concur with this in their study of distorted capital allocation, a high savings rate, and weak corporate governance.

These are the features in China's macro environment that might increase China's OFDI. The authors further suggest that, the distorted capital flow caused by the banking sector and governance structure in China, is one of the main drivers of Chinese OFDI due to the inability to efficiently reinvest high corporate and individual savings. Boisot (2004) and Child and Rodrigues (2005), confirm this suggestion by acknowledging that, drivers of Chinese firms' internationalisation intended to curb competitive disadvantages resulting from operating solely in the domestic market. This is achieved through regional protectionism, which might prevent advantages of economies of scale. In a survey of 153 developing countries where there are Chinese MNCs, Luo and Wang's (2012), established that perceived institutional hardship and competitive pressure impact their foreign investment strategies.

Research on retail internationalisation shows that, early retail OFDI in Europe occurred not as an escape response from home markets, but rather to make use of trading formulas that worked well for firms in their home markets. However, literature on the existence or non-existence of excellent trading formulas as driving factors for retail OFDI remains limited. The next section considers firm specific determinants of OFDI.

## **2.4 FIRM SPECIFIC DETERMINANTS OF OFDI**

Firm-level determinants are important because they determine ultimately whether a firm will expand abroad after consideration of all relevant variables. Wang, Hong, Kafourous and Boateng (2012) analyse the factors pushing OFDI of emerging-market firms using a comprehensive firm-level Chinese dataset. The authors established that, the industrial structure and government support of the home country play an important role in explaining OFDI for the investing firm. They observed this after testing and integrating insights from industrial organisation economics, resource-based view of the firm and institutional

theory. Due to lack of reliable data “round tripping” might have occurred and not been accounted for in this study. Round tripping occurs when citizens take capital out of the country and bring it back to the same country as OFDI to take advantage of the benefits for OFDI such as subsidies or exchange rate gains.

In a study on the possible push factors of OFDI that propel multinational enterprises from Malaysia and Thailand to invest abroad for the period from 1980 to 2006, Masron and Shahbudin (2010) identified the following push factors: home government policies; costs of production; domestic business conditions and market conditions. According to the authors, these were all consequential to the decision to invest abroad by domestic investors. For both economies, domestic market conditions are the most influential for OFDI push factors.

Kalotay and Sulstarova (2010) conducted an investigation of Russian MNCs investing abroad. The investigation included the sectoral and geographical breakdown of their investments. Further, the investigation was based on the hypotheses derived from the FDI theory on the modelling of such OFDI. Their results concluded that, the Russian OFDI has been impacted by the policy changes in the Russian Federation. Kalotay and Sulstarova investigation can be criticised in that it focused on Russian mergers and acquisitions abroad and it omits green-field investment. The Russian study utilised dummy variables to capture the impact of policies on OFDI.

The key drivers for the Indian MNCs internationalisation are identified as the need to pursue customers for niche products, for example, information and technology (IT) services. This can be attributed to the fact that India is saturated and is able to provide sophisticated products and services at lower prices due to lower production costs. Inevitably, this provides Indian firms with a competitive edge that enables the firms to compete in established international markets.

## **2.5 REGIONAL LITERATURE ON FDI**

This section will focus on various regional studies on OFDI push factors. The examination of regions is important as it helps us observe the differences and similarities in OFDI drivers for various regions. Firstly, an examination of the concept of South-South OFDI and this will be followed by an analysis of OFDI from developing countries in various regions.

### **2.5.1 SOUTH - SOUTH OFDI**

South-South OFDI refers to the OFDI from developing countries into other developing countries. After 1994, South Africa experienced a relaxation of capital flows, higher home production costs and a saturated domestic market that resulted in pushing traders across the borders (Daniel, Naidoo & Naidu, 2003; Miller, Saunders & Oloyede, 2008; Dakora, 2012). In the same context, Weatherspoon and Reardon (2003) add that, South African retailers such as Shoprite undertake OFDI to the rest of Africa partly due to saturation or near saturation of the South African market. Further, (Dakora & Bytheway, 2014) with reference to Massmart acknowledge that, business beyond South Africa's borders earns higher margins than stores in South Africa, earning twice as much in bottom-line terms than stores within South Africa.

It is also important to note that under the Presidency of Thabo Mbeki, in particular his project of Renaissance and the formation of the New Partnership for Africa's Development (NEPAD), OFDI was paramount.

South Africa's firms also have an appetite to leverage their existing assets. This compels South Africa's retailers to expand globally for reasons such as global purchasing relationships and global supply chain (Dennis & Piatti, 2015). Basically, South Africa's firms are on a continuous endeavour to globalise their operations.

In this study, globalisation means more competition from better positioned global firms than for local firms, for example, the purchase of Massmart in South Africa by Walmart. On the same note, Disenyana and Sogoni (2014) state that, leading retailers such as Massmart and Shoprite continue to search for continental growth as the South African grocery retail sector escalates in saturation. In addition, Price Waterhouse Cooper (PWC) (2012) observe that, the entrance of Walmart a global retail leader into the South African market means that retailers have to be efficient in order to remain competitive and relevant (Bezuidenhout & Kleynhans, 2015: 105). The saturation of the local market as well as other factors such as regional integration have pushed South African OFDI onto the continent.

Aykut and Ratha (2004) also discuss factors behind the rise in South-South flows, and distinguish between pull and push factors but do not deal with the African context. Some of the push factors include: rising wealth in emerging markets and capital account

liberalisation regarding outward FDI, changes in trade barriers, regional trade agreements, and government policies encouraging outward FDI.

## **2.5.2 LITERATURE ON OFDI PUSH FACTORS IN ASIA**

Using data for 13 developing economies for the period 1980 to 2002, Banga (2005) attempts to determine the drivers of OFDI from South, East and South-East Asian developing economies. The author focuses on the effect of trade on OFDI. An empirical analysis is conducted using panel data techniques for a set of trade related drivers, domestic drivers and capability related drivers. The findings highlight that trade has substantially facilitated OFDI from developing economies.

Push factors such as domestic constraints are also significant drivers of OFDI. Examining home drivers of China's regional OFDI, You (2015) suggests a theoretical framework that incorporates an extended IDP theory, policy incentives, geographic factors and home locational constraints. The study exploited the Bayesian Averaging Maximum Likelihood Estimates method empirically, to address uncertainty. The findings highlight the significance of government policies, but, disregard the stance that OFDI is automatically generated as income grows, contrary to the original IDP hypothesis.

Chen (2015) analysed the home province determinants of OFDI flows for the period 2003 to 2012 for China's provincial firms. The author utilised the Dunning's OLI framework and the IDP theory. In addition, the study used development related variables of the home country to describe the levels of OFDI. Making use of the IDP theory, the results indicate a convincing positive relationship between OFDI and home country development. Export to GDP ratio, innovation, technology and provincial economic development are statistically significant, while provincial market size, IFDI and import to GDP ratio are not. These studies highlight the significance of home factors in driving OFDI from countries. Also, these studies make a case for the IDP theory and its explanation of OFDI home determinants after adjustments, such as, the incorporation of home institutional factors into the IDP framework.

The next section focuses on Latin America MNCs, which is home to a number of developing countries. This is because some Latin American firms have become global through internationalisation. It is important to examine the drivers of FDI for Latin American firms and to draw comparisons from comparable countries and economic regions.

### 2.5.3 LATIN AMERICAN MULTINATIONALS

Research on Latin America's MNCs provides an important insight into the drivers of OFDI for firms in this region. Preliminary findings suggest an interest to expand into markets that are politically unstable or similar to their home markets. Firms from Latin America that invest in politically unstable environments are unfazed by the political instability mainly because they have experienced similar political instability in their own countries and they have mastered the skills of doing business in these types of harsh environments. On the contrary, firms from European countries are unwilling to make such investments as they consider such instability as a risk and bad for investment.

Cuervo-Cazurra (2016) opine that, Latin America's MNCs are motivated to expand abroad in cases where there are pro-market reforms, geographic isolation, political uncertainty and violence in home countries. As intimated above, harsh home environments might drive expansion abroad as a learning curve for the managers of firms. It has been observed that, managers from countries with unstable political systems are much more willing to expand to countries with similar conditions as they have experience on the navigation and operation in these types of environments. Contessi and El-Ghazali's (2010) submit that, firms from developing countries may possess advantages over their developed counterparts when operating in other developing countries with poor institutions. This is usually because they may have more experience dealing with challenging conditions due to home experience in similar environments. The other reason is that internationalisation might occur as an escape response to home country conditions (Holburn & Zelner, 2010).

Garcia-Canal and Guillen (2008) hold the position that, domestic competition evolved in significant ways due to deregulation, globalisation and privatisation. Falling margins due to home market deregulating drives internationalisation, as firms try to recoup decreasing margins by venturing into foreign markets where margins are higher because of regulations (Bonardi, 2004). Another observation is that, internationalisation is a proactive response by a firm's management to changes made by other firms in the competitive environment and to provide for uncertainty (Fabian, Molina & Labianca, 2009). If competitors internationalise, this might induce firms to do the same. Kobrak (2002), however, argues that firms might be more responsive to political and macro-economic incentives than competitive pressure in their decision making.



#### 2.5.4 OFDI IN OTHER COUNTRIES

Stoian (2013) combines the Investment Development Path (IDP) with institutional theory to explain the impact of home country institutional factors on the level of OFDI. He uses the random effects estimations on an extensive panel dataset comprising of OFDI from 20 Central and Eastern European countries (CEE). The author's findings support the IDP's main proposition institutional factors in home country are critical for firms in determining OFDI. Research has shown that, the inclusion of institutional variables increases the explanatory power of the model and that competition policy as well as the overall institutional reforms play an important role in explaining OFDI from CEE countries.

Saada, Noora, and Norb (2011) used simple multiple regression analysis to determine the factors influencing the Malaysian OFDI from home market, such as, the export level, the cost of skilled labour, market, and the availability of natural resources for the period 1980 to 2009. Their findings advance a strong argument of the influence of domestic factors on OFDI performance. Also, included are the cost of skilled labour and export as important causes of Malaysian OFDI. In addition, Saada *et al.*, (2014), conducted multiple regression analysis to determine Malaysia's OFDI on time series data beginning from 1981 to 2011. This was done using the using Dunning's Push Factors theory, with a different set of variables. The results concluded that levels of IFDI stocks, exchange rate, export level, GDP, productivity level and patent are the major push factors of Malaysia's OFDI.

In their investigation of the macro-economic determinants of Malaysian OFDI, Kueh, Puah and Mansor (2009) use exchange rates, trade openness, interest rates and real income. Their investigation makes use of the Johansen and Juselius co-integration test and a Vector Error Correction Model (VECM) to analyse the quarterly data from Q1:1991 to Q4: 2005. They found out that, all the variables they examined positively affected the Malaysian OFDI in long-run. However, interest rates were revealed not to granger-cause OFDI in the short-run. This concurs with Chowdhury (2011), who examined the major determinants of OFDI from India and utilised the co-integration and VECM for the period 1970 to 2009. Findings revealed that, trade and financial liberalisation had encouraged the extensive outflow of investment and acquisition by Indian firms. In addition, the domestic economic environment, the large influx or inflow of foreign capital and increased domestic savings are some of the factors significantly and positively influencing India's immense OFDI. Granger causality test reveals that, although all the stipulated variables

are Granger causing OFDI, the same does not hold true for OFDI as it does not Granger cause any of the factors determining the OFDI from India.

Das (2013) investigated diverse home country determinants of OFDI from developing economies for several developing economies against a few of developing economies. His thesis was to find the role of home country determinants (1996 to 2010) using a panel data econometric framework. In this case, political risk, science and technology investments, level of economic development and globalisation were shown as instrumental determinants for developing countries.

Kayam (2009) investigated push factors that drive OFDI from 65 developing and transition countries in the period 2000 to 2006. The objective was to determine whether small market size, local business conditions, costs of production and trade conditions are the main push factors for OFDI. The investigation used the fixed effects estimation technique is utilised using variables that measure infrastructure, labour market conditions, trade, income and economic stability to inspect the effects of these factors. Proxies such as corruption, bureaucracy and investment risk were used for institutional environment to reflect both the political and economic push factors for FDI.

Findings revealed that OFDI from developing countries expands with foreign competition in the domestic market elevated by IFDI. Therefore, improvements in bureaucratic quality, investment profile and government stability should result in OFDI decrease. This confirms the argument that MNCs from developing countries are formed as an escape response from the economic and political conditions in the home countries.

In another study by Le and Zak (2006), proposes a portfolio choice model that relates capital flight to return differentials, three types of risk: economic risk, political instability and policy variability as well as risk aversion. All three types of risks have a significant impact on capital flight after evaluating the equilibrium capital flight equation for a panel of 45 developing countries for 16 years. After conducting a quantitative analysis, political instability was identified as an important component associated with capital flight. These studies agree on the effect of political risk in driving FDI from home countries.

In a study on Portugal, Buckley and Castro (1998) proposes an investment and development relationship which relates to per capita income from 1943 to 1996. The findings affirmed earlier observations that, the investment development path is affected

by government policy and by external political events, in particular Portugal's accession to the European Economic Community (now the European Union).

## **2.6 THE ROLE OF GLOBAL SUPPLY CHAINS IN INVESTMENT FLOWS**

Baldwin's (2014) study points out that the distribution of supply chains geographically has become more viable and profitable due to the advances in communications technology. This is because it has become cheaper to organise complex ventures from afar. The revolution in inventory management and procurement logistics has enabled the consolidation of distribution and the centralisation of procurement in the retail sector so as to reduce costs in the system (Reardon, Timmer, Barrett & Berdegue; 2003). This has led to large savings through economies of scale and cost reductions in coordination. Investment in new stores has also been driven by these gains. In addition, Simpson (2012) states that the need to survive and increase profits pushes firms to invest abroad and this OFDI may in effect lead to more investment and output than if the firm only operates in the local market.

According to the Global Value Chain (GVC) Initiative at Duke University, "A global value chain describes the full range of activities undertaken to bring a product or service from its conception to its end use and how these activities are distributed over geographic space and across international borders." (DFAIT 2011). Therefore, GVCs comprise a range of activities performed by firms in different geographical locations, regionally or globally and are thus networks of borderless business systems. World Bank (2000) globalisation involves the global circulation of goods, information, ideas, services and capital. This is supported by Gereffi (1999), who goes on to say globalisation opens up world markets and increases competition by altering the competitive dynamics of industries, nations and firms. Therefore, GVCs comprise a range of activities performed by firms in different geographical locations, regionally or globally and are thus networks of borderless business systems. According to the African Economic Outlook (2014), firms that optimise their sourcing strategies through the separation of production stages use global value chains (GVCs).

The way in which goods and services are produced has been revolutionised through Globalisation. Production networks, now cross borders even for a single product, even the entire globe. Intra-African value added is more prevalent in the more integrated regions of Southern and East Africa. African Economic Outlook (2014), using OECD and

WTO (2013) case studies of surveys among governments and firms, and regression analysis with the UNCTAD-Eora GVC data agreed on the importance of a stable political and macro-economic framework, good infrastructure (transport and utilities), logistics capabilities, and the ease of doing business for integrating into global value chains. Barrientos and Visser (2012) propounded that South African producers selling to other African countries and Asian and Middle Eastern supermarkets that pay lower prices for their produce can still be able to achieve same profits compared to those in European supermarkets. This occurs due to cheaper input costs and less monitoring and standards in other African countries and Asian and Middle Eastern supermarkets.

Dakora, Bytheway and Slabbert (2010) advocate that substantial research has been done in retail internationalisation, however, the main focus has been on the developed world with little attention being paid to developing economies, especially those in Africa. Where Africa is studied, little attention is paid to retailing, as most previous research focused on manufacturing and pure service industries despite the recent increase in retail internationalisation (Park & Sternquist, 2008). Having observed and studied the literature on OFDI it is still apparent that research on OFDI from countries in Africa is still lacking. This is especially true for countries such as South Africa, which emerged as one of the continent's largest suppliers of OFDI in the World Investment Report (2014). This therefore calls for the need for this current research to add to the current knowledge base. The above highlighted that a strong focus was on the determinants of OFDI for developing countries in Asia, but these might not necessarily apply to developing countries in Africa.

## **2.7 SUMMARY**

The main findings of the literature illustrate the shortcomings of the OLI-theory, in explaining OFDI from developing countries, where “O” for ownership advantages, “L” for locational advantages and “I” for internalisation advantages. This is because many developing countries do not possess any ownership advantages which are necessary for OFDI to occur. The theory was designed to explain OFDI in manufacturing and encounters problems when applied to the retail sector. An insignificant amount of the research has focused on retail sector OFDI. Svetlicic (2003) finds that the Investment Development Path (IDP) fails to operate efficiently when applied to transition and developing countries and this is because of “leap frogging global” whereby some developing countries skip some of the stages expressed in the IDP theory. The IDP theory alone also fails to explain why some developing countries are unable to conduct global

activities regardless of having moved through the economic development stages. In the case of developing and transition countries, available research also highlights that IDP cannot be used as a prediction mechanism.

The literature on institutional factors seems to suggest that government policies and actions can promote OFDI, for example through cheap loans provided to firms for globalisation activities.

There is therefore a need for more knowledge and to augment existing literature explaining retail sector OFDI from developing countries. The growing trend in the pattern of retail OFDI calls for further study on the motivation and drivers for OFDI. There is also a lack of recent literature, most of the literature is outdated. The theories and empirical literature have highlighted how the decision to invest abroad is determined a combination of factors in the home and host countries. This research will examine the determinants for South African retail OFDI to discover if it identifies with existing theories or if it has a different pattern.

The following chapter investigates the retail industry in South Africa and provides an overview of the country's most important retail companies.

## **CHAPTER 3**

### **OVERVIEW OF THE SOUTH AFRICAN RETAIL SECTOR**

#### **3.1 INTRODUCTION**

This chapter provides an overview of South Africa's retail sector. The retail sector is involved in selling goods or services directly to consumers. Tustin (2004) states that, retailing goes both ways and accomplishes a dispensation purpose in the market, linking the manufacturer to the end user. Retailers also have an informative role between the consumer, government and manufactures. Consumer feedback is important and monitoring consumer spending is one of the ways to measure this feedback. Retailing has different forms, for example, shops, departmental stores, supermarket chains and kiosks. By African standards, South Africa has a wide retail sector that even extends regionally and internationally (Price Waterhouse Cooper (PWC), 2012).

A global comparison of South Africa's retail firms highlights that the top five South African retailers are part of the world's largest 250 retailers. These retailers contributed towards the USD 4.3 trillion as part of the total global revenue for the June 2013 financial year (Wholesale & Retail SETA (W&R SETA), 2014). In that same year, the retail sector profit margin was at 3.9 per cent with the highest profit margins accruing in the clothing, footwear, textiles and leather goods sector at 10.8 per cent.

This chapter proceeds as follows: first, an analysis of the retail sector contribution to the GDP; second, a description of the various types and size of retail in the country; third, an examination of the South Africa's retail sector; fourth, a market overview as well as a breakdown of retail sales; fifth, an analysis of some of the major retailers in South Africa with investments in Africa; sixth, an analysis of market saturation; and the chapter concludes by a summation of the key findings.

#### **3.2 RETAIL SECTOR CONTRIBUTION TO GROSS DOMESTIC PRODUCT (GDP) AND EMPLOYMENT**

A substantial portion of the economy is driven by the spending of consumers and retail sales are used as an essential economic indicator (Cooke, Prabu and Steele, 2016). The retail sector also has a significant potential to integrate untrained workers and train them

to be cashiers in stores; which in turn enhances the sustenance of many South Africans. Malgas, Khatle and Mason (2015) submit that the retail industry can create sustainable employment in South Africa because of its large impression in urban and rural areas. The table below indicates the sectorial contribution of retail sector to GDP from 2009 to 2011.

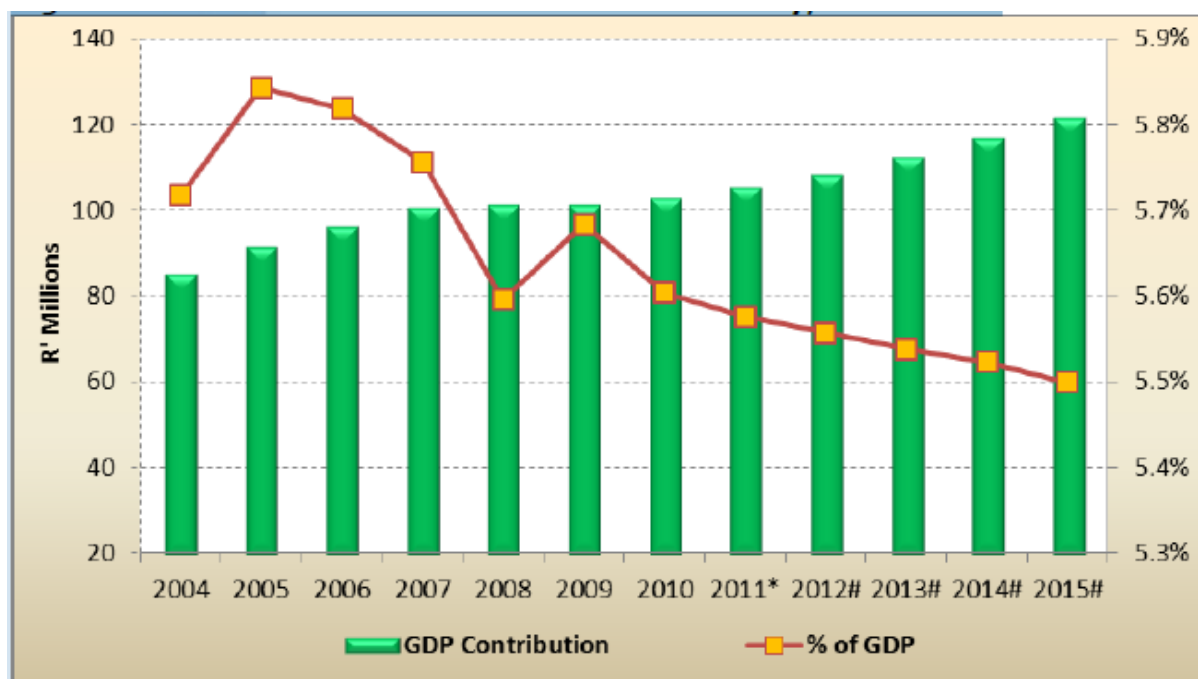
**Table 3-1: Sectoral contribution to GDP 2009 to 2011 and 2017**

	2009	2010	2011	2017
Agriculture, forestry & fishing	2.6%	2.5%	2.6%	4%
Mining & quarrying	5.9%	6.0%	6.0%	7%
<b>Primary sector</b>	<b>8.5%</b>	<b>8.6%</b>	<b>8.6%</b>	<b>11%</b>
Manufacturing	16.8%	17.2%	16.9%	13%
Electricity, gas & water	2.1%	2.1%	2.1%	4%
Construction	3.6%	3.5%	3.4%	4%
<b>Secondary sector</b>	<b>22.4%</b>	<b>22.8%</b>	<b>22.4%</b>	<b>21%</b>
Wholesale & retail trade	13.6%	13.7%	13.8%	15%
Transport & communication	10.3%	10.2%	10.3%	10%
Finance & business services	23.7%	23.5%	23.6%	20%
Community, social and personal services	21.5%	21.3%	21.3%	23%
<b>Tertiary sector</b>	<b>69.1%</b>	<b>68.7%</b>	<b>69.0%</b>	<b>68%</b>

Source: Gauteng Province: Provincial Treasury Quarterly Bulletin, 2012; StatsSA, 2017

A view of the sectoral contribution in the economy in Table 3-1 shows the wholesale and retail trade sub-sectors having contributed 13.6 per cent in 2009, 13.7 per cent in 2010 and estimated at 13.8 per cent in 2011 (Gauteng Province: Provincial Treasury Quarterly Bulletin (GPQB), 2012). Further, Cooke *et al.* (2016) state that, all retail annual sales for year 2010 were in excess of R534 billion and contributed about 14 per cent of the GDP. By 2017, the wholesale and retail trade sector (trade sector) had grown to make amount to 15 per cent of GDP.

**Figure 3-1: South Africa's GDP Contribution of the retail sector, 2004- 2015**



**Source: Gauteng Province: Provincial Treasury Quarterly Bulletin, 2012**

❖ Note: \* indicates estimates and # indicates forecasts

Figure 3-1 shows the level of contribution by the retail sector towards GDP during the period 2004 to 2010 and estimates for 2012 to 2015. In the review period, the amount of the retail sector's contribution to the GDP has been increasing steadily (GPQB, 2012). However, there is a decline in the retail sector's contribution as a percentage of the GDP, indicating a negative relationship in monetary value. The percentage of the retail sector as a component of the GDP went from more than 5.8% in 2004 to 5.6% in 2010 and dropped further to 5.5% in 2015. The period between 2007 to 2009 experienced stagnant retail sector contribution due to the global financial crisis that occurred during that period. In 2013, an estimated 1 732 000 people were employed by the wholesale and retail trade sector amounting to about 21% of South Africa's labour force (Ogando, 2014). There was an increase of 9% in the retail sector from the previous year and this amounted to about 12% of the GDP.

The contribution made by trade, catering and accommodation for the period of 2010 to 2015 is shown in Table 3-2 below. The GDP contribution steadily increases from 2010 to 2012 followed by a continuous decrease in sectoral contribution of this sector in 2013 and 2014. This was a result of reduced consumer spending caused by the economic slump. In 2015 trade, catering and accommodation sector had a slight increase in its contribution



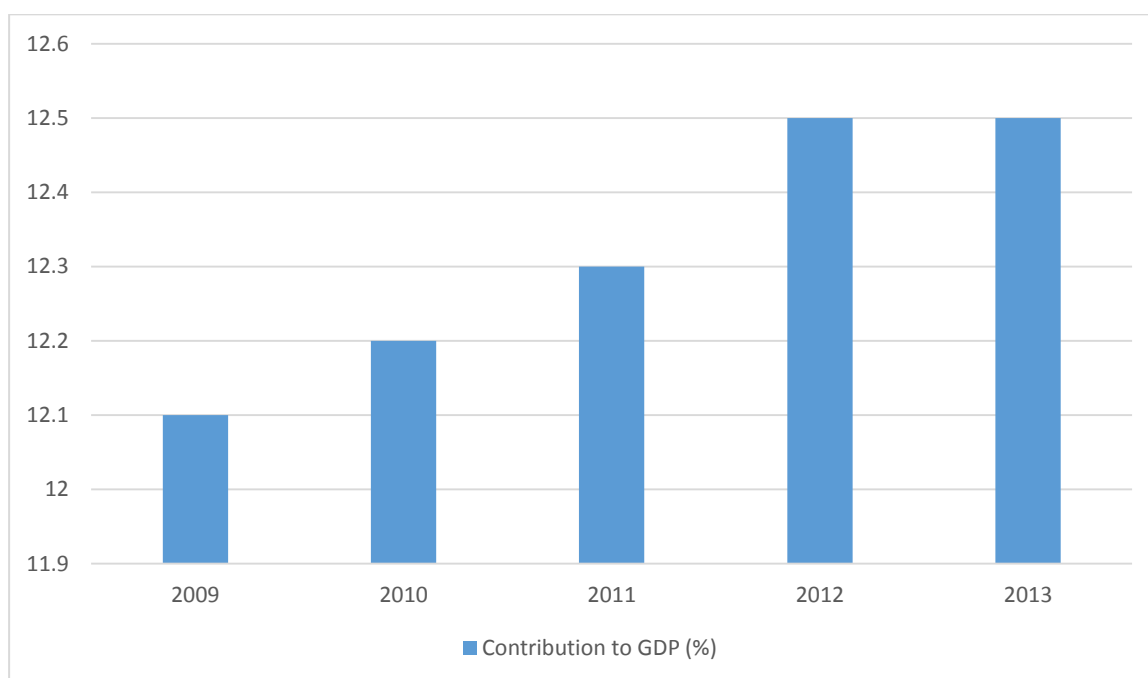
to GDP. The percentage contribution is calculated using data from Statistics South Africa GDP data (StatsSA, 2016).

**Table 3-2: Industry value added and GDP during 2010 to 2015 (constant 2010 prices, seasonally adjusted and annualised)**

	GDP Contribution	Trade, catering and accommodation	% contribution of Trade, catering and accommodation to GDP
	R million		
2010	2 748 008	370 580	13.49
2011	2 838 257	385 696	13.59
2012	2 901 078	400 938	13.82
2013	2 968 682	408 370	13.76
2014	3 017 037	413 975	13.72
2015	3 055 192	419 707	13.74

Source: Author's estimates using Statistics South Africa GDP, first quarter 2016

**Figure 3-2: Wholesale and retail percentage contribution to GDP, 2009 to 2013**



Source: W&R SETA, 2014

The annual wholesale and retail contribution is illustrated in Figure 3-2 and is calculated by dividing the wholesale and retail sector GDP at constant 2005 prices (R million) by the total GDP at market prices (W&R SETA, 2014).

### **3.3 TYPE OF RETAIL SECTOR**

The retail sector in South African consists of the formal and informal sector. In addition, the retail sector comprises of all businesses that have more than 50 per cent of their income coming from sales to consumers (StatsSA, 2003:12). According to Schneider (2002), the formal economy contributes to the revenue of the country through taxes as administered by tax authorities. This may be in the form of reported turnover from the legal production of goods and services.

The retail sector in South Africa encompasses the consumer services industry, and branches into the Food and Drugs sector as well as the General retailers' sector. This includes various retailer types with distinct consumer services (Tustin, van Aardt, Jordaan, Van Tonder & Meiring, 2014:11). There is also the Retail commerce comprising of: beverages; specialised foods; tobacco stores; meat and meat products; bakery goods; beverages; and fresh fruit and vegetables.

There are also retailers specialising in commerce and this includes clothing, textiles, footwear and leather goods for men, women, children and infants. Other retailers also include: toiletries and cosmetics; medical and pharmaceutical goods; hardware; glass; and paint. Another distinct category involves retailers in: jewellery; sports wear and accessories; stationery; and household maintenance. Some of these retailers have consolidated, while, some have merged due to a number of reasons, Berning (2014:41). For example, some retailers have combined the sale of food and clothing in the same store or department, which was not the case a few years ago.

