Somali Spaza Shops
An exploration into the informal retail sector within the lower income market segment in Cape Town, South Africa

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Abstract

The cumulative buying power of the lower income segment has recently driven a multitude of firms to target this market from an array of industries including consumer goods, financial services and telecommunications. A key stage in the distribution of physical goods to the lower income segment is through the informal retail sector, the “last mile” of distribution in the lower income segment. The most prevalent of the informal retail outlets are spaza shops and of these over 60% are Somali-owned in South Africa.

With a dearth of relevant literature about Somali spaza shops, and more generally around informal retail in the lower income segment, this research report is aimed at exploring the industry and competitive dynamics using Porter’s five forces industry analysis framework. This is ultimately with the aim of identifying collaborative strategies that could exist for Somali spaza shops to bolster their competitive advantage in the lower income market segment in Cape Town.

A number of interviews were carried out with spaza shop owners (both Somali and local), wholesalers, redistributors and large retailers, together with consumer survey questionnaires that were distributed in the lower income areas of Cape Town. The collected data was then consolidated and analysed in order to interpret and identify key themes and their interconnectedness.

The primary finding was the intricacy of the Somali Spaza shop business model and its interconnectedness to the greater Somali community network. Furthermore, it was found that the Somali Spaza shops’ competitive advantage lies in their ability to lower fixed costs significantly (as opposed to variable costs). Further key findings resonated strongly with competition and service. These key findings were then linked back with existing literature in order to identify potential collaborative strategies for Somali spaza shop owners.
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This assignment is my own work. I have not allowed and will not allow anyone to copy my work with the intention of passing it off as his or her own work.

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List of Acronyms

BoP  Bottom of the Pyramid
EM   Emerging Markets
FMCG Fast Moving Consumer Goods
1 Introduction

1.1 The Purpose of this Study

The purpose of this study is to explore the industry dynamics within the lower income market segments which will be done by exploring the competitive dynamics around Somali spaza shops. Somali spaza shops are the most prominent distribution and retail networks of the lower income market segment in Cape Town. A spaza shop is typically a small informal retail outlet ranging from a small building to a shipping container or a corrugated iron informal structure (Refer to appendix 1). The study is thus aimed at developing an understanding of the competitive industry dynamics within the lower income market segment with the purpose of identifying potential collaborative strategies that exist for Somali spaza shops.

1.2 The Context of this Study

Over the last decade there has been an increasing focus on the Emerging Markets (EMs) and hence appropriate business strategy is key to successful penetration in these unconventional markets (Arnold & Quelch, 1998). The challenges that present themselves in the developed world are often far from similar to the challenges faced in developing markets. In South Africa around 23.0% of the population live under the poverty line (World Data Bank, 2014). This lower income market segment is largely located in geographical zones where the informal retail sector is the primary retailer of consumer goods.

The informal retail sector has been growing steadily in the last decade to serve the growing lower income segment of the population. With a growing interest from not only the Fast Moving Consumer Goods (FMCG) sector but also major retail giants of the South African landscape, the lower income market has inherently developed a strategic allure, which currently remains considerably untapped by the formal sector (Hattingh, Sun-basorun, Russo, & Van Wamelen, 2012). This study will explore the lower income market using a cross-sectional analysis of the industry dynamics around the Somali Spaza shops.
1.3 The Research Problem

The research problem is identified in 1.3.1 and is composed of three sub-problems that are essentially sub categories of the main research problem.

1.3.1 Main Problem
To what extent do potential collaborative strategies exist for Somali Spaza shops to bolster their competitive advantage in the lower income market segment in Cape Town?

1.3.2 Sub Problem 1
What are the existing ‘last mile’ distribution channels into the lower income market segment by Somali traders?

1.3.3 Sub Problem 2
What potential collaborative strategies exist from the perspective of the private sector that are aligned with their strategies directed towards the lower income market segment?

1.3.4 Sub Problem 3
What collaborative procurement strategies exist for Somali spaza retailers in the lower income market segment in Cape Town?

1.4 Significance of Study

One of the major obstacles to formulating strategies directed towards the lower income segments is the general lack of available and relevant information. Due to the informality of this market, there is relatively little data which strategists are able to utilise. In addition, limited studies on the informal retail sector and spaza shops exist. As the Somali retailers account for approximately 60% of all Spaza shops in the Western Cape (Gastrow & Roni, 2013), it is beneficial to understand the competitive industry within which they operate. Basson (2014), CEO of Shoprite, stipulated the importance of the lower income segment in the future of South African retail. This study is aimed at demonstrating the importance of the Somali spaza shops,
understanding their supply chain and the competitive dynamics around the retail sector in the lower income segment.

1.5 Research Questions and Scope

The scope of this research is limited by both institutional boundaries and time constraints. Evidently, the wider, the more in-depth and the lengthier the study, the more accurate the representation of the subject matter of the research. Yet the research question has several other limitations. The first of these is the geographic limitation. Due to the constraints of this research, a limited geographic area was favoured and hence the research is confined to the Cape Flats in Cape Town, South Africa. The second major limitation is the sample size relating to the methodological constraints inherently imposed due to time. In addition to the above, one additional difficulty was the existence of language and cultural barriers when communicating with Somalis and with others in the lower income segment whose native languages are not English.

1.6 Research Assumptions

In order that the research be successful in portraying an accurate representation of the industry it has been assumed that the respondents and interviewees were truthful and authentic in their contributions. Due to the unlikelihood that all information would be divulged from each source individually, the cross sectional method of research was used to allow for the “triangulation” of recurring themes.

The research is aimed at understanding the dynamics of the Somali spaza retailers within the lower income market segment. While there are other ethnic factors that could be considered, this research will limit the segmentation to Somalis and local South Africans in order to abide by the scope-limitations. While there may be some differences in behavioural aspects in the findings, no in-depth study will be carried out around racial trends.

A final assumption is that the researcher will consider ontological and epistemological influences in the research methodology and, indeed, in the findings. The researcher
bias can negatively affect the validity and reliability of a qualitative study (Saunders, Lewis, & Thornhill, 2009).

1.7 Research Ethics

Varela (1999) stipulated the importance of ethical considerations in research. This particular research will be directed at deciphering the competitive industry dynamics in order ultimately to increase value at the lower income market segment. This has been clearly communicated with all those involved in the data collection phase and the ethical clearance forms were signed at all steps of the process.
2 Literature Review

2.1 Introduction

In order to establish a theoretical basis from which to build the research, the following is a literature review of the core theories and key relevant studies around the research topic. The review will contextualize the research in order to leverage from the findings of prior research that may have been carried out in the past. In addition the review is intended to develop a strong foundation of the broader context of the research while methodically refining the focus into key factors of paramount importance to the research.

Michael Porter’s five forces model was used as the underpinning framework upon which this research was constructed. It is therefore important to understand fully the internal workings of the model and the strengths and weaknesses therein. This will then be contextualised within the emerging market in question (South Africa). In addition, it is precisely with the use of the Porter’s framework that the triangulation of data is possible. This will be followed by an introduction into the general area of industry focus; the Fast Moving Consumer Goods (FMCG) industry. This will be followed by a study of the importance of supply chain management in the FMCG industry with a particular focus on the ‘last mile’ challenges in physical distribution and, in particular, at the lower income market segment.

The concept of the Bottom of the Pyramid will then be analysed in order to gain a better understanding of the concept of the lower income market segment. The main topics will be brought into the South African context with a particular focus on the informal retail of FMCG goods within the lower income market segment through spaza shops. A focus on the Somali traders in the Western Cape will provide greater insight into the existing dynamics that are at play in this arena, tackling the difficulties and highlighting the key success factors. Finally, gaps and voids in the literature will be identified in order to substantiate the research.
2.2 The Five Forces Model

The five-forces model for competitive industry analysis developed by Michael Porter has been referred to extensively in business strategy ever since its conception. The five forces model is a tool of industry analysis and, much like free body diagrams used by physicists, it organises the industry forces in order that a systematic analysis of industry forces is possible.

2.2.1 Rivalry amongst existing competitors

Porter (2008) described the rivalry amongst competitors within a specific industry as having many different forms ranging from price to product differentiation. The competitive rivalry depends on several factors including:

- The number of competitors in a market.
- The industry growth rate.
- A lack of familiarity amongst rivals.

In addition Porter (2008) writes that price competition is likely to occur when products are undifferentiated (substitutes), when high fixed costs and low marginal
costs occur, when there is a requirement for economies of scale and, lastly, when the products are perishable.

2.2.2 Bargaining power of suppliers
Suppliers are often able to bargain in terms of price and quality (Porter, 2008). In industries where price elasticity of demand is very low at the final retailer, the manufacturers are able to squeeze profitability from those further down the value chain. The following factors influence the bargaining power of suppliers:

- The number of suppliers of the particular offering.
- The extent to which the offering is differentiated.
- Whether the supplier is able to integrate vertically forward.
- The extent to which the supplier relies on the industry in question.
- Whether high switching costs exist.

2.2.3 Bargaining power of buyers
In contrast with the bargaining power of suppliers, the bargaining power of buyers is found at almost the exact opposite side of the spectrum. Powerful buyers can force down prices, demand higher quality and even added services with the threat of switching. The bargaining power of buyers is influenced by:

- The number of buyers in the market for the offering.
- The size and volume of the purchase orders from a single buyer.
- The extent to which the products are differentiated.
- The costs involved in switching suppliers.
- The threat of buyers vertically integrating backwards up the value chain.

2.2.4 Threat of new entrants
The threat of new entrants is predominantly gauged by the barriers to entry which exist in the industry, Porter (2008) mentions 7 sources of barriers to entry:

1. Supply-side economies of scale.
2. Demand-side benefits of scale.
3. Customer switching costs.
4. Capital requirements.
5. Incumbency advantages independent of size.
6. Unequal access to distribution channels.
7. Restrictive government policy.

2.2.5 Threat of substitute products or services
A substitute fulfils the same need/want through a different offering. Substitutes can be as close as butter and margarine or as far as the airline industry to the automobile rental industry. The substitute’s power is strengthened if it offers an attractive price/performance trade-off in an industry where switching costs are low (Porter, 2008).

2.2.6 Counterarguments and Extensions
Porter (2008) revisited the original paper on the five forces (written in 1979) owing to several counterarguments that emerged. These arguments contested the model’s ability to cater for collusion and a lack of internal analysis as they leaned heavily on the assumption of key competencies. Nevertheless, Porter (2008) argues that the five forces model has the capacity to accommodate all of the above as it was an underpinning framework for analysis with flexibility in its application.

