

# THE EXPANSION OF REGIONAL SUPERMARKET CHAINS: IMPLICATIONS FOR LOCAL SUPPLIERS IN ZAMBIA

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**UNU-WIDER and the National Treasury conference**  
**Growth and Development Policy: New Data, New Approaches, and New Evidence**  
**30<sup>th</sup> November, 2016, Pretoria**

☐ What is the Story?

☐ Why it Matters

☐ Objectives

☐ Methodology

☐ Findings

- ✓ Determinants of Participation
- ✓ Domestic and Trade Constraints
- ✓ Barriers to Entry

☐ Policy Recommendations



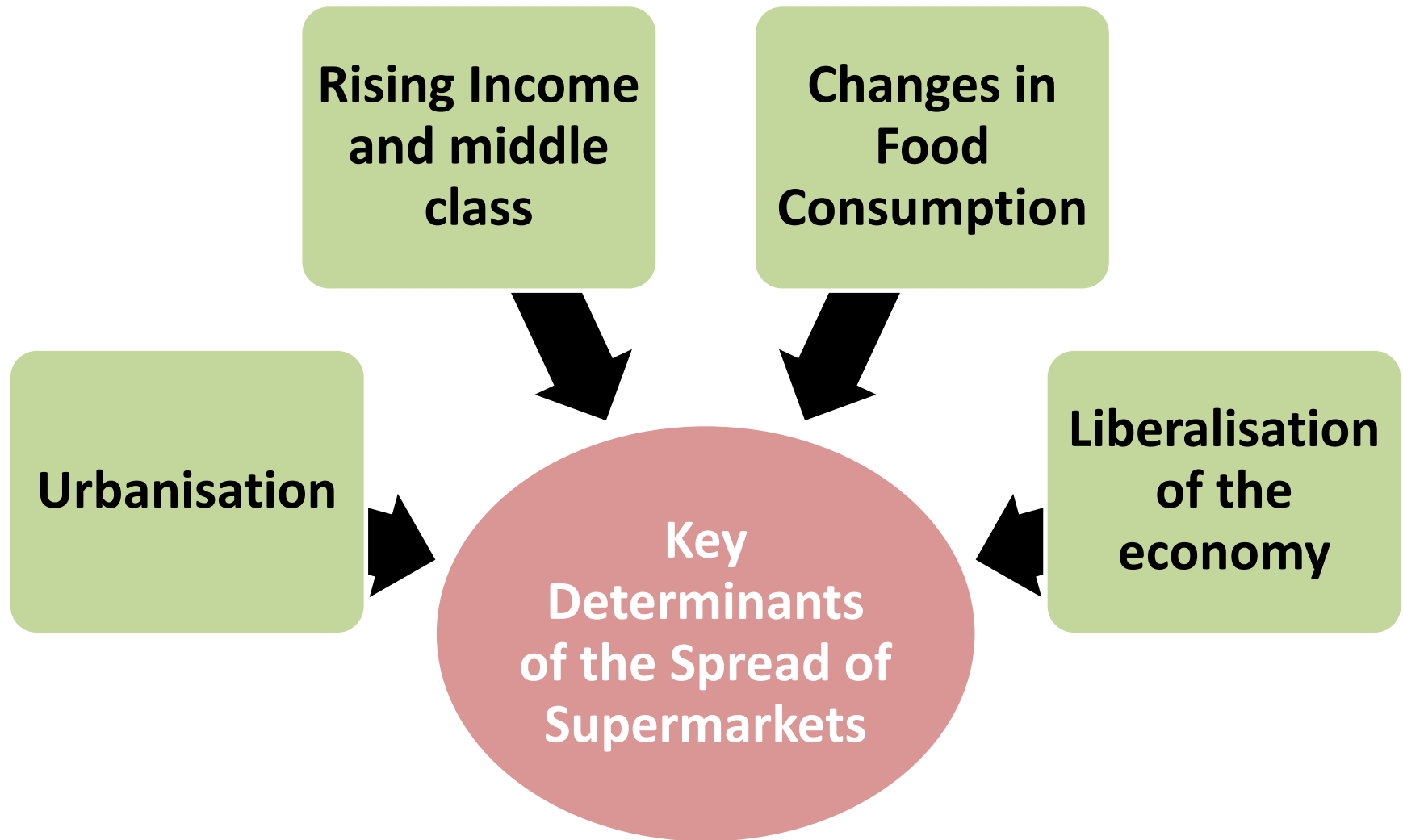
# What is the Story?