As far as the informal retailers are concerned, some of their retail activities are semi-informal, while others can be described as purely informal. Informal retailers are also known as Hawkers, conduct their retail activities on the streets or at heavily commuted areas, such as, at a train station or taxi rank. Other informal retailers in South Africa are known as "spaza" shops and they focus on the lower market, especially in townships and provide a wide variety of goods compared to hawkers. The spaza shop retailers often conduct their business within their homestead. Spaza shop retailers are distinguished from Township general dealers in that, the latter trade in more variety of goods than spazas and have a stand-alone building for operations.

Data for measuring the size of the retail sector comes from the financial statements of companies listed in the Johannesburg Securities Exchange (JSE) using the INET BFA database (previously McGregor BFA). The INET Bureau of Financial Analysis (BFA) data is used because its reliability and use of consistent formulas. In addition, “Published data” is used because not only is it reliable but it is meticulously audited. On the other hand, there is reluctance to use “adjusted” figures to measure the size of the retail sector because these figures may be altered. Table 3-3 highlights the type of **formal** retail and its size for the 2014 financial year.

**Table 3-3: Type of retail and its size in the 2014 financial year**

			Total Assets South African (Rand)		Turnover	Profits	Tax
			Non-Current Assets	Current Assets			
Statement of financial position published (X R1 000)			ZAR	ZAR	ZAR	ZAR	ZAR
General retailers	Apparel retailers	African and overseas enterprises Ltd (AOO)	142 159	154 697	492 079	-11 253	-708
		Holdsport Ltd (HSP)	770 601	437 652	1 417 584	173 710	76 557
		Mr Price Ltd (MrP)	1 137 000	5 426 000	15 829 000	1 867 000	403 000
		Rex Trueform clothing company Ltd (RTO)	142 159	151 717	492 079	-10 031	-736

		The Foschini Group Ltd (TFG)	7 752 000	9 351 200	14 159 000	1 683 600	730 700
		Truworths international Ltd (Tru)	1 360 000	6 716 000	10 458 000	2 406 000	984 000
<b>Subsector Total</b>			<b>33 541 185</b>		<b>42 848 012</b>	<b>6 109 026</b>	<b>2 192 813</b>
	Broadline retailers	Massmart Holdings Ltd (MSM)	11 036 300	17 870 100	78 173 200	1 137 400	683 400
		Woolworths Holdings Ltd (WHL)	8 192 000	14 077 000	39 707 000	2 990 000	1 047 000
<b>Subsector Total</b>			<b>51 175 400</b>		<b>117 880 200</b>	<b>4 127 400</b>	<b>1 730 400</b>
	Home improvements retailers	Cashbuild Ltd (CSB)	873 144	1 743 011	6 781 274	269 453	70 127
		Homechoice International PLC (HIL)	418 309	1 746 373	1 213 396	355 320	137 927
		Lewis Group Ltd (LEW)	1 822 600	6 167 300	4 072 800	842 200	326 900
		Nictus Ltd (NCS)	58 636	375 073	44 620	3 014	0

Subsector Total			13 204 446		12 112 090	1 469 987	534 954
	Specialised consumer services	Advtech Ltd (ADH)	314 200	1 646 000	1 931 800	167 100	78 200
		Curro Holdings Ltd (COH)	3 813 426	259 591	1 000 701	50 758	8 077
Subsector Total			6 033 217		2 932 501	217 585	86 277
	Speciality retailers	Combined Motor Holdings Ltd (CMH)	214 457	2 359 653	10 753 474	169 432	56 055
		Italtile Ltd (ITE)	1 856 000	857 000	2 714 000	544 000	245 000
		Verimark Holdings Ltd (VMK)	32 057	128 322	430 473	17 661	7 436
Subsector Total			5 447 489		13 897 947	731 093	308 491
Sector Total			109 401 737		189 670 750	12 655 091	4 852 935
Food and drug retailers	Drug retailers	Clicks Group Ltd (CLS)	1 771 636	4 420 621	19 149 524	864 845	350 204
Subsector Total			6 192 257		19 149 524	864 845	350 204
	Food retail and wholesale	Shoprite Holdings Ltd (SHP)	15 890 000	24 643 000	102 204 000	3 745 000	937 000

		Pick n Pay holdings Ltd (PWK)	5 739 900	8 364 700	63 117 000	581 500	270 200
		Pick n Pay stores (PIK)	5 739 900	8 364 700	63 117 000	583 700	270 200
		The Spar Group Ltd (SPP)	5 692 400	11 253 700	54 483 000	1 345 000	471 900
<b>Subsector Total</b>			<b>71 583 700</b>		<b>219 804 000</b>	<b>5 671 500</b>	<b>1 679 100</b>
<b>Sector Total</b>			<b>77 775 957</b>		<b>238 953 524</b>	<b>6 536 345</b>	<b>2 029 304</b>
<b>Super-sector Total</b>			<b>187 177 694</b>		<b>428 624 274</b>	<b>19 191 436</b>	<b>6 882 239</b>

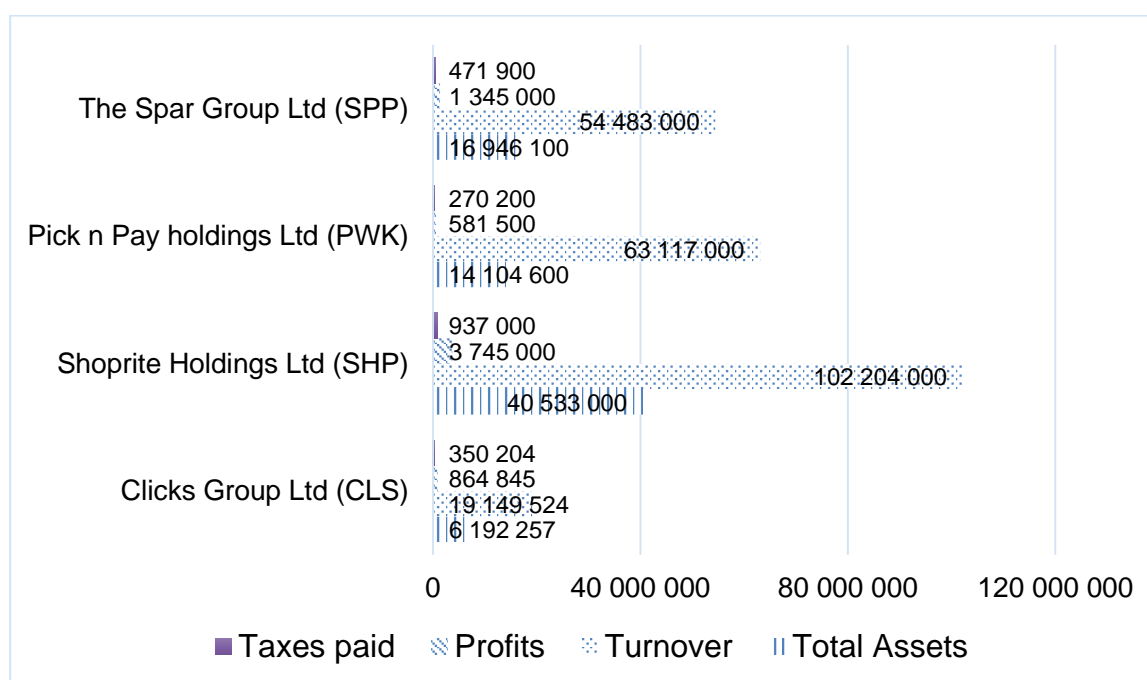
Source: Author's own compilation using INET BFA, 2017

Below is a discussion on the various types of retailers.

### 3.3.1 FOOD AND DRUGS RETAILERS

Food and Drugs retailers are further divided into the drug retailers, food retailers and the wholesalers' subsectors. In the category of drug retailers are pharmacies, as well as distributors and wholesalers serving these businesses. Food retailers and wholesalers include supermarkets, food-oriented convenience stores and other food retailers and distributors. Retailers of vitamins and dietary supplements are also included in this subsector.

**Figure 3-3: Food and Drug retailers 2014 financial year (Rand)**



Source: Author's own analysis using INET BFA, 2017

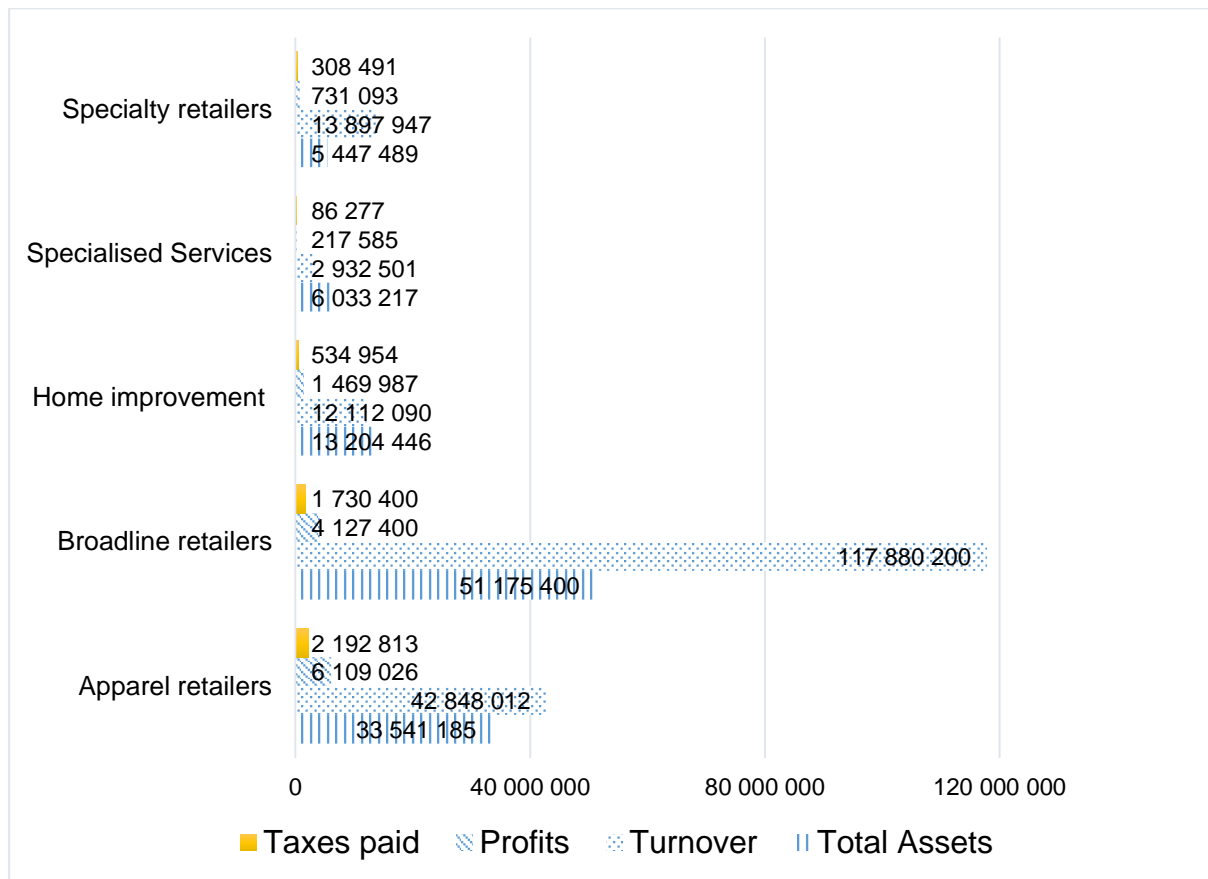
Three major retailers dominate the food and drug retail sector. These are Shoprite Holdings Ltd., Pick n Pay Holdings Ltd. and Spar Group Ltd. All of them recorded turnover more than double the value of their total assets as illustrated in Figure 3-3.

### 3.3.2 GENERAL RETAILERS

The general retailers sector falls into five subsectors and these are: apparel retailers; broadline retailers; home improvement retailers; specialised consumer services; and specialty retailers.

**Figure 3-4: General retailers sector 2014 financial year (Rand)**





Source: Author's own analysis using INET BFA, 2017

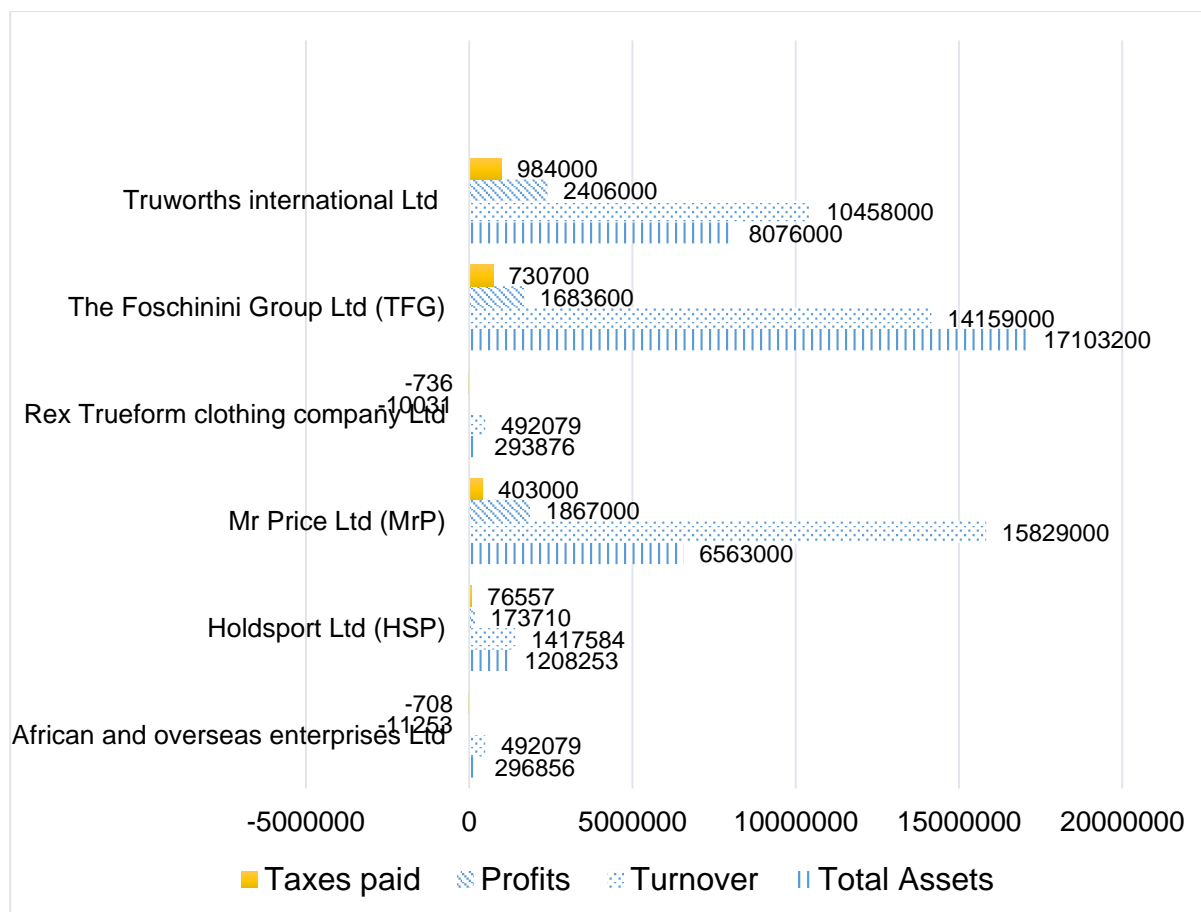
In terms of turnover, the broadline retailers have more than that of the second largest retail sector. The apparel sector, dominates the general retailers' sector. However, in terms of profits the apparel sector had higher profits compared to the broadline retail sector. Additional information concerning profits, turnover, total assets and taxes of general retailers are summarised in Figure 3-4 above.

### 3.3.2.1 Apparel retailers

The apparel retailers' sub-sector consists of retailers and wholesalers that mainly deal in clothing, jewellery, shoes, sunglasses and other accessories. Figure 3-5 provides an overview of the size of the apparel retail sector in the 2014 financial year. Three major retailers namely The Foschini Group, Truworths International and Mr Price, dominate the sector. Mr Price recorded the highest turnover in 2014 of R15.8 billion and the value of its total assets is less than half that of The Foschini Group, which had the second largest turnover in the sector (R14.2 billion). The year was not favourable for all companies in this sector as companies such as Rex Trueform Clothing Company Ltd. and African and Overseas Enterprises Ltd. recorded losses in that year.

In 2014, the apparel retailers, as highlighted in Figure 3-5, accumulated total profits of R6.13 billion and paid over R2.2 billion to the state in the form of taxes. Further, Figure 3-5 highlights that, some retailers experienced losses (INET BFA, 2017).

**Figure 3-5: Apparel retailers 2014 financial year (Rand)**



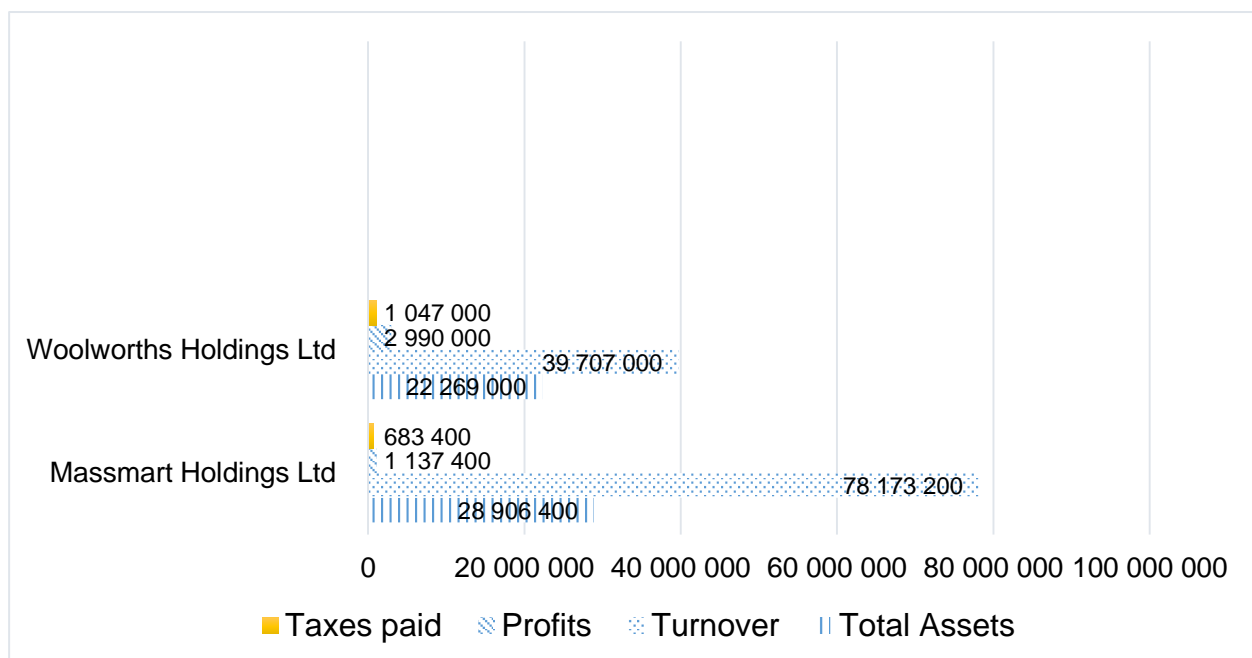
Source: Author's own analysis using INET BFA, 2017

Apparel retailers listed on the JSE had R113 million (2014), which generated an investment income worth R32 million and an interest of R2.1 billion. Table 3-3 indicates that Truworths International, the second biggest retailer in this sector invested R105 million during 2014 and made no investment in subsidies or other businesses. Truworths International did not increase investments in 2014, their return on external investments (ROI) was 903.81 per cent, of which they made R32 million as investment income and received R917 million as interest. From other fixed assets, Truworths International received R7 million (INET BFA, 2017). The largest retailer in this sector, the Foschini Group made no new investments in 2014.

### 3.3.2.2 Broadline retailers

Broadline retailers are retail outlets and wholesalers that provide a wide range of goods, including both hard and soft goods. Hard and soft goods are the two main classifications of retail inventory. Hard goods include a wide range of goods, such as furniture, tools, appliances, electronics, jewellery and sporting goods. Soft goods are literally soft, such as textiles, clothing, blankets and sheets. Massmart Holdings (MSM) and Woolworths (WHL) are the leading retailers in this segment. Figure 3-6 shows that MSM had a turnover of R78.2 billion during 2014 compared to only R39.7 billion of WHL. According to these statistics, MSM recorded almost double the turnover of Woolworths in the 2014 financial year and dominates the broadline retail sector (INET BFA, 2017)

**Figure 3-6: Broadline retailers 2014 financial year (Rand)**



Source: Author's own analysis using INET BFA, 2017

In 2014, the broadline retailers as shown in Figure 3-6 accumulated total profits of R4.13 billion and paid over R1.73 billion to the state in the form of taxes (INET BFA, 2017).

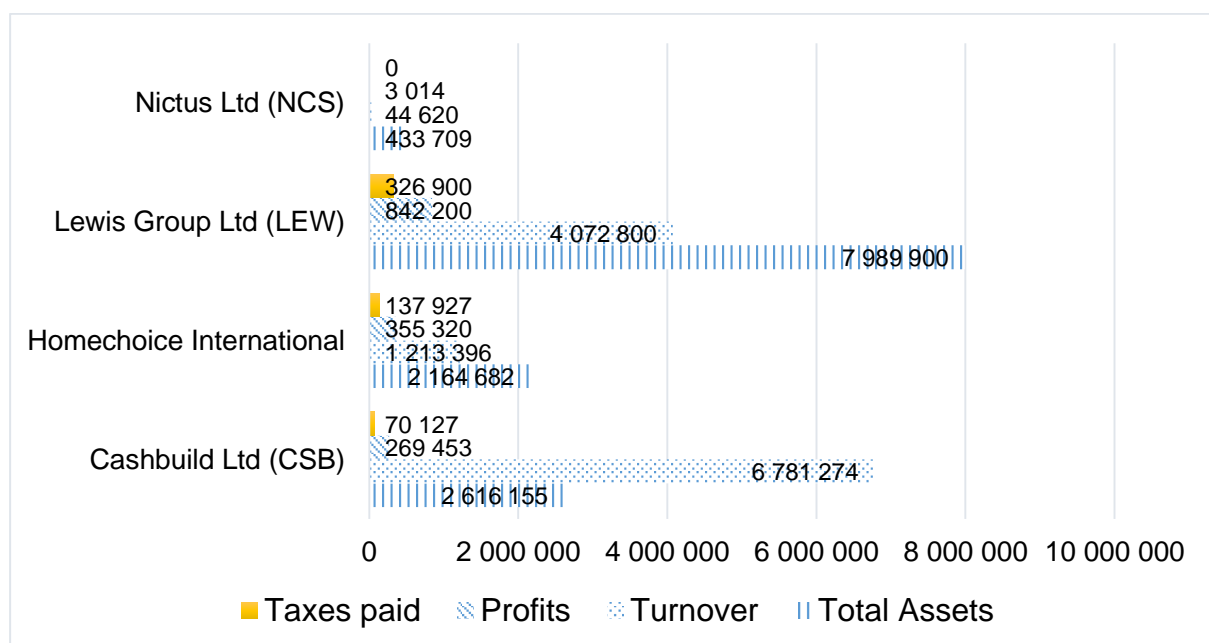
Broadline retailers listed on the JSE had R1.1 billion (2014), which gave investment income worth R300 000 and an interest of R154 million. Table 3-3 indicates that the MSM the biggest retailer in this sector invested R158 million in 2014 and invested a further R53 million in subsidies and other businesses. MSM made no increase in investments in 2014, their return on external investments (ROI) was 26.42 per cent (2015), of which they

amassed R300 000 as investment income and accrued R42 million as interest. From other fixed assets, Truworths International collected an additional R28 million (INET BFA, 2017).

### 3.3.2.3 Home improvement retailers

The home improvement retailers segment comprises of merchants and wholesalers focusing on the sale of goods that are aimed at upgrading the home, for example, home furniture, building materials, carpets and garden equipment. The Lewis Group and Cashbuild dominate this market in terms of both revenue and total assets. Major players in in this sub-sector are listed on the JSE, as illustrated in Figure 3-7 below.

**Figure 3-7: Home improvement retailers 2014 financial year (Rand)**



Source: Author's own analysis using INET BFA, 2017

The total assets of the home improvement retailers as stated in Figure 3-7 totalled R13.2 billion with a turnover of R12.1 billion (INET BFA, 2017). In 2014, the home improvement retailers as shown in Figure 3-7 accumulated R1.47 billion in total profits and remitted R535 million to the state in the form of taxes.

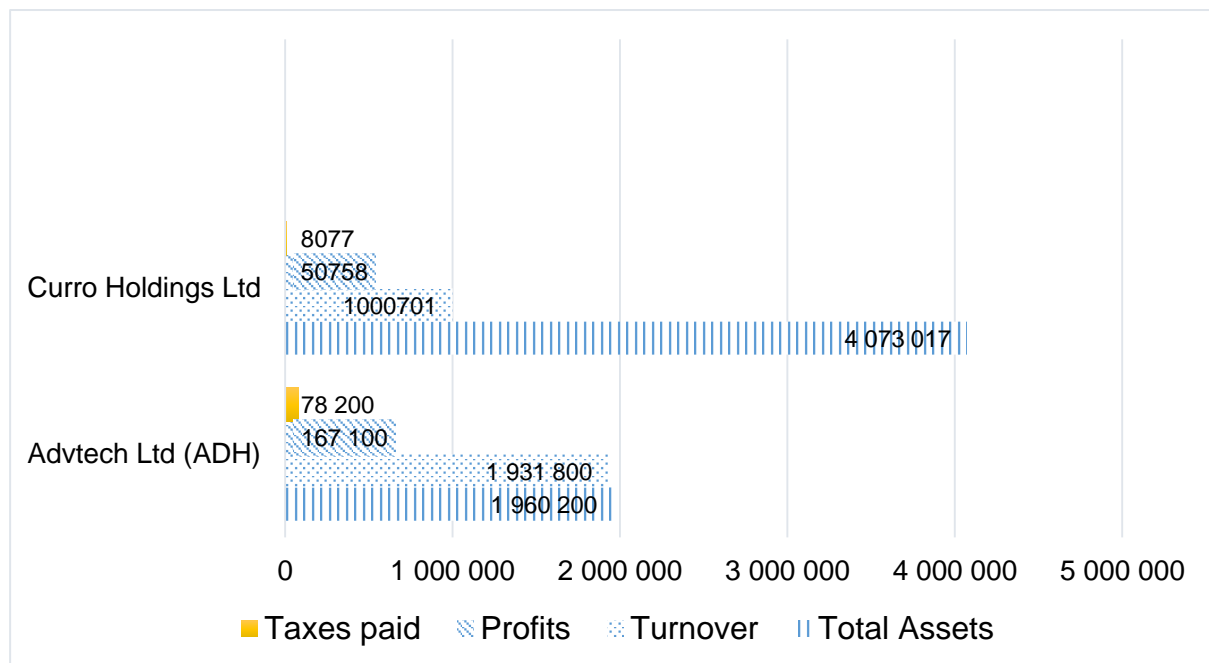
Home improvement retailers listed on the JSE had R1.46 billion (2014), which resulted in an investment income worth R23 million and an interest of R129 million. Table 3-3 indicates that, the Lewis Group, the biggest retailer in this sector invested R1.42 billion in 2014 and did not invest in subsidies or other businesses. The Lewis Group did not

increase in investments in 2014, their ROI was 7.36 per cent (2014), of which they amassed R19 million as an investment income and accrued R85 million as interest. The Lewis Group did not receive any additional income from other fixed assets (INET BFA, 2017).

### 3.3.2.4 Specialised consumer services

Specialised consumer services supply consumer services such as schools, day-care centres, hair salons, auction houses, consumer-storage, heating and cooling installation and funeral services. The largest retailers in this sub-sector are Curro Holdings Ltd who an annual turnover of R1 billion in 2014 and Advtech Ltd. with R1.9 billion (INET BFA, 2017).

**Figure 3-8: Specialised Consumer Services retailers 2014 financial year (Rand)**



Source: Author's own analysis using INET BFA, 2017

In 2014, the specialised consumer services retailers as shown in Figure 3-8 accumulated total profits of R218 million and remitted R86 million to the state in the form of taxes.

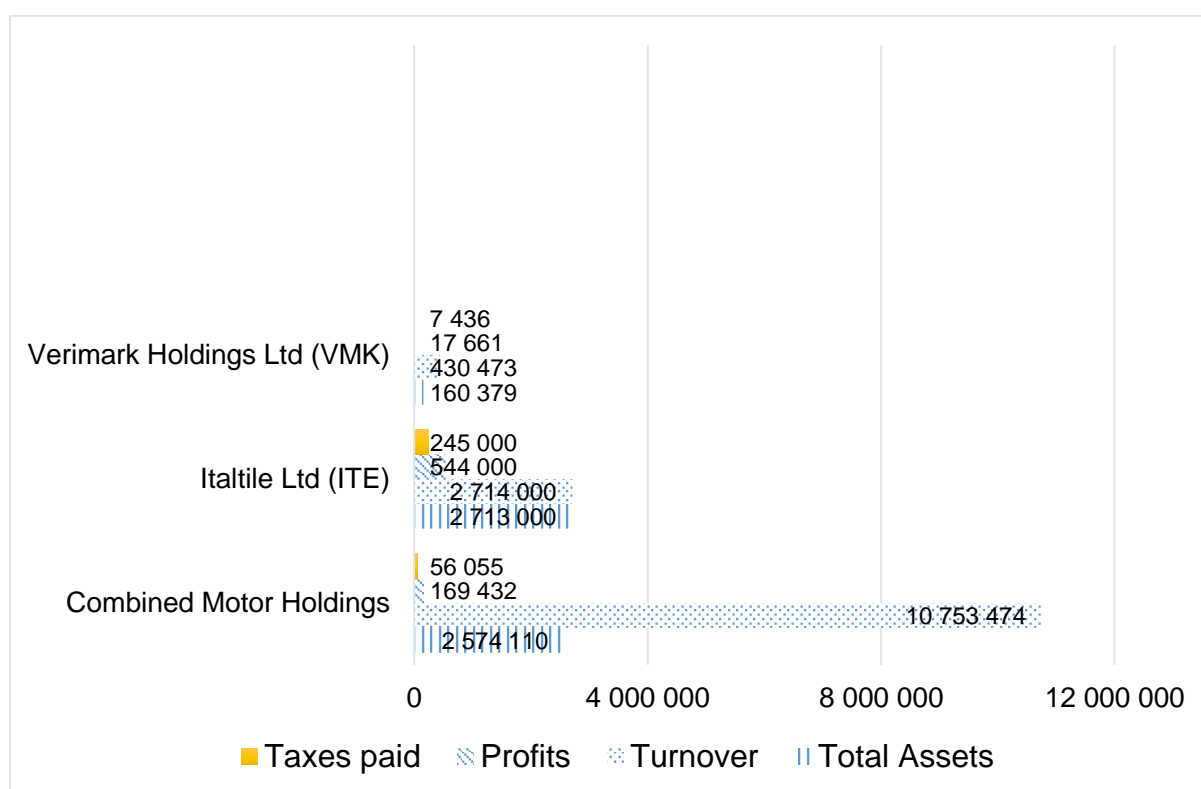
Home improvement retailers listed on the JSE had R28 billion in 2014, and earned no investment income and interest that same year. Table 3-3 indicates that Curro Holdings Ltd, the biggest retailer in this sector invested R16 million in 2014 and gained R122 million investment in subsidies and other businesses. Curro Holdings Ltd.'s increase in investments was R5.9 million in 2014, their ROI was 74.24 per cent (2014), they made

no investment income and accrued R12 million as interest. Curro Holdings Ltd received no additional income from other fixed assets (INET BFA, 2017).

