Retailing

WHERE GROCERS BATTLE IN CHAINS

Peter Honey

Two SA supermarket chains; one retreating from Africa, the other charging in hell-for-leather. It's a study in timing, commitment and strategic priority.

The normally bold Pick 'n Pay's withdrawal from Tanzania last November, when it sold its three ailing stores in Dar es Salaam to Shoprite/Checkers, is not surprising when one looks at the details.

"We just weren't able to give the attention necessary to Dar es Salaam because we have been focusing on our operation in Australia," explains Pick 'n Pay deputy chairman David Robbins, who controls the group's African operations. It still has interests and partnerships in Botswana, Namibia and Zimbabwe.

Robbins blames the Tanzanian failure on widespread smuggling by competitors, and logistical and regulatory problems – the difficulty in maintaining adequate warehousing and IT infrastructure in a country with not enough resources, and finding and keeping qualified buyers and accountants to run the operation.

"That kind of expense can't be absorbed by two or three stores," he says. "You need at least six or more up and running to make a go for it."

It's an assertion Shoprite CEO Whitey Basson seems to defy with relish. Over the past 10 years he has built a network of about 60 stores in 14 African countries, many smaller than six-store operations.

Zambia, his first African venture, now has upwards of 20 stores and is probably the chain's most profitable operation outside SA. Africa now accounts for 10% of group turnover and 12%-14% of profits, says Basson. He boasts returns of up to 40% on his African investment.

Some analysts suspect, though, that his African network is carried by Zambia. Basson denies this, saying just three countries – Egypt and two others, which he won't name – are not performing on par. The Egyptian operation involves four stores in Cairo and is still in a development phase, complicated by supply distance and difficulties with Egyptian manufacturers.

Problems elsewhere include having to compete with traders using smuggled goods, outdated legal systems and over complicated tax regimes. "The sort of things you find where any closed economy is opening up," says Basson.

He also plans to expand into India later this year. Some market sources claim Shoprite receives a sizeable share of its African earnings from nonretail activities. But Basson says this is nonsense. "We have no nonretail earnings except through currency loss or devaluation," he says.

Nevertheless, where Shoprite has built and operates shopping centres – such as in Maputo, Nairobi and lately Mauritius – it earns rent in hard currency. Basson says he has structured Shoprite's foreign investments in such a way as to hedge against rand depreciation.

However Shoprite makes its money in Africa, its good enough for Basson to reaffirm and abiding commitment to the continent. He hopes to have 30%-40% of groups profits from the African trade by 2005. Trading densities in Africa are too low to carry growth, he says, and Europe and the US are too challenging.

Robbins, meanwhile, insists Pick 'n Pay has not forsaken Africa: "Australia is our concern at the moment, but after that we will look more aggressively at opportunities on the continent."

That may take considerably more commitment than Pick 'n Pay had shown in Africa to date. The challenges Robbins blames for the closure in Tanzania will not disappear soon. The relative poverty of the markets remains a disincentive. One analyst estimates that the potential earnings of Pick 'n Pay in all of Tanzania is no more than that of a single hypermarket in SA.