The Rise of Supermarkets in Africa: Implications for Agrifood Systems and the Rural Poor

Dave D. Weatherspoon and Thomas Reardon*

Abstract. The rise of supermarkets in Africa since the mid-1990s is transforming the food retail sector. Supermarkets have spread fast in Southern and Eastern Africa, already proliferating beyond middle class big-city markets into smaller towns and poorer areas. Supplying supermarkets presents both potentially large opportunities -- and big challenges for producers. Supermarkets' procurement systems involve purchase consolidation, shift to specialized wholesalers, and tough private quality and safety standards. To meet these requirements, producers have to make investments and adopt new practices. That is hardest for small producers, who thus risk exclusion from dynamic urban markets increasingly dominated by supermarkets. There is an urgent need for development programmes and policies to assist them in adopting the new practices that the supermarkets' procurement systems demand.

Why are we writing about supermarkets – traditionally viewed by development researchers, policymakers, and practitioners as the rich world’s luxury and place to shop -- in the context of one of the poorest regions in the world? It is because in the past 5-10 years there has in fact been an extremely rapid rise of supermarkets in parts of Eastern and Southern Africa, and the same process appears set to take off in the balance of that sub-region. For example, the share of supermarkets in national food retail in South Africa is already 55%, similar to the share in Argentina, Chile, Philippines, and Mexico! (and not far behind that of the U.S., currently 70%).

The rapid rise of supermarkets in Africa is made possible by urbanization and the rise of the middle class in countries such as Kenya and South Africa – but goes well beyond those drivers, because supermarkets are extending into poor neighborhoods of large cities and towns all around the developing world, including in Africa. Through format adaptation and efficient procurement systems, the new trend in the region is “supermarkets to the poor”, a diffusion and extension of supermarkets away from mere luxury high-end niches to being mass market merchandisers.

Why does the rise of supermarkets in the region matter for development and the rural poor? It matters because supermarkets are taking over the most dynamic segments of the food retail markets – the rapidly growing urban areas where incomes are higher. Those are the food markets that the rural poor need to target to be able to escape from poverty.

But selling to supermarkets is very far from business as usual for small farms and processing/food manufacturing firms. The scale of procurement is typically much larger and requires both volumes and coordination among suppliers and between suppliers and retailers and/or intermediaries. Also, supermarkets are typically more demanding as to quality and safety standards. Recent research in other regions (such as Latin America, see Reardon and Berdegué, 2002) shows that while these changes provide great opportunities for some suppliers to broaden and...
deepen their markets and raise their incomes, for others, especially smaller farms and firms, they imply huge challenges and risk of exclusion from the transforming food economy.

Given the rapid rise of supermarkets in parts of Eastern and Southern Africa, documented in this paper, and the emerging and potentially large impacts on small farms and firms and thus on the distribution of income and incidence of poverty, why has the rise of supermarkets in Africa been so rarely treated in the development literature? There are several reasons. (1) As the data will show, their development has been rapid and very recent. (2) The traditional image of supermarkets in all the development literature is one of a luxury niche, quite unimportant to development and the poor, a mere curiosity for specialists. (3) Most market research in Africa has focused on wholesale markets for grain. (4) Where “supermarkets” have been targeted by recent Africa research, they have mainly been UK supermarkets procuring horticultural products and fish from Kenyan and South African growers (for example, in Dolan and Humphrey, 2001). Procurement of produce by UK supermarkets from Africa has grown quickly over the past decade due to improvements in transport and logistics, and has led to the introduction of value added products such as fresh cuts of fruit from Kenya to UK supermarkets, and has introduced demanding quality and safety standards in trade. This European-supermarket-led trade transformation is indeed important and interesting – but we shall show that it is dwarfed, in terms of its impacts on African producers, by the rise of supermarkets in Africa itself, the theme upon which we focus.

It should be noted that the data and trends discussed in this paper are based on preliminary evidence and emerging examples drawn from the trade press or gleaned from reports of private market firms and many direct interviews by the authors and collaborators, as well as a few (but very few, because governments in Africa are not yet following statistically this phenomenon) government statistics. There is in general a dearth of “official statistics” on these new phenomena, both for how they affect domestic markets and how they affect trade. Given that most of the key facts and trends driving these market changes concern strategies of a very limited number of large firms and chains, much of the “market analysis” in the future will likely be extending and deepening agribusiness-research case studies on retail chains and their procurement practices in developing regions, a research approach at least partially replacing large statistical survey work on thousands of market participants that characterized the “past” (before the mid to late 1990s), before the rapid retail and wholesale sector consolidation in these regions.

The paper proceeds as follows. The next section describes the patterns of the rise of supermarkets in Africa, focusing on the rapid rise in South Africa and Kenya, and their spilling from those into other countries of the continent in recent years. We focus on the Eastern and Southern Africa stories because, apart from Nigeria, these are the sub-regions in which supermarkets are growing most rapidly, because of higher incomes and urbanization rates, and because of the impetus of South African and to a lesser extent Kenyan foreign direct investment in retail in those sub-regions, a very important driver of retail sector transformation at present. The section thereafter discusses, drawing on recent, preliminary evidence, the evolution of supermarket chain procurement systems and how this is transforming food markets. The final section hypothesizes implications for small farms and firms, and discusses development policy issues and implications of the challenges and opportunities represented by these rapid changes.

Patterns of Development of Supermarkets in Africa in the Past Decade

General Patterns of Supermarket Diffusion in Africa

The general pattern of development of supermarkets in the past decade (when the great majority of supermarket development in Africa has occurred) has occurred in the largest and/or richest (in African-relative terms) countries -- and then mainly through foreign direct investment (FDI) from those countries spread into the smaller and/or poorer countries. This is a similar pattern to what one observes in Latin America and East/Southeast Asia (Reardon and Berdegué, 2002, Reardon, Timmer, and Berdegué 2003) except with lags of ten and five years, respectively, as the patterns of spread of supermarkets in Southern/Eastern Africa are somewhat similar to those of Latin America in the early 1990s and East/Southeast Asia in the mid 1990s, at the start of the process of liberalization of FDI (a crucial determinant) in those regions.

The economic geography of the spread of supermarkets is predictable from the nature of the economics and policies of the sub-regions – but the speed and the cumulative acceleration was less predictable and is surprising. There has been a rapid transformation of the African food retail sector over the past decade, with a very decided
acceleration—takeoff—in the past 3-4 years. The latter is due to the rapid rise in supermarkets (a term we use for convenience to mean all large-format “modern retail” stores including supermarket, large discount stores, and hypermarkets). These food retail formats are displacing more traditional retailers such as small shops and public markets. The fastest transformation is occurring in South Africa, Kenya, Nigeria, also among the larger and relatively richer and more urbanized markets, as is predictable. In a “second round,” it is also now occurring in countries that are receiving substantial FDI from South Africa in particular and more recently from Kenya as well, including, in roughly descending order, Zimbabwe, Zambia, Namibia, Botswana, Swaziland, and more recently Madagascar, Mauritius, Angola, and Mozambique—hence southern Africa, and very recently Uganda and Tanzania—hence Eastern Africa as a second-place investment destination, and lastly and very recently in Ghana, with rumors of retail FDI soon into Nigeria and Congo.