### 3.3.2.5 Speciality retailers

Speciality retailers and wholesalers focus on a single group of goods such as electronics, automotive parts and books. Automobile dealerships, automotive fuel stations independent of oil companies and duty-free shops are also part of this category. The main role players in this sub-sector are indicated in Figure 3-9 below save to state that Combined Motor Holdings leads the pack who had an annual turnover of R10.8 billion in 2014 and remitted tax of R56 million for that year 2014 (INET BFA, 2017).

**Figure 3-9: Speciality retailers 2014 financial year (Rand)**



Source: Author's own analysis using INET BFA, 2017

In 2014, the speciality retailers as shown in Figure 3-9 accumulated R731 million in total profits and remitted R308 million to the state in the form of taxes.

Speciality retailers listed on the Johannesburg Securities Exchange (JSE) had R522 million in 2014 (recorded for Italtile Ltd only), which amassed investment income worth R2 million and gained an interest of R23 million. Table 3-3 indicates that Italtile Ltd, the biggest retailer in this sector invested R522 million in 2014 and recorded a R10 million

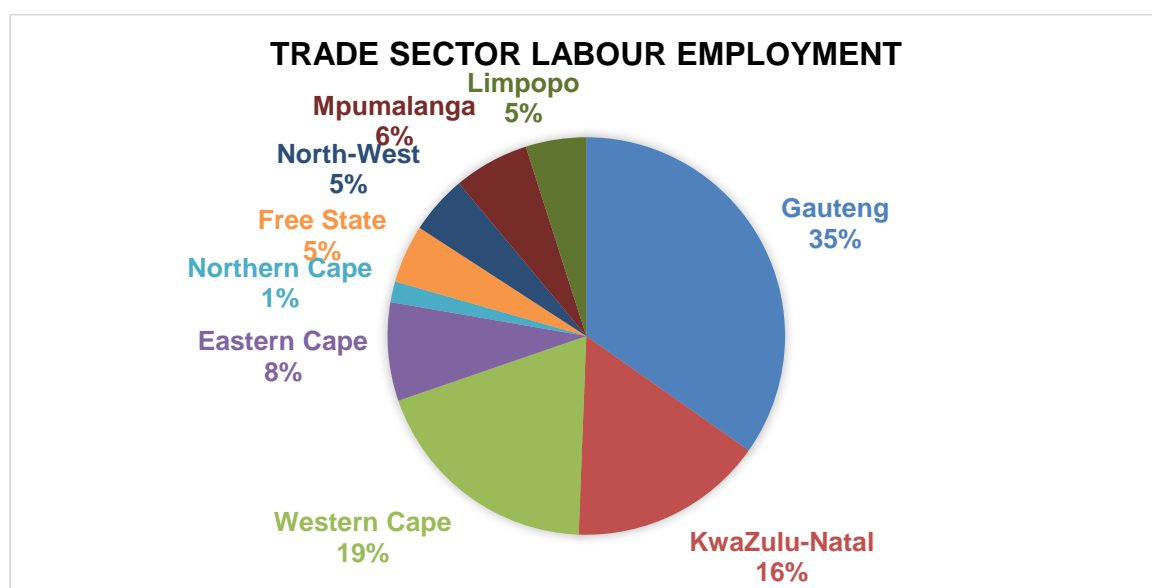
net loss investment in subsidies and other businesses. In that same year, Italtile Ltd, did not increase its investments, their ROI was 2.11 per cent, of which they gained R2 million as investment income and received R9 million in interest. Further, Italtile Ltd, gained R111 million income from other fixed assets (INET BFA, 2017).

### 3.4 SOUTH AFRICAN RETAIL SECTOR

The retail sector in South Africa is made up of the wholesale and retail sector (86%), small enterprises (9.5%) and medium size firms (4.5%) (W&R SETA, 2014). According to the regional review of formal labour employment in the trade sector in South Africa conducted in 2015, the Gauteng province had the highest number of employees in the trade sector which was triple the regional average of 246 591 people employed (Global Insight, 2017). The trade sector engages in the production of tradable goods such as exports and therefore most likely competes with imports such as in wholesale and retail. KwaZulu-Natal and Western Cape provinces respectively had employment figures exceeding the industry average. The remaining six provinces had below average employment figures. The Northern Cape province having the least employment in the sector at 37 000.

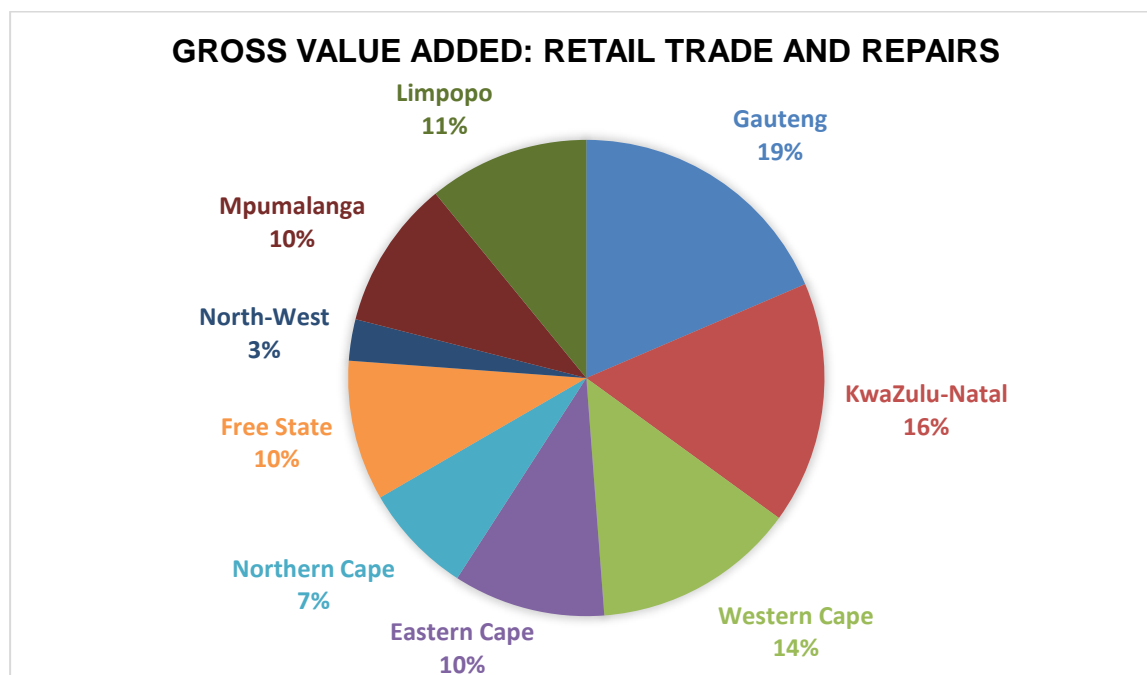
Figure 3-10 shows the regional contribution to labour employment in the trade sector and that the Gauteng province has the lion's share. The Gauteng province had the highest percentage in labour employment in the trade sector at 35 per cent, which was almost double of the Western Cape province (second) at 19 per cent.

**Figure 3-10: Trade sector labour employment**



Source: Global Insight, 2017

**Figure 3-11: Gross value added (GVA) annual growth average 2006-2011**

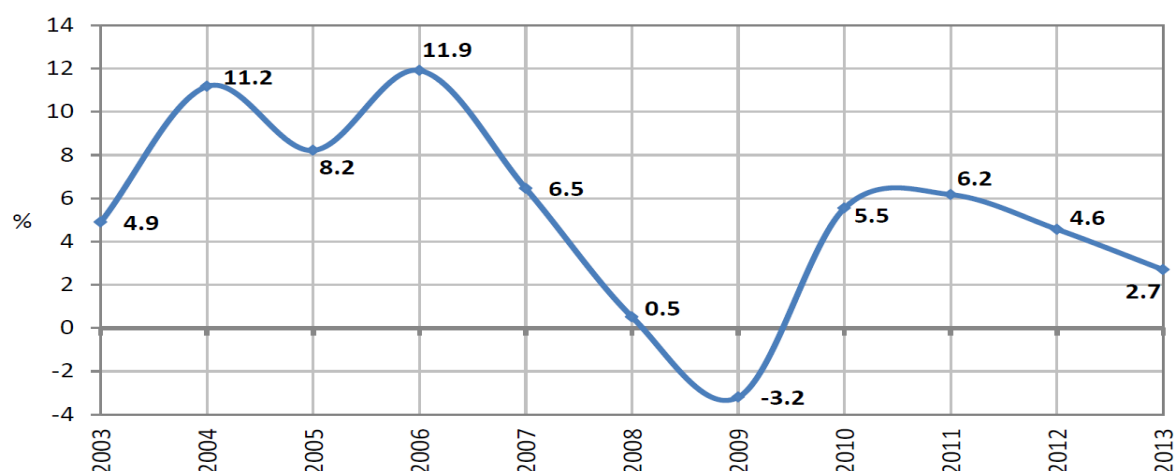


Source: Global Insight, 2017

Figure 3-11 illustrates the regional percentage in total gross value added by the retail trade and repairs from 2006 to 2011. Gauteng has the highest value added at 19 per cent, followed by KwaZulu-Natal and Western Cape at 16 per cent and 14 per cent respectively. The North West province had the lowest gross value added in retail trade and repairs at 3 per cent.

### 3.4.1 GROWTH TRENDS OF RETAIL SALES

**Figure 3-12: Retail sales real annual percentage growth: 2003-2013 (prices 2012)**



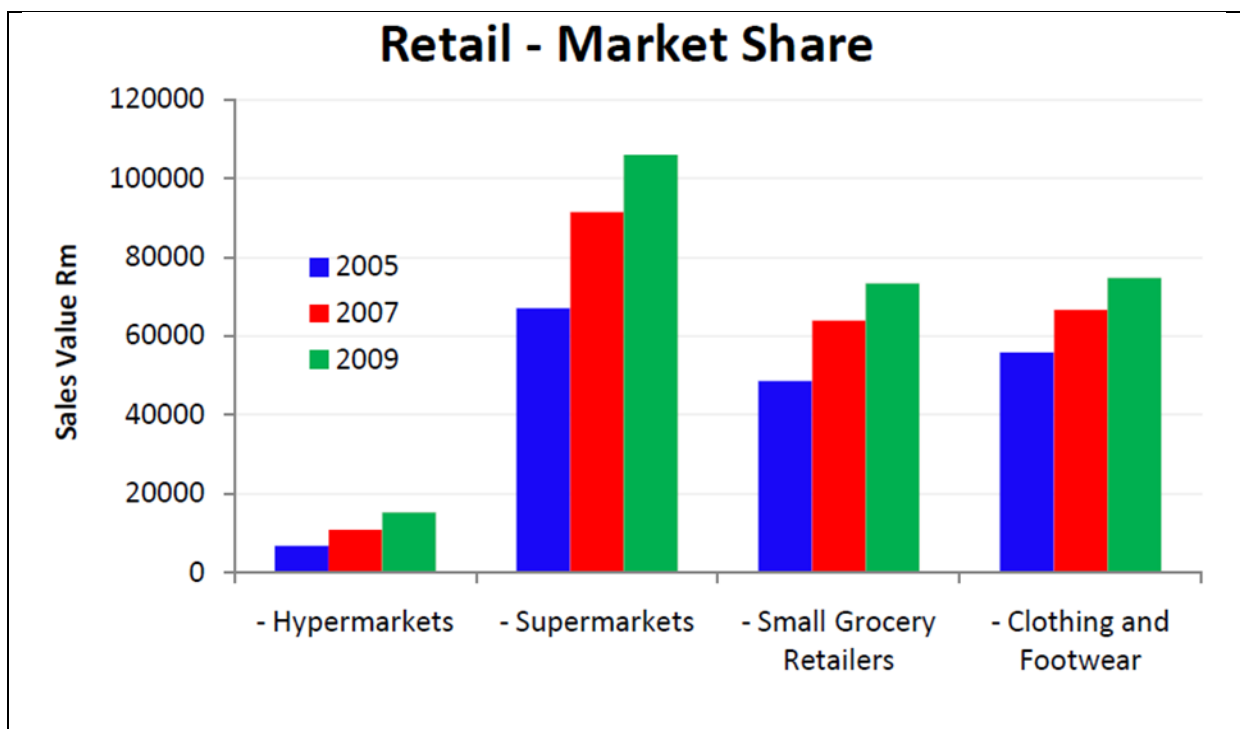
Source: Tustin, Van Aardt, Jordaan, Van Tonder & Meiring, 2014:23



During the period 2003 to 2013, the retail trade in South Africa averaged an annual growth rate of 5.4 per cent (Tustin, Van Aardt, Jordaan, Van Tonder & Meiring, 2014:23). The period 2008 to 2009 was associated with contractionary real growth due to a recession. Real annual growth rate for this period was at 4.8 per cent after the recessionary and boom years (see Figure 3-12).

### 3.5 MARKET OVERVIEW: SECTORAL CONTRIBUTION

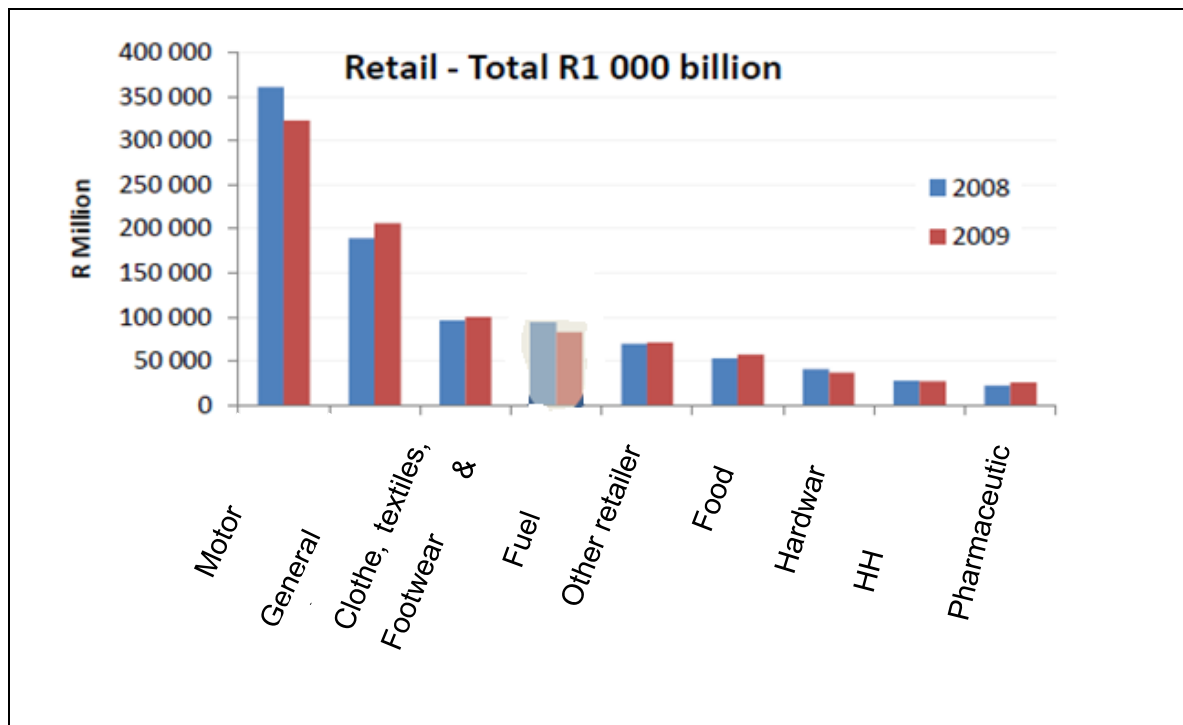
**Figure 3-13: Retail market share**



Source: Lahouasnia, 2010

Figure 3-13 shows the retail market share in South Africa by store format from 2005 to 2009. Supermarkets have the largest market share and increased by a higher margin over the same period than any other format. Leading the pack are the clothing and footwear retailers, followed by small grocery retailers and then hypermarket retailers.

**Figure 3-14: Retail sales breakdown**



Source: Wholesale & Retail SETA (W&R SETA), 2011:19

Figure 3-14 provides a breakdown of retail using total sales. A further breakdown of the retail sector reveals the following descending order: motor trade general dealers; clothing; textiles; footwear and leather products (CTFL); and fuel sales. Food sales have only a moderate market share of the total retail industry. Below is a discussion on the specific types and sub-sectors of the retail sector.

Hassan, Mahdee, Sade and Rahman (2015:34) suggest that, a hypermarket is a recent development that makes it possible for customers to buy most of their basic goods in a single store. Hypermarkets are distinguishable from grocery and non-grocery items. Chibaya (2016) states that, globally South Africa ranks sixth in terms of the number of shopping malls spread over 23 square meters.

In 2009 the hypermarkets increased by 13 per cent reaching more than 15 billion rands value in South Africa (Wholesale & Retail SETA (W&R SETA), 2011:20). Pick n Pay and Checkers hypermarkets dominate this market. The variety of white goods offered by the hypermarkets as well as their large trading space makes it possible for them to compete with the wholesale outlets. White goods are large electrical appliances, such as refrigerators and washing machines. The wholesale and retail sector accounts for about 22 per cent of total employment in South Africa and it is the fourth in terms of sectoral contribution towards GDP at 15 per cent, Sewell (2013:7).

In 2009 South African supermarkets increased by 11 per cent, adding more than 3 595 stores reaching R106 billion (Lahouasnia, 2010). Supermarkets offer a mix of grocery goods (68%) and non-grocery goods (32%) (W&R SETA, 2011).

Another development in the retail sector was the introduction of convenience stores. According to Malgas (2015:7), convenience stores appeared as a place of shopping for South African consumers driven by their changing lifestyles. Woolworths Holdings pioneered this trend when they opened their Woolworths Food outlets at Engen petroleum forecourts. It is worth noting that forecourt retailers are open for 24 hours daily and stock between 1 500 to 2 500 various products (Dennis & Piatti, 2015:7). In 2009, forecourt retailers were valued at R7.3 billion, indicating a growth of 9 per cent. Some of the major South African retailers have collaborated with petroleum brands as a way of expanding into this retail format (also see Figure 3-14).

In 2008 Pick n Pay concluded a contract with BP petroleum projecting that about nine Pick n Pay express outlets were to be accommodated at BP's South Africa's forecourts by 2012. Also, it was agreed that around 120 BP express forecourt outlets had to be taken over by Pick n Pay outlets during 2012 to 2017.

In a separate development, a collaboration between Woolworths Holdings and Engen petroleum resulted in Woolworths express outlets accommodated at the Engen forecourts. In 2013, Woolworths opened its 50<sup>th</sup> Food Stop at Engen outlets and had planned to open 45 more Food stop outlets by June 2016.

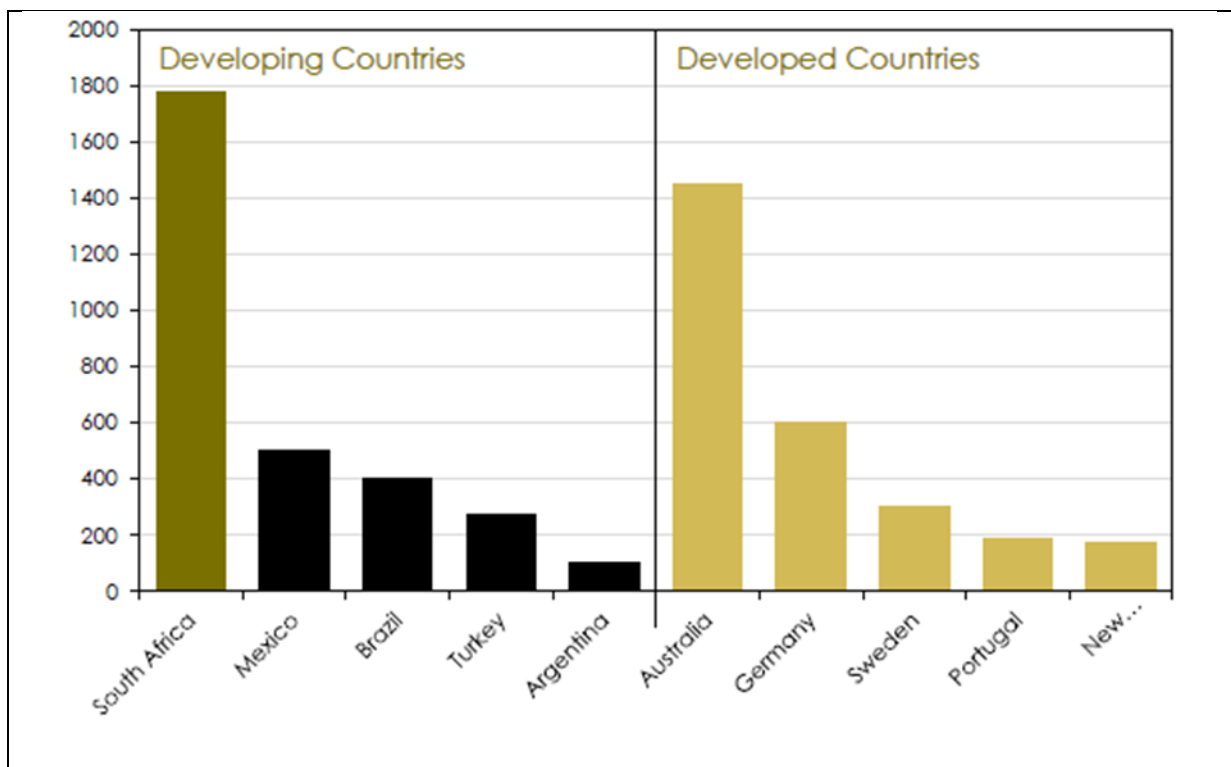
According to Nacker (2011) about R14. 8 billion worth of retail sales occur through forecourt outlets in South Africa. The South African forecourt retailing makes up about 4 per cent of the total retail market share and there are over 3 000-forecourt outlets in South Africa.

Fruit & Veg (fresh produce) in collaboration with Caltex opened their 150<sup>th</sup> forecourt store through their FreshStop retail franchise (Moorad, 2013). In 2013 Spar also ventured into the forecourt retailing business by opening its first Spar express store in partnership with Shell Petroleum Company.

### 3.6 MAJOR BUSINESS PLAYERS AND STRUCTURE IN RETAIL

Madlala (2015) states that, the geographic composition of retailing has changed over time and attributes this to commercial development. By 2009, more than 160 retail malls were in existence - 116 of these were built since 1962 (South African Cities Network, 2010). 50 of these malls were established between 2000 and 2009 as demonstrated in Figure 3-15) below.

**Figure 3-15: Number of shopping malls per country**

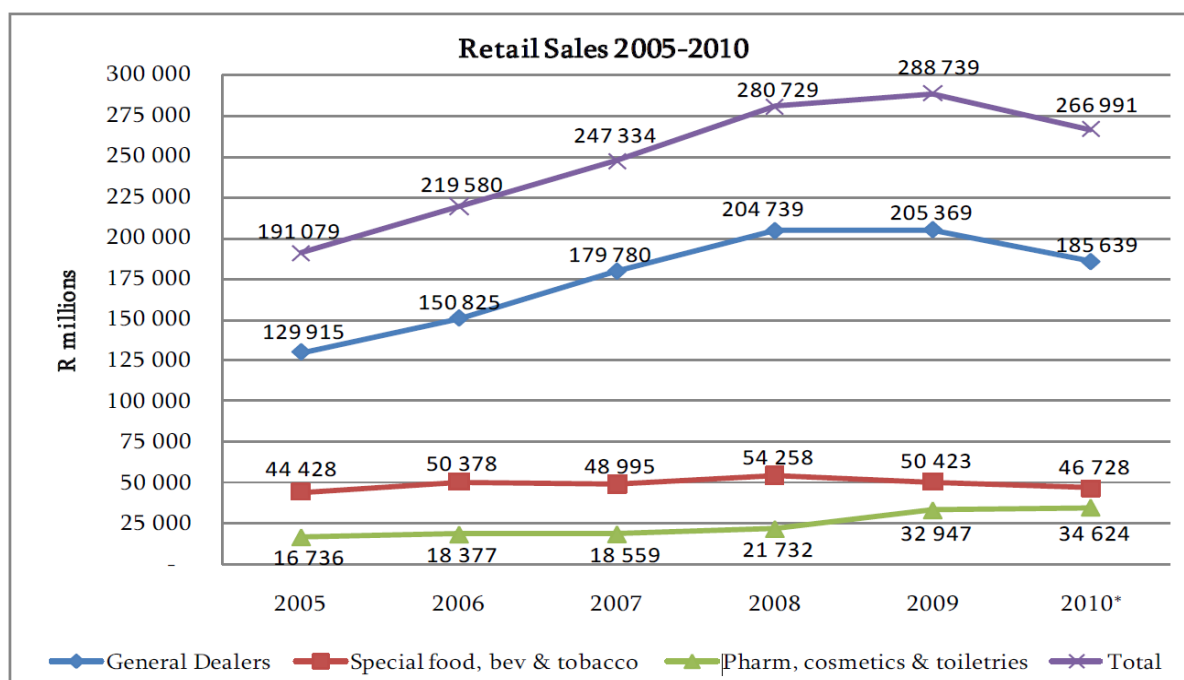


Source: Muller, 2015

South Africa boasts of retail centres that exceed many developing and developed countries, like, Brazil, Australia and Germany (see Figure 3-15). There is also a steady rise in shopping malls locating in townships showing a change in their characterisation as being suburban based only. The anchor tenants for these malls are usually large retailers such as Shoprite or Pick n Pay.

In 2011, the sales of beverages, retail food and toiletries in South Africa totalled R288.7 billion (Whitehouse & Associates, 2011). General dealers account for about 70 per cent of all retail sales, 17 per cent occurs in specialist outlets and the remaining 13 per cent is ascribed to cosmetic, pharmacy and toiletries (Figure 3-16).

**Figure 3-16: Retail sales by sector**



Source: Whitehouse & Associates, 2011.

Ogando (2014) observes that, supermarket chains in South Africa own contemporary warehouses to distribute goods to their supermarket branches. Five major companies dominate the South African retail market and they manage convenient stores, supermarkets, hypermarkets, wholesale outlets and warehouses all over South Africa. Van Hille and Louw (2012) who hold the position that the five major players Shoprite, Pick n Pay, Spar, Woolworths and Massmart account for about 60 per cent of the food retail market share in South Africa, support this.

### 3.7 SOUTH AFRICAN MAJOR RETAILERS

This part discusses selected major retailers in South Africa focussing on the size of their businesses and the various formats that they operate.

#### 3.7.1 SHOPRITE HOLDINGS LIMITED

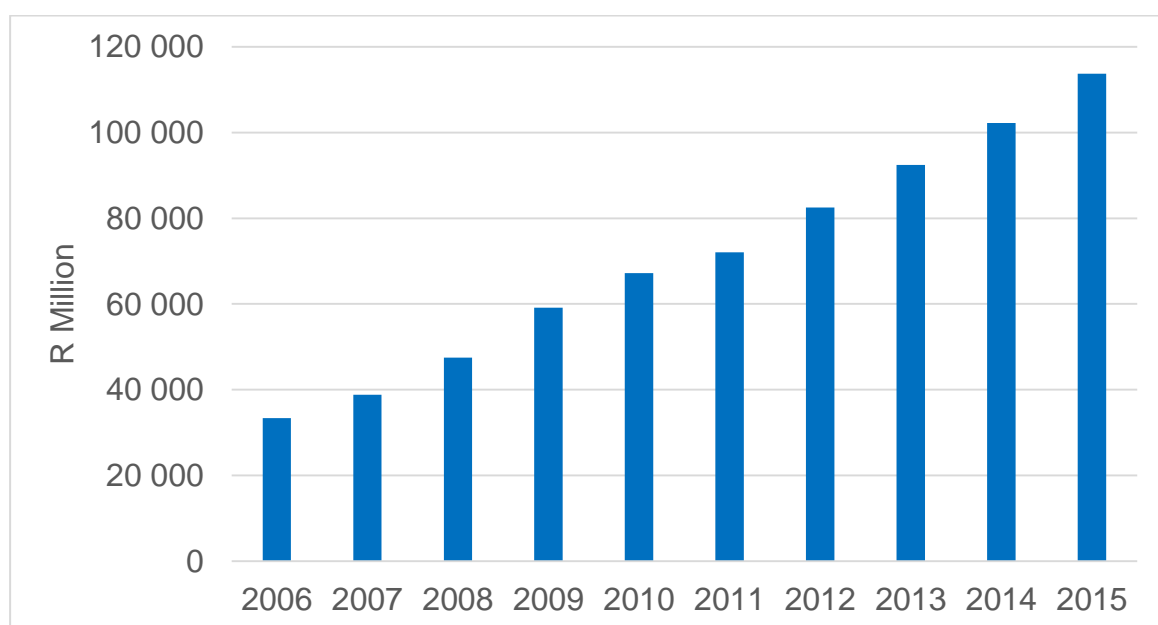
Shoprite is South Africa's largest retailer and consequently Africa's largest retailer as well. This is supported by the African Economic Outlook (AEO) (2015) which states that in addition to being the largest food retailer in Africa Shoprite is also the 93<sup>rd</sup> largest worldwide. According to Weatherspoon and Reardon (2003:338) Shoprite began with the amalgamation of eight stores in 1979 contributing 10 million rands in income. In early

2003 Shoprite recorded income of R22 billion selling its goods to more than 39 million customers per month. Van Hille *et al.*, (2012) additionally emphasise that, Shoprite has a comprehensive customer foundation resembling the demographic description of South Africa. The business model of Shoprite is that, Checkers and House & Home (which are part of the Shoprite brand) cater for the higher income segments and the Shoprite supermarkets cater for the middle to lower income segments, thereby, catering for all income earners.

