

## RETAILING: A FUTURE PERSPECTIVE IN SOUTHERN AFRICA

MICHAEL COLIN CANT  
University of South Africa

ANNEKIE BRINK  
University of South Africa

### ABSTRACT

Retailing plays an important role in the development of a community and in fulfilling its needs. It is also a fact that the evolution of retailing in a specific country will have a strong influence on the way it adapts to changes in its environment. Some future trends in retailing are highlighted in this text.

### 1 INTRODUCTION

A retailer plays a crucial role in the development of a community and in fulfilling its needs. The retailer is the last link in the distribution chain, bridging the gap between the manufacturer and the final consumer. It is in fact the most important link in the distribution chain from manufacturer to consumer since almost all of our gross national product (GNP) reaches us through some or other form of retailing. The sophistication of a country's retailing infrastructure is an indication of the level of economic development of that country (Samie 1990:31). South Africa is in the interesting position that it has both a sophisticated first-world retailing industry, especially in the urban areas and a third world retailing infrastructure in the rural areas. Thus, in this type of retailing environment numerous opportunities arise while many threats have to be circumvented.

The South African retailing industry is seen as the leading retailing body on the African continent. In 1996 retailers were responsible for a total turnover of more than R131,6 billion, they supplied goods and services to more than 35 million consumers, and they provided employment opportunities to hundreds of thousands of people.

### 2 THE EVOLUTION OF RETAILING

The earliest form of retailing in Southern Africa commenced with the bartering that took place between the local tribes. When the first diamonds and later gold were discovered in the interior, the first retailers such as the general dealer, hotels and brothels were opened. The general dealer, the major store retailer at the turn of the twentieth century, started to expand, opening branches in different locations. This resulted in the chain-store groups as they are known today. The next development was the introduction of the department stores. At present South Africa has a sophisticated retail infrastructure in the urban areas which compares very favorably with American retailers.

Against this background it is important to look at the factors that inhibited the development of black retailing in South Africa.

**The period up to 1976.** Most authors (Louw 1979; Van den Berg 1984; Rammala 1989) agreed that politics tended to dominate the lives of black people and cloud business issues to such an extent that the normal functions of black retailing became impaired. According to

Rammala (1989:4-5), the development of the black communities which settled around the country's major white cities was discouraged and even ignored. He referred to the first investigation that had been made by the Stallard Commission in 1921 into the desirability of the presence of black people in the urban areas and to the doctrine which was subsequently laid down that black people in the urban areas existed solely for the purpose of providing labor for their white counterparts. The effect of this was that black townships around white cities and towns remained undeveloped and black business of necessity suffered and was discouraged.

In 1948, when the National Party came into power, apartheid became official government policy. Mazwai (1991:26) wrote that since 1948 "black business has been hammered into puny by various enactments." After 1948 the introduction of severe restrictions hampered the entry of black businessmen into the formal business sector in the white cities. Even in the townships the freedom of entrepreneurs to establish and expand their business undertakings was seriously curtailed. Many additional restrictive measures on black business since 1959 retarded the growth of black retailers and discouraged black people from entering business. Some of the most significant measures were (Van den Berg: 1984:82-101):

- r The nature of business that black people could conduct was limited as they were not allowed to carry on more than one business, even in a different residential area.
- r Black businesses were confined to meeting the daily essential needs of local communities.
- r The establishment of black companies and partnerships was prohibited.
- r All buildings necessary for business activities were to be erected by local authorities and not by black businessmen themselves.

**The period 1976 to 1985.** In the years following the Soweto riots, various restrictions affecting black business were lifted. The Government felt a need to hold discussions with black leaders and acknowledged the importance of black business leaders for the first time (Butler 1989:53).

In 1976 the range of businesses permitted in urban black townships was increased to 26 from the original seven. Another important change was that partnerships in which black people held at least 51 percent of the shares were henceforth permitted.

◆ ◆ **Period 1986 to April 1994.** The desegregation of trading areas took a step forward when the central business districts in Johannesburg and Durban were opened for trading by all races in 1986. This meant that members of all population groups could now freely obtain occupation and ownership rights of premises in the proclaimed area.

◆ ◆ **The period April 1994 to date.** South Africa's first all-race election took place in April 1994. The African National Congress (ANC) won the election with the support of 62,6 percent of the electorate (Race Relations Survey 1994/1995:327). The new president of Nafcoc, Hlongwane (1994) said that Nafcoc's manifesto on black business would outline how government could play an enabling role to ensure widely spread management and ownership of business in South Africa. Favorable treatment should be given to black-owned business and joint ventures.