An extension to the model, although not fully endorsed by Porter (2008) himself, was the sixth force introduced by Brandenburger & Nalebuff (1996) which they named ‘the sixth force’ or ‘complementors’. Brandenburger & Nalebuff (1996) used game theory to justify the ‘sixth force’ to represent strategic alliances within the competitive industry. Indeed, in industry, most practitioners have used the public sector as a sixth force which is arguably the only missing force in the five-force model (Brandenburger & Nalebuff, 1996).

2.3 The Fast Moving Consumer Goods Industry
The FMCG industry serves the world’s consumer market with a wide range of branded and unbranded products and it remains one of the largest global contributors to the overall size of secondary industry to date (McMillan & Rodrik, 2011). The
FMCG industry is typically a low margin industry due to a highly competitive environment and large capital expenditure. Due to the low margins in this industry, it is predominantly through economies of scale that firms are able to provide products at competitive prices to consumers.

The requirement of economies of scale in order to attain profitable operations has, over the last two centuries, naturally allowed the rise of larger firms such as Unilever, Nestlé, and Procter and Gamble. Global leverage enables these multinational firms to benefit from a network of suppliers, low production cost bases and, ultimately, the capacity to leverage synergies from across the world. These companies have been the drivers of brands from the inception of branded soap by Lever in 1932 (www.unilever.com).

2.4 Supply Chain Management in the FMCG sector

The demand for consumer goods is consistent and regular in nature. Bala and Kumar (2011) illustrate how the supply chain is a major factor in the FMCG industry and how, owing to inherent complexity, it is faced with unique challenges. Therefore supply chain management is key to effective cost control and efficiency optimization in order to minimize the shaving of margins in an already low margin industry.

Essentially, much like the production process, the supply chain leverages itself from scale and hence has the capacity to minimise costs. Nevertheless the product mix increases as it nears the consumer and hence this requires several sequential processes from manufacturer to distribution centre to warehouse and finally retail in order to reorganise and allocate products. The last mile of distribution accounts for up to 28% of inefficiency costs in supply chain management (Goodman, 2005).

2.4.1 The last mile

The last mile refers to the final stage in distribution from manufacturer to consumer and is essentially the final directly controllable link in the supply chain (Minguela-Rata & De Leeuw, 2013). A study by Boyer, Prud’homme, and Chung (2009) identified that a significant portion of the costs involved in supply chain management is due to inefficiencies at the ‘last mile’ and these costs are due to the inherent logistical issues at play. The distortion of information in supply chains, also called the
bullwhip effect, is a major contributor to the inefficiencies at the last mile. Examples of these inefficiencies are; excessive inventory investment, miscommunication, ineffective transportation and lost revenues (Lee, Padmanabhan, & Whang, 1997).

### 2.5 The Bottom of the Pyramid

#### 2.5.1 The theory of the bottom of the pyramid

The Bottom of the Pyramid (BoP) is essentially the lower income segment in a market (Martinez & Carbonell, 2007) and goes hand-in-hand with the economic disparity of wealth. The turn of the millennium brought with it a significant wave of interest and discussions around the BoP from academic articles to conferences. Subsequent to publishing “Serving the world’s poor, profitably” in 2002, Prahalad and Hammond (2002) became the key propagators of BoP strategy.

This new interest was in combination with a general shift in mind-set as the world started to view emerging markets through a more positive lens with a strong interest in the increasing GDP growth rates and industrial potential (Kirsch, Laird, & Evans, 2000). Prahalad and Hammond (2002) argued that the BoP does not have to be considered as a ‘problem’ but rather as part of the ‘solution’ to better the lives of those in the BoP while simultaneously allowing firms to have profitable interests in these markets. In their paper Prahalad and Hammond (2002) estimated the BoP market to be around 4 billion people at the time with a cumulative buying power of approximately an enormous $3 trillion.

There was general consensus that the size of this market was large enough to entice international interest (Chikweche, Stanton, & Fletcher, 2012; Guesalaga & Marshall, 2008; Jun, Lee, & Park, 2013; Kuriyan, Ray, & Toyama, 2008; Olsen, 2009; C K Prahalad, 2004). Due to a significant growth in population, and hence overall increasing demand, this market is becoming increasingly attractive (Craig & Douglas, 2011). Several counterarguments later surfaced which thoroughly questioned the validity of the concept of “fortune” at the bottom of the pyramid. In addition there was particular concern over the focus of the MNC penetration strategy in this market segment (Davidson, 2009) and to what extent this was actually beneficial to those in the lower income market segment.
Karnani (2006) presented a robust rebuttal of several fundamental assumptions made by Prahalad and Hammond. In his paper “The mirage at the bottom of the pyramid”, Karnani (2006) dismantled the core assumptions made by Prahalad and Hammond (2002) by arguing that a significant part of the BoP market is unable to make ends meet with merely $1 per day, suggesting that their aggregate buying power was realistically far less than $3 trillion. In an attempt to move the focus from ‘who the BoP are’ and rather focus on ‘how to realistically alleviate poverty through the BoP strategy’, London (2007) argued that the discussion around BoP had been largely carried out by academics as distinct from people in industry and a fundamental hurdle would be the further segmentation of the BoP.

2.5.2 Segmenting the bottom of the pyramid

Prahalad’s (2012) examination of the BoP was that it was by no means a monolith and that it could be segmented in a number of ways (by culture, language, geography and so on). Rangan, Chu, and Petkoski (2011) segmented the BoP into three subsequent economic divisions, which contributed towards additional insight into the dynamic at this level of the market segment. Rangan et al. (2011) differentiate between the three subcategories of the BoP namely; low income, subsistence and extreme poverty (refer to figure 2).

![Figure 2: BoP segmentation (Source: Rangan et al. (2011))](image)

As one of their ten crucial capabilities when entering emerging markets, Atsmon, Child, Dobbs, and Narasimhan (2012) highlight the importance of a segmentation
strategy in order to maintain local relevance which resonates with the concepts of ‘local relevance’ and ‘global leverage’ of Prahalad (2012). This understanding of the realities at the lower income segment is essential to strategizing market penetration at this level. Guesalaga and Marshall (2008) performed a study to examine the purchasing power at the BoP (using purchasing power parity), the results of which show that Africa has the most prevalent BoP market size with a majority of the purchases spent on food (refer to figure 3).

![Estimated BOP market by sector](http://www.wri.org/publication/next-4-billion)

Figure 3: BoP Expenditure by Sector (http://www.wri.org/publication/next-4-billion)

One element lacking in the original presentation of the BoP (C. Prahalad & Hammond, 2002) is that the arguments presented are all through the lenses of MNCs
and large business and not on SMEs who are essentially more familiar with the BoP market (Azmat & Samaratunge, 2013). Indeed, another concern arises as to what extent we are allowing for the circulation of wealth if we encourage the MNCs to distribute their products in the BoP market. Karnani (2006) argues that there should be a focus on the fortune for the BoP that promotes local goods and services from within the BoP market segment that will in turn create jobs and stimulate education.

### 2.5.3 Ethical concerns at the bottom of the pyramid

Cairns (2014) was of the opinion that BoP models are merely power-retention strategies of large firms and simply point towards the further extraction of wealth from lower income segments to corporations and individuals. Two main ethical concerns are highlighted below.

#### 2.5.3.1 The poverty premium

Conventionally, through an agreement between a buyer and a seller, an agreement is met with regards to the price of a good or a service. In the BoP market, however, there is significant bargaining power on the part of the seller. This is what Prahalad and Hammond (2002) describe as the poverty premium. They highlight the premium as an attractive encouragement to firms to enter the BoP (Refer to figure 4). Davidson (2009) argues the issue of fair pricing in relation to the poverty premium. To what extent is it ethical to sell products at higher prices to people who have less income? In fact Ireland (2008) found that, by leaving the shantytowns, residents were able to circumvent poverty premiums. An example was a premium of up to 60% on Coca-Cola in shantytowns in Venezuela.
2.5.3.2 The quest for profit or for value-creation

The type of product that is marketed to the BoP is of key importance when considering Prahalad's (2004) further-developed argument of serving the poor profitably. Davidson (2009) pointed out that this strategy holds for as long as the product has clear benefits to the BoP customers (such as sachet laundry soap), but not when the product is harmful (such as cigarettes or alcohol). Less evident are those products that have no direct negative impact but instead use disposable income for luxuries, which are aggressively marketed to BoP customer, such as skin whitening creams. Azmat and Samaratunge (2009) found that in developing countries consumers are generally unaware of their rights and therefore they are often taken advantage of, as consumers, in particular with regards to defective and faulty goods.

2.6 The South African Context

2.6.1 The South African landscape

Although there exists a general complexity in emerging markets, South Africa possesses an additional dynamic owing to the legacy of Apartheid. The social reforms that have taken place since 1994 have been only slightly effective in providing for the
entirety of the previously disadvantaged population (Burgess & Steenkamp, 1998). Furthermore, there has been a growing lower income segment. Of a population of around 53 million almost 22.5% live below the poverty line and 44.5% form part of the general lower income segment (Statistics South Africa, 2013). This general landscape has triggered the rising growth of townships and informal settlements which, in turn, created the terrain for informal trade to flourish.

2.6.2 The last mile in South Africa
Much of the population growth experienced in South Africa is in the lower income segment. This is usually due to a lack of education, family planning and often even a connection to certain cultural patterns. In the Western Cape of South Africa there has been a significant influx of Xhosas who have been migrating from the Eastern Cape since 1994 (Statistics South Africa, 2013). The reality is that they migrate from rural areas into the Western Cape in the hope of a better life. They are usually faced with the reality of large informal settlements on arrival where they are to reside. A study by Poswa and Levy (2006) showed that a majority of interviewees in these townships still referred to their home as the Eastern Cape.

Together with the growth in the lower income market segment there has been an increasing demand in the lower income market segment. Botes, Jacobs, and Pienaar (2006) highlighted the cost inefficiencies related to logistics in the South African landscape, in particular with regard to the lack of information about the lower income segment. Prahalad (2002) sought to readdress the notion that there is no existing distribution network in the BoP market. Indeed, there may be limited formal establishments in these areas but it is of utmost importance to acknowledge the power of the informal retailer sector in South Africa.

