The sustainability of the spaza shop business model
in a changing environment

A Research Report
Presented to

In partial fulfilment
Of the requirements for the
Master of Business Administration Degree

By
Mbangose Hoohlo

December 2004

Supervisor: Dr. Eric J Wood
This report is not confidential. It may be used freely by the Graduate School of business.

I wish to thank my supervisor Dr. Eric J Wood for his valuable assistance and guidance with my research. I would also like to thank all the respondents to the questionnaire.

To my family, a final word of thanks for all the support over the past two years.

I certify that except as noted above the report is my own work and all references used are accurately reported in footnote.

Signed:

MBANGOSE HOOHLO
THE SUSTAINABILITY OF THE SPAZA SHOP BUSINESS MODEL IN A CHANGING ENVIRONMENT

ABSTRACT

This study seeks to investigate the sustainability of the spaza shop business model in the South African retail industry that is dynamic and currently going through some changes. Big retailers are now entering townships and hence are expected to take some of the market share from spaza shops. Various studies of SMMEs in developing countries have shown that SMMEs are more likely to feel the changes in the macro-economic environment in which they operate. Thus, to remain competitive, most successful SMMEs adapt strategies that are emergent. Several different variables were used to measure the performance of spaza shops since the entry of big retailers into townships. The results indicate that the performance of spaza shop businesses has been affected negatively by the entry of big retailers into townships, with those located near shopping centres affected most. Some spaza shops have responded to increased competition by adopting strategies that include changing their product range and adjusting their prices to match those offered by big retailers. These strategies have enabled some spaza shops to remain viable businesses despite the entry of big retailers.

KEYWORDS: Spaza shops, Small, Medium and Micro Enterprises (SMMEs), Entrepreneurship, Informal Sector, Strategy, Gross Domestic Product (GDP).
GLOSSARY

Spaza

“Spaza” means “hidden”, a term which rose during the apartheid era when restrictions were placed on black people running businesses. Spaza shops are informal convenience stores located mainly in disadvantaged communities in people’s houses or in corrugated iron built shacks in people’s backyards.

SMME

Small, Medium and Micro Enterprise

GDP

Gross Domestic Product

Informal Sector

The informal sector is defined as those who work in small unregistered enterprises, both employed and employees, as well as self-employed persons who work in their own family businesses.
AIM

To determine the impact of big retailers on the spaza shop business model and to explain the extent to which spaza shop owners have adopted innovative strategies to gain competitive advantage and ensure their sustainability.

Objectives

Three specific objectives expanding from the general aim are:

1. How has the entry of big retailers in townships affected the spaza shop business model?
2. What innovative strategies are spaza shop owners adopting to remain sustainable?
3. Have these strategies been effective in giving spaza shops the competitive advantage over the new entrants?

Hypotheses

Three hypotheses are proposed to guide in pursuing the above stated objectives:

1. The entry of big retailers in townships has had a negative impact on the spaza shop industry and the ones located near big retailers.
2. Some spaza shop owners have adapted their strategies to respond to increased competition.
3. Some spaza shop owners have responded effectively to increased competition and have remained viable enterprises despite the entry of big retailers.
THE SPAZA SHOP RETAIL MARKET

“Spaza” means “hidden” or “camouflage”, a term which rose during the apartheid era when restrictions were placed on black people running businesses. Spaza shops are informal convenience stores located mainly in disadvantaged communities in people’s houses or in corrugated iron built shacks in people’s backyards. South Africa, ten years as a democracy, is in a position where it has both first-world retailing (formal) industry in urban areas and third-world retailing (informal) industry in rural areas and townships. The informal sector is described as economic activities that take place outside the norms of economic transactions established by the state and formal practices but which is not illegal (Cross, C.C., 1998). This applies to activities that fall outside the formal sector that is registered, taxed, licensed, statistically documented and appropriately zoned business enterprises (Wolfgang, H.T., 1988).

The South African spaza shop retail market was estimated at 2.7% of the total South African retail market in 2000, which translates to about R6 billion (Ligthelm, A.A., 2002). It is estimated that there are 14 000 spaza shops in Greater Cape Town, with an average weekly turnover of about R1 500, which equals to an annual turnover of more than R2 billion (Strategy & Tactics, 2002). Products contributing the most to spaza shops turnover have been identified as soft drinks, cigarettes, paraffin/candles and maize meal (Ligthelm, A.A., 2002). South Africa has seen a rise in consumer demand for convenience shopping, with most retailers rolling out smaller convenience shops and linking up with fuel stations, which combine fuel sales with 24hr retail outlets, banking facilities and fast food services1. The stores at service stations are considered as serious competition for spaza shops as they also stock basic grocery items such as bread, milk, cigarettes, cold drinks, toiletries and household detergents and are open 24 hours of the day2.

Some of the challenges spaza shop owners face include battling to get loans or credit to expand their businesses as banks and other financial institutions do not offer financial assistant to businesses in these areas. They are therefore stuck in this informal economy with little chance of emerging from it, and yet they are expected to

---

1 Ernst & Young, 2003
2 Cant, M. et al., 1999
compete with big retailers who have easy access to resources and finances in the formal economy. Other challenges include poor infrastructure in townships, lack of transportation, theft and pest control. Innovative ways in which spaza shop owners have dealt with some of the problems highlighted include (Strategy & Tactics, 2002):

1. Lack of transport was dealt with by organising “group” transport to suppliers.
2. Using catalogues to compare prices.
3. Using suppliers who package goods for selling in smaller quantities.
4. Stock based on demand.
5. Financing by friends and family.
6. Introducing security measures to deal with theft.

The black population group is responsible for 52% of the total consumer spending in South Africa, hence as a group black consumers have considerable purchasing power (Cant, M. et al., 1999). The market is also highly brand conscious with a number of strong consumer brands. Many consumers find spaza shops expensive and use them mainly for their convenient locations and this might be seen as limiting their growth potential. Whilst price and convenience are highlighted as critical factors that influence consumer use of spaza shops, other forces also play a role (Strategy & Tactics, 2002). These include (Cant, M. et al., 1999):

1. The extent to which spaza shop owners care about what customers think of their stores and see it as their responsibility to conduct market research on a regular basis.
2. Sensitivity to the diverse culture and customer needs in townships.
3. They do not focus only on providing the basic necessities but also offer a breadth of product range including toiletries and household detergents.
4. Introduction of the self-service concept to sell to their customers.
5. The extent of after-sales services such as attending to defective goods for value-added services.
6. A broader understanding of their competitors and not only focusing on similar operations inside townships as the only competition.
7. They use more advanced accounting and financial management techniques.
8. The extent to which spaza shops play a role as socially responsible in situations in the township community.
9. Whenever possible, merchandise is bought directly from manufacturers and fresh product market, reducing the number of players in the distribution chain.
10. A lot of in-store marketing done to promote the range of products and services offered.

The size of the retail industry in South Africa was estimated to be R210 billion in 2002 (Ernst & Young, 2003). There are many players in the food retail sector ranging from retail chain supermarkets such as Pick’n Pay, Shoprite Checkers etc; Wholesalers such as Makro, Metro, Cash & Carry etc; independent stores such as Bargain Group, Shield etc; fuel stations with convenience shops; traditional stores such as general dealers, spaza shops and tuck shops etc. The three largest retailers are Metro Cash & Carry (wholesalers), Shoprite Checkers and Pick’n Pay (both food retailers) (Ernst & Young, 2003).