The segment of the Latin American story that occurred starting in the mid 1990s and in East/Southeast Asia starting in the late 1990s, both of which featured giant waves of FDI by global multinationals such as Ahold, Walmart, and Carrefour, starting in the richer/larger countries and then extending to the poorer/smaller countries of each region, has not yet occurred in Africa. The global multinationals have honed, in the other developing regions, models of retail management and procurement that permit a level of efficiency and cost control that allows them to compete with—and beat on costs and usually quality as well—traditional wholesale and retail markets and mom and pop stores, and extend far into poor neighborhoods and rural towns.

We believe that it is probable that the global multinationals will enter Africa over the next half-decade. This would then repeat the pattern that one observes in Latin America and East/Southeast Asia (including in countries with similar incomes and consumer markets to those of South Africa, Kenya, and Zambia), and now incipient in India (see Reardon et al. 2003). Then, as in the other two major developing regions, one will see a sharp acceleration and extension of the patterns we describe below, in the stage of their incipience.

**Focus on South African Supermarkets and their Investments in the rest of Africa’s Food Retail Transformation**

South African food retailing is composed of two dramatically different sectors: the informal sector (hawkers, small stands, and spazas), and the formal sector. We do not have statistics on the breakdown between the informal and formal sector. It is probable, however, that although many persons are employed as hawkers and spaza owners, the share of total retail turnover is probably small.

Among the formal sector (upon which we focus), there are approximately 70,000 stores. This is composed of three groups: (1) the “major”, of which 1400 (2% of stores, 55% of turnover) are large format (hypermarkets, supermarkets); (2) 1400 (2% of stores, 10% of turnover) are branded superettes (between supermarkets and convenience stores in size, most often viewed, including by ACNielsen, as small supermarkets); (3) other “non-major”: (a) forecourts or convenience stores (2.3% of stores and 4.1% of turnover); (b) urban counter (non-self-serve), with 25% of stores and 4% of turnover); (c) urban self-serve (with 6% of stores and 8% of turnover); (d) rural counter and self-serve (62% of stores and 19% of turnover) (ACNielsen 2002a).

The picture that emerges is of a formal sector turnover dominated (with 70% of turnover) by the 6% of stores in the formal sector that we can call the “modern sector” (hypermarkets, supermarkets, superettes, and convenience store chains). The rest (with 30% of total turnover but 94% of stores) are a collection of some 67,000 small stores, either the relatively more modern self-service stores or the traditional, mom and pop, counter stores.

In the modern retail sector, there are 33 hypermarkets (very roughly equivalent to about 330 supermarkets in sales terms) and 1352 supermarkets in ACNielsen’s data base for South Africa, which covers most of the large-format retailers in that country. That is nearly 1700 supermarket-equivalents. This is 39.5 supermarkets per million people (similar to the rate in Argentina and Chile) in a country of 43 million, with average per capita income of 3020 US dollars (of course, unequally distributed with a Gini coefficient of .59 (World Bank, 2002), one of the highest in the world, with 35% of the population earning less than 2 dollars a day, and 11% earning less than 1 dollar a day). This figure of roughly 1700 supermarket-equivalents is a conservative estimate, because AC Nielsen also counts branded superettes as small supermarkets, but we leave them aside in the 1700 figure.

The gross turnover in the formal food retail sector in South Africa is projected to be more than US$ 6 billion in 2002, up from $ 4.5 billion in 1998. Note that this is somewhat of an overestimate of growth, as part of that change
was due to change in sample universe by ACNielson (ACNielson, 2002a). That is an average of more than 10% growth per year, the same as Brazil and Argentina’s supermarket sector growth in the 1990s (Reardon and Berdegué, 2002).

While supermarkets represent fewer than 2% of all food retail outlets, a rough estimate of the share of supermarkets in total food retail in South Africa is around 50-60%. (Similar to the average share in Latin America, see Reardon and Berdegué, 2002.) The retail industry in South Africa uses a rough estimate of supermarkets’ share of national food retail that goes through supermarkets (personal communication, Raymond Ackerman, President of Pick N Pay, October, 2002). ACNielsen (2002a) estimates supermarkets (and other modern retail, including hypermarkets and convenience store chains) comprise 55% of the total gross turnover.

With the caveat that it is not store numbers but store food sales that count, this rough estimate is comparable with other countries in roughly similar categories. Even though the countries are quite different in many ways, Costa Rica and South Africa have roughly similar per capita incomes and Gini coefficients, and the store-rate (supermarkets per million persons) is a bit lower in Costa Rica than South Africa, and supermarkets in Costa Rica have a 50% share of the food retail market (Reardon and Berdegué, 2002). While Argentina has per capita incomes twice as high, supermarkets have a 60% share in food retail and the store-rate is similar to that of South Africa’s.

There are no official statistics nor any private (such as ACNielsen) estimates on how quickly the supermarket sector has grown over the past decade in South Africa. However, the case of the Pick N’ Pay chain (PNP) illustrates the rapid growth of supermarkets in South Africa. Supermarkets started early in South Africa, but have grown rapidly only recently (in particular, since the end of Apartheid in 1994). This rapid growth is illustrated below in the meteoric rise of Shoprite/Checkers (we use the term Shoprite in the rest of the text for simplicity) and Pick ‘N Pay (started 23 and 35 years ago, respectively) in only the past 7 years.

The South African supermarket sector is highly consolidated in the hands of the four main chains – Shoprite/Checkers and Pick ‘N Pay (PNP), with roughly 80% of the supermarket sector, 40% each, and Spar and Woolworths, with 10% of the supermarket sector, 5% each (http://www.fas.usda.gov/info/agexporter/2000/Feb/south.htm).

Each of the chains has a variety of formats that fall into three categories: (1) large format (hypermarkets and supermarkets); (2) “superettes” which are classed by ACNielsen in South Africa as small supermarkets; the suffix comes from their being small supermarkets, usually found in rural towns, former-homeland areas, and dense inner cities; (3) convenience stores or mini-markets. This range of formats coincides with the range usually found in most global multinational supermarket chains and similar to what is found in most countries in Latin America and East/Southeast Asia.

In general, as in other developing regions, the supermarket was historically the first format used, with location and sales focused on upper-income consumers. While the number of supermarkets rose quickly over the 1990s, by the late 1990s chains added hypermarkets (to extend to the middle and lower-middle class urban consumers with broad food and nonfood selection and low prices). In the late 1990s and early 2000s chains added convenience stores on transport routes and in dense urban areas. During the second half of the 1990s and accelerated today is the opening of small supermarkets in poorer areas via franchising (such as the Family Stores of PNP). Business Day (2002) notes that supermarkets were not allowed to locate in townships before the end of Apartheid, and after that they were focused until the early 2000s on consolidating business in the cities. But competitive pressure at the high end of the market (for example, from Woolworths) has pushed both Shoprite and PNP to expand into townships (such as Shoprite in Soweto) starting in mid 2001.

This progression of format openings, to spread from major cities to rural towns, and from high- to middle-income, to middle income, and finally to poorer-income segments is a progression similar to that observed in Argentina or Costa Rica over the mid to late 1990s, lending further credence to the comparability of the processes.

