



The Impact of Urbanisation



on the Retail Sector

**Gordon Institute
of Business Science**
University of Pretoria





[District 6 Members]





Problems and Opportunities

Introduction

Definition

URBANISATION

"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." - Wikipedia.

But.....



WHY is
urbanisation
relevant to the
retail sector?



Introduction

Definition

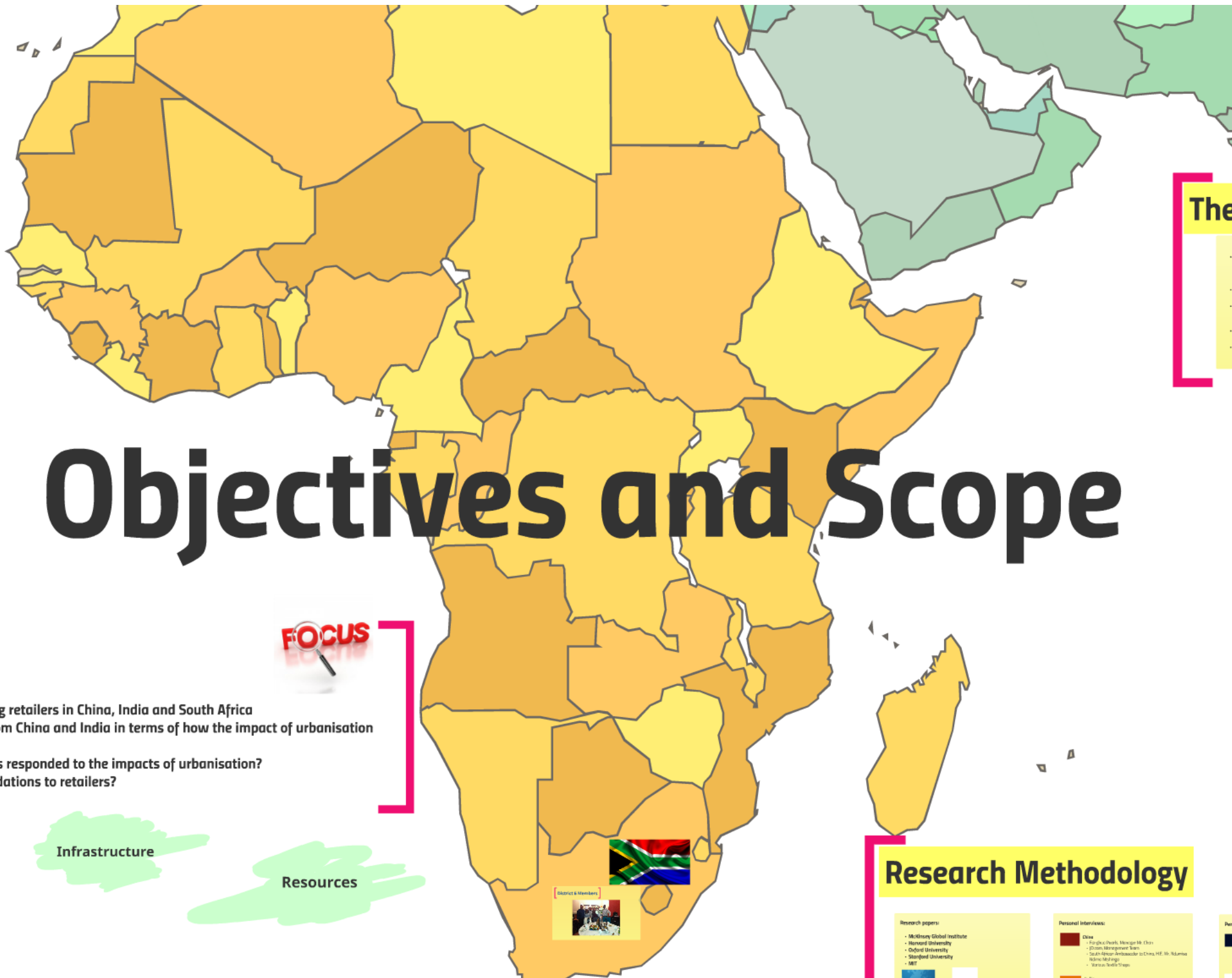
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WHY is
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Objectives and Scope

FOCUS

Factors affecting retailers in China, India and South Africa
What has been learnt from China and India in terms of how the impact of urbanisation

Can retailers respond to the impacts of urbanisation?
What recommendations to retailers?

Infrastructure

Resources

Research Methodology

Research papers:

- McKinsey Global Institute
- Harvard University
- Oxford University
- Stanford University
- MIT

Personal interviews:

- China
 - Fenglin Chen, Manager HR China
 - Chen, Manager Sales
 - South Africa
 - South Africa Ambassador to China, H.E. Mr. Mlambo
 - Mr. Mlambo
 - Various South Africa

Objective

Main Objectives

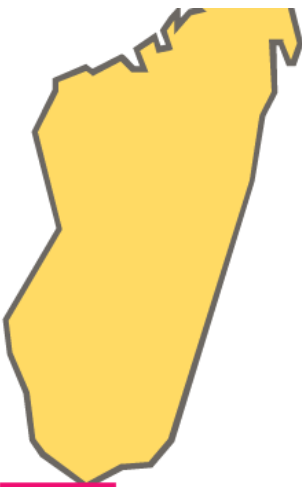
- Discovering the impacts affecting retailers in China, India and South Africa
- Identifying the lessons learnt from China and India in terms of how the impact of urbanisation can be responded to.
- How have South African retailers responded to the impacts of urbanisation?
- What lessons can be recommendations to retailers?



