

# 5 shifts in the informal trading landscape impacting the sector

By [Sheetal Patel](#) and [Mushambi Mutuma](#), Accenture in Africa

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With over 150,000 spazas across the country, located close to people's homes to serve customers anything from essential everyday items like bread and sugar to more miscellaneous items like candles, batteries, or over-the-counter aspirin, spazas are more than just a neighbourhood service and supplementary household income.



Source: © University of Pretoria [University of Pretoria](#) Over 150,000 spazas across the country are conveniently located close to people's homes to serve customers

The informal sector is visited by almost 80% of the population and accounts for 30%-40% of the total food spending in the country per year. According to Trade Intelligence, it boasts an estimated potential market value of R178bn, representing a significant opportunity for businesses.

The informal independent estimate of R178bn represents informal traders ('spaza trade'), which effectively is fed through different channels and routes to market (corporate, formal independent and direct), depending on where traders buy from. The more we understand the needs of this market sector, the more we can learn from it and maximise its potential.

## An untapped billion-rand sector

Unfortunately, suppliers of FMCG (fast-moving consumer goods) have not yet tapped into this market because of several supply chain challenges. A limited number of players are effectively serving this market.

Spaza store owners or informal traders face challenges such as inefficient supply chains resulting in product stockouts, high waste due to the limited shelf life of fresh produce, increased dependency on the sale of overpriced branded products, and little buying power. Unlike supermarkets that buy direct from FMCG brands, most spaza shops purchase their stock from wholesale retailers and add their markup.

The result is that goods are more expensive, leaving the shop to rely on convenience as its primary transaction driver. Even if FMCG businesses wanted to nurture a direct business relationship with spazas, these shops are usually based in townships – some with no roads or geolocation codes – making it difficult for suppliers to understand the number of stores available as a starting point for serving them.

We identified some pain points that informal traders and FMCG suppliers experience across the supply chain, and then set out to answer an important question: how do we serve the informal market better to ensure a win-win situation for everybody?



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## Shifts in the informal trading landscape

Accenture performed a detailed analysis of the informal supply chain market by interviewing 400 spaza store owners across Gauteng and Western Cape.

This served to understand their challenges when planning their stock, buying and moving inventory, paying for, and selling stock. The result: a compelling picture of the mechanics of this booming sector and what it needs to continue moving forward.

To identify any opportunities, we need to understand the shifts in the informal landscape and the related impact on business strategy. Here are some of the significant changes and critical questions to ask before tapping into the hidden opportunities:

### 1. Many eyes on the same prize

The battlefield is growing, with banks, telecommunications companies, retailers and CPG suppliers all scrambling for a share of the pie. Non-traditional players like fintech are rising and offering informal business owners safe and convenient payment solutions. Yoco and iKhoka, for example, offer easy-to-setup point-of-sale (POS) devices that can be operated through a cellphone, using the signal of the user's mobile network, or built-in 4G cards that provide uncapped internet access. The entire onboarding experience is paperless, remote and at minimal cost to the vendor. This technology is simple, scalable and safe.

New entrants are also gaining traction by bringing the power of e-commerce to informal businesses and providing platforms where a trader can order, pay, and arrange returns.

Yebofresh, for example, has created an e-commerce platform that links township entrepreneurs with high-quality goods and services. It currently serves 6,000+ businesses in more than 25 townships. Benefits to businesses using the service include 24-hour delivery and buy-now-pay-later offerings to help them hold stock for longer. Vuleka has designed a fintech app tailored to the needs of spaza shop owners, structuring it to support an entire trading system within the informal sector. The app facilitates bulk purchases of goods sold by spaza shops sourced directly from

manufacturers.

Since all traditional and non-traditional players think about the same challenge and want a piece of the pie, it is imperative to differentiate and act now.

## 2. A blurry interactive ecosystem

A more holistic view of trade is emerging, where partners from aligned industries work together in a complementary ecosystem that benefits all parties.

In the informal sector, for example, trade activity can be supported by visionary fintech solutions and complementary products and services that help spaza shops source effectively, reach their customers and grow. Where informal traders once sourced goods primarily in person and directly from manufacturers, a 'blurry ecosystem' is emerging where traders can buy from retailers and manufacturers via various digital and in-person channels. One informal distribution stakeholder expresses how this process could be simplified, "A challenge around traders not being able to buy everything they need from one point, the one-stop shop buying doesn't exist."

Collaboration is powerful, and through our research, we identified partnerships with established local partners connected throughout the value chain as a cost-effective way to serve the informal sector.