Before 1994, white business was not allowed by law to own property in black areas and vice versa. Fund management companies have invested in retail property developments in townships and rural areas. This has led to the development of multimillion rand shopping centres in black townships. The centres are anchored by Shoprite Checkers, Score Supermarkets, Pep Stores, Mr Price, Boxer, the JD Group, Ellerines, Lewis and the four big banks (Khuzwato, W. 2004).
LITERATURE REVIEW

Entrepreneurship is defined by Stevenson et al (1989) as the process of creating value by bringing together a unique set of resources to exploit an opportunity. It has three key underlying dimensions; innovativeness, calculated risk-taking, and proactiveness (Morris and Sexton, 1996). Entrepreneurship and various levels of SMME employment are important to economic development. The total entrepreneurial activity (TEA) index, the primary measure of entrepreneurial activity in Global Entrepreneurial Monitor (GEM), for South Africa was 4.3% in 2003, falling from 9.5% in 2001 (GEM, 2003). The survey also showed that South Africa ranked 22nd out of 31 countries in terms of new business formation. According to GEM, South Africa’s entrepreneurial activity on a range of measures is much lower than other developing countries.

The informal sector is defined as those who work in small unregistered enterprises, both employed and employees, as well as self-employed persons who work in their own family businesses. This sector represents a large and growing segment of the workforce in developing countries, with about 93% of new jobs represented in Africa; 83% in Latin America and the Caribbean (Bridges.org., 2002). The South African small, medium and micro enterprise (SMME) sector is divided into three sets of enterprises, according to the National White Paper on Small Business, which draws upon international patterns (South Africa, 1995a).

The first comprises survivalist enterprises, which are defined as a set of activities undertaken primarily by employed people unable to find regular employment, operating in the informal economy (Rogerson, C., 2000). In this group, incomes usually fall short of minimum standards, with minimal skills training and little prospects for growth into a viable small business enterprise. The second group comprises micro enterprises which involve at most four employees, usually members of a family. The entrepreneurs usually have limited training and business skills and many micro-enterprises can change into viable formal small businesses. The third group comprises small and medium enterprises which constitute the basis of the formal SME economy (small enterprises between 5 and 100 employees and the medium enterprises between 100 and 200). SMMEs are usually owner-managed,
operate from fixed premises and bear all the trappings associated with formality (South Africa, 1995a; Ntsika, 1997a).

Emerging SMMEs are largely black or coloured owned and operate in urban townships, informal settlements and rural areas. In these areas, the role of SMMEs in employment promotion is particularly significant given the fact that the past-apartheid economy has been characterised by ‘jobless growth’. In terms of economic redistribution in South Africa, SMME promotion contributes quite significantly in redressing the economic inequalities inherited from the apartheid period (Rogerson, C., 2000). The majority of the population working in SMMEs are unlikely to ever escape the struggle for survival, ‘constrained by a number of factors which constantly reinforce their position at the bottom of the pile (Horn, P., 1995). von Broembsen 2003, classified SMMEs in South Africa as shown in the table below.

Table 1\(^3\). Classification of SMMEs.

<table>
<thead>
<tr>
<th>Enterprise Size</th>
<th>Description</th>
<th>Number of Employees</th>
</tr>
</thead>
</table>
| **Survivalist (23% of businesses)** | • Income generated is less than minimum income standard or the poverty line.  
• Economic activity directed at providing minimal means to keep the unemployed and their families alive. | • No paid employees. |
| **Micro (47% of businesses)**    | • Turnover is less than VAT registration limit.  
• Usually a lack formality regarding registering for tax, labour legislation, premises and accounting procedures. | • 1-5 employees. |
| **Very Small (20% of businesses)**| • Operates on the formal market and have access to technology.               | • Less than 10 paid employees. |
| **Small (8% of businesses)**     | • Business practices more complex.                                          | • Less than 50 employees. |
| **Medium (2% of businesses)**    | • Still owner/manager controlled, but more complex management structure.    | • Less than 100 employees. |
|                                  | • Separation of ownership is the barrier between medium and large enterprises. |                     |
|                                  | • Further decentralisation of decision making.                               |                     |

\(^3\)As classified in Ntsika 2001, The State of Small Business in South Africa.
The primary reason for starting a survival enterprise is literary to put bread on the table and is unrelated (a) to a business opportunity or (b) to the entrepreneur choosing to start a business rather than pursuing employment (Rogerson et al., 1997; IOD 2000, Ruiters et al., 1994; Riley 1993). Survivalist enterprises tend to operate in specific sectors, either in retail or in the service industry, selling the same products or services to the same limited market. The profit margins for these enterprises are very low; they trade in low value-added activities with fierce competition. This leads to “overtrading”. (Rogerson et al., 1997; Von Broembsen et al., 1995a; Taskgrow 1993; Qualmann 2000).

It is generally assumed that informal sector businesses provide little real economic growth. However, the sector is said to be quite efficient at generating job opportunities and satisfying basic population needs at very low cost (Koray, 1991). These businesses are often assumed to be inefficient, survival-oriented enterprises and provide a subsistence existence. These enterprises are usually one-person operations with heavy reliance on the family unit. The informal sector in developing countries not only makes significant contribution towards gross domestic product (GDP), but is a major potential source of entrepreneurship (Morris, M.H. et al., 1997). In many so-called “developing nations”, the informal sector is believed to account for well over half of GDP. In South Africa, the informal sector is estimated to represent between 16% and 40% of GDP (Morris, M.H. et al., 1997). The returns tend to be low, security and stability are minimal, long working hours, poor working conditions (Devarintert & Watson, 1981). The high growth of this sector in recent years is said to parallel urbanisation, with migration to cities in developing countries far out pacing the employment capacity of modern manufacturing and other formal sector activities (Sethuraman, S. V., 1981).

SMMEs are more likely to feel the changes in the macro-economic environment in which they operate. Thus, to remain competitive, most successful SMMEs select strategies that affect their flexibility, allowing them to adapt to increased competition. SMMEs regard having a strategy as vital for their success and further survival in their business. Strategy implementation is a more informal and relaxed approach in the SMME environment (Sainidis, E. et al., 2001). The literature suggests that the success of an enterprise’s chosen strategy is affected by certain adaptability factors such as
flexibility. Successful SMMEs select only those strategies that allow adaptation. It has been suggested that SMMEs should match strategy to the type of competition in the market and the effective strategies vary with the type of competition (Chaganti et al., 1989). In general, the competitive strategy options of businesses are limited by the size of the firm, with large size profitable businesses having more options than small businesses. Small firms may need to raise their standards of operational effectiveness while either aggressively defending their niche or responding to changes in the industry by discovering new way of competing (e.g. adapting to new community need).

