The Retail Industry on the Rise in South Africa

Executive Summary

The retail industry has grown over the past years, supported by an increase in both the supply of retail space and the number of shopping centres in the country. The industry grew by an annual average of 3 percent in the past eight years. The country has seen a boom in shopping centre development and townships have also benefited from this. Retail trade sales have been increasing over the years. An average annual increase of 29 percent in online retail sales, total retail trade sales are expected to further escalate. Growth of the industry is largely influenced by economic conditions that consumers find themselves in. Amongst others, these include the level of the interest rate, inflation and economic growth.

A stable economic environment allows consumers to spend more, thereby increasing the value of retail trade sales. At 26.5 percent, Gauteng contributes the largest share of gross value added by the retail industry. The economic contribution made by the industry is of great value to the economy and the public as it offers more employment opportunities, especially to the youth. Though the industry has various challenges, opportunities do exist. Some of the challenges experienced by retailers include increased operational costs and skills shortage. However, the relatively developed infrastructure and institutions in the country, make multinational companies view the country as a hub where they can establish and expand business to the rest of the Sub-Saharan African region.
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1. Introduction

“Retail plays a vital role in the South African economy and shopping centres are at the heart of this significant economic activity. Furthering excellence in retail is of wide benefit and represents vast positive outcomes for consumers, retailers, shopping centres, service providers and the economy in general.”

By - Amanda Stops, General Manager of the South African Council of Shopping Centres, 2011

The retail trade industry can be defined by using the classifications from the Standard Industrial Classification (SIC) from Statistics South Africa (Stats SA). It falls under division 62 of the SIC. This industry is said to include the reselling (sale without transformation) of new and used goods to the general public for personal or household consumption or use by shops, department stores, stalls, mail-order houses, hawkers and peddlers, consumer cooperatives, etc. Establishments that are classified under this division include amongst others, those that sell to the general public, from retail products, such as type writers, stationery, paint or lumber.

The retail trade division excludes the sale of farmers’ products, manufactured goods (e.g. draperies, food) to be sold exclusively to the general public for personal or household consumption purposes. It also excludes the sale of motor vehicles and motor cycles and their parts and of automotive fuel, the sale of motor vehicles or other goods to institutional or industrial users, the sale of food and drinks for consumption on the premises (i.e. bars, restaurants) and the renting of personal and household goods to the general public.

According to Stats SA, the retail industry forms part of the major trade division which includes wholesale & retail trade, repair of motor vehicles, motor cycles, personal & household goods and hotels & restaurants. The retail industry is composed of 7 clusters, which are:

- General dealers;
- Retailers of food, beverages and tobacco in specialised stores;
- Retailers in pharmaceutical and medical goods, cosmetics and toiletries;
- Retailers in textiles, clothing, footwear and leather goods;
- Retailers in household furniture, appliances and equipment;
- Retailers in hardware, paint and glass; and
- All other retailers.¹

¹ These include retailers in reading material & stationery, jewellery, watches & clocks, sports goods, personal & households and second hand goods.
South Africa has seen the retail trade industry grow from strength to strength over the recent years. The industry mainly comprises of individuals and companies engaged in the selling of finished products to end user consumers. An increasingly large number of businesses have entered this industry; both formal and informal retail traders have experienced growth over the years.

With the South African economy evolving to one that is consumer driven, as mining and manufacturing decline, industry expansion falls on the hands of retailers. The decline in manufacturing also makes the country to be globally uncompetitive as it relies more on imports. The country continues to develop new malls and shopping centres. This increasingly rapid establishment has in the recent years seen not only cities expanding their retail area but also some townships have had malls and shopping centres being developed.