2.6.3 Different categories of informal retail
The informal sector’s role is crucial in developing markets (Ishengoma & Kappel, 2006) in the distribution of goods in the lower income markets (Peberdy, 2000). Due to low literacy rates, a lack of education and high barriers to the formal job market, the informal retail sector will continue to expand in South Africa (Rolfe, Woodward,
Lighthelm, & Guimarães, 2010). Crime, however, continues to be the biggest detractor in the informal retail sector (Ligthelm, 2004)

An exploratory study by Ligthelm (2004) found that the informal retail economy could be classified into three main streams:

1. Hawkers.
2. Spaza shops.
3. General dealers.

Nevertheless, of the three, Spaza shops dominate the informal retail sector by serving over 68% of the lower income market (Ligthelm, 2004) and therefore they are the central to this research report.

2.7 Somali Traders

The Somali community has a dominant presence in the informal retail sector in South Africa and, in particular, the Western Cape. There is an inadequate amount of literature on Somali retailers in South Africa. However, one empirical study by Gastrow and Roni (2013) uncovered much of the economic dynamics of the Somali community of the Western Cape in South Africa.

The majority of the Somali community in the Western Cape have refugee status in South Africa owing to the civil unrest in Somalia. This started in the 90s and later, in 2006, a second wave of Somalis entered the country. With refugee status they are allowed to work and trade. This gave rise to the Somali spaza shops in low income areas where there are low levels of rent and state regulation and where Somalis saw opportunity (Gastrow and Roni, 2013).

The Somalis fell victim to a wave of xenophobic attacks in 2008 as locals felt that they were usurping jobs and resources. Gastrow and Roni (2013) write that there is no empirical evidence to prove that the Somali asylum seekers were in fact taking any local resources or jobs. From a different angle, the Somali retailers provide goods to the lower income segments through the informal networks which would otherwise not have existed.
A competitive edge the Somali traders have is their financial literacy in comparison with local competitors in the Western Cape, who utilise minimal financial accounting in the running of their businesses (Bruwer, 2010). In addition, the Somali traders embody a natural understanding of Customer Relationship Management (CRM) which is of key importance in the BoP market (Chikweche & Fletcher, 2013).

An example of the Somali traders’ CRM is that they allow for those who cannot afford certain goods by packaging them in smaller sachets such as ‘one rand sugar’ or ‘single teabags’ (Gastrow & Roni, 2013). This sachet phenomenon is not unique to the Western Cape. In fact, some of the most studied BoP strategies, learned from the sachet strategies in order to serve the economic underclass, come from India (Singh, Ang, & Sy-Changco, 2009).

In addition they allow for some flexibility with regards to pensioner accounts where they allow pensioners to buy on credit and repay their accounts when they receive their pension cheque (Gastrow & Roni, 2013). Microfinance has been an effective tool in financing businesses. One such example is SKS Microfinance in India (Akula, 2008) and this mechanism allows the Somalis to retain customers by providing a service that no other retailer would.

The Somali community is tightly knit and leverage from the community numbers. Gastrow & Roni, (2013) found that, contrary to common belief, Somali traders did not collectively buy in bulk to lower costs as they would have too many logistical problems with orders owing to the high frequency of restocking. However, they do manage transportation and the rental of vehicles to collect stock together (Gastrow & Roni, 2013). They have been extremely successful in serving the lower income market even though Reardon, Timmer, Barrett, and Berdegué (2003), examining the increasing presence of supermarket chains in developing countries; found that due to the lack of standards and certifications from the informal market, the supermarkets succeeded in gaining entry into the low income market.
2.8 Conclusion

The review of the existing literature around the research subject revealed a gap in academic studies while simultaneously outlining the key concepts inherent in the general subject of the research. The literature review has been used to cover the relevant literature surrounding the general area of study of the research. Subsequently it was used systematically to hone into the focus of the research. Due to the limited amount of literature on the informal sector in South Africa (and the fact that the existing literature was written almost a decade ago) a large scope of uncovered terrain exists. The research methodology will outline the precise manner in which the research was carried out.
3 Research Methodology

The following section will outline how the research was conducted, while also providing a deeper insight into the multiple phases set out in the field research. Michael Porter’s five forces (Porter, 2008) was used as an underpinning framework in order to cross-analyse the industry dynamics so as to ascertain the potential collaborative strategies. In addition, the aforementioned framework was a basis for the triangulation of data collected from the respective sources.

3.1 Research Approach and Strategy

The lacuna of relevant literature on the subject has lead one towards an exploratory study through qualitative research (Bryman & Bell, 2011). Given that there is generally less information in emerging markets (London & Hart, 2004) (other than statistical information from censuses) a significant portion of the research required the collection of primary data. In addition, inductive research allowed for the complexities and dynamics, which may have not been considered prior to fieldwork, to manifest themselves (Denzin & Lincoln, 2000).

3.1.1 Ontological and epistemological considerations

Ontology is related to social constructs and how these may influence the perceptions of the researcher (Bryman & Bell, 2011). Bryman and Bell (2011) highlight objectivism as an ontological position whereby the researcher is minimally influenced by or involved in the subject phenomena. They describe constructivism as being the subject phenomena are preordained and hence the researcher has no incentive to influence or be influenced by the subject. In the context of this research the researcher has attempted to approach the subject phenomena with a purely objective ontological position as the lack of set structures and order weakens the possibility of a constructivist approach. The researcher is not influenced by, nor involved with, the ethnic group, the industry sector or the general scope of the research and is therefore naturally inclined toward an objective approach.
Epistemology relates to the “lens” through which the researcher generally views the world and how their mental models may influence the research (Bryman & Bell, 2011). Hence the initial concern for the researcher is with regards to the partiality towards the lower income market segment. Therefore, the researcher was cautious of bias given that this research is predominantly focused on the lower income segment and that the researcher has embarked upon this research with a purpose of bringing value to the to this market segment. A final epistemological factor is positivism. As described by Bryman & Bell (2011) the research conducted must be done in a manner that is not inappropriately influenced by existing literature. In the context of this research, the lacuna of literature on the precise subject implies a minor risk of positivism.

3.2 Research Design

3.2.1 Research design
The five forces industry analysis of Michael Porter was used as the underpinning framework in order to analyse the industry dynamics. As presented above, this framework consists of the five forces that make up the industry. The ‘sixth force’ of government and policy (Brandenburger & Nalebuff, 1996) was taken into account in the analysis of the data but was not a key element in the field research as the focus is on the informal retail sector which is only minimally constrained by government policy. Due to the life-journey of many of the Somalis who have had an incredibly negative experience with institutions, Somalis tend to distrust banks in general (Steinberg, 2014). This distrust towards banks compels them to find alternative methods to avoid large cash holdings in crime-ridden areas. Figure 2 shows an applied five forces framework to the relevant subject, indicating the key representatives in each force.

The five forces industry analysis inherently suggests a cross-sectional methodological design. While cross-sectional research is not typical of qualitative research (Bryman & Bell, 2011), in this particular, case it allowed for a multidimensional analysis of the industry dynamics. Maxwell (2006) viewed the qualitative research design as an iterative process between the varying concepts. Similarly, Whyte (1953) wrote that in order for an interview to be meaningful it should not be analysed in isolation.
Therefore, the justification of a cross-sectional analysis is supported by the interconnected iterative nature of a five forces analysis.

3.2.1.1 Phase one: Rivalry amongst existing competitors

In order to evaluate the dynamics from within the ‘competitors’ who in this case are the spaza shops, semi-structured interviews were conducted with carefully selected Somali and Xhosa spaza shop owners from Nyanga Township and Mitchell’s Plain in the Cape Flats. The semi-structured interviews were guided by a list of questions (refer to appendix 4) on specific topics but did not restrict the interviewee in terms of responses and further allowed for the interviewer to probe into the interviewees’ responses (Bryman & Bell, 2011). This particular element (phase 1) of the five forces is central to understanding the core dynamics from the spaza shop owners’ perspectives and, therefore, involved relatively longer, in-depth interviews. The use of open-ended questions allowed for the interviewer to explore the salient issues of the respondents (Bryman & Bell, 2011). This category is separated into two. The first category comprises of the Somali spaza shops and the second category is comprised of the local Xhosa spaza shops. It is noted that, although there are a number of other competitors at this level in the industry, the abovementioned are the two most prominent and hence, due to the limited scope of this research, only these two
categories have been interviewed. Mitchell’s Plain is a predominantly “Coloured” area whereas Nyanga is mostly populated by “Black” South Africans. These two contrasting geographies were used in order that similarities and differences would emerge as part of the research.

3.2.1.2 Phase two: Supplier’s bargaining power
FMCG firms and intermediaries (wholesalers) form part of the supply chain of goods to the spaza shops. Semi-structured interviews were conducted with intermediaries as they interface directly with the Somali traders. The semi-structured interviews guided the interviewee focus toward the informal sector and in particular toward Somali traders. The nature of the semi-structured interviews allowed for certain digressions (Aberbach & Rockman, 2002) into relevant subjects such as the general relationships with Somali traders and how they are perceived from a wholesaler’s perspective.

3.2.1.3 Phase three: Buyer’s bargaining power
The buyers are identified as those who buy from the spaza shops and are typically consumers in the lower income market segment. Consumer surveys were circulated towards clients of the spaza shops (those in phase one of the research). The surveys either validated or invalidated data collected from other phases of the research, which was the basis for cross-sectional triangulation.

3.2.1.4 Phase four: Substitutes
In the context of this research, the substitutes are those retail outlets that have been identified as having a similar offering. In a study on consumer behaviour in townships in Gugulethu, Cape Town, Aderele (2007) found that 59% of a sample’s last purchase before being interviewed was at either a Pick n Pay or Shoprite outlet. Hence BoP strategists were contacted for interviews from the two firms mentioned above.

3.2.1.5 Phase five: New entrants
The potential new entrants refer to any similar offering that has the capacity to capture market share. In this case, a member of ‘Save-it’, a wholesale redistribution company which supports a network of local spaza shops, an initiative invested in by Edge Growth. These interviews were conducted in a semi-structured format.
3.3 Population and Sampling

3.3.1 Description of area of study
The normative paradigm shift from Africa as the “Dark Continent” towards Africa as a source of wealth and innovation has bred significant interest in the continent’s business opportunities. As almost 40% of the population of Africa live in poverty (World Data Bank, 2014) it is imperative to understand the lower income segment as it proves to be a potentially profitable market. This profitability is through aggregate cumulative buying power (Prahalad, 2004) while simultaneously adding meaningful value for the lower income segment.