SMMEs are resource impoverished and hence face significant disadvantages when competing head-to-head against larger firms (Welsh & White, 1981). McCune (1994) found that the survival of SMMEs is threatened by the “price chopping” practices of mass merchandising retailers and category killers, which limit the shopping alternatives for customers, limit the customers to which manufacturers can sell, and decrease the negotiation power of vendors. Despite the many competitive challenges faced by SMMEs, it has been suggested that small businesses do have advantages. These advantages include customer and market knowledge; extraordinary accessibility; close social relations with customers; product, service and geographic specialisation; flexibility; and management (Kean, et al., 1996; Litz & Stewart, 2000; Litz, 2000; Longenecker & Moore, 1998).

Porter (1985) has suggested that a firm can gain competitive advantage by pursuing one of three generic competitive strategies: differentiation, cost leadership, and focus. Firms attempt to establish and maintain customer loyalty through uniqueness by employing a differentiation strategy which distinguishes their products and/or services from those of their competition. Firms using a cost-leadership strategy compete for customers by offering competitive quality at the lowest prices. Those choosing a focus strategy decide to compete not only on the basis of uniqueness (differentiation) or price (cost leadership) but also by targeting a segment of an industry or market. Cost leadership is however infeasible for SMMEs because they cannot enjoy economies of scale (McCune, 1994).
McCune argues that SMMEs should differentiate themselves from their competitors by providing something that gigantic competitors do not provide such as excellent service or unusual products, in addition to good planning and savvy. Other researchers have found that differentiation through product uniqueness, customer responsiveness, quality, excellent service and convenience has enabled SMMEs to survive or prosper (Changanti et al., 1989; Lieber., 1997; Love, 1998; Macht, 1999). Changanti et al., 1989, have also found that differentiation in terms of quality aided performance, while differentiation through innovation did not affect performance.

Michael Porter provided a framework that models an industry as being influenced by five forces. The strategic business manager seeking to develop an edge over rival firms can use this model to better understand the industry context in which the firm operates. The framework identifies 5 fundamental competitive forces.

- Entry of competitors
- Threat of substitutes
- Bargaining power of buyers
- Bargaining power of suppliers
- Rivalry of the existing players

![Figure 1. The Michael Porter (1980) framework](chart)

1. Rivalry amongst existing competitors
In the traditional economic model, competition among rival firms drives profits to zero. But competition is not perfect and firms are not unsophisticated passive price takers. Rather, firms strive for a competitive advantage over their rivals. The intensity
of rivalry among firms varies across industries, and strategic analysts are interested in these differences.

Economists measure rivalry by indicators of industry concentration. A high concentration ratio indicates that a high concentration of market share is held by the largest firms - the industry is concentrated. With only a few firms holding a large market share, the competitive landscape is less competitive (closer to a monopoly). A low concentration ratio indicates that the industry is characterised by many rivals, one of which has a significant market share. These fragmented markets are said to be competitive. In pursuing an advantage over its rivals, a firm can choose from several competitive moves:

- Changing prices - raising or lowering prices to gain a temporary advantage.
- Improving product differentiation - improving features, implementing innovations in the manufacturing process and in the product itself.
- Creatively using channels of distribution - using vertical integration or using a distribution channel that is novel to the industry.

The intensity of rivalry is influenced by the following industry characteristics:

- A larger number of firms increases rivalry because more firms must compete for the same customers and resources. The rivalry intensifies if the firms have similar market share, leading to a struggle for market leadership.
- Slow market growth causes firms to fight for market share. In a growing market, firms are able to improve revenues simply because of the expanding market.
- High fixed costs result in an economy of scale effect that increases rivalry.
- When total costs are mostly fixed costs, the firm must produce near capacity to attain the lowest unit costs. Since the firm must sell this large quantity of product, high levels of production lead to a fight for market share and results in increased rivalry.
- High storage costs or highly perishable products cause a producer to sell goods as soon as possible. If other producers are attempting to unload at the same time, competition for customers intensifies.
- Low switching costs increases rivalry. When a customer can freely switch from one product to another there is a greater struggle to capture customers.
• Low levels of product differentiation are associated with higher levels of rivalry. Brand identification, on the other hand, tends to constrain rivalry.

• Strategic stakes are high when a firm is losing market position or has potential for great gains. This intensifies rivalry.

• High exit barriers place a high cost on abandoning the product. High exit barriers cause a firm to remain in an industry, even when the venture is not profitable. A common exit barrier is asset specificity.

2. Threat of substitute products

In Porter's model, substitute products refer to products in other industries. To the economist, a threat of substitutes exists when a product's demand is affected by the price change of a substitute product. A product's price elasticity is affected by substitute products - as more substitutes become available, the demand becomes more elastic since customers have more alternatives. A close substitute product constrains the ability of firms in an industry to raise prices.

3. Bargaining power of buyers

The power of buyers is the impact that customers have on a producing industry. In general, when buyer power is strong, the relationship to the producing industry is near to what an economist terms a monopoly - a market in which there are many suppliers and one buyer. Under such market conditions, the buyer sets the price. In reality few pure monopolies exist, but frequently there is some asymmetry between a producing industry and buyers. The following tables outline some factors that determine buyer power.

Buyers are Powerful if:

• Buyers are concentrated - there are a few buyers with significant market share.

• Buyers purchase a significant proportion of output - distribution of purchases or if the product is standardised.

• Buyers possess a credible backward integration threat - can threaten to buy producing firm or rival. Large auto manufacturers' purchases of tires.

Buyers are Weak if:
• Producers threaten forward integration - producer can take over own distribution/retailing. Movie-producing companies have integrated forward to acquire theatres.

• Significant buyer switching costs - products not standardised and buyer cannot easily switch to another product.

• Buyers are fragmented (many, different) - no buyer has any particular influence on product or price. Most consumer products.

• Producers supply critical portions of buyers' input - distribution of purchases.

4. Bargaining power of suppliers
A producing industry requires raw materials - labour, components, and other supplies. This requirement leads to buyer-supplier relationships between the industry and the firms that provide it the raw materials used to create products. Suppliers, if powerful, can exert an influence on the producing industry, such as selling raw materials at a high price to capture some of the industry's profits.

Suppliers are Powerful if:

• Suppliers are concentrated. Drug industry's relationship to hospitals.

• Significant cost to switch suppliers. Microsoft's relationship with PC manufacturers.

• Customers Powerful Boycott of grocery stores selling non-union picked grapes.

Suppliers are Weak if:

• Many competitive suppliers - product is standardised. Tire industry relationship to automobile manufacturers.

• Purchase commodity products. Grocery store brand label products.

• Credible backward integration threat by purchasers. Timber producers relationship to paper companies.

• Concentrated purchasers. Garment industry relationship to major department Stores.

• Customers Weak. Travel agents' relationship to airlines.

5. Threat of new entrants
In theory, any firm should be able to enter and exit a market, and if free entry and exit exists, then profits always should be nominal. In reality, however, industries possess characteristics that protect the high profit levels of firms in the market and inhibit additional rivals from entering the market. These are barriers to entry. Barriers to entry are more than the normal equilibrium adjustments that markets typically make. For example, when industry profits increase, we would expect additional firms to enter the market to take advantage of the high profit levels, over time driving down profits for all firms in the industry. When profits decrease, we would expect some firms to exit the market thus restoring market equilibrium. Falling prices, or the expectation that future prices will fall, deters rivals from entering a market. Firms also may be reluctant to enter markets that are extremely uncertain, especially if entering involves expensive start-up costs. These are normal accommodations to market conditions. But if firms individually (collective action would be illegal collusion) keep prices artificially low as a strategy to prevent potential entrants from entering the market, such entry-deterring pricing establishes a barrier.