Socio-economic factors

Infrastructure

Resources



Research Methodology

Research papers:

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Massachusetts
Institute of
Technology

Personal interviews:



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

Personal Interviews.... Continued:



South Africa

- Pick 'n Pay, HR Director Mr. Isaac Motaung
- Woolworths, Retail Enterprise Development
- Truworths, Property and Human resource managers
- Many other local retailers and spaza shops



China Europe International Business School

- Prof. David Gosset, CEIBS
- Prof. Jeangwen Chiang, CEIBS
- Ms. Ruby Chen, CEIBS
- Prof. Izak Duenyas, University of Michigan
- Prof. Atish Chattopadhyay, S. P. Jain Institute of Management & Research



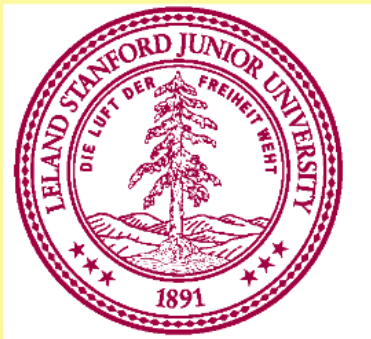
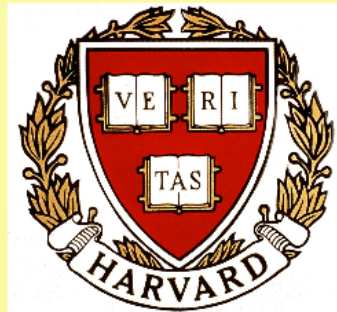
Other global and local sources

- 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



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A Case for Rural Areas

Problems and Opportunities

Proposed Recommendations

Objectives and Scope

Alternative Solutions Considered

Adapt or Die...

Findings...

Findings...

Impacts of Urbanisation

Infrastructure challenges

Weak financing, under investment and lack of capacity in the development
- Road congestion
- Urban decay - slums
- Poor quality of services
- High number of people commuting for jobs
- Poorly planned urban layout and increasing costs



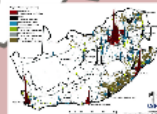
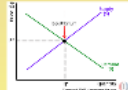
Socio-economic Challenges

- Overpopulation - demand for better life
- Quality of education and healthcare
- Limited jobs / unemployment
- Changing lifestyle, culture and behaviour



Resource Challenges

- Lack of access to electricity
- Higher rents and cost of food/shelter



HOW do local and international retailers respond to these challenges?

Imperial College Urban Systems Project = "In cities transportation and building operations account for at least 66% of all urban energy."

Impacts of Urbanisation

Infrastructure challenges

- Weak financing, under investment and lack of capacity in city development
- Roads - congestion
- Urban decay - slums
- Vast number of people competing for space
- Property - scarcity of space and increasing costs



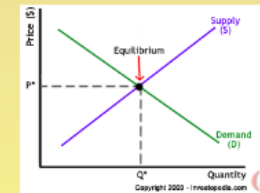
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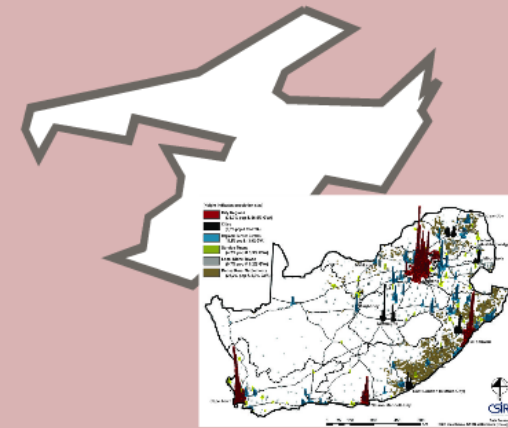


Resource Challenges

- Lack of access to electricity
- Higher tariffs and cost of load shedding



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Infrastructure challenges

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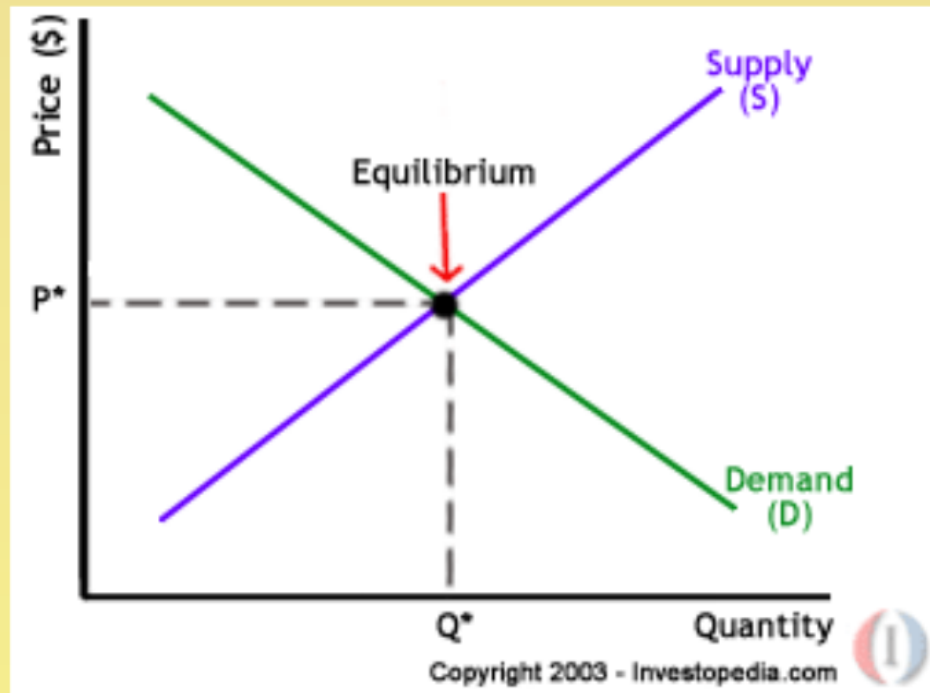
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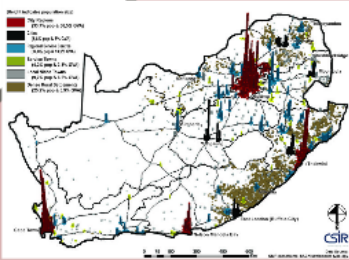
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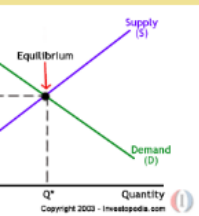
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Challenges

Electricity
cost of load shedding



at least 66% of all urban energy."