2. Overview of South Africa’s Retail Industry

2.1 Market overview

South Africa’s retail industry has evolved over the years. Improved and modern infrastructure in the country has allowed for more rigorous economic activity. The retail industry has benefitted through efficient distribution of goods to urban centres, townships and rural areas. Shopping centre development has shifted from being concentrated in inner-cities to suburbs and townships. Rapid construction of high-density housing in the surrounds of major urban areas has led to the demand for and increased developments of retail centres in these residential areas. The country’s retail outlets offer a full variety of formats that are similar to those in the United States (US). These retail outlets range from cafés, general dealers, specialty stores, exclusive boutiques, chain stores, department stores, cash and carry wholesale-retail outlets and the co-operative stores which serve most rural areas.

Data taken from Urban Studies\(^3\) (2010) quantifies the size of the retail area and the number of centres for both the country and Gauteng. In 2002, about 5,722,846m\(^2\) of land in the country was occupied by the retail trade industry. This area included 239 shopping centres. The industry grew to occupy 18,418,073m\(^2\) of land by 2010, accompanied by an increase in the number of shopping centres (1,443). The Gauteng province also saw retail space increasing from 3,062,929m\(^2\) in 2002 to 8,545,522m\(^2\) in 2010, which was greater than the retail area of the entire country in 2002. The number of retail centres increased from 111 to 634 during this period. Gauteng constitutes 45 percent of the country’s shopping centres. The size of shopping centres in South Africa ranges from 1,000m\(^2\) to almost 150,000m\(^2\).

\(^{2}\) Information sourced from the United States Department of Agriculture (USDA) Foreign Agriculture Service 2010 Annual Retail Food Sector report.

\(^{3}\) Urban Studies is a property and urban market research organization. See [www.urbanstudies.co.za/](http://www.urbanstudies.co.za/)
In the 2011 Global Retail Development Index (GRDI)\(^4\), South Africa was ranked 26\(^{th}\) out of 30 developing countries with a score of 42.2, a deterioration from the 24\(^{th}\) rank of 2010 (41.7). Though the country’s ranking has dropped, the GRDI score has improved. The GRDI annual publication ranks the top developing countries for retail expansion internationally where countries are ranked on a 100 point scale. A higher ranking translates to a greater urgency for retailers to enter the specific country. The GRDI scores are based on country & business risk, market attractiveness, market saturation and time pressure variables. South Africa scored 46.9 percent on market attractiveness, 89.3 on country & business risk, 15.2 on market saturation and 17.2 on time pressure. At the top of the rankings was Brazil with a GRDI score of 71.5.

### 2.2 Key Industry Players

This section gives a discussion of the major players currently operating in the South African retail industry and also an analysis of the associations that some of these retailers belong to.

#### 2.2.1 Major Retailers

South African retail companies compare well with other retailers globally. Major industry players in the country include Edcon Pty (Lt), Pick n Pay Holdings Ltd, Shoprite Holdings Ltd, Spar Group Ltd, Woolworths Holdings Ltd and Massmart Holdings Ltd. In the 2012 Global Powers of Retailing report\(^5\), the country’s top five retailers were ranked in the global top 250 retailers. Shoprite was ranked 92\(^{nd}\) in the retail sales rank, Massmart (126\(^{th}\)), Pick n Pay ranked (133\(^{rd}\)), Spar (179\(^{th}\)) and Woolworths (222\(^{nd}\)). In 2009, the retail industry’s average profit margin was 3.9 percent. Retailers in the Textiles, clothing, footwear and leather goods had the highest profit margin at 10.8 percent. This section discusses these six major industry players. There are other retailers in the clothing and fashion retail chains that have a noticeable presence in the country but will not be discussed further because they respectively contribute smaller shares in the industry. These include Mr Price, Truworth’s International and the Foschini group.

**Edcon Pty (Lt.)**

Edcon Pty (LTD) is the largest clothing, footwear and textiles (CFT) retailing group in South Africa. Edcon is estimated to have 31 percent market share of the CFT retailing group.\(^6\) The company has about 1,228 stores

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\(^{4}\) The GRDI is produced by A.T Kearney, a global management consulting firm that uses strategic insight, tailored solutions and a collaborative working style to help clients achieve sustainable results. The GRDI annual report identifies windows of opportunity for global retailers to invest in developing markets.