Tsita (1994) maintains that it is a misconception that insufficient capital is a major reason for the failure of black business in South Africa. Rather, cash-flow problems have been a symptom of a situation where a small businessman has too many debtors and an inadequate credit control system. Furthermore, he says, black businesses have a tendency to enter over-traded industries such as retail, hairdressing or transport instead of identifying gaps in the market place and taking advantage of these. In addition, black businesses lack sufficient

management and technical expertise.

◆ ◆ **The present situation of black business.** Van den Berg (1984:103- 104) argues that the discriminatory measures of the past were responsible for the present situation of a developed white economy based on a capitalistic system and an undeveloped economy in the black areas characteristic of a socialistic rather than a capitalistic order. Because the mobility of the black person was restricted, the development of black business communities had been retarded. He found that most black people associated free enterprise with apartheid and discrimination and that their perception of free entrepreneurship was confused with elements of Socialism. It was found that although the black retailers had indicated that lack of capital was the most important restriction on business success, poor management skills were in fact the real problem. The most important findings of the research (Smith 1982:12-13) concerning black retailers

were the following:

**r Location.** Retailers gave too much attention to personal preferences instead of sound business economic criteria in their locational decisions. They tended to locate where their families and friends were living.

**r Organization.** The majority of retailers were sole proprietors and they tended to centralize authority and responsibility in themselves. They did not make use of the advantages of partnerships and companies, thus hampering the mobility of capital.

**r Purchasing management.** Retailers bought small uneconomic quantities and no buying investigation trips were undertaken.

**r Financial management.** In most cases no bookkeeping was done by the retailer and no financial records were kept.

**r Marketing management.** Price was found to be one of the main selection criteria of the black consumer. However, the retailer's prices were generally too high.

Smith concludes that black retailers lack the necessary business knowledge and skill to operate a business successfully and that basic training was essential to assist them to survive, an area where institutions such as UNISA can play an important part in future.

### 3 THE RETAILING ENVIRONMENT

#### ◆ **Adapting to change.**

The essence of retailing is the management of change. It is a fast, volatile, dynamic and exciting profession that has grown into a billion Rand industry, employing thousands of people. Retailing deals with many societal changes. If a popular singer adopts a unique clothing or hair style, this influence will almost immediately be seen in the fashion forward sections of South African stores. The rate of change is accelerating in our society, profoundly affecting the way we live, dress, socialize, communicate, and yes, think about ourselves. Political trends have worldwide influence and competition from foreign markets challenges the retailer's ability to stay on the cutting edge of these changes. Retailers face the inevitable fact that quick and

appropriate response is the only way to stay current, to differentiate from competition, and to avoid becoming a me-too retailer. Retailing is one of the most sophisticated businesses in our country –featuring state-of-the art computerized merchandise control and distribution systems, magical merchandise presentation, in-depth consumer and market research, and representation of merchandise from worldwide markets. The ever-present constant in this equation is change. Change is inevitable, and we are challenged by it every day. Growth, on the other hand is optional. Retail won't grow and expand as a profession unless we commit to trend (change) management. Retailers continually strive to understand their customers - to renew their marketing strategies or to replace them when they no longer serve their customers. Too many retailers exercise their egos by telling customers what is good for them. Marketers ask customers what they want and give it to them. Therein lies the major difference!

#### ◆ The macro-environment

- **Social environment.** South Africa is characterized by a growing urbanization of the disadvantaged and the concomitant unemployment (Cooke 1990:65). To all intents and purposes the white, colored and Asian sections of the population can be regarded as urbanized. The greatest growth in urbanization is among the black population group. By the year 2000, over 70 percent of South Africa's population will be urbanized.

- **Economic environment.** The South African economy is adversely affected by violence. Schlemmer (1993:22-26) points out that there is a clear relationship between unrest and the economy. Violence has become South Africa's most critical issue and the major factor discouraging investment and tourism in South Africa and eroding economy.

- **Political environment.** Marketing decisions are strongly affected by the course of politics, especially the political pressures exerted by the ruling administration and its institutions.

- **Technological environment.** New technologies being developed with regard to retailing include electronic shelf-edge labels that are linked directly to the in-store computer so that prices can be changed automatically, wireless communications that will enable retailers to be more flexible in the layout of their stores, and Super Tag, the radio frequency identification system recently developed by the CSIR, which promises to allow users to "read" the entire contents of a truck in seconds without the need of running each item past a scanner, and it even promises to read all the differently priced items in a supermarket trolley.

- **International environment.** Technological innovation in the fields of transport and communication has brought the nations of the world closer in terms of distance and time. Organizations that operate internationally find themselves in a far more complex business environment because every country has its own unique environmental factors, with its own technology, culture, laws, politics, markets and competitiveness, different from those of other countries.

