

What is shaping grocery retail in South Africa - Part 2

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In [Part 1 of the *Trade Intelligence Retail Trends 2018* report](#), we described how globally and locally, we are in the beginning stages of a game-changing revolution in how products are made and sold, where and by whom, and how this is influencing what consumers are demanding of those who sell to them.

We unpacked how South African shopper demands and expectations, driven by the extreme economic pressure being felt by South African consumers and their ever-increasing access to technology, have shaped seven key grocery retail trends.



The same of course applies to the grocery retailers who serve them, they are experiencing the same economic headwinds, and are making deliberate efforts towards leveraging the multitude of new technological developments available. In this, Part 2, we set out the seven “back-end” organizational trends that are influencing the behaviour and profitability of South Africa’s grocery retailers.

Trend 8: Category profitability at the heart of decision-making

In the bricks-and-mortar retail world, retailers will focus even more consciously on growing category profitability and extracting maximum ROI from existing floor/shelf space. How will this show up? Smart retailers will only put a new (manufacturer’s) lines on their (physical) shelf if it can truly justify a place there – i.e. if it brings margin or offers a truly unique or new benefit to the consumer (ideally both). This behaviour isn’t new, but it is set to have a more game-changing impact.

Price and assortment will be under increased scrutiny and retailers are increasingly experimenting with both. In another nod to the basics, the range must be relevant to the local community – giving shoppers what they want or need when they want it. However, range management is also an efficiency driver – reduced range means less complexity. Balancing these is the Holy Grail, and it will be based increasingly on a combination of quantitative and qualitative supporting data.

The winners will be those businesses that combine the ‘gut feel’ that comes from knowing your shopper with data-driven insights. The near-universal focus on fresh (from fruit & veg to deli, bakery and butchery services) is driven not just by consumer demand, but because this is where the margin is. Conquering the fresh supply chain and getting that fresh quality and availability consistent, is pivotal as centre store margins decline.

Trend 9: Back to retailing basics

Getting the basics right, is underpinning the strategies of organisations across the value chain. From the perspective of back-end operations, the focus is broad and spans from simplifying selling, to delivering on ‘perfect store’ principles, to rationalising the product range. The ultimate goal? In-stock of every product, every day – a challenge increased by the prolific growth of small stores.

From the store’s perspective it’s as simple as good old customer service – a pivotal differentiator, involving much more than friendly, efficient tellers. With some exceptions, in the South African context it is seemingly impossible to achieve this across any extended store base. Woolworths Food, well-managed Spar stores and a large portion of franchise and independents are the ones who have cracked it; the remainder still sit somewhere along the continuum of disconnect between shopper expectations and the store’s ability to deliver.



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Trend 10: Supply chain – the next competitive frontier

From cold chain management to efficient consumer response (ECR) solutions, South African retailers are focused on the question of where to leverage scale and where to localise efforts.

“What’s behind the visible is where the power truly lies” – a powerful comment by Photy Tzellios of Shoprite and reflective of Shoprite’s steady, relatively low-key but massive investment in supply chain infrastructure. Spar, Woolworths and Shoprite are the leaders in grocery retail supply chain efficiency in South Africa. However, 2018 will see the already significant investments made in capabilities continuing across the board, from Massmart to UMS, Pick n Pay to Tradeport, as our power retailers invest for growth in a shifting landscape.

The winners of the future are those retailers that crack the span of supply chain demands, from excelling in creating and extracting value from supply chain operations through to efficient integration of IT systems and operational processes.

Trend 11: The connected value chain

Digitisation and the higher speed and availability of wireless access is revolutionising every business pillar, from shopper connectivity and engagement, to supply chain efficiency, and from sales and merchandising solutions to personalised in-store experiences. Seamless and effective integration between organisations through the value chain will improve, as

massive investments in technology integration pay off. The determiner of success however still remains the people who manage and work these systems.

Trend 12: Making data usable

Understanding how to truly turn 'data to insight to profit' is in its early days in South Africa, but the pockets of excellence are growing and the number of successes achieved, escalating.

The digitisation wave means ever-increasing datafication: even more overwhelming amounts of data being shared, captured and stored. Data increasingly underpins decision-making across the grocery channels and players – from Shoprite, Pick n Pay, and Makro to Jumbo, Tradeport and Independents.

In the effort to turn data into meaningful, actionable, profitable insight, we will see more third-party analytical 'software as a service' solutions, the rise of internal data departments at retailers and manufacturers, and business intelligence service providers adjusting their offerings in response.

Trend 13: Where to for growth?

Growth will come from new markets, new formats, new categories and new territories. Multi-channel, multi-format trading is now a given across South Africa's formal food and grocery retailers, mastering the servicing and profitability of these formats has become key.

A redefined, increasingly consolidated independent buying group sector has renewed relevance and formidable re-distribution and buying power capabilities. We will see continued growth beyond South Africa by formal corporate retailers, as well as by independent wholesale buying groups and their members.

Franchise as a model is seeing increased focus as businesses realise the value of the vested interest of franchisees in-store performance. In today's highly competitive context, there is even more need for retailers or exceptional store managers to get back onto the shop floor.

The size and growth of online retail is the question on everyone's lips. Globally and locally, food and grocery e-tailing remains the last frontier even as it remains unprofitable in most cases. Online accounts for an estimated 1-2% of total retail sales in South Africa, with grocery representing a very small portion of this. Again, success depends almost entirely on supply chain infrastructure and adaptability.

We will continue to see the closure of underperforming stores as their profitability remains under scrutiny and the form taken by bricks-and-mortar grocery retail stores begins to shift.



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Trend 14: Targeted retailer-supplier collaboration

Finally, we will see further transformation in the retailer-supplier relationship dynamic. For organisations who can afford the resources, there will be more cross-functional retailer-supplier engagement. In the quest for margin through efficiencies and better shopper engagement, this means connecting for growth outside of the buyer's office.

We will see suppliers more determinedly asking "what is your value proposition relative to your competitor?" of their retail customers. Retailers who underestimate the shift in supplier trade spend as a result of (real or perceived) illogical or non-

commercially viable buyer demands, will feel the impact on their bottom line.

In conclusion, when defining strategy in response to the market forces at play, grocery retailers and manufacturers will look at the seven consumer-driven trends in conjunction with the seven 'back-end' drivers of profitability. The retail winners of the future will be those who effectively balance the demands of their consumers with their drivers of operational profitability.

ABOUT MARYLA MASOJADA

Maryla Masojada is co-founder and MD of Trade Intelligence, South Africa's pre-eminent source of retail business research, analysis and capability building solutions. TI has been providing powerful insight commentary and profiles on the South African consumer goods retail landscape and its players to over 40 of SA's leading multinational and local consumer goods manufacturers, retailers and service providers, since 2004.

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