Shoprite holdings has its headquarters in Cape Town, in Western Cape, South Africa and a central database is used to consolidate its different stores and chains (Bench Marks Foundation (BMF), 2009:12; Cooke *et al.*, 2016:18; PWC, 2012:20). Shoprite manages more than 1 800 stores in South Africa and enjoys 34 per cent of the Southern Africa market share. Weatherspoon and Reardon (2003:338) further point out that in the beginning Shoprite followed an expansion plan dominated by acquisition of local chains, such as the acquisition of the Grand supermarkets 17 chain stores in 1990 followed by the acquisition of Checkers Supermarkets' 170 chain stores in 1991.

By 2015, the Shoprite Group had managed to create 9 842 new jobs and the total sales for the year increased by 11.2 per cent amounting to R113.7 billion reflecting a market share increase of 32.1 per cent. The Group has 1 751 corporate stores in 15 countries and uses a central distribution system.

**Figure 3-17: Shoprite: Retail sales 2006-2015 (R millions)**



Source: Shoprite Holdings Ltd Integrated Report, 2015

Shoprite is the main brand of the business and the original concept. It targets the majority middle class as its main market. Shoprite strives to supply its clientele with the cheapest prices on a variety of groceries prioritising necessities. Shoprite stores in South Africa increased from 339 stores in 2012 to 419 in the 2015 financial year.

For its lower income clientele, Shoprite introduced a smaller discounter format called “Shoprite Usave”. It is usually located in townships. As of 2015, there were 272 “Shoprite Usave” stores.

The Checkers format is mainly for higher income consumers seeking convenience. Checkers offers a full range of groceries (distinguishes between its specialities ranges of cheese, wines and meat) and household items. The number of “Shoprite Usave” stores increased from 162 in 2012 to 191 in the 2015 financial year. In addition, Checkers hyper stores have the added advantage in that it offers bulk buying to consumers. The Checkers hyper stores increased from 28 in 2012 to 33 in the 2015 financial year.

The “Liquor shop” business of Checkers and Shoprite respectively increased from 162 stores in 2012 to 283 in 2015. These stores provide a convenient shopping experience to Shoprite and Checkers customers and its location is near Checkers and Shoprite outlets with a separate entrance, which also allows other passers-by customers into their shops. They have a separate entrance because South African liquor laws require them not to operate in supermarkets.

OK Furniture also forms part of the Shoprite Holdings Ltd. In the main, it offers a variety of furniture, home entertainment and electrical appliances at the lowest prices. OK Furniture stores increased from 216 to 326 between 2012 and 2015. Just like the “Shoprite Usave” brand, OK Power Express are small format stores usually found in high-density areas. They sell highly selective range of goods and home entertainment products at reasonably lower prices. The number of stores almost doubled during 2012 to 2015.

House & Home provides a large selection of affordable, exclusive and well-known variety of furniture, appliances, home entertainment and floor coverings. These stores slightly increased from 46 stores in 2012 to 49 in 2015.

Medirite pharmacies are available inside Shoprite and Checkers stores and many of them are available in supermarkets and their target market is the previously disadvantaged communities. These communities are usually associated with fewer medical practitioners,

making them ideal customers for Medirite Pharmacies. These pharmacies increased from 132 in 2012 to 146 in 2015.

Related to Medirite pharmacies is Transpharm, which is also part of the Shoprite brand. Transpharm is a pharmaceuticals wholesaler that distributes a large variety of pharmaceutical goods, surgical equipment to Medirite pharmacies, other pharmacies, hospitals, clinics, dispensing doctors and veterinary surgeons across South Africa.

Further, there is also the OK Franchise division, which makes it possible for the Shoprite group to gain market share in a wide variety of mainly in smaller, convenience-positioned markets, located in rural towns and neighbourhoods. This division consists of six supermarket and convenience outlet formats as well as two liquor formats (“Enjoy OK liquor store” and “Friendly liquor store”). “In addition, there is another brand owned by the Group called Megasave” is a wholesaler that operates under OK. The number of stores decreased from 358 stores in 2012 to 321 in 2015.

The Group also owns “Hungry Lion” a fast food chicken restaurant, 61 Sentra stores and buying partners. In addition, the Group operates a ticketing business namely, Computicket, which has 1347 counters and 32 freestanding outlets spread across Group stores countrywide (Shoprite Holdings Ltd Integrated Report, 2012; Shoprite Holdings Ltd Integrated Report, 2015 & Shoprite Holdings, 2016).

### **3.7.2 PICK N PAY STORES LIMITED**

Pick n Pay is South Africa’s second largest retailer and was established in 1967 (Cooke *et al.*, 2016). The Ackerman family owns the retail chain and it has operations not only in South Africa but also in parts of Southern Africa and Australia. Pick n Pay’s business model comprises of selling food, general merchandise, clothing and liquor retailer. These are sold through the following formats: hypermarkets; supermarkets; family franchise stores; clothing stores; liquor stores; express stores; and pharmacies (Van Hille & Louw, 2012). The retailer mainly caters for the middle and upper income consumer segments with their Pick n Pay stores, whilst the Boxer chain targets the lower market segments.

As of March 2014, financial year, the Pick n Pay Group experienced a 7.7 per cent increase in turnover which amounted to R63.1 billion and had an annual increase of 5.8 per cent in retail trading space. In the 2016 financial year, the Pick n Pay Group had a turnover of R72.4 billion indicating an increase of 8.2 per cent compared to a 6.1 per cent



increase in turnover the previous year. Statistics show that the South African division had an 8.4 per cent increase in turnover from the previous year.

In 2016, the Group had 52 900 employees and this extends to 70 000 people when franchise stores are included. A total of 4 500 new jobs were created in the 2016 financial year through new stores and these new stores added 4.4 per cent to turnover compared to 2.5 per cent the previous year. The Group opened 26 new look “Next generation” stores in 2016, as well as their first “Spaza-to-store” conversion concept in Soweto. In total Pick n Pay Group has 1 410 stores in all countries it has invested in.

Pick n Pay also has a 49 per cent stake in its associate TM supermarkets in Zimbabwe, which has more than 50 stores.

Considering the store formats, Pick n Pay supermarkets sell a variety of groceries, general merchandise and a particular range of clothing. In addition, the Group has in-store bakeries, butcheries, hot food counters and fresh produce.

Pick n Pay hypermarkets are the largest store format with an increased variety of clothing, groceries and general merchandise all under one roof for the convenience of their customers. Further, they also have specialist categories such as garden and pool accessories, kitchenware and home appliances. These may not always be available in supermarkets.

The “Pick n Pay clothing” format supplies fashionable good quality clothing and footwear. These stores cater for babies all the way through to men’s and women’s wear.

Pick n Pay “local stores” are by design small because they are meant to provide neighbourhood convenience. For this reason, they are stocked with less variety of groceries than traditional supermarkets aimed at convenience and fresh produce.

Pick n Pay “express stores” are the smallest format providing a targeted convenience selection. They are located in high traffic areas such as public transport intersections.

Boxer superstores target the lower to middle-income segments. Price and convenience are an important factor for both these stores and their consumers. These stores are also located in close proximity to public transport routes and they offer a full-service supermarket.

“Boxer punch” are smaller sized supermarkets, offering a limited variety of groceries at a much lower cost. They strive to lower their over-head costs in order to maintain very low prices. They are located in places characterised by high foot traffic.

In addition to the above formats, Pick n Pay stores Ltd also operates, Pick n Pay Pharmacies, Pick n Pay Liquor stores, Boxer Build and Boxer Liquor stores.

### **3.7.3 SPAR GROUP LIMITED**

The SPAR Group Limited is a grocery, building materials and liquor retailer, established in 1963, Van Hille and Louw (2012). At its formation, eight wholesalers obtained exclusive rights to service 500 small retailers using the SPAR brand name. To date, SPAR operates six distribution centres and one “Build It” distribution centre servicing more than 2 000 SPAR stores across Southern Africa (The SPAR Group Limited 2016).

Spar is a wholesale distributor of goods and services to independently owned and not franchises or chain stores. However, the Group has had ownership of eleven SPAR stores they purchased to maintain key retail areas since 2011. The group utilises a “voluntary trading” model, which allows more flexibility to businesses in sourcing certain products from local traders, whilst also making use of Spar’s merchandising power.

Spar operates under the following brands: SUPERSPAR, SAVEMOR, KWIKSPAR, TOPS Liquor shops, Spar Pharmacies, and “Build It”. According to Cooke *et al* (2016), the Spar group manages seven distribution centres to service and supply about 1 864 independently owned SPAR, SUPERSPAR, SAVEMOR, KWIKSPAR, TOPS Liquor shops at Spar, “Pharmacy at Spar” and “Build It” hardware stores in Southern Africa. SPAR directly employs about 4 000 people in distribution support and marketing but altogether employs 65 000 people.

As far as the SPAR Group Ltd store format is concerned: SUPERSPAR offers a full range of groceries and general merchandise. Further, SUPERSPAR contains considerable service departments, such as an in-store bakery, butchery, meals and fresh produce. The number of stores increased from 220 in 2008 to 305 in 2013.

The SPAR stores format is aimed at neighbourhoods or rural areas and contains a substantial variety of groceries based on specific customer needs. “SAVEMOR” is a format that focuses on the emerging or less populated market segments. It contains a

limited selection of goods and reduced fresh produce. The store offers competitively priced commodity goods. The number of stores increased from 11 in 2008 to 28 in 2013.

TOPS at SPAR are stand-alone liquor stores located near SPAR member stores and the number of stores increased from 352 in 2008 to 582 in 2013.

Build It operates stand-alone building materials outlets for basic hardware and building goods. The Build It format focuses on renovators or homebuilders at the lower to middle-income segments and at emerging building contractors. The number of stores increased from 245 in 2008 to 298 in 2013.

Pharmacy at SPAR is usually a stand-alone or in-store pharmacy. It contains a full range of pharmaceutical as well as health products and it is located near a SPAR member store.

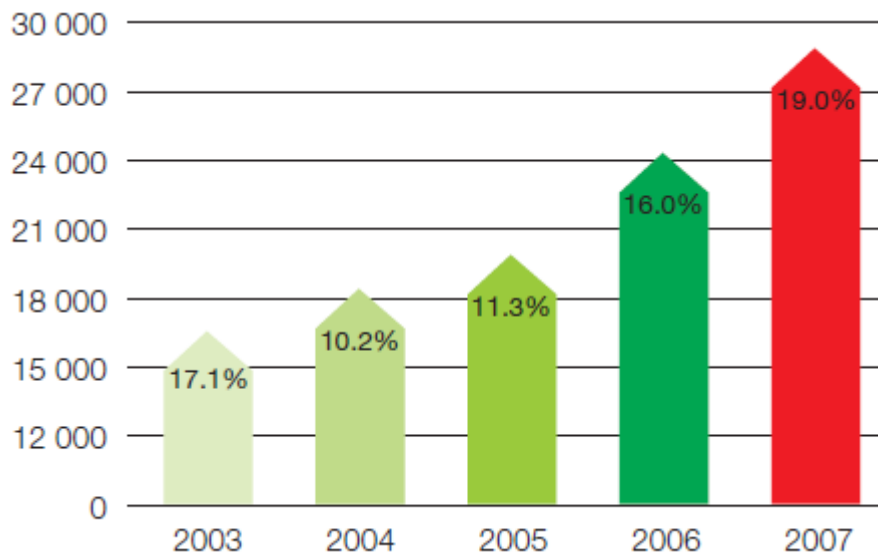
KWIKSPAR focuses on convenience with emphasis on speed and the stores have been fluctuating from 150 in 2008 to 136 in 2013. SPAR EXPRESS is a new concept introduced with a pilot store in 2013 as part of forecourt retailing, mainly at petrol filling stations.

SPAR's market share covers all Living Standards Measure (LSM) groups of products. LSM shows the wealth ranking of customer income groups (Martins, 2012). The higher the ranking the better off those individuals in that category. SPAR stores realised a 9.1 per cent increase in retail turnover to reach R58.5 billion for the 2013 financial year and had a 2.2 per cent increase (2012:3.2%) in retail trading space. Retail sales for TOPS at SPAR increased by 13.8 per cent (2013:15.9%) to reach R6.6 billion in 2014 (2013: R5.8 billion) (see Figure 3-18 & 3-19). At "Build It", there was a 9.5 per cent increase in 2014 to reach R9.1 billion compared to 12 per cent increase the previous year (SPAR Group Limited Annual Report, 2014). About 30 per cent of SPAR's turnover comes from the butchery, fresh and bakery food service departments (The SPAR Group Limited Integrated Annual Report (IAR), 2013).

According to Mahlaka (2016), retail revenue from SPAR's South Africa stores had a 9 per cent increase to R36 billion in the first half of 2016. Private label brands registered a 10.6 per cent increase and food inflation was at 4.5 per cent. In 2015 SPAR had a 3.2 per cent (2014: 1.7%) increase in retail trading space and a 7.6 per cent increase in retail turnover amounting to R67.9 billion (2014: R63.1 billion) (SPAR Group Limited Annual Report, 2015). In the 2015 financial year, there was a 9 per cent increase in turnover amounting to R56.4 billion (2014: R51.7 billion) for Southern African operations. There was a 23 per

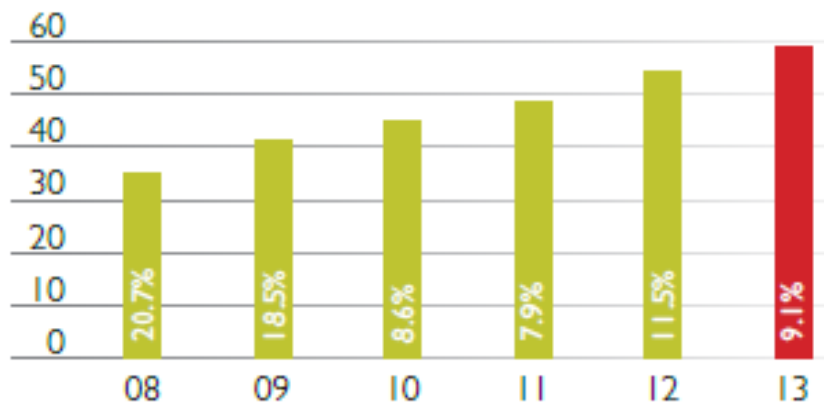
cent annual increase in overall operating profit to R2.3 billion and South African operations contributed 10.4 per cent translating to R2 billion (2014: R1.8 billion).

**Figure 3-18: SPAR retail sales and percentage growth: 2003-2007, R million**



Source: Spar annual report, 2007

**Figure 3-19: SPAR retail sales and percentage growth: 2008-2013, R million**



Source: The SPAR Group Limited Integrated Annual Report (IAR), 2013

### 3.7.4 WOOLWORTHS HOLDINGS LIMITED (WHL)

The South African based retail group Woolworths Holdings Limited (WHL) was established in 1931 and mainly offers private label goods. The group consists of three major operating divisions and these are Woolworths Proprietary Limited (Woolworths SA) based in South Africa with operations in eleven other Sub-Saharan Africa countries. The second is David Jones Limited based in Australia with operations in Australia and New

Zealand. WHL acquired David Jones in 2014 (Cooke *et al.*, 2016, Woolworths Holdings Limited Integrated Report, 2016). Country Road Limited is the third division based in Australia with operations in New Zealand and South Africa. WHL also operates Woolworths Financial Service (WFS) a joint venture with Barclays Africa Group (BAG), with BAG owning a 50 per cent plus 1 share. The WFS currently (2017) operates at 39 locations in South Africa and Namibia.

This WHL retail chain caters for the high-income segments targeting consumers in the LSM 8 to 10 customer segments and owns more than 400 retail outlets. The group sells a variety of food, beauty products, houseware, clothing and financial services using its own brand in South Africa. WHL owns all Woolworths stores in South Africa, whilst stores outside South Africa are mainly franchises and joint ventures, Van Hille and Louw (2012). WHL uses the following formats: outlets that only stock home goods and clothing; full-line outlets that supply the full Woolworths variety; and Woolworths' food outlets.

WHL had turnover and concession sales amounting to R72.1 billion (2015: R61.9 billion) indicating a 16 per cent increase. WHL experienced a 9.6 per cent Sales growth of clothing and general merchandise were R13.7 billion indicating a 9.6 per cent increase. Further, there was an 11.9 per cent increase in food sales from the previous year to R25.5 billion.

In South Africa, the Group had a 5.9 per cent net retail space growth and a 12.4 per cent increase in adjusted operating profit for the 2016 financial year. Woolworths SA's clothing and general merchandise made a 19 per cent turnover contribution to the group, food represented a 36 per cent turnover contribution and financial services made a 3.4 per cent group turnover contribution, (Woolworths Holdings Limited Integrated Report, 2016). WHL employs 1 014 people and Woolworths SA contributed 55 per cent towards the Group's turnover in 2016 and paid R3.7 billion in taxes for the same year.

Woolworths SA currently (2017) has five stand-alone format supermarkets and operates sixty-eight Engen forecourt stores. Six new forecourt stores opened in 2016. Woolworths manages four distribution centres that dispense food, clothing and general merchandise to stores in South Africa and SSA Sub-Saharan Africa. The distribution centres are located in Johannesburg, Cape Town and Durban.

### **3.7.5 MASSMART HOLDINGS LIMITED (MSM)**

Massmart was founded in 1990 with six “Makro” stores as the foundation. This was followed by the: acquisition of “Shield’s” 378 members in 1992; the acquisition of 20 “Dion stores” the following year; the acquisition of 26 “Game” stores in 1992; the acquisition of 14 “CCW stores” in 2001; the acquisition of six “Jumbo” stores in 2001; and the acquisition of 22 “Brown and Weirs” stores. Several acquisitions occurred in the subsequent years that resulted in Massmart acquiring “Builders Warehouse” stores. In 2012, Massmart merged with the international retailer Wal-Mart, which owns more than 10 000 stores in 27 countries worldwide (Bezuidenhout & Kleynhans, 2015:105). Massmart continues to trade as Massmart Holdings Ltd and is listed as such on the JSE (INET BFA, 2017).

MSM comprises of one buying group and nine wholesale and retail chains, Van Hille and Louw (2012). Further, MSM has 405 stores and operates in 13 countries in SSA selling mostly branded products for cash (Massmart Holdings Limited, 2016). It is worth noting that MSM is the second largest supplier of consumer goods in Africa, one of the leading wholesalers of basic foods, the leading retailer of general merchandise, liquor, home improvement equipment and supplies.

Total sales for Massmart were R42.3 billion for the first half of the year ending June 2016 signifying an 8.7 per cent increase from the previous period. MSM operates its chain of supermarkets under the Game FoodCo and Cambridge Foods brands. Additional MSM brands are Makro, Builders Trade Depot, Builders Warehouse, Builders Express, Jumbo Cash and Carry, Dion Wired and the Shield. According to Van Hille and Louw (2012), these brands are spread across the country and service a broad and diverse consumer base covering LSM1 to LSM10.

Mass-discounters, which are 139 in number, offer general merchandise, operate under the Game brand and the 24 Dion Wired stores. The mass-discounters recorded a 7.6 per cent rise in total sales in the first half of 2016 and the increase was attributed to food sales by Game.

Masswarehouse division is made up of Makro’s 20-store warehouses and Fruitstop that are responsible for distributing merchandise, food, and liquor. The Massbuilders division is made up of 102 stores that trade in building materials, home improvement and do it yourself (DIY) goods. These stores operate under Builders Superstore, Builders Warehouse, Builders Express and Builders Trade Depot.

Masscash comprises of 52 retail stores, 68 Wholesale and “Cash & Carry stores”. The division saw a 10.3 per cent in total sales coupled with a product inflation of 7.9 per cent.

Statistics show that, MSM recorded an 8.7 per cent increase in the first half of 2016 with a comparable sales growth of 6.4 per cent from the previous year’s total sales. There was a 5.8 per cent product inflation highlighting comparable real volume growth of 0.6 per cent.

### **3.7.6 INTERNATIONAL RETAILERS IN SOUTH AFRICA**

The entrance of Walmart into South Africa through its majority share in MSM indicated a change in the influence of international retailers in the South African market (Bezuidenhout & Kleynhans, 2015:93). This is because Walmart is known for its discounting, buying power and logistics. This means that, other retailers would have to improve their systems or risk losing market share to Walmart through Massmart (Van Hille & Louw, 2012).

KMPG Africa (2015), states that for domestic retailers to be able to compete with international retailers they must reduce the speed-to-market lead times for the latest trends. They must also improve their sourcing chains. The fact that South African consumers have more spending power and that South Africa has the most developed retail market on the continent, makes it attractive for international retailers wishing to establish their presence on the continent (AT&Kearney, 2014). There has been an average of three per cent sales growth in South African retail sales between 2005 and 2012. This has managed to attract international retailers, thereby increasing competition in the local market.

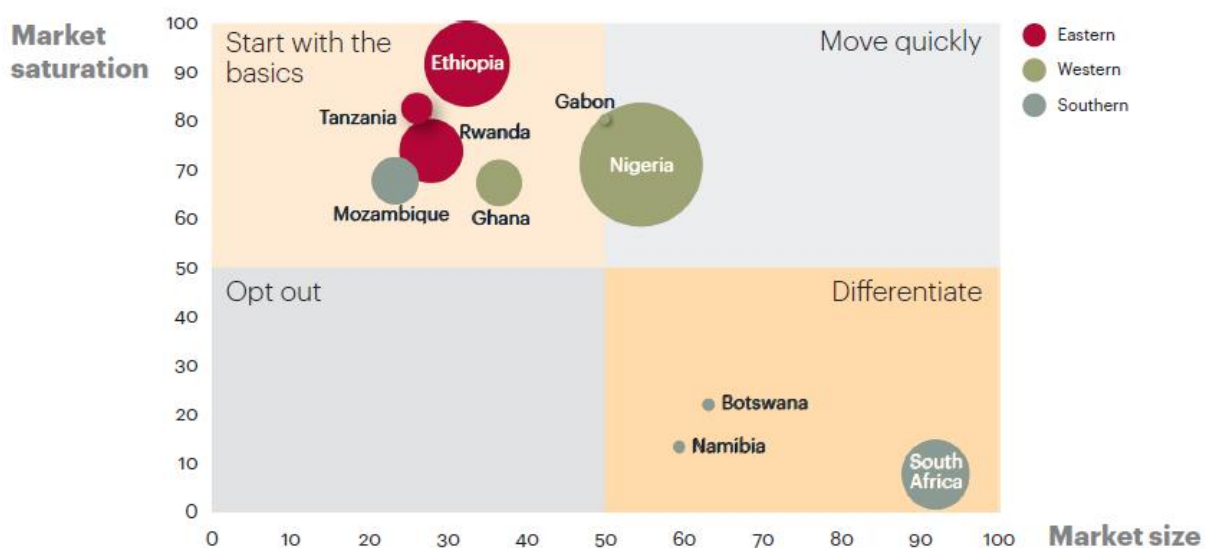
International retailers who target regional growth in Africa prefer to establish their bases in South Africa. This is because South Africa offers access to a huge consumer base and is not a political risk (Dennis & Piatti, 2015). According to JLL Staff Reporter (2016), the last three years have shown an increase in the number of international clothing and shoe retailers opening stores in South Africa. Some of These retailers are Zara, Forever 21, H&M and River Island. They compete with local retailers such as Edcon and Mr Price for the middle-class segment which has more disposable income. Regardless of the diminishing value of the local currency, the Rand, the rate of clothing and footwear imports continues to soar at an average of 15 per cent per annum (Makhoba, 2016).

Retailers have now begun introducing discount stores aimed at lower income consumers in rural areas as they see a large prospective of this market due to the influx of international retailers in South Africa (Deloitte & Planet Retail, 2011).

### 3.8 MARKET SATURATION

The African Retail Development Index (ARDI) ranks the best countries in Sub-Saharan Africa for retail expansion (AT & Kearney 2014). The ARDI distinguishes highly attractive markets and those with much potential. Figure 3-20 shows that the South African market is already highly saturated and has a large and modern market. This is supported by Malgas, Khatle and Mason (2015) who states that the South African retail sector highlights a mature market with a high concentration of a small number of large retailers such as Shoprite. Therefore, in terms of retail expansion countries such as Nigeria would be a better option than South Africa. This is because it is in the “move quickly” category implying that there are many retail growth opportunities compared to countries in the differentiate category.

**Figure 3-20: African Retail Development Index (ARDI)**

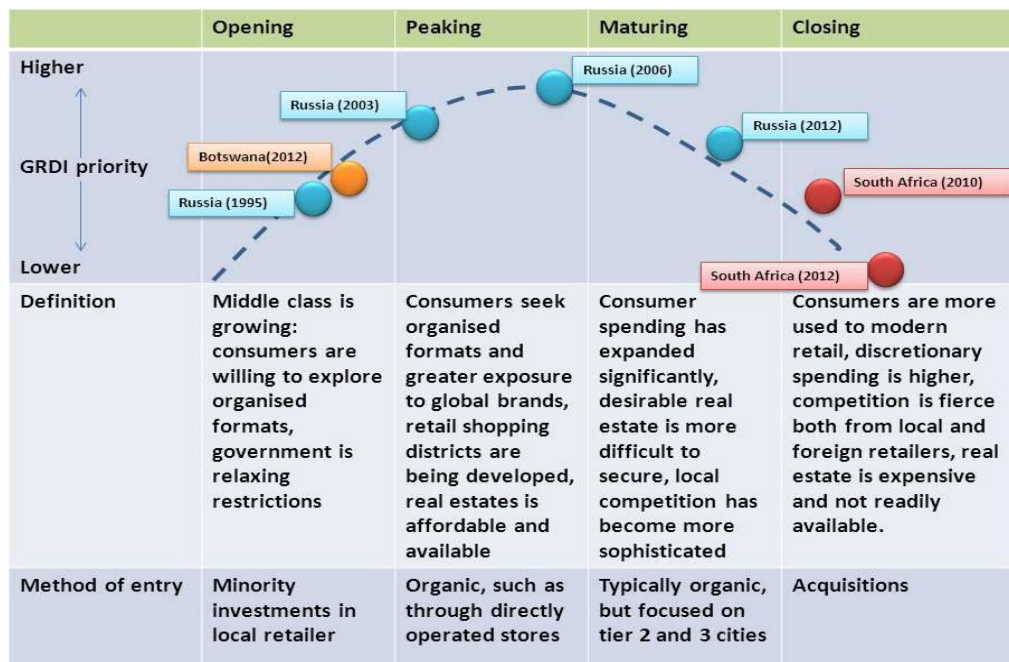


Source: AT & Kearney 2014

- ❖ Note: market size measured from the smallest (0) to the largest (100). Market saturation figures range from unsaturated (100) to fully saturated (0).



**Figure 3-21: Global Retail Development Index (GRDI)**



Source: Prinsloo (2013)

According to Prinsloo (2013) South Africa appeared on the GRDI for two times only and it already has a highly modernised and saturated retail market. Countries in the opening stage are associated with an expanding middle class, consumers exploring organised retail formats and there is an increase in formal retail. Firms usually enter this market through a small stake in a local retailer. In the peak stage, there is affordable and readily available real estate and the development of shopping districts. Global brands are also available in this stage and firms from abroad operate their own stores. During the maturing stage, there is a significant increase in consumer spending and local competition has become more experienced. In the closing stage entrance into the market is usually through acquisitions of existing retailers (refer to figure 3-21). There is very strong competition from local and international retailers and more discretionary spending.

### 3.9 SUMMARY

This chapter focussed on an overview of the South African retail sector. The retail sector is divided into food, drug, and general retailers. It was established that, the food and drug retailers had the highest amount of retail sales with a turnover of R189.67 billion in 2014. The regional labour employment in the retail sector showed that the Gauteng province had the highest number of employees. The Gauteng province also had the highest

amount of total gross value added (GVA) in the retail sector over a five-year period from 2006 to 2011.

An investigation into the major retailers in South Africa was conducted in particular their composition, activities and retail formats. The findings demonstrated that, major retailers account for more than 50 per cent of all formal retail activities in South Africa. It was further revealed that, South Africa has a highly developed retail market that is at par with some of the world's most developed countries. Also, this chapter showed that, the highly developed retail sector is saturated and this has led to an increase in the number of South African retailers establishing bases in other African countries.

The increase in South Africa's retail sector OFDI justifies why this study is important as it seeks to understand the drivers of the retail sector OFDI in Africa. The empirical investigation will weigh in on the above findings and attempts to create data on other reasons for the retail OFDI other than market saturation.

## **CHAPTER 4**

### **RETAIL IN AFRICA**

#### **4.1 INTRODUCTION**

This chapter investigates the extent of retail investment in other Africa countries by South Africa's retail sector in order to distil the reasons behind such motivation. Further, this chapter explores the impact of globalisation on the retail sector investment particularly in Africa.

The African retail sector is characterised by multiple semi-formal and informal retailers who sell mostly groceries. In a report of 14 countries in SSA, the informal retail sector accounts for about 50 per cent spent by consumers on goods (Nielsen Report (2015)). Modern trade is still in its infancy and about 80 per cent of consumers in SSA conduct their shopping from traditional channels, like "table tops". It must be noted that, "table tops" are defined as roadside stalls meant to capture passing consumers and local traders (Nielsen Report, 2015).