While the two main chains are, predictably, different in various ways (such as Shoprite’s emphasis on being the price leader), it is in a way even more interesting how similar their growth and market strategies are, like two front runners in a race, swerving and leaping at the same times. Moreover, it is interesting to compare their growth strategies with front-runner domestic supermarket chains in other developing countries when at a similar stage in supermarket development, such as comparing Disco in Argentina in the mid/late 1990s with the two chains here, and finding very close similarities in growth pattern and strategy, perhaps with somewhat more emphasis in South Africa on using franchising as a growth strategy similar to that used by the fast-food industry worldwide.

Shoprite is South Africa’s (and therefore Africa’s) largest food retailer. It started with 8 stores in 1979, with turnover of 10 million rand. Today it has a turnover of 22 billion rand (US$ 2.6 billion as of January 2003) and serves more than 39 million customers per month. Beside its furniture stores, house & home stores, financial services, and 41 fast-food outlets (Hungry Lion), it has 294 Shoprite supermarkets (targeting the mass market, the lower-middle and middle class consumers) and 79 Checkers Supermarkets and 19 Checkers Hypermarkets (targeting the upper middle class and upper class consumers) (Shoprite, 2002).

Moreover, important means of its expansion include: 146 convenience stores (Sentra, 8 ‘til Late, OK Mini Market), franchised supermarkets (30 OK Foods Supermarkets), 81 wholesale stores (large stores mainly serving small retailers, as well as some direct consumers, Megasave Wholesale Stores), 50 Value Stores and 33 OK Grocer Stores (low-price superettes). These are franchised by, and can, but are not required to participate in the procurement and distribution system of Shoprite/Checkers for fresh produce (www.shoprite.co.za).

Shoprite grew in the early years especially by acquisition of existing domestic chains (buying the 17-store chain of Grand Supermarkets in 1990, and the 170-store chain of Checkers supermarkets in 1991). This is similar to how Latin American domestic supermarket leading chains grew in the 1990s as well. In later years Shoprite expanded by organic store growth in South Africa, and a combination of acquisition of domestic chains in other countries (such as recently buying a chain in Madagascar) and organic store growth, such as its recent construction of a store in Ghana.

In addition, Shoprite acquired Sentra in 1995, a central buying organization used by 550 retail members to centralize procurement of various products. Having that procurement capacity was the foundation stone for the supermarket and convenience store franchising operation it launched in the second half of the 1990s that allowed expansion of its brands/franchisees into the former homelands and into poorer, rural towns.

Shoprite has undertaken FDI in 13 other African countries – most of it very recently, in the past year or two. It has 80 large-format stores (mainly supermarkets) in those countries. Notice how recent the investments are, this is a wave just beginning. The numbers are shown in Table 1, and represent supermarkets unless otherwise indicated.

Moreover, Shoprite has announced plans and investment is underway (with completion in first half of 2003) for entry into 4 other African countries – plus India: (a) in Angola, it is opening a Megasave Discount Wholesale, and a Shoprite to compete with the domestic chains Jumbo and Inteypark there (Mathews, 2002); (b) in Ghana; it is opening 3 supermarkets over the next fiscal year; (c) in India, it plans to invest in 2003: Bolin (2002) quotes Basson of Shoprite: "We are very excited about India, where there are very few retailers," he enthused. The government now allows 35%-40% partnerships, and we are looking for partners there now. By entering India (in early 2003) it joins others in investing outside Africa (PNP, Woolworths, and Metcash in Australia). In Kemp (2002), the head of Shoprite noted that he considered Africa and India to be better growth markets with easier entry for South African supermarkets than going head to head with Australian competitors in that market.

The trade press is also reporting that FDI by Shoprite is planned for the following over the next few years: (a) Nigeria and Gabon (interest announced by Shoprite); (b) Kenya (rumors in trade press).

In sum, Shoprite is on a very rapid expansion path in Africa. Kemp (2002), in an interview with the head of Shoprite, notes that in 2000 Shoprite earned 8% of its revenue outside South Africa, in 2002, and Anderson et al. (2002) note the figure was 10%, and Kemp (2002) reports that Shoprite is aiming at 50%. If the situation is similar to what occurred in Latin America and East/Southeast Asia, this push by Shoprite, and Pick N’ Pay below, will ignite a brushfire of investment by the domestic chains already in most of the countries in order to defend their market shares and expand into towns and zones where they can establish commercial strongholds to withstand the onslaught of FDI and brand new competition. In the other regions, this was a key accelerator in the spread of supermarkets recently, and we expect this competitive investment to be the same in Africa. And that is all before competition really heats up with the expected entry of global multinationals after a few years of regional chain competition, as occurred in the other regions.

Why do South African retailers such as Shoprite undertake FDI to the rest of Africa? Partly it is the saturation or near saturation of the South African market, and partly it is the search for much higher profit rates in the new markets elsewhere in Africa, that are under-stored. Supply chain logistical technology has allowed efficiency in supply chains so that good quality, inexpensive products can be marketed in relatively poor countries. Here is an example from another South African retailer, Massmart (www.massmart.co.za), noted here.
“Massmart, which runs five Game Stores in Botswana, Namibia and Zambia, two Makro stores in Zimbabwe and plans another 10-15 stores outside South Africa over the next five years, adding R800m/year in revenue, acknowledges that business beyond SA’s borders earns far higher margins, the average store outside of SA earning twice as much in bottom-line terms as stores within SA.” (Franchise Association of South Africa, www.fasa.co.za, 2003)

**Pick ‘N Pay – in South Africa, Southern Africa, and Australia.** PNP is South Africa’s second largest food retailer, in vigorous competition with Shoprite (in particular, its more upscale Checkers format) for the mass market, and with Woolworths for the upper-income market, as well as with Shoprite for early entry in other African markets and with Metcash and Woolworths in the Australian market.

PNP started 35 years ago, and had 140 stores in 1993. Today, beside its house & home stores, financial services, pharmacies, and auto sales (diversified services as does Shoprite), it has 342 supermarkets and hypermarkets in South Africa, and 471 in all of Africa and 70 in Australia -- more than tripling its outlets in nearly a decade, and tripling its turnover, which today stands at 18.8 billion rand (US 2.2 billion in January 2003 exchange rate). They have 242 corporate supermarkets and 100 franchise stores in South Africa (Pick N’ Pay, 2002). The very recent growth has been very rapid, after decades of slow growth. Its turnover rose 24% over 2000-2002, an 8% annual growth rate (faster than GDP growth).

Just as in the case of Shoprite, PNP is putting a heavy emphasis on expanding in the formerly under-stored market of the poorer areas, which the chains in South Africa call “emerging markets” (former homelands and rural areas, and townships), mainly via franchises and stores focused on low prices, to take advantage of new profit opportunities and move away from the intense competition for the upper segments of the market (Raymond Ackerman, personal communication, June 2002). In South Africa, PNP has 88 “Family Franchise Supermarkets” (up 13 from last year), 94 Score Supermarkets (up 21 from last year), and has just acquired Boxer Superstores (and are awaiting the final – expected – accord of the Competition Authority) – all to serve the emerging markets. Score and Boxer are domestic capital acquisitions, thus furthering the rapid consolidation process in which the other market leaders are engaged. Boxer outlets are spread over the three South African provinces of Mpumalanga, KwaZulu-Natal and the Eastern Cape (relatively poor areas) (Government of South Africa, 2002, and www.picknpay.co.za). The franchising system in particular allows rapid expansion and adds the cultural/marketing advantage of local families undertaking the entrepreneurship of expansion.