Barriers to entry are unique industry characteristics that define the industry. Barriers reduce the rate of entry of new firms, thus maintaining a level of profits for those already in the industry. From a strategic perspective, barriers can be created or exploited to enhance a firm's competitive advantage.

Barriers to entry arise from several sources:

- Government creates barriers. Although the principal role of the government in a market is to preserve competition through anti-trust actions, government also restricts competition through the granting of monopolies and through regulation. Industries such as utilities are considered natural monopolies because it has been more efficient to have one electric company provide power to a locality than to permit many electric companies to compete in a local market.

- Patents and proprietary knowledge serve to restrict entry into an industry. Ideas and knowledge that provide competitive advantages are treated as private property when patented, preventing others from using the knowledge and thus creating a barrier to entry.
• Asset specificity inhibits entry into an industry. Asset specificity is the extent to which the firm's assets can be utilised to produce a different product. When an industry requires highly specialised technology or plants and equipment, potential entrants are reluctant to commit to acquiring specialised assets that cannot be sold or converted into other uses if the venture fails. Asset specificity provides a barrier to entry for two reasons: First, when firms already hold specialised assets they fiercely resist efforts by others from taking their market share. New entrants can anticipate aggressive rivalry.

• Organizational (Internal) Economies of Scale. If sales for a long distance operator fail to reach 10% of the market, the firm is not competitive. The existence of such an economy of scale creates a barrier to entry\(^4\).

---

\(^4\) [www.quickmba.com/strategy/porter.shtml](http://www.quickmba.com/strategy/porter.shtml)
THE RESEARCH PROCESS

The rationale for this study is that the retail industry in South Africa is going through some major changes and these changes are posing some challenges for the spaza shop business model. The changes are being driven primarily by a shift in consumer shopping behaviour and consumers being more educated, technological advances, as well as heightened competition due to big retailers entering townships in search for new growth markets.

Purpose of the Research

The purpose of the research is to prove or disprove the following three hypotheses:

1. The entry of big retailers in townships has had a negative impact on the spaza shop industry and the ones located near big retailers.
2. Some spaza shop owners have adapted their strategies to respond to increased competition.
3. Some spaza shops have responded effectively to increased competition and have remained viable enterprises despite the entry of big retailers.

The variables used to either prove or disprove the hypotheses are listed in appendix 3.
Sample

The target population for the study was spaza shop owners. Secondary research aspects of the study included an extensive literature review on the spaza shop market, the small, medium and micro enterprise sector and competitor analysis. The types of secondary data sources that were used in the study include published research reports, research papers and research organisations websites. The primary research aspect of the study entailed conducting face to face interviews aided by structured questionnaires and having discussions with spaza shop owners in order to understand the issues they face and how they are responding to the external forces currently influencing the retail industry.

Data Collection

The secondary research element of the study entailed an extensive literature review on the informal retail sector enterprises, specifically the spaza shop market. The primary research element of the study entailed a survey directed to a sample of spaza shop owners, to develop further insights regarding the sustainability of spaza shops and the impact of the macro-environment forces on the spaza shop business model. A sample of 60 spaza shops owners situated within Khanyelitsha township, the biggest black township in Cape Town, were interviewed. The face-to-face interviews with the spaza shops owners were aided by means of a questionnaire at the respondents’ place of business. The questionnaire was designed consisting of the Likert-style rating scale with 1 indicting a negative belief or behaviour and 5 a positive. All the interviews were conducted in Xhosa and lasted approximately twenty minutes. The surveys were carried out in spaza shops situated within 1km from big retailers and those situated more than 3kms from the big retail shops. This was done in order to enable a comparative evaluation resulting from the entry of these retailers and hence identify any trends emerging as a result of the increased competition. The data from the surveys was collected and collated to facilitate assessment and analysis.
Data Analysis

The data was grouped according to the distance of spaza shops from big retailers. The data was therefore grouped into near centre data and far from centre data. In order to prove or disprove the above mentioned hypotheses, the hypotheses are tested through the statistical analysis of a selected set of data.

Statistical Analysis

The data was analysed using the Microsoft Excel and the Analyse-it software package. The statistical techniques used in the analysis were as follows:

- Basic Descriptive Statistics
- Mann-Whitney test
RESULTS AND DISCUSSIONS

The data was divided into two equal sized groups as a starting point in the investigation of the relation between location and strategy. The data from each group of thirty spaza shops was either labelled far from centre data or near centre data. The results of the analysis are divided into basic descriptive tests and the statistical analysis to prove or disprove the hypotheses.

The entry of big retailers into townships has had a negative impact on the spaza shops which are situated near to big retail stores. Most of the respondents from the near to centre group indicated that a number of spaza shops in their street had closed down in the last 2 years, and a relatively low number of respondents indicating that new spaza shops on their street opening in the last 2 years (see Table 2). The majority of the respondents indicated convenience, relationship with customers and offering credit as the most important reasons why customers buy at spaza shops.

To further establish what impact big retailers entering townships has had on spaza shops, the performance of the spaza shops in the last 2 years was assessed using a number of performance variables (see Table 3). The findings from the analysis indicate that the number of customers per day for spaza shops near to the centre has decreased slightly on average while remaining more or less the same for spaza shops far from the centre. In addition, the average spend per customer has also decreased significantly on average for spaza shops closer to the centre but decreased only marginally on average for far from centre shops. The findings from the analysis also indicate that the majority of spaza shop owners from both groups offered credit of up to R400, especially to pensioners.

The findings from the analysis indicate that spaza shops near to big retailers have experienced the most rapid declines in sales of staple foods such as maize meal, sugar, flour and rice; cosmetics and toiletries and household cleaning products. Their sales of luxury goods have declined relatively little by comparison (see Table 4). In order to stay competitive, spaza shops have adopted competitive strategies such as changing their product offering to satisfy different customer needs (see Table 5).
Research Hypotheses

This section focuses on presenting the findings based on interviews with spaza shop business owners and the analysis of the results. The analyses of the results are primarily quantitative and are designed to prove or disprove the three hypotheses developed earlier.

Hypothesis one

$H_0$: The entry of big retailers in townships has had no impact on the spaza shop industry, including marginal shops and the ones located near big retailers.

$H_1$: The entry of big retailers in townships has had a negative impact on the spaza shop industry, including marginal shops and the ones located near big retailers.

In order to establish what impact big retailers entering townships has had on spaza shops, the respondents where asked whether new spaza shops had opened or whether any had closed on their street in the last 2 years. The results are show in table 2 below.

