

The impact of urbanisation on the retail sector

District 6:

Zongamele Jacobs
Prashan Maharaj
Abdur-Rahman Gangat
Naseera Ebrahim
Hardy Sitshange
Mel Naidoo

www.ildpgibs.co.za



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1 INTRODUCTION

“Urbanisation is not merely a modern phenomenon, but a rapid and historic transformation of human social roots on a global scale, whereby predominantly rural culture is being rapidly replaced by predominantly urban culture. This unprecedented movement of people is forecast to continue and intensify in the next few decades, mushrooming cities to sizes incomprehensible only a century ago.” (<http://en.wikipedia.org/wiki/urbanisation>)

South Africa’s long-term urbanisation trend is partly the result of post-apartheid movement of people, especially Africans, from rural to urban areas. Today two-thirds of people in South Africa now live in urban areas as a result of growing urbanisation. With blacks constituting 79.4 % of the nation’s population, the emerging black middle class is currently the largest spending group. The “emerging black middle class” is a critical economic and social actor because of its potential as an engine of growth.

The retail industry has grown over the past years, supported by an increase in both the supply of retail space and the number of shopping centres in the country. The industry grew by an annual average of 3 percent in the past eight years. The country has seen a boom in shopping centre development and townships have also benefited from this.

The development of retail centres in townships and the rural areas has had positive impacts on these area and their citizens. Prior to the development of local retail centres, consumers would travel very long distances to conduct most of their shopping. This would result in consumers’ disposable income being reduced due to transportation cost. The development of local retail centres has positively impacted consumers since it has substantially reduced the travel and time costs.

Urbanisation has exerted unprecedented pressure on the city’s transportation networks, housing demand and provisions of basic amenities. It was more evident in India and South Africa that squatters are mostly found in urban cities. As cities grow as centres of government or as centres of production and commerce, new neighbourhoods begin to occupy unused land near the city centre or close to where jobs are available. In some cases, these squatters form the hub for illegal activities including organised cash robberies and stock theft.

Though the retail industry has various challenges, opportunities do exist. Some of the challenges that are experienced as a direct result of urbanisation are the development of the different tier cities. The ability to understand the demand of the consumers from the different tiers cities and the

adaptation of the business model to address this new demand will be crucial. The importance of understanding your markets culture was a consistent message in China and India, this is not only involving the fine arts, music and local cultural shows, it encompasses the way of life. Urbanisation has brought about changes in the lifestyle of its residents both in rural and urban areas.

Many international retailers are entering the South African retail environment; this has led to local retailers investing capital to improve the skills of their employees in an attempt to compete at a global scale. Urban areas are characterised by high competition for jobs. Young people are of course not a homogenous group, age; gender and personal background mediate aspirations and opportunities of urban living. Urbanised youth generally have a low level of education and this is a major constraint to career opportunities. Skill development is an important response to urban employment problems. Enhanced skills reward young people and increases self-confidence and self-worth.

The trade-off between on-going development and infrastructure improvement compared to being environmentally responsible is another challenge that we have identified. Environmental, social and health consequences are all interrelated, with the degree of exposure to air and water pollution which their lifestyle entails; people change their behaviour and consumption patterns from their environmental conditions. This question is, can South African retailers adapt to the speed of change in demand from our consumers in both rural and urban areas as India and China did?

2 BUSINESS PROBLEM

The focus of this project will be to compare the actual and perceived impacts of urbanization in global markets as in China and India, as well as in local South African markets, in the context of socio-economic impacts, resources and infrastructure. We will determine how urbanization in the above contexts affect retailers in China and India, as well as in South Africa in order to derive lessons that can be responded to and applied in the local context.

The research paper is aimed at identifying the following:

- Who does the urbanisation trend affect?
 - Specific affected groups
 - Retail customers and workforce
- What are the boundaries of the business problem and its impacts?

- Geographic
 - Customer buying trends
 - Retail market adaptability
- When does urbanisation occur?
 - Trends and timing
- Where does it occur – how are they affected?
 - Locations and areas
 - Legislation and processes
- Why does it occur and why is there an urgency to address the problem?
 - What impact it has on stakeholders from employees, suppliers, customers and business at large
 - What happens if it is not addressed

OPPORTUNITY STATEMENT

How can South African retailers thrive when faced with the challenges of urbanisation?

3 OBJECTIVES AND SCOPE

Our project is focused on urbanisation and its impact on the retail sector. The key to providing viable and practical recommendations to retailers is clearly understanding:

- a. Urbanisation globally and locally
- b. The factors that drive urbanisation both globally and in South Africa
- c. The forces that have impacted urbanisation in the retail context
- d. To understand the opportunities and challenges that urbanisation present for retailers in South Africa.

In China and India we witnessed a hive of retailers thriving in the challenging forces of urbanisation. It is our view that some of the factors resulting in retailers thriving in these foreign countries will also determine the success of South African retailers succeeding under similar

circumstances. If there is anything constant it is change and therefore the adaptability of South African retailers in areas affected by urbanisation ensures their survival.

Since the quality of our final recommendations will directly reflect the probing questions we have asked, it is important that we ask the right questions to arrive on our final conclusions. To this effect, it is important that we clearly understand the definitions, reasons, in what way and by what means are the urbanisation impacts to retailers. The purpose of these questions is to help us delve deeper into how urbanisation is implemented in China and India, what were the challenges and how did the retailers respond to it, and then bring these lessons into our local context. Given the breath of our topic, we have narrowed it down to socio-economic impacts, infrastructure and resources.

3.1 MAIN OBJECTIVES

- Identifying the broad impact of urbanisation in China, India and South Africa?
 - a. What is urbanisation?
 - b. What are its socio-economic impacts?
 - c. What are its impacts on the infrastructure?
 - d. What are its impacts on resources?
- Discovering the impacts affecting retailers in China, India and South Africa.
- Identifying the lessons learnt from China and India in terms of how the impact of urbanisation can be responded to
- How have South African retailers responded to the impacts of urbanisation?
- What lessons can be brought to bear in our final recommendations to retailers?

4 RESEARCH METHODOLOGY

It is important that we use different yet practical methods to ensure that we arrive at the most viable recommendations:

- Research papers:
 - McKensy Global Institute
 - Harvard University
 - Oxford University
 - Stanford University
 - MIT

- Personal interviews: Retailers
 - China
 - Fanghua Pearls, Manager Mr. Chan
 - JD.com, Management Team
 - South African Ambassador to China, H.E. Mr. Ndumiso Ndima Ntshinga
 - Various Textile Shops
 - India
 - Reliance Retail, Vice President: HR
 - Ernst and Young India, Seshu Kumar, Business Head Rural Retail
 - ITC, Executive Mr. Choupal Saagar
 - Consular General Office, Mr D Wild
 - Various retailers and street vendors
 - South Africa
 - Pick 'n Pay, HR Director Mr. Isaac Motaung
 - Woolworths, Retail Enterprise Development
 - Truworths, Property and Human resource managers
 - Academics
 - Prof. David Gosset, CEIBS
 - Prof. Jeongwen Chiang, CEIBS
 - Ms. Ruby Chen, CEIBS
 - Prof. Izak Duenyas, University of Michigan
 - Prof. Atish Chattopadhyay, S. P. Jain Institute of Management & Research
 - Others global and local
 - Meetings with Town Planners in the Cape Town Municipality for an end to end view of how urbanisation affects their planning, as well as for overall stats.
 - Market immersion and store visits which gave us practical understanding of the setup of the stores in various locations.
 - Google research and STATS SA

4.1 LITERATURE REVIEW: THEORIES AND ANALOGIES

The increasing size and power of cities in emerging markets have tangible and dramatic economic benefits that translate into rising incomes, never before in history have two of the largest nations in the world (in terms of population) urbanized at the same time, and at such A high pace.

Expectations are that one billion more people in cities worldwide will become members of the consuming classes, these growing consumer classes will drive rapid growth in demand for many goods and services and offers the potential of vibrant new markets to serve. Growth patterns will vary among products and services for the following reasons. Firstly as incomes rise, consumers choose where they spend the additional available income. Secondly, products and services vary in their adoption rate and then in the rate of growth of mature, well penetrated markets.

These variations only underline the need for retailers to understand their target markets in forensic detail. For retailers whose ultimate customers are consumers, the capacity to understand specific urban markets enables more effective decisions on pricing, channels, and marketing. Both China and India face a complex and challenging task of keeping pace with their expanding populations and their rising expectations. To avoid constraints on their growth, cities need to be able to plan the urban environment for sufficient housing, effective transportation, telecommunications, and water. Through smart regulation provide an environment that encourages entrepreneurship and business investment. If they fail to meet the aspirations of millions who are migrating in search of better opportunities, they run the risk of congestion, pollution, and insufficient public services becoming barriers to growth.

There is little doubt about the scale of the new markets in China and India. China has developed a set of internally consistent practises across every element of the urbanisation operating model, including funding, governance, and sectorial policies. Whilst India has under-invested in its cities, China has invested ahead of demand. The stark contrast between the two countries is that China has embraced and shaped urbanisation while India is still waking up to its urban reality and the opportunities that its cities offer for social and economic transformation.

4.2 OPPORTUNITIES FOR RETAILERS AS A RESULT OF THE IMPACT OF URBANISATION

Food and Grocery: Ready to eat market has grown over the past few years, as a direct result of the population moving from rural into urban areas. The retail sector requires the most amount of effort in terms of appropriate store location well trained staff, merchandise mix and supply chain consistently delivering everyday low pricing to stay competitive.

Apparel: Urbanisation has led to rising fashion awareness and the desire to be perceived as “in vogue” which has led to the rapid growth of apparel category. Critical success factors here would be to deliver affordable and accessible fashion, provide value added service to keep the consumer coming back for more.

Electronics: Easy availability of consumer finance, high tech acceptance and a desire to emulate the developed world has led to an increase in spend in urban households. Critical success factors here include store branding, layout, developing a concept of “one point sale solution”, sales and procurement staff with product and technology knowledge.

For some retailers it may be sufficient to identify the cities with certain demographic and income categories for the purposes of target marketing, store design and customising the store according to the client base. Others will need to develop an in-depth understanding of the underlying market dynamics of a range of goods that may have different consumption curves. This means mapping the urban growth opportunities, understand the specific market growth drivers, predict the evolution of markets using forecasting formulas, conduct sensitivity analyses and assess local market conditions. Retailers need to use city level analyses to inform their decisions, and then use this to understand how their current resource allocation compares with potential growth.

4.3 CHALLENGES FACED BY GLOBAL RETAILERS

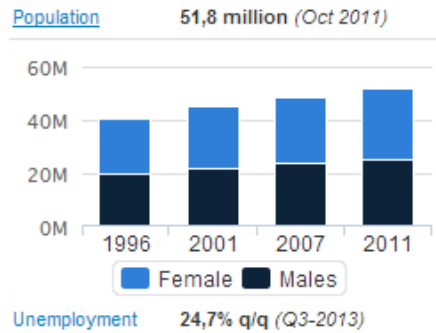
Rental and Location: Infrastructure has been developing at a rapid pace over the past decade but still has significant ground to cover. Urbanisation has resulted in soaring property and rental prices. Rent forms a large portion of total expenditure for retailers and can more often than not convert a profitable store into loss making.