This chapter proceeds as follows: an examination of the development of the African retail sector; an analysis of Africa's young and growing population and its impact on the African retail sector; an examination of African growing economies and their relationship with the retail sector; the relationship between African property developers and the retail sector; the relationship between investment and the African retail sector; the challenges of making investments; and a summary and conclusion of this chapter.

#### **4.2 THE RISE OF RETAIL IN AFRICA**

Shopping mall development in SSA excluding South Africa is dominated by Kenya's retail market (Glasscon, 2016). International and regional retailers are increasingly being attracted to Africa's property markets and focusing on retail sector development. According to PWC (2013) over the next decade, at least until 2025, African retail market will increase remarkably. This is because the demographics are encouraging in relation to expanding future consumer demand. This corroborates with the findings of KMPG Africa (2015) that, the expeditious economic growth and demographics in Africa has led to the expectation of increased consumer spending.

International retailers and developers have been motivated to establish a presence on the African continent by these developments, in a bid to benefit from the first mover advantages. Ford (2016b) observes that, economic growth in Africa has been above the global growth rate by about 2 per cent since 2000 and this has begun to attract many international retailers looking for corporate growth.

The increase in African urbanisation enables firms to target their desired consumer groups more easily (KMPG Africa, 2015). On the same note, STANLIB (2013) suggests that, there is an increase of property development in Africa, which is propelled by massive urbanisation that is currently taking place on the continent. However, one must bear in mind that, favourable demographics on the continent does not guarantee success for retailers and this is because of the extensive disparity across countries in terms of, for example, income, tastes and culture.

Knight Frank (2016) noted that, there is a rapid increase in modern mall development in SSA because of the expansion in the region's consumer markets. This increase in mall development is motivated by the long-term economic and demographic growth prospects in the region. Africa's population has more than doubled in the last 50 years (current 2017) and it is expected to reach two billion people by 2040.

The study by Knight Frank on 47 countries in SSA, found out that SSA has about 3 million square metres (m<sup>2</sup>) of shopping mall space in malls that have a minimum space of 5 000m<sup>2</sup>. These findings exclude South Africa, which already has a highly developed large and mature shopping mall market.

The population increase will have a direct impact on the consumer markets. In addition, improved economic and political stability make the continent an attractive destination for international investors especially in the property market. The increase in population has resulted in the demand-supply imbalance particularly in the retail and commercial sectors. There is a huge retail shortage and an increasing need for logistics and warehousing centres in most African cities (STANLIB, 2013).

About 90 per cent of retail in Africa still occurs in the informal sector. The stability of many African countries in addition to increasing urbanisation and low levels of formal retail presents opportunities for more retail expansion. For example, Nigeria only had two shopping malls in 2012 (AT & Kearney, 2014).

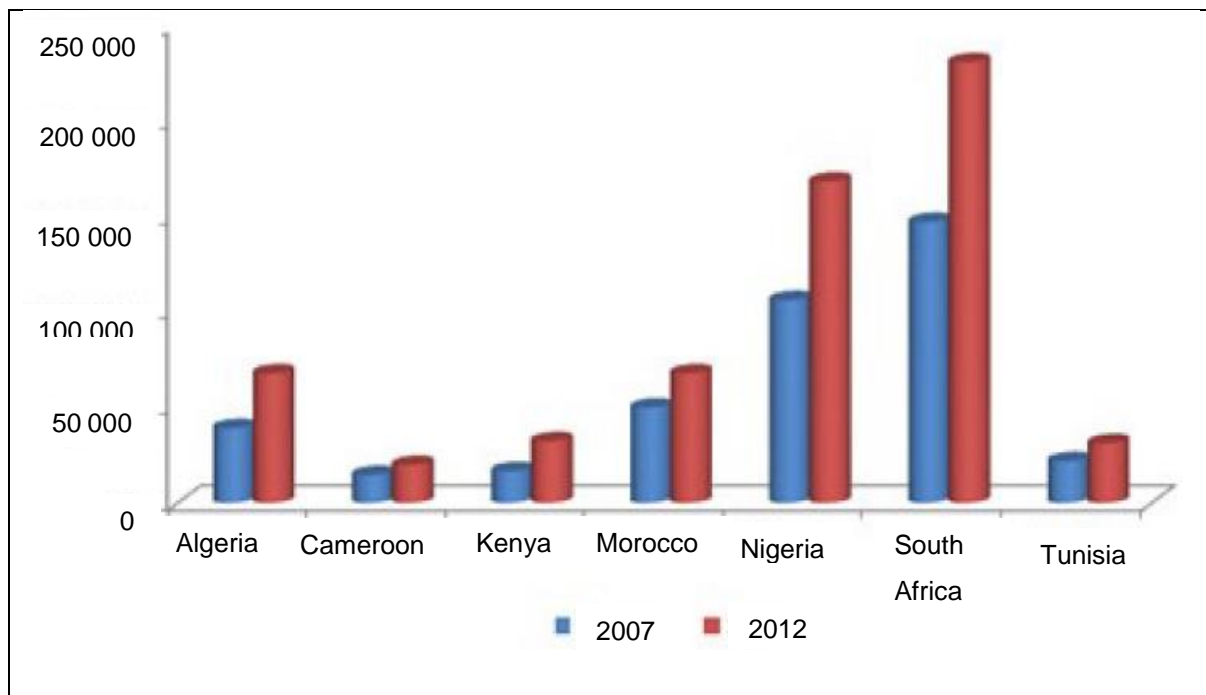
The top twenty-five retailers in Africa have a presence in twenty-one countries. The change in economic progress is highlighted by the fact that of the top twenty-five African retail leaders, ten of them are from countries other than South Africa (Supermarket & Retailer, 2015:10). Botswana's Choppies recorded a 24.4 per cent year on year growth for the 2013 financial year becoming the fastest growing retailer in the top twenty-five African retailers of 2015.

In 2013, the market of the retail was sector was estimated at US \$823.2 billion, African retailers (top 25) contributed an estimated US \$44.3 billion (5.4%) of the retail revenue. Food and beverages contributed about 52 per cent of the total retail sales. Berman and Balde (2013) cite the Economist on Africa (2000), in an article titled "The hopeless continent" where the transformation of Africa from a basket region to a game changer was described as unprecedented. As of 2017, Africa was ranked the second fastest growing region in the world, with seven of the ten fastest growing economies in the world, namely, Ethiopia, Mozambique, Tanzania, Congo, Ghana, Zambia and Nigeria.

Rapidly growing industries such as banking services and telecommunications have created a "white collar middle class" in most African countries (Berman & Balde, S. 2013). This "white collar middle class" has a strong buying power. According to the World Bank as cited in the Berman and Balde (2013), the consumption by the "white collar middle class" accounted for more than 60 per cent of the overall GDP for Africa in 2012 and has been instrumental in economic growth in Africa. The rising African middle class has created significant demand in the retail sector as they have more disposable income. According to Khan (2015), the middle class are households that account for at least half of their income spend on goods and services that are not just food and necessities. A prospering middle class is assumed to lead to increased demand for goods, employment increase and the prospering of economies.

Figure 4-1 shows a remarkable rise in disposable incomes for a select group of African countries for the period 2007 to 2012. Kenya and Algeria had the highest percentage increase during this period at 95 per cent and 73 per cent respectively (Berman & Balde, 2013).

**Figure 4-1: Disposable income for 2007 and 2012**



Source: Berman & Balde, 2013

Many shopping malls were established around the African continent in places where the rising middle class can use their new-found wealth to purchase various goods at a central location. This has led to an increase in the number of international retailers moving into Africa. For example, the Spanish retailer Zara, established in Kenya in 2013 through a distribution arrangement with Deacons a local retailer and Carrefour a grocer from France, under their Africa expansion programme.

The emergence of modern malls is a new concept in most of African countries. For example, the Accra mall in Ghana was officially opened in 2008 and it is the first modernised mall in the capital.

Although South African supermarkets have been assertive in SSA, other Pan-African supermarkets have begun to emerge such as Choppies from Botswana (Douglas, 2016a). By way of an example, in 2016 Choppies acquired 21 Jwayelani's chain stores and almost doubled its presence in the South African market. In Zimbabwe, Choppies increased from 20 to 30 stores in the same year.

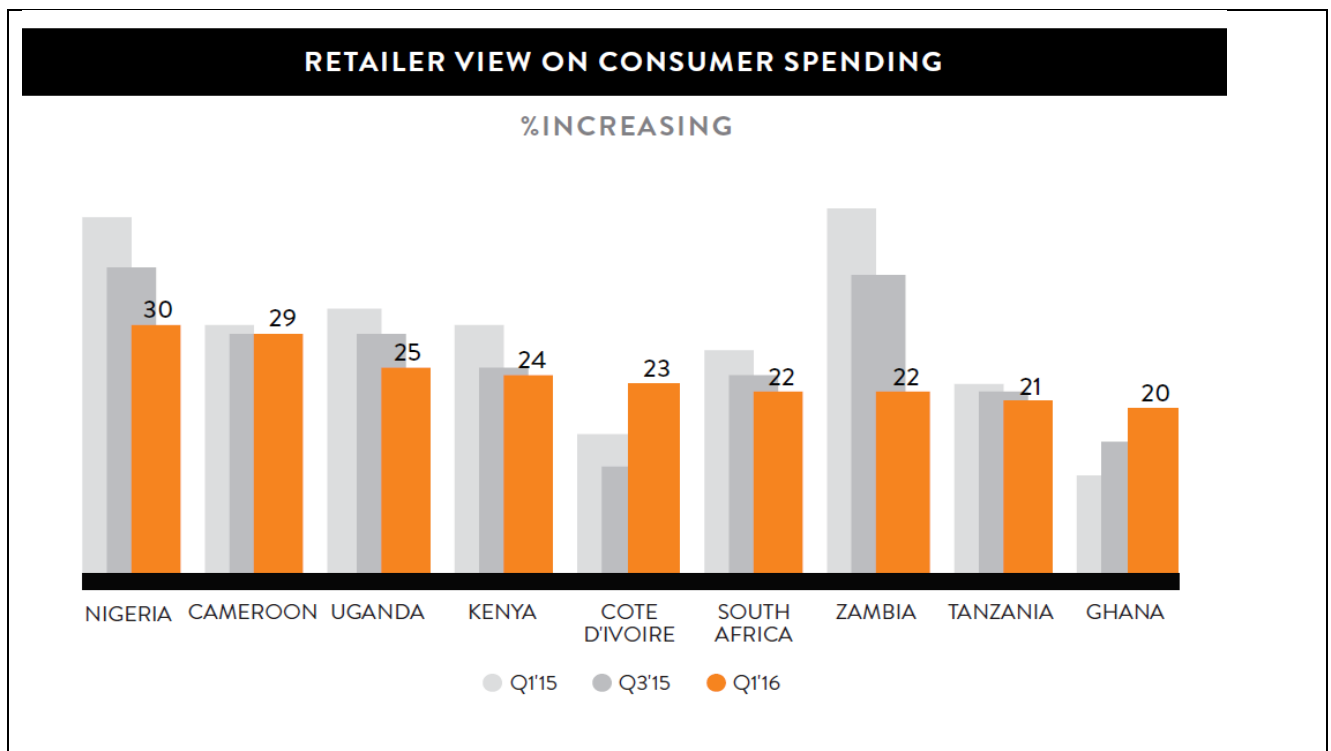
Modern trade outlets constitute about 26 per cent of consumer store visits in Africa, with countries like South Africa and Angola having above average figures of 39 per cent and 34 per cent respectively (Foster, Oikawa, Spanjaard, Huet, Kimani, & Niavas; 2016).

Another case in point is Nigeria, which hosts a few of Africa's most prominent supermarket chains but has more than 700 000 traditional outlets for soft drinks alone. To make inroads into Africa's traditional retail trade, firms must first conduct a proper due diligence mainly: assessing the types and locations of trade outlets in selected countries; the type of products they stock; size of the local market; and the disposition of the clientele. Further, potential firms must analyse the accessibility and potential revenues of each outlet and create a profitable product distribution strategy after cost.

The African market is still a long-term project and that firms willing to enter the African market must be prepared to withstand both good and bad market conditions. Nielsen's (2016) third Africa Prospects report, provides evidence for this by highlighting the shift in position of six of the top nine countries best economic performers in Africa over a six-month period in 2016.

Zambia dropped four places due to a sharp increase in inflation from 6 per cent to 23 per cent over the six-month period. Zambia's spiral downwards has been a result of poor macro-environment heavily dependent on the resources sector, high inflation and electricity shortages. This led to a decrease in consumer spending. Nigeria followed suite by dropping three places as a result of commodity price volatility. Ghana on the other hand, improved significantly moving from the seventh position in 2015 to fifth in 2016 and Uganda from eighth to sixth in the same period. Structural reforms and Government policies in Cote d'Ivoire led to robust inclusive growth and the country being estimated as Africa's fastest expanding economy in 2016 by the IMF, (IMF) 2016 (Nielsen, 2016).

**Figure 4-2: Retailer view on consumer spending**



Source: Nielsen, 2016.

An average of 29 per cent of SSA retailers believed that there was an increase in customer spending in the first quarter of 2015. In the third quarter, this had fallen to 26 per cent (Nielsen, 2016).

**Figure 4-3: BCG's Market attractiveness index in Africa**



Source: Boston Consulting Group's (BCG) African consumer sentiment 2016



According to Garcier in Sullivan (2016) 27 new malls were opened in Africa in 2016, driven by a shortage of formal retail space and a steady increase in local consumption as well as the influential interest from international brands. However, the economic slowdown has resulted in a reduced number of new projects as investors and developers become more cautious (Sullivan, 2016).

#### **4.3 AFRICA'S YOUNG AND LARGE POPULATION**

20 per cent of the African population is aged between 15 and 24 and it is the group that spends the most on branded products and contributes to the growth of modern retail in Africa, Fenech and Perkins (2014). The retail and consumer products sector is now the second most attractive sector in Africa, Fenech *et al.* (2014). The Africanisation of retail has been pioneered by South African retailers pursuing new opportunities in the rest of the continent, Dakora, Kalitanyi, Mutematemi, Gyogluu, Bagui and Mason (2016). Retailers such as Wal-Mart have been present and Africa has maintained a more than 5 per cent average growth rate over the past 15 years, highlighting the economic potential of the region (Gurria, Kaberuka, Kim & Schwab; 2015).

Africa has an expanding economically active population of 2.7 per cent, higher than that of South East Asia and Latin America of 1.2 per cent and 1.3 per cent respectively. Similarly, Agyenim-Boateng *et al* state that, the consumption by this young group will result in more than \$400 billion consumption growth over the next decade. The UN population statistics estimates that; Africa has the youngest population than the rest of the world. It was estimated at 55 per cent for people under the age of 25 in 2015 in relation to South America at 37.8 per cent, Asia at 36.6 per cent, North America at 29.1 per cent and Europe at 23.9 per cent (KMPG Africa, 2015). The substantial emerging market and the increasing labour force increases Africa's growth possibilities.

In 2013, the *Economist* changed its view on Africa in an article on Africa titled "the hopeful continent, which argued that Africa is the fastest growing continent, with GDP expected to increase with an annual average of 6 per cent. This highlights the potential the continent now presents.

#### **4.3.1 FEMALE BUYING POWER**

As more women enter the formal job market this also creates more opportunities for the retail market. Women in the formal job market earn their own money and create demand for consumer goods resulting in new opportunities for retailers.

Africa has five countries, namely, Kenya, Egypt, Morocco, Ghana and Nigeria that are most suitable for retail development in the long-term. These were identified using economic potential and demographics as the main guidelines (KMPG Africa, 2015).

#### **4.4 OVERVIEW OF AFRICA'S FASTEST GROWING ECONOMIES BY REGION**

At present, cultural influences seem to influence retail in East, Central and South-West Africa. This has been attributed to the fact that, the retail sector is dominated by Anglo-phone countries (Ford, 2016b). For example, capital cities from countries such as Ethiopia and Angola have much more shopping centre space compared to that of the biggest Francophone shopping city in the region Abidjan, the capital of Cote d' Ivoire.

##### **4.4.1 NORTH AFRICA**

###### **4.4.1.1 Egypt**

According to Abdellatif (2014) Egypt is one of the largest markets in Africa, has a population of over 86 million people and is projected to have more than 72 per cent of households in the middle-income sector by 2018. This presents more opportunities for retailers due to the perceived future increase in household spending.

In 2014, the retail market in Egypt was the fastest expanding sector, far ahead of other sectors such as telecommunications, real estate and automotive. Between 2007 and 2011 retail sales in Egypt had a compound annual growth rate (CAGR) of 14.2 per cent and was ranked as the 13<sup>th</sup> most attractive retail market in the world.

The concept of modern shopping malls was introduced around 2002 in Egypt with the opening of the Maadi City Centre and City Stars. However, the political turmoil and uprisings of 2011 in the country negatively affected growth in the retail sector. Political stability after the 2014 elections began to motivate developers such as Majid Al Futtaim, the developers of Maadi City Centre, to increase their investments in Egypt.

Increasing disposable income, improved political stability and high economic growth is perceived to result in an improvement of retail in Egypt. A youthful population and increased urbanisation will most likely assist in improving sales growth for both food and non-food retail sectors.

#### **4.4.2 EAST AFRICA**

East Africa has witnessed an increase in the retail sector due to high level of investments, (Mulupi 2015). For example, the development and opening of Garden City mall in Nairobi, Kenya attracted many international retailers such as KFC a fast-food chain based in the USA and Game stores from South Africa. Dihel's (2011) observes that, East Africa lacks modern distribution channels and the informal retail sector dominates the market. Supermarkets in East Africa have had excellent growth rates from 2006 to 2010. For example, countries such as Uganda, Tanzania and Rwanda had compound annual growth rates of more than 10 per cent in retail sales in 2010. In addition, retail sales were expected to grow at 10 per cent annual average over a five-year period in East Africa. Retailers in East Africa first focus on large cities and urban areas in their growth phase and then expand to medium size and later rural areas.

Although there is a fast increase in modern retail in East Africa because of higher incomes, an expanding population and continued urbanisation it still low by comparison to the informal retail sector.

##### **4.4.2.1 Rwanda**

Rwanda was ranked number one retail investment destination in 2014 using AT & Kearney's African Retail Development Index (ARDI). Strong macro-economic indicators and an efficient government have made Rwanda attractive for international retail investors. Infrastructure development has been identified as an important factor that promotes retail investment. For example, Rwanda has upgraded its road system, which has made the country a regional coordination centre for East Africa, (Global Perspectives, 2014).

Further, other African retailers have begun to invest and open stores in Kigali, the capital city of Rwanda. The development of cost-effective supply chains in Rwanda is encouraged by the good infrastructure available. Rwanda is a member of the East African Community (EAC) and this gives the country access to a larger intra-regional trade

market. The country has been experiencing increasing retail spending per capita and rising levels of retail sales of about 20 per cent per year in recent years (AT & Kearney, 2015).

#### **4.4.2.2 Kenya**

Kenya has a relatively well-developed retail market of about 25 per cent to 30 per cent African market penetration (KMPG Africa, 2015). Kenya is SSA's sixth largest economy and the Kenyan government has improved market transparency and fortified the real estate infrastructure by digitising land records (Global Perspectives, 2014). According to the New World Wealth report for 2014 cited in the KMPG Africa (2015), per capita wealth in Kenya grew by 89 per cent since 2000.

In addition, there was a 67 per cent increase in the value of a shopper's basket over a five-year period. However, Kenyans are still poor and the retail sector will most likely be dominated by the food market in the medium term. Rising levels of urbanisation and the middle class (something is missing) as well as the shift towards the formal retail is predicted to result to more growth in the country's retail sector.

Kenya has an advanced retail industry in Kenya in comparison to its neighbours. The most dominant retail players are Nakumatt, Tuskys, Naivas and Uchumi. The largest Kenyan retailer Nakumatt employs 7 000 people in 52 stores with operations in four countries. According to Thiagarajan Ramamurthy, the regional director for strategy and operations at Nakumatt in Mulupi (2015), their organisation currently focuses on only 10 per cent of the East African retail market leaving 90 per cent available for other retailers. This statement was in response to the entrance of Massmart through its Game store and Carrefour in Kenya in 2015.

Although the retail sector in Kenya is dominated by informal sellers, in recent years there has been an increase in modern trade (Maritz Africa Intelligence, 2016). However, most of the retail improvements have been concentrated in the Nairobi, the capital city. This trend has continued in other East African countries as well such as in Ethiopia (Addis Ababa), Uganda (Kampala) and Tanzania (Dar es Salaam).

#### **4.4.2.3 Ethiopia**

Ethiopia has the second largest population in Africa of around 88 million people (AT & Kearney, 2014). Modern distribution is improving in the largest city Addis Ababa and is attracting many retailers. Developments in Ethiopia's infrastructure such as in road, power and telecommunications have resulted in exponential growth in its retail sector (AT & Kearney, 2015). The ease of doing business in Ethiopia has increased, for example, the period of business start-up has been reduced from 46 to 15 days. (Foster *et al.*, 2016).

#### **4.4.2.4 Tanzania**

Tanzania is in its early stages of development, with high levels of poverty and 30 per cent of its population urbanised. It is also the most stable and biggest country in the EAC region. The country has one of the most rapidly expanding retail markets in Africa stimulated by the development of new shopping malls and an unsaturated market. This makes the country ideal for retailers planning to establish a market and create brand awareness. The current (2017) high levels of poverty and small middle class means that retailers entering the market should project long-term investment prospects.

### **4.4.3 WEST AFRICA**

West Africa is the most populous region in Africa and it has excellent market prospects. Nigeria, Gabon and Ghana are some of the countries in West Africa that were part of AT & Kearney's African Retail Development Index (ARDI) 2014. Modern retail formats have begun to rapidly sprout in the last few years. International retailers have either moved in or have made plans to move into these African markets.

#### **4.4.3.1 Nigeria**

Nigeria has the largest population on the continent twice that of Ethiopia. It is home to one of the twenty-five largest cities in the world, Lagos (AT & Kearney, 2014). A growing middle class and coupled with urbanisation has driven the growth of modern and international supermarkets. In 2014, the wholesale and retail sector contributed 29 per cent to GDP. There was a 6 per cent increase in overall annual GDP (Global Perspectives, 2014).

Nigeria had more than half of the 7.6 million middle-income households from 11 SSA countries in 2014. Between 2000 and 2014 Nigeria's middle class increased more than

six-fold and is expected to reach up to 12 million households by 2030 (Whitehead, 2014). The middle class is opting for more convenience and shifting towards modern retail resulting in growth in the retail sector. Esposito and Tse (2016) state that only 1 per cent of all shopping expenditure in Nigeria comprises of modern supermarkets and this is because the market is dominated by the informal retail sector.

Fiorin, Hattingh, Maclaren, Russo and Sun-Basorun (2013) state that, the wholesale and retail sector contributes 16 per cent to GDP. The sector is also the third largest contributor towards national product, although most of the transactions occur in the informal sector. Projections indicated that there was going to be an expansion in the food and consumer goods sector between 2008 and 2020 amounting to an estimated US \$40 billion.

Retailers wishing to enter the market must consider language barriers, land availability, regulations, supplier and distributor capabilities. Nigeria has many local languages and cultures and still has an under-developed supply and distribution system (Global Perspectives, 2014). The country has high barriers to entry like government regulations, which involve long and time-consuming procedures to enter the market. Also, Nigerian consumers have a variety of specific product requirements and this might affect scale production.

Additional challenges include erratic fuel and power supply due to the drop in commodity prices (Nielsen, 2016). Nigeria's original economic growth forecast by the IMF in the Nielsen report had projected Nigeria's economic growth to be 3.2 per cent but this was reduced to 2.3 per cent. During the last five years Nigeria has managed to diversify its economic portfolio, increasing its industry and agriculture as a source of economic growth whilst limiting its reliance on oil.

#### **4.4.3.2 Gabon**

Gabon has a GDP per capita of \$21 600. The country's growing middle class provides opportunities for foreign firms in the retail sector to invest (Esposito & Tse, 2016). In 2012 to 2014, the country had a 13 per cent annual increase in retail sales (AT & Kearney, 2014). 86 per cent of Gabon's population is urbanised and it has one of the highest per capita levels SSA. Although the country has a small population, formally it is still in its infancy at about 3 per cent to 4 per cent of formal retail market share. Gabon has an unsaturated modern trade market and an average to low country risk - making it ideal for retail investment. However, the country has a small market due to the size of its country.

#### **4.4.3.3 Ghana**

Ghana's annual retail sales were at 10 per cent in 2014 and exceeded annual GDP growth of 8 per cent (AT & Kearney, 2014). Modern retail in Ghana has mainly been restricted to Accra, however, other cities such as Kumasi have been experiencing a boom in retail sales. The country has a friendly business environment and this makes Ghana an attractive business destination. The retail sector in Ghana is highly unsaturated although it has a relatively large middle class, low risk and ease of doing business (AT & Kearney, 2015). Sourcing products in Ghana is much easier than in some other African countries.

Commercial oil production in Ghana in 2011, as well as favourable commodity prices led to strong economic growth between 2010 and 2013. At one stage the economic growth was at 14 per cent in 2011 (Douglas, 2016b). The fall in oil and commodity prices, have caused currency depreciation and inflation among other things. Ghana recorded growth rates of 4 per cent and 3.5 per cent in 2014 and 2015 respectively. Modern shopping malls also recorded below average historic average overall sales in 2016.

Ghana's fast economic growth, increasing disposable income and a growing middle class has attracted the attention of Pan-African retailers such as Shoprite, Woolworths and Massmart. International retailers such as Mango, Nike, Bata and Puma have also penetrated the market in recent years.

The retail formal sector remains small even after the entrance of large international retailers and the development of new shopping malls. Dennis and Piatti (2015) state that, 96 per cent of all retail trade still occurs in the informal sector in Ghana.

#### **4.4.4 SOUTHERN AFRICA**

Southern Africa is associated with high consumer spending and stable economies.

##### **4.4.4.1 Namibia**

Namibia's high income per capita presents opportunities for international retailers who can provide differentiated and competitive products to its growing middle and upper-class consumers. Retail growth in Namibia is driven by an increase in the middle class and consumer spending. The country has a GDP per capita of almost US\$ \$11 000 and 40 per cent urbanisation. Namibia also has the seventh highest income per capita in Africa.

The country's formal retail sector is expanding at 12 per cent per annum and is influenced by the country's effective transport network.

#### **4.4.4.2 *Mozambique***

Mozambique's economic growth is stimulated by natural resources and is attracting formal retailers in the country. South African retailers already dominate the formal retail sector in Mozambique. Poor infrastructure in Mozambique affects supply chain efficiency.

#### **4.4.4.3 *Other countries***

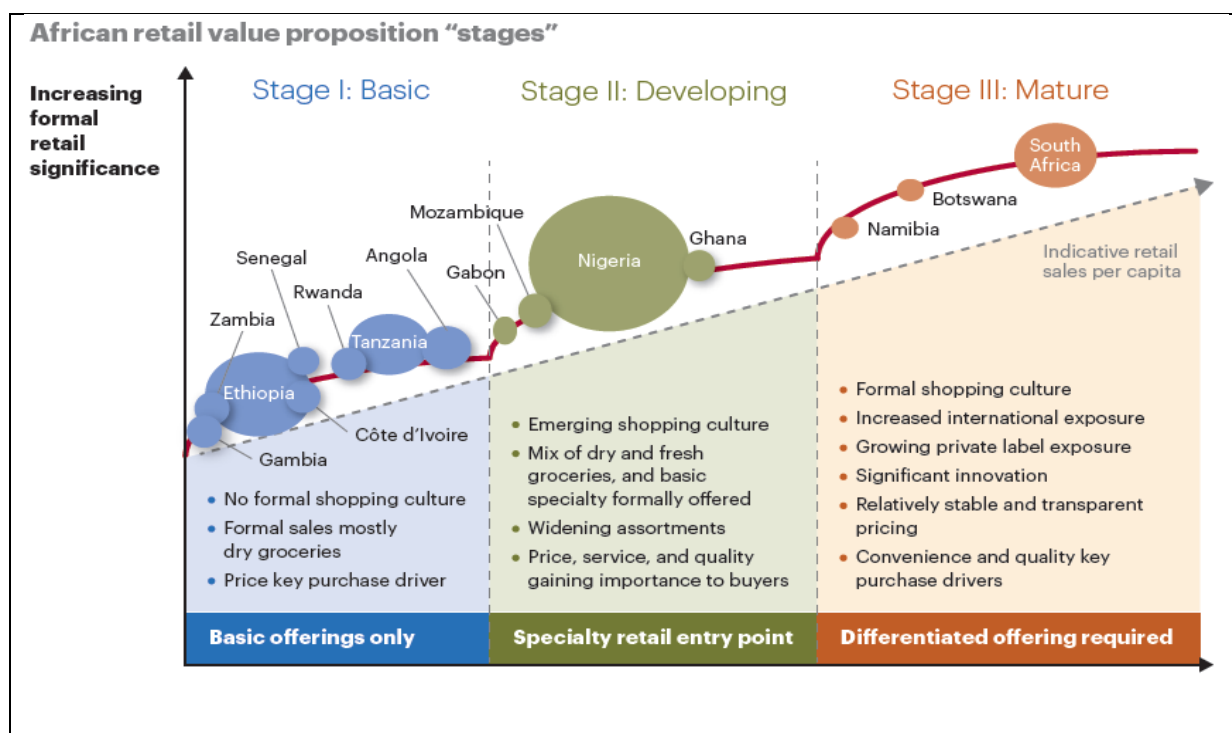
There are African countries that have great retail potential growth such as Morocco, Botswana and Angola. Botswana has a well-developed economy and strong per capita GDP supported by minerals, agriculture and tourism. Botswana's market share is expanding despite the country having a saturated market share. Similarly, Angola's economy is growing at a much faster pace (at 7 per cent per annum) even though consumer spending per capita is still low, (AT & Kearney, 2015).

The following section will focus on grouping some of Africa's fastest growing economies according to the level of formal retail in their countries and identifying the best type of investment for them. Further, this section will focus on African consumer sentiment and the importance of pricing in their purchasing decisions.