HOW do local and
international retailers
respond to these challenges?





Benefits

- 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 soul

Do we fail...?



Alternative Solutions Considered

The immediate needs of the retail sector

Challenges



Infrastructure Challenges



Socio-economic Challenges



Socio-economic Challenges



Socio-economic Challenges



Socio-economic Challenges



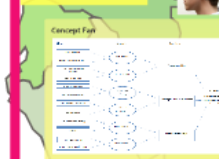
Resource Challenges



New Workforce



Creative Ideas



Why is there an opportunity in rural areas?

Main Objectives

- Discovering the
- Identifying the
- How have Sou
- What lessons

Socio-economic

Alternative Solutions

Addressing the immediate needs of the retail sector

Infrastructure Challenges

Rising property prices, competition for space

Solution: Sharing rental costs

- Exploring small stores opportunities
- Partnering with other retailers across the sector
- Location... location... location...



Infrastructure Challenges

Housing and high rental costs

Solution: Smaller packaging

- Catering for customers whose living space is small (shacks, RDP houses, and one bed-roomed apartments)
- These houses often have no refrigeration
- Catering for daily consumption



Socio-economic Challenges

Lifestyle challenges

Solution: Strategy adaptation

Old Woolworths

- Clothing

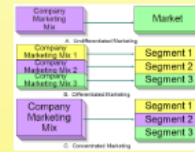


Socio-economic Challenges

Changes in lifestyle, cultures and behaviour

Solution: Market segmentation

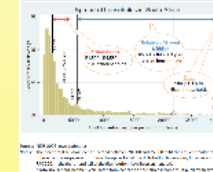
- Micro-segmentation
- New markets, new demands



Socio-economic Challenges

Lifestyle and value changes

Solution: Adapt to the rising middle class



Socio-economic Challenges

Cultural differences

Solution: Catering to market culture

- Culture is one of the drivers for consumption
- E.g. Reliance Retail catering to 39 cultures



Resource Challenges

Access to energy and electricity

Solution: Penetrating least serviced areas



- Rechargeable cooler boxes
- Reach out to the consumer
- Vehicle for contribution towards the communities' growth

New Woolworths

- Fashion apparel
- International brands
- Financial services
- Food and bakery
- Cosmetics
- Cafe + Wifi
- Engen Forecourts



Infrastructure Challenges

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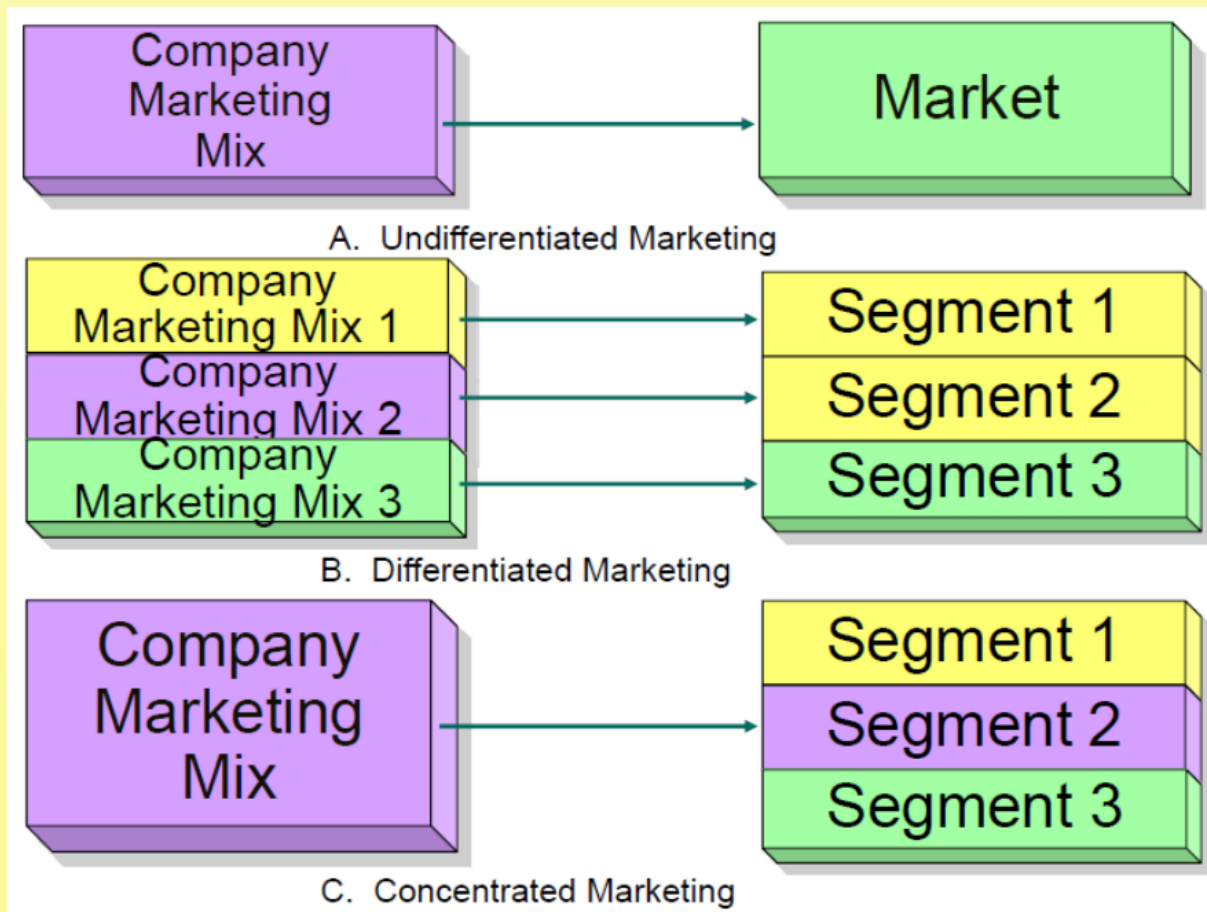