Unique Customers: Retailers have to understand the culture of the consumers. It is not viable to copy and paste what works in one city to another as each is unique in population demographics. While culture rarely plays a role in determining a shop profile¹, urbanisation often results in multiple people with various cultural backgrounds flocking into the same cities².

4.4 CHALLENGES FACED BY LOCAL RETAILERS: REASONS FOR URBANISATION

As stated above, urbanisation is a rapid and historic transformation of human social roots on a global scale whereby predominantly rural culture is being rapidly replaced by predominantly urban culture. According to Stats SA 67% of this total migration from rural to urban areas is due to work, 12% is due to educational reasons and 7% are children accompanying parents³. What this means

is retailers, often one of the primary sectors in employ medium to low skilled personnel, have to continue investing in the training and the education of these often matriculated but unskilled workers.



Source: Stats SA

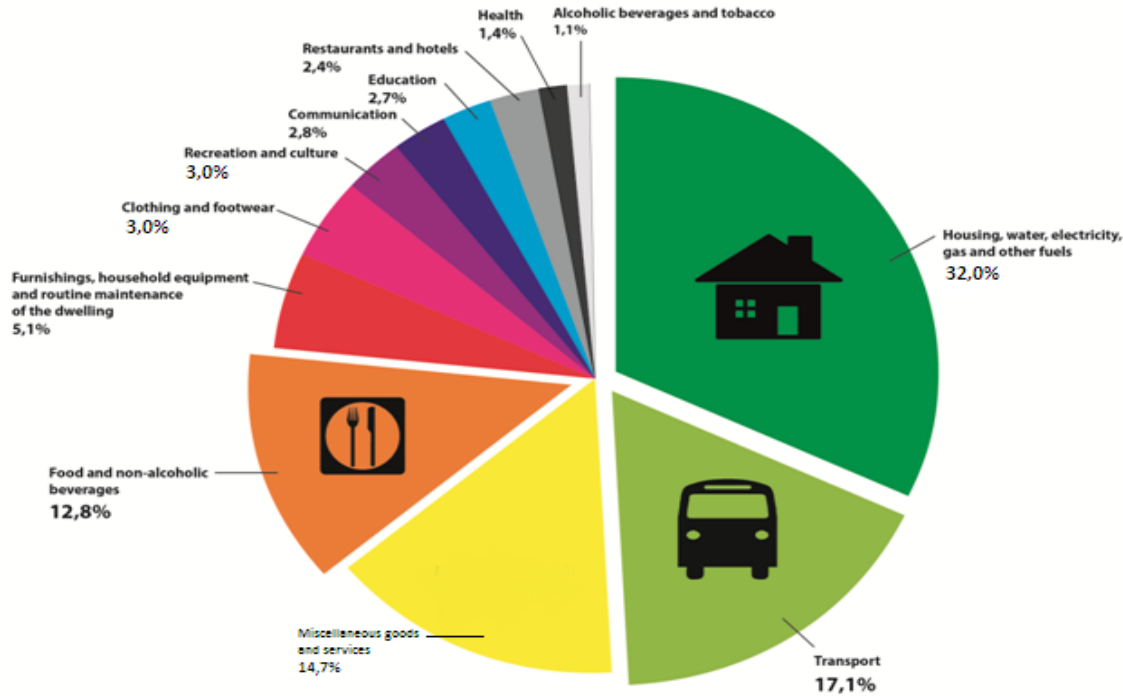
Lack of proper education and poverty in the rural areas can therefore readily be understood as the reason behind the reason for urbanisation. This is not unique to South Africa, in China and India we witnessed a great number of migrant workers initially moving to urban areas for as labour, only to settle in the cities. However in China these workers retained a very strong connection with their rural homes, where often their young children were left behind with family members. To date, South Africa has about 24.7% in unemployment, an opportunity lying in wait for retailers to partner with the government in reversing this trend for improving the quality of life for many.

Unfortunately this has also had direct impact on shared resources and on the urban infrastructure. In China we observed many congestions and cars on the road bringing workers into cities, which led to a dense fog of carbon emissions; while in India there's "almost" no traffic laws. Trains were also quite an interesting observation from fairly old and rugged trains in India to quite modern transportation in China. This obviously presented a lot of opportunities for retailers in these countries, from mobile shops to street vendors forming a hive of businesses very near transportation centres, stations and stops. It is an underlying concept behind the modern trend in omni-channels today, bring the shop to where the people are than divert people to come into the store. It is also important to highlight that vendors and shops located near these transport areas also opened in very early hours of the morning to very late at night, catering to their market. This is why in South Africa shops like Cambridge, U-Stop, etc. who follow a similar trend in location nearby transportation centres subsequently keep staff in their stores till late, our research has confirmed that most trading in these areas happens between 18:00 and 22:00.⁴

It is a global trend that as people flock into the cities and compete for infrastructure and resources, costs of infrastructure and resources increase and nationally proving to be more difficult with time. Retailers would therefore often rent rather than invest in property. In China the city of Beijing has a population of over 20 million. The city is divided in rings moving from the epicentre is about 5 rings. In the very epicentre space cost about US \$1,000 per square meter; this cost is reduced as you move outside the city centre. This makes it very challenging for retailers to thrive, and those that do, as in the Flee Market, do so by sharing the cost among themselves. In South Africa the rising cost of electricity and water, transportation and basic services has put many medium sized retailers out of business. There are also challenges in rural areas in that opening a store in these areas means that the retailers are looking at higher development costs as retailers are forced to pay for the basic infrastructure as electricity lines, the creation of roads, intersections, water connections and sanitation lines. Often retailers will regain these costs by renting part of the property. Given all the costs involved in opening shops in rural areas, in not a few instances did we notice that rental costs in rural areas are the same as that of urban areas.

Retailers should also keep in mind that there are great opportunities with both the rural areas of origin and urban areas of destination. While it may be true that rural sending areas experience “brain drain”⁵, an often ignored positive impact to rural areas is that urbanisation also implies better “economic and health effects on the ‘sending’ household”⁶. This was particularly clear in China and India cities, with rural or migrant workers sending nearly all their earnings home. Thus retailers should keep in mind that the urbanisation resultant on the “brain drain” in rural sending areas does not necessarily translate to lower rural economy, if anything it improves it; leaving business opportunities for retailers who are willing to partner with others in the rural space.

4.5 HOW ARE THE RETAILERS ADAPTING TO URBANISATION



Source: Stats SA, "What do South Africans spend their money on"⁷

In South Africa established retailers often face a tough competition from street vendors and spaza shops in certain areas. This should not come as a surprise, given the increasing poverty trend. South Africans still spend much more money in food than in clothing and footwear, which fact could explain why some established retailers are doing better than others – they tap into this food market. In a few instances we have noted how urban retailers offer traditional cuisine to the public, thus responding to urbanisation concentrating various cultures in the city.

It is often said that "dynamite comes in small packages." Perhaps this rings true in how some of the local retailers are responding to urbanisation. We noted overseas that one of the big retailers, Unilever, was using smaller packaging like cachets to cater for mobile and migrant customers that purchase on a daily basis and/or do not have much cash to spare. This is a trend we have observed in our local research, from Woolworths selling small packages of salads and fruits about R10, to ShopriteCheckers selling fresh foods in smaller packets. We are persuaded there is hidden truth in our idiom, for latent in the concept itself is an understanding that some migrant workers need quality and value, but at costs they can afford.

The interview with Reliance Retail that not only will the middle class continue driving the economy and consumption in that economy, but that customer origins determine the shopping behaviour of customers. While India is virtually uncharted and very promising waters for global retailers, missing this crucial point resulting in KFC wasting 7 full years catering to a market they did not fully understand. The Indian shopper can be likened to a cocoon, modernised outside but traditional at heart – potatoes are still their number one food source, and global retailers like KFC took such a long time to understand this and realise the value in their foreign investment in India. Therefore Reliance Retail created business to cater to 30 different states with different cultural backgrounds.

While the strong culture identity in India can easily be understood, perhaps primarily due to the historic caste system of segregating society, it cannot be denied that even locally Vendas will shop for traditional cuisine, Afrikaners for traditional clothing and caring less for the brand of a shoe than its leather quality, and so would others have a primary shopping preference informed by their culture. This means it could be futile for retailers to ignore the cultural background of the customer. This could explain why respected retailers like Truworths conduct painstaking feasibility studies before opening stores in rural areas. What these feasibility studies involve market attributed to be mirrored, relative revenues to be generated, store size based on peer-group sales, traffic counts, services and amenities. The customer profile eventually determines the store profile and that store profile determines the store's success. In rural areas in particular, retailers focus on the look and feel of the store to make the rural customer feel comfortable and at home. The product range and layout somehow reflects the male dominance in the rural societies, with 35-50% of the shop space dedicated to menswear clothing; and in urban areas 12% of shop space is dedicated to menswear clothing.

In terms of the rising costs of electricity in urban areas, some retailers are opting for green initiatives for alternative sources of power. Some of the buildings in Woolworths are slowly converting to clean energy, solar panels. To date, some of these building are using about 17% of clean energy and thereby helping the retailer save more on the Total Cost of Sales (TCS). Not only is this a cost saving initiative, but it means that those who are being “urbanised” will have enough municipality energy to themselves. As mentioned above, there is also the option of spreading the cost for space and renting space to others. It is often said in retail that “location is king,” and while this may come at a premium price, partnering with other vendors in urbanised or even rural areas may not be a bad thing.

5 RESULTS

Rural to urban migration is occurring on a massive scale due to population pressure and lack of resources in rural areas. People living in rural areas are “PULLED” into the city. Often they believe that the standard of living in urban areas will be much better than in the rural areas. Urbanization is an integral part of the economic development process for any country and is specifically gaining traction in developing economies. Our key learnings in China and India outlined the challenges as well as the opportunities that are brought about by urbanisation. These are challenges and opportunities that can be compared and contrasted to the South African context. As in most countries, urban areas make a major contribution to the country's economy. Although less than a third of India & China's people live in cities and towns, these areas generate over two thirds of the respective country's GDP and account for ninety percent of government revenues.

Both India and China have experienced rapid growth due to the increasing numbers of people who migrate to towns and cities in search of economic opportunity. As a result of this rapid migration or urbanisation, slums now account for a quarter of all urban housing in India. In Mumbai, more than half the population lives in slums, many of which are situated near employment centres in the heart of town, unlike in most other cities in developing countries.

Meeting the needs of both India and China's soaring urban populations is and will continue to be a strategic policy matter for their respective governments. Critical issues that need to be addressed as a result of rapid urbanisation are outlined below and include *inter alia*:

1. Poor local governance and a lack of policy framework around urbanisation and the effects thereof
2. Inappropriate planning that leads to high costs of housing and office space; in some of these cities property prices are among the highest in the world
3. Critical infrastructure shortages and major service deficiencies that include erratic water and power supply, and woefully inadequate transportation systems
4. Rapidly deteriorating environment due to overpopulation and economic development.

It is best for South African retailers to adopt strategies that will help them weather the storm of urbanisation for the trend is that it will continue.