Table 2. Spaza shops opening and closing in the last 2 years.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Near centre mean</th>
<th>Far from centre mean</th>
<th>p value</th>
</tr>
</thead>
<tbody>
<tr>
<td>The proportion of respondents reporting new spazas opening on their street in last 2 years</td>
<td>0.05</td>
<td>0.25</td>
<td>0.6430</td>
</tr>
<tr>
<td>The proportion of respondents reporting new spazas closing on their street opening in last 2 years</td>
<td>0.71</td>
<td>0.17</td>
<td>0.0012</td>
</tr>
</tbody>
</table>

The codes used for the categorical answers in order to enable statistical analysis where as follows:

Yes = 1

No = 0

The p value from the statistical analysis of the data shows that spaza shops situated near a big retail store have observed significantly more spaza shop closures by comparison with those far from a big retail store. The entry of big retailers into townships has had a negative impact on the spaza shops which are situated near to big
retail stores. 71% of the respondents from near centre reported new spaza shops closing on their street in the last 2 years, compared to 17% of respondents from far from centre. On the other hand, about 25% of the far from centre respondents reported new spaza shops opening on their street in the last 2 years, while this was true for only 5% of the near to centre respondents.

To further establish what impact big retailers entering townships has had on spaza shops, the performance of the spaza shops in the last 2 years was assessed using four performance variables. The change in number of customers per day, change in average spend per customer, the change in total monthly spend and the change in amount received from the business used as performance measures. Table 3 represents the results of the data analysis.

Table 3. Changes in spaza business performance in the last 2 years.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Near centre mean</th>
<th>Far from centre mean</th>
<th>p value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of customers/day</td>
<td>1.87</td>
<td>2.90</td>
<td>&lt;0.0001</td>
</tr>
<tr>
<td>Average spend/customer</td>
<td>1.40</td>
<td>2.30</td>
<td>&lt;0.0001</td>
</tr>
<tr>
<td>Total monthly sales</td>
<td>1.53</td>
<td>2.60</td>
<td>&lt;0.0001</td>
</tr>
<tr>
<td>Amount of money received from business</td>
<td>1.37</td>
<td>2.47</td>
<td>&lt;0.0001</td>
</tr>
</tbody>
</table>

The Likert-style rating scale used to enable statistical analysis was as follows:
(1 = Decrease significantly, 2 = Decreased slightly, 3 = Stayed the same, 4 = Increased slightly and 5 = Increased significantly)

The number of customers per day for spaza shops near to the centre has decreased slightly on average while remaining more or less the same for spaza shops far from the centre. In addition, the average spend per customer has also decreased significantly on average for spaza shops closer to the centre. The average-spend per customer for spaza shops far from the centre has more or less stayed the same on average. Interestingly, although the number of customer per day for the spaza shops far from centre has stayed more or less the same, the amount of money received from
business has declined slightly, implying a change in the types of goods bought by consumers.

In order to establish how the types of goods sold at spaza shops has changed in the last 2 years, the respondents were asked to report on how sales of staple foods, luxuries, household cleaning products, cosmetics and toiletries, have changed. The findings from the analysis indicate that spaza shops near to big retailers have experienced the most rapid declines in sales of staple foods such as maize meal, sugar, flour and rice; cosmetics and toiletries and household cleaning products. Their sales of luxury goods have declined relatively little by comparison (see Table 4).

### Table 4. Changes in the types of goods in the last 2 years.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Near centre mean</th>
<th>Far from centre mean</th>
<th>p value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staple foods</td>
<td>1.33</td>
<td>2.83</td>
<td>&lt;0.0001</td>
</tr>
<tr>
<td>Cosmetics and toiletries</td>
<td>1.60</td>
<td>2.60</td>
<td>&lt;0.0001</td>
</tr>
<tr>
<td>Luxuries</td>
<td>2.37</td>
<td>3.43</td>
<td>&lt;0.0001</td>
</tr>
<tr>
<td>Household cleaning products</td>
<td>1.30</td>
<td>2.37</td>
<td>&lt;0.0001</td>
</tr>
</tbody>
</table>

The Likert-style rating scale used to enable statistical analysis was as follows:
(1 = Decrease significantly, 2 = Decreased slightly, 3 = Stayed the same, 4 = Increased slightly and 5 = Increased significantly)

There is overwhelming evidence to infer that the alternative hypothesis is true. The null hypothesis is rejected in favour of the alternative. The entry of big retailers in townships has had a negative impact on the spaza shop industry and the ones located near big retailers. The entry of big retailers into townships has had a negative effect on the number of customers coming to buy at spaza shops per day, the average spend per customer, the total monthly sales and the overall money received from the business. Goods contributing the most to spaza shops turnover have been identified as soft drinks, cigarettes, paraffin/candles and maize meal. This pattern is to be expected, as the potential saving on bulk purchases from a big retailer is likely to be

---

5 Lingthelm 2002.
relatively high items such as staple foods. Interestingly, spaza shops far from a big retailer managed to increase their sales of luxury goods while the other categories of goods have seen only marginal decline.

**Survival strategies**

One of the objectives of the study was to investigate how spaza shop owners have adapted their strategies, and which strategies are most effective in addressing the increased level of competition.

**Hypothesis two**

\( H_0: \) Some spaza shops have not responded to increased competition.

\( H_1: \) Some spaza shops have adapted their strategies to respond to increased competition.

In order to investigate the types of strategies adopted by the spaza shops to survive and thrive in increasing competition, the respondent were asked what has changed about their business and how they have changed to respond to increased competition. Table 5 and appendix 3 represents the variables which were chosen by the respondents as strategies adopted as a result of increased competition.

**Table 5. Competitive strategies adopted due to increased competition.**

<table>
<thead>
<tr>
<th>Competitive Strategies</th>
<th>Near centre mean</th>
<th>Far from centre mean</th>
<th>p value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changed product offering</td>
<td>0.97</td>
<td>0.87</td>
<td>0.0206</td>
</tr>
<tr>
<td>Expanded premises</td>
<td>0.00</td>
<td>0.17</td>
<td>0.0206</td>
</tr>
<tr>
<td>Bought new equipment</td>
<td>0.53</td>
<td>0.80</td>
<td>0.0298</td>
</tr>
<tr>
<td>Offer telephone services</td>
<td>0.20</td>
<td>0.43</td>
<td>0.0540</td>
</tr>
</tbody>
</table>

The codes used for the categorical answers in order to establish if spaza shops changed their strategies to adapt to the increase in competition where as follows:

Yes = 1

No = 0
There is strong evidence to infer that the alternative hypothesis is true. The null hypothesis is rejected in favour of the alternative. Some spaza shops have responded to increased competition by adapting their strategies. The majority of spaza shop owners (97% for spaza shops near big retailers and 87% for spaza shops far from big retailers) have responded to increased competition by changing their product range. This finding is consistent with the literature that argues that it is more beneficial for small firms to use differentiation strategies (Chaganti et al., 1989; Lieber, 1997; Love, 1998; Macht, 1999; McCune, 1994). The spaza shop owners far from big retailers have responded to increased competition by injecting significant capital investments into their businesses. About 17% of spaza shops far from big retailers have expanded their premises with 80% buying new equipment. In contrast, none of the spaza shop owners near big retailers expanded their premises with only 53% buying new equipment. This is consistent with spaza shops near to big retailers having poorer financial performance and less financial resources than those from big retailers. The spaza shops near to big retailers therefore have limited strategic options and are hence reliant on changing their product offering as a means of adapting to increased competition. Spaza shops near to big retailers are therefore likely to adopt the same strategies limiting differentiation and would not do as well because they are doing the same thing.