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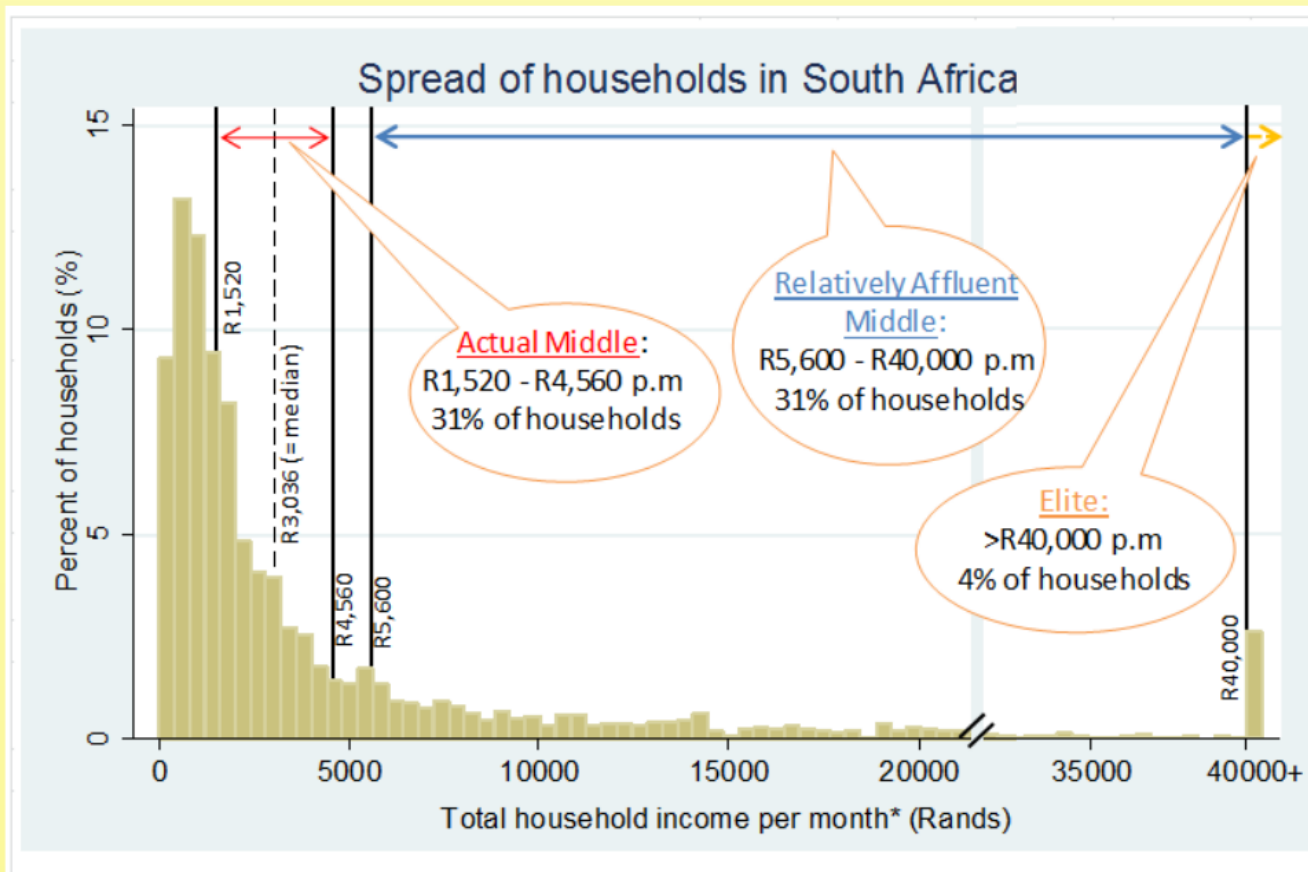
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Socio-economic Challenges