6 DISCUSSION OF RESULTS – GLOBAL AND LOCAL

6.1 URBAN CHALLENGES

Many urban governments lack a modern planning framework and in some instances the multiplicity of local bodies obstructs efficient planning and land use. Rigid master plans and restrictive zoning regulations limit the land available for building, constricting cities' abilities to grow in accordance with changing needs.

6.2 HOUSING

Building regulations that limit urban density - such as floor space indexes – reduce the number of houses available, thereby pushing up property prices and increasing rental prices. Out-dated rent control regulations reduce the number of houses available on rent – a critical option for the poor who have just moved into a new city.

Poor access to micro finance and mortgage finance limit the ability of low income groups to buy or improve their homes.

Policy, planning, and regulation deficiencies lead to a proliferation of slums.

Weak finances of urban local bodies and service providers leave them unable to expand the trunk infrastructure that housing developers need to develop new sites.

6.3 SERVICE DELIVERY

Most services are delivered by city governments with unclear lines of accountability and transparency. There is a strong bias towards adding physical infrastructure rather than providing financially and environmentally sustainable services. Service providers are unable to recover operations and maintenance costs and depend on the government for finance. Independent regulatory authorities that set tariffs, decide on subsidies, and enforce service quality are generally absent.

6.4 INFRASTRUCTURE

Most urban bodies do not generate the revenues needed to renew infrastructure, nor do they have the credit-worthiness to access capital markets for funds.

Urban transport planning needs to be more holistic – there is a focus on moving vehicles rather than meeting the needs of the large numbers of people who walk or ride bicycles in towns and cities. Beijing was particularly impressive from this perspective in that it catered for the vast

numbers of people utilising bicycles and scooters to get around. The city of Beijing had individual lanes for bicycles and scooters.

6.5 ENVIRONMENT

The deteriorating urban environment is taking a toll on people's health and productivity and diminishing their quality of life. We observed the high level of pollution that exists in Beijing and in most cases whilst walking around the street once cannot even see a clear sky. India also has incredibly high levels of resource constraints and Mumbai is a clear example of a city that really has moved out of space for the vast numbers of people living in the city. The rapid growth has been a massive contributing factor to the depletion of resources. A further example is the fact that one cannot drink the tap water in Mumbai.

6.6 EFFECTS OF URBANISATION

A range of economic, political, social, cultural and environmental factors affect urbanization. Cities have strong socio-cultural impacts on their surrounding rural areas. The mass media depicts city life as superior to rural life, the "STANDARD" language is deemed that of the national capital, and better services are received in the city due to its wealth.

The fertility rate in cities is often lower than in rural areas perhaps due to the high cost of children, limited food and living space in cities, and family planning which all dissuade families from having many children.

6.7 SOCIO-ECONOMIC IMPACTS

As a city grows, the cost of housing and infrastructure also grows, since there is less availability of water, land and building material. Alongside this congestion problems increase. As a city decays in this way, governments often do not meet the service needs of residents and urban development is dominated by private capital.

Unemployment grows, as does drug abuse, crime and homelessness.

6.8 ENVIRONMENTAL IMPACTS

Waste is a major problem in large cities. Air pollution results from over dependence on motorised transport and from burning coal to supply energy. Water pollution results from poor sewage facilities and disposal of industrial heavy metals into waterways. Vast quantities of solid waste are produced in industries.

- Traffic congestion and noise pollution have a major environmental impact on large cities.

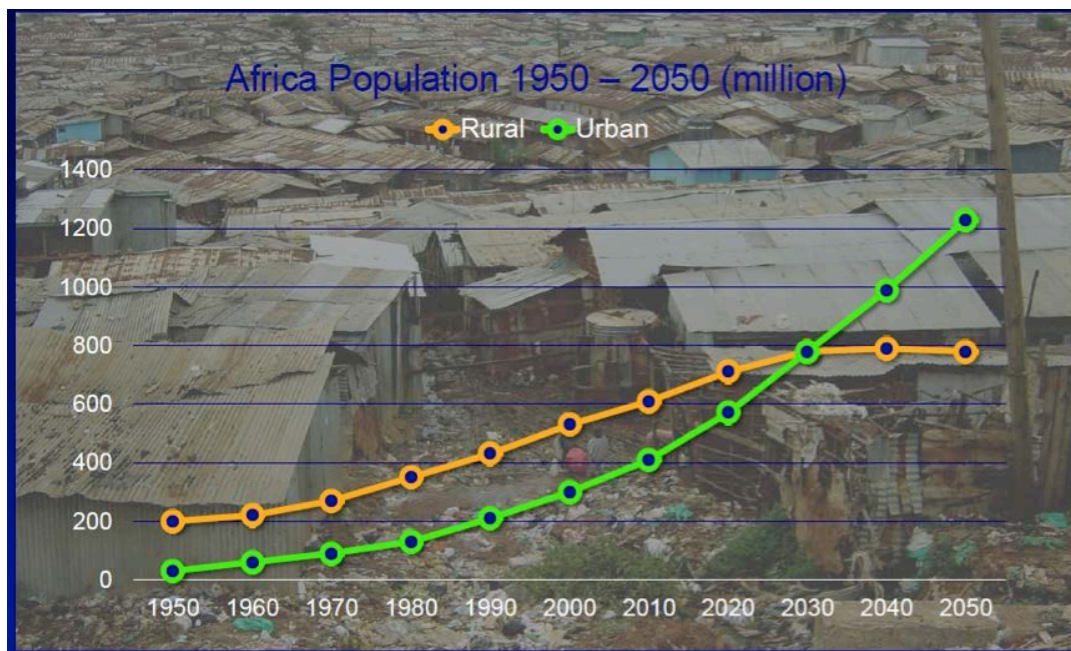
Some of the key benefits of urbanisation are outlined below:

- Improvement in economy, as skilled workers are attracted to these areas
- Growth of commercial activities
- Social & cultural integration
- Competition in resources of utilization

Some of the observed adverse effects of urbanization are the increasing competition for facilities which has triggered several negative effects:

- Slums and their consequences of overcrowding.
- Lack of sanitation
- Poverty
- Illiteracy
- Unemployment and
- Crime is the worst impact of urbanization.
- Global warming, air pollution, water scarcity and pollution and loss of forest cover, agricultural land and depletion of wildlife as a result of urban sprawl, pose serious threats to the environment.

6.9 A CASE FOR URBAN AND RURAL AREAS



Source: www.unhabitat.com

While it cannot be denied that the urbanisation “shift from rural to urban centres is the largest migration in human history”, it is clear that “Africa will be leading the charge for the coming decades in a similar way to China’s economic transition since 1980.”⁸ As China aims to have over 50% of its population living in the cities by 2030, Africa will also be an urban continent, with more than 50% of the population living in cities. Over 60% of Africans will be living in cities by 2050.⁹ Our international and local research on urbanisation growth have revealed that the impacts of urbanisation will be almost exclusively in the continent of Africa and Asia over the next 40 years. It is also projected that “together, these two regions will account for 86% of the world’s urban population growth, which, as Geoffrey West, the theoretical physicist and scholar of city systems, insists, ultimately bodes well for economic prosperity.”¹⁰

Mahatma Ghandi had an interesting vision that “the future of India lies in its villages” and not in the urbanisation trend of pulling citizens from the sourcing rural to destination urban areas. Some modern economists like Harvard’s Edward Glaeser vehemently oppose Ghandi: “There’s no such thing as a poor urbanized country; there’s no such thing as a rich rural country.”¹¹ In both his lectures and book, *Triumph of the Cities*, Glaeser continues to argue that “Mahatma Gandhi was wrong.... India’s future is not in its villages, it’s in Bangalore.”¹² He continues, “Poor people flock to cities because that’s where the money is, he said, and cities produce more because ‘the absence of space between people’ reduces the cost of transporting goods, people, and ideas. Historically, cities were built on rivers or natural harbours to ease the flow of goods. But these days, since shipping costs have declined and service industries have risen, what counts most is the flow of ideas.”¹³

We believe that there is truth in both what pro-rural Gandhi said as well as in what pro-urban Glaeser posits. Granted, that over two-thirds of the countries’ GDP is generated from urban areas, however anyone who has closely studied global and local urbanisation trends will be forced to admit that

- a. Rural areas are expanding too, and there is a void in retail services that is created by retailers focusing largely in urban areas.
- b. It is also very clear that this expansion will continue, even as urban areas continue to explode.

Our argument is that it is crucial that retailers are abreast of *both* trends and exploit source rural and destination urban areas to maximise profits as they continue to adapt to the growing needs of urbanisation.

6.10 A COMPELLING CASE FOR RURAL AND DEVELOPING AREAS

On Tuesday the 23rd of January, Dr. Tashmia Ismail, co-author of *New Markets, New Mindsets*, presented a compelling case for rural and/or developing markets in her presentation on *Innovation and Inclusive Business for W&RSETA*.¹⁴ Also the book *Fortune at the Bottom of the Pyramid* presents compelling evidence on why international businesses and global brands invest in developing areas and/or emerging markets:

- ✓ Profit and top line growth
- ✓ Stagnant developed markets
- ✓ Competitor entry / first mover
- ✓ Locking in lifetime customer value
- ✓ Portfolio / risk diversification
- ✓ Institutional brownie points, and
- ✓ Creating a company with soul¹⁵

No doubt, as will be shown below, the above reasons were at the foundation of some of the top retailers in South Africa moving into rural Jozini Mall in KwaZulu-Natal. Though located in deep rural areas, the new Mall introduces an exciting array of brands and fashion retailers like Truworths, Mr Price, Edgars Active, Identity, Exact!, Ackermans, Jet, Rage, Power Fashion and Pep. It also has national furniture retailers like Joshua Doore, Lewis, Barnetts, Ellerines, Electric and Express.¹⁶ All this is evidence to the case made in *Fortune at the Bottom of the Pyramid*.