In the light of the above discussions, some future perspectives of trends in retailing in South Africa are now presented.

#### 4 FUTURE PERSPECTIVES IN RETAILING

This discussion is largely based on the Management horizons vision of retailing to the year 2000, in its report: Retailing 2000.

#### 4.1 The changing nature of change

The Greeks had a better understanding of change than we do. When something changed, people took notice. From the Greeks we learned that all change has two sides to it. Change brings both threat as well as opportunity. Twenty years ago, the nature of change changed. Alvin Toffler captured the changing nature of change in his book *Future Shock*. Toffler's basic thesis was that the pace of change was accelerating. The present was changing so rapidly and would look so different from the past that few people would recognize it or be able to cope with it. We were all going to suffer the equivalent of culture shock. Not only is change accelerating, but it is also becoming much more erratic. Change is now out of control. Where change in the past has been more predictable, controllable, simple and understandable, change is increasingly becoming unpredictable, uncontrollable, complex and incomprehensible. While many things will change over the next five years, there are two dominant forces of change that are sending the retail industry out of control. They are technology and the cost of qualified people.

◆ ◆ **Technology and the Informationisation of retailing.** The price/performance ratio of technology is dropping by roughly 50% every 18 to 24 months. As technology permeates society, retail channels of distribution, from raw material supplier to the final consumer, are being transformed in terms of power, communication and the ability to add value. Today, the informationisation of retailing through technology is transforming the business from one driven by distribution, logistics and location to an information-driven business.

The drop in the price of technology is splitting the economy into the bit-based economy and the atom-based economy; the digital, cyberspace economy and the real, physical economy. While the real economy is subject to the traditional laws of economics, the business cycle, government control and direction, the virtual economy is not. While the physical economy will contract over the next four years, the digital economy will experience exponential growth. For retailers to survive to the end of the decade, they must grasp this global transformation and become more a part of the digital economy.

◆ ◆ **Technology and the Changing organization of work.** While the price of technology is declining the need for highly qualified people who can understand and take advantage of this technology, along with their price, is going through the roof. The price of higher education is one of the fastest growing segments over the past few years and will continue to be in future. Putting a child through school and university will be the largest single investment many middle class households will make. At the same time, the return on education has never been higher. The income differential between the university-educated and the non-educated has grown and will continue to do so. This places an extra burden on universities such as Unisa to offer education which is of benefit to society.

Within the context of the changing nature of change, the global trends with which retailers will have to contend, are now discussed.

#### 4.2 The Lure of Globalisation

With the passage of NAFTA and GATT, as well as political developments in the rest of the world, the momentum towards globalisation will accelerate. The expansion of free trade will bring down tariffs, adding to the deflationary pressure in all retail channels. It is anticipated that

some South African-based retailers will look overseas for opportunities arising in the rest of the world. Retailers such as Pick 'n Pay and Pepkor are already leading the way in this regard.

#### **4.3 Privatization of the public sector**

With the decline in the role and ability of government to address social problems, the private sector will increasingly take over tasks that were once the responsibility of government. For retailers, this will require a larger role in education and training. Basic skills in reading, writing and arithmetic can no longer be assumed. Career education, even for the lowest levels of the organization, will become a lifelong endeavor. Education will become computer-based, interactive and more entertaining. Here not only retailers themselves but also universities will play a very active role in training retailers, especially the traditional informal retailer.

Public safety and police protection increasingly will become a private sector responsibility. Limited access to neighborhoods and malls will become more commonplace, leading to experimentation with "membership malls."

#### **4.4 Deflating the Domestic economy**

The most important change in the day-to-day operational business environment for retailing is the shift from inflation to deflation in the prices for goods. With fewer rands chasing more goods, prices have to fall. The growth in free trade is also contributing to deflation by expanding the sources of global supply and reducing tariffs on many of those goods as they are imported into South Africa. The growth of the digital economy as a share of the total economy is also driving prices downward. In the digital world, where the marginal cost of production approaches zero, competitive forces will drive all prices down.

#### **4.5 Stability, Modest Recessions, and Enormous Potential for Growth**

The notion of limits to growth is grounded in a physical view of the world. As more and more economic activity shifts from physical to digital, from atom-based to bit-based, the primary limits to growth become human attention and imagination. There are few physical limits to growth in a bit-based digital economy where the marginal cost of producing an additional unit of output approaches zero. Recessions are also growing milder because the more cyclical, atom-based, elements of the economy, like housing business investment and car sales, are becoming a smaller share of economic activity. The exponential growth of digital-based activity puts an additional safety net under the economy.