Lifestyle and value changes

Solution: Adapt to the rising middle class



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

Socio-economic Challenges

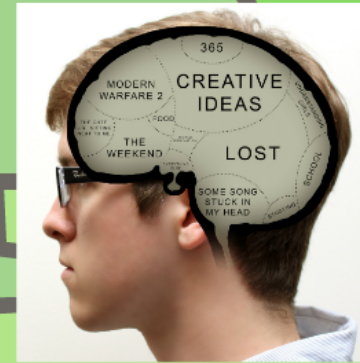
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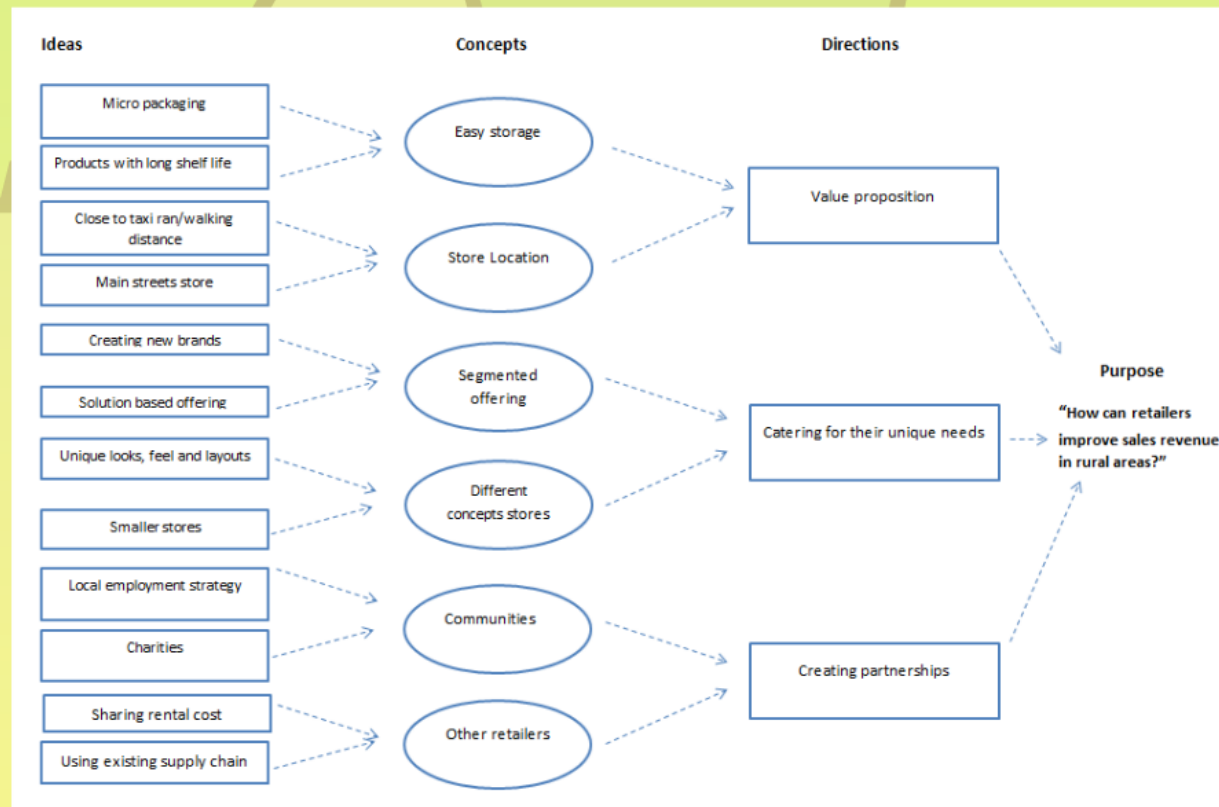
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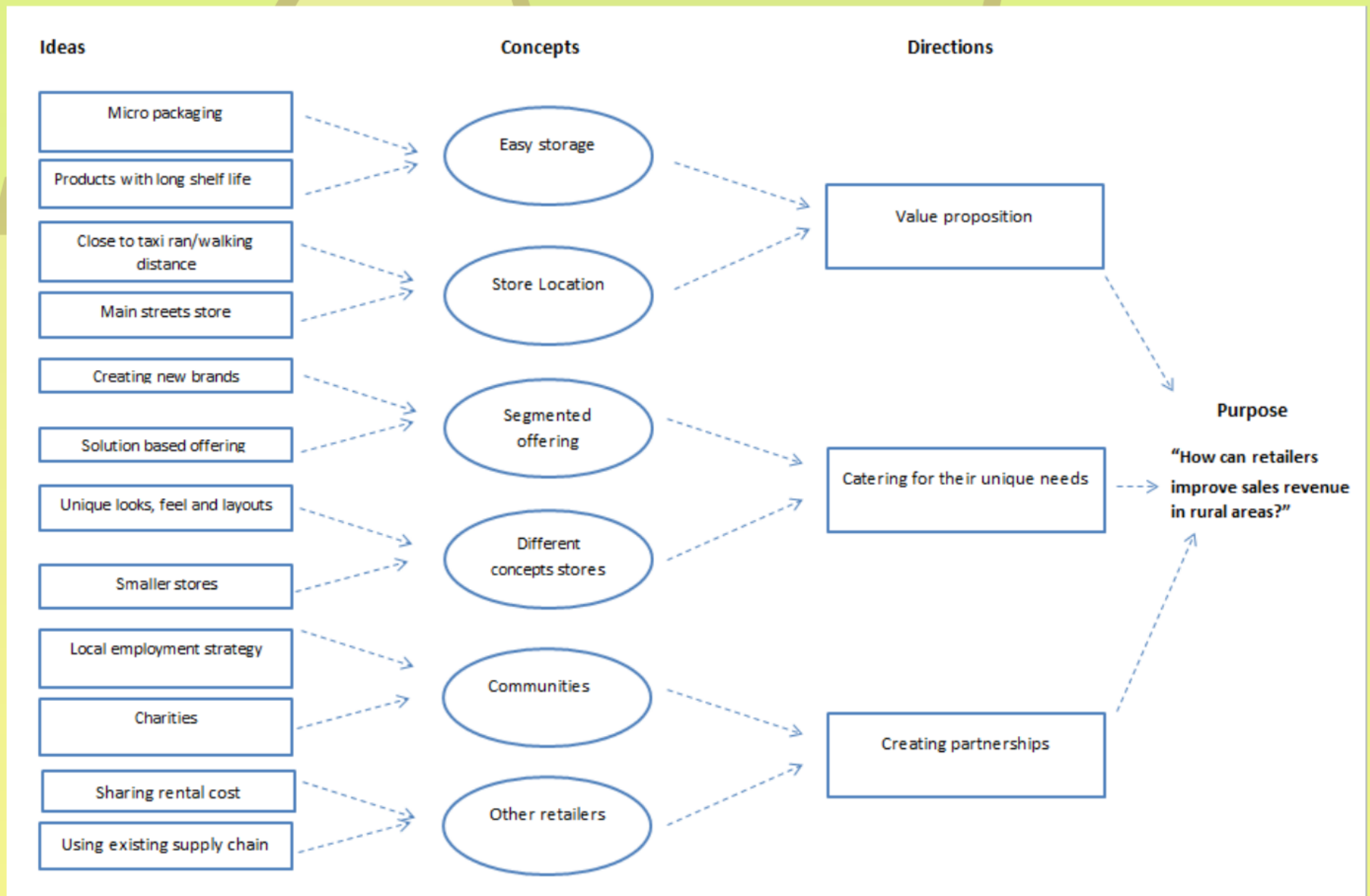
Creative Ideas



Concept Fan



Concept Fan



Sharing rental cost
Using existing supply chain

Other retailers



Why is there an opportunity in rural areas?



ities

A Case for Rural Areas

Philosophies and Examples



Case for Rural Areas

Area	GDP Growth	Key Points
Rural areas	66%	<ul style="list-style-type: none"> Rural areas are expanding too, and there is a void in retail services that is created by retailers focusing largely on urban areas. It is also clear that this expansion will continue, even as urban areas continue to explode.
Urban areas	34%	

Pre-carious
66%

Countries' GDP is generated from urban areas

- Rural areas are expanding too, and there is a void in retail services that is created by retailers focusing largely in urban areas.

