

Shoprite is taking stock outside SA

Continental retail kingpin Shoprite's three top-performing countries outside SA are 80% stocked with non-South African products.

By [Zeenat Moorad](#) 25 Aug 2014



The company is having a "hard time" with South African manufacturers, CEO Whitey Basson said last week. "They don't really appreciate the fact that it's cheaper to trade into formal businesses, but that you have to build your brands."

Consumer industries are expected to be the greatest beneficiaries of Africa's middle-class boom - one third of its countries show gross domestic product growth of 6% or more.

Although underdeveloped retail markets, infrastructure and bureaucracy hurdles are prevalent on the continent, Shoprite has not been deterred. It started its African expansion about 17 years ago and, 169 stores later, it has learnt a thing or two.

Warehousing

"One of the reasons we have to put warehouses down is because a lot of the stuff comes from Argentina, Brazil, Angola and the Far East, bypassing the South African authorities," Basson said.

When Shoprite opened in Angola 11 years ago, it had 6,400 stock-keeping units coming out of SA. "We are now down to a third of that. It worries me - their base problem is that the effort you have to put into it is just massive and the losses you could make and do make are substantial.

"The oxes at Tiger (Brands) are trying - they probably know they are going to lose money. People are so scared of investment ... that their share price is going to drop ... We at Shoprite are fortunate in that we have a chairman who supports us and do make mistakes ... but for the rest of the guys they're worried that they'll lose money."

Brand awareness

While demand for modern goods is growing in African countries, brand awareness is key.

"South African manufacturers have come to the realisation that when they go into West Africa or even parts of East Africa nobody knows their brands, so they don't want to bother. With the exception of Tiger Brands, they are not prepared to put facilities and deep down they are not prepared to give Shoprite sufficient marketing allowance to allow it to develop their products," independent analyst Syd Vianello said.

"They're all scared of short-term performance being affected by putting a huge amount of money into West Africa, which is wrong because they're stifling growth. Whitey's answer is simple, if they want everything for free and they're not prepared to commit money, he'll go to Europe," Vianello said.

Import strategies

Pioneer Foods CEO Phil Roux said Shoprite often preferred an import strategy as a consequence of the high landed cost of its products due to duty structures, lack of scale and cost competitiveness relative to global lowcost producers.

"We strategically align with Shoprite wherever feasible. We would dearly like to acquire manufacturing businesses on the continent in key geographies that make commercial sense. Assets explored to date are mostly overpriced, consequently difficult to justify from a shareholder returns perspective," he said.

Investing in growth

In SA, where growth has slowed due to indebted consumers facing living costs that are rising, Shoprite will invest almost R697m, less than the R1.5bn it will pour into new stores and distribution facilities on the rest of the continent. In the next year, 30 new stores will open and Basson said the retailer had identified a further 177 sites.

"What they have done over the last 20 years is establish themselves in multiple African countries ... and they have established distribution lines into those countries," said Sasfin Securities senior equity analyst Alec Abraham.

"I think they have now gone into phase two of that programme and the two countries they have identified are Angola and Nigeria - so you see them going very aggressively to double the number of stores in those countries to reach critical mass to build a distribution centre so that they can have a complete loop the way they have in SA. When that's set up they will go to the next country," said Abraham.

Source: Business Day

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