PNP has also vigorously pursued FDI in other parts of Africa, albeit at a lower level and with less geographical spread than its rival Shoprite. PNP has also invested heavily (this past year) in Australia, thus adding the “beyond-Africa diversification” that Shoprite is now also pursuing (but in India). PNP has about 80 supermarkets outside South Africa in other countries of Africa (see Table 2). Note also that PNP has chosen to expand into the rest of Africa with its low-price format stores and franchising, rather than expand with its high/middle-end PNP supermarkets. Moreover, apart from a brief foray into East Africa (it had 4 Score Supermarkets over 2001 in Tanzania, but then sold them to Shoprite), it is focusing on Southern Africa. It has announced plans to expand into Mozambique soon (LiquidAfrica.com 2002)

**Others South African retailers.** There are several other chains competing for the 20% of the supermarket sector not occupied by the large chains above. These include: (a) SPAR, on neighborhood and rural supermarket shopping. SPAR is a Netherlands-based franchise retail firm and is the world's largest chain of retail food stores, with 19,340 locations worldwide including in South Africa and Zimbabwe; (b) Metro Cash & Carry’s outlets, wholesale discounters located near black townships and are open to small-scale retailers and food service sector only. Metro also has hypermarkets open to the public (USDA, 1998); Metro has recently opened stores in Botswana, Namibia, and Botswana; (c) Massmart, discussed above, focused on the low-price wholesale discount store, and present in South Africa, Zambia, Zimbabwe, and now Angola (www.massmart.co.za); (d) the only “upper income segment” chain among the “others” is Woolworths. It is rumored in the trade press that Woolworths will move to full department stores (with a supermarket floor) in Kenya in the next year or two. That is, while market shares among the chains appear to have reached some inflexibility in South Africa, the competition is “taken on the road” to the rest of Africa. This is yet another factor that will accelerate the spread of supermarkets in the rest of the region.
Rise of Supermarkets in East Africa

Kenya is far advanced in comparison to the rest of Eastern Africa in terms of the presence of supermarkets. For example, Kenya has approximately 206 supermarkets (and another 10 hypermarkets equivalent to the floor space of roughly 100 supermarkets) (ACNielson, 2002c) – while Uganda has only 1 supermarket and Tanzania, 4 (Shoprite stores, see above), beside domestic chains in the various countries.¹

The Kenyan supermarket sector is composed of four domestic chains from largest to smallest are Uchumi, Nakumatt, Tusker Mattresses, and the Ukwala Group; there are two foreign-owned chains, Metro Cash & Carry (Lucky brand name in Kenya) and Woolworths (which bought Deacons, and will introduce food retailing over the next year) and several independents.

The majority of supermarkets are still in Nairobi, with a metro area population of 2.5 million: has 34 chain-supermarkets; 10 hypermarkets (= 100 supermarket-equivalents); 117 small independent supermarkets (Kenyaweb, 2002).

However, about one-quarter of the supermarket-equivalents are already outside Nairobi. That is similar to Latin America about 5-7 years ago (Reardon and Berdegué 2002). The relative saturation of Nairobi and opportunities elsewhere have driven investment to spill over into other major towns. Mombasa, an intermediate city of 700,000, has 4 chain-supermarkets and 3 hypermarkets (= 30 supermarket-equivalents), plus an unknown number of independent supermarkets. Medium sized cities and large towns also now have supermarkets. Nakuru, Eldoret, and Kisumi, intermediate cities/towns of 200-300,000 have 10 chain-supermarkets, and an unknown number of independent supermarkets. Nakuru and Eldoret are in commercial, large-scale white-farmer areas, and Kisumi is in the west of Kenya, in a black-African commercial farming area.

For the top five cities of Kenya noted above (4 million of the 6 million urban population of Kenya) there are thus at a minimum nearly 300 supermarket-equivalents (or 165 supermarkets and 13 hypermarkets), and probably a number more as we do not have data on independent supermarkets outside Nairobi.

Kenya is also displaying clear signs of continued rapid expansion of supermarkets into the markets of poorer consumers and secondary cities and towns – not only because of the rapid current growth of supermarkets in the larger urban areas which are moving toward saturation and eventual spillover into other towns as is occurring now in Latin America and East/Southeast Asia – but also a shift of formats and retail strategy toward large store formats (such as hypermarkets) with an emphasis on cheap food and convenience for the working poor.

The Kenyan supermarket chains are doing what local analysts consider “preemptory investment” in the East African region to be ahead of the impending wave of South African retail investment and also to take advantage of opportunities in the under-stored East African region. Uchumi and Nakumatt are already moving to expand into Tanzania and Uganda (the Uchumi stores are already under construction; UNIDO, 2002). These trends will be sharply fueled and accelerated by the entry of South African firms – and their global competitors that will probably not tarry (Robinson, 2001).

Tanzania provides an example of an East African country where supermarket growth is taking off in the late 1990s and early 2000s, under investment pressures from South Africa and Kenya as well as an internal dynamic to its retail sector. In the 1980s, the Tanzanian State ran public sector retail operations, Regional Trading Companies (RTCs) and the Household Supplies Companies (HOSCOs). These companies were privatized in the late 1980s and early 1990s (at the same time a similar liberalization was taking place in public retail sector in Zambia and China).

Replacing them were a proliferation of private mini-markets and small groceries, in the mid to late 1990s. However, in the late 1990s, the supermarket sector began to develop quickly, and the conditions of urbanization are similar to Kenya and so one expects a similar growth of supermarkets as in the neighboring Kenya. During the 1990s series of macro-economic reforms and liberalization of FDI (a factor that is usually key in starting a supermarket sector “take off”), Shoprite and Pick ‘N Pay entered in 2000. As noted above, Shoprite bought the Pick ‘N Pay stores in 2002. In addition, there are two domestic (Tanzanian-based) chains, Imalaseko and Shoppers’ Plaza, both of which are expanding. The two Kenyan chains, Uchumi and Nakumatt, have expressed intentions of entering the Tanzanian market (Wahome, 2001; Wandera, 2002, cited by Winter-Nelson). The apparent opportunity for growth in Tanzania

¹ In this section, for the case of Kenya, we draw on Neven, Weatherspoon, Reardon, Thiru, Chege, and Kibiriti (2002).
has led many supermarket chains to view the country as an important emerging market (Shoprite, 2002, Business Day, Nov 25, 2002) (Winter-Nelson, 2002).

It is less probable that supermarkets will make much headway soon in Western and central Africa, most of which is much poorer than Eastern/Southern Africa, is plagued with political instability, and has much lower rates of urbanization. There are of course several exceptions, such as Nigeria, where there are already 102 supermarkets, but this is only 5% of total food retail, Nzeka, 2002 (roughly the store-rate of India, hence still at early stages of supermarket development).

In sum, viewing the development of supermarkets now at the level of the continent, one observes over countries the spectrum from pure incipience (such as in Ghana), a small niche (such as the early stage of supermarket development today in Tanzania, Nigeria, Uganda) to an early-intermediate stage (Zambia, Zimbabwe), to an intermediate stage of development (Kenya) to an advanced stage of supermarket diffusion (in South Africa). The same spectrum exists in a given country: for example, in South Africa or Kenya, the supermarket-market is a small niche market in a small town or as a target-market for a farmer in a remote rural area (we noted that supermarkets are just now “taking off” in the former homelands), while the supermarket-market has become nearly dominant or dominant for farmers selling in supply chains aimed at Nairobi, Mombasa, Johannesburg, Durban, Capetown.