- It is also clear that this expansion will continue, even as urban areas continue to explode.

Pro-rural
34%

The rest is in developing and emerging areas.

there is a void in retail housing largely in urban

continue, even in urban

The Bottom Pyramid

Why international businesses and global brands invest in developing areas and/or emerging markets...

70% of India's 1.2 billion live in rural areas

40% of total population live in urban areas

38% of South Africa's \$1.8 million live in rural areas

There is a large gap between the current state of research and the current state of practice. The gap is due to a number of factors, including the lack of a common language, the lack of a common framework, and the lack of a common methodology.

70% of the U.S. population is projected to be of color by 2042.

40% proportion of the population that is 65 years of age or older

Why international businesses and global brands invest in developing areas and/or emerging markets...

38% of South Africa's 51.8 million live in rural areas

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[illegible]

Swapping seeds channels	Portfolios of loans	SWP Basis Pt B-CT	Swapping cost % B-CT	SWP % cost	SWP % no costs	SWP B- Basis Pt
Asset-BasisPoint	Equity - Reserves	0.00%	0.00%	0.00%	0.00%	0.00%

Year-Engineers	Female, 110/200	2.5%	4.50%	20.82%	9.5%	11.30%
Regional	Female - Residents	3.69%	5.69%	32.87%	9.07%	14.63%
Intermediate	Science, Agriculture, Trades	17.62%	3.66%	39.64%	6.67%	16.35%
Highschool	Math/Eng, Science	17.62%	3.75%	42.76%	9.69%	26.38%
Large City	10-100, 1000+ (over 100)	6.16%	6.63%	36.36%	9.75%	17.34%

Large Town	Recreating, Education	0.70%	0.12%	37.40%	0.05%	14.33
Medium Town	Recreating, Education	1.40%	0.04%	45.66%	0.00%	20.89
Small Town	Recreating, Education	0.11%	0.00%	40.00%	0.00%	11.04

2005

2013



2005

2013



Philosophies and Examples

Glaeser



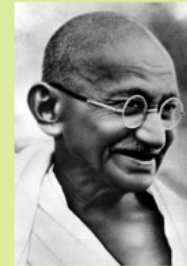
Pro-urban

66%

Countries' GDP is generated from urban areas

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

Gandhi



Pro-rural

34%

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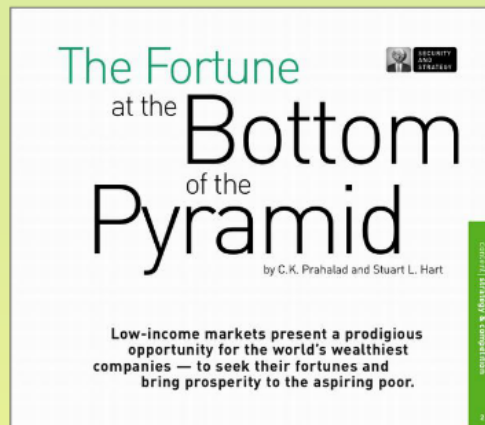
MIT Sloan Management

40

World Health Organisa

Examples

Compelling Evidence



Why international businesses and global brands invest in developing areas and/or emerging markets...

70%

of India's 1.2 billion live in rural areas

MIT Sloan Management Review article "Mobilizing for Growth in Emerging Markets"

40%

of Global population live in urban areas

World Health Organisation - "Urban Population Growth"

38%

of South Africa's 51.8 million live in rural areas

South African Institute of Race Relations (SAIRR) - "South Africa 'two-thirds' urbanised"

al
Global
developing
erging

of South
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million live in
rural areas

Great Examples



Standard Bank



Shopping centre Clusters	Examples of towns	Sales Growth on LY	Staffing cost % sales	Return on sales	Rental % to sales	Sales per Rental ratio
Super Regional	Sandton, Eastgate	2.61%	4.30%	34.85%	9.05%	13.50
Regional	Fourways , Boulders	1.80%	3.93%	39.07%	9.02%	14.50
Intermediate	Soweto, Alexander,Tsakane	17.97%	3.89%	39.64%	6.87%	19.18
Neighbour	Mafikeng, Setsing	17.57%	3.77%	42.74%	6.00%	19.96
Large City	JHB CBD, Bloemfontein CBD	3.13%	4.42%	35.08%	9.73%	12.46
Large Town	Vereeniging , Klerksdorp	0.76%	4.11%	37.43%	8.45%	14.55
Medium Town	Welkom, Harrismith	5.60%	2.85%	44.46%	4.59%	29.89
Small Town	Zeerust , Thabanchu	6.11%	2.86%	45.72%	4.35%	35.04



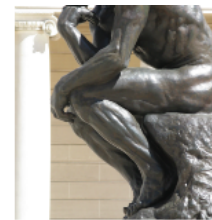
Return on sales	Rental % to sales	Sales per Rental ratio
8.85%	9.05%	13.50
9.07%	9.02%	14.50
9.64%	6.87%	19.18
9.74%	6.00%	19.96
10.08%	9.73%	12.46
10.43%	8.45%	14.55
10.46%	4.59%	29.89
10.72%	4.35%	35.04

Jozini, KwaZulu-Natal

2005



2013





Proposed Recommendations



the business case

- Based on the output of the Decision Matrix Model, which indicated customer value proposition in the rural areas as the most aligned focus
- Based on a small store leading in a rural area
- Store location slightly expensive but prime location ensures our products are highly accessible to ensure our success.
- Product portfolio
- Store design

Start-up Funding



Item	Amount
Store Design	100,000
Store Location	200,000
Store Equipment	150,000
Store Staff	50,000
Store Inventory	100,000
Store Marketing	50,000
Store Insurance	20,000
Store Legal	10,000
Store Other	10,000
Total	790,000