Consistent with the concept in 2001 article which predated the book *Fortune at the Bottom of the Pyramid* was the following advice for businesses who are focused on succeeding in rural or developing areas / markets¹⁷:

- **Creating buying power:** Access to credit and Income generation
- **Shaping aspirations:** Consumer education and Sustainable development
- **Tailoring local solutions:** Targeted product development and Bottom-up innovation
- **Improving access:** Distribution systems and Communication links

And in terms of strategy and competition the article offers a very solid advice worthy of emulation by all retailers who would succeed in sourcing rural areas:

**“New business models must not disrupt local cultures and lifestyles.
An effective combination of local and global knowledge is
needed, not a Western system.”¹⁸**

6.11 GREAT LOCAL EXAMPLES

And in terms of strategy and competition the article offers a very solid advice worthy of emulation by all retailers who would succeed in sourcing rural areas:



Source: Google Earth – Jozini, KwaZulu-Natal (2005)



Source: Google Earth – Jozini, rural KwaZulu-Natal (2013)

In the aerial view of Jozini between 2005 and 2013 will be noted extensive development of this rural area. Even before the R140 million first large one-stop Jozini Mall investment located in this rural North-Eastern KwaZulu-Natal, the area had so expanded that it had more than tripled in population. “Jozini Mall is set to bring over a dozen of South Africa’s leading fashion retailers, meeting the needs of fashion-forward shoppers from the fashion-famished community.”¹⁹

Research by the owner and developer of the mall Greater Atlantic Properties (Pty) Ltd and by the by Retail Network Services, who crafted the retail dynamics for this project, have confirmed that “retail-starved local consumers will enjoy more than comprehensive and convenient shopping.”²⁰ It is greatly anticipated that the 17,000sqm Jozini Mall will forge a long-awaited fashion boost for the area as it “corrects a large undersupply of retail in this community, which is severely restricted in meeting its daily shopping needs within its own town.” Thus the 45 shops mall which is anchored by a 3,000sqm Shoprite, matched with a relevant mix of retailers including convenience, furniture and fast food as it is supported by over 400 parking bays, 36 taxi bays and eight bus bays. Jozini Mall is proof that sourcing rural areas are in desperate need of retailer services proper, that the gap created by urbanisation can be redressed by reinvesting in the satellite areas which stand to better position most brands. “The eager demand from retailers to take up shops in Jozini Mall reflects the consumer potential in the community and both Standard Bank and Capitec have seized the opportunity to expand their business and have committed to the mall.”²¹ Judging by the fact that so many retailers and key banks have signed long leases with the developer we could safely conclude that their analysis is evident of the wisdom of the importance of parallel focus in urban and rural developments. The United Nations (UN) estimates that about 4 billion underserved people live in the slums. There is much wealth in rural retail that remains to be unlocked with lower income shoppers. In the spring 2012 issue of MIT Sloan Management Review article “*Mobilizing for Growth in Emerging Markets*” authors Navi Radjou and Jaideep Prabhu detail how multinational companies, and in our context national retailers, need to approach this massive market by creating networks of local partners:

- “Significantly greater growth opportunities lie in second- and third-tier cities and rural areas. Indeed, almost 70% of India’s 1.2 billion people live in rural areas, and only an estimated 23% of the rural population has cell phones.”
- “Although ‘next billion’ consumers increasingly have more disposable income and want more, they nevertheless have limited resources. The juxtaposition of high aspirations and

resource constraints forces multinationals to rethink how they design products and services to reach such consumers.”

- “Understanding the unique preferences and buying behaviours of these consumers often requires expertise or knowledge that multinationals lack but that may reside with other local actors such as government institutions or nongovernmental organizations.”

All the above evidence should serve to dispel the myth that there is business and serious money is to be made *only* in urban areas. Any balanced retailer would focus on *both* the booming urban and exploding rural areas.

7 ALTERNATIVE SOLUTIONS TO THE PROBLEM / OPPORTUNITY

There is just one caution with the above model that needs to be watched closely, the threat of the mall model in driving away small businesses of mom ‘n pop stores, spaza shops, etc. However it can also be argued that, in this case, Jozini Mall adds a much needed retail competition, trade and diversity to the rural area, and forces local traders to innovate and diversify through adaptation.

7.1 SOME OPPORTUNITIES

7.1.1 SHARING RENTAL COSTS IN URBAN AREAS

Retailers need to further explore the opportunity of opening smaller stores in these areas. These stores can be profiled with specific items / products / categories for that micro market that they will be operating in. This will reduce the rental cost as they will only stock items that will satisfy the needs of a specific micro market. Retailers could also explore the opportunity to share costs with other businesses.



Though the above illustrated case of Jozini Mall is in rural areas, the principle still holds true that

- Partnering with other retailers from food to clothing, furniture to banks
- Carefully chose a location with the most impact, preferably near transportation
- Offer consolidated retail services to a well-researched area

7.1.2 PENETRATING LEAST-SERVICED AREAS

“The Wolf” informal settlement had challenges that best articulate this proposed solution:

- Retail stores are far away
- Pakistan owned Spaza shops have no electricity or generators – stocking perishable products a big challenge
- Community complained of buying stale bread daily
- Product range in these stores was very limited
- No formal road infrastructure and Heidelberg Road is a kilometer from the settlement

As evidenced by the following photos, the community waits at the side of the Heidelberg Road with small buckets or plastic bags of R3 to R5 coins inside to buy meat. A “bakie” collects these buckets around 10:00 and purchases the chicken “binne goete” (intestines) and delivers it in buckets or plastics around 13:00. There are no guarantees, if your bucket or plastic is empty then the stock had run out. There is no cold chain in transportation of the perishable goods and the community is forced to cook all the purchase before it gets spoiled.



The best way to resolve issues of this sort which are prevalent in satellite or rural areas is

- Mobile bakeries – on scooters or bicycles
- Retail sponsored cooler bags to keep perishable goods
- Loyalty scheme vouchers where customers have free dry ice with purchase over certain amount
- Perishable stock in small packages

- Innovating a rechargeable cooler box
- Sponsor a retail charge centre (generator) for cooler boxes (or mobile recharger to service community at minimum cost)

7.1.3 DIVERSIFYING PORTFOLIOS

In today's business environment, it is becoming evident that organisations are looking for opportunities to diversify from their core business lines. From petrol garages that are opening restaurants, selling high quality coffee and that have become grocery outlets, this trend cannot be ignored. Organisations need to look for these opportunities to expand and diversify their current portfolios to suite the ever changing consumers. Evidence from this model is not only is this a very successful model, resulting in petrol stations at least tripling their core business revenue, but this is a great opportunity to have 24/7 opened store and share cashier resource pool with that of the petrol station.

This partnering of big retailers with other essential service providers, like the Woolies / Engen and PnP / BP collaboration could also assist retailers to reach consumers in areas previously unpenetrated rural areas. It's a win win situation for both the partners in that they share the risk jointly and outlying areas are now being served. It is also familiarises rural areas with the retailer brands so that as and when many of them migrate to the city areas they can feel closer home.



7.1.4 SMALLER PACKAGING

It became evident in India that large producers of consumable goods and products have added a smaller daily packaging to their goods. You can purchase a sachet of cooking oil or a day's supply of washing powder, this catered for the people whose living space is too small to keep monthly or weekly supplies of good. These are mostly individuals who urbanised and now live only in a room or share a room in the city. Our visit to Diepsloot further reinforced the fact that rural and slum

areas have issues with storage space. It therefore stands to reason that smaller packaging of foods and products will be a welcomed relief. Food in particular as there are often no refrigerators and food risk being spoiled.



Benefits of adapting to customer needs in the area of smaller packaging has the following advantages:

- Decrease the price for the price-conscious customer.
- Retailers should adapt the product selling a stripped-down version of the original design costs to their products and thus making the product more affordable.

7.1.5 CAREFUL MARKET SEGMENTATION

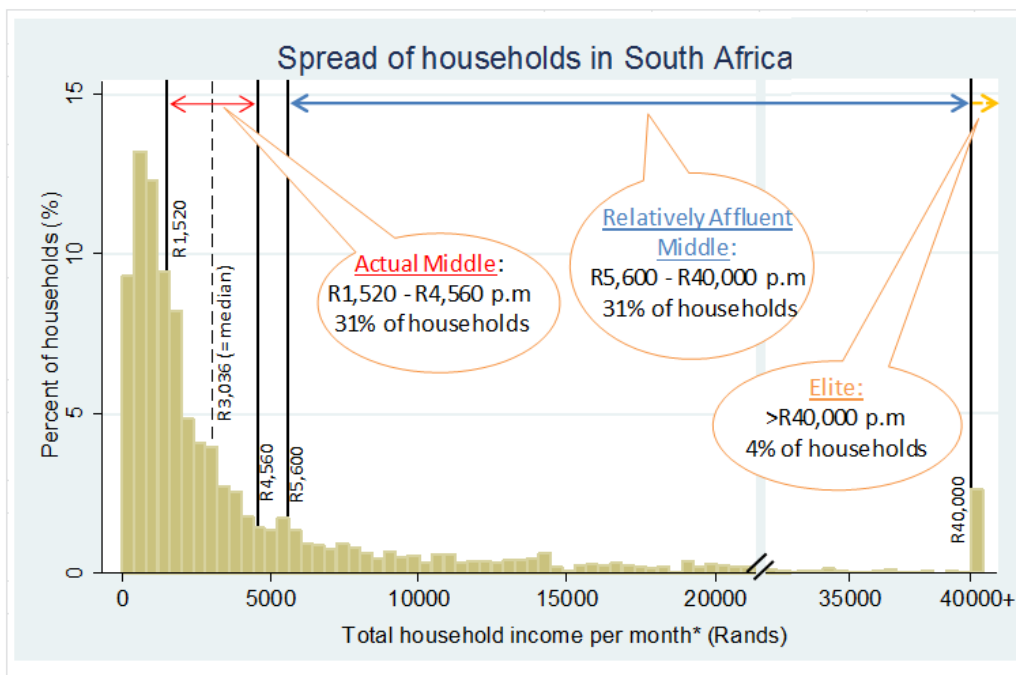
Organisations should adapt from traditional segment-based marketing to include micro-segmentation. Consumers' expectations are rising and new markets bring upon various new demands, there is also an increase in competing vendors and products. The rise of the spaza shops is evident everywhere from Long Street, Cape Town to Noord, Johannesburg, and unless retailers adapt to compete in these areas and familiarise consumers with their product lines we could have a situation as in India where about 90% of the population is buying most of their daily provisions in local traditional "mom-pop" kind of shops. While this has its benefits, it cannot be denied that this does not directly lead into a better economy, as India is the evidence. Thus to solve these challenges the following suggestions are proposed:

- Business should examine and analyse the relationship that exist between costs and price so that they will be in a position to review the methods they use to service their customers.
- Low cost community based distribution points employ key workers as sellers.
- Face to face qualitative interviews or focus groups will be good tools for sourcing primary data and stats.

7.1.6 ADAPT TO THE NEEDS OF THE RISING MIDDLE CLASS

Due to the increasing numbers of middle class individuals, with the cost of living and raising children, the middle class group will have less retail and leisure money, retailers need to adapt to the new needs of the rising middle class. This rise of the single person household due to a single parent urbanising needs to also be considered in the way organisations do business.

- Retailers need to devote most of their attention to servicing or selling to the middle and lower income sectors.
- They need to adapt the store layouts, ranging and pricing to cater for this.
- There should be a striving towards increase the number of customers who utilize their services or products in order to spread their operating costs over a larger base – a thorough understanding of the market and targeting of the correct customer would prove of immense value here.



Source: NIDS 2008, own estimates

Notes: The horizontal axis has been truncated between 20 000 and 35 000 to fit the affluent middle class interval onto one page width. Since the upper tail of the distribution is very long, incomes above R40 000, in the right-hand tail of the distribution, have been aggregated.

*Total household income is calculated from per capita household income multiplied by an average household size of four persons

7.1.7 UNDERSTANDING MARKETS CULTURE

Culture comprises a complex system of values, norms and symbols which have developed in society over a period of time and which all its members share. Culture can be fragmented into subculture and this needs to be investigated to really understand the South African consumers and their needs. Also adapting the store layout to the specific area it is located has proven of great value in reaching out to specific cultural groups.

The advantage with our recommendations is that they are not drastic measures to fundamentally change the way businesses work, but rather micro changes in strategy that will help retail businesses thrive through adapting to the changing urbanising country.