Although several geographic areas were considered for the research, Cape Town was selected as a focus owing to the fact that a large lower income segment is present in the ‘Cape Flats’ and in its proximity would facilitate fieldwork logistics. In addition, many of the interviewees belonging to the samples of retailers and wholesale retailers are headquartered in Cape Town. In addition, Belleville, a suburban town in close proximity to Cape Town, is home to one of the largest Somali settlements in South Africa.

3.3.2 Description of samples
The samples for each phase of the research have been selected based on Gorman and Clayton (2005) purposive sampling in order to cover the canvas of content involved. Gorman and Clayton (2005) use purposive sampling in order to represent a population being studied, although Bryman and Bell (2011) mention the need for the researcher to be cautious so as not to generalise through epistemological biases such as positivism and interpretivism. Hence the interviewee selection process has been designed with caution so as not to misrepresent the population.

In terms of practicality, due to the limitations of this research report, the researcher is not able to fully cover all the relevant factors in-depth. However, as mentioned above, purposive sampling techniques have been utilised in order to represent ‘at best’ the population being sampled with an ‘educated’ selection process at each element of the five forces.
Bryman and Bell (2011) note that in order to minimise discrepancies due to time lapse between interviews, it is preferable to conduct all research within a shorter time period. Therefore, all the interviews were conducted within a three-week period which, in this context, would mitigate any discrepancies in the data due to environmental changes.

**Table 1: Interview participants per stage**

<table>
<thead>
<tr>
<th>Phase</th>
<th>Interviewee</th>
<th>Type of interview</th>
<th>No of interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Somali spaza shop owners</td>
<td>Semi-structured</td>
<td>4</td>
</tr>
<tr>
<td>1.2</td>
<td>Locally owned spaza shops</td>
<td>Semi-structured</td>
<td>2</td>
</tr>
<tr>
<td>2.2</td>
<td>Intermediaries (wholesalers)</td>
<td>Semi-structured</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Lower income customers</td>
<td>Survey</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td>20 clients of each geographic cluster around the selected spaza shops in phase one</td>
<td></td>
<td>((20 \times 2))</td>
</tr>
<tr>
<td>4</td>
<td>Retailer representative</td>
<td>Semi-structured</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>New entrant</td>
<td>Semi-structured</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total number of Participants</strong></td>
<td></td>
<td><strong>50</strong></td>
<td></td>
</tr>
</tbody>
</table>

**3.3.2.1 Phase 1 - Internal rivalry**

In order to understand the internal rivalry amongst competitors in the spaza retail business, a precise sample was selected in order to better represent the competitive environment. There are numerous existing variants of informal retailers even within the realm of spaza shops but due to the focus of this report Somali and local spaza retailers remain the main focus. Therefore, four Somali spaza shop owners were interviewed in four different areas of the lower income market segment in Cape Town. In addition, two competing local Xhosa spaza shops owners were interviewed who are in a similar geographic area as the Somali spaza.

**3.3.2.2 Phase 2 - Supplier power**

Phase one supported the identification of major suppliers to the informal retail sector. Two of these major suppliers who dealt extensively with Somali traders were selected and interviewed. This phase either further endorsed or brought into question the data
collected in phase one of the research, which is key to the cross-sectional methodology that was used.

3.3.2.3 Phase 3 - Buyer power
Phase three comprised of consumer trend surveys. These were representative samples of two geographies selected at each of the six spaza shops from phase 1. In order to gain a deeper insight into the industry from the buyers’ perspectives, customers selected through purposive sampling on the site were surveyed.

3.3.2.4 Phase 4 - Substitutes
The formal retailers are the strongest substitutes in term of spaza shop purchases. Two of the largest retailers were selected. Interviews with BoP strategists were to be conducted at the Head offices of both of these companies are in Cape Town. Unfortunately, as explained in section 4.5, the BoP strategy departments of both of these retailers did not cooperate and refused to take part in the research.

3.3.2.5 Phase 5 – New entrants
In this phase the head of an association that collaborated with locals in order to establish new spaza shops was interviewed. This is because this association understands the challenges and barriers to entry in this market.

Nielsen and Landauer (1993), as quoted by Guest, Bunce, and Johnson (2008), found that approximately 12 evaluators/subjects within a system have the capacity to reduce usability problems by approximately 90%. Given that the general framework is a cross-analysis of interrelated components, the researcher is satisfied with the number of total interviews in each phase as it mitigates biases while simultaneously remaining within the particular limitations of the research report.

3.4 Data Collection Methods
Due to the similarity in the collection methods of phase one, two, four and five, they can be grouped into one category herewith identified as ‘semi-structured interviews’. Phase three will be referred to as the structured interview for the sake of this section.
3.4.1 Semi-structured interviews

The semi-structured interviews were held at the offices/homes of the respective interviewees. These interviews were open-ended as a means to allow for themes to emerge that would otherwise not emerge. The interviewee was shown a confidentiality agreement which reassured them that the information they divulge is purely for academic purposes and no possible repercussions exist. They were then asked if the researcher could record the conversation so that it may later be transcribed. This was done in order to allow the researcher to focus on what the interviewee has to say while allowing the prodding of interesting responses for deeper insight (Bryman & Bell, 2011).

3.4.2 Consumer surveys

These surveys were distributed outside the spaza shops after the clients had made their purchases from the spaza shops. This was possible owing to the fact that the surveys were very brief and structured. Neither personal information nor any confidentiality agreements were required. The researcher stipulated the reason for the study and how the information the interviewees contribute would be used.

3.5 Data Analysis Methods

The data analysis would follow Glaser and Strauss's (1967) Grounded Theory as a method for analysing qualitative research. Bryman and Bell (2011) warn the inductive researcher of the large amount of data that is commonly generated from qualitative research. The coding process started as early as during the interview process where the researcher noted pertinent themes; this was used as the first step to generate theory (Chamraz, 1983).

Having transcribed, the researcher listened to the recordings while following the transcripts in order to confirm the validity of the transcriptions. As the researcher was doing this, he simultaneously considered trends and themes that started to emerge from the responses and these were highlighted in the original text. The researcher then studied the text and coded the responses in order to identify important themes that emerged.
4 Presentation and Discussion of Results

4.1 Introduction

This section will present all of the findings from the field research. Firstly, the participant profiles will be presented in order that the discussion is contextualised. Secondly, the themes that emerged from the coding will be presented in an organised manner including sub-themes and interconnectedness. These themes and findings will then be tied back into the research problems and sub-problems. Finally, the research limitations experienced on the field will be discussed in conjunction with the researcher’s observations of further potential limitations.

4.2 Participant Profiles

4.2.1 Somali spaza shop owners

The Somali Association of South Africa (SASA) played a key role in establishing contact with Somali Spaza shop owners. It is because SASA organized the meetings that the Somali traders were at ease and trusted the researcher. All four Somali participants were interviewed on a Sunday. They were all married with several children and their families all reside in the Belleville area of Cape Town. Below are profiles of each of the four Somali traders who were interviewed. Aliases have been used for the interviewees upon their request.

- **Fatih** is a 34-year-old man of Somali origin who moved to South Africa over 15 years ago. Although he has owned several spaza shops in areas ranging from Paarl to Stellenbosch, he started trading as a hawker selling caps, belts and other accessories in the center of Belleville. After two years of carrying his shop on his shoulders, Fatih had saved enough money and opened his first spaza shop in Stellenbosch. He currently operates out of Mitchell’s plain in the Cape Flats.

- **Noor** is a 40-year-old man of Somali origin who has been in South Africa for over 9 years. He is currently a shareholder of two spaza shops that operate
from Nyanga and Gugulethu in the Cape Flats. Noor’s first spaza shop was in Kraifontein, which was established in 2006, but unfortunately it was looted and burned down during the xenophobic attacks in 2008. In order to mitigate such risk he has since chosen to enter a partnership together with his cousin in which they own and operate two shops in different areas.

- **Jabran** arrived in South Africa in 2006 and after a short stay in the country’s economic hub, Johannesburg, he moved to Cape Town. Jabran is a 36-year-old man of Somali origin who has worked in several spaza shops around Cape Town. He currently operates from Nyanga where he is in partnership with a distant member of his family.

- **Basheer** is a 32-year-old Somali man who has been running his own spaza shop for five years in Mitchell’s plain. Basheer spent a decade working for several other Somali traders in their spaza shops in Cape Town. His vast exposure in the different types of settlements in Cape Town was extremely valuable as he was able to discern his own answers based on specific scenarios and geographies.

4.2.2 Xhosa spaza shop owners

The researcher noted that it was difficult to find locally run spaza shops that were owned or operated by local South Africans (in this case run by a member of the Xhosa tribe). While in the field it was observed that many of the spaza shops with local names had been purchased, or were run, by Somalis. It was through Reciprocity, a Cape Town based consultancy in social and economic development, that the researcher was directed to Stephanie. Stephanie then guided the researcher to Shamikh. Aliases have been used for the interviewees upon their request.

- **Stephanie** is a 31-year-old local South African of Xhosa origin. She was born in Cape Town in a place know as “Cross-Roads”, on the other side of Nyanga township from where she currently owns and runs a spaza shop. She grew up within a ‘store’ environment as her mother owned and operated a spaza shop. Stephanie owns and manages a spaza shop that she set up 3 years ago, once
she left Old Mutual - an international financial services company. She noticed the opportunity to open up a spaza shop while on maternity leave from Old Mutual. Her spaza shop is well stocked and even has an air-conditioned office at the back with CCTV screens. She is well organized and pays extra attention to maintaining a clean and organized shop.

- **Shamikh** was born in Richmond, a small town on the outskirts of Beaufort West. His mother fell ill and had to move to Cape Town to be treated at Groote Schuur hospital. Shamikh is 35 years old and he became Muslim almost a decade ago. He owns a spaza shop situated a metre from his front door that he operates with his wife. Unlike many locals Shamikh interacts with Somalis extensively at the local mosque. He is very active in the Nyanga social community and shows a strong drive towards uplifting his community.

4.2.3 **Wholesalers**

Phase one of the research was essential in identifying the key suppliers to Spaza shops in Cape Town. Both interviewees requested that their names and those of the companies remain confidential and hence aliases have been used.

