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Why are foreign-run spaza shops more successful? The rapidly changing spaza sector in South Africa

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This article examines the contrasting business models in the spaza shop sector, and compares foreign-run businesses with South African businesses. We argue that foreign shop keepers are more successful than South Africans because of the strength of their social networks, which provide them with access to labour and capital and enable collective purchasing and market domination. The article argues for a two-pronged policy that would formalise larger shops whilst permitting and encouraging informal micro and survivalist businesses.

Introduction

Since about 2005, there has been fierce competition between South African spaza operators and businesses that are run by immigrants. New research has sought to understand the nature of this competition and the impact of the seeming dominance of foreign businesses over their South African counterparts.¹ Whilst the decline of South African spaza shops has long been predicted because they appear to be uncompetitive (Bear et al. 2005), the precise nature of this uncompetitiveness has been poorly understood. Such knowledge would touch on possible government efforts, including legislation and support programmes, to bolster South African spaza (and other) entrepreneurship.

The rapid and extensive transition in spaza ownership has been recognised in research that seeks to understand the political violence directed at foreigners, such as the xenophobic attacks since 2008. Within the context of a generalised opposition to foreign nationals who conduct business in the townships, it has been argued that foreign-owned shops have been targeted in co-ordinated acts of violence – sometimes with the tacit endorsement of the

¹ See Charman, 2012; Charman et al. 2012; Liedeman, 2013; Hikam, 2011; Knowledge Link Services, 2009.

community (see Crush et al. 2013). There are also indications of government complacency – failures in the justice system have meant that crimes against foreigners often go unpunished (Gastrow & Amit 2012).

The ‘anti-foreigner’ narrative does not fully explain the root of the tension between South Africans and foreigners; nor does it situate the attacks on foreigners in a context where businesses in townships that handle large volumes of cash are targeted regardless of their ownership (Piper & Charman 2013).

This article contributes to the debate by examining the contrasting business approaches of foreign versus South African spaza shopkeepers. The article draws on evidence from several township-based business case studies and an ethnographic study in Delft South, Cape Town.

Background: the nature and size of the spaza market

Spaza shops are small grocery shops or convenience stores. (The name *spaza* derives from township slang meaning an imitation of a real shop.) For decades spaza shops have played an important role as retailers of household grocery items in township communities. They are also important incubators of entrepreneurship, providing the business foundations for generations of South African families whilst bringing additional income to households. These small shops trade items that are regularly in demand by the locals and that can be easily acquired from wholesalers or distributors. The core items are: bread, milk, grain staples, cool-drinks, soap, cigarettes and alcohol.

The majority of spaza shops are unregistered, informal businesses and mostly do not adhere to the municipal rules for conducting business in residential areas. In the past, research on the spaza market has focused on two sets of issues: first, the entrepreneurial characteristics (or deficiencies) of spaza operators (Ligthelm 2004; Rogerson & Beavon 1982); secondly, the impact of external factors on these businesses, in particular competition from supermarkets (Lighthelm 2008).

The actual size and composition of the South African spaza market is poorly understood. Data from StatsSA’s Labour Force Survey (2007) indicate that spaza shops account for 6.6% of self-employment, whilst 9.2% of home-based self-employed persons operate spazas (Wills 2009:29, 51). In terms of current labour force estimates, this means that approximately 145 000 persons rely on spaza shops (QLFS 2013). An industry trade source, *spazanews.co.za*, claims that the spaza sector comprises more than 100 000 enterprises with a collective annual turnover of R7 billion.

A micro-enterprise survey conducted by the Sustainable Livelihoods Foundation in eight urban sites over the period 2010-2013 identified 1 130 spaza shops amongst a combined population of approximately 325 000 (98 000 households), i.e. approximately one spaza shop for every 86 households. Detailed interviews were conducted with 950 shopkeepers. Almost 50% (470) were operated by foreign entrepreneurs and their employees.² This finding confirms various academic studies and press reports that foreign business owners have established a strong foothold in the spaza sector.

Why are foreign-run spaza shops more successful?

In 2010, Charman et al. (2012) studied spaza shops in Delft South, a township in Cape Town. The research engaged with all (179) identifiable spaza shops, of which 90 were operated by foreign business persons. Using GIS tools, the research mapped the spatial distribution of these businesses and found that spaza shops were evenly distributed across the research site.

Foreign-run shops conformed to this pattern. Many of the foreign shops appeared to have positioned their business to compete directly with established South African businesses. In a sample of six key commodities, foreigners' shops were cheaper and they clearly used price discounting as a strategy to capture the market from existing stores. The foreign-run shops also were better stocked and appeared to be generally favoured by local consumers.

