African Retailing-The Dream Deferred?

Back in the 1990s, as South Africa came out of political isolation, local corporates started examining business opportunities on the rest of the continent. Retailers jumped on this bandwagon and were delighted to be able to offer South African shopping experiences to the rest of Africa. By the beginning of the new millennium, it was imperative to have an Africa strategy for doing business outside of South Africa. But by 2010, things were changing. Many large foreign retailers put any plans they had for Africa on the back burner in the wake of the Global Financial Crisis and began retreating to their own backyards. This left the rest of Africa to South African retailers, French supermarket chain Carrefour and WalMart, which took a 50% stake in Massmart in September 2010. Botswana-based retailer Choppies had a small presence in the rest of Africa, and in Kenya, the biggest player was the local (now defunct) Nakumatt.

But as last decade wore on, many of the South African clothing retailers began departing some countries on the rest of the continent, notably Nigeria. Woolworths left Africa’s most populous country in 2013 and in 2020 it also left Ghana. Mr Price left Nigeria in 2019. Shoprite is in the process of leaving both Nigeria and Kenya and Massmart’s African operations are up for review.

It is not difficult to understand Africa’s attraction as a retail destination. It has the fastest-growing population of any continent on earth, a young population that craves consumer goods and the rate of urbanisation is remarkably high. At 60% of the entire population, Africa is more urbanised than India at 35% and similarly urbanised as China at 60%. The number of cities in Africa with populations in excess of 1 million people is over 65, higher than Europe and north America. Highly fragmented informal retailing accounts for the bulk of all retailing in the rest of Africa, in stark contrast to SA, where most retailing is concentrated in the hands of a few large retailers. Thus the potential for consolidating retailing into a small number of large retail chains over time is large.

But weighed against Africa’s many positives are a host of negatives. The first point to make here is the very small size of current African GDP and thus spending power. The 20 or so countries that comprise geographical east Africa have a combined GDP roughly equivalent to Switzerland’s. Therefore any company entering Africa has to do so on the strict understanding that it is for the very long term. Secondly, with 54 countries and 2 000 different languages and dialects, it is a difficult continent in which to do business. Road and rail infrastructure is often non-existent and logistics, especially at border posts, can be a nightmare. Little wonder that former Shoprite CEO Whitey Basson quipped that “Africa is not for sissies”.

The situation has worsened considerably in recent years due to the precipitous decline in the oil price, which has affected oil-intensive economies such as Angola and Nigeria especially hard. And until fairly recently, the prices of metals and minerals, many of which are extracted in Africa, were languishing. The impact of the Sars-CoV-2 virus has exacerbated the situation, forcing many African countries to assume crippling levels of debt to fight the pandemic.

One ray of hope lies in a potential commodity price boom over the next few years. Countries such as Zambia and the DRC should do well from a rise in prices of metals such as copper.

Beyond the immediate horizon, Africa’s longer-term virtues will no doubt become apparent again and with it, its attraction as a retail destination. The African Continental Free Trade Area should, over time, play an important role in promoting trade on the continent. Road, rail and air infrastructure will require to be improved substantially and bureaucracy will need to be reduced. Most importantly, African governments will need to focus on the big picture of promoting long-term sustainable growth opportunities and dispense with short-term extortion opportunities aided by bribery and corruption. Only then will the African dream be realised.

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