- Past 20 years have seen a sharp increase in the number of supermarkets chain stores across Zambia [Table 1](#)



- Mainly spearheaded by South African supermarkets – Shoprite

- Traditionally - concentrated in the CBDs districts and prime shopping malls in major cities and urban towns [Picture 1](#)
- Recently spread into peri-urban low income areas which are more densely populated



# Why it matters



1. Improved product and services availability
2. More consumer choice
3. Direct and indirect employment
4. Stimulus for agro processing/manufacturing and associated knock-on effects on:

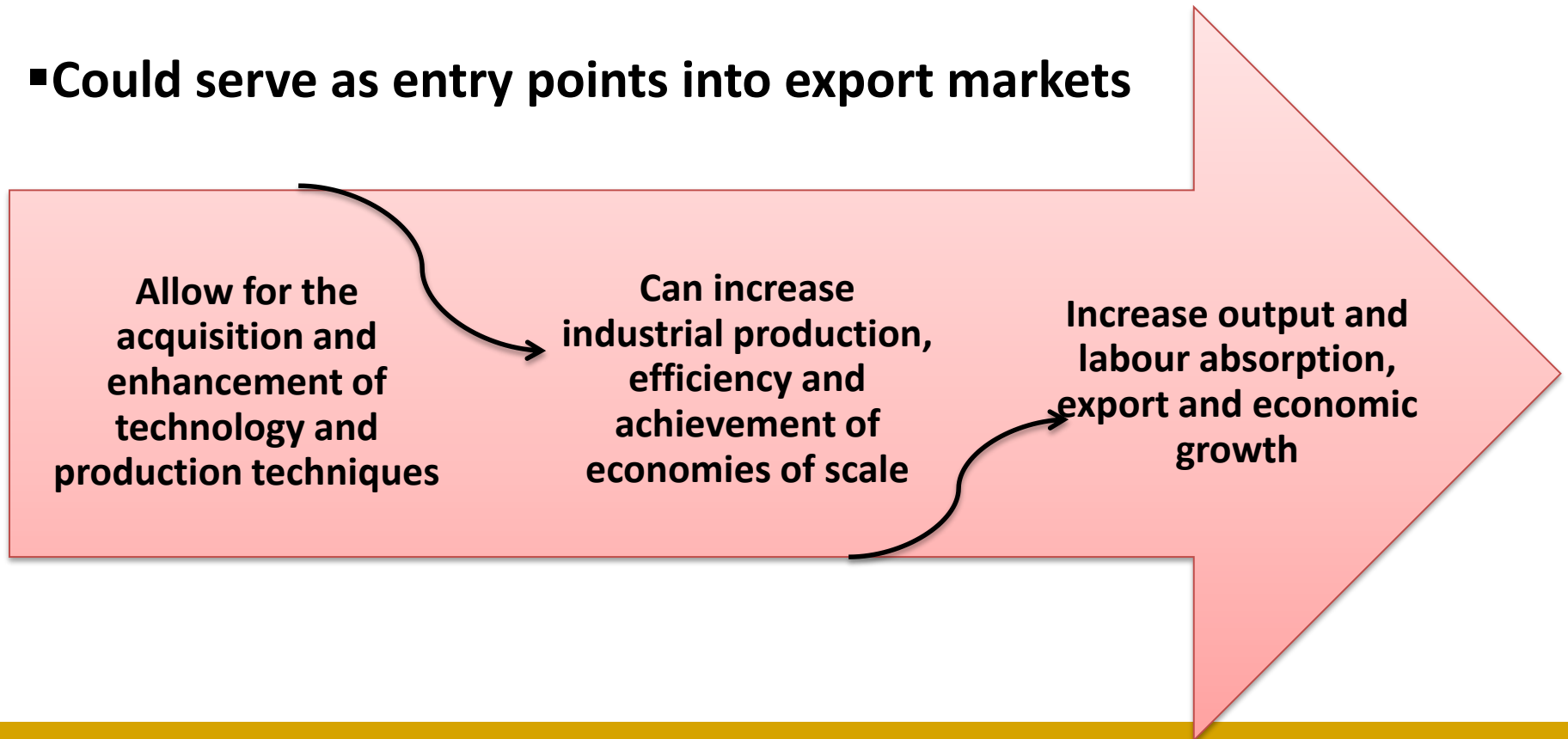
employment  
creation

export  
growth

economic  
diversification

poverty  
alleviation

- **Access and full integration of local processing firms into SVC has the potential to improve the production capabilities of local industries**
- **Could serve as entry points into export markets**