Pro Forma Profit and Loss

Item	Amount
Revenue	1,000,000
Cost of Goods Sold	(400,000)
Gross Profit	600,000
Operating Expenses	(200,000)
Operating Profit	400,000
Interest Expense	(50,000)
Income Before Taxes	350,000
Income Tax Expense	(100,000)
Net Income	250,000

The Implementation Plan and KPIs

Item	Amount
Store Design	100,000
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KPIs

The success of our business is going to depend on

- Customer value proposition
- Understanding our customers



Propose



The business case

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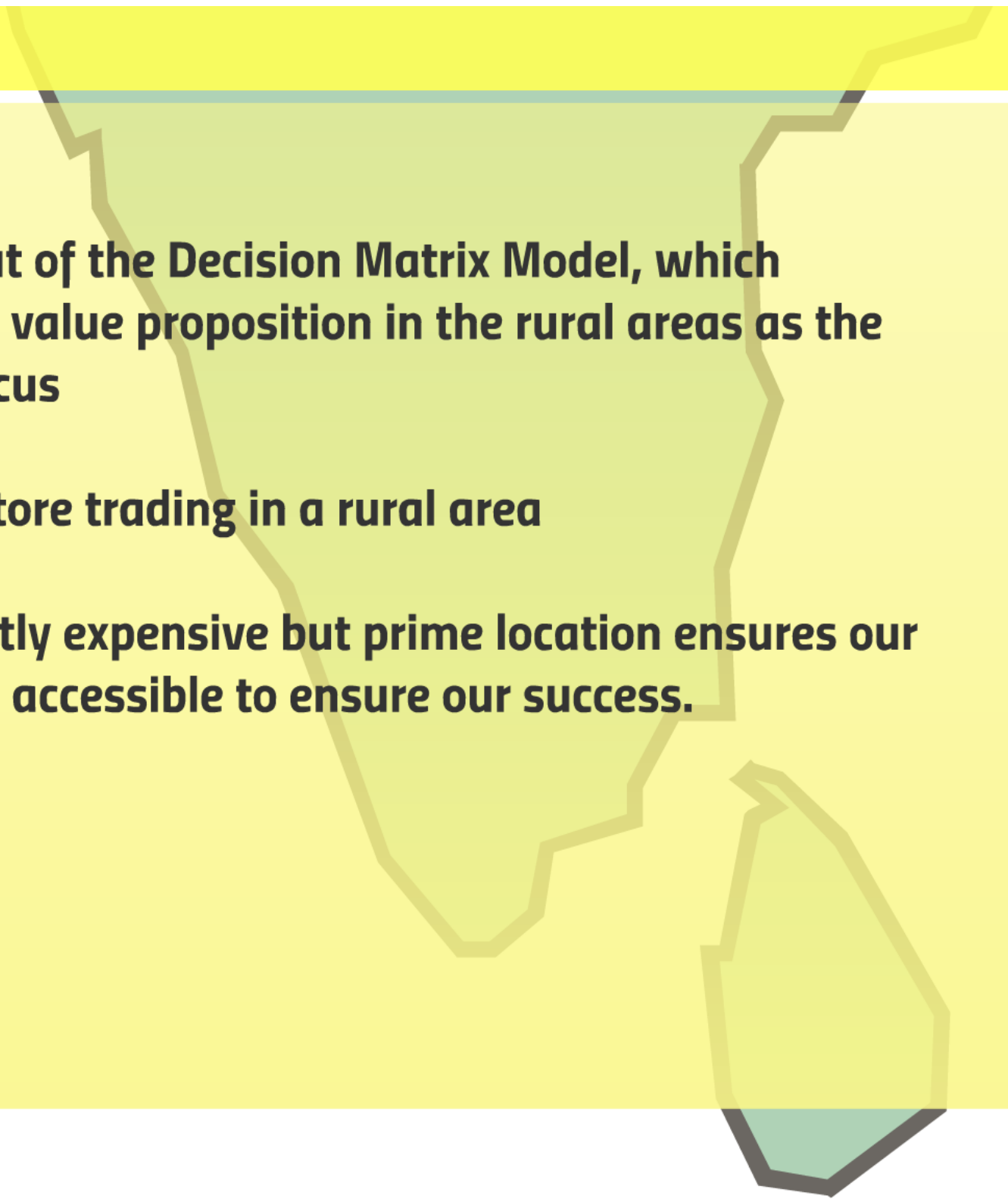
Start-up Funding



Start-up Expenses	
Legal	R 3,000
Stationery, etc.	R 2,000
Brochures	R 5,000
Marketing consultants	R 10,000
Insurance	R 2,000
Rent	R 30,000
Building renovations	R 50,000
Expensed equipment	R 10,000
Other	R 13,000
Total Start-up Expenses	R 138,000
Start-up Assets	
Cash Required	R 425,000
Start-up Inventory	R 200,000
Other Current Assets	R 10,000
Long-term Assets	R 100,000
Total Assets	R 735,000
Total Requirements	R 865,000

Pro Forma Profit and Loss

Pro Forma Profit and Loss			
	Year 1	Year 2	Year 3
Sales	R 3,295,000	R 3,990,000	R 4,687,000
Direct Cost of Sales	R 1,627,500	R 1,963,000	R 2,343,000
Other Costs of Sales	R 0	R 0	R 0
Total Cost of Sales	R 1,627,500	R 1,963,000	R 2,343,000
Gross Margin	R 1,667,500	R 1,963,000	R 2,343,000
Gross Margin %	50.93%	50.93%	50.93%
Expenses			
Payroll	R 1,612,000	R 1,611,000	R 1,622,000
Sales and Marketing and Other Expenses	R 120,000	R 120,000	R 120,000
Depreciation	R 11,420	R 11,420	R 11,420
Rent	R 120,000	R 120,000	R 120,000
Utilities	R 33,000	R 33,000	R 33,000
Insurance	R 36,000	R 36,000	R 36,000
Payroll Taxes	R 217,800	R 226,600	R 243,200
Other	R 24,000	R 16,000	R 5,000
Total Operating Expenses	R 2,084,220	R 2,065,000	R 2,199,220
Net Profit	R 583,280	R 915,000	R 953,780
Net Profit/Sales	17.88%	22.93%	20.35%