- **Fareed** is a South African of Indian-descent in his mid-fifties and is a general manager at a major wholesaler in Cape Town. Almost 80% of the wholesaler’s business comes from supplying Somali traders. The researcher noted that Somali traders occupied the entire parking lot of the wholesaler. Fareed has been the store manager for over 15 years.

- **Francois** is a local South African of Afrikaans origin and a store manager at a major cash and carry. He is in his early forties and has been working in retail for over twenty years. He previously managed large retail outlets in Cape Town. As store manager, he often interacts with Somali traders as they collectively contribute to a large portion of the wholesaler’s business.
4.2.4 Spaza shop clients

Geographic clusters were identified in phase one of the research given that the Spaza shops (both local and Somali) were all in Nyanga and Mitchell’s Plain. Nyanga is a predominantly Black township and Mitchell’s Plain is a predominantly Coloured settlement. Both of these locations form part of the lower income segment in Cape Town. The consumer surveys were distributed in the following two samples:

- **Sample 1 – Nyanga**
  - Cross-roads
  - Nyanga Central

- **Sample 2 – Mitchell’s Plain**
  - East Ridge
  - Pelican Park

![Map of the Cape Flats. Adapted from Google Maps](image)
4.2.5 Substitutes and new entrants

As outlined in the Research Methodology, substitutes were identified as large retailers. Due to some limitations (refer to 4.4 Research Challenges and Limitations) not all of the participants were collaborative. Fortunately a Director of Sustainability for a large retailer agreed to be interviewed. In terms of new entrants, the researcher was directed to an association that assists locals in setting up spaza shops. All participants’ names are aliases and the companies they represented have not been mentioned as requested.

- **Duncan** is the Director of Sustainability for a large South African retailer which is currently on an aggressive drive to penetrate the lower income market segment.

- **Nick** is the CEO of an association in partnership with local Spaza shops. The organization is supported by the private sector in order to stimulate local entrepreneurship. In addition the association uses a collaborative buying method of products and delivers to 14 spaza shops across Nyanga and Gugulethu.

The transcriptions have been used to depict the precise manner in which the interviewees presented their information. These transcriptions have been left in their original form. In the case that the interviewees use slang or foreign words, their closest meanings are inserted in parenthesis following the slang or foreign word.
4.3 Emergent Themes

![Diagram showing emergent themes]

**Figure 7: A depiction of the themes that emerged from the data analysis**

4.3.1 Existing collaboration

4.3.1.1 The business model

4.3.1.1.1 Start-up capital

Findings suggest that the Somali business model is several tiers more intricate than commonly perceived. Firstly, from the perspective of start-up capital, most Somalis who currently own their own spaza shops have worked in another Somali’s spaza shops for several years and saved enough capital. Some, like Fatih, started as street hawkers and worked their way up to establish their own spaza shop.

*I came to Belleville more than 15 years (ago), when I come here I start as a hawker, you know like caps and belts. I didn’t even have a stand that time, I put on my shoulders and my hands, moving around, selling. It was very difficult and business was tough. That is what I start first, then after two years I save enough money and I opened a tuck shop in Stellenbosch, my first shop.* - Fatih
Noor is part of a family that had established themselves relatively earlier and hence, when he arrived in Cape Town from Somalia, he was quickly given a job and shelter in order that he might establish himself.

*I start first working for my uncle in his spaza shop, that was Mitchell’s Plain side, then I worked for another family (member) in a shop there in Gugulethu. I sleep in the shop, work from very early till late. We sleep in the shops otherwise they loot our stock.* - Noor

Although the scenario whereby the youth work their way up, thereby learning the business model and simultaneously building capital, is most prominent, there exist other methods whereby Somalis are able to acquire start-up capital. This micro lending within the Somali community is a popular propagator of entrepreneurship.

*We don’t use banks, we don’t want their money. In Islam, Riba [interest/usury] is Haraam [forbidden]. We use our own system, in our community, when we want money there is always someone who will borrow [lend] it. Maybe not million rand, but even fifty thousand you can get everyone see you work hard.* - Jabran

Interestingly the Somali micro-lending system is purely based on trust and bears no interest payment at all. There is no collateral for the loans, and when Jabran was asked what would happen if the person fails to repay, he simply replied: “No, they will pay. The have to pay”. Knowing that honour of their clans and families is at stake, there are very few who fail to repay their loans. Without the support structure around their community Somalis would be very uncomfortable.

In contrast, Nick, who interacts with many local spaza shops, highlighted certain preconceptions that the locals had about the Somalis:

*Our government has allowed foreigners to come in to this, our country. Then the UN gives them (Somalis) an allowance, I think, they come here with dollars from the UN. This way they have enough money to start doing business straight*
away. We don’t get any money from the UN, or even from our country. So they (Somalis) have an advantage over us, the locals, and this is what makes us uncompetitive in the spaza shop business - Nick

It is clear that the Xhosa perception of how Somalis acquire their start-up capital is far removed from what any of the Somali traders communicated in the interviews. Nick’s association brings together several spaza shops in order to create economies of scale in the procurement.

4.3.1.1.2 Collaborative purchasing

As Gastrow and Roni (2013) wrote, there is a common misconception about the Somali’s competitive advantage through collaborative bulk buying. This theme emerged quite strongly in the interviews and it was often stated by locals that the Somalis practice this bulk collaborative purchasing.

They sell things cheaper than me, I think it’s because they buy in a group so they get big discounts. - Stephanie

The Somalis work together, they come here far from their homes and they take care of each other. They buy stock together so they get better prices from wholesalers than we can get. Sometimes the price I buy from wholesalers is the same price as what they (Somalis) sell to customers. - Shamikh

I am in this association so that we can compete with the foreigners. You see like the Somali people, they organize to buy in bulk, this way they get big discounts. - Nick

The Somali traders who were interviewed underlined several valid reasons mainly pertaining to logistical complexities in collaborative bulk purchasing.

No, I buy for me alone. You see it’s very difficult to buy together because my shop sells different things faster than other shops. Also some shops they sell
things faster than me. So it is very difficult to buy together so I negotiate my own price at the wholesaler. - Basheer

No I buy my own stuff, you see when you buy something, everybody he needs some stuff that other person don’t need. So each person must go and buy what he needs, it is different what each customer needs. - Noor

The Somalis come here a lot; in fact a lot of our business is from them. They mostly operate alone and they are very tough negotiators. We have a lot of full trolleys that are left behind because of sometimes just a ten rand difference.
- Francois

The above interviewee responses illustrate how the Somali traders procure stock individually through strong negotiations. In addition Fareed also mentioned that the technique in which they purchase stock is to fill their trolleys several times more than they can afford, then work their way to that amount (that they can afford). In this way they can prioritize their stock through mental calculations of margins and potential sales.

4.3.1.1.3 Cost control and margins
The research results demonstrate how the Somali traders inherently posses cost control behaviourisms which give them a competitive edge.

Now, the Somali guys, how they survive. Those guys they survive because they help each other. To them it’s not about money; here they are in another country so they need a place to stay. So now they cannot afford to pay rent, why? They are unemployed. The only amount they are working for is to pay the rent. For them it is not about money, that guy is staying alone, he came alone here in South Africa. He’s got no mother here, he’s got no father, he’s got no brother, no kids. So now for each and every R500 that he makes, he can keep R100. So by staying, at the end of the day you could have accumulated about R50 000 because that guy don’t have responsibilities. Those kind of things put them at the advantage if you compare them to us. - Shamikh
Shamikh highlighted how the Somali community follows a less consumerist-oriented lifestyle. In fact, they have few luxuries if any at all. The researcher noted that many congregated in restaurants where there was a television to watch the news and sport. Their clothes were always decent and clean but hardly, if ever, branded. (It was also noted that the Somali facilitator often made reference to the researcher’s branded shoes, whenever he referred to spending money.) Shamikh then noted the following about the local Xhosa community:

*These laities [youth] want expensive things nowadays, their mother doesn’t earn maybe R3500 rand and they want shoes for R1000 rand. So then they go and find the money in other ways, they go and do illegal things.* - Shamikh

Shamikh highlighted many of the challenges that his community is currently experiencing with regards to a highly materialistically influenced lifestyle through media and advertisement directed at his community. In addition, perhaps without knowing so, he suggested how it might be possible that the Somalis have less personal costs which would act as a catalyst for Somalis to re-invest in their businesses.

*I work hard and make sure my family they are good, I don’t need so many expensive things. We don’t believe in this. Allah provides for us, he provides for everyone, so I don’t need such expensive things when the cheaper one does the same. Everyone must eat.* - Fatih

*We don’t spend too much money on things like these locals. Our children they work hard, then they play with their friends. We give our family for what they need and then we save for business. With business we make some more money, with these expensive clothes I just lose money.* - Jabran

The results illustrate how the Somali traders’ personal expenses are controlled and minimized to suit expansion in the business realm. Their social environment is not fixed on materialist possessions. It was noted that the offices and other areas around Belleville where the researcher met the interviewees were all void of excessive luxuries or any displays of status or accomplishment. This disregard for material
possessions suggests the Somali community limit their wants and needs to a certain level in Maslow’s hierarchy of needs model (Maslow, 1943). Ultimately, this translates in the case of Somali traders from personal expense management into a sophisticated cost control in their businesses.

In terms of margins, Shamikh, Stephanie and Nick displayed a certain level of certainty that Somalis practiced bulk purchasing that minimized variable costs. Under the assumption that transportation is a daily routine it can be considered as a fixed cost. Therefore, the findings highlight a misunderstanding of where the Somalis possess a competitive advantage. While it is correct that they are strong negotiators, as Francois highlighted, the Somali traders’ competitive advantage is rooted in their ability to manage fixed costs. The following are strategies that emerged from the research:

1. **Transport management**
   a. **Vehicle-sharing arrangement** – All four of the Somali participants explained how, while they do not purchase together in bulk, they do have a system whereby they rent transportation together or share the costs of fuel:

   *I don’t have my bakkie anymore, I sold it. But three or four of us, we rent now the bakkie sometimes two times every week. We all put some money together also for petrol. It’s good like this; it’s not too much expensive.*
   - *Noor*

   *I have my car, but when I go and buy from the cash and carry, I go with maybe two or three people and they pay me fuel.* - *Jabran*

   *I just put in four or five guys we put in then we hiring the car, bakkie, then everybody buys his own stuff. Then later on every shop has his own slip, receipt.* - *Fatih*

   *Sometimes we just go together, then we buy stock and we load together. Then we all put money each of us for petrol.* - *Basheer*
b. **Minimized depreciation** – The Somali traders do not invest in new vehicles and instead buy ‘workhorses’ that are able to transport stock effectively. Here the researcher noted that the majority of the vehicles in Belleville around the Somali stronghold were stocked with varying goods from rice to clothes. The majority of vehicles acted as transportation for stock.