## **Growing Concern :-**

- Participation of local suppliers in supermarket value chains remains limited (***80% of processed goods imported from SA***)
- This potentially deprives Zambia the opportunity to capitalise and harness the potential for industrial development from supermarket value chains
- Deprives the opportunity to access formal markets which are generally propagated to be superior to traditional markets



# Trading Beyond Borders

- The manufacturing sector continues to hold unexploited potential for increased industrialisation and a broader export base.
- More than half of Zambia's exports across all the selected processed goods, ***except for processed and preserved fruits and vegetables***, were exported to countries within the region.
- **DRC, Zimbabwe, Malawi** and to a lesser extent, **South Africa** accounted for the greatest market share of Zambia's exports of processed goods.
- Spread of supermarkets and growing demand for processed foods and other household products in the region, present regional market opportunities for finished high value processed goods

[Figure 1](#)





- **Investigate the capabilities required to make local processing firms more competitive, and effectively integrate into SVC and regional markets**
- **Examines constraints hindering increased local firm participation in SVC**

- Mixed analysis of qualitative and quantitative data obtained from primary and secondary sources
- Principal dataset obtained from survey of local processing firms augmented by **KII** of five major supermarket chain stores in Zambia.
- Use the probit model to predict the likelihood that local processing firms will supply supermarkets based on a vector of observed exogenous variables ([Table 2](#)) as follows:

$$\Pr (y = 1 \mid X) = \Phi (\beta_0 + \beta_1 X_1 + \dots + \beta_k X_k)$$

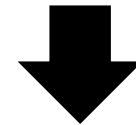
$$\Pr (\text{supply} = 1 \mid X) = \Phi (X\beta)$$

# ***Findings...***

# Determinants of Participation

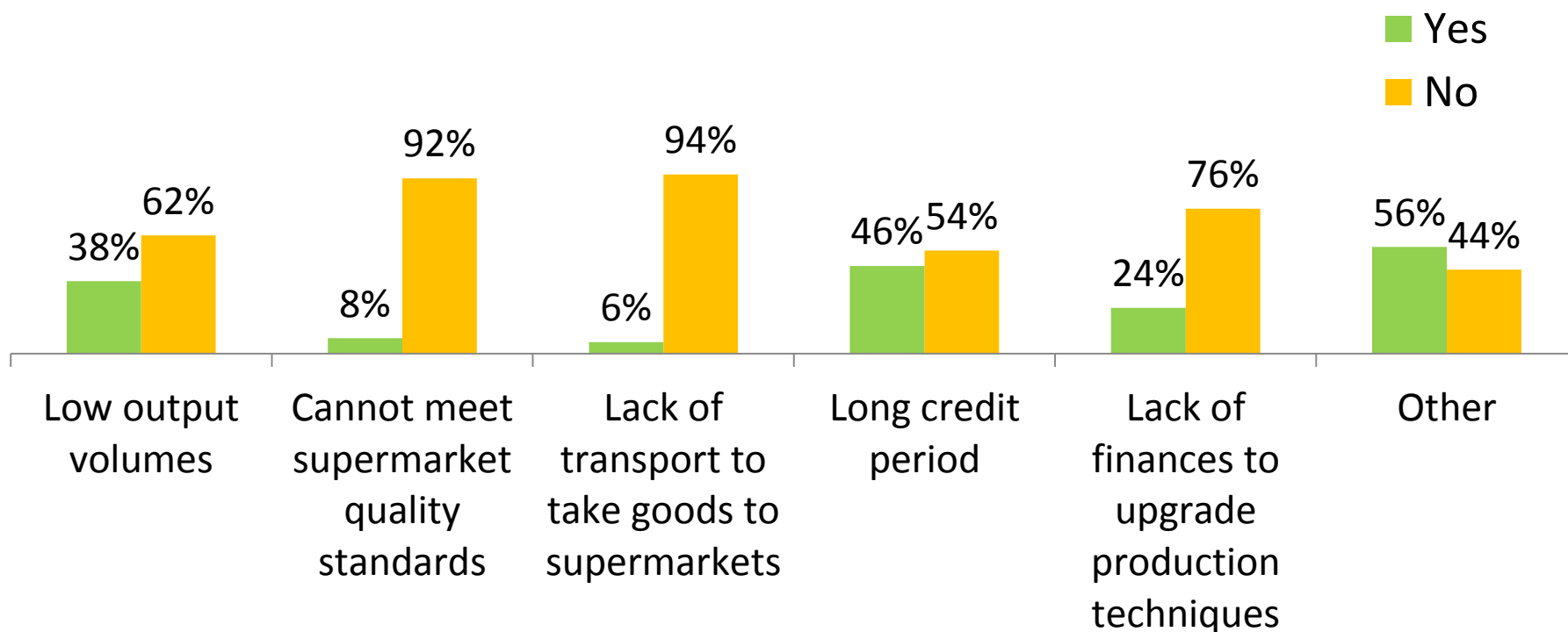
- Sample size = 99 obs
  - 48% - supermarket suppliers
  - 52% - non-suppliers
- Use maximum likelihood **probit model**
- Reduces number of observations to 74
- Results at  $\alpha = 0.05$  ([Figure 2](#)):