Our argument is that the African continent urbanisation is slower than the most of the industrialised nations, compare for instance about 1 billion people in China living in the cities in 2022²² with Africa's 54% or just over ½ billion in 2030²³, retailers would need to understand that not only are our urbanisation trends slower than most developing countries in the world but that this leaves nearly half of the population "unattended" if they do not explore business opportunities in rural originating areas. While we could not identify a study that shows the income and expenditure of urban areas vs. rural areas, it stands to reason that if most the urban generated income is sent home to rural originating areas then there is much business to be had in these areas too.

7.2 INNOVATIVE SOLUTION MODEL

Using the creative techniques of redefining the focus and the concept fan (please refer to Addendums 1 – Focus Experience and 2 – Concept Fan), we have defined and refined our focus for creative / innovative solutions to assist retailers in addressing the rising rural consumer market. Our focus statement was: "How can retailers improve sales revenue in rural areas." The outcomes of these models were then applied to the Decision Matrix (Addendum 3) to inform our business case and implementation plan.

The above question was thus further refined into the following alternative statements or questions:

1. How can we get retailers to understand the genuine rural customers' needs?
2. How do we make retailing in rural areas part of the business strategy?
3. How can retailers capitalise on the growth and development in rural areas?
4. How can retailers create various revenue streams in the rural areas?

We are convinced that there are revenue streams for retailers in rural and underdeveloped areas and there are some good examples: 57% of the €51 billion of Unilever's annual sales for are from developing and emerging markets, while over 70% of Standard Bank's "personal banking clients

are harvested from Inclusive division.”²⁴ We also understand from shop.org that “83% of consumers believe in-store return of an online purchase is ‘important’ or ‘very important.’”²⁵ Thus there is much opportunity in neglected developing rural areas, and the sooner retailers use innovative methods in response to the above questions the better for their investment and long term growth.

7.3 BUSINESS CASE

Our business case is based on the output of the Decision Matrix Model (Addendum 3). This model indicated customer value proposition in the rural areas as the most significant focus.

Our business case (Addendum 4) is therefore based on a small store trading in a rural area. Its location is near a taxi rank and despite the slightly higher rental cost due to prime store location, we are confident that this location, our products and our great understanding of the needs of the rural customer will ensure our success.

The product: We decided to open a small store selling re-packaged items in smaller quantities, some examples of that is sachets of oil, flour, sugar, mielie-meal, milk, packet chips and many others fast moving products. We are a cash only business but offer a free delivery service to people in the nearby Diepsloot area. We have spent a lot of time consulting with various suppliers regarding the products "shelf life" of milk and other dairy products, it was of great excitement to note that our new line of products are safe to keep un-refrigerated for 7 days after opening.

Our store: Our store is managed and designed around a trading density of R45,000 per square meter. We have a mentality of rack, pack and stack, our layout is simple and easy flowing, allowing for families to enter and have a complete shopping experience. We offer set-aside items and a coupon discount system – this is one of the value propositions of our store.

Customer Centricity: Our focus is to know as much of our customers by name and surname. We also focus on daily consumption and a daily delivery of replenishment items to our customer. We will deliver bread, milk and coke if they sign a replenishment receipt, this ensures we have a secondary revenue stream and allows us to multi-channel our goods.

The purpose of our implementation plan (Addendum 5) is to define tasks and actions required to implement each of our strategies as well as to develop communication plan. It also allows us to set timeframes and target dates for completion of specific tasks and objectives.

CONCLUSION

Our South African retailers need to shift focus from congested areas where there markets are flooded and start focusing on rural or developing areas. Our local and international immersion experiences taught us that in-depth understanding of micro and macro forces directly affecting retailers as well as the ability to adapt to these changes are key to survivability and thriving in this market. While it may be argued that such is the same for other industries, we have keenly noted that the retail market is particularly sensitive to these changes. There are both local and international examples of businesses thriving in this volatile environment, and one of the keys to this success is a solid strategy implemented aggressively and relentlessly. There is evidence that things will not be much different in the near future, just this year the “petrol price could reach R16 a litre... if the rand continues to depreciate.”²⁶ This puts additional pressure on consumer spend, and unless retailers reinvent themselves and innovate the way they do business they will find it nearly impossible to survive.

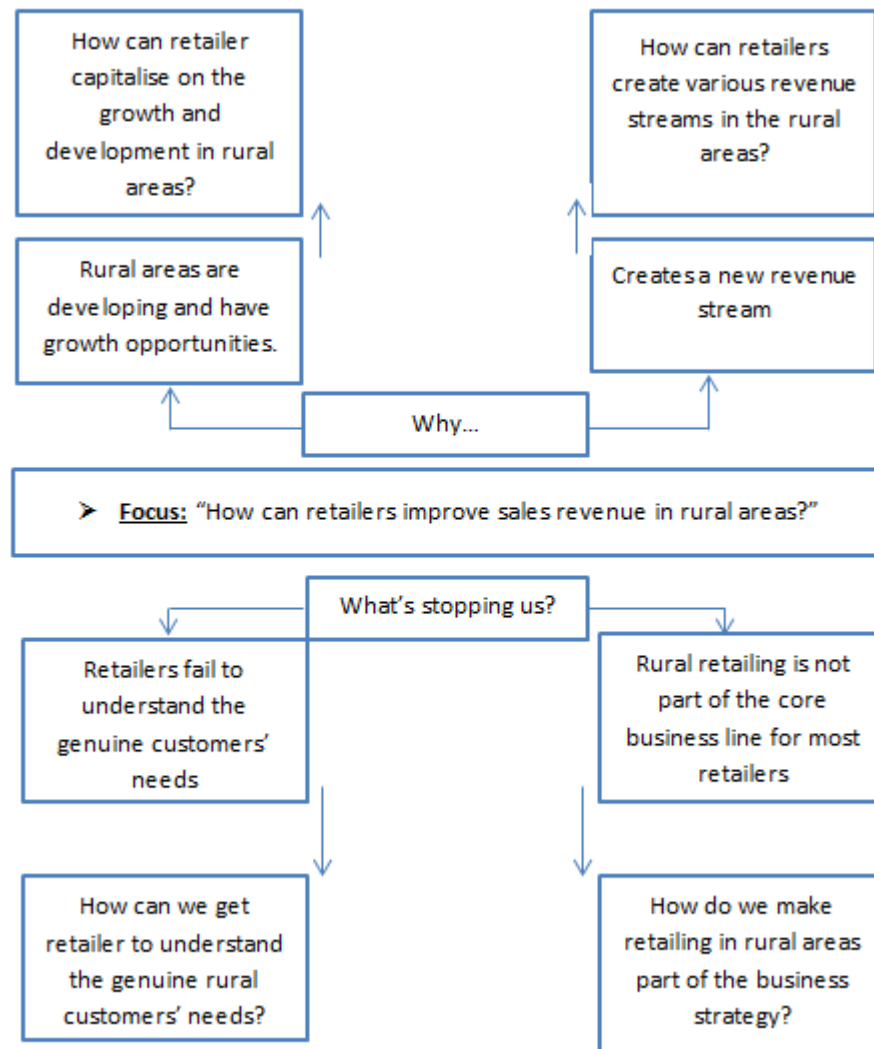
Our recommended solutions to these challenges virtually redefine the rules and change the retail landscape, focus on taking business *to the customers*. Adapting to their immediate needs instead on forcing *them* to adapt, we propose that retailers remember that customer is king and they need to adapt to their changing needs. When all is said and done, there are still many retail growth opportunities in South Africa. All that local retailers need do is think differently, go back to retail basics of customer-centricity, and soon enough reap the rewards.

RESOURCES

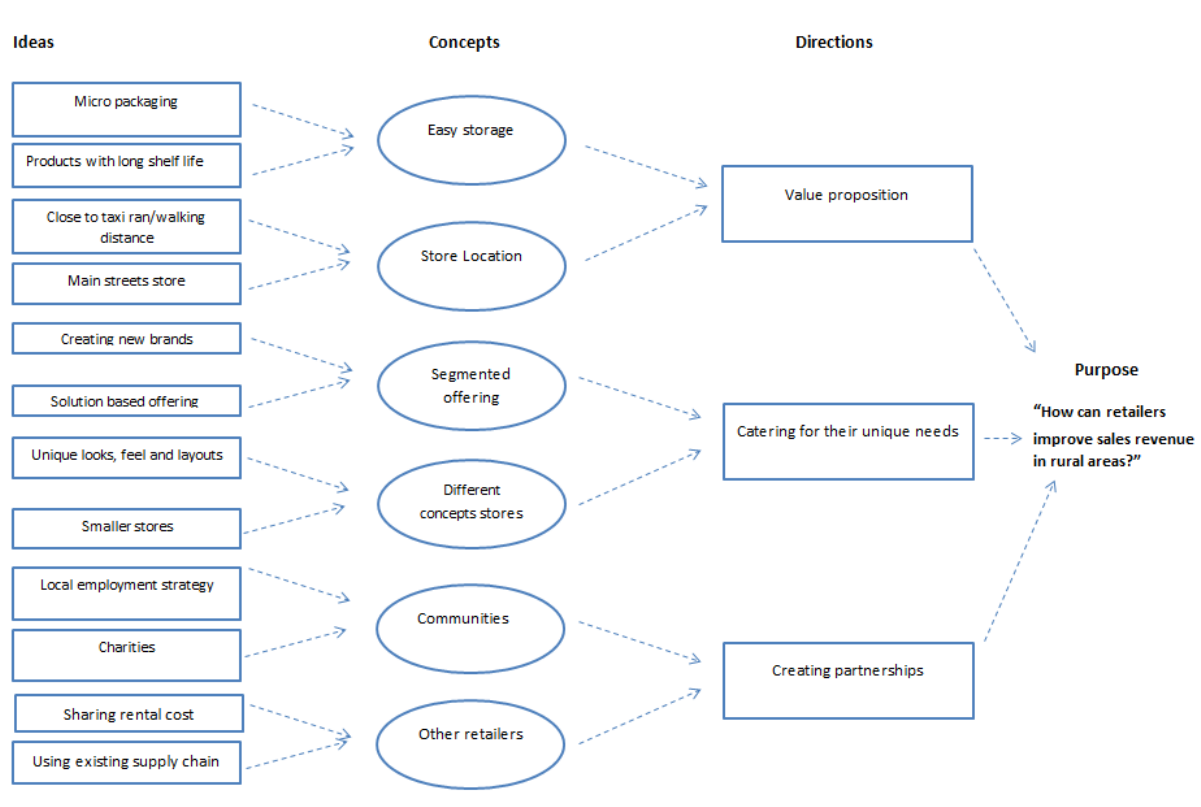
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ADDENDUM 1 – FOCUS EXPERIENCE