Moreover, as one looks over product markets, it is probable that one also sees a spectrum of supermarket-market importance, with the lowest share in overall bulk grain market, and a higher share in non-staples and processed product markets. (Although one expects that for chains like Shoprite that target the poor, bulk grains will be quite important.)

Urbanization is occurring quickly in Africa, and incomes are higher in the urban than the rural areas, so urban food markets are more dynamic sources of demand for farmers than are rural markets. As urbanization continues apace, infrastructure improves, farmers turn increasingly to urban markets to increase their sales and incomes, supermarket procurement systems will increasingly figure centrally in the factors that condition their market access and thus rural development. We turn now to those systems.

Supermarket Procurement Systems in Africa: Opportunities and Challenges for Farmers

The terms of purchase of farm products set by retailers and/or their intermediaries – volumes, price, consistency within a lot and over lots, quality, food safety, packaging, timing of delivery – determine the requirements to be listed as suppliers to those retailers, and the profitability of being listed. Understanding the procurement systems of supermarkets, as they take over food retailing in the cities and towns of Africa, means understanding the future conditions of farming to supply those dynamic markets. This section thus focuses on emerging evidence about the nature of those systems.

Overview of the General Market Context of Supermarket Procurement Systems

Nearly all of Sub-Saharan Africa’s (SSA) food output is consumed in SSA, and only a small share of SSA’s food consumption is based on imports, and the latter is mainly bulk grains. SSA is nearly a closed economy in non-staples, for example F&V (fruits and vegetables), based on FAOSTAT 2001 statistics: (1) the region exports 1.6 and imports 1.3 million tons of F&V – but produces 60 million tons, so imports are less than 1% of consumption; (2) by contrast, the the staples economy is semi-open: the region produces 77 million tons of grain, exports 0.5 million tons, imports 18 million (in a major drought year, so this is an over-estimate), so imports are 19% of total cereal consumption. While the home-consumption rate of food output is relatively high (but varying a lot over producers), the commercial sale of food is now common on the continent, in sharp contrast to the traditional image. As one would expect, this shift has occurred with urbanization and improvements in infrastructure over the past decades. Hence, the domestic retail food sector is overwhelmingly important for the vast majority of African food suppliers (a term we use to mean farmers and food manufacturing/processing firms such as a cassava processor or a cheese producer). The exceptions are export-crop areas; while these receive a lot of attention in the literature, they are mainly mere enclaves. For the great majority of African farmers, the domestic market is far and away preponderant.

The nature of the domestic market changes in general with development, as evidenced in Africa. Evolving produce markets illustrate this change in the nature of markets. In general, one observes that markets shift from
fragmented, local markets (such village markets with wholesale and retail functions) to larger, centralized wholesale markets with some retail functions, but whose wholesale function supports many small retail units (such as mom and pop stores and hawkers). That shift tends to occur first in dry goods and later in perishables, such as occurred in the early formation of the large wholesale fairs on trade routes such as the Champagne, Lyons, and Piacenza Fairs in the middle ages in France and Italy (Braudel, 1979), coincident with the rise of towns. This is followed by the rise of fresh produce wholesale markets, from the late Middle Ages to the mid 19th century in Europe, with progressive fresh produce market integration through the rise of long distance trade and the establishment of specialized areas of fruit and vegetable production from the mid 19th to the mid 20th century in Europe (Codron and Lauret, 1993). In the latter stages of these changes on the wholesale market side, were concomitant changes in the retail sector in both Europe and the U.S., with the advent of self-service stores and then supermarket chains. Those chains typically moved from per-store procurement to centralized distribution, parallel to and a microcosm of the broad evolution of food markets over the centuries.

One observes a similar – in its very broad lines – development in markets in Africa. There has been a transformation of wholesale markets from local and fragmented, to larger and more centralized with urbanization and improvement of infrastructure, occurring most quickly in countries and zones exhibiting more markedly those determinants of change. One notes that in South Africa, for instance, there has been a development over the past decades of larger, centralized wholesale markets for fresh fruits and vegetables – “fresh markets.” Those supply retailers and themselves have retail sections. These are still the major force in fruit and vegetable procurement in most of Africa, and figure as major conduits of produce for supermarkets in the countries where supermarket development is still in its incipience.

Despite the rapid growth of supermarkets in South Africa, the supermarket sector leader in Africa, and the advent of the latter’s own procurement systems that only depend very partially on fresh markets, fresh markets are still the main conduit for produce in the South African market: 40% of fruits and vegetables that are marketed go directly through the supermarket procurement system, 7% go to the fresh markets and then to the supermarkets, and 53% are sold through the fresh markets and on to non-supermarket retailers (personal communication, Johan van Deventer, February 2003). That the share of fruits and vegetables that pass through supermarkets is thus lower than the share of total food thus passing, is a situation similar to that found in Latin America (see Reardon and Berdegué 2002).

The importance of large wholesale markets for produce in Africa should not, however, lead to the conclusion that they are “the only game in town.” The rise of supermarkets has brought the rise in importance of both the supermarket’s own procurement system for the produce supplier, and the rise of intermediaries in wholesale markets that supply to supermarkets and thus need to meet their requirements.

An illustration of the rising importance of the “supermarket-market” to the African farmer underscores why there will be increasing attention to supermarkets in the region. While the literature and policy debate in and about Kenya tend to focus on the justifiably interesting horticultural export boom, it turns out that the domestic supermarket-market for horticultural products is actually far more important – and yet has been neglected in development programs and debate. For example, Okado (2001) estimates that supermarkets in Kenya already buy three times the volume (and twice the value) of produce that is bought by the export market. That is, exports are 3% of the 3 million tons produced, and sales to supermarkets are 10% of output; note that supermarkets have about 20-30% of food retail in Kenya, and growing fast; the ratio of 1:2 for share of supermarkets in produce versus total food is similar to the ratio in Latin America, as supermarkets tend to dominate produce retail less quickly, but usually just as surely, as they dominate the retail of other kinds of food. Using the FAOSTAT figure of 174 million dollars of F&V exported in 2001, that makes the supermarkets-market for F&V roughly $350 million in 2001 (very roughly similar to the same figure in Central America, a set of countries with a combined population near that of Kenya and similar incomes and supermarket sector, see Reardon et al., 2003).

Our premise is that supermarkets will continue to diffuse over the region and grow steadily in importance, and thus their requirements will either gradually or quickly (depending on the country) become those faced by the majority of farmers seeking to sell to the domestic market. Understanding those procurement systems where they are already dominant – in South Africa – is thus a way of predicting what will be the challenges and opportunities facing farmers in other countries in the next 5-10 years.
African Supermarkets’ Procurement Systems

While data on the details of supermarket sector expansion are scarce, information on supermarket procurement systems in Africa are nearly non-existent in the literature, and there is little explicit on this theme in the trade press except where a controversy boils over (such as it did recently in Tanzania when local horticultural farmers expressed their ire over Shoprite sourcing directly from South Africa in its initial phase, Winter-Nelson, 2002). Hence, we must focus here on where we have the most information at this initial phase of exploration, and that is in South Africa where the supermarket development has progressed the furthest and where we have undertaken a number of in situ interviews of supermarket chains. We further discuss initial evidence showing essentially that there are clear signs that supermarket chains elsewhere in Africa are following roughly similar procurement systems development paths with the exception that they are having to adapt more to small farming contexts.