Previous studies on spaza shops highlighted that many consumers find spaza shops expensive and use them mainly for their convenient locations. Some spaza shops either sell at the same price as the big retailers or sell at lower prices to retain customers. Whilst price and convenience are highlighted as critical factors that influence consumer use of spaza shops, other forces also play a role. Some of these were already highlighted in a previous study on spaza shops.

Both interviewed groups were sensitive to the diverse culture and customer needs in townships. They do not focus only on providing the basic necessities but also offer a breadth of product range including toiletries and household detergents. Daft (2000) suggested that entrepreneurial growth opportunities exist for small firms that take advantage of or adapt to changing community demographic, lifestyle trends and a

---

7 Cant, M., et al 1999
special need in these communities, suggesting that SMMEs success is improved by adapting a product and or/service to fulfil a unique community need. This is also true for both interviewed groups in that the products sold by spaza shops near to the centre were adapted to suit the changing needs of consumers resulting from the entry of big retailers. Spaza shops near the centre have adapted their product packaging by selling smaller sizes (1kg and 2kg) of their staple foods and sell luxuries such as sweets and biscuits. They have also broken down their products into single packets. An example of such products includes selling Rama in sachets. They are more focused on luxury goods such as soft drinks, ice cream and lose cigarettes. This was also the case for spaza shops far from the centre. Spaza shops far from the centre sell products such as staple foods in larger packages (10kg and 20kg). These include sugar, rice, and flour. They are also focusing more on household detergents and toiletries, with products including floor polish, methylated spirit, paraffin and soap. Both groups sell fast foods such as chips, pies, fried fish and braai meat.

The study found that spaza shops, to some extend, play a role as socially responsible enterprises in some situations in these communities. Most interviewed spaza shops offer neighbours, especially pensioners credit. The majority of people in townships are poor and do not always have enough money to put food on the table. This is one competitive advantage spza shops have over big retailers, who do not offer this to consumers. Fenn (1997) pointed out that while small firms have built-in disadvantages regarding economies of scale in purchasing, production, and information systems, these competitive disadvantages can be partially offset through entrepreneurial tactics such as adaptability. The interviewed groups both extended their working hours to an average of between 06h00 to 22h00 increase their competitiveness. SMMEs can be more adaptable because they have lower overhead costs than large firms\(^8\).

\(^8\) Longenecker & Moore 1987.
Hypotheses three

\( H_0: \) Some spaza shop owners have not responded effectively to increased competition and have experienced decrease in turnover, profit and cash flow.

\( H_1: \) Some spaza shop owners have responded effectively to increased competition and have remained viable enterprises despite the entry of big retailers.

In order to investigate how the adopted strategies have affected the performance of spaza shop business, the respondents were asked to score the effect of changes using the likert-style scale and the score were analysed as shown in table 6.

Table 6. How adopted strategies affected business performance.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Near centre mean</th>
<th>Far form centre mean</th>
<th>p value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changed product offering</td>
<td>3.54</td>
<td>3.48</td>
<td>0.6410</td>
</tr>
<tr>
<td>Expanded premises</td>
<td>0.00</td>
<td>4.20</td>
<td>0.0206</td>
</tr>
<tr>
<td>Bought new equipment</td>
<td>3.63</td>
<td>3.77</td>
<td>0.0604</td>
</tr>
<tr>
<td>Offer telephone services</td>
<td>3.50</td>
<td>3.62</td>
<td>0.0484</td>
</tr>
</tbody>
</table>

The Likert-style rating scale used to enable statistical analysis was as follows:
(1 = Made things worse, 3 = No difference and 5 = Significant improvement)

There is strong evidence to infer that the alternative hypothesis is true. The null hypothesis is rejected in favour of the alternative. Despite the competitive pressures caused by the entry of big retailers in townships, there are spaza shops that are surviving and have seen some improvement in the performance of their businesses as a result of their adopted strategies. This is especially true for those spaza shops which expanded their premises. There was significant improvement in the performance of spaza shops far from big retailers which expanded their premises. Even though both groups have changed their product offering as a result of increased competition, this change made little difference to overall performance of the businesses.
Overall, spaza shops situated far from big retailers perform better than those situated near to big retailers, even though the overall business of spaza shops have been affected by the increased competition. These spaza shops indicate or suggest that strategy selection and some form of adaptability are key contributors to SMMEs success. About 3% of the respondents of the spaza shops far from big retailers realised an increase in the amount of money received from business. 20% of spaza shop owners far from big retailers realised a significant improvement in the performance of their business while 80% saw some improvement. This improvement was mainly due to the expansion of premises as shown in table 7.

Table 7. Strategies adopted by spaza shops far from centre

<table>
<thead>
<tr>
<th>Changed product offering</th>
<th>Expanded premises</th>
<th>Bought new equipment</th>
<th>Offer telephone services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Made things worse</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>No difference</td>
<td>52%</td>
<td>0%</td>
<td>23%</td>
</tr>
<tr>
<td></td>
<td>48%</td>
<td>80%</td>
<td>77%</td>
</tr>
<tr>
<td>Significant improvement</td>
<td>0%</td>
<td>20%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Interestingly, spaza shops that had all four strategies (changing product offering, expanding premises, buying new equipment and offering telephone services) adopted, realised some improvement in the performance of their businesses. It has been suggested in literature that the success of a firm’s chosen strategy is affected by certain adaptability factors such as flexibility. Successful SMMEs select only those strategies that their ability to adapt will affect their success. The successful far from centre spaza shops have adapted to increased competition by increasing their flexibility through the expansion of their premises, enabling them to offer customers a wider product range, hence differentiating themselves from their competitors. McCune argues that SMMEs should differentiate themselves from their competitors by providing something that the big retailers do not provide such as unusual products, in addition to good knowledge of their consumers. Other researchers have found that differentiation through product uniqueness, thereby attempt to establish and maintain customer loyalty through uniqueness (Rama in sachets), customer responsiveness,
quality, excellent service and convenience has enable SMMEs to survive or prosper\textsuperscript{9}. These enterprises have injected relatively large capital investments into their businesses to address the changing demands and needs of the community, which have resulted due to increased competition.

\textsuperscript{9} Changati et al., 1989; Lieber, 1997; Love, 1998; Macht, 1999.
CONCLUSIONS

Fund management companies have invested in retail property developments in townships and rural areas. This has led to the development of multimillion rand shopping centres in black townships. The centres are anchored by Shoprite Checkers, Score Supermarkets, Pep Stores, Mr Price, Boxer, the JD Group, Ellerines, Lewis and the four big banks\textsuperscript{10}. To assess the competitive forces active in this industry, a framework designed by Michael Porter (1980) can be used. The framework identifies 5 fundamental competitive forces.