> My bakkie is good, maybe I buy it for twenty thousand and later I can sell for also twenty thousand. - **Fatih**

This almost-instinctive strategy to share transportation has allowed the Somali community to minimize their transportation costs with regards to their businesses. In addition they inherently understand depreciation in vehicles and more so the mitigation thereof.

### 2. Labour

The Somali traders tend to hire Somalis exclusively. There are several reasons behind this hiring practice including the trust they can be assured of owing to the family and clan structure within their community (Steinberg, 2014). This ultimately manifests itself in cheaper labour costs as they are inclined to support the Somali with more than just a salary but also with social connectedness, appraisal and reference (King, 2012).

> I work first for another Somali in the shop. I learned Afrikaans and Xhosa like that. You know I work for little then, but I put one side to also start my own shop. - **Jabran**

In addition, the Somali interviewees often recalled having slept in the spaza shops when they were new to the community based in Cape Town. While this benefits the Spaza shop owner in that there is a constant guardian of inventory, the Somali worker also benefits by not having rental expense.
4.3.1.2 Horizontal expansion

The exponential growth of Somali traders is often associated with a strong competitive advantage and capital management competency. The following results demonstrate two resonating themes that promote the widespread horizontal expansion of the Somali spaza shop.

4.3.1.2.1 Distrust towards banks

All of the Somali interviewees showed reluctance towards banking and financial services. According to Steinberg (2014), this behaviour is conditioned from continuous disappointment in formal institutions. This fostered a strong distrust in Somalis toward banks and therefore Somalis tend to hold banks at an arms length, by using them solely for major formal transactions. Steinberg (2014) also identified a certain shop in the middle of Belleville that accepts and holds envelopes (of cash) for Somalis. This, together with the aforementioned internal interest-free lending system, replaces most of the functions that the banks offer.

We know the people here so we are comfortable, at the bank they want so many documents then they take my money from me, I don’t know if they will give it when I need it. - Fatih

Ultimately, due to the fact that they elect not to store their money in banks, they have few alternatives of similar (or less) risk. Therefore, as Noor highlighted, the disposable income is split between savings and investment. Investments range from shares in businesses to shares in new shops.

The money I make is for me. I put some for later and some I use to help some other Somalis or to buy more stock for my shops. (Sic) – Noor

4.3.1.2.2 Supportive community

Ultimately, within the Somali community there is always a demand for a loan to start up a business or similarly new members of the community recently immigrated. This money is then used to start up another store (or purchase one) in order to grow their wealth and to create employment for those who have just arrived. A core competency
of the Somali community is their ability to maintain an exceptionally supportive and tightly knit community. Thus individualism was almost inexistent in the observed Somali community during the course of the research.

_We come together, we are from the same people, so we must look after our brothers and sisters. We mos all have families that must eat._ - Fatih

The researcher noted that the majority of Somalis that he interacted with in the field were married from a very young age. Steinberg (2014) writes about the importance of the family construct in the Somali culture. This supportive community construct allows for the fast expansion and growth of the entire community. As Fareed recollected:

_You know, our forefathers came to this country with a similar work ethic (as the Somalis). They opened at 6am and worked till 11pm. They kept close with one another and the whole community quickly established themselves, bought land and so on._ - Fareed

Fareed explained how one of the core competencies of the Somali traders was the social connectedness that they embody. Fareed is of Indian descent, and his grandparents immigrated to the Western Cape over a hundred years ago as traders and business people. The observable success of the Indian community in Cape Town, according to Fareed, is due to the strength of their clans and families and how they are able to leverage these relationships.

### 4.3.1.3 Expanding the offering

#### 4.3.1.3.1 Consumer demand

The results of the consumer trends survey (in phase three of this research) revealed that 97% of the sample from the lower income segment purchased at Somali spaza shops (figure 8). Furthermore, over half of these purchases were between four and seven times a week (figure 9).
It was also found that 90% of all respondents buy bread and milk on a regular basis and when asked what particular offering was lacking in spaza shops 74% responded the spaza shops should sell fruit and vegetables.
4.3.1.3.2 Fruit and vegetables

The Western Cape exports a large amount of fruit and vegetables to a number of countries across the world. Hence, the local communities around the Western Cape should ideally benefit from this too. The topic of fruit and vegetables also emerged during the interview with Duncan.

*We have really been trying to tackle the overproduction from the farms that are contracted to us. You would be shocked to see how much dumping of fruit and veg occurs due to inefficiencies in the ordering system.*

- Duncan

With the increasing requirements for listed companies to demonstrate triple bottom line efforts large retailers started to support smaller farms across the country. Yet, in order to ensure that delivery was met, these farms were required to sign contracts that stipulated that the retailer had sole rights over the produce. Although this guaranteed the farm revenue, it ultimately left the farmers with no other option than to dump produce in the event that there was any oversupply.
We have been working with the farmers in order to find alternative buyers in the event of oversupply. This has proved to be more challenging than previously anticipated; as these are perishables the time factor creates incredibly complexity. - Duncan

Duncan mentioned the drive for such companies to support local communities and create efficiencies. In addition it is clear that the dumping of fruit and veg due to contracts and oversupply in the retail sector is utterly absurd in a country where over 22.5% live below the poverty line (Statistics South Africa, 2013).

4.3.2 Service
The Somali retailers placed a strong emphasis on both customer and community service to the extent that they felt it to be the core offering of their spaza shops. In order to do business in the areas they operate, they must have a positive involvement to be secure.

4.3.2.1 Customer service
4.3.2.1.1 Product manipulation
The interviews indicated mixed results with regard to product manipulation. What emerged was the correlation between the demographics of the geography and the extent to which there existed product manipulation.

You know, it’s different for different places. Sometimes the people, they don’t have money, but still they don’t like buy one rand sugar, one rand teabag these thing. Another place they want all one rand one rand like in Black Township because they mos work for little money everyday. - Fatih

Fatih highlighted how the black townships house a certain segment of people who work on a day-to-day basis whereby they are remunerated daily. This daily amount is enough for a small amount of everything and hence the Somali retailers break down and repackage the goods to serve the demand.
You see we used to help people by sell one rand one rand, but then Hewlett’s they start make small sugar, 250 grams. Now we don’t make money as much and still expensive for customer. - **Bashir**

Bashir’s observation ties closely with the private sector’s involvement in the informal market. As Prahalad (2000) promoted the co-creation of efficiencies in the informal retail segment, one counter argument that did not surface during the literature review was the fact that these ‘efficiencies’ destroy informal retail. Shamikh highlights another effect of the smaller packaging:

*Before we used to buy bulk, like mielie meal, I buy a 10kg. You see like this we know that if maybe someone come and they have 10 rand only but their family is big, then I can also give a little more so everyone eats. Now they make everything is packaging so I can’t even help like I used to.*

- **Shamikh**

The resizing of packaging affects the lower income segment in several ways. In addition the saving from the repackaging is not passed on to the final customer but absorbed by the manufacturer. Although every one of the four Somali respondents replied that they compete on customer service, the survey results showed that only 10% of customers choose to buy at Somali spaza shops because of the service (figure 11).

![Somali Spaza Shop Customers](image)

*Figure 11: Reason for purchasing at Somali spaza shops*
This shows a misalignment as to where the Somali retailers perceive their attractive factors lie and why the market really buys from them.

4.3.2.1.2 Emphasis on relationships
The emphasis that the Somali interviewees placed on relationships within the community was possibly an extension from within their own social construct.

_The client I know him, everyday I see them. I help them with discount sometimes one rand._ - Noor

_My customers they come back because they know me, they know my shop is good, stock is new, everything is genuine._ - Jabran

Yet as shown in figure X above, there is a certain misunderstanding as to what makes clients shop at the Somalis. Indeed client relationships are key to repeat purchases and word of mouth.

_Yes there is competition from Somalis, but fortunately the customers they like me. I think because of the service and the neatness of the shop because some would say I don’t eat bread from Somalis because they don’t like them so fortunately that sells._ - Stephanie

Stephanie highlighted how the local Xhosa community in Nyanga supports her shop because she is similarly priced to the Somalis but also has a very neat and clean shop. In addition she mentioned that the local Xhosa community like to support her because there are few local Xhosa shops that exist now. What the results show is the price sensitivity of the lower income market segment and how this transpired further into the decision factors for purchasing at spaza shops.

4.3.2.2 Community service

4.3.2.2.1 Pensioners

The Somali community also have a remarkable method of helping pensioners
In Somalia, we respect old people. When pensioner they come to my shop, they have little money, I see maybe my mother or maybe my father. I give credit, we must respect old people. - Noor

I learned from my uncle where I worked before, he told me to help the old people, give them discount and also credit. But not the drunk ones.

- Jabran

Both Noor and Jabran highlight how they have been taught through their culture to look after the elderly. A large number of spaza shops allow pensioners to buy certain essentials on credit and repay their account when they receive their pension.

4.3.2.2 Helping the needy and the poor

Another strong emergence with regards to community service was how the Somali traders placed a strong emphasis on helping the needy and the poor.

At my shop we give so much to poor people, everyone must eat. In Islam we have Rizq [provision], so we must help these poor people. Then also they protect us. You see it also keeps us safe. - Basheer

One day in Mitchell’s plain at my shop I saw a woman being beaten by a man. I run to him (her) and save her. If I was not there, maybe she is dead now. - Fatih

Basheer and Fatih both illustrate the connection between community service and safety in these areas. Given that the majority of the areas the Somali interviewees operated shops were some of the most crime-ridden areas of Cape Town, the Somali traders demonstrated how they protect themselves within a community.
4.3.3 Competition

4.3.3.1 Identifying competition

The increasing interest in the lower income segment has attracted interest from an array of businesses. As such it was important to understand the perception from each of the forces as to where their potential competition lie.

No, it’s the same for me. There are many shops and everywhere is competition, but is your luck. We sell same things but there’s enough business for everyone. - Fatih

Fatih, like Bashir and other Somalis who operate from Mitchell’s Plain, felt very little threat from any competitive force. This could possibly be due to the fact that the geographical area they currently operate in has very few retailers due to challenges around crime and gang warfare.

