

Resurgence of independent outlets in South Africa

There is a rebirth of more profitable and sustainable independent outlets in South Africa. However, brands are making the mistake of treating them as small and classifying them incorrectly by number of outlets as per their old "township" or Main Market strategy. Most brands classify the Main Market based on outlet type and geographical location, which tended to be in 'township' or peri-urban areas.

"The truth is that share of basket is increasing for these stores, as well as their turnover. Potential to earn and spend is big and they are not always located in township areas," says [Sane Mdlalose](#), associate consultant at [Aperio](#), a business consulting company focused on accelerating growth of FMCG brands in South Africa and Sub-Saharan Africa.



The historical picture, and change

Historically in the late 1990s and early 2000s most of the growth in new stores was driven by the formal retailers in SA, which tended to result in at least ten small independent stores closing.

"However, with the change in ownership in this informal market including local South Africans, other African countries and Eastern (Chinese) entrants, this has resulted in a rebirth of more profitable and sustainable outlets in areas where outlets were performing poorly in the past," she explains.

"Brands should not worry about how many stores these retailers own, but realise they have the cash to spend - they can spend it with you or with your competitor. Brand marketers should define the Main Market by owner type: independent or group; by the consumer/shopper profile it services and the needs it meets with little or no consideration being given to location."

Get to know and understand the independents



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She advises brands to understand these independent owners more deeply and establish a strategy to treat them differently. Because there are so few in comparison to the formal retailer sector, marketers can very easily put together the right sales structure to service them accordingly.

"We are seeing two types of sub channels (customers) in this market: foreign and the younger South African business owner," says Mdlalose. "Both these owners are more educated and astute. The way in which they run their businesses requires a person with more skills to engage with them. As locally run operations move from one generation to another, they are being taken over by younger more educated outlet owners who display better business acumen and have higher profit expectations than their parents did."

Steady increase in 'new' brands

Brand loyalty with the foreign-owned channel today is low as they have no historical sense of allegiance - if the numbers don't stack up you are out. They therefore have huge power to drive what the community buys and can change purchasing decisions overnight.

According to Mdlalose, there has also been a steady increase in 'new' brands which foreigners have introduced through an import model: these brands offer them good volumes as well as profit margins. They have also reintroduced a variety of payment terms for consumers. As the payment terms and benefits are normally backed by a portfolio of products which give the outlet more profit, consumers are being exposed to a larger share of less common or new brands. This is resulting

in a reduction of the share of wallet of SA's 'leading brands'.

"Even if brands have significant market share they have to treat this market properly or they may very well have a huge problem in the future," she believes.

"While marketers think it will cost too much to have a focused strategy for this market, they must adapt their thinking."

Mladlose provides some tips:

- Introduce a sub-channel for foreign outlets and younger SA owners. This will enable companies to develop the collage model in terms of frequency and capability of the sales team.
- Arm reps with the skills and ability to make decisions quickly. Equip your reps and team that call on these areas with superior financial skills.
- Use this opportunity as a platform to assess the readiness of sales staff to take on bigger clients or move into key account roles by moving more senior reps to service this area.
- Brand activation and communicating with these traders is undermined to some extent by language barriers. Consideration needs to be given to develop effective communication and the potential need for the incorporation of other languages in trader communication platforms.
- Identify this market by turnover, not by number of outlets.

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