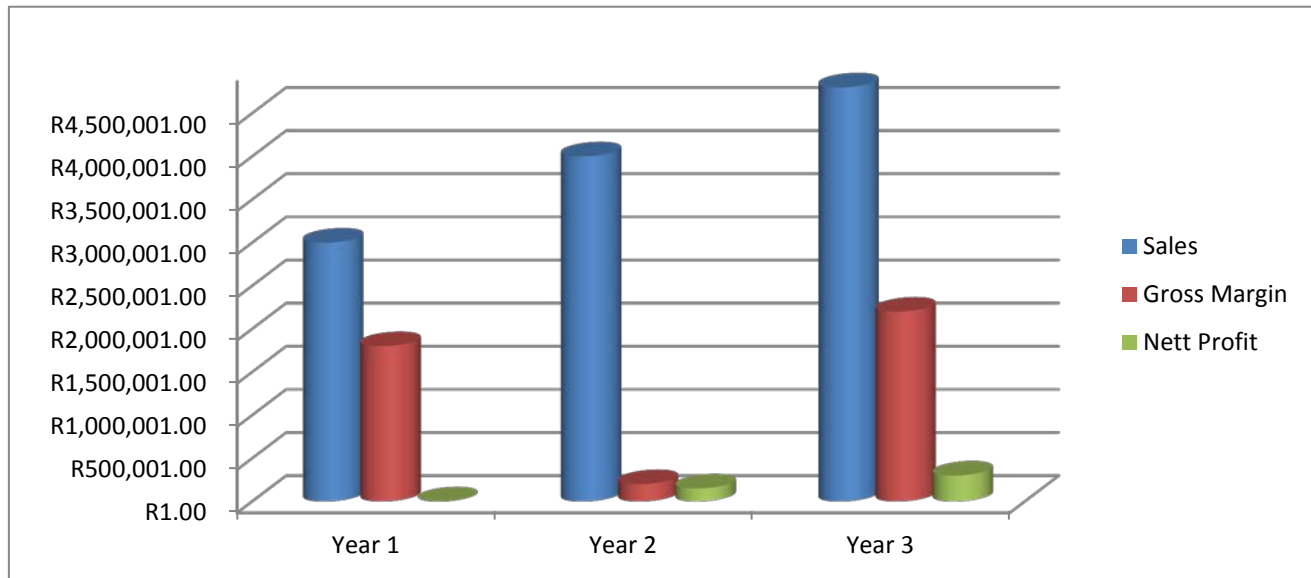
ADDENDUM 2 – CONCEPT FAN



ADDENDUM 3 – DECISION MATRIX

Criteria/Objectives	Effectiveness	Implementable	Relevant to the market	Total
Weighting	3	2	1	
Idea 1 Value Proposition	4x3=12	3x2=6	3x1=3	12+6+3=21
Idea 2 Catering for their unique needs	3x3=9	4x2=8	2x1=2	9+8+2=19
Idea 3 Creating partnerships	2x3=6	3x2=6	2x1=2	6+6+2=14

ADDENDUM 4 – BUSINESS CASE HIGHLIGHTS



1.1. Objectives

1. To provide a wide range of merchandise at reasonable prices.
2. To achieve a healthy profit margin within the first year.
3. To achieve a modest net profit by year two.
4. To be an active and vocal member of the community, and provide continual re-investment through participation in community activities and financial contributions.

1.2. Mission

To provide a variety of interesting merchandise suited for the consumer needs at bargain prices. Dedication to customer service will give our patrons the kind of service that is respectful and prompt. Employees will also be treated in a professional manner with a rewarding work environment and fair compensation. Customers will clearly sense the royal treatment from the touch points to accommodating their daily needs and at bargain price.

1.3. Keys to Success

To succeed in this business we must:

- Sell a range of products specifically packaged to service the target market.
- Provide for the satisfaction of 100% of our customers.
- Be an active member of the community and its projects.
- Encourage customer input. The business needs to be entirely customer centric and focused on making the lives of our customer easier.

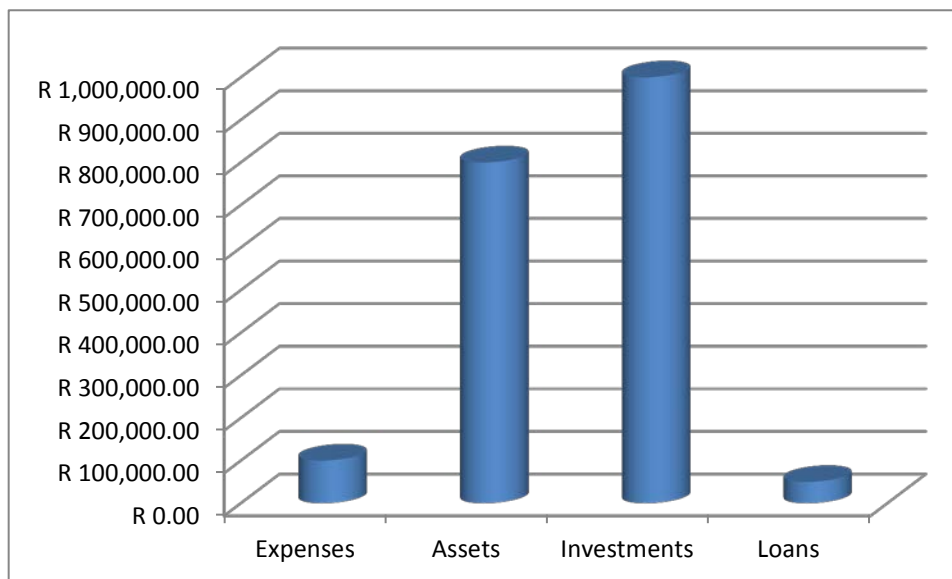
2. COMPANY SUMMARY

The SAVVY One Stop Shop sells products and provides excellent customer service for the general public. We have leased a retail store which we use to market and merchandise our products.

2.1 Company Ownership

The SAVVY One Stop Shop is a privately held corporation.

2.2 Start-up Summary



Start-up Funding

Start-up Expenses to Fund	R130,000
Start-up Assets to Fund	R735,500
Total Funding Required	R865,500

Assets

Non-cash Assets from Start-up	R310,000
Cash Requirements from Start-up	R425,000
Additional Cash Raised	R0
Cash Balance on Starting Date	R425,000
Total Assets	R735,000

Liabilities and Capital

Liabilities	
Current Borrowing	R0
Long-term Liabilities	R0
Accounts Payable (Outstanding Bills)	R60,000
Other Current Liabilities (interest-free)	R5000
Total Liabilities	R65,000

Capital

Planned Investment	
P Maharaj	R400,000
H Sitshange	R300,000
Other	R100,000
Additional Investment Requirement	R0

Total Planned Investment **R800,000**

Loss at Start-up (Start-up Expenses)	(R130,000)
--------------------------------------	------------

Total Capital **R670,000**

Total Capital and Liabilities **R735,000**

Total Funding **R865,000**

Start-up

Requirements

Start-up Expenses

Legal	R3000
Stationery, etc.	R2000
Brochures	R5000
Marketing consultants	R10,000
Insurance	R2000
Rent	R30,000
Building renovations	R50,000
Expensed equipment	R15,000
Other	R13,000

Total Start-up Expenses R130,000

Start-up Assets

Cash Required	R425,000
Start-up Inventory	R200,000
Other Current Assets	R10,000
Long-term Assets	R100,000

Total Assets R735,000

Total Requirements R865,000

3. PRODUCTS

The SAVVY One Stop Shop sells a variety of quality discount merchandise. The types of merchandise we will carry will include items such as basic consumer goods. Products that are at the very heart of consumer needs. Dedicated staff is committed to providing excellent customer service.

The merchandise is purchased from a variety of well-known manufacturers such as Procter & Gamble, Tiger Brands, Unilever as well as a number of other generic branded companies. Shipments arrive on a daily basis. We will continue to find new product lines that can be added to our inventory.

We are able to sell products at very low prices, because we will purchase items from discontinued lines, etc.

4. MARKET ANALYSIS SUMMARY

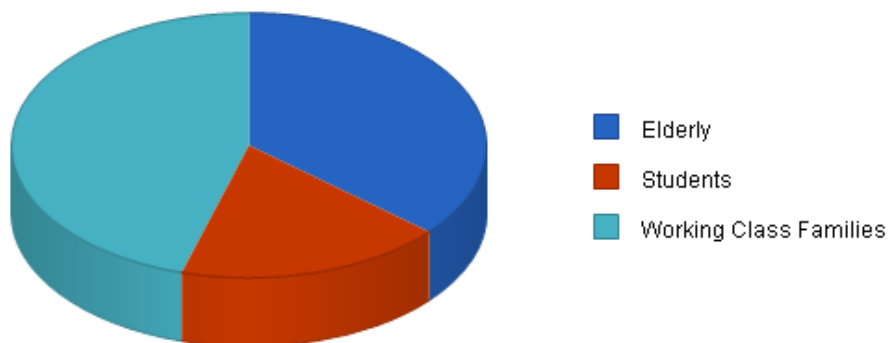
We expect sales to increase steadily as consumers find that they can purchase a variety of quality items at bargain prices. We intend to tap into the retail market with pricing that will encourage quantity buying, and our pricing will attract consumers on fixed budgets.

Our target market is the lower income portion of the community. This includes working class individuals, the elderly, and students, many of whom are price conscious and looking to find a value for their Rand. As such our pricing will be incredibly competitive and the value unbeatable.

5. MARKET SEGMENTATION

The market analysis pie chart shows potential customers and the company's target markets. The SAVVY One Stop Shop intends to provide affordable shopping alternatives to working class families with incomes under R2,500, for elderly people on fixed incomes, and also a large student population that tend to be on strict budgets. These consumers make up the largest market segment. We expect this market to grow at a rate of 10% per year. This market constitutes the general public who are looking for affordable merchandise at bargain prices.

Market Analysis (Pie)



Market Analysis

		Year 1	Year 2	Year 3	Year 4	Year 5	
Potential Customers	Growth						CAGR
Elderly	10%	40,000	44,000	48,400	53,240	58,564	10.00%
Students	10%	20,000	22,000	24,200	26,620	29,282	10.00%
Working Class Families	10%	50,000	55,000	60,500	66,550	73,205	10.00%
Total	10.00%	110,000	121,000	133,100	146,410	161,051	10.00%

5.1 Target Market Segment Strategy

We focus on the price conscious consumer who is looking for value as well as quality. If we can attract and keep these consumers the word will continue to spread about what our store has to offer.

5.2 Industry Analysis

In an ever changing economy the discount store model is becoming more popular with the consumer. Providing a large selection of bargain-priced items is our intended goal.

5.3 Competition and Buying Patterns

Consumers demand quality customer service, fair pricing, and a convenient location. Competition is very tough with customer service and location key components. The selection of merchandise a store provides is also very important.

6. STRATEGY AND IMPLEMENTATION SUMMARY

The SAVVY One Stop Shop uses a strategy of total market service. Our promise is in our location and the products we sell, the people we attract, and the atmosphere we create.

We will present a store that is pleasant to shop in with a large variety of merchandise to choose from.

Ultimately, we are selling more than just merchandise. We are selling ourselves. We want to provide the kind of customer service that will provide an atmosphere that creates a positive shopping experience for our customers.

Strategic Assumptions:

1. Every person with income limitations or on fixed incomes is a potential customer.
2. Marketing to these segments of the population will lead to an expansion in overall market growth.

6.1 Competitive Edge

Our location is a very important competitive edge. We are located in popular Township areas which have a high appeal to many different kinds of consumers. There is a good mix of high and low end shops, with easy access from all major commuter routes and taxi ranks.