South African supermarkets use a combination of approaches to procure fresh produce: (1) their own distribution centers and use of direct contracts with growers; (2) sourcing produce from the 17 fresh markets (spot produce wholesale markets). A working hypothesis based on initial fieldwork is that the larger chains tend to use distribution centers (DCs) and direct contracts more than they use the wholesale markets, and the small chains and independents tend to still use the wholesale markets to source. This follows the pattern one observes in Latin America and Asia (see Reardon et al. 2003).

Here we analyze the procurement systems of the two frontrunner chains in South Africa, Shoprite and PNP. As noted above, these chains are spreading into the rest of Africa, and so we include the international aspects of their procurement systems – which we expect to influence trade patterns in the region in the years to come.

Shoprite\(^2\). Shoprite has six F&V distribution centers (DCs) under the Freshmark name for its 360 stores in South Africa, and 1 in Namibia (a DC in Windhoek with a depot in Swapokmund) for 4 stores there, 1 in Zambia (a DC in Lusaka with a depot in Kitwe) for 18 stores, and 1 in Zimbabwe for 3 stores, 1 (new, bought from PNP) in Tanzania for 5 stores, and 1 (new, from Champion Stores) in Madagascar for 5 stores. There is not yet a Freshmark DC for either Tanzania or Madagascar. Thus, the ratio of stores per DC varies from a low of 3 (in start-up situations) to a high of 160 in the mature markets of South Africa (for example, Centurion near Pretoria). This kind of range is typical in developing countries as the supermarket sector expands. One imagines that the former case is extant under-utilization of capacity of the DCs or smaller DCs, but with room to grow. In the other countries in which Shoprite operates, they do not use DCs because they have not yet reached a “threshold” of stores to make centralization of procurement efficient, and so there is a per-store procurement system in place. It is in fact common, in the latter cases, for the Shoprite store to be used by small local retailers as their own DC in the sense that they source product in volume from the Shoprite (or Massmart or Makro) and then retail the product in smaller units.

A Freshmark DC sources from suppliers across the country to service stores in its zone. Hence, a fruit supplier from the Western Cape needs to haul, in his own or rented refrigerated truck, his fruit to the Johannesburg DC, a day away. Freshmark DCs import very little (their website reports that only 1% of their produce is imported) F&V from elsewhere in Africa (with recently initiated exceptions, such as backhauling potatoes from the Zambia DC to the Namibia DC, then the truck returns empty to South Africa.) Hence in general the South African DCs are beginning to coordinate with DCs in other parts of Africa. By contrast, Shoprite DCs outside South Africa at this initial stage source a relatively high share of their products (mainly fruit but also some less perishable vegetables, with greens sourced locally) from South Africa itself, with Shoprite using their own trucks to truck product to their stores in the various countries. Sourcing from South Africa and exporting to other African countries has created some tensions in particular markets where the competition is being felt. Winter-Nelson (2002) remarks:

> The emergence of multinational supermarkets has created anxieties among policy makers that domestic producers might be increasingly marginalized by imports. As Tanzania’s Deputy Minister for Agriculture and Food Security, Pius Mbawala, recently noted, given the capacity for global sourcing and agricultural subsidies abroad “Shoprite will find it easier to import something than to buy it locally” (IRINnews, 2002).

\(^2\) The information for Shoprite procurement systems is based on the authors’ interview with Dr. Johan van Deventer of Freshmark, a division of the Shoprite Group of Companies, in November 2002 and February 2003, unless otherwise indicated in the text.
Concerns similar to this led to regulations that supermarkets source at least 40% of their supplies from Tanzanian producers. Given the under-developed state of much of Tanzania’s processing sector, such a goal may be difficult to achieve outside of the fresh produce category. However, the marketing manager for Shoprite claims that 90% of the Arusha supermarket’s stock is from local suppliers (Nkwame 2002).

Shoprite now fully owns Freshmark which operates the DCs in all the countries – and so is essentially Shoprite’s F&V procurement arm. www.shoprite.co.za notes that 90% of Shoprite F&V are bought from growers directly (via the outgrower scheme discussed below) and the other 10% come from the traditional wholesale channels (the fresh markets), when prices are particularly attractive for specific items, in particular bulk semi-perishables such as potatoes, tomatoes, and onions.

Freshmark was a creature of Checkers supermarkets, from which it spun off 12 years ago. Freshmark is essentially a specialized wholesaler owned by Shoprite. This is an important development because it represents a new breed of non-traditional wholesalers specialized in the supermarket-market, sidestepping the traditional wholesale system dominated by the fresh produce markets. A similar phenomenon is occurring in other developing regions, such as in Central America, where Hortifruti plays the same role (in operating and outgrower scheme and distributing for the retail chain) for the CSU chain (the main Costa Rican chain), and is part of the same holding company as CSU, and now associated with the Ahold chain in Central America (Reardon and Berdegué 2002).

Freshmark operates in South Africa an outgrower scheme in which approximately 300 farmers (mainly larger farmers). Most of the fruit suppliers are also exporters to European supermarkets, meeting food safety standards for all their fruit but who are selling in addition to the local supermarket-market. Their exporting track record positioned them to be able to meet the volume, consistency requirements and private quality and safety requirements of Shoprite. There are no written contracts, due to price variability and also to a de facto buyers’ market. This is essentially a “Preferred Suppliers” program of the type used by Ahold, Carrefour, and Wal-mart in other regions. Freshmark informs the growers of their volume requirements per grower, and their private standards regarding pesticide and microbial residues (hence safety) and quality attributes such as size and color.

Freshmark also has alliances with South African produce marketing associations such as Tru-Cape for joint-promotion of produce. Tru-Cape Fruit Marketing (Pty) Ltd. began in February 2001 as a marketing organization, amalgamating the marketing divisions of medium-large commercial growers, the Two-a-Day Group, Kromco, and Ceres Fruit Growers. Tru-Cape sells to both South African supermarkets and exports (Cape Business News, 2002).

Freshmark also operates outgrower schemes in other African countries. For example, Freshmark initiated operations in 1997 in Namibia, and by 2001 had a DC in Windhoek and a depot in Swakopmund, and had an outgrower scheme of 28 Namibian growers, supplying a range of fruit, nuts, peppers, mushrooms and lettuces to Shoprite supermarkets, convenience stores, as well as non-Shoprite group hotels, guesthouses and restaurants (Namibia Economist, 2001).

Freshmark tends to select all of their growers, especially in basic fruits such as citrus and apples, of which the majority of the fruit growers are also supplying for the export market, so there is a de facto rather than de jure implementation of EUREP (European private retail standards) for Freshmark. Freshmark has its own inspectors for quality attributes, that visit the growers; some of the inspectors are common to the full set of DCs in South Africa, specialized in a given product, but others inspect growers in a zone on behalf of other DCs that source from that zone. For safety attributes (pesticides and hygiene), Freshmark uses a third-party certifier for field production and packing plants, a South African company called Swift Micro Laboratories (www.swift.co.za).