It is important to understand the organisation and entrepreneurial dimensions of this market 'takeover'. Liedeman (2013) investigated why certain migrant groups, such as Somalis in the case of Delft, had been able to take control of the spaza market so swiftly and successfully. He conducted an ethnographic study of spaza owners in a sub-area of the original Delft research site.

In terms of numbers of shops, this sub-area reflects the major shift in the ownership of spaza shops from South African to foreign nationals. In late 2010 this particular sub-area contained 30 spaza shops, with South Africans owning 17 (57%) of these and foreign nationals 13 (47%). By July 2012 there was a 22% decrease in the total number of spaza businesses operating in the sub-area (dropping from 30 to 23) but a 31% growth in foreign ownership (from 13 to 18). Twelve (70%) of the initial seventeen South African shops had closed permanently; this included businesses that had been in existence for up to 10 years. The majority of the foreign-run shops had been operating for less than 18 months.

² The data from this research will soon be made accessible to the public via the REDI3x3 project . The results of the survey are still being analysed (communication A. Charman, 20/10/2013).

In his ethnographic study, Liedeman compares South African and foreign-run businesses in terms of the way in which they operated, focusing on:

- ownership dynamics (including the establishment process, labour and employment);
- capital investment (including business size and assets);
- stock procurement (or purchasing strategies);
- business operation (including operating times); and
- links to distribution networks.

His basic finding is that the business approach and scale of operations of foreign-run spaza shops contrast markedly with the predominantly micro- or small-scale, 'survivalist' business approach of most South African spaza shops.

An important difference is the role of social networks. In the case of the Somali shopkeepers, clan-based social networks play a key role in enabling a more competitive business model. The networks provide various services, including:

- access to cheap labour (recruited from Somalia);
- enforcement of contractual agreements by the network, with clan elders overseeing business deals;
- strategic investment in geographical areas to establish Somali strongholds;
- group purchasing to secure discounts and operational economies of scale; and
- facilitating micro-finance by organising investments and business partnerships.

The South African shopkeepers, in contrast, typically operate within a weak social network that often is limited to members of the immediate family who provide labour but little else.

The Somali entrepreneurial business model in this sub-area of Delft is primarily based on price competition based on collective procurement and large distribution networks. The network also enable shopkeepers to obtain important spaza products that cannot be obtained through wholesale stores but which are available on the black market, notably contraband cigarettes.

The contrasting models are manifest in businesses of very different sizes. Most Somali-run 'small' businesses appear to be big enough to be considered formal firms – while the South African shops are typically survivalist micro-enterprises. Unable to compete with the foreign-owned shops on price or scale, South African spaza shops have either closed, or have continued to trade but have had to diversify to alternative activities, such as the sale of alcohol or takeaway food or the establishment of arcade/game shops.

Policy challenges: towards a two-pronged approach

South Africa undoubtedly needs to foster entrepreneurship. This includes permitting legal immigrants to establish businesses (including spaza shops). Furthermore, the opportunity for poor township residents to procure cheaper foods from competitive outlets is a real benefit.

However, while we have focused on one geographical area, our research suggests that the general spaza sector is changing at such a rapid rate that it may have a significant and lasting negative impact on entrepreneurship and self-employment in the informal economy, at least in the home-based trade sector. However, the continued operation of the smaller spaza shops is important not only to address unemployment and poverty, but also to provide an entrepreneurial learning experience and the transfer of business skills to younger generations – an important benefit that needs to be nurtured.

An appropriate policy intervention would be to regulate the retail grocery trade in the townships – not to create regulatory barriers, but to ensure that businesses that are large and independent enough to formalise are indeed formalised. Parallel to this, opportunities could remain for smaller and/or more survivalist businesses to operate informally. Given advantages such as their spatial location (which secures niche markets in areas of a township) or reduced overheads due to being able to work at home, they could sustain a modest competitive advantage in serving local market niches.

The task facing policymakers thus is not to exclude the new generation of savvy entrepreneurs in the spaza sector. Rather, it is to ensure that businesses which grow beyond a certain size – those large enough to start negotiating price discounts and merchandising services from producers, to employ staff and to accumulate business assets – start to comply with the requirements of formalisation, whether they are run by foreigners or South Africans. For these shops it might mean having to relocate to the high street in compliance with municipal by-laws, registering staff, paying minimum wages and providing employee benefits, submitting VAT and income tax returns, and so forth (and with the owner residing off-premises, i.e. not within the shop itself).

Such a two-pronged policy that would formalise larger shops whilst permitting and encouraging informal micro and survivalist businesses would encourage successful entrepreneurship whilst providing a space for rekindling and nurturing informal micro or survivalist spaza shops.

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