See people they start to go to Pick ’n Pay and Shoprite to buy more things. Sometimes they need more stuff as we have but then they buy from there also the stuff we have. - Noor

So I think that transition where the big businesses came to the township is the other big reason that hit us. Although they were bringing it in as a sense of development, bringing jobs to the people, you see, but as the big shops came in we realize ‘No man, here we are being run out of business.’ Because actually what is happening, I can make for you an example. You see a loaf of bread, you buy a loaf of bread for R9.00, you see, you sell that bread for R10.00 because you must make a profit. But you find the same bread at Shoprite is R7.00. Milk, you buy milk for R6.50, you sell a sachet of milk for R7.50. Same milk, you buy that milk for R5.00 there by Shoprite. So now when a person has got R20, he can move to the centre to buy one, two, three, four things. You can’t blame that person because cost of living is too high. So you see all those factors they affected the businesses in the township. People used to be making per month maybe R10 000 profit. Now all of a sudden from R10 000 you can’t even make
R1000 profit. You buy the stock, the stock stands still in the shop and you can’t force people to buy it because people are always going to go for the cheapest place. So those are the factors that started to accumulate around people and they saw no further reason to continue this business.

- Shamikh

Noor and Shamikh both identified the large retailers as competition. Shamikh in particular was very upset as to how the large retailers are worsening the situation for small retailers. In fact Shamikh mentioned that it is because of the incredibly strong competition that many local spaza shops have closed, and not because of the Somalis.

We have placed a strong emphasis on developing the lower income market segment. In fact we are planning several entry strategies into the lower income segment in the country as we see an extremely lucrative market there. - Duncan

Duncan was clear on the aggressive drive to gain market share in the lower income segment from the part of the large retailer.

We must come together as locals, it is important we also collaborate. You see the Somalis, they collaborate, so we must find a way of keeping our spaza shops open as well. - Nick

Nick however had a different understanding of the landscape. He believed that the Somali traders were the strongest competitors. Not suggesting otherwise, but rather building on the competitive analysis, is the importance of understanding the private sector’s entry strategy into the lower income market segment.

4.3.3.2 Competitive response

The Somali retailers use pricing strategies in order to compete in this market. However their pricing is directly influenced by the prices that they are able to negotiate from the wholesalers.
You see, when we sell, we sell at best price. So we know we are the best price for customers, so they must come to us. - Jabran

I sell at very good price, but if the price goes up everywhere, it makes it difficult for us. Then the customer, he want the old price, so we struggle.
- Basheer

Stephanie demonstrated an instinctive understand of the loss leader strategy in order to attract customers to her shop. Essentially the loss leader pricing strategy is where a product is sold below market price in order to stimulate sales of other more profitable goods (Hess & Gerstner, 1987).

I have better price, the neatness, the service. Because the bread, I don’t make a lot of money of the bread but I sell a lot of it because it’s cheaper than the other shops. Because the Somalis sell the white bread for R10.50 and I sell it for R10.00. - Stephanie

Furthermore, Stephanie chose the most common purchase (as shown by the results of the consumer survey - figure 12) in the lower income segment at spaza shops as her loss leader in order to attract customers.

![Figure 12: Product purchase frequency](image-url)
4.4 Addressing the Research Problems

The aim of this research was to explore industry dynamics within the lower income market segment by exploring the competitive dynamics around Somali spaza shops. This study thus aimed at developing an understanding of the competitive industry dynamics within the lower income retail segment with the purpose of identifying potential collaborative strategies for Somali spaza shops. In order to address the main research problem, the sub problems have been tackled first.

4.4.1 Sub problem 1

“What are the existing ‘last mile’ distribution channels into the lower income market segment by Somali traders?”

Phase one of the research included interviews with the Somali spaza shop owners. This highlighted the last mile distribution channels into the lower income segment. All of the four interviewed Somali traders bought their stock at the same wholesalers. When selecting where to purchase, they identify the lowest price per product at that given moment with the help of promotion pamphlets. Thereafter the majority of Somalis use private Somali owned transportation where they divide the transportation cost equally.

Figure 13: Last mile distribution in the lower income market segment
This typically refers to a straightforward distribution chain with fewer intermediaries. Nevertheless several wholesale retailers exist in the Somali community, but they are relatively minor in comparison to the distribution channels as depicted above in figure 13.

4.4.2 Sub problem 2

“What collaborative strategies exist with the private sector which are aligned with their strategies on the lower income market segment?”

Owing to the difficulties in interviewing strategists from the large retailers, minimal information was extracted and hence no concrete conclusion was drawn from the research. Nevertheless, owing to the interview with Duncan who represented a large retailer, it was found that the large retailers have an aggressive entry strategy into the lower income segment. In terms of the potential for FMCG manufacturers to bring value to end customers through collaboration, a strong mention of a loss or margins was mentioned in section 4.3.2.1.1 whereby Basheer and Shamikh both emphasised that the savings from efficiencies are mostly absorbed much higher up the value chain and create little or no difference for the lower income segment, neither retailer nor customer.

4.4.3 Sub problem 3

“What collaborative procurement methods exist for Somali spaza retailers in the lower income market Segment in Cape Town?”

This sub problem is addressed in 4.4.4.1.1 as the findings form part of the findings that address the main problem.

4.4.4 Main problem

“To what extent do potential collaborative strategies exist for Somali Spaza shops to bolster their competitive advantage in the lower income market segment in Cape Town?”
4.4.4.1 Evidence of potential collaborative strategies

4.4.4.1.1 Collaboration through trade associations

Much of the research was facilitated by the Somali Association South Africa (SASA), an institution which has played an integral role in helping the Somali community from a formal platform and which is recognized by both local government and the greater Somali community in South Africa. There is, nevertheless, a certain limitation to the extent to which this association (and other similar such associations) is currently supporting the trade external to the Somali community. The potential to expand this support structure further into trade requires a “buy-in” from Somali traders and a general education around formalized collaborative strategy. Through the interviews, however, the Somali business acumen appeared to be somewhat natural and instinctive.

Michael Porter’s five forces of industry analysis model was used as an underpinning framework to identify collaborative strategies that could bolster Somali traders’ competitive advantage. Through a trade association the Somali traders would increase the general number of buyers and therefore increase the size and volume of the purchase orders from the collective association. The trade association would then engage with suppliers in order that they, the suppliers, become aware of the collective business that the Somalis are responsible for. In this manner the logistical complexity would be removed as collective buying would not be required.

This collaborative strategy involves not only the association of Somali traders, but includes the wholesalers who supply them. The wholesalers would be incentivized to collaborate owing to the enormous percentage (80%) of business that the Somalis contribute to them. In addition, as Porter (2008) highlighted, one of the threats of buyers is the potential that they integrate up the value chain. The wholesalers on the other hand could benefit from securing increased market share owing to the personal relationships and the pricing strategies. This pertains to the clear communication of discounts to the trade association in order to secure a maximum rand value of business from them.
4.4.4.1.2 Collaboration through a consolidated promotion platform

The combination of a trade association and collaboration through a consolidated promotion platform, although mutually exclusive, are in fact collectively synergetic. One of the themes that emerged during the research was the dependence, both from Somali traders and general wholesalers, on printed pamphlets to communicate weekly discounted prices. This printed pamphlet system inherently created a number of inefficiencies that have the potential to be circumvented. Unfortunately, from the wholesalers’ perspective there exists a generalization that Somalis are somewhat reluctant to use technology and prefer physical paper brochures. This assumption was significantly unsubstantiated and an observation made in the field was that almost every Somali encountered had a ‘smart’ phone. In addition, the SASA headquarters in Belleville possesses a computer room with terminals that are operational.

The costs incurred in the paper pamphlet system on behalf of the wholesalers are astonishingly high and the time-lapse of communication is also significant. Through an updated system, wholesalers would be able to adjust prices at shorter intervals. This is important as most of the Somali interviewees purchase stock every 1-3 days. Due to the competitive environment around wholesalers, together with the price sensitive Somali traders, it would be beneficial to have an optimized platform.

The use of a trade association would, from the perspective of the Somali Spaza shops, have the capacity to consolidate all the information and make this available to the Somali traders. Although this is already informally taking place on a daily basis in conversations between traders, in order to leverage from the cumulative buying power of the association cumulatively a consolidated system would benefit the Somali trade network.

4.4.4.1.3 Collaboration through an increased product offering

A portion of the findings from the consumer surveys highlighted a strong demand for an extended product offering, specifically into fruit and vegetables. Generally from the interviewees, Somali Spaza shop owners tend to avoid perishables; as the margins do not justify the risk of spoilage. However, a key finding from the retail sector was the extent to which dumping of fruit and vegetables by retailer-contracted-farms was
prominent as a result of the bullwhip effect. The bullwhip effect is the occurrence of variance between the supplier and the end customer due to irregular order that do not take into consideration the time lag and other factors that affect demand. (Lee, Padmanabhan, & Whang, 1997).

Currently, these farms are contracted to large retailers with little time to find alternative buyers for excess produce and hence much of this is dumped. South African retailers are under significant pressure both locally and internationally to align their business models to benefit the society they operate in. A control of margins will need to be in place to ensure a minimal margin for the farms and retailers, as the farms will win from the difference in the opportunity cost and the retailers from the corporate social responsibility. Furthermore the wholesalers will also need to collaborate with the intention of moving the fruit and vegetable into the lower income segment as swiftly as possible.

4.4.4.1.4 Actionability and implementation of collaborative strategies

The strategies that have been recommended above are subject to an array of variables. It is important to note that while the researcher has identified the potential strategies, there still exists a certain amount of groundwork that is key to identifying the feasibility of the suggested strategies within the context of an infinite amount of variables.

4.5 Research Limitations and Assumptions

The researcher was faced with several difficulties and limitations during the research. Most of the difficulties came in penetrating the Somali community in such a manner that they would “open up” and engage with one. With the help of the Somali Association South Africa (SASA), the researcher was able to meet and experience the lives of Somalis in Cape Town. Although a translator was needed for certain words, the majority of the interviewees opted to speak for themselves.
The main obstacles in the research were the retail sector’s BoP strategists who refused to be interviewed. The researcher attempted on several occasions to contextualise the research in a manner that the departments would understand the collaborative nature of the research but to no effect. Hence, the representative from the retail sector was not from the strategy department but from the sustainability department.