However, Freshmark does not limit itself to large growers, especially in areas outside of South Africa where much of its product is bought from small farmers. For example, Daka (2001) notes that Freshmark-Zambia sends its trucks out to dambo (small scale irrigation scheme) farming associations of small growers to buy vegetables for Shoprite stores in Chipata. Shoprite also notes on its website that it is working to establish good practices among farmers and build supply chains in the other African countries in which it is operating, in order to successively substitute for the imports from South Africa that it has to undertake now to maintain quality to consumers in the new locations.

The grower/packers selling to Freshmark are responsible for all post-harvest activity to the point at which their produce reaches the DC: 95% of the produce comes to the DC washed, packed, labeled, and bar-coded, ready for the DC to send on to the Shoprite/Checkers stores in its area. The remaining 5% of the produce is processed
(fresh-cuts) and packed in pre-packed format at the DC and then sent on to the stores. The growers are paid in 20-30 days – slower than the traditional wholesale system that pays on the spot, but in line with payment periods in other South African supermarket chains as well as similar to those in Central America and the U.S., and faster than most in South America. The growers are expected to make daily deliveries in their own or rented refrigerated trucks. There is thus a hefty capital requirement on the post-harvest side just as there was in farming. The growers can stay on the Preferred Suppliers List only if they maintain (within tolerance margins) the full set of requirements. Most do: 80% of their suppliers have been with them for 12 years, and of the 300, they only delist 5-6 a year.

Note that Freshmark is showing a tendency over time to: (1) increase its sourcing of F&V from other African countries to supply South African stores; for example, Freshmark imports into South Africa for the Shoprite stores, bananas from Zimbabwe, baby vegetables and avocados from Kenya and Zambia by air, incurring high costs (40-50% of price for airfreight but avoiding poor roads with numerous border posts); (2) decrease its sourcing of F&V in other African countries from South Africa; for example, Freshmark 5 years ago would import most of the F&V for the Shoprite stores in Zambia from South Africa but now it sources only fruit from South Africa and sources the rest locally. It still sends fruit from South Africa but today backhauls potatoes back to its DC in Namibia; and (3) procure fresh produce in one African country to send to another African country, e.g., buy vegetables in Zimbabwe to send to Beira and Chimoyo in Mozambique.

An important reason for the double trend identified in the above paragraph is that there are steady improvements in supply chains from farmers to Shoprite stores in the countries outside South Africa. Part of this is due to Freshmark’s identifying suitable local growers and starting outgrower schemes, such as in the Namibian case, part is due to Freshmark providing direct technical assistance to its growers, and part is due to several innovative new programs undertaken to help small farmers supply to Shoprite and other retailers.

An example of this is the Luangeni Project started in Zambia in 2000. The Luangeni project was started by the International Business Leaders Forum in UK and the British Council and the Danish Embassy in Lusaka that supported the research work that was aimed at finding possibilities of creating a partnership between Shoprite, ZamSeed, Ministry of Agriculture Food & Fisheries (MAFF), NGOs, and the Luangeni Community. The project has led to improved production and supply chain from the rural communities of Chipata to begin producing high quality vegetables (so far, cabbage, tomatoes, green beans) that are being marketed to Shoprite in Zambia (International Business Leaders Forum, 2002).

Pick n Pay 3. PNP operates four DCs in South Africa – serving both corporate stores and franchisees (as is the case with Shoprite). The franchisees (such as the PNP Family Stores in the western Cape or the Boxer stores in the Eastern Cape) buy approximately 70% of their F&V from these DCs, and the rest from the fresh markets and/or directly from local growers, while the corporate stores obtain all their F&V from PNP DC’s. The DCs are mostly present in the more affluent markets (PNP has four DCs: Johannesburg, Durban, Port Elizabeth, and Capetown) – located where most of the stores are to date, to minimize distribution costs – and are not yet present in the poorer zones such as the Northeast.

The growers for and their relationship with PNP are roughly similar to suppliers to Freshmark: the growers are essentially “Preferred Suppliers”, larger farmers (although there are smaller farmers that are well capitalized), most with business in the export markets as well, selling without formal contracts but with an informal understanding with PNP that if they meet specifications week after week they will not be delisted. PNP pays suppliers within 30 days, similar to Shoprite. There must be significant self-selection and substantial effort by suppliers to keep meeting the specifications, because there is very little delisting – for example in the Western Cape DC, over seven years, only one farmer was delisted by PNP, and three delisted themselves.

The general system of standards is similar to that used by Freshmark, but it appears that de jure stricter standards are applied; PNP uses EUREP standards as well as HACCP, and requires third-party certification by PRIMUS laboratories (www.primuslabs.com), based in California, that has “affiliated auditors” in Africa, with QC

---

3 The information for PNP procurement systems is based on the authors’ interviews with Mr. Raymond Ackerman, Chairman of the Board of Directors of PNP, in September, and with Tami Gerber, Produce Buyer and New Product Developer for PnP Western Cape Region and Nass Van Poucke, Director of Produce Buying Eastern Cape Region and Director of the Warehouse, Sept 11, 2002 and November 2002 unless otherwise indicated in the text.
Fresh being the affiliated auditor in South Africa (and Kenya). The certification allows a supplier to supply both to PNP and to the export market. Our interviews revealed that PNP is moving to require the certification of all its suppliers (not just those who also now export, mainly fruit growers, which is the case now). PNP also has its own in-house capacity that they use to test for hygiene in fields and packing plants of the suppliers.

PNP also uses DCs in its foreign operations in other parts of Africa. While it does not use the services of an in-house buying arm such as Shoprite’s Freshmark, it has relationships with various outgrower schemes that supply it with F&V in other countries. For example, Bouton (1999) discusses the relationship between TM Supermarkets (one quarter owned by PNP) in Zimbabwe, and the outgrower scheme “Interfresh Limited”, a family-owned company which produces, processes, and markets horticultural products for the domestic and export markets. In 1997 it set up a joint venture with an association of large growers, and received accreditation for export to UK supermarkets, meeting private standards for quality and safety, and the Food Safety Act of the EU. They market the “select grade” of their growers vegetables to the export market, and “first grade” (below select) to the local market, mainly supermarkets such as TM Supermarkets and Spar Fresh (Spar Fresh is part of the Dutch Spar International, and has 58 supermarkets in Zimbabwe and 726 supermarket and convenience stores in South Africa). We thus see, in Zimbabwe as in South Africa, that PNP (as does Shoprite) tends to rely on larger farmers (or at least more capitalized small ones, helped by projects), with joint certification for meeting standards in local and export markets, with significant packing/shipping facilities and commercial skills, to procure their produce, in general via their DCs but also direct to stores.

Implications for Small Farmers and Rural Development Policies and Programs

The rapid development of the supermarket sector in Africa implies that supermarkets already do, and will increasingly influence the structure and conditions of the agri-food system in Africa. As they increasingly dominate food retail, they will determine the conditions, and the potential for small farms and firms to sell agri-food products to the urban market – at present the most dynamic food markets in Africa due to increasing urban population and incomes. Small farms and firms need these dynamic markets for small producers to escape from poverty. Already in South Africa and Kenya, and increasingly in other countries in particular in Eastern and Southern Africa, it will be crucial to understand what challenges and opportunities this deep transformation in the retail sector implies for farmers, and how to help them meet the challenges with the design of a new generation of development programs and policies.