- Entry of competitors
- Threat of substitutes
- Bargaining power of buyers
- Bargaining power of suppliers
- Rivalry of the existing players

Due to entry of big retailers into townships, the above mentioned forces have changed in the spaza shop context as summarised in the table below:

<table>
<thead>
<tr>
<th>Competitive Force</th>
<th>Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bargaining power of suppliers</td>
<td>Strong</td>
</tr>
<tr>
<td>Rivalry amongst existing competitors</td>
<td>Strong</td>
</tr>
<tr>
<td>Threat of new entrants</td>
<td>Weak</td>
</tr>
<tr>
<td>Bargaining of buyers</td>
<td>Strong</td>
</tr>
<tr>
<td>Threat of substitute products</td>
<td>Strong</td>
</tr>
</tbody>
</table>

Spaza shops offer most people living in townships a form of employment and these communities cannot survive without them. The primary reason for starting a survival enterprise is literary to put bread on the table and is unrelated (a) to a business opportunity or (b) to the entrepreneur choosing to start a business rather than pursuing employment\textsuperscript{11}. Survivalist enterprise tend to operate in limited sectors, either in retail or in the service industry, selling the same products or services to the same limited market. Spaza shops are a way of making a living for people living in townships. The profit margins for spaza shops are already very low and they trade in low value-added

\textsuperscript{10} Khuzwato, W. 2004
\textsuperscript{11} (Rogerson et al., 1997; IOD 2000, Ruiters et al., 1994; Riley 1993).
activities with fierce competition. The entry of big retailers has lead to “overtrading”\(^\text{12}\), with some spaza shops forced to close shop.

The challenges faced by spaza shops have already been highlighted in the literature, which suggests that spaza shops are stuck in an informal economy with little chance of emerging from it, and yet they are expected to compete with big retailers who have easy access to resources and finances in the formal economy. Other challenges include poor infrastructure in townships, lack of transportation, theft and pest control. Innovative ways in which spaza shop owners have dealt with some of the problems highlighted include (Strategy & Tactics, 2002):

1. Lack of transport was dealt with by organising “group” transport to suppliers.
2. Using catalogues to compare prices.
3. Using suppliers who package goods for selling in smaller quantities.
4. Stock based on demand.
5. Financing by friends and family.
6. Introducing security measures to deal with theft.

Despite the competitive pressures caused by the entry of big retailers in townships, there are spaza shops that are not only surviving but are thriving. Some spaza shop owners have adopted innovative strategies that include:

1. Changing their product offering according to the needs of the consumers, keeping in mind their location from big retailers. The strategic adopted include differentiation through product uniqueness, thereby attempt to establish and maintain customer loyalty through uniqueness (Rama in sachets), customer responsiveness, quality, excellent service and convenience

2. Spaza shops are perceived as neighbourhood shops that serve the whole community and hence have a competitive advantage in the fact that they close very late and offer neighbours, especially pensioners credit.

\(^{12}\) (Rogerson et al., 1997; Von Broembsen et al., 1995a; Taskgrow 1993; Qualmann 2000).
These spaza shops indicate or suggest that strategy selection and some form of adaptability are key contributors to SMMEs success. Some spaza shops differentiated themselves through their product range by offering products that were unique and satisfied consumer needs. The interviews also highlighted the difficulty of maintaining market share and profits as industry standards and customer expectations grows. Thus, in order for the spaza shops to stay viable, they need to implement strategies which differentiate them from their competitors and hence adapt the standard of their operations while either aggressively defending their niche or responding to changes in the industry by discovering new ways of competing, such as adapting to new community needs.
RECOMMENDATIONS

The recommendations made below are based on the results of the study. This exploratory research has several implications for the sustainability of spaza shops in a competitive environment and for the entrepreneur. The high growth of the informal sector in recent years is said to parallel urbanisation, with migration to cities in developing countries far out pacing the employment capacity of modern manufacturing and other formal sector activities. Potential entrepreneurs and many existing spaza shops need to execute ideas to build effective and sustainable approaches to the increased competition, keeping in mind their location from big retailers. Ground-level initiatives to support the spaza shop businesses, which are the backbone of most townships, are required to offer a new model for fighting poverty and ensuring economic growth.

Spaza shops, like most SMMEs, are resource impoverished and hence face significant disadvantages when competing head-to-head against bigger retailers and therefore face increasing competition. It is estimated that there are 14 000 spaza shops in Greater Cape Town, with an average weekly turnover of about R1 500, which equals to an annual turnover of more than R2 billion\textsuperscript{13}. The retail industry in South Africa is highly structured and spaza shop owners have little influence on prices they offer their goods to consumers.

Due to the entry of big retailers into townships, the markets determine the price. The end consumers have strong influence on the value chain due to the fact that there is strong rivalry amongst existing competitors. The findings of the study highlighted that for enterprises to survive in increasing competition, their chosen strategy will be affected by certain adaptability factors such as flexibility. In the case of spaza shops which were seeing improvement in the performance of their businesses, being flexible determined their survival in this competitive environment. In order for SMMEs to stay competitive, their location from big retailers should be taken into consideration as the major factor that will eventually determine their business performance and viability. This also highlights the fact that there can only be so many shopping centres

\textsuperscript{13} Strategy & Tactics 2002.
in a community before there is overtrading. The current environment in which spaza shops are operating in such that only the fittest and only those that are able to adapt quickly and efficiently can survive.
REFERENCES

Briges.org (2002). Supporting Entrepreneurship in Developing Countries: Survey of the Field and Inventory of Initiatives.


Size, structure and profile of the informal retail sector in South Africa. Bureau of market research; biz-community.com.

Spaza retailers capture 2.7% of market. My own business, posted on 2002/10/23.


The quiet revolution in a hidden market. Strategy & Tactics; September 2002 Phatlalatsa newsletter.


Wiseman Khuzwayo. (2004). Township spazas face the chop as malls move in. Business report

APPENDICES

Appendix 1: Khayelitsha Arial Map
Legend to map

1a – Sanlam Shopping Centre
1b – Monza Shopping Centre
1c – Eyethu Shopping centre
2 – Village 3 (Near centre)
3 – Village 4 (Near centre)
4 – Village 2 (Near centre)
5 – Lingelethu West (Near centre)
6 – Town 1 (Near Centre)
7 – Village 1 (Near centre)
8 – Village 1 (Far from centre)
9 – Village 3 (Far from centre)
10 – Mandela Park (Far from centre)
11 – Zingela (Far from centre)
Appendix 2: Research Questionnaire

Spaza Shop Entrepreneur Survey

The purpose of this questionnaire is to investigate the changing competitive environment for spaza shops.

1. Have any new spaza shops opened up on your street in the last 2 years?
   □ Yes   □ No   □ Don’t know

2. Have any spaza shops closed down on your street in the last 2 years?
   □ Yes   □ No   □ Don’t know

I would like to ask about why you think customers choose to shop at your store? How important are the following to your customers?

<table>
<thead>
<tr>
<th>Least Important 1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Most Important 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Better service</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Convenience (closeness to store)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. High quality</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Low prices</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Wider product range</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Relationship with customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Image of store</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
How would you rate the following types of competitors in terms of their impact on your business?

<table>
<thead>
<tr>
<th></th>
<th>Insignificant</th>
<th>Decreased</th>
<th>Stayed</th>
<th>Increased</th>
<th>Highly Significant</th>
</tr>
</thead>
<tbody>
<tr>
<td>11. Hawkers selling by the roadside</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Other spaza shops</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Medium-sized grocery shops</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. Fuel stations with convenience shops</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15. Big retailers in townships</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16. Big retailers in suburbs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

I would like to ask about why you think customers choose to shop at big retailers. How important are the following to customers shopping at big retail stores?

