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Patterns of restructuring food markets in South Africa: The case of fresh produce supply chains

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Abstract

The restructuring process of the food markets in South Africa is at an advanced stages of consolidation and the emergence dominance of few supermarket chains expanding into non-traditional areas, through franchise format stores and forecourt stores overtaking informal wet markets and green grocers. The growth has been followed by consolidation of the procurement system from a decentralised to a centralised procurement and distribution mechanism replacing the wholesaling function of the National Fresh Produce Markets. The growth in disposable income, , population growth and urbanization have fuelled the demand food outlets like supermarkets which in turn fuels innovations and dynamic changes surrounding supermarkets

Keywords: Fresh produce, Procurement, South Africa

1. Introduction

South Africa's national food market is characterised by dualism with a highly sophisticated formal food marketing system on one hand and a well-organized informal food marketing system on the other (Reardon and Berdegue 2002). The former is dominated by a small number of retail groups who distribute food through a variety of supermarket formats (Louw *et al*, 2006). There is evidence that food markets in South Africa have undergone restructuring as observed through consolidation, trans-nationalization and the emergence and disappearance of supply chain actors (Louw *et al*, 2006). The restructuring of the food industry includes consolidation, institutional, organizational and technological transformation, and multi-nationalisation, inward trans-nationalization and outward trans-nationalization. The major determinants of this restructuring process are income growth, population growth, urbanization. The market restructuring in the South African food supply chain is also characterise by the emergence and disappearance of market agents or supply chain role-players. Category managers started in South Africa almost two decades ago and have grown in importance since then (Louw *et al*, 2006). Fresh Produce Markets and other informal food market are currently losing market share Supermarkets, specialised wholesalers and processors who are now to procuring directly from producers (NDA, 2006).

Methods

The paper is based on a desk study on the restructuring of agro-food markets focusing in South Africa using secondary data adapted from the Regoverning Markets Project in South Africa.

Results and Discussion

The occurrence of trans-nationalization in the South African food sector is generally limited. The first instance of trans-nationalization in the South African food chain is identified at the processing level. It is inward trans-nationalization where a number of multinational companies like Nestlé, Parmalat, Heinz, etc currently undertake the business in the food sector in South Africa. The second instance of trans-nationalization in the South African food chain is identified at wholesale level. It is inward trans-nationalization where multinational companies are conducting business in the South Africa food wholesale sector for example there is a large multinational companies who are primarily fruit exporters are reportedly becoming increasingly involved in fruit marketing in the South African domestic market as a strategy to diversify their offerings. The third instance of trans-nationalization in the South African food chain is identified at retail level. It is outward trans-nationalization where South African companies are conducting business in the food retailing sector beyond South African borders.

Retail chains have since expanding into non-traditional areas, which include townships and former homelands

through franchise format stores and forecourt stores replacing traditional markets such as informal wet markets and green grocers (Louw *et al*, 2006). Most retail chains have restructured their procurement strategies from decentralised procurement through the traditional wholesale markets to centralised procurement systems through own distribution centres. This resulted in an increased consolidation of the retail sector in South Africa which has displaced National Fresh Produce Markets as the country's major fruit and vegetable distribution channel. The continued expansion of retailers is spearheaded by growth through franchise format stores and forecourt stores. Franchising in South Africa contributes a massive 11.6% (including fuel) and 6.8% (excluding fuel) to Gross Domestic Product (GDP). The turnover for the franchise sector in South Africa is estimated at R134.7 billion. Turnover excluding fuel is estimated at R78.4 billion. (Planet Retail, 2006).

