

# Strategic drivers for retail in SA – considerations in the controllable and uncontrollable landscape of the future

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## OPINION

### BACKGROUND

The post 1994 new South Africa established a firm platform for economic growth, the development of a larger and stronger middle class and a higher demand for household goods and services, enabling significant growth opportunities in the retail industry – as reflected in the good business results of most listed retailers on the JSE – since 1994 up to 2008. A number of retailers utilized this period to embark on aggressive and successful growth strategies, based on long-term predictions of sustainable GDP growth while keeping an eye on exogenous events like the emerging markets currency crisis of 1998, which cause interest rates and inflation to rise to unsustainable levels.

The worldwide economic meltdown starting in 2008/9 has had its influence on the South African economy although to a lesser extent than in USA and Europe where it originated, but nevertheless the South African GDP slowed down and went into negative territory in 2009, household debt reached record high levels, and an estimated one million people lost their jobs in the formal labour market. This caused a significant slowdown on the demand side for household goods and services and impacted on the business performances and growth trajectories of listed retailers on the JSE.

This period of slowdown has been described by some prominent captains of the retail industry as the “toughest in their

careers”. Despite the gloom associated with tough periods, they also create opportunities to strategically reposition a business for the future than good times sometimes allows as confirmed by the GE CEO Rumelt (2009) when he said: “During hard times, a structural break in the economy is an opportunity in disguise to survive – and eventually, to flourish – companies must learn to exploit it”. The option to use or lose the opportunity for repositioning businesses, as the South African economy is preparing itself for incremental and slow recovery, remains in the hands of the captains of the retail industry. If the option to use it is to be exercised, two sets of factors – (1) uncontrollable and (2) controllable have to be considered in the effort to shape a position in the retail market relevant for the future and to secure sustainability.

### UNCONTROLLABLE DRIVERS

#### *Political*

The South Africa is now fully integrated into the global political economy and therefore a business conducive international environment with a stable international political and economic environment with growth – including absence of major exogenous shocks (e.g. catastrophic terrorism attacks like 9/11, oil price) and a positive investment sentiment towards emerging markets must be considered as major growth drivers.

The South African government is faced with a challenge of entrenching democracy, building democratic institutions and sustaining confidence in the judicial system and rule of law while adopting a fairly conservative economic posture – with prudent fiscal and monetary policies on one hand while facing massive service delivery challenges in most of its social economic spheres on the other hand and this will continue for the foreseeable future, with direct cost implication for retail industry in terms of the:

- Cost of doing business – especially costs generated by public sector providers like electricity costs and railway transportation costs
- High levels of crime causing business to focus more than ever before on prevention strategies – at a cost
- Deterioration of road networks and associated transport maintenance costs
- Impatience of South Africans on the unfulfilled promises of a better life with significant risk for social stability – especially around the unsuccessful building and provision of houses for millions living in shacks in fast growing urban areas and unsuccessful redistribution of agricultural productive land as articulated in the land policy

### **Social, Law and order**

- A continuation of higher dependency on social grants as a mean to satisfy basic needs with the associated impact on the fiscal
- Maintaining law and order and reducing levels of crime – including levels of actual corruption and perceptions of corruption

### **Economic**

- Relative slow recovery in GDP growth causing a more competitive environment for market share of disposable income
- Highly volatile exchange rate impacting on import cost forecasts and export capability forecasts.

- Possible slowdown in fixed investment in especially the electricity and transport sectors to alleviate the capacity problems while also addressing effective energy saving plans
- The will to proactively, smartly and efficiently manage scarce water resources in all areas of the economy – agriculture, mining, industrial and households

### **Labour**

- Continuation of a demand for higher wages driving costs wages bills higher.
- Addressing the serious skills shortage – starting with fundamental changes in the school and university system

### **Regulatory**

- A business environment with an even higher degree of regulatory requirements causing a direct impact on the cost of doing business
- Sufficient competition in all sectors of the economy, and a fair, efficient and non-penalising tax system

## **CONTROLLABLE DRIVERS**

### **Product (merchandise)**

The challenge of the future will be to not only have contemporary product available to satisfying customer's needs but to offer a real value proposition that is more than product as a commodity.

### **Service (customer)**

Products in the world of commodities are easily copied and there is limited scope for a differentiated offering but when coupled with differentiated services, they are more difficult to copy due to their people dependency.

### **Multiple products through multiple channels**

The notion of limited products through limited channels will be challenged – the migration away towards multiple product

and service offerings has started and will build momentum.

### **Price (Value for money)**

The value for money competition will intensify in the context of the race for the disposable income in the market – innovative packaging of solutions for consumers in this domain will be imperative for success.

### **Financial services (Value proposition)**

The role of retail owned and managed financial services solutions will become increasingly important as a core competence whilst conventional retail banks continue in their effort to master the funding of household credit for consumer goods.

### **Technology**

- Continuous refreshing of technology platforms and using new technological developments appropriately will be at the pivotal to retailers' effort to drive efficiencies and customer service up whilst reducing cost enabling business strategies
- Online shopping will grow as the cost of broadband internet services reduces; access increases and younger generation customers who are internet savvy make it their primary shopping entry.

### **Customer Relationship Management**

The ability to have constant accurate access of every individual customer to enable predictable buying behavior and customer satisfaction will cement competitive capability.

### **Location**

Migration of communities from rural to large metro's and migration of communities within large metro's will have to be closely monitored to secure optimum location (site) for retailers.

### **Leadership**

- The leadership competence set and

requirements will change dramatically, ability to cope with highly volatile and fast changing environments in a diverse workforce and an increasing customer and shareholder-demanding world will be a prerequisite for success.

- Having a future orientation and using economic value metrics to make investment decisions

## **POST RECESSION RETAIL TRENDS**

Watson (2009) identified the following significant changes in consumer behavior as additional variables to be considered for at least the short and medium period post recession;

- Cheap is now cool
- People are trading down in general, and shoppers are trading down between segments
- People are creating and consuming at home
- Consumers want to be in control
- It is ok to rent
- We've burned the bling
- Simplicity is back
- Local not global

## **CONCLUSION**

The strategic challenge for retail leaders will be to navigate their way through the set of uncontrollables, controllables and the post recession variables.

The fundamentals of retail from a character point of view will remain intact but the content can and will change in its essence and the ability to develop proactive strategies in a new world as described by Rumelt (2009) among others, will be foundational to future success

*"Strategy is a cohesive response to a challenge. A real strategy is neither a document nor a forecast but rather an overall approach based on diagnosis of a challenge. The most important element of a strategy is coherent view point about forces at work, not a plan"*  
 – (Rumelt:2009)