### **4.5 AFRICAN RETAIL MARKET SEGMENTATION FOR INVESTMENT BY LEVEL OF DEVELOPMENT**



**Figure 4-4: African retail**



Source: AT & Kearney, 2015

This section attempts to explain the African retail value proposition in four stages, that is, in terms of the level of retail development and identifying the prime markets for retail investment. The value proposition will be described using figure 4-4.

### Stage 1

Formal retail for countries in the basic stage shown in figure 4-4 is almost non-existent and where it exists, its focus is on dry goods such as whole grain foods and textiles (AT & Kearney, 2015). A basic retail format might prosper and provide possibilities for maximisation and growing. Advanced retail formats may take years to be profitable in areas that are still in the early retail developmental stages. It is more important for retailers entering these markets to start small and get a better understanding of local customer needs, customs and market characteristics. Some of the countries in this stage which were also part of the ARDI top 15 for 2015 are Gambia, Rwanda, Senegal, Angola, Zambia, Ethiopia, Tanzania and Cote d' Ivoire.

### Stage 2

Countries in this developing stage shown in figure 4-4 may offer a more rational entry point for established retailers. This is because retailers can easily adjust formats to target

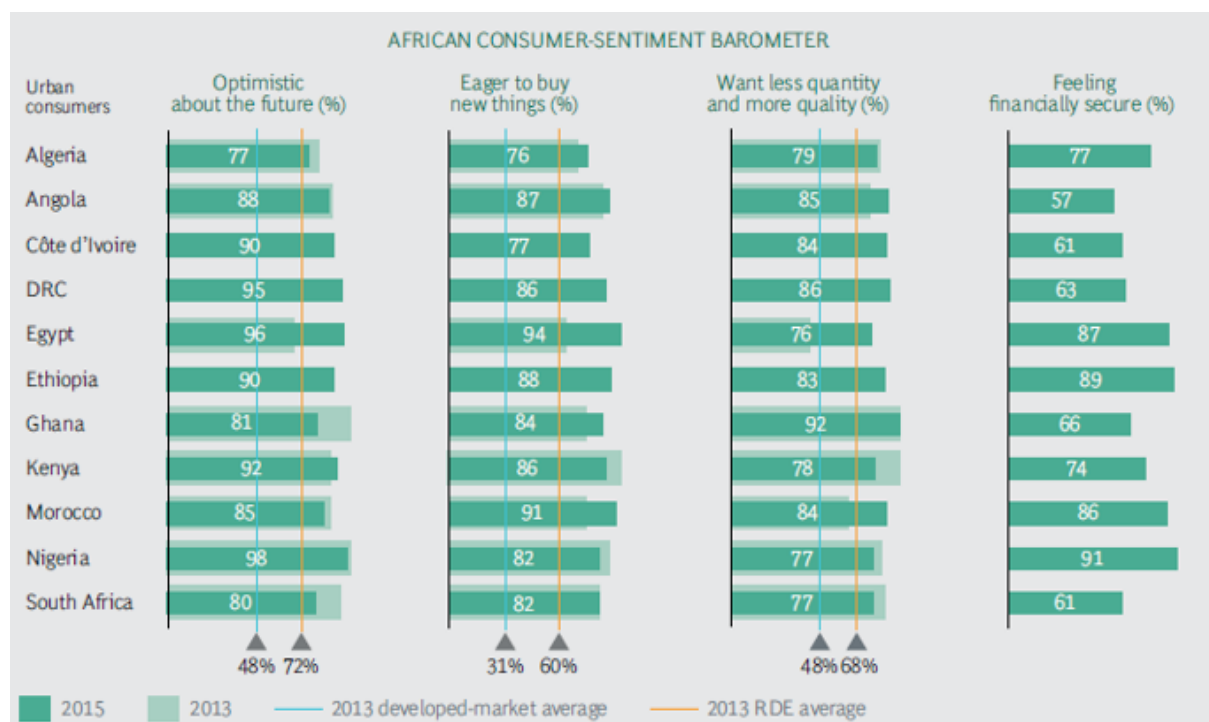
less developed or more developed markets when they start at the middle. Countries in this stage include Gabon, Ghana, Mozambique and Nigeria (AT & Kearney, 2015).

### Stage 3

Countries in this mature stage as shown in figure 4-4 like Botswana and Namibia have comparatively high levels of wealth and a well-established shopping culture as well as good infrastructure. These countries are the most stable for market entry into the region. More advanced product offerings and specialty retailers may opt for this route (AT & Kearney, 2015).

Ernst and Young's (2015) attractiveness survey identified political risks as fundamental obstacles that inhibit investment in Africa and these include corruption and stability. Foster *et al.*'s (2016) highlights that about 88 per cent of African consumers are optimistic about the future and that this will boost economies and disposable income.

**Figure 4-5: African consumer sentiment**

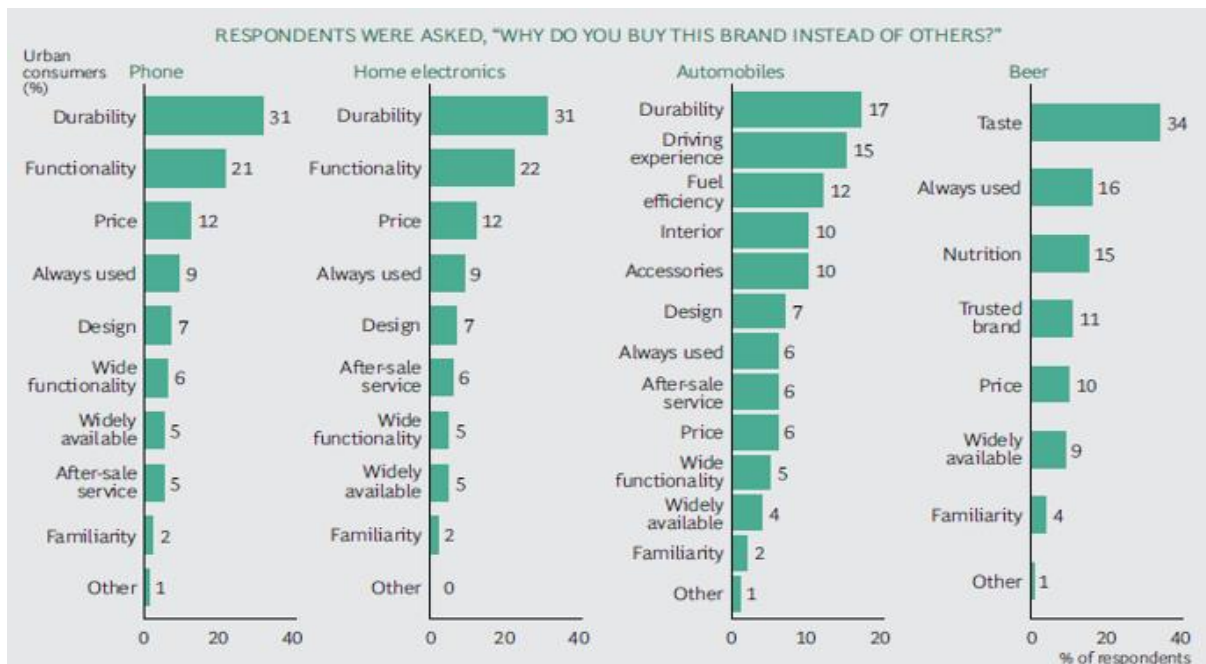


Source: Boston Consulting Group's (BCG) African consumer sentiment 2016

Figure 4-5 highlights the level of optimism by African consumers. This is demonstrated by the commitment of the consumers to purchase new things (Foster *et al.*, 2016). On average, African countries still have significantly higher averages of optimism and willingness to buy new things compared to developed markets. Higher levels of financial

security will most likely result in increased consumer spending, as consumers will be able to spend more.

**Figure 4-6: The importance of price in Africans' purchasing decisions**



Source: Boston Consulting Group's (BCG) African consumer sentiment 2016

Figure 4-6 shows that African consumers prefer durability and functionality of a product to the price in determining their purchasing decisions. Foster *et al.* (2016) states that African consumers are not primarily driven by price in their purchasing.

#### 4.6 DEVELOPERS IN AFRICAN RETAIL

Developers in Africa seem to have a complementary relationship with retailers. They usually find an anchor tenant retailer who agrees to rent before they start developing a shopping mall. The developer may be the one who looks for and finds a potential consumer market and approaches retailers to find out if they will commit to renting space at the mall to be developed. Generally, developers engage with retailers to mitigate the risks involved in developing a mall.

Retailers and developers also engage in joint ventures to build shopping centres. There are notable joint ventures between banks and retailers to improve the retail sector in Africa, for example, Resilient Africa between Standard bank and Shoprite develops shopping malls in Nigeria that do not exceed 14 000m<sup>2</sup> (Mhlaka, 2015). Since 2001 Africa has had remarkable developments in real estate markets and attracts foreign investors

(DLA Piper, 2016). Improved transparency, rising incomes and better investor protection legislation in African countries has given confidence to most of the investors. Private equity funds ((hedge funds and sovereign wealth funds) dominate the current investment (2017) in the retail sector development.

In Kenya, the Garden City mall is the most distinguished multi-purpose shopping mall and it has been scheduled to be completed in 2017 (Glasscon, 2016). There is a shift towards multi-purpose developments that incorporate office and residential space compared to pure retail developments.

Some international developers have realised that to remain relevant they have to follow their customers such as retailers where they are going. For example, BG International a US based property developer was motivated to invest in Africa after Walmart had purchased 51 per cent in Massmart, (Bigg & Motsoeneng, 2013).

West Hills Mall (the biggest) in Ghana follows the above model, and it was opened in October 2014 and has a 100 per cent occupancy. The success of the mall coupled with increasing demand for more shopping alternatives has persuaded developers to invest in more retail space in Ghana (KMPG Africa, 2015). There is a high demand for shopping alternatives which has made the rentals skyrocket and more profitable for developers.

Ford (2016a) notes that, there is an increase in the development of shopping malls all over Africa. This is attracting international retailers and creating jobs for local construction companies. Actis, a London based equity firm and Rand Merchant Bank (RMB) Westport, are good examples in real estate, which are some of the leading, shopping mall developers in Africa.

However, the cost of constructing a mall in Africa is estimated at US \$35-\$60 million and it is still considered a risky endeavour by developers, (Bigg & Motsoeneng, 2013). Most developers often rely on speculation in identifying ideal mall locations in Africa due to the scarcity of consumption patterns data. The awarding of proper licences including land titles that are necessary to facilitate the construction of malls are bureaucratic in most African countries. Further, developers suffer from poor banking and credit facilities in the African countries they may consider to invest. In addition, the lack of the rule of law may deter developers from investing in potentially lucrative countries.

## **4.7 CHALLENGES OF INVESTING IN AFRICA**

Factors such as poor infrastructure and political instability make firms reluctant to enter certain retail markets in Africa. AT & Kearney (2014) observe that Africa has relatively underdeveloped supply chains which affect the development of the retail sector. The discussion below focuses on additional factors that might influence investment decisions, in particular, poor infrastructure, lack of a manufacturing base, political instability, differences in consumer behaviour and a fragmented retail market.

### **4.7.1 POOR INFRASTRUCTURE**

About a third of Africans are estimated to live within a two-kilometre radius of a paved road usable all year round. Transportation costs can be as high as five times those in other developing countries like Brazil. Transportation in most African countries is both costly and difficult due to poor road infrastructure (Berman & Balde, 2013). Poor electricity supply also hinders consumer demand, as well as supply. For example, South Africa's Lucky 7 and Metro Cash & Carry exited Kenya's retail sector in 2005 due to some of the above factors (Dihel, 2011). KMPG Africa (2015) states that, the expansion of the formal retail in Africa has been restricted by the shortage of infrastructure exacerbated by bureaucratic impediments.

### **4.7.2 LACK OF A MANUFACTURING BASE**

The lack of a manufacturing base in most African countries results in increased costs due to import and transportation costs. Shortages are sometimes a common feature in some countries due to unreliable supplies caused by the reliance on imports KMPG Africa (2015).

### **4.7.3 POLITICAL INSTABILITY**

Wars negatively affect business and policy implementation in many countries. Political instability creates policy uncertainty and in some cases it may result in short-term macro-economic policies that are sub-optimal. Further, political instability or conflict in a host country will most likely lead to two types of risks (Brada, Kutan, & Yigit, 2004), namely,

- I. The damage or destruction of facilities, interruption of production will affect exports and domestic sales resulting in lower profitability from operating in a host country.

- II. The value of the host country's currency will probably be affected as well lowering the value of assets invested as well as future profits to be gained from the investment (Brada, Kutan, & Yigit, 2004).

Kutan and Perez (2002) in addition also found a positive correlation between Colombia's stock market prices and the country's socio-political instability and organised crime.

#### **4.7.4 DIFFERENCES IN CONSUMER BEHAVIOUR**

Buying decisions vary among Africans, for example, Angolans consider advertisements in their buying decisions compared to only 27 per cent of Kenyans. Fiorini *et al.* (2013) observed that Nigerian consumers are price conscious and that 21 per cent prefer low prices regardless of store environment compared to only 16 per cent South Africans and 12 per cent Ethiopians.

#### **4.7.5 FRAGMENTED RETAIL MARKET**

Primary shopping areas for Africans are independently owned convenience stores or neighbourhood kiosks with a low percentage of their goods purchased from supermarkets. Dihel (2011) concurs by stating that, more than 70 per cent of retail sales in East Africa occur through the informal sector.

### **4.8 SUMMARY**

This chapter explored the African retail and the findings revealed that there is plenty of room for expansion as most African countries are experiencing a surge in the retail sector. In addition, this chapter demonstrated that countries that are ideal for immediate retail investment are located in different regions. Further, the importance of Africa's large and growing young population was highlighted and its importance in driving the expansion of the formal retail sector on the continent.

The importance of the developers in expanding the formal was explored as well as the challenges they encounter in developing shopping malls. Challenges that investors encounter were identified like, poor roads and electricity shortages. An examination of the retail sector in Africa revealed that there are some African countries that experience a decrease in consumer spending due to low commodity prices. However, the chapter highlighted that, the long-term growth prospects for Africa remains positive due to an

increase in urbanisation and population growth. In addition, this chapter demonstrated that Africa's middle class is on the rise resulting in a demand for goods.

Moreover, this chapter revealed that, Africa has many infrastructural challenges that affect supply chain efficiency and the overall delivery of goods. Further, it was shown that, retailers who are willing to enter the market cannot use a blanket approach because Africa has diverse communities and cultures with various tastes and preferences. This sets the tone for the examination of the research methodology employed in this study.

## **CHAPTER 5**

### **RESEACH METHODOLOGY: THE QUALITATIVE INVESTIGATION**

#### **5.1 INTRODUCTION**

The purpose of this research is to perform an analysis of factors influencing FDI outflows in the retail sector in Africa by South Africa's retailers and investors. This study focuses on the period 2006 to 2016. Further, this chapter discusses among others, the research methods and approaches, the selection of variables, the data collection, the case study and the research question.

This study uses a wide range of sources including government publications, internet and academic publications. Data for South Africa's OFDI are obtained from the following: South Africa's Reserve Bank publications; World Investment Report; World Bank; INET BFA (McGreggor BFA); the Labour Research Service (LRS) MNCs database, to have a general understanding of which sectors South African investors are engaged.

In addition to the above, this study makes use of the qualitative research approach focusing on the case study and semi-structured interviews. Berg (2007:3) defines qualitative research as, characteristics, symbols, concept, definitions, metaphors, meaning and description of things. These tools have been applied in the previous chapters.

The nature of the study requires a critical understanding of the determinants of the retail sector OFDI from South Africa into Africa. Yin (2009:18) defines a case study as an empirical investigation that examines an occurrence in its actual surroundings especially when the boundaries between occurrences are not easily identifiable. Compared to quantitative methodology, qualitative studies utilise smaller samples that allow for comprehensive interviews that examine the convictions of the people. Further, quantitative methodology allows for open-ended responses that are flexible in structure, diagnostic and more descriptive (Berkowitz, Ramkolowan, Stern, Venter & Webb, 2012).

#### **5.2 QUALITATIVE RESEARCH**

Qualitative research explores numerous social settings and individuals who inhabit these settings to find answers to research questions. It enables access to "unquantifiable"



information about people's experiences. Usually, these experiences can be found through letters, diaries and newspaper accounts (Berg, 2007). Therefore, qualitative techniques make it possible to share in the perceptions and convictions of people and how people interpret these experiences and perceptions.

### **5.3 RESEARCH DESIGN**

Cooper and Schindler (2006) define research design as a "blueprint" used to answer theories or questions in order to achieve research objectives. In addition, the research design is comprised of the research strategy, research approach and research methodology. Still on research design, Auriacombe (2010) states that, a research design is the mode established by the researcher to determine response to the research question. In the same context, Durrheim (2004) opine that, a sound research design should easily enable the implementation and execution of a research strategy with ease. Since this research is exploratory, the design best suits the purpose of inquiry.

#### **5.3.1 Research approach**

This research was qualitative in nature and enables the study of occurrence and all its properties, characteristics as well as qualities (Botma, Greef, Mulaudzi & Wright, 2010). Further, qualitative studies incorporate smaller sample sizes in order to obtain valuable and useful data. The objectives of this research justify qualitative research. Qualitative findings differ from quantitative in that they are more detailed with variable content, however, there is difficulty in analysis since responses are neither standardised or systematic (Patton, 2002:21). The qualitative data used in this study consists of data collected through interviews and data from analysing written sources such as published information by the media and authorities. The answers to open-ended questions allow a world view like that of the respondents. Interviews will be conducted with senior managers responsible for the globalisation and expansion of the companies into African countries.

#### **5.3.2 Research strategy**

As discussed earlier on, the general objective of this research is to identify the most effective determinants for South African retail OFDI, thus, a multiple case study was utilised to gather useful data. A case study is a technique used to explore simple or complex phenomenon using varying units of analysis, for example, from single individuals

to large corporations (Berg, 2007). The multiple case study was preferred in order to get the rationale behind South Africa's retailers invest abroad.

This strategy makes it possible to investigate factors that influence investment decisions by retailers. According to (Niewenhuis, 2010), multiple cases are necessary to answer the "why" and "how" questions. Further, a multiple case study is conducted because it provides a stronger base for theory building. In addition, multiple cases allow for comparison making it possible to discover whether results can be replicated across various cases (Kreppel, 2012). In the same context, the multiple case study approach allows for an understanding of the uniqueness of a case in all its intricacy (Welshman, Kruger & Mitchell, 2005:193).

## **5.4 PARADIGMS**

A paradigm entails a collection of beliefs that regulate action (Denzin & Lincoln, 2003:245). Below are some of the reasons why interviews were used in this study:

### **I. Ontological position**

The ontological position assumes that people's interpretations, views, experiences and knowledge are important components of the social reality that the research questions intend to examine (Mason, 2002).

### **II. Epistemological position**

This implies that data and knowledge can be generated through talking interactively with people, asking questions and listening in order to gain insight into their personal experiences.

### **III. Knowledge and evidence is situational, interactional and contextual**

Another reason for choosing interviews and questionnaires is the belief that knowledge and evidence is situational, interactional and contextual. The justification is that interviews draw upon the social experiences and this is suitable for this study.

#### **5.4.1 INTERPRETIVE PARADIGM**

This study uses an interpretive paradigm as it strives to find the type of investments undertaken by retail firms in their OFDI decisions. This extends to how the decisions are made, the purpose of that decision and the meaning of that decision to the respondents

(Bailey, 2007:53). The current study not only studies investment trends of retailers into Africa, but also strives to explain “why” and determine “what” motivates their expansion efforts. According to Henning, Van Rensburg and Smit (2004) an interpretive researcher acknowledges that, all theory is revisable, observation has error and is fallible.

The interpretivist approach is of the idea that, science aims at clinging to the belief of getting it right, about reality or various realities even if such realities can never be achieved. Since measurement is imperfect, the interpretive researcher motivates for multiple data, several sources and analysis methods to achieve validity. Interpretivists assume that different views construct the world through different processes of observation and do not refer to relativism.

People’s intentions, values, reasons and beliefs constitute knowledge in the interpretive theory and not only observable phenomena. According to Trauth (2001:21) interpretive research seeks to understand phenomena according to the meanings assigned to it by the people.

#### **5.4.2 INTERVIEWS: SEMI-STRUCTURED**

Semi-structured interviews allow for flexibility. How and when a question is asked is determined by the direction of the interview and not the order in the guideline. For example, if a question is answered before it is asked, it will be skipped in the interview (Bailey, 2007:100). Simmons (2009:43) who further states that interviews facilitate probing on a topic and changing the direction to pursue emergent issues confirms the use semi-structured interview.

Wengraf (2001) is of the idea that semi-structured interview results in a discussion in which research and planning results in interview responses that are difficult to forecast. In this regard, the researcher must adapt his responses in line with the interviewee’s responses. Wengraf (2001) further states that, for semi-structured interviews to be successful, the researcher shall ensure that:

- I. The necessary preparation is conducted before the interview
- II. More creativity and discipline exists during the interview and
- III. After the interview sufficient time should be dedicated for analysis and interpretation.

Although they are semi-structured, careful planning and preparation for these interviews is crucial. Comprehensive interviews are important because they allow for active engagement between the interviewer and interviewee making it easier to identify and analyse issues.

Literature on the OFDI examined in the previous chapters was used to design the semi-structured interviews. One advantage of the semi-structured interviews is that, they facilitate the use of the interviewee's own language to understand their viewpoints (Bond, 2011). The interview questions were designed in such a way as to allow the answering of the major research question, which is, examining the determinants for South African retail sector OFDI in Africa. The questions seek to understand why there is OFDI from South African retailers into Africa and the motivation thereof. In addition, the questions aim to address the issue of the major determinants for South African OFDI from the perspective of the retailers and developers.

## **5.5 RESEARCH METHOD**

This research conducts an exploratory investigation on the determinants of South African retail OFDI into Africa. The population examined consists of South African retailers with operations in other African countries and a large presence in the South African retail market. The research method consists of the research setting, sampling, research procedure, data collection methods, data recording, strategies employed to ensure data integrity and quality, ethical considerations, data analysis as well as the reporting style.

### **5.5.1 RESEARCH SETTING**

Various sub-sectors in the retail sector were included in this research to obtain a better understanding of the retail sector OFDI as a whole. These included retailers under the food and drug retailers sub-sector and those under the general retailers' sub-sector in South Africa.

Firms were selected from the above sub-sectors. The identified firms were then approached to participate in the study based on the size of their organisation in South Africa and the number of countries outside South Africa they have invested.

### **5.5.2 COMPOSITION OF INTERVIEW QUESTIONS**

The interview questions were compiled by referring to the problem statement and available literature to create questions that would answer relevant issues. The interview questions asked are attached in Appendix 1 and 2 for the retailers and developer respectively. They are open-ended to allow for individual company differences. They were grouped into various categories namely:

- I. Background of the firm, structure and management of its investments in Africa.
- II. Strategy – focusing on the firm’s specific advantages in Africa.
- III. South African retail environment and its role in investment decisions.
- IV. Investment – focused on how things such as infrastructure, collaborations with other firms and investment risks associated influence a firm’s decision to invest in Africa.
- V. Future – questions were designed to obtain responses on companies’ views of long-term investments in Africa, countries worth investing in and any current plans for African investment.

To ensure validity and reliability before conducting the formal interviews a pilot test was conducted with a retail and retail development expert. This was done in order to verify that the questions were easy to understand and would induce the necessary responses required to obtain as much data as possible.

The interview questions were divided into sections, with the first section, investigating the firm’s characteristics. The second section asked general information on Africa. It focussed on how the firm’s Africa business operations as well as some of the determinants and challenges of OFDI in Africa.

### **5.5.3 SAMPLING**

The sample includes some of the largest retailers in South Africa by market share and size as well as property developers in Africa. The selected retailers have operations in more than one African country. Qualitative studies are ideal for this study because they capture a range of views and experiences in their natural setting. Further, sampling methods employed in qualitative research make use of methods that are purpose driven. Purposive sampling – implies that individuals are able to answer to the best of their abilities the “how” and “why” questions of a particular research (Brink & Nel, 2015).

#### **5.5.4 DATA COLLECTION METHODS**

The data was gathered from respondents as reflected in the semi-structured interviews according to the managers of the retail chains with operations in other African countries. It is important to note that, semi-structured interviews made it possible to obtain clear explanations from respondents about the retail sector's OFDI.

##### **5.5.4.1 DATA METHODOLOGY**

This research utilises a semi-structured interview approach, which includes:

The qualitative approach

- Case study
- Semi-structured interviews

This is ideal especially in cases with a lack of data for quantitative research. The following retailers were able to participate in the interviews EDCON, the Spar Group, the Clicks Group and company Z. These retailers cover a wide range of retail groups that sale food, clothing, health and beauty. They also fit the criteria for the sample in terms of company size, national operations and those retailers that have international investments. A developer, RMB Westport managed to engage in the interviews and was instrumental to help understand their role in furthering the investment decisions of South African retailers into the rest of Africa.

According to Taylor and Bogdan (1998) an in-depth or semi-structured interview resembles a conversation between equals instead of a question and answer dialogue.

The in-depth interview or semi-structured form is ideal when the research interests are well defined. Interviews are ideal for this research since the interests and type of questions to be are well defined. If the settings are not accessible, for example, if there is a lack of past information or history, in-depth interviews are ideal.

The semi-structured interview facilitates the interjection of relevant probing questions for clarification and adjusting the order in which questions could be asked (Roller & Lavrakas, 2015). This is in line with Flick's (2014) remarks that probes to the respondent's answers are meant to elicit more depth, detail and illustration.

### **5.5.5 DATA RECORDING**

Interviews are recorded and then transcribed as it has been observed that the most efficient way of creating text from interviews is to record the interviews and then transcribe them. Vygotsky (1987) states that an interviewee's consciousness is reflected through each word spoken. Recording data has the advantage of having the original data and preserving the words of the interviewees. According to Seidman (2013), a researcher must record words spoken by interviewees into written text to work reliably with the words of the interviewee. However, transcribing interviews is laborious and special note should be taken of all non-verbal cues of the respondent during the interview.

### **5.5.6 STRATEGIES TO ENSURE QUALITY DATA AND INTEGRITY**

The standard of accuracy in qualitative research inevitably deviate from the research. This is based on assumptions about reality contrary to those of quantitative research (Merriam & Tisdell, 2016:238). Dependability, confirmability, transferability and credibility must be adhered to always.

A research study must be diligently conducted, produce insights and conclusions that reflect credibility to both readers and other researchers. Lincoln, Lynham and Guba (2011:20) emphasize that, by posing a question on the research findings, whether they are adequately reliable, enable the objectivity of the readers. In other words, the research must produce solid findings that motivate the creation of policy or legislation. Quantitative methods rely on procedures with little specific description of what a person does (Firestone, 1987), while, qualitative methods illustrate in detail and tests the reliability and validity of the how the researcher's interpretation.

The deduction of the qualitative methods is reliably reflected by four alternative constructs and these are credibility, dependability, transferability and conformability (Lincoln & Guba, 1985; 1999). The following sub-section will examine these four constructs.

#### **5.5.6.1 CREDIBILITY**

Credibility is concerned with how research findings resemble reality (Roller & Lavrakas, 2015). This means that credibility in research is determined by the meaning of reality. Reality in qualitative research is multidimensional, holistic and ever-changing; it is not a fixed objective phenomenon waiting to be discovered and measured such as in quantitative research. Validity is relative and should be analysed in relation to the

circumstances and purposes of the research instead of being a characteristic of methods and conclusions that are independent of the context (Maxwell, 2013). According to Marshal and Rossman (2011:252) an in-depth description demonstrates the intricacy of interactions and processes and will be firmly rooted in the data acquired from the setting such that it can only be valid. These settings should be sufficiently highlighted by having boundaries on the research. The scope and data will be used to show how to ensure credibility for the research.

#### **5.5.6.1.1 Scope**

First the researcher should examine representation. This determines how well the group of interviewees in the research are representative of the large population of interest. It pertains to:

- I. Coverage of target population – A list is setup that shows an accurate representation of the population of interest. Failure to do this well creates the potential for bias from an incomplete list.
- II. Sampling approach used to select potential interviewees – the number of interviews need to provide a logical rationale for the sufficiency of completed interviews in the research. This should ensure that the subject matter being researched is adequately covered.

#### **5.5.6.1.2 Data gathering**

This focuses on the reliability and validity of data collected in the interviews in terms of addressing the objectives of the research. It is important to avoid interviewer influence when conducting an interview.

- I. Interviewer bias are characteristics that bias responses, for example, personal agreement with interviewee's responses, while:
- II. Interview inconsistency concerns the manner of administration of the interview, for example, follow up questions on an issue given to some interviewees but not others affects data quality due to inconsistencies.

#### **5.5.6.2 TRANSFERABILITY**

Transferability is the way in which the conclusions of the research can be conveyed to other settings and contexts (Durrheim & Wassenaar, 2002). It involves the researcher making a case that the findings can apply to other researchers in similar situations with



similar questions (Marshall & Rossman, 2011:252; Bless, Higson-Smith & Sithole, 2013:237). In line with this argument, Shenton (2004) states that indicating that findings and conclusions are relevant to other situations and populations is impossible since the findings are specific to a small number of certain environments and individuals.

Denscombe (1998) provides an opposing view when he argues that, the prospect of transferability should not be dismissed immediately since it is an example within a broader group, even though each case might be distinct. Although establishing transferability in qualitative research is quite difficult, it can still be achieved to some extent by thoroughly and extensively discussing the process adopted for others to follow and replicate (Kumar, 2014:219). Triangulating several data sources can be used to ensure neutral research's transferability. In this regard, Triangulation involves the use of more than one source or data collection method to confirm emerging findings (Marshall & Rossman, 2011:253; Merriam & Tisdell, 2016:259). In this research, multiple case studies were used, therefore, it is easier to transfer the meaning and origin of the stereotypes to the overall determinants for South African retailers OFDI into Africa.