Another competitive edge we will have over our competition is the specific variety of merchandise we will carry with the sources we are working with it will be possible to carry many name brand items at a discount price. Add a staff committed to providing great customer service and the SAVVY One Stop Shop will be an attractive stop for the consumer.

6.2 Marketing Strategy

The SAVVY One Stop Shop will benchmark our objectives for sales promotion and mass selling.

We are focusing our marketing effort on the community of consumers that want a store which has an interesting variety of merchandise at bargain prices. We will implement a strategy that treats these customers as a community. This means our marketing resources will be centered on both sales promotions (events, displays) and personal sales (customer service, friendly atmosphere).

- We will stay within our marketing budget.
- Marketing promotions will be consistent with the Mission Statement.

6.3 Sales Strategy

Employees are paid a straight wage but can achieve a semi-yearly bonus based on profits and customer satisfaction rates.

All potential sales will be attended to in a timely fashion and long-term salesperson-customer relationships will take precedence over sales closure.

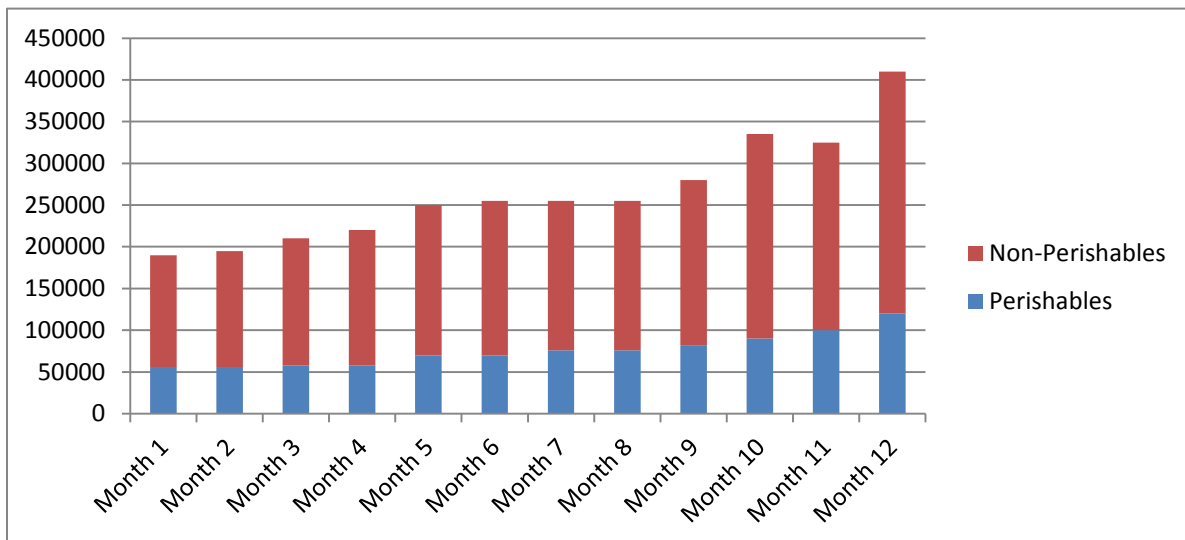
6.3.1 Sales Forecast

The following table and chart give a run-down on forecasted sales. We expect sales to increase at a rate of 10% by April. We would like to see another increase of 10% by August.

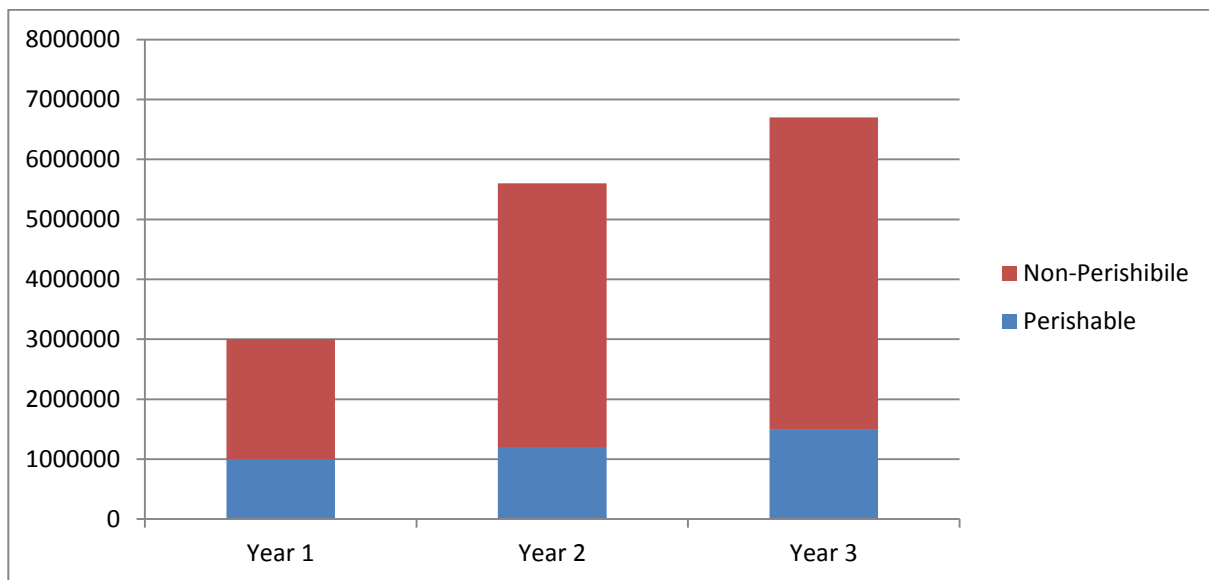
We expect to experience a steady growth throughout our first year even though we are a new business enterprise. As we become more familiar to the public we expect to gain more market share and would like to see progressive growth as we head into the following year. The SAVVY One Stop Shop, with an aggressive marketing approach expects to increase its share of the market by offering a unique option to discount shopping.

Note: For company purchases, the per-unit price of inventory purchases includes cost of shipping.

Sales Monthly



Sales by Year



Sales Forecast

	Year 1	Year 2	Year 3
Sales			
Perishable Items	R1135,000	R1362,000	\$163,440
Non-Perishable Items	R2120,000	R2544,000	\$305,280
Total Sales	R3255,000	R3906,000	\$468,720
Direct Cost of Sales	Year 1	Year 2	Year 3
Perishable Items	R567,500	R681,000	\$81,720
Non-Perishable Items	R1060,000	R1272,000	\$152,640
Subtotal Direct Cost of Sales	R1627,500	R1953,000	\$234,360

6.4. Milestones

The milestone table shows how the responsibilities break down in the start-up of our store. P Maharaj will head up the drafting of the business plan and will conduct the drive to secure funding. H Sitshange will work to secure a site for the store and will handle the details with the personnel plan.



Milestones

Milestone	Start Date	End Date	Budget	Manager	Department
Business Plan	1/1/2015	2/3/2015	R10,000	Maharaj	Owner
Secure Start Up Funding	2/17/2015	4/3/2015	R 5,000	Maharaj	Owner
Site Selection	3/1/2015	4/22/2015	R15,000	Sitshange	Management
Personal Plan	6/4/2015	6/21/2015	R 5,000	Sitshange	Management
Accounting Plan	7/8/2015	7/19/2015	R10,000	Accountant	Accounting
Totals			R45, 000		

6.5 Management Summary

The owners of the SAVVY One Stop Shop believe very strongly that relationships should be forthright, work should be structured with enough room for creativity, and pay should be fair and equitable in relation to what the industry is paying. With the right people in place the SAVVY One Stop Shop will have the incentives to encourage quality people to stay.

P. Maharaj and H. Sitshange worked together as managers of a group of large regional retail operations before starting the SAVVY One Stop Shop. Over the past 10 years, under their direction, their organization became the largest and most well-known in their regions. The owners of the company were looking to sell the company to a national organization and it was at that point that they decided to branch out on their own. Both bring extensive retail marketing and finance knowledge to the company. They have the knowledge, experience and contacts to make the company a success.

6.6 Personnel Plan

The personnel plan is included in the following table. It shows the owner's salary in which the owners only want a small draw at the initial start of the store. There will be four full-time employees and four part-time employees. The owners will act as the full-time manager to oversee many of the day-to-day functions of the store. Store employees will start at an hourly rate and raises will come after the stores first year of operation. The manager will start at a monthly salary. Salaries and hourly rates are shown in the table below. Full-time employees will qualify for full benefits.

6.7 Personnel Plan

	Year 1	Year 2	Year 3
Owner	R240,000	R280,000	R300,000
Owner/Manager	R300,000	R315,000	R330,000
Full Time	R168,000	R170,000	R185,000
Full Time	R168,000	R170,000	R185,000
Full Time	R168,000	R170,000	R185,000
Full Time	R168,000	R170,000	R185,000
Part Time	R60,000	R59,000	R63,000
Part Time	R60,000	R59,000	R63,000
Part Time	R60,000	R59,000	R63,000
Part Time	R60,000	R59,000	R63,000
Total People	10	10	10
Total Payroll	R1452,000	R15110100	R1622,000

7. FINANCIAL PLAN

- Growth will be moderate; cash flows steady.
- Marketing costs will remain below 15% of sales.
- The company will invest residual profits into financial markets and not company expansion (unless absolutely necessary).
- Future cash investments will use NOV projections to achieve maximum return with limited risk.

7.1 Important Assumptions

The personnel burden is very low because benefits are not paid to part-timers.

General Assumptions	Year 1	Year 2	Year 3
Plan Month	1	2	3
Current Interest Rate	7.00%	7.00%	7.00%
Long-term Interest Rate	20.00%	20.00%	20.00%
Tax Rate	25.42%	25.00%	25.42%
Other	0	0	0

7.2 Break-even Analysis

A Break-even Analysis table has been completed on the basis of average costs/prices. With fixed costs, average sales, and average variable costs, the table and chart show what we need per month to break-even.

Break-even Analysis

Monthly Revenue Break-even R375,700

Assumptions:

Average Percent Variable Cost 50%

Estimated Monthly Fixed Cost R187,850

7.3 Projected Cash Flow

We are positioning ourselves in the market as a medium risk concern with steady cash flows. Accounts payable is paid at the end of each month, while sales are in cash, giving the SAVVY One Stop Shop an excellent cash structure. Fifty percent of cash above a TBA amount will be invested into semi-liquid stock portfolios to decrease the opportunity cost of cash held.