#### **4.6 Technology and the importance of place**

For the growing number of knowledge workers who can operate in a virtual world, technology will greatly expand the choice of where to live. Telecommuting will liberate workers from the confines of a specific location. It will allow workers to define their own work spaces, working conditions, and even hours of work. The shift to virtual work space will reduce the importance of location for conducting businesses. It will redefine the concept of a good location. Quality of life considerations will take on greater importance in deciding where to locate. As a result, population growth will shift. Growth will occur in the cities, where access to the arts, amenities and community will attract people.

#### **4.7 Falling real estate prices**

The dramatic shift in consumer shopping away from the regional mall toward freestanding category killers is changing the face of retail real estate. As technology undermines the value and importance of location, commercial real estate prices in general will drop. Over the past fifteen years, retail space has grown faster than both population and consumer demand. That trend cannot go on forever. A decline in retail space will begin to restore the balance between supply and demand.

#### **4.8 The Malls get mauled**

The combination of industry consolidation and the shift in market share away from store retailing will produce a decline in the demand for retail space. Nowhere will that decline in demand be greater than at the regional mall. Regional malls have become sterile, overly controlled environments that have experienced a dramatic loss in market share. This process will accelerate over the next few years as the malls become magnets for teen crime, forcing mall management into even more draconian measures to control the interior environment of the mall.

#### **4.9 Urban retail renaissance**

Inner cities are slowly gaining population. That trend will accelerate over the next few years. Empty nesters and Generation Xers are becoming urban pioneers. The gains in population, coupled with renewed interest by developers, are putting inner city retailing on the comeback trail. In South Africa this will lead to a new type of poor working class living close to their work.

#### **4.10 Rise of the blade runner society**

South African society will continue to splinter into smaller and smaller groups that are more diverse in their education, wealth and income, ethnicity, characteristics, tastes and shopping behaviors. The traditional middle class family will decline in numbers and importance. The fastest growing division in society will be along the lines of educated versus not-educated. The educated will live and work in a controlled-climate, controlled-access world comminuted by information and knowledge. They will be engaged in the manipulation of images. Theirs will be a world of bit-based digital reality. The uneducated will live in a world dominated by physical labor and the physical reality of the atom-based world. Neither access to nor the environment of their world will be controlled.

The wealthy, the educated, those who live in the digital world will increasingly remove themselves from the physical world. They will control public access to where they live, where they work, where they shop and where they play. They will shop more by catalog and other electronic means.

#### **4.11 Rise of the single person household**

Despite all the political rhetoric about family values, the nuclear family will decline as a household unit. Rising rates of divorce, increased work demands particularly on women, declining government financial support for families, and rising costs of child care will all take their toll on the nuclear family. At the same time, the number of single person households will rise. The demographics of aging alone guarantee a rise in that number, as do a rising divorce rate and the declining level of societal trust.

#### **4.12 Youth: more fashion, more violence**

In addition to single person households, population groups will experience sharp growth over the next few years, with significant consequences for retailers. The number of teenagers will increase. An increase in the number of teens points to a renewed interest in fashion, an improved business environment for cars and sporting goods, a rise in the consumption of alcohol as well as a sharp increase in drug use, crime and violence. Retailers will have a large pool of entry level workers to draw from, but will face an unending challenge dealing with the problems of shoplifting and mall crime. The sharp increase in the number of young people also points to an acceleration in the use of technology. This is a generation that has been brought up on information technology and is very comfortable with it. The constant demand for what's new by this generation will accelerate the pace of technological, business and societal change for everyone.

#### **4.13 The middle aged: Changing needs**

The number of middle-aged South Africans will increase over the next few years. The chief barrier to greater consumer spending by this group is not so much income as it is energy. This group is more time and energy-constrained than they appear. Facing the high cost of education for their children and the need to increase savings for their own retirement, spending at retail will be a declining priority. Future corporate downsizing will be aimed at this group, forcing them to rethink their personal career group will be the source of many new business startups.

#### **4.14 Shifting Social values and shopping behavior**

The sharp rise in violence will change the shape of society and retailing. More violence will lead to more attempts to control access to malls and less public space that has free, uncontrolled access. The rise in violence will also lead to a decline in social trust and civility. Mall developers will be under great pressure to limit access to their malls as a means of creating a shopper friendly environment.

#### **4.15 Electronic cash: the privatization of monetary policy**

Electronic cash, a medium that enables individuals and businesses to make commercial transactions that are electronic as well as anonymous, will spread over the next few years. This will greatly facilitate the expansion of electronic commerce on the Internet's World Wide Web. The growth of e-cash will take the control of monetary policy out of the hands of the Reserve Bank by giving retailers the ability to create money and expanding the ability of banks to do so. It will also reduce the ability of the Internal Revenue Services to collect income taxes, further undermining the economic and financial role of government. An era of less taxes is surely something to look forward to.

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