#### **5.5.6.3 DEPENDABILITY**

Bless, Higson-Smith and Sithole (2013:237) state that, although dependability resembles reliability as a concept, they are not the same. This is because with dependability, the researcher strives to provide an explanation for the changing conditions in the phenomenon of the research, as well as adjustments in the design due to an improved understanding of the setting (De Vos, Strydom, Fouche & Delport, 2011:420). This differs from the theory of reliability, which assumes a consistent world where an analysis can be logically replicated. With dependability, the researcher is concerned with whether the research process is well documented, audited and logical. Further, dependability deals with whether the same results would be obtained after observing the same thing for a second time (Trochim & Donnelly, 2007:149). The researcher is required to thoroughly describe and exactly follow a straightforward research strategy (Bless *et al.*, 2013:237). In this study, dependability was established by recording all stages of the research process, mainly the methodology process undertaken.

#### **5.5.7 ETHICAL CONSIDERATIONS.**

The ethical clarification process starts when the interview plan has been finalised. Interviewees must be fully informed about the research in which the interview will be used.

The interviewees must give their informed consent to participate in the interview. It is important that after the interview, assurances of privacy and sensitivity must reaffirm to the interviewees (Henning, Van Rensburg & Smit, 2004).

According to Berg (2007:53), researchers have a duty to safeguard the privacy, welfare and rights of the people and communities that make the basis of their research. The researcher must also inform interviewees about the extensive areas of inquiry to reduce the chances for unintended disclosure (Moriarty, 2011). In this instance, the interviewee divulges something they did not intend the interviewer to know about. Although the use of digital cameras and video recording has become widely available and cheaper, researchers still need to evaluate the topic of ownership and anonymity (Schuck & Kearney, 2006).

In this study, the researcher was careful to ensure that participants were comfortable in taking part in the data collection and interview process. Furthermore, the researcher informed all the participants of the objective of the research prior to the research being conducted. In addition, the researcher took steps to ensure the voluntary participation of the interviewees. In this study, the data that was provided by the participants was kept with strict confidentiality. Some interviewees were constrained to divulge any information about their companies and these were not pursued any further. However, the lack of participation of these firms restricted the value of the current research to some degree.

#### **5.5.8 DATA ANALYSIS**

Cant, Gerber, Nel and Kotze (2005) state that, the aim of analytical methods is to change data into information for decision making purposes. In the same vein, Neuman (2007:328) adds that, data analysis in the qualitative technique does not involve a single technique. Authors such as Silverman (2011:235) do, however, argue that the most common means of analysing secondary data is content analysis and thematic analysis.

##### **5.5.8.1 THEMATIC ANALYSIS**

According to Roulston (2010) thematic analysis involves some type of *data reduction* through the removal of irrelevant data or applying codes to the data to describe conceptual categories. It also involves the *categorisation of data* and this is done through the grouping and classification of the data into thematic clusters. Moreover, reorganisation of the data into thematic representations of findings is done through a

sequence of interpretations and assertions. Boyatzis (1998) states that a thematic analysis consists of three stages, namely: design; choosing a topic and; validating.

The first step is to decide on the sampling and design. Thereafter, themes and a code should be developed. This falls into one of three different categories involved in themes and code development, which are: theory driven; prior data or prior research driven and; inductive that is, from raw data or data driven. The third step involves validating and using the code. A thematic code that represents the qualitative abundance of a phenomenon is a good choice. It is useful in the analysis interpretation and presentation of the research. A good code should consist of a label, which is a name. A definition of what the theme concerns, that is, the characteristics or issue constituting the theme. A description of how to know when the theme occurs, that is, indicators on how to “spot” the theme. A description of any qualifications or exclusions to the identification of the theme; and finally, examples, both positive and negative, to eliminate possible confusion when looking for the theme.

The label should, however, be at the end of creating the code. It should be meaningful to the phenomenon being researched. In addition, it should be clear and concise, conveying the essence of the theme in a few words; and it must be close to the data.

In the development of a theme, this study fits into the prior-research driven code development as explained below.

#### **5.5.8.2 PRIOR-RESEARCH DRIVEN CODE DEVELOPMENT**

The study relied on and utilised previous research together with the theories in its code development. The literature review provided an insight into the development of an ideal thematic code for this study. Findings from previous research were useful in developing a code. This is sub-divided into three stages of sampling, development and choice of interviewees.

First, attention was given to sampling and design issues. Second, the interviewees were then chosen based on their direct involvement in the OFDI decisions by the retailers and whether they had enough information to be able to answer questions. Third, developing themes and a code got were discussed. The chosen codes also were validated. The work of the following authors as discussed under the FDI theories influenced the themes and the code: Dunning (1977); Dunning and Lundan (2008); Bezuidenhout and Kleynhans

(2015;2017). More recent theories focusing on FDI from other developing countries were considered in the code development.

- I. Validating and using the code.

## **5.6 SUMMARY**

This chapter examined the following: the research; the research methods and approaches; the selection of variables; case study and data collection. The selection criteria for the sample was also discussed in this chapter. Further, this chapter provided a comprehensive analysis of the methodology utilised in the research. This was used for the analysis and interpretation of the research findings as discussed in the following chapter.

## **CHAPTER 6**

### **ANALYSIS AND INTERPRETATION OF THE RESEARCH FINDINGS**

#### **6.1 INTRODUCTION**

The main aim of this study was to investigate OFDI of retailers in South Africa into the rest of Africa. Chapter 1 highlighted that this study intended to examine the rationale behind such decisions. Previous chapters considered the investment situations of retailers in Africa, while the current chapter focusses on the explanations of the reasons behind the expansion of operations and investments by South African retailers into other African countries. This chapter builds on the hard data considered previously.

This chapter proceeds as follows: the background of the study and its objectives taking into account the objectives and context of the study; an analysis of the various companies, retailers and developers interviewed; and a discussion on the specific new knowledge that was generated through the analysis of the interviews.

#### **6.2 BACKGROUND, OBJECTIVES AND CONTEXT**

The preceding chapters provided a background for this research by discussing the retail position in South Africa and how South African retailers have infiltrated the greater of Africa. Chapter 1 provided an introduction on the motivation, objectives and method of this study. Chapter 2 discussed the theoretical and empirical framework of the study focussing on the different theoretical frameworks and literature related as informed by the research question. Chapter 3 investigated the state of the South African retail sector, analysing the state and the determinants of South Africa's retail OFDI into Africa. Chapter 4 analysed the level of retail investment and development in the rest of Africa. In doing so, the chapter applied the mixed methods strategy. Further, chapter 4 analysed the published data from financial statements of firms and other statistical data. It was in chapter were some of the determinants of South African retail into Africa were interrogated. Chapter five discussed the research methodology by explaining the methods used to analyse the data.

The first objective was analysed in chapter 2 which was:

- To examine theoretical underpinnings of the determinants of retail FDI from South Africa into Africa.

The chapter provided a theoretical background of FDI. In doing so, the chapter explored FDI from developing countries into the other developing countries known as south-south FDI. A comprehensive analysis of the theories of FDI and their application to South African retail in Africa was conducted in the same chapter.

This chapter interprets and discusses in detail the results that were obtained from the interviews in relation to the subject matter. Chapter 6 seeks to provide answers that were raised in chapter 1, in particular, the primary research question read in conjunction with the main objective of the study which is:

- ❖ To examine the determinants of South African FDI and expansion in the retail sector in Africa.

The information collected from interviews answered this question. This was done through a breakdown of the primary research question into objectives to be addressed. The research objectives are answered through the “why, how and what” and these were:

- To examine the determinants that motivate South African FDI in the retail sector in Africa from 2006 to 2016.
- To identify which of these determinants is most effective in determining South African FDI in the retail sector in Africa.

The following section of the interview questions focusses on the “strategy” and investigates issues, whether the companies have any firm specific advantages in the countries they invest in. This is followed by a section on the South Africa’s retail environment. The investment section follows which examines the effect of lack of infrastructure on investment decisions. The last section attempts to find out the future of the South Africa’s retailers in relation to the African market.

This chapter conducts a “within” and “cross-case” analysis starting with within case study. The following section discusses case study 1 that was done with the EDCON retail group.

## 6.3 RETAILERS

### 6.3.1 Case study 1: EDCON

The firm was established in 1929 trading as Edgars and has its headquarters in Johannesburg. The retailer operates as a clothing retailer. The company expanded into Lesotho, Swaziland and Botswana during the period of 1966 to 1969. In 1976, the Jet brand was registered by the company. In 1996, the company launched red Square and went on to acquire the 449 stores of CNA in 2002. Boardmans was added to the group in 2004. In 2011, the company started to trade under the brand Edgars Active in Zambia. In 2012, the company started to trade in Mozambique.

**Table 6-1: EDCON stores in the rest of Africa**

	Edgars division		Discount division			CNA
	Edgars	Edgars Active	Jet	Jet Mart	Legit	CNA
Botswana	4	3	18	2	3	3
Ghana	1	-	2	-	-	-
Lesotho	2	1	9	-	2	1
Mozambique	-	3	5	2	2	2
Namibia	7	8	14	9	14	5
Zambia	25	-	28	-	-	-
Zimbabwe	25	-	28	-	-	-

Edgars – is a leading retailer of clothing, footwear, textiles, cosmetics, accessories and cellular products in southern Africa.

Edgars Active – this brand is a speciality clothing store focusing on a youthful style and brand conscious customers.

Jet – is a discount format that sells fashion clothing and apparel.

Jet Mart – is a general discount merchandise format that is secured in the Jet range.

CNA – is a leading retailer of reading, writing, listening and communication consumables aimed at middle and upper income families in southern Africa.

#### **6.3.1.1 INTERVIEW RESULTS**

The interview was conducted with the head office of the Africa division of EDCON. The company views Africa as a very viable market for investment. According to the interviewee the continent is the second fastest growing in the world with household consumption reaching USD \$1.4 trillion. In deciding which country to invest, the interviewee stated that they examine the trajectory of each country. That is the dynamics of a host country in areas such as politics, social and economy. In addition, the company considers the macro-economic, regional and political risk indicators. Further, the population and economic state of a country have an impact in the selection of a country for investment.

In terms of ownership of the subsidiaries, ownership remains with the parent company although they also engage in some franchises. Due to the deficiency of qualified managers in most African countries, the company sends a country manager for about two years to transfer skills. The cooperation between the subsidiaries and the home country continues even after the South African manager has left, with head office staff visiting investment countries to assess and develop.

The interviewee highlighted the importance of local sourcing in host countries, although local is still low due to very little manufacturing in most African countries. Localisation of its products within each country is important for the company. However, the company sources about 60 per cent of its supplies from China, India, Indonesia and South Africa. Factors important to the company in their investment decisions in order of importance are:

- I. Making profits
- II. Size of the market
- III. Political climate



IV. Motivation from developers and

V. Logistics such as establishing a supply chain are also important.

The main challenges the company faces in doing business in Africa are the political climate and the high level of “bribery” of politicians, officials, administrators and decision-makers. Special risks are also involved, for example, doing business in oil based countries (kidnapping leading to causations for ransom money). On the economic side, a fluctuation or fall in oil prices, contributes significantly to the GDP of oil based countries, resulting in low consumption which affects the sales of the company. Further, the interviewee stated that, in order to mitigate against such challenges, the company conducts due diligence. In addition, the company has an exit plan and negotiates shorter lease agreements depending in the country. The respondent highlighted that rentals are paid in local currency of the host country.

EDCON has a five to six-year strategy in the host country with the intention of becoming a long-term strategic investor. This is because Africa is an emerging market where informal sector and the consumers are getting richer. The company has firm specific advantages in the countries they invest. These are related to infrastructure and business intelligence.

The respondent expressed that the African operations are very different from those in South Africa because most markets in African countries are informal littered with many small businesses and no major malls. The specific needs of markets and consumers also differ from those of South Africa and within each country. For EDCON, understanding globalisation is important and this helps them in establishing and managing their supply chain across Africa. In this regard, the company has established distributing centres Central, Northern and Southern Africa. Consumers in Northern Africa are influenced by European and American cultures, whilst, the market in Southern Africa is influenced by South Africa. This implies that for the Southern market the company mainly sells the same products they sell in South Africa.

The company conducts market research before investing in the form of customer surveys and forums such as short message service (SMS) from customers. They also hire companies such as Mckinsey to conduct the market research for them. The interviewee stated that the industrial trends about retail in Africa are viewed as growing robustly,

especially in Omni-channel through online and cellular marketing. The large young population on the continent has also impacted on the sales of the company.

Most of the company's investments in Africa are more profitable than the home market. African countries are also characterised by a growing market with less competition. Investing in countries closer to South Africa is very different compared to those further away. According to the interviewee, there is free trade between South Africa and Botswana, Lesotho and Swaziland (BLNS) and they share almost similar customs and taxation systems. The interviewee stated that, trading terms and laws around the labour force sometimes differ greatly for countries that are further from South Africa. In addition, some countries might demand a certain investment after tax expense such as:

- 1 per cent towards local supply development
- 0.5 per cent towards skills development
- 0.5 per cent towards corporate social investment (CSI)

For EDCON the lack of infrastructure such as roads has some influence but does not prevent them from investing in Africa. This is because they invest in bigger cities, where income levels are usually better than the rural areas. Logistics transportation and the ease of getting goods to a market are the most important for EDCON when examining the infrastructure of a potential host country. The retailer does not collaborate with other retailers when making investment decisions although they consider whether other South African retailers are available in a country.

Fluctuation of the local currency is one of the greatest considerations that influences the company's investment decision. Generally, an investment decision usually takes an average of 3 to 6 months and it involves macroeconomics, logistics, location, political stability and rentals. The firm does not develop its own shopping centres. It utilises shopping malls constructed by other property developers.

EDCON is planning on making new investments in Kenya, Tanzania, Nigeria, Ivory Coast, Malawi and Ethiopia. The company invests in Africa because there is less competition, growing household incomes and a high degree of saturation of the South African market.

### **6.3.2 Case study 2: Company Z**

This company is a large retailer that operates retail stores with investments in more than one country in Africa. Case study 2 is named company Z due to the interviewee's request for complete anonymity. The interview was conducted with the head of the Africa division.

#### **6.3.2.1 INTERVIEW RESULTS**

The interviewee highlighted when considering to invest in an African country they consider the following: population of the country; the level of informal trade; the income levels of the state; and political stability.

The company conducts primary research when deciding whether to invest. For instance, the company visits the potential host country, identify local law firms(s), possible suppliers in the potential host country and the efficiency of the banking system in that potential host country. The country's markets and institutions also have an impact on its selection as an investment destination. Company Z engages in 100 per cent ownership, franchises and joint ventures in their African investments as expressed by the interviewee. In terms of management, the parent company acts as a support division with the host country having its own management. The company is involved in partnerships and prefers local sourcing first (through agencies and manufacturers) before importing its merchandise.

South African products constitute little merchandise of company Z. Further, the company keeps house brands were relevant. According to the interviewee a combination of factors such as market size, political climate and motivation from developers are considered when making an investment decision. Major challenge facing this retailer, among others, is tough regulations that delay the licencing of informal trader to formal traders. In addition, the interviewee highlighted that, extensive research is conducted in order to mitigate some of these challenges. This may involve utilisation of external advice and consultation where necessary as well as engaging in partnerships.

The company has firm specific advantages over local firms in the countries they invest. These include: quality; having the right people (especially skilled personnel) and; repeat business. In this instance, repeat business entails having been in the retail business for much longer than their counterparts. For this retailer, African operations look the same and feel the same as their South African operations except for a difference in the product range. Understanding globalisation is essential for them and they find that the West

African market has a strong European influence. This helps the company to establish its supply chain around target markets with a focus on the local markets.

As highlighted earlier on, the retailer conducts primary market research and this entails visiting other retailers as well as understanding the demographics of a location before making investments. The retail sector trends found by the interviewee are centred on the emerging growing middle class in Africa. According to the respondent, the retail environment in South Africa did not have any major impact on the company's investment decisions into Africa. They simply regard the continent as a second engine of growth. According to the interviewee, investing in countries that border South Africa is different from that of countries further away and this is because of brand recognition. Consumers closer to South Africa are more accustomed South African brands and accept these brands with ease. The interviewee noted that, a number of customers from countries bordering South Africa prefer South African brands as the perception is that they are of higher quality.

The lack of infrastructure such as roads and electricity is not a "show stopper" for company Z when deciding to invest in Africa. This is because the retailer initially targets major cities and makes use of backup plans such as having generators. There is no collaboration with other retailers by this South African retailer. The retailer expressed that their biggest investment risks in Africa differ from country to country and usually are centred on securing sites and political uncertainty. Another interesting by the interviewee was that, patience was crucial when investing in Africa. Also, the culture of the specific country is also important. Company Z does not develop its own shopping centres but leases space from other developers and prefers to be part of a shopping centre instead of a stand-alone premise.

The company currently has investments in countries such as Botswana, Lesotho, Mozambique, Namibia and Mauritius. Future investments are planned for Ghana and Nigeria. The performance of African investments is evaluated the same way as the South African business in terms of financials, management accounts, sales and margins. Business in the rest of Africa is expressed as being country specific and sustainable by the interviewee. Additionally, the interviewee stated that, retail companies expand into Africa from South Africa because of market saturation in the home market and that every country in Africa is different.

### 6.3.3 Case study 3: The Clicks Group

The Clicks Group was first established as a drugstore in 1968 in Cape Town. The Group has been growing over the years. In 1992 the Group diversified its operations and acquired the country's leading music retail brand Musica. A franchise agreement was entered with The Body Shop International in 2001 followed by the acquisition of a wholesale distribution company United Pharmaceutical Distributors (UPD) two years later. General Nutrition Corporation (GNC) and Claire's were launched by the group through an exclusive franchise agreement in 2014 and 2015 respectively.

**Table 6-2: Clicks stores in the rest of Africa**

Country	Number of stores
Botswana	8
Lesotho	1
Namibia	23
Swaziland	4

#### 6.3.3.1 INTERVIEW RESULTS

The interview was conducted with the head of finance for The Clicks Group via telephone. The interviewee stated that their company is pursuing organic growth in the health and beauty industry in Africa.

The group currently has investments in Zambia and Angola and withdrew from Zimbabwe. The retail group considers the political stability and the ease of doing business in a country when deciding which countries to invest. The interviewee stated that the group had to withdraw from doing business in Zimbabwe due to currency shortages and a challenging business environment. For the group, the markets in the host country and other key institutions play a key role in its selection. Other important considerations include the regulatory and legal environment of a potential host country.

According to the interviewee, the retail group maintains 100 per cent ownership of its subsidiaries in the countries they invest. Further, the group retains store management control as well as regional management in the countries they invest. There is a high level of cooperation between the home company and its subsidiaries abroad. This is easily facilitated because all branches use the same information technology (I.T.) infrastructure and replenish their supplies from the same stock. The company is not engaged in any partnerships in the countries they invest. When deciding whether to invest in other African countries, the company considers the following in order of importance:

- I. Size of the market
- II. Political climate in host countries
- III. Maximising profits

Reiterating the key challenges of doing business in Africa, the interviewee highlighted that, political stability of a host country, tough and complicated regulation processes make it difficult for them to invest. The group has firm specific advantages over local firms in the countries they invest, in particular, experience, branding and the use of private labels. Since the group has been doing business for more than 30 years, they have a competitive edge over their rivals.

The company sources its products from South Africa and this is motivated by a deficiency of manufacturers to supply them with goods in the host countries. According to the interviewee, there is an increase in the number of wealthier black consumers across the continent. The retail environment had no impact on the OFDI decisions by the retail group and for them FDI into Africa is a long-term plan. There are no immediate plans to accelerate African expansion and the interviewee highlighted that there are still many opportunities for growth in South Africa for their business.

The lack of infrastructure such as roads, railway and electricity is a major obstacle for investing in Africa. Lack of roads and water severely limits the geography the company can invest as highlighted by the interviewee. The group does not collaborate with other retailers although they prefer countries with an already existing formal retail market. On the whole, the business operations in other African countries is more profitable for the group.

#### **6.3.4 Case study 4: The SPAR Group**

A detailed overview of the retailer has been conducted in chapter 3. The interview was conducted with the CEO for new business development at The Spar Group. The group currently has investments in Botswana, Namibia, Lesotho, Mozambique and Zimbabwe.

##### **6.3.4.1 INTERVIEW RESULTS**

The retail OFDI by The Spar Group into African countries is viewed by the interviewee as a strategic move. The move is strategic in that it helps the group create and maintain future markets for the business. Therefore, the group is seeking new markets in Africa. Resource capabilities of a potential host country play a role in the selection of a country for retail OFDI. The interviewee stated that, resources drive most African economies. Further, the interviewee highlighted that, the institutions of a potential host country are also considered during the selection of a country for investment. The retail group also assesses the legal systems of a potential OFDI recipient country as well as the political stability in that country.

Retail OFDI by The Spar Group is based on either 100 per cent ownership or partnership model depending with the preferences of the potential host country. The group usually sends its own staff who possess the required expertise to manage and oversee operations in the countries of investment. The role of The Spar Group is to grow independent Spar retailers in the countries they invest. In addition, the group mainly prefers providing goods and services to independent Spar retailers in FDI recipient countries. In other words, the group predominantly acts as a support base for the independent Spar retailers in host countries as expressed by the interviewee.

The most important factor when deciding to invest in another African country is the realisation of profit. According to the interviewee, a company in a host country need not be immediately profitable in the short-term for it to be a worthwhile investment. If the country has the potential to generate profits in the future, it will be considered for investment. Additional factors the group considers when deciding to make investments are the following:

- I. The rating of that country in economics and legal systems.
- II. Stability of that country such as political and economic stability

Lack of infrastructure (transport) in some African countries affects their selection as an investment destination by the company. In addition, supply chains and skilled people are additional considerations when selecting a host country.

The retail group does not engage in any form of exporting prior to making OFDI decisions. The Spar Group is part of Spar International and this makes the group have advantages over local firms. Also, doing business in other African countries is different than in South Africa due to the differences in rules and regulations, for example, various liquor laws across the continent. The group's African operations' performance is more challenging than in South Africa although the markets are less competitive than at home.

The group sometimes collaborates with developers when planning to make investments in Africa. No collaborations are engaged in with other retailers. The interviewee highlighted that, there is a shift by consumers towards more convenience and the demand for more fresh products on the continent. According to the interviewee, market research is critical before embarking on an investment. Sometimes the company assess the performance of international organisations operating in a potential host country and highlighted Nestle a company of interest. In addition, the company conducts first hand market research by sending its staff to visit and examine the potential places for business operations.

For the retailer, making an OFDI decision can take as little as 3 months, at times 2 visits or in some cases, as long as more than a year. There are other cases where one month and one visit are sufficient to facilitate an investment, for example, Zambia. The group has long-term plans of investment in Africa.

#### **6.4 DEVELOPER**

Retail companies are often motivated to expand their operations and investments to other African countries through the operations and the opportunities generated by developers in the region. The development of shopping malls and other related development offer large volumes of customers ("more feet"), ensuring an effective market to operate their business. Developers were interviewed in order to gauge their perceptions relating to retail OFDI and property development.



#### **6.4.1 Case study 5: RMB Westport**

The company was established in 2008 through a joint venture between RMB and Westport Property Group. The company engages in large-scale construction, development and maintenance of retail development projects in key areas. The developer has complete projects in Nigeria and Ghana, while, developments in Angola are yet to be completed.

##### **6.4.1.1 INTERVIEW RESULTS**

The interview was conducted with the leasing executive of the company. The interviewee highlighted that Africa is the next frontier for retail development, since the continent is still developing. Further, the interviewee highlighted the South African retail sector is saturated. When deciding to invest the company focuses on oil rich West African countries. This affirms that the resources of a country play a pivotal role in determining whether it can be a recipient of the retail sector FDI. Stabilisation in countries like Ghana and Angola make them ideal retail investment destinations. The interviewee also highlighted that, investment decisions are opportunity and not necessarily based on the state of the economy, for example, Nigeria despite having a high shortage of formal retail, it is still considered a good country for retail property development.

According to the interviewee, their initial retail development investment decisions were determined by a country's resources but have now shifted to more on opportunities. The company first tries to acquire land or engages in partnerships with local companies to acquire land for developments. After developments, the firm utilises agents (like Broll) who manage the developments on their behalf. Further, the company engages in partnership and joint ventures when deciding to invest and outsources its supplies for developments through a tender process.

As far as the company is concerned, investments in Africa produce higher profits but associated with higher risks too. Market size plays a key role in a country's selection as an investment destination. The political climate in Africa plays a big role although this is country dependent. The respondent stated the importance of having local representation depending on the regulatory framework of the host country.

Key challenges facing the company in African investments are the legislation and the political climate in some host countries. Foreign currency shortages are an issue in some

countries as well as high custom duties. The company's philosophy is to navigate these challenges when deciding to invest. In addition, the company has long-term investment plans in Africa. The firm has advantages in comparison to their local rivals. These are in the form of expertise and engineers.

The firm's African operations are different those in South Africa. It was highlighted that, in most cases the company has very little or no local knowledge of the host markets. Specific companies are employed by the developer to conduct market research prior to investing. This involves conducting a SWOT analysis of the location to ascertain the number of people and their buying power.

An over-traded South African environment influenced the company's decision to invest in Africa. The company observed that there is an increase in the middle class across the continent and this has positively impacted their operations. The company has no developments in South Africa and they are currently (2017) holding on to assets in the countries they invested. The interviewee stated that there is a difference when investing in countries closer to South Africa than those further away. For example, northern Nigeria has a Western Europe influence and Angola has French and Portuguese influences. The interviewee expressed mixed feelings on whether the lack of infrastructure is an obstacle or not in retail property development. On this aspect, the interviewee highlighted that in some cases the level of infrastructure makes the projects more expensive but not impossible which may be profitable in the long-term.

Collaborations sometimes occur between the developer and South African retailers. The biggest investment risks facing the company are the economic and political policies in host countries. An investment decision can be as short as six months to a full year or even up to five years especially when trying to secure land.

The company is planning new investments in opportunity specific countries such as Zambia, Ivory Coast, Kenya and Ethiopia. Business in Africa is challenging due to the economic climate in host countries. Although it is challenging the firm is optimistic that in the long-run business in Africa is sustainable. According to the interviewee South African companies are expanding into Africa because of market saturation at home and the ease of doing business abroad, for example, in regard to the repatriation of funds.

## 6.5 CROSS-CASE ANALYSIS

The following section uses a cross-case analysis with the purpose of identifying the similarities and differences between the cases and obtaining ideas for future research.

### 6.5.1 WHY SOUTH AFRICAN RETAIL OFDI OCCURS

The surveys and interviews aimed to address the rationale (why, how and what) behind South Africa's retail OFDI into Africa. In addressing the "why" aspects for South African OFDI into Africa, the determinants were subdivided into push and pull factors. Table 6.3 summarises the most important justifications of OFDI by South Africa's retailers expanding into Africa.

**Table 6-3: Reasons for OFDI by retailers into Africa**

Motive	Maximising Profit	Market saturation	Strategic reasons	Ownership	Market-seeking	Competitive advantage
EDCON	X	X	X	X	X	X
Company Z	X	X	X	X	X	X
The Clicks Group	X		X	X		X
The SPAR Group	X	X	X	X	X	X
RMB Westport	X		X	X		X

The above factors are further discussed below.

#### 6.5.1.1 PUSH FACTORS

The push factors were investigated through interview questions. The interview questions were designed in a way that would answer why South African firms are pushed from

South Africa to invest in other African countries. These factors include the maximisation of profits and ownership advantage.

#### **6.5.1.1.1 PROFIT MAXIMISATION**

All companies interviewed highlighted that the major push factor for outside investment was the desire to make profit. This is in line with the profit maximising theory explained in chapter 2. The theory states that the principal motivation for any business is profit (Mankiw, 2014) and this was confirmed in the empirical data generated through interviews. The retail and developer companies interviewed all agreed that most of their African operations are more profitable than those in South Africa.

The companies interviewed also highlighted that, the retail market saturation in South Africa as a driver of retail expansion into Africa. However, one of the companies interviewed specialising in health and beauty products was not bound by the same constraints as they indicated that there were still many growth opportunities in South Africa.

#### **6.5.1.1.2 OWNERSHIP ADVANTAGES**

Data generated from the interviews conducted shows empirical evidence for the IDP examined in chapter 2 in the case of South Africa. The interviewees stated that, South African retailers and developers possess ownership advantages such company size, business and organisational intelligence compared to local companies in the countries they invest. There is an increase in OFDI from South Africa, although this is surpassed by IFDI placing the country in stage 3 of the IDP. Business expertise is one of the reasons why retailing firms prefer FDI over other forms such as franchising and licencing. The retailers highlighted that, their experience coupled with their private label branding gives them an edge over local companies in most of the countries they invest.

#### **6.5.1.1.3 ECONOMIES OF SCALE**

Initially, the assumption was that one of the drivers of retail OFDI was the economies of scale. This is line with theory which states that, companies engage in internationalisation in order to benefit from the economies of scale. However, the data revealed that the retailers do not prioritise economies of scale. In actual fact, retailers rely on central distribution in the regions and countries they invest. Further, most of their goods do not come from South Africa.

### **6.5.1.2 PULL FACTORS**

Africa has an emerging market and this is attracting retailers from South Africa where the market is already saturated. The interviews acknowledged that, since Africa is the second fastest growing market in the world, with rising household incomes and a young population making, this makes it an attractive market. The most important pull factors for OFDI by retailers into Africa are due to the fact that the largest section of the African population are relatively young, the market size offers potential, as well as other reasons which receives some attention in the following paragraphs.

#### **6.5.1.2.1 MARKET SIZE AND YOUNG AFRICAN POPULATION**

The interviewees highlighted the importance of having a market populated with a young population. According to the interviewees, investing in a country with a large and young population is strategic and helps to ensure the securing of future markets for their companies. These findings concur with theory that, one of the determinants for FDI is market size. In addition, there is less competition in other African countries. The political and economic environment of the potential host countries for retail OFDI from South Africa plays an integral role in the selection process to determine which countries to invest.

### **6.5.1.3 OTHER REASONS**

The study established that various aspects motivate South African retailers to invest in other African countries. The following consistent themes were agreed by all interviewees: South African retail is becoming increasingly saturated; the rest of Africa is deemed to be characterised high levels of informal trade; and that the African market is a source of new market with less competition from other formal retailers especially from the home market in South Africa.