Pro Forma Cash Flow

	Year 1	Year 2	Year 3
Cash Received			
Cash from Operations			
Cash Sales	R3,255,000	R3,906,000	R4,687,200

Subtotal Cash from Operations	R3,255,000	R3,906,000	R4,687,200
Additional Cash Received			
Sales Tax, VAT, HST/GST Received	R0	R0	R0
New Current Borrowing	R30,000	R0	R0
New Other Liabilities (interest-free)	R0	R0	R0
New Long-term Liabilities	R0	R0	R0
Sales of Other Current Assets	R0	R0	R0
Sales of Long-term Assets	R0	R0	R0
New Investment Received	R20,000	R0	R0
Subtotal Cash Received	R3,305,000	R3,906,000	R4,687,000
Expenditures	Year 1	Year 2	Year 3
Expenditures from Operations			
Cash Spending	R1,452,000	R1,512,000	R1622,000
Bill Payments	R2,192,940	R2,414,020	R2,723,140
Subtotal Spent on Operations	R3,644,940	R3,925,020	R4,345,140
Additional Cash Spent			
Sales Tax, VAT, HST/GST Paid Out	R0	R0	R0
Principal Repayment of Current Borrowing	R1000	R12,000	R12,000
Other Liabilities Principal Repayment	R0	R0	R0
Long-term Liabilities Principal Repayment	R0	R0	R0
Purchase Other Current Assets	R0	R0	R0
Purchase Long-term Assets	R0	R0	R0
Dividends	R0	R0	R0
Subtotal Cash Spent	R3,645,940	R3,937,020	R4,357,140
Net Cash Flow	(R340,940)	(R31,020)	R330,060
Cash Balance	R84,060	R53,040	R383,110

7.4 Projected Profit and Loss

We predict advertising costs will go down in the next three years. We will be able to find what has worked well for us and concentrate on those advertising methods. Normally, a start-up concern will operate with negative profits through the first two years. We will avoid that kind of operating loss by knowing our target markets.

Pro Forma Profit and Loss

	Year 1	Year 2	Year 3
Sales	R3,255,000	R3,906,000	R4,687,200
Direct Cost of Sales	R1,627,500	R1,953,000	R2,343,600
Other Costs of Goods	R0	R0	R0
Total Cost of Sales	R1,627,500	R1,953,000	R2,343,600
Gross Margin	R1,627,500	R1,953,000	R2,343,600
Gross Margin %	50.00%	50.00%	50.00%
Expenses			
Payroll	R1,452,000	R1,511,000	R1,622,000
Sales and Marketing and Other Expenses	R120,000	R0	R0
Depreciation	R11,430	R11,430	R11,430
Rent	R360,000	R0	R0
Utilities	R33,000	R0	R0
Insurance	R36,000	R0	R0
Payroll Taxes	R217,800	R226,650	R243,300
Other	R24,000	R0	R0
Total Operating Expenses	R2,254,230	R1,749,080	R1,876,730
Profit Before Interest and Taxes	(R626,730)	R203,920	R466,870
EBITDA	(R615,300)	R215,350	R478,300
Interest Expense	R340	R1610	R770
Taxes Incurred	R0	R50,580	R118,470
Net Profit	(R627,070)	R151,730	R347,630
Net Profit/Sales	-19.26%	3.88%	7.42%

7.5 Projected Balance Sheet

All of our tables will be updated monthly to reflect past performance and future assumptions. Future assumptions will not be based on past performance but rather on economic cycle activity, regional industry strength, and future cash flow possibilities.

Pro Forma Balance Sheet

	Year 1	Year 2	Year 3
Assets			
Current Assets			
Cash	R84,060	R53,040	R383,11
Inventory	R236,500	R283,800	R340,560
Other Current Assets	R10,000	R10,000	R10,000
Total Current Assets	R330,560	R346,840	R733,670
Long-term Assets			
Long-term Assets	R100,000	R100,000	R100,000
Accumulated Depreciation	R11,430	R22,860	R34,290
Total Long-term Assets	R88,570	R77,140	R65,710
Total Assets	R419,140	R423,990	R799,380
Liabilities and Capital	Year 1	Year 2	Year 3
Current Liabilities			
Accounts Payable	R322,210	R187,330	R227,090
Current Borrowing	R29,000	R17,000	R5000
Other Current Liabilities	R5000	R5000	R5000
Subtotal Current Liabilities	R356,210	R209,330	R237,090
Long-term Liabilities	R0	R0	R0
Total Liabilities	R356,210	R209,330	R237,090
Paid-in Capital	R820,000	R820,000	R820,000
Retained Earnings	(R130,000)	(R757,070)	(R605,340)
Earnings	(R627,070)	R151,730	R347,630
Total Capital	R62,930	R214,660	R562,290
Total Liabilities and Capital	R419,140	R423,990	R799,380
Net Worth	R62,930	R214,660	R562,290

7.6 Business Ratios

We expect our net profit margin and gross margin, to increase steadily over the three-year period. Our net working capital will increase handsomely by year three, proving that we have the cash flows to remain a going concern. The following table shows these important financial ratios.

Ratio Analysis

	Year 1	Year 2	Year 3	Industry Profile
Sales Growth	0.00%	20.00%	20.00%	6.06%
Percent of Total Assets				
Inventory	56.43%	66.94%	42.60%	47.62%
Other Current Assets	2.39%	2.36%	1.25%	28.89%
Total Current Assets	78.87%	81.81%	91.78%	80.40%
Long-term Assets	21.13%	18.19%	8.22%	19.60%
Total Assets	100.00%	100.00%	100.00%	100.00%
Current Liabilities	84.99%	49.37%	29.66%	17.64%
Long-term Liabilities	0.00%	0.00%	0.00%	10.82%
Total Liabilities	84.99%	49.37%	29.66%	28.46%
Net Worth	15.01%	50.63%	70.34%	71.54%
Percent of Sales				
Sales	100.00%	100.00%	100.00%	100.00%
Gross Margin	50.00%	50.00%	50.00%	27.06%
Selling, General & Administrative Expenses	69.26%	46.12%	42.54%	9.93%
Advertising Expenses	0.00%	0.00%	0.00%	1.10%
Profit Before Interest and Taxes	-19.25%	5.22%	9.96%	3.24%
Main Ratios				
Current	0.93	1.66	3.09	3.98
Quick	0.26	0.30	1.66	1.18
Total Debt to Total Assets	84.99%	49.37%	29.66%	41.68%
Pre-tax Return on Net Worth	-996.49%	94.25%	82.89%	7.89%
Pre-tax Return on Assets	-149.61%	47.72%	58.31%	13.53%
Additional	Year 1	Year 2	Year 3	

Ratios

Net Profit Margin	-19.26%	3.88%	7.42%	n.a
Return on Equity	-996.49%	70.68%	61.82%	n.a

Activity Ratios

Inventory Turnover	10.84	7.51	7.51	N/A
Accounts Payable Turnover	7.62	12.17	12.17	N/A
Payment Days	28	41	27	N/A
Total Asset Turnover	7.77	9.21	5.86	N/A

Debt Ratios

Debt to Net Worth	5.66	0.98	0.42	N/A
Current Liab. To Liab.	1.00	1.00	1.00	N/A

Liquidity Ratios

Net Working Capital	(\$2,564)	\$13,752	\$49,658	N/A
Interest Coverage	-1,821.00	126.66	606.32	N/A

Additional Ratios

Assets to Sales	0.13	0.11	0.17	N/A
Current Debt/Total Assets	85%	49%	30%	N/A
Acid Test	0.26	0.30	1.66	N/A
Sales/Net Worth	51.73	18.20	8.34	N/A

Dividend Pay-out	0.00	0.00	0.00	N/A
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ADDENDUM 5 – IMPLEMENTATION PLAN

1. Points of Contacts

This is used throughout the project and to assist as a quick reference tool, it has our main contactors for the projects, their roles and contact details:

Role	Name	Contact number
Contracts Manager	Prashan Maharaj	0827851247
Accountant	Abdur Rahman	0764001860
Land lord	City properties	011-330200
Shop fitter	Professional shop fitter (John McCain)	0842135490
Health and safety representative	Hardy Sitshange	0834823216
Tiler	Tactile	011-7841247
Electrician	Etienne electrical	08390061111
Signage	AE Plastic	011-4657490
Human Resource manager	Zongamele Jacobs	0713873085
Legal assistance	Naseera Ebrahim	0716848866
Communication	Telkom – Mel Naidoo	0824620090

2. Major Tasks

The following major tasks are at hand:

- Phased approached
- Financial assistance
- Costing exercise
- Some one-time conversions and switch over's
- Provide overall planning and coordination of the implementations
- Staff recruitment
- Recruit cleaning and security staff
- Setting up the supply chain facilities
- Provide training to the hired personnel
- Provide technical support

- Perform site surveys
- Acquire special hardware.
- Prepare site facilities for implementation

3. The implementation plan

What must be done	Who is responsible	When	Resources required	Task completed (Yes/No)
1. Conduct Business Plan	Abdur	1/07/2014	Bank manager	
2. Lease with banks and investors	Abdur	1/07/2014	Bank manager	
3. Draft lease agreement	Naseera	10/07/2014	Land lord	
4. Check site and conduct floor plans	All stake holder	15/07/2014	On-site	
5. Get quotes from various contractors	Prashan	16/07/2014	None	
6. Send quotes to accountant	Prashan	20/07/2014	None	
7. Draft floor plans	Prashan	25/07/2014	Store designers	
8. Submit plans to store designers	Prashan	01/08/2014	None	
9. Meet with various suppliers to discuss implementation	Prashan	15/08/2014	Boardroom	
10. Submit cost of goods to accountant	Prashan	20/08/2014	Abdur	
11. Hire staff	Zongamele	5/08/2014	Boardroom	

12. Plan staff training	Zongamele	10/08/2014	None	
13. Conduct site meeting with all stakeholders	All stake holders	15/08/2014	On-site	
14. Hire security and cleaning personnel	Hardy	15/08/2014	None	
15. Purchase hardware	Prashan	15/08/2014	Abdur	
16. Plan date for installation	Prashan	20/08/2014	Abdur	
17. Installation	Prashan	20-25/08/2014	All stakeholders	
18. Draft suppliers contracts	Naseera	25/08/2014	Abdur	
19. Check health and safety	Hardy	27/08/2014	None	
20. Implement railage and store design	Prashan	01/09/2014	All stakeholders	
21. Conduct site meeting with all stakeholders	All stake holders	15/09/2014	On-site	
22. Receive the equipment, stock and general goods.	All stakeholders	20/09/2014	On-site	
23. Clean store	Prashan	25/09/2014	None	
24. Store Opening	All stakeholders	01/10/2014	None	

Final sign off by various stakeholders:

Date:

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ADDENDUM 6 – OBSERVATION QUESTIONS

Observation Questions	Special Notes
<ul style="list-style-type: none"> ▪ Market Profile: <ul style="list-style-type: none"> - Type of market? - Scope of product categories? - Range of product variations? 	Capturing the description of the market in terms of the observation questions.
<ul style="list-style-type: none"> ▪ Customer Profiles: <ul style="list-style-type: none"> - Range of customers? - Profile of different type of customers? - Quantities of products purchased? - Customer experience? 	Writing of detailed profiles of at least 10 different customer types using the observation questions.
<ul style="list-style-type: none"> ▪ Shop Profiles: <ul style="list-style-type: none"> - Shop layout? - Scope of product categories? - Range of products in each category? - Level of automation, if any? - Characteristics of customer support/intimacy? 	Using these observation questions
<ul style="list-style-type: none"> ▪ Culture: <ul style="list-style-type: none"> - What is the language used? - Dress code of shop attendants and customers? - Customer Profiles as individuals, pairs or families? - Role played by different family members in making shopping decisions 	Understanding the culture differences and buying patterns as well as what influences customers
<ul style="list-style-type: none"> ▪ Retailer and Customer Interaction: <ul style="list-style-type: none"> - Nature of transactions? - Payment options? - Efficiency of interaction and queues? - Packaging choices? 	Noted experience and carefully observed customers