The essence of the challenge to African farmers and firms supplying supermarkets is twofold. (1) As supermarkets are diffusing and then rapidly consolidating their procurement systems to gain economies of scale and of coordination, that means that farmers need to supply larger volume-transactions than was common in traditional markets. That implies either large producer scale or tight coordination among many small farmers who aggregate their supply to meet high-volume demand over a full year. Moreover, we have shown that there are signs of a convergence between export standards and domestic-retail product standards, driven by the advantage retailers have of buying from farms that are exporting as well, so they meet the exacting commercial and product requirements of the export market and thus easily meet the standards of the domestic procurement systems of supermarkets. For instance, both the major chains in South Africa require food safety certification by laboratories that also certify for export. There may be quality differentiation for different segments of the domestic market, but the safety certification is common for all the items of a given type of produce so that the procurement system does not have to deal with costly segmentation of product.

The above two changes in the market – organizational, with consolidation and shift to non-traditional wholesalers, and institutional, with the creation of stringent private standards – occasioned by the market being taken over by supermarket procurement systems, implies hefty entry requirements and even barriers to many farmers. We showed that the above requires investments in organization/coordination, farming practices, packing shed configuration, and post-harvest practices and capital such as one’s own trucks. These quality and safety requirements impose one set of costs; but as supermarkets move from mainly supplying upper and middle income markets to supplying the food markets of the poor, as they are already doing in Kenya, the former homelands of South Africa, and parts of Zambia, cost will be paramount and that will place further burdens on suppliers to be highly competitive while meeting quality and safety standards.
It is no wonder, then, that we observe the emergence of three trends on the supplier side to supermarkets:

1. Where medium-large growers are available in the country in which a chain is operating, the retailer draws as much as possible on these growers who are usually formed into associations that both export and sell to local supermarkets, as we showed for South Africa, Zimbabwe, and Namibia. (2) Where the larger growers are not available, and where small farmers cannot yet meet the standards of the supermarkets, there is some reliance on importing product to the stores in a given country from South Africa or other countries where the needs can be met; we showed this for the case of Tanzania or the early stage of supermarket development in Zambia, and note it in the case of supermarkets’ importing orange juice from Israel into Kenya. (3) Where projects can be put in place to “upgrade” the small farmers to meet the needs of supermarkets, the chains appear to be eager to participate in these schemes. An example is that of the Luangeni Project in Zambia, where small farmers are helped by a range of actors (donors, the government, NGOs, the retailer) to meet quality and safety and consistency and cost standards, in this case to Shoprite. Another example is from South Africa, where Mr. Reggie Boesak, Director of the Montagu Development Trust farm, is selling butternut squash to PNP, competing directly with large suppliers.

The small farmers have the pull-factor incentive of selling to a stable market for good profits, and a push-factor incentive of knowing that the same chain can import product easily and cause them competition in their own backyard. The latter will become more and more of a pressing factor, if, as we predict is likely, there will be the same rapid exclusion of 1000s of small African farmers from supply lists to supermarkets and large food manufacturers that has been observed in Latin America over the past 5-10 years as similar processes unfolded.

The net outcome of the emergence of supermarkets on the small farm and firm sector will depend in the next decade on the mix of the above three paths that supermarkets take in procurement. We are both worried (by observing that large farmers are able to and want to rush into supply relationships with supermarket chains, thereby taking the key positions in the supplier lists) and hopeful, by noting that donors and governments are beginning to take notice of the challenge and opportunity of this retail transformation and help small farms and firms to position themselves to not be crushed by the change.

A crucial element of this is that the rise of regional procurement systems by supermarkets will, we hypothesize, have a potentially large impact on intra-regional trade in Africa – essentially using the powerful logistics mechanisms of supermarket procurement systems to collapse the fragmentation of markets. One already notes this in the way that Shoprite’s procurement system has integrated the produce markets of South Africa and Zambia, at least to a much larger degree than in the past. (And Shoprite asserts that this has reduced average prices of produce to Zambian consumers.) That is good for Zambia consumers, who now reap the benefits of regional trade, but it means that Zambian horticultural producers suddenly have to compete in a regional market rather than a local traditional market. Local horticulture development projects then need to become “trade projects” (either to compete with imports just to survive locally or to export to neighbors via the procurement system of the regional chain) by the force of this integration. This “knife edge” (opportunity to suddenly grow, or to suddenly be competed out of business) must become part of the market understanding of development projects.

Supermarket chains in Africa may find increasingly that it is good business for them to market products from small farmers, and thus find it in their interests to collaborate with development programs helping small farmers to improve their supply chains to sell to large retailers. One possibility is that retailers use “social equity” as a branding, marketing tool, as Carrefour is doing with “small farmer labels” in selling coffee in France. This is already happening in South Africa, and needs to be studied in more depth for transfer to other countries. There are numerous firms (citrus from Capespan, wine from KWV) that are branding products from the small historically disadvantaged groups. This new niche marketing makes these firms appear to be leaders in conducting socially responsible business in Africa.

---

References


Government of the Republic of South Africa. 2002. “Competition Tribunal: Case no 52: in the large merger between Pick N’ Pay Retailers (Pty) Ltd and Boxer Holdings (Pty) Ltd”.


<table>
<thead>
<tr>
<th>Country</th>
<th>Number of supermarkets</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>3</td>
<td>Plus 1 Megasave, a large-format discount store serving wholesale the small-scale retailers as well as consumers</td>
</tr>
<tr>
<td>Egypt</td>
<td>3</td>
<td>Starting in 2001</td>
</tr>
<tr>
<td>Lesotho</td>
<td>2</td>
<td>Plus 1 Megasave</td>
</tr>
<tr>
<td>Malawi</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Mauritius</td>
<td>1 hypermarket</td>
<td>2 supermarkets will open over 2003 (Anderson et al. 2002)</td>
</tr>
<tr>
<td>Madagascar</td>
<td>5</td>
<td>Bought the Champion Supermarkets chain of 5 supermarkets and 1 distribution center in November 2002 (von Lieres, 2002)</td>
</tr>
<tr>
<td>Mozambique</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Namibia</td>
<td>18</td>
<td>Plus 11 Megasave stores</td>
</tr>
<tr>
<td>Swaziland</td>
<td>2</td>
<td>Plus 2 Megasave stores</td>
</tr>
<tr>
<td>Uganda</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Zambia</td>
<td>18</td>
<td>Shoprite there since 1996, following privatization of state-run retail, see Zambian Privatization Agency, <a href="http://www.zpa.org.zm">www.zpa.org.zm</a></td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

Table 2. Pick ‘N Pay’s (South Africa) FDI in food retailing in other African Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of supermarkets</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Namibia</td>
<td>9</td>
<td>These are franchise supermarkets</td>
</tr>
<tr>
<td>Swaziland</td>
<td>6</td>
<td>Of which 1 is a franchise supermarket</td>
</tr>
<tr>
<td>Tanzania</td>
<td>0</td>
<td>PNP had 4 supermarkets before sold them to Shoprite in 2001</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>53</td>
<td>PNP has a 25% share in this local chain, TM Supermarkets</td>
</tr>
</tbody>
</table>