#### **6.5.1.3.1 PROPERTY DEVELOPERS**

The data gathered from the interviews expressed that, property developers played a critical role in the investment decisions of some of the South African retailers. The interviewees highlighted that they are sometimes approached by property developers to determine whether they are willing to lease space at shopping malls they wish to develop in identified African countries. It was noted that, property developers conduct market research to find viable sites and potential retail market. The property developers present

their findings to the retailers in order to persuade them to invest or lease space and conduct business in the identified countries. Demand for property development in Africa due to retail shortage, the growing demand for logistics and warehousing centres inspire retail property development in Africa. The developers stated that, there is a demand-supply imbalance in many retail and property markets in Africa.

#### **6.5.1.3.2 *OUTSIDER INFLUENCE***

Understanding the influence of outsiders on different regions in Africa is of paramount importance for the interviewees as this helps them in organising their supply chains for their various operations across the continent.

#### **6.5.2 HOW SOUTH AFRICAN RETAIL OFDI OCCURS**

The retailers and developers conduct primary research as part of their investment decisions. This involves visiting the potential host country to evaluate the retail environment. For the interviewees, the efficiency of the banking system is of paramount importance. Most companies stated that they employ specific companies such as McKinsey to conduct market research for them before investing in a certain country. The companies employed usually do this through a SWOT analysis of the location to ascertain the number of people and their buying power. In addition, identifying potential suppliers and law firm(s) are equally important.

Developers stressed the importance of having local representation, that is, through a local firm that understands the laws and customs of the host country. The consensus generated from the data collected is that ownership of the investments in Africa remains with the parent company in South Africa. A 100 per cent ownership is the preferred method of entry by both South African retailers, as well as developers. However, this is subject to individual country characteristics such as the regulatory systems.

The interviewees highlighted that, some African countries such as Zimbabwe do not allow 100 per cent foreign ownership. For example, in countries where the ease of doing business is tough, the retailers favour joint ventures and partnerships usually with a local partner who understands the rules and regulations and the local market. The data gathered from the interviews showed that the South African retailers engaged mainly in green-field investment due to the lack of any form of formal retail in most of the African countries.

The retailers interviewed also indicated that they have no investment collaborations with other South African retailers into Africa except for being part of the South African retail forum in the same countries they invest in.

Further, the interviewees emphasised the importance of having a reliable supply chain with most of them stating a strong preference for local supply first in the countries they invest. Understanding the influence of outsiders from other regions other than Africa, is of paramount importance for the interviewees, as this helps them to organising their supply chains for their various operations across the continent.

The study identified that all retailers prefer to send their top management from South Africa for a few years to fill the leadership roles in the host countries, whilst, training local staff for these leadership roles. According to the interviewees, this was due lack of skilled personnel to manage their retail business in some of the host African countries.

The parent company maintains a support role over its retail operations in other African countries. Most retailers conduct regular staff visits to assess and develop their retail operations in host countries.

### **6.5.3 WHAT DETERMINES SOUTH AFRICAN RETAIL OFDI INTO AFRICA**

African investment is viewed as more profitable compared to the South African market albeit having more risks. The companies highlighted that, overall, their investments yielded higher return on investments, and whilst, exposed to more risks in the countries they invested. The interviewees emphasised the long-term viability of most African countries. The retailers perceive their investments into the rest of Africa as strategic and necessary to secure future markets. However, not all host countries generated profits immediately for the retailers, although, they possessed the potential to do so.

The data generated suggests that a country's resources play a key part in being selected as an investment destination. However, some retailers and developers emphasised that, the shift from basing investment decisions on the natural resources of a host country to more of opportunity, for example, the lack of any formal retail and stabilisation of a country.

Evidence from the interviews highlights that there are certain challenges encountered by the retailers when they decide to invest in other African countries. These include: the

political climate; oil based countries; tough regulations; and the slow shift from informal to formal market.

#### **6.5.3.1 *POLITICAL CLIMATE***

The political climate is associated with the ease of doing business. Investing in some African countries proved to be a hurdle for the retailers due to corruption as some officials from the host country demand “bribery” from South African retailers before engaging in any retail operations.

#### **6.5.3.2 *OIL BASED COUNTRIES***

Most of the African countries are resource based economies relying on natural resources for a large percentage of their GDP. For example, oil based countries such as Angola, Nigeria and Ghana had thriving economies a few years ago (currently 2017). However, the recent slide in oil prices has severely affected the GDP of these countries and this has trickled down and reduced the purchasing power of the consumers.

#### **6.5.3.3 *STRENUOUS REGULATIONS***

Both retailers and developers have encountered tough regulations in certain African countries, for example, the expropriation of profits and the high cost doing business (permits and licences). For instance, in Nigeria, the retailers are required to invest or develop local supply chains as a prerequisite for doing business. Further, bureaucratic procedures (red tape) reduces the willingness of companies to invest in some African countries.

#### **6.5.3.4 *SHIFT FROM INFORMAL TO FORMAL***

Most of the South African retailers investing in Africa are pioneers bringing formal retail in some of the host countries. This generates risks, as well as the reluctance of customers to shift from their local informal markets and buy goods at formal retail shops. This means that there is a risk associated with the slow adoption of formal retail in those countries.

#### **6.5.3.5 *LOCAL CURRENCY***

The other key challenge discovered during the interviews faced by South African retailers when investing in Africa is foreign currency deficit also known as convertibility risk. This might occur when the central bank of the host country is unable to organise the necessary



forex reserves to convert local funds into foreign currency in order of the South African retailers to repatriate their profits to South Africa. Another issue is that, if the local currency weakens, inter-mediate inputs and warehouse supplies become more expensive.

#### **6.5.3.6 TRANSACTION COSTS**

Transaction costs influence retail OFDI due to the complex and sometimes very high taxes that some countries charge for the importation of goods into their countries. The nature of the retail businesses and the goods they sell makes it easier for them to establish branches in other countries instead of trying to export their products.

#### **6.5.4 PROBLEMS ASSOCIATED WITH INVESTING IN AFRICA**

Investing in various African countries comes with its own challenges for the retailers. Most of the retailers and developers interviewed highlighted that, the lack of infrastructure such as roads, railway, telecommunication, internet, water and electricity has little influence on their investment decisions. They averred that, they invest in major cities, which have better services or having back-up plans, such as developing self-sustaining malls equipped with generators and roads to the malls. Although, this make investments more expensive it is not a “show stopper” for most retailers and developers. However, a few retailers highlighted that, the lack of infrastructure limits their choice of investment.

The interviews revealed discrepancies in investing in countries that border on South Africa and those that are further away. The interviewees stated that trade agreements between South Africa, Botswana, Lesotho, Namibia and Swaziland make it much easier for South African retailers to do set-up shop as well for consumers from these countries to adapt to South African fashion trends easily. On the hand, customs and taxation practices for countries further away from South Africa make it difficult for South African retailers to penetrate those retail markets.

The interviewees reiterated the importance of having a good understanding of the various African regions, as well as the individual countries before investing in them. This helps them to obtain a detailed overview of the local markets, especially, the influence of globalisation in these markets. According to some interviewees, Northern Africa has a strong European influence and knowing this, enables the South African retailer to tailor its product offerings in the region, with a European elegance to have sustainable business.

### **6.5.5 MOST EFFICIENT DETERMINANTS**

Trying to come-up with the most effective determinants for South Africa's retail OFDI, proved challenging, since, most companies had divergent views for investing in the rest of Africa. The main determinants brought out from the investigation indicate that the saturation of the South African market plays a key role in persuading both retailers and developers to expand further north into other African countries. In addressing the determinants for South Africa's retail OFDI, expanding into Africa is strategic in order to create future markets.

Determinants such as: the business expertise of South African companies; size of the local market; political climate; and regulatory framework in potential host countries, are taken into consideration when deciding to invest in Africa. However, it was established that all companies have profit maximisation as the primary basis for investing in African retail markets.

In addition, all companies indicated that, they have plans to increase retail investments in Africa. Countries such as Ivory Coast, Ethiopia, Kenya, Tanzania, Nigeria and Zambia were confirmed by the interviewees as potential retail investment destinations. The countries also happen to be some of the fastest growing economies in Africa and the rest of the world. Nigeria and Ethiopia are the most populous countries on the continent and have a large untapped market potential due to the relatively non-existent formal retail in these countries. This is in line with the theory that, the size of a host country, as well as its economic capabilities play a critical role in attracting FDI.

## **6.6 SUMMARY**

This chapter revealed the key findings and interpreted the key findings from the data generated from interviews of the retailers and the developers. The aim was to obtain a detailed understanding of the determinants for South Africa's retail OFDI into Africa. The chapter provided empirical evidence for most of the determinants taken into consideration by South African retailers, as well as developers in their investment decisions into Africa. The data generated from the interviews demonstrated that, the determinants for South Africa's retail OFDI into Africa involves both push and factors. Pull factors such as political climate, size of the local market and the general lack of formal retail in most African countries, is attracting South Africa's retailers to invest in Africa.

However, each country's potential to attract South Africa's retailers OFDI must be evaluated considering its own peculiar conditions and needs. The one size fits all approach does not apply in African countries due to the inherent cultural and economic differences.

The general expertise of South African retailers in their business operations as well as market saturation are some of the major drivers of retail FDI from South Africa into Africa. Understanding the influence of outsiders on different regions in Africa was of paramount importance for the interviewees especially in organising their supply chains for their various operations across the continent. It is important to understand transport costs and in order to have control over distribution to reduce the risk of having supply shortages.

The main ideas discovered from the interview data are that market saturation in South Africa plays an integral part in the investment decisions of South African retailers into Africa. The saturation of South Africa's retail market seemed to be of prominence among all retailers except for one specialising in health and beauty products who views that the country still possessing plenty of opportunities for growth. South African retailers are persuaded to invest in other African countries and create a foothold before other retailers enter the market. However, most retailers interviewed maintained that that their investment decisions were inspired by a combination of factors that converge to profit maximisation.

The following chapter sums up the entire study and briefly discusses the following: the implications of the study; the limitations of this research; and the recommendations for future research.

## **CHAPTER 7**

### **SUMMARY AND CONCLUSIONS**

#### **7.1 INTRODUCTION**

The objective of this study was to understand the reasons and persuasions of South African retailers to expand their business operations to the rest of Africa in the form OFDI. This study is significant in that; it contributes to the knowledge of the retail sector's FDI from South Africa into Africa. To this end, this study employed mixed methods. This was executed through: a general literature review; document analysis; statistical data analysis; and comprehensive interviews with key personnel of the retail sector and the developers. The study provides valuable information and an overview of the state of South Africa's retailers' involvement with the rest of the continent.

Comprehensive interviews were conducted by experienced individuals and managerial officials who have sufficient exposure and experience in the South Africa retail sector, as well as the business environment on the African continent. Also, this study examined the determinants of South African retail FDI into Africa by investigating both push and pull factors.

Considerable research has been conducted on FDI internationally. However, as far as FDI in developing countries, not much research has been conducted. The ability of the South African companies to capitalise on new markets outside South Africa are important positive factors worth investigating. In the previous chapter, the results from the interviews were presented, analysed and discussed in detail with the purpose of addressing the research objectives and questions set in the first chapter.

The purpose of this chapter is to present a summary of the study, to draw conclusions and offer some recommendations for future research based on the findings of this study. The objectives of the research provide a good starting point and to examine the impact of the findings. In order to address the specific objectives, this study was conducted in two stages, namely, the literature review and an empirical study.

In light of the above, this chapter proceeds as follows: a brief discussion on the literature review; a brief report on the empirical study of the research; a brief analysis of the

motivations of retail OFDI; a brief discussion on the recommendations; a brief discussion on the contribution and limitations sections respectively; and a logical conclusion.

## **7.2 LITERATURE**

The literature in this research is subdivided into three sections, reporting on Chapters 2, 3 and 4.

Chapter 2 provided a detailed analysis of FDI in the retail sector. The chapter also analysed the theoretical and empirical literature frameworks related to FDI, retail and the research question of the study. The theoretical background streamlined the research question into main points that had to be considered when analysing the empirical literature and formulating the research. The following research objective was investigated in Chapter 2:

To examine theoretical underpinnings of the determinants of retail FDI from South Africa into Africa.

Theories such as the OLI, IDP, which an extension of OLI for developing countries and the Japanese FDI theories were discussed. Empirical applications of these theories was discussed in this chapter. Further, this chapter set the tone for the theoretical foundation and provided some empirical evidence for this research. Additionally, the chapter highlighted the limitations of the OLI theory in explaining OFDI from developing countries. It was argued in this chapter that, according to the OLI theory, developing countries are seen as capital scarce countries that lack ownership advantages. The theory encountered problems when applied to the retail sector since it was mainly designed to explain OFDI in the retail sector.

The chapter highlighted how the IDP theory although ideal in explaining developing country OFDI, fails to explain why some countries are unable to engage in internationalisation after completing all the IDP stages. In the same chapter, a micro-economic analysis was conducted to identify why firms engage in OFDI. This included profit maximisation, production functions, cost functions and multi-plants. Profit maximisation theory examined how the main aim of any business is to make profit. Put this sentence in simple terms – it does not make sense as it is. Multi-plant, production and cost functions examined why firms might choose FDI over other forms such as exporting.

Chapter 3 discussed an overview of the state of South African retail sector drawing preliminary attention to some of the determinants of South Africa's retail FDI into Africa. Selected case study analysis of some of the largest retailers in the country with investments in Africa was done in this chapter, using data from the financial statements of firms listed on the JSE. The analysis investigated the composition, activities and retail format of the retailers in South Africa. Further, this discussed the types of retail in South Africa, as well as the size of the retail sector.

In addition, the chapter revealed the following: the distribution of the South African retail sector; the division of the industry into food retailer, drug retailers and general retailers. It was shown that the food and drug retailers have the highest amount of turnover. Furthermore, employment patterns in the retail sector were examined in chapter 3. It was discovered the Gauteng province had the highest number of employees. Also, the chapter revealed that South Africa's retail market is highly developed and compares relatively well with some of the world's most developed countries.

Market saturation in South Africa was identified as one of the drivers for the South African retail FDI into Africa. The impact of international retailers in the South African market and on the investment decisions of South African retailers was analysed in this chapter.

Chapter 4 examined the African retail and evaluated the extent to which it is formalised. The chapter discussed some of the fastest growing countries on the continent. Furthermore, countries in the region ideal for retail investment were identified.

This analysed the changes and improvements taking place in the retail sector on the continent in the past few years. Factors attracting South African retailers into other African countries are also highlighted in this chapter. The effect of having a young and large population in Africa and how this impacts retail consumption was discussed. The role of developers in expanding formal retail and their influence on the investment decisions of retailers into Africa was examined in the chapter.

Challenges facing retail investors such like poor roads and electricity on the continent were explored in this chapter as part of the infrastructural challenges.

Chapter 4 highlighted that Africa's retail prospects remain positive in the long-term due to population growth and increasing urbanisation. The chapter demonstrated that, retail must take into account various cultures and communities across the continent when

considering retail investment and must refrain from the blanket approach. In order for this to be realised, this chapter argued that proper market research on a country or region to be invested must be done, before starting any retail operations and/or expansions.

### **7.3 REPORT ON THE EMPIRICAL STUDY**

The empirical study of this research were presented in Chapters 5 and 6. After the economic and financial position of various retailers were studied and reported in Chapter 3 and 4 an empirical study was conducted to facilitate understanding of the underlying motivations of south African retailers.

The empirical study of this research was presented in Chapters 5 and 6. Chapter 5 comprises of: the research methods and approaches; the selection of variables; data collection and the case study. The aim and research question of the study are discussed in this chapter. Furthermore, the methods utilised to gather data and the subject of reliability as well as the validity of the data are examined in this chapter. Companies participating in the interviews were selected based on:

- The size of the company in South Africa
- Their presence nationally in South Africa
- Foreign investments in more than one country in Africa
- The developer established malls mainly having a South African retailer as an anchor tenant in a host country.

This enabled one to obtain wide-ranging, specific and detailed information about the retail sector, as this is a more representative sample.

Chapter 6 discussed in detail the interview data for the issues under consideration. The chapter attempted to answer the following primary research question and the objectives of the study.

- ❖ To examine the determinants of South African FDI and expansion in the retail sector in Africa.
- To examine the determinants that motivate South African FDI in the retail sector in Africa from 2006 to 2016.

- To identify which of these determinants is most effective in determining South African FDI in the retail sector in Africa.

The aim was to understand the rationale and persuasion of South Africa's retail sector to other African regions. The interview questions were designed to allow comprehensive analysis of the interviewed companies. This was achieved through detailed engagements with the interviewees. The chapter managed to highlight evidence from the interviews on most of the determinants considered by retailers when investing in Africa. The chapter identified the following determinants for South Africa's FDI into Africa including push and pull factors:

- Market-seeking or size of the host market
- Strategic or growth reasons
- Political climate in host countries
- Increasing population coupled with strong economic growth in African countries
- Market saturation in the home market
- Profit-seeking
- Lack of formal retail in Africa
- Increasing middle class with disposable income across the continent with a desire for quality products
- Offer from developers to lease space
- Ownership advantages such as expertise and experience.

The main determinants for the retail FDI are a combination of factors such as size and political climate of the host market, market saturation at home and strategic reasons that converge for profit maximisation. Chapter 6 also highlighted the challenges faced by both retailers and developers when investing in Africa.

The main challenge encountered in this research is that data for South Africa's retail OFDI is not readily available. Analysing the data to obtain the objective knowledge about retailers, their operations and their financials was restricted. Another challenge was that, some major companies fitting the selection criteria for potential interviewees were unwilling to participate in the interviews, citing time constraints for their top management and confidentiality issues. Other companies failed to respond to numerous interview requests.



## **7.4 MOTIVATION OF RETAIL OFDI**

Market saturation plays a significant role in driving the retail investment from South African retailers into Africa which has resulted in increased competition and a decrease in profit margins for the retailers. The data collected revealed that South Africa has a highly developed retail market that is already saturated. Avenues for new growth have declined in the country and this is making retailers canvass for new growth opportunities in other African countries. There is a shortage of the formal retail sector on the continent in comparison to South Africa's retail sector.

Market seeking has resulted in retailers investing in other African countries due to the large market sizes they have. For example, countries such as Nigeria and Ethiopia, have the continent's largest populations and have an under-developed formal retail.

The data gathered reveals that, South African retailers consider the political stability of a country in their investment decisions, unlike the Latin American multinationals highlighted in Chapter 2.

The liberalisation of South Africa has led to the entrance of international retailers in South Africa. Companies that fail to globalise run the risk of failing due to intense competition from larger companies. Strategic growth is an important motivation for the retailers' engagement in OFDI.

The ultimate motivation for South Africa's retailers to engage in OFDI is the desire to make profits. The above mentioned motives determine South African retail OFDI and are all aimed at the desire to generate more profit for the companies.

## **7.5 RECOMMENDATIONS**

This section provides a conclusion to this study highlighting the contributions made, the limitations encountered, the implications of this research, as well as recommendations for future research. This study made an important contribution in understanding OFDI by South African retailers to Africa. Further research is, however, proposed to be undertaken to get a more detailed understanding of determinants for South African retail OFDI. These studies can also expand to include determinants for smaller retailers to find out if they share the same motivations for investing in Africa. The success or failure of South Africa's retail FDI in Africa can also be analysed in future research. Future research can explore

the role of incentives in attracting South Africa's retail FDI in African countries and the importance of South Africa's retail FDI to local economies in Africa.

An investigation of the relationship between regional blocs and its effect on retail expansion can also be conducted in future. The role of the government and its policies in influencing retail OFDI can be examined in future research. The impact of FDI on exports can be investigated in future research. A multi-national sample with more retailers from developed and developing countries can be analysed in future research to determine if they share the same home country determinants for retail OFDI.

An investigation into the commonalities between the private sector and the government may be necessary for improving corporate competitiveness and ultimately retail OFDI is advised for future research. Evaluating the determinants for South Africa's FDI into Africa is important because the country is one of the largest FDI investors on the continent. A detailed analysis of the political climate in South Africa and how it affects investment decisions can be conducted in future research. Further, future research can explore whether the determinants for South African retail FDI are the same as other developing countries and developed countries. The consequences of OFDI on job creation and skills can be analysed in future research. Potential research areas could be on specific variables identified in this research to discover other determinants.

## **7.6 CONTRIBUTION**

This study a thorough review of the empirical literature on retail FDI determinants. Many papers and research studies were analysed to provide a detailed overview of the most important determinants for retail FDI in Africa. Although, most of the empirical studies rarely focused on countries in Africa, similarities could be drawn from some studies such as those focusing on other developing countries in Latin America and the East (Asia). This research is unique in that, it helps to advance the knowledge of the internationalisation plan of South African retailers by performing a cross-case study to explore how and why they increase their internationalisation through OFDI. The current research has added to the quantity of existing literature on South African retail OFDI into Africa.

The research has actual implications as it can add an important aspect in the discussion of South Africa's foreign economic policy towards Africa. This research has added to the

quantity of existing literature on South African retail OFDI into Africa. The main determinants found in this research are by no means exhaustive and should be extended to a more differentiated and larger sample. This research has practical implications for managers and policy makers. From the results, it is evident that, a firm's internal resource and capabilities are crucial when undertaking retail OFDI. Therefore, retailers need to balance their internal resources and capabilities when entering foreign markets. Entry mode choice into foreign markets also serve as a reflection of the home institutional frameworks.

## **7.7 LIMITATIONS**

The shortcoming of this research is that it was limited to a small number of interviewees from retail businesses and developers. Although small, qualitative analysis validity makes up for the lack of reliability since it produces a richer and deeper presentation of the problem under investigation. This research has relied extensively on primary data sources, such as financial statements, as well as published data and other secondary data sources. Since most of the factors discussed in this research were qualitative in nature, they cannot be measured quantitatively. An analysis of literature demonstrated that, the enquiry on developing country OFDI is limited. As such, there is no sufficient proof on whether previous research findings are still relevant given the substantial adjustments occurring in the world.

## **7.8 FINAL CONCLUSION**

This research has highlighted several features of South African retail FDI into Africa. First, the profit-seeking nature of most South Africa's retail FDI into Africa, how retailers are investing more in Africa in their search for new profit generating avenues as demonstrated. Second, market saturation at home, strategic growth and the size of host markets are some of the main determinants for South Africa's retail FDI.

The research found out that, Africa is a lucrative market with many opportunities for all types of retailers although these come with a various set of challenges and barriers. South African retailers contemplating investing in Africa must be cognisant of these challenges and evaluate the potential threat before making any long-term investments. The retailers need to understand the African consumer. However, each country needs to be evaluated on its own merits as this case may be. It is prudent for the retailers to establish

relationships with local producers in the host countries. Flexible strategies adaptable to different country requirements must be adopted. Cultural differences should also not be ignored as South African retailers seek to expand their OFDI.

This study is the first of this sort and it laid the foundation for future research. Further research can be done on various regions in Africa such as the north, central, west and east. Future and current challenges facing companies in respect of the business and politics can be investigated in future research.

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## **ANNEXURE A**

### **RETAIL INVESTMENT IN AFRICA**

#### **General**

Date: \_\_\_\_\_ Company: \_\_\_\_\_

Headquarters: \_\_\_\_\_ Place of Interview: \_\_\_\_\_

Interviewee: \_\_\_\_\_ Position: \_\_\_\_\_

Your confidentiality will be respected in this survey. Please indicate where you regard information to be sensitive. Any queries or confirmation can be directed to Prof. Dr. E.P.J. Kleynhans at North-West University, e-mail: [11289570@nwu.ac.za](mailto:11289570@nwu.ac.za), phone: 018 299 1448 and cell: 076 122 3481.

The interview questions were designed in a way that will provide answers to the research questions of the research. The questions intend to provide a better and detailed understanding of why there is expansion from South African retailers into other African countries. The questions are also aimed at finding the major determinant of outward investment from the perspective of the retailers.

#### **Background**

1. What type of investment is your firm pursuing in Africa?

.....

#### **General information about Africa**

1. Please highlight your view of Africa as an investment and expansion destination

.....

2. How do you decide on the countries you invest in?

- .....
- 2.1. Do the counties' resource capabilities, markets and institutions have an impact on a county's selection?  
.....
- 2.2. How would you describe your role in those countries with regard to?
- 2.2.1. Ownership.....
- 2.2.2. Management.....
- 2.2.3. And co-operation between your subsidiaries/branches with the home company? .....
- 2.3. Are you involved in any partnerships in those countries and how would describe the relationship for example in terms of sourcing products and control of the business?  
.....
3. Where do you source your supplies for your businesses abroad?  
.....
- 3.1. Do you source from South Africa or elsewhere?  
.....
- 3.2. Do you rebrand and design the goods for specific markets in Africa?  
.....
4. Which of these factors would you consider the most important and in what order when deciding to invest in Africa?
- 4.1. Maximising profits.....
- 4.2. Market .....
- 4.3. Political climate .....
- 4.4. Local market .....
- 4.5. Motivation from developers .....
- 4.6. Regulatory framework in African countries  
.....

#### 4.7. Other

.....

5. What are the key challenges and threats in these African operations?

.....

6. How did you respond to the challenges and threats in Africa?

.....

7. Do you have any long-term investment plans in Africa?

.....

7.1. If so, why? .....

#### **Strategy**

1. Do you have any firm-specific advantages over local firms in the countries you invest in? .....

1.1. If so, what they?

.....

2. How different are the African operations in relation to South African operations?

.....

3. What is the importance of globalisation and improving/creating supply chains in motivating your investment decisions?

.....

4. Do you conduct market research?

.....

4.1. If so, what type of research?

.....

#### **South African environment**

1. What are some of the industry trends you see in your sector in regard to the African market?

.....



2. In what way did the retail environment in South Africa affect your decision to invest abroad?

.....

3. How would you describe the performance of your investments in Africa in relation to your operations in South Africa?

.....

4. Is there any difference in experience when investing in countries that border South Africa and those further away?

.....

5. If so, can you please elaborate further on the differences

.....

## **Investment**

1. Is the lack of infrastructure such as roads, railway, water and electricity an obstacle for investing in Africa?

.....

1.1. Which of these is the most important and could you explain more?

.....

2. Do you collaborate with other retailers when planning to expand to other African countries? .....

2.1. If so, in what way? .....

3. What are your biggest investment / expansion risks?

.....

4. How long does it take to make an investment decision?

.....

4.1. What does the investment decision and implementation of that decision involve?

.....

5. What is your preferred market entry strategy and why for example green-field investments or mergers and acquisitions?

.....

6. Do you prefer to be part of a shopping centre mall development or stand-alone premises? .....

6.1. Do you develop your own shopping centres? .....

6.1.1. If so, why?

.....  
.....

6.1.2. If no, who develops them?

.....

6.1.3. Are you developing any at the moment and do you plan on developing any in future?

.....

## **Future**

1. Are you planning on making new investments / expansions / developments in Africa?

.....

1.1. If so, in which countries and why?

.....

2. How do you evaluate the performance of your businesses in the rest of Africa?

.....

3. How sustainable is business in the rest of Africa?

.....

4. Why do companies expand their retail operations to other African countries?

.....

Anything else you would like to add?

.....

## ANNEXURE B

### RETAIL DEVELOPERS' INVESTMENTS IN AFRICA

#### General

Date: \_\_\_\_\_ Company: \_\_\_\_\_

Headquarters: \_\_\_\_\_ Place of Interview: \_\_\_\_\_

Interviewee: \_\_\_\_\_ Position: \_\_\_\_\_

The interview questions were designed in a way that will provide answers to the research questions of the research. The questions intend to provide a better and detailed understanding of why there is expansion from South African retailers into other African countries. The questions are also aimed at understanding the role played by developers in the investment decisions of retailers.

#### General information about Africa

8. Please highlight your view of Africa as an investment and expansion destination  
.....

9. How do you decide on the countries you invest in?  
.....

9.1. Do the counties' resource capabilities, markets and institutions have an impact on a county's selection?  
.....

9.2. How would you describe your role in those countries with regard to?

9.2.1. Ownership.....

9.2.2. Management.....

9.2.3. Moreover, co-operation between your subsidiaries/branches with the home company? .....

9.3. Are you involved in any partnerships in those countries and how would describe the relationship for example in terms of control of the business?

.....

10. Where do you source your supplies for your developments abroad?

.....

10.1. Do you source from South Africa or elsewhere?

.....

11. Which of these factors would you consider the most important and in what order when deciding to invest in Africa?

11.1. Maximising profits.....

11.2. Market .....

11.3. Political climate .....

11.4. Local market .....

11.5. Motivation from developers .....

11.6. Regulatory framework in African countries

.....

11.7. Other

.....

12. What are the key challenges and threats you encounter in these African operations?

.....

13. How did you respond to the challenges and threats in Africa?

.....

14. Do you have any long-term investment plans in Africa?

.....

14.1. If so, why? .....

5. Do you have any firm-specific advantages over local firms in the countries you invest in? .....

5.1. If so, what they?

.....

6. How different are the African operations in relation to South African operations?

.....

.....

7. Do you conduct market research?

.....

7.1. If so, what type of research?

.....

### **South African environment**

6. What are some of the industry trends you see in the retail and property sector in regard to the African market?

.....

7. In what way did the retail environment in South Africa affect your decision to invest abroad?

.....

8. How would you describe the performance of your investments in Africa in relation to your operations in South Africa?

.....

9. Is there any difference in experience when investing in countries that border South Africa and those further away?

.....

10. If so, can you please elaborate further on the differences

.....

### **Investment**

7. Is the lack of infrastructure such as roads, railway, water and electricity an obstacle for investing in Africa?

.....

7.1. Which of these is the most important and could you explain more?

.....

8. Do you collaborate with retailers when planning to expand to other African countries?

.....

8.1. If so, in what way? .....

9. Do you distinguish between low and high-income groups and markets when deciding to invest? .....

10. What are your biggest investment risks?

.....

11. How long does it take to make an investment decision?

.....

11.1. What does the investment decision and implementation of that decision involve?

.....

12. What is your preferred market entry strategy and why, for example green-field investments or mergers and acquisitions?

.....

## **Future**

5. Are you planning to make new developments in Africa?

.....

5.1. If so, in which countries and why?

.....

6. How do you evaluate the performance of your businesses in the rest of Africa?

.....

7. How sustainable is business in the rest of Africa?

.....

8. Why do companies expand their retail operations to other African countries?

.....

9. Anything else you would like to add.

.....