- Bar-coded Products
- Investment in machinery



***Statistically significant***

## Reasons for not supplying Supermarkets: the Non-Suppliers



# Constraints facing local firms

## Domestic and Trade Constraints Faced by Local Firms



Load  
Shedding



Access to  
Finance  
(66%)



Cumbersome  
Border  
Procedures

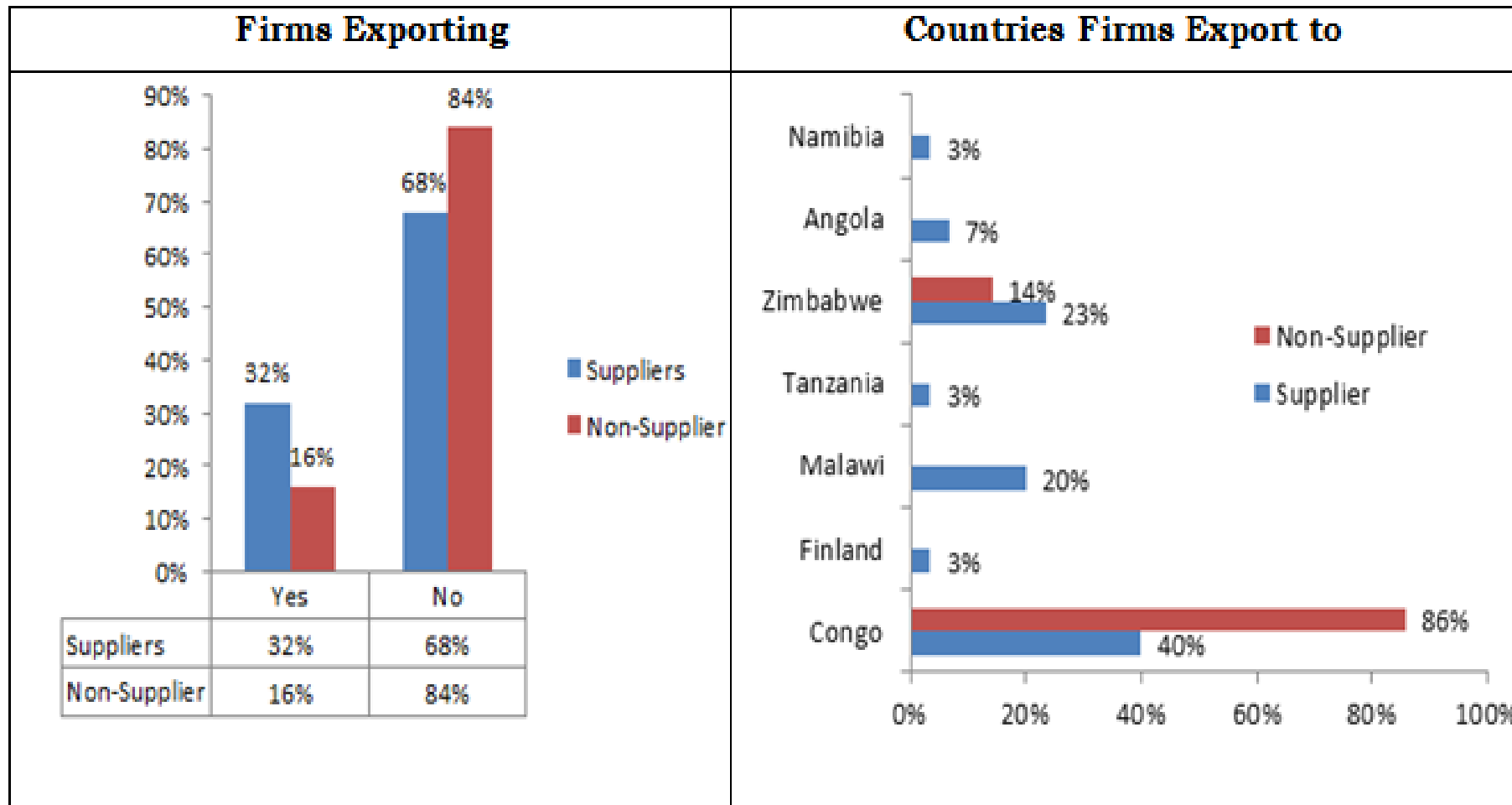


High  
Transportation  
Costs



-Language  
Barriers  
- Bribes

# Firms' Export Capabilities



# What Products Offer Opportunities for Local Firms?

## Top 3 Products Sold by Supermarket for each Product Category (by sales volumes)

Dairy	Processed Grains	Processed Foods	Edible Oils	Household Products
Fresh Milk	Maize Meal	Baked Beans	Cooking Oil	Detergent Paste
Lacto	Bread	Corned Meat	Margarine Butter	Bathing Soaps
Yoghurts	Rice	Honey		Dish Washer

- Canned products offer domestic firms most opportunities due to low local production
- Local production already exists for other products with potential for expanded local production



## **Structural Barriers to Entry**

- Domestic regulatory standards – ZABS
- International regulatory standards –HACCP

## **Strategic Barriers to Entry**

- Supermarkets' Procurement Strategies
- Supermarkets' Procurement Criteria
- Supermarket Supply Contract Conditions
- Competition from Vertical Integration of Supermarkets

# Asymmetry in Perceptions of Firms' capabilities

## Supermarkets' Procurement Criteria versus Firms' Perceptions



## Supermarkets' Perceptions of Firms' Competitiveness versus Firms' Perception of their Competitiveness



# Competitive dynamics: Supermarkets versus Supermarkets

- Incumbent supermarkets tightened their price strategy and their marketing expenditure in response to the new competition
- Mixed views regarding use of exclusive leases with shopping centres to curtail competition (Duration of existing exclusive lease - 5 years, previous leases longer -25 to 30 years but were no longer in effect due to CCPC Act which discourages exclusivity clauses.
- Notably, none of the supermarkets reported to have been denied access to a shopping mall as a result of an exclusive lease in place between a major incumbent supermarket and the shopping mall.



**VS**



# Conclusions

- The spread of supermarkets in Zambia has the potential to confer greater benefits than the mere provision of various goods
- Avenue through which industrial production can be stimulated by participation of local processing firms in their value chains
- Potential to boost manufacturing growth in Zambia.
- Aid the broadening of Zambia's export base to counter the risks associated with the dependence on metal commodities that are susceptible to international price shocks
- Lead to knock on effects on employment creation that can offer citizens reprieve from poverty.

# Policy Recommendations

**Establishment of a  
Supplier  
Development Fund  
(SDF)**

**Local Content  
Policy**

**Import  
Substitution**

**Leveraging on  
Supermarkets'  
Transport Systems  
for Exports**

**Addressing Trade  
Barriers**

**General Support to  
Local Firms from  
Supermarkets and  
Government**



Thank You  
Thank You  
Thank You!!!!