- 
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Other Costs of Goods	R 0	R 0	R 0
Total Cost of Sales	R 1,627,500	R 1,953,000	R 2,343,600
Gross Margin	R 1,627,500	R 1,953,000	R 2,343,600
Gross Margin %	50.00%	50.00%	50.00%
Expenses			
Payroll	R 1,452,000	R 1,511,000	R 1,622,000
Sales and Marketing and Other Expenses	R 120,000	R 120,000	R 120,000
Depreciation	R 11,430	R 11,430	R 11,430
Rent	R 120,000	R 120,000	R 120,000
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Insurance	R 36,000	R 36,000	R 36,000
Payroll Taxes	R 217,800	R 226,650	R 243,300
Other	R 24,000	R 10,000	R 5,000
Total Operating Expenses	R 2,014,230	R 2,068,080	R 2,190,730
Net Profit	-R 386,730	-R 115,080	R 152,870
Net Profit/Sales	-11.88%	-2.95%	3.26%

The Implementation Plan and KPIs



What must be done	Who is responsible	When	Resources required	Task completed (yes/no)
1. Conduct initial PIA	Adopt	18/03/14	Self manager	
2. Conduct initial assessment	Adopt	18/03/14	Self manager	
3. Develop a plan	Karni	10/02/14	Self manager	
4. Conduct and conduct a plan	Adopt	10/02/14	Self manager	
5. Conduct and conduct a plan	Adopt	10/02/14	Self manager	
6. Conduct and conduct a plan	Adopt	10/02/14	Self manager	
7. Conduct and conduct a plan	Adopt	10/02/14	Self manager	
8. Conduct and conduct a plan	Adopt	10/02/14	Self manager	
9. Conduct and conduct a plan	Adopt	10/02/14	Self manager	
10. Conduct and conduct a plan	Adopt	10/02/14	Self manager	

11. Conduct and conduct a plan	Adopt	10/02/14	Self manager	
12. Conduct and conduct a plan	Adopt	10/02/14	Self manager	
13. Conduct and conduct a plan	Adopt	10/02/14	Self manager	
14. Conduct and conduct a plan	Adopt	10/02/14	Self manager	
15. Conduct and conduct a plan	Adopt	10/02/14	Self manager	
16. Conduct and conduct a plan	Adopt	10/02/14	Self manager	
17. Conduct and conduct a plan	Adopt	10/02/14	Self manager	
18. Conduct and conduct a plan	Adopt	10/02/14	Self manager	
19. Conduct and conduct a plan	Adopt	10/02/14	Self manager	
20. Conduct and conduct a plan	Adopt	10/02/14	Self manager	
21. Conduct and conduct a plan	Adopt	10/02/14	Self manager	
22. Conduct and conduct a plan	Adopt	10/02/14	Self manager	
23. Conduct and conduct a plan	Adopt	10/02/14	Self manager	
24. Conduct and conduct a plan	Adopt	10/02/14	Self manager	

KPIs

The success of our business is going to depend on

- Customer value proposition
- Understanding our customers



Risks and Mitigation

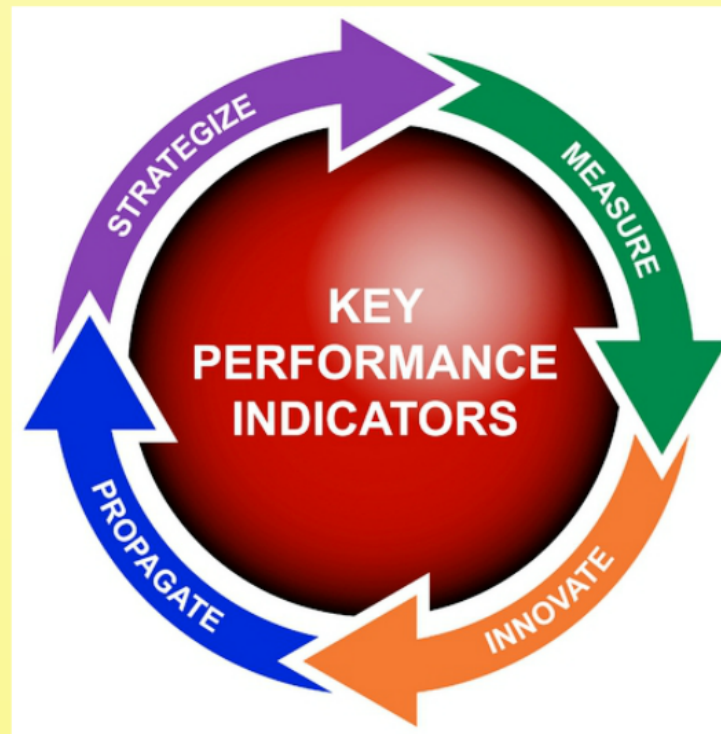
What must be done	Who is responsible	When	Resources required	Task completed (Yes/No)
1. Conduct Business Plan	Abdur	1/07/2014	Bank manager	
2. Lease with banks and investors	Abdur	1/07/2014	Bank manager	
3. Draft lease agreement	Naseera	10/07/2014	Landlord	
4. Check site and conduct floor plans	All stake 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	

KPIs

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Risks and Mitigation

Risk 1: Is the market large enough for additional players?

Mitigating Action: A market survey and segmentation was done, which identified opportunities in the market.

Risk 2: How will opposition react to the threat of another player?

Mitigating Action: Research results show that there is a market segment that the current players do cater to.



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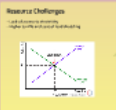
Risk 2: How will opposition react to the threat of another player?

Mitigating Action: Research results show that there is a market segment that the current players do cater to.





Findings...



HOW do local and international retailers respond to these challenges?

Adapt or Die...

Benefits

- 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 soul

Do we fail...?



Alternative Solutions Considered

Benefits

- Profit and top line growth
- Stagnant developed markets
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Do we fall...?



Do we fall...?