The formal food retailing industry in South Africa is currently dominated by four chain related supermarkets who have a combined market share of 94.5%. Pick 'n Pay, Shoprite, SPAR and Woolworths, with 33.06%, 30.69%, 13.54% and 12.03% share of the market, respectively (Botha and van Schalkwyk, 2006). Botha and van Schalkwyk (2006) concluded that the South African food retail industry is characterised by an extremely tight oligopoly. The level of consolidation in the food retailing sector is well advanced and confirms the observation that the South African retail sector is mature. Some retailers procure fresh fruit and vegetables only from a few preferred producers and supplement their supplies from the fresh produce market. The proportion generally varies between retailer groups. Interviews with Pick & Pay reveal that they procure 97% of their suppliers directly from preferred producers via growing programs while the remaining 3% is procured from Fresh Produce Markets. Ten to twelve years ago, the proportion was 50/50. Conversely Woolworths procures 100% of its fresh produce from a few selected and preferred suppliers. The generally accepted norm for procurement through this type of channel is that 90% of suppliers are procured directly from preferred producers via growing programs while the remaining 10% is procured from Fresh Produce Markets. Such procurement practice has grown in the last 10 years since the establishment of the distribution centre concept took root in South Africa where generally retailers procured around 50% of their

supplies directly from producers and the remaining 50% from Fresh Produce Freshmark services 480 Shoprite/Checkers stores from six distribution centre whilst Pick n Pay's procurement has a decentralised with only four distribution centres in the country which have been in operation for past ten years. Spar's distribution and procurement system works on a similar basis as that of Pick n Pay, the only difference being that Spar's distribution centre is technically and independent wholesaler working within a voluntary trading group. The importance of distribution centres within the context of food distribution in South Africa has grown in the past ten to fifteen years this implies that consolidation in the wholesaling sector for food products is being concentrated within supermarkets' distribution centres. Concentration of the distribution centers has enabled supermarkets to encroach into areas traditionally occupied by the informal market. Between 2003 and 2005 spaza shops' turnover in some areas was reduced by as much as 22% (ACHIB, 2006). Traditional vegetable shops or so-called green grocers are reportedly also being displaced or disappearing completely as a result of their inability to compete on cost and product ranges against large food retail groups.

The determinants of this restructuring are not different from other developing countries with these drivers being mainly related to income growth, population growth, urbanization. Increasing disposable incomes in South Africa have been identified as the one of the major trends driving restructuring in the overall South African food market. Periods of growing personal disposable incomes in South Africa are from the late 1960's to the early 1980's and again from 1994 onwards for example between 2000 to 2005 period personal disposable incomes for South Africans have increased by almost 15% (BFAP 2006). It is hypothesized that this marked increase in personal disposable incomes for South Africans is contributing to the increased levels demand for Supermarket services. Growth in the South African population is also to contribute to the restructuring of South African food markets. Population growth has, on average, been 2.15% per annum over the last 30 years (STATSSA 2005). Urbanization is also hypothesized to contribute to the dynamic changes observed in the South African food supply chain. Like in many other developing countries urbanization drives the emergence and sprawl of supermarkets with increasingly more people being compelled to purchase

food rather than producing food for themselves. Consumption levels in South Africa for durable, non-durable and consumable goods have been growing the past 12 years since democratization. The consumption of durable goods has increased by 86%, that of non-durable goods by 26% and that of food, beverages and tobacco by 21% in real terms since democratization in 1994 (SARB, 2006). Over and above increasing levels of consumption consumer dynamics are also hypothesized to contribute to the dynamic changes in the country's food sector and which were noted earlier. The most pertinent changes is the emergence of a population two million black middle class (black diamonds) a result of the social and economic reforms that have been taking place in South Africa since the democratization in 1994 (BMR, 2004). It has been estimated that the buying power of this group is about \$19bn per annum which equates to almost a quarter of South Africa's total consumer spending power BMR, 2004. This has been growing at a staggering 368 percent between 1998 and 2004 which leads to a dramatic rise in consumer spending (BMR, 2004).

Conclusion

Generally the restructuring of food chains in South Africa is being driven by similar determinant as in other developing countries. The impact of this restructuring is consolidation and concentration in the food supply chain where larger role players across the chain are displacing smaller role players. Smaller scale growers, independent wholesalers, corner vegetable shops and a vibrant informal market are being displaced by groups of preferred supplier producers, large regional distribution centres spread across the country to supply and rapidly growing network of corporate, franchise and voluntary trading group retailers replacing the wholesaling function of the National Fresh Produce Markets

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