<table>
<thead>
<tr>
<th></th>
<th>Least Important</th>
<th>Decreased</th>
<th>Stayed</th>
<th>Increased</th>
<th>Most Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>17. Better service</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18. Convenience (closeness to store)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19. High quality</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20. Low prices</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21. Wider product range</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22. Relationship with customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23. Image of store</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24. Credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

I would like to ask you about how your business has changed in the last 2 years:

<table>
<thead>
<tr>
<th></th>
<th>Decreased Significantly</th>
<th>Decreased Slightly</th>
<th>Stayed the same</th>
<th>Increased Slightly</th>
<th>Increased Significantly</th>
</tr>
</thead>
<tbody>
<tr>
<td>25. Number of customers/Day</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26. Average spend/customer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>27. Total monthly sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28. Amount of money received from business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
How has the volume of the following types of goods changed:

<table>
<thead>
<tr>
<th></th>
<th>Decreased Significantly</th>
<th>Decreased Slightly</th>
<th>Stayed the same</th>
<th>Increased Slightly</th>
<th>Increased Significantly</th>
</tr>
</thead>
<tbody>
<tr>
<td>29. Staple foods</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30. Cosmetics and Toiletries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31. Luxuries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>32. Household Cleaning products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Which of the following have been changed and how?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>How/</th>
</tr>
</thead>
<tbody>
<tr>
<td>33. Opening hours</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>34. Change product offering</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>35. Pricing (mark-up, comparison)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>36. Expand premises</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>37. New premises</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>38. Increase/reduce staff</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>39. New equipment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>40. Premises decorations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>41. Change in suppliers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>42. Negotiated prices</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>43. Negotiated payment terms</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>44. Telephone</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>45. Fast food</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>46. Offer specials</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>47. Advertising</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>48. Promotions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>49. Offer credit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>50. Business records</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>51. Analysis of sales trends</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

How did the changes affect the financial performance of your business?

<table>
<thead>
<tr>
<th></th>
<th>Made things worse</th>
<th>No Difference</th>
<th>Significant Improvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>52. Opening hours</td>
<td>1</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>53. Change products you sell</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>54. Pricing (mark-up, comparison)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>55.</td>
<td>Expand premises</td>
<td></td>
<td></td>
</tr>
<tr>
<td>56.</td>
<td>Opened New premises</td>
<td></td>
<td></td>
</tr>
<tr>
<td>57.</td>
<td>Increase/reduce staff</td>
<td></td>
<td></td>
</tr>
<tr>
<td>58.</td>
<td>New equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>59.</td>
<td>Decoration of premises</td>
<td></td>
<td></td>
</tr>
<tr>
<td>60.</td>
<td>Change in suppliers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>61.</td>
<td>Negotiate better wholesale prices with suppliers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>62.</td>
<td>Negotiate better payment terms with suppliers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>63.</td>
<td>Telephone service</td>
<td></td>
<td></td>
</tr>
<tr>
<td>64.</td>
<td>Fast food</td>
<td></td>
<td></td>
</tr>
<tr>
<td>65.</td>
<td>Offer specials</td>
<td></td>
<td></td>
</tr>
<tr>
<td>66.</td>
<td>Advertising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>67.</td>
<td>Promotions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>68.</td>
<td>Offer more credit to customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>69.</td>
<td>Business records</td>
<td></td>
<td></td>
</tr>
<tr>
<td>70.</td>
<td>Analysis of sales trends</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Thank you for taking the time and trouble to provide me with this information.
Appendix 3: The variables used in this study

Spaza shops opening
Spaza shops closing
Better service
Convenience
High quality
Low prices
Wider product range
Relationship with customers
Image of store
Offer credit
Hawkers selling by the roadside
Other spaza shops
Medium-sized grocery shops
Fuel stations with convenience shops
Big retailers in townships
Big retailers in suburbs
Number of customers per day
Average spend per customer
Total monthly sales
Amount of money received from business
Staples foods
Cosmetics and toiletries
Luxuries
Household cleaning products
Opening hours
Change in product offering
Pricing (mark-up, comparison)
Expand premises
Increase/reduce staff
Bought new equipment
Premises decorations
Change in suppliers
Negotiated prices
Negotiated payment terms
Offer telephone services
Offer specials
Advertising
Promotions
Offer credit
Keep business records
Analysis of sales trends
### Appendix 4: Descriptive statistics

#### Table 8. Why customers choose to shop at spaza shops.

<table>
<thead>
<tr>
<th>Variable</th>
<th>n</th>
<th>Mean</th>
<th>SD</th>
<th>SE</th>
<th>95% CI of Mean</th>
<th>Median</th>
<th>IQR</th>
<th>95% CI of Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better service</td>
<td>60</td>
<td>2.05</td>
<td>0.77</td>
<td>0.099</td>
<td>1.851 to 2.249</td>
<td>2.00</td>
<td>1.25</td>
<td>2.00 to 2.00</td>
</tr>
<tr>
<td>Convenience</td>
<td>60</td>
<td>4.53</td>
<td>0.77</td>
<td>0.099</td>
<td>4.335 to 4.732</td>
<td>5.00</td>
<td>1.00</td>
<td>5.00 to 5.00</td>
</tr>
<tr>
<td>High quality</td>
<td>60</td>
<td>2.17</td>
<td>0.76</td>
<td>0.098</td>
<td>1.970 to 2.364</td>
<td>2.00</td>
<td>1.00</td>
<td>2.00 to 2.00</td>
</tr>
<tr>
<td>Low prices</td>
<td>60</td>
<td>2.78</td>
<td>0.72</td>
<td>0.092</td>
<td>2.599 to 2.968</td>
<td>3.00</td>
<td>1.00</td>
<td>3.00 to 3.00</td>
</tr>
<tr>
<td>Wider product range</td>
<td>60</td>
<td>2.13</td>
<td>0.77</td>
<td>0.099</td>
<td>1.935 to 2.332</td>
<td>2.00</td>
<td>0.00</td>
<td>2.00 to 2.00</td>
</tr>
<tr>
<td>Relationships with customers</td>
<td>60</td>
<td>3.15</td>
<td>1.16</td>
<td>0.150</td>
<td>2.850 to 3.450</td>
<td>4.00</td>
<td>2.00</td>
<td>3.00 to 4.00</td>
</tr>
<tr>
<td>Image of store</td>
<td>60</td>
<td>1.67</td>
<td>0.71</td>
<td>0.091</td>
<td>1.485 to 1.849</td>
<td>2.00</td>
<td>1.00</td>
<td>1.00 to 2.00</td>
</tr>
<tr>
<td>Credit</td>
<td>60</td>
<td>3.32</td>
<td>1.27</td>
<td>0.163</td>
<td>2.989 to 3.644</td>
<td>4.00</td>
<td>2.00</td>
<td>4.00 to 4.00</td>
</tr>
</tbody>
</table>

The Likert-style rating scale used to enable statistical analysis was as follows:

(1 = Least Important and 5 = Most important)
Figure 2. Spaza shops opening and closing in the last 2 years.
Figure 3. The reasons customers choose to buy at spaza shops.
Figure 4. Adapted strategies to respond to increased competition.