A major attempt was made to optimize the time to allow for as much information as possible in order to saturate positively the data. Nevertheless, the sample size is not a true representation of the general informal sector in South Africa nor can it be assumed to represent the entire spaza shop industry as a whole.

Finally, several precautions needed to be taken in order to perform fieldwork in the geographical areas that hosted this study as they are infamous for crime. It should be noted, however, that those who engaged with the researcher were helpful and engaging individuals.
5 Conclusion

This Research report was an exploratory study of the competitive dynamics and collaborative strategies amongst the Somali traders in Cape Town, South Africa. This report aimed at exploring the dynamics within the informal retail sector in South Africa. A cross sectional study of the competitive dynamics of the informal retail sector in the lower income market segment was carried out using an underpinning industry analysis framework as a foundation for the research. The study yielded results that substantiated potential collaborative strategies for Somali traders in the lower income market segment.

The main research problem of this report pertained to the exploration of the extent to which potential collaborative strategies exist for Somali Spaza shops to bolster their competitive advantage in the lower income market segment in Cape Town. The “lens” through which this study was carried out was one of competitive industry dynamics and collaborative strategy. As the findings suggest, there are already existing collaborative efforts amongst Somali traders, although many of the preconceptions from local competition and customers are in fact incorrect. In particular, the notion that Somalis have a competitive advantage owing to collaborative bulk purchasing is, in fact, false. This is because the logistical challenges inherent in the variations in demand create complexities that Somalis tend to avoid.

Such collaborative strategies that do currently exist are focused more on cost control or the fixed costs and less on the variable costs. What this means is that instead of collaborative negotiation in purchasing stock, Somali traders’ collaborative strategies are more tuned to smaller organized groups who share the costs of fuel and transportation. In addition, they leverage from their networks in that they are able to help new immigrants quickly with a job, food and shelter. The strong social network that has been sustained amongst the Somali community in South Africa has also been a core competency of these traders. In fact, as Steinberg (2014) writes, the Somali communities worldwide are able to trace themselves backward into five main clans, whereby a strong supportive network ensures that the individual has the basic means and a job. While, in Somalia, these clans are mostly in conflict and have been ever
since 1992, as ‘asylum seekers’ the clans come together and integrate in that they live in similar areas and congregate in the same mosques (Steinberg, 2014). To conclude, this research has identified several potential collaborative strategies that have not yet been implemented, if even conceptualized.

6 Recommendations for future research

The themes that were highlighted during this research report were used to identify potential collaborative strategies for the Somali traders. The strongest theme that emerged from this study was with regards to the current business model of Somali spaza shops. The responses from the local Xhosa spaza shops pertained to the fear of increasing competition that is destroying entrepreneurship in the lower income segment. The researcher feels that this topic was not sufficiently covered in this research report. Beneficial future research would therefore be directed towards the feasibility of Somali business model of informal retail together with a social connectedness in order to foster entrepreneurship in local Xhosa townships.

The researcher used a sample that was determined by the overall scope and limitation of this exercise. Now that the initial groundwork has been carried out, an in depth study (with a larger sample) into the power dynamics between informal retailer and wholesalers could be conducted. This would bring to light many of the qualitative factors around the bridge between the formal and informal retail sectors. An in depth study into the possible tax implications of the formalisation of the informal sector could also be carried out.

Finally, this research focused on two small geographical areas in Cape Town and hence the results are limited by the sample size. A future research direction would suggest a comparative analysis between the East African Somali traders and the South African Somali traders in order to identify the applicability of the generic Somali retailer business model. The lessons learned from the widespread success of Somali traders in emerging markets may apply to large MNC entry strategies into Africa.
7 References


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8 Appendices

Appendix 1 – Typical examples of spaza shops in Cape Town, South Africa


(Source: https://www.superstock.com/stock-photos-images/4030-4862)
Appendix 2 - Consent forms

Consent to Participate in Research

Introduction and Purpose
My name is Tariq Sheikh. I am an MBA student at the Graduate school of Business at the University of Cape Town, I would like to invite you to take part in my research for my research report entitled “Somali Spaza Retailers: Potential collaborative strategies at the Bottom of the Pyramid”.

Procedures
If you agree to participate in my research, I will conduct an interview with you at a time and location of your choice. The interview will involve questions around the general business activities of your spaza shops. It should last about 30 minutes. With your permission, I will audiotape and take notes during the interview. The recording is to accurately record the information you provide, and will be used for transcription purposes only. If you choose not to be audiotaped, I will take notes instead. If you agree to being audiotaped but feel uncomfortable at any time during the interview, I can turn off the recorder at your request. Or if you don't wish to continue, you can stop the interview at any time.

Benefits
My research is aimed at exploring the dynamics around the Somali spaza shops in order to identify possible collaborative strategies. Therefore the benefit to you from taking part in this study could potentially be the product of my research.

Risks/Discomforts
There are no direct risks involved, but if you feel at any moment that you do not want to answer a question then we will move on. As with all research, there is a chance that confidentiality could be compromised; however, we are taking precautions to minimize this risk.
Confidentiality
Your study data will be handled as confidentially as possible. If results of this study are published or presented, individual names and other personally identifiable information will not be used. In addition, my final research report will not disclose any of your personal information.

Rights
Participation in research is completely voluntary. You are free to decline to take part in the project. You can decline to answer any questions and are free to stop taking part in the project at any time. Whether or not you choose to participate in the research and whether or not you choose to answer a question or continue participating in the project, there will be no penalty to you or loss of benefits to which you are otherwise entitled.

Questions
If you have any questions about this research, please feel free to contact me. I can be reached at 0767034567 or shktar001@gsb.uct.ac.za

If you have any questions about your rights or treatment as a research participant in this study, please contact the Graduate School of Business at the University of Cape Town on 021 406 1911.

*****************************************************************************

CONSENT
You will be given a copy of this consent form to keep for your own records.

If you wish to participate in this study having all of the above, please sign and date below.

_____________________________ _______________________
Participant's Name   Date

Participant's Name (please print)
Appendix 3 – Consumer Surveys

Consumer Survey Questionnaire

Introduction and Purpose
My name is Tariq Sheikh. I am an MBA student at the Graduate School of Business at the University of Cape Town, I would like to invite you to take part in my research for my research report entitled “Somali Spaza Retailers: Potential collaborative strategies at the Bottom of the Pyramid”.

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3. Age bracket (Years)

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Purchasing
4. Do you purchase regularly at a Somali spaza shop?

- Yes
- No

5. If yes then how often per week?

- Less than once
- 1-3 times
- 4-7 times
- More than 7 times

6. What products do you mostly buy there (name top three)?

1. __________________________________
2. __________________________________
3. __________________________________

7. Why do you buy at Somali Spaza shops? (Choose one)

- Price
- Location
- Customer service
- Other _____________________________

8. Do you have personal relationships with the Somalis at Spaza shops and/or their owners?

- Yes
- No

9. If there was one thing you would add and one thing you could take away from the Somali Spaza shops what would they be? (either a product or a service)

Add ______________________________

Take away __________________________

10. Do you prefer Somali Spaza Spaza shops to locally run Spaza shops?

- Yes
- No
- Indifferent

Reason:
Appendix 4 – Spaza shop owners guiding questions

Interview Template

Supervisor: Professor Trevor Williams
MBA candidate: Tariq Sheikh
2014
General Demographics

1. Name

2. Age bracket

3. How many years have you been in South Africa, in Cape Town?

4. How many Spaza shops do you own?

5. How long have they been operating?

Suppliers

6. How often do you procure (buy) your stock?

7. How many suppliers do you use? Which ones?

8. Do you have personal relationships/agreements with the suppliers?

9. How do you transport your stock to the spaza shop? (do you lease a vehicle?)

10. Do you collaborate with other Somalis when you buy stock?

Information

11. Do you ever pass on information to your suppliers (or to anyone else) about the quantity of sales of a particular product?

12. Have you ever been approached by a representative of a major FMCG producer for insights into the lower income segment?

13. Have you ever been approached by a representative of a major Retailer for insights into the lower income segment?

14. Would you collaborate ongoing information on consumer trends backward to suppliers or producers if it was incentivized?
Product

15. What products sell most? Why do you think this is?

16. What products do you have to alter most?

17. Do you see a potential saving if the manufacturers would alter their products marginally?

Competition

18. Who would you say are your biggest competitors, and why?

19. Do you see Pick n Pay and Shoprite as competitors?

20. What do you feel your competitive advantage is? (Price, location?)

21. Would you collaborate with a large retailer?

Closing

22. Do you have any other insights that you feel are relevant and could be useful for my research?
Appendix 5 – All other interview guiding questions

Interview Template

Supervisor: Professor Trevor Williams
MBA candidate: Tariq Sheikh
2014
General

1. Name

2. Company

3. Position

4. How long have you worked here?

Procurement

5. Do you procure directly from manufacturers?

6. How many manufacturers/importers do you buy from?

7. Do you have personal relationships/agreements with the suppliers?

Information

8. Do you collaborate information with manufacturers?

9. Have you ever been approached by a representative of a major FMCG producer for insights into the lower income segment?

10. Would you collaborate ongoing information on consumer trends backward to manufacturers if it were incentivized (through discounts perhaps)?

Product

11. What products sell most? Why do you think this is?

12. What products do you have to alter most?
13. Do you see a potential saving if the manufacturers would alter their products marginally?

**Competition**

14. Who would you say are your biggest competitors, and why?

15. Do you see Pick n Pay and Shoprite as competitors (indirect)?

16. What do you feel your competitive advantage is? (Price, location?)

17. Would you collaborate with a large retailer?

**Buyers**

18. Who are you major clients?

19. Would you collaborate with spaza shops (both local and Somali) in terms of buying trends in order to minimize bullwhip (over and under stocking) and improve efficiencies?

20. Do you see any alternatives to brochures and pamphlets for your specials announcements?

21. Have you ever tried any other platform?

22. Would you give bulk discounts to associations?

**Closing**

22. Do you have any other insights that you feel are relevant and could be useful for my research?
## Appendix 6 – Coding Matrix

<table>
<thead>
<tr>
<th>CODING</th>
<th>Somali Spaza Shops</th>
<th>Local Spaza Shops</th>
<th>Wholesalers</th>
<th>Retailer</th>
<th>New Entrant</th>
<th>Surveys</th>
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<tr>
<td></td>
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<td>Noor</td>
<td>Jabran</td>
<td>Basheer</td>
<td>Stephanie</td>
<td>Shamikh</td>
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