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## 3. Cash is still king

Research reveals that South Africans, particularly in the informal sector, believe banks overcharge on transaction costs, offer little protection against scams, and money takes too long to clear on the trader's side – affecting cash flow. With the development and introduction of digital payments, more and more traders are using an array of new digital payment facilities to make payments for stock bought from suppliers.

Traders have also introduced other options for shoppers to pay for groceries at the spaza shop. These digital facilities also offer value-added services for shoppers to purchase at their convenience, e.g. airtime/data, electricity, water, money transfer, lotto, etc. Even with alternate payment options being made available, customers prefer using cash. According to Angie, a trader, "Many customers make small value purchases and prefer using cash for transactions of this nature."

## 4. Differentiated value chain operations

Although 97% of traders have smartphones, 90% have not shopped online before, and 69% do not keep formal stock records. More than half of the traders say they buy stock "as and when needed," the purchase frequency is driven by cash flow and storage space limitations. One of the informal traders we interviewed says, "I only stock what my shoppers want and demand, nothing else." An informal e-commerce stakeholder mirrors this view in the behaviour they have witnessed on their platform, "Traders buy what the consumers are asking for, what's selling the most and what they make the most money on."

The tendency of informal traders to purchase stock "as and when needed" does not reflect a lack of planning or scheduling. "As and when needed" is determined by when and how fast products move, and shopping is done around key days – Friday, Saturday and Sunday". A trader adds, "I have had my shop for over 15 years, I know which

products to buy and when. I know what my customers buy."

Differentiated value chain operations, therefore, are conducted by entrepreneurial instinct and leveraging available resources.

## 5. Innovative pricing and sourcing strategies

To deliver more comprehensive assortments and more significant volumes at higher margins, 87% of traders buy mixed cases at wholesalers, ensuring more options for the customer.

"Mixed cases are very important to traders because they offer more variety for their shoppers. Traders would rather buy mixed cases and continue to restock frequently than one case with one variant because it will take longer to sell."  
– Trader association stakeholder

Research also highlighted that 75% of traders split or decant products into smaller units – for example, 3L cooking oil decanted into 50ml jars. This is a crucial demonstration of innate customer knowledge – lower-income households can only afford to buy enough oil to cook with for the evening or the coming week, so spaza shops tailor their offering to this.

A trader adds, "If a shopper doesn't have money to buy 3L of cooking oil, we sell them 50ml decant into a small jar. We can't allow our shoppers to go on an empty stomach."

The practice of decanting applies to a range of products. A trader association stakeholder says, "Traders will make small breakfast bags for shoppers who work in the early morning. The small plastic bag consists of a spoon Cremora, a tea bag, one boiled egg, a spoon of sugar, and two slices of bread for R10. Which restaurant can you go to get that? This is what shoppers want and need, and traders offer that convenience."

"Some traders even decant Cremora milk and will sell it by [the] spoon," adds an informal distribution stakeholder.

This system works for traders and their customers. The question remains: How might we enhance our product offering to meet the needs of informal traders and their customers?



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## The economic opportunity

Our research reveals that 58% of the sample turnover is between R5,000 – R20,000 per month – this is well above the minimum wage and thus a recognisable contributor to GDP.

It is important to note that this sector is mainly consumer-driven, and planning is based on what shoppers are walking in and requesting. Still, they also prioritise shoppers' affordability ahead of more significant margins.

Therefore, the most effective avenue of partnership with the informal sector would be to help them fortify their supply chain and make it more efficient. This would provide an essential service to lower-income communities and enable businesses to drive greater sustainability in South Africa's economy for the future.

## A win-win situation for all

We believe there is an opportunity for formal retailers in South Africa to leverage existing capabilities and offerings to serve this market better and deliver a win-win-win for consumers, traders and retailers.

Retailers will make inroads in the market by leveraging their buying power to achieve lower-cost products and leveraging their existing footprint, such as Click & Collect points and fulfilment centres. Their infrastructure can help deliver efficiency gains in supply chain and logistics, a pressing need to be addressed for the informal sector. All this will allow them to gain a share of the R178 billion informal market.

Traders win, too, with access to a wider assortment of fresher products as and when they need them. As part of a formal, fortified trade relationship, they will also benefit from bulk discounts, multiple payment options, and convenient delivery through click-and-collect or directly to their spaza store.

Consumers, ultimately, stand the most to gain, with access to fresh, affordable products and wider assortments at a convenient location.

## **Unlocking opportunity**

To unlock the opportunity, retailers need to challenge the existing behaviours in this sector to deliver an optimised, tailored value proposition to this audience. However, those who partner with the informal sector must demonstrate clear value to shift behaviours.

## **ABOUT THE AUTHOR**

Sheetal Patel, retail management consulting principal director and Mushambi Mutuma, commerce lead for Accenture in Africa.

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