\(^{5}\) The *Global Powers of Retailing* is an annual report produced by Deloitte Touche Tohmatsu Limited (DTTL) in conjunction with STORES Media. The report identifies 250 largest retailers worldwide, ranks them according to the company’s retail sales. The report is intended to give a reflection of market dynamics and their impact on structure of the retailing industry over time.

\(^{6}\) The information was accessed from http://www.edcon.co.za/AboutEdcon/CompanyProfile.aspx
operating in South Africa, Botswana, Namibia, Swaziland and Lesotho. Through its recent acquisitions, Edcon retail business has added top stationery and houseware brands as well as general merchandise to its CFT portfolio. The company also provides credit facilities and financial service products to the Group’s over four million card holders.

Edcon’s retail business is structured under two divisions; the Department stores division, which includes Edgars, CNA, Boardmans, Prato, Red square and Temptations, which serve middle and upper income customers. The second division is the Discount Division, which includes Jet, Jet Mart, Jet shoes, Legit and Blacksnow, serving lower to middle income customers.

**Pick n Pay Holdings Ltd.**

Pick n Pay is one of the largest Mass Grocery Retail (MGR) companies in Africa with a market share of 30 percent in South Africa. The group operates 794 outlets made up of hypermarkets, supermarkets and family stores. It employs approximately 49,000 people according to the 2010 Pick n Pay annual report. Pick n Pay operates in seven African countries outside South Africa\(^7\). The group offers three private label ranges which are; No name, Pick n Pay brand and Finest.

**Shoprite Holdings Ltd.**

The Shoprite group of companies is also one of Africa’s largest food retailers, with a market share of 30 percent in MGR. The company operates 1,303 corporate and 427 franchise outlets in 16 countries across Africa. It employs more than 95,000 people, of which approximately 11,000 are outside the country.\(^8\) Shoprite caters mainly to the middle to lower-end of the consumer market. Some of its store formats and retail brands include Shoprite supermarkets, Checkers supermarkets, Usave stores, MediRite pharmacy, House & Home and the OK Franchise division.


**Spar Group Ltd.**
The Spar Group is the third largest MGR by market share, with a share of approximately 26 percent. It operates six distribution centres, supplies goods and services to approximately 800 stores in the country. Stores that are under the Spar group include; Build It, Pharmacy at Spar, Tops, Kwikspar and Superspar. The group operates in three countries.

**Woolworths Holdings Ltd.**
Woolworths is the fourth largest MGR, with 11 percent market share. This company has approximately 23,304 employees. Woolworths owns 295 stores and has 145 franchised stores. It offers its own product brand of clothing, food, home and beauty. It operates in 18 countries, with store formats that include full line stores which stock a complete range of Woolworths’ products. The Woolworths food stores only sell Woolworths foods.

**Massmart Holdings Ltd.**
The Massmart group consists of nine wholesale & retail chains with 265 stores in South Africa and 13 in other countries. It has about 1 percent market share of the MGR and employs over 30,000 staff members. Brands under the Massmart umbrella include, amongst others Game, Dion, Makro, Builders Warehouse, Dion Wired, Builders Express, Builders Trade Depot, Jumbo Cash and Carry and Cambridge Food. Massmart Holdings Ltd operates in 13 countries.

The group has in May 2011 been purchased by Wal-Mart at R19.2 billion (bn). Wal-Mart is America’s retail giant and has purchased 51 percent of Massmart. In the 2012 Global Powers of Retailing report, Wal-Mart was ranked first. Its revenue stands above the US$400bn mark over South Africa’s GDP of approximately US$350bn. The entry of Wal-Mart in the local retail industry has caused a lot of pressure on retailers and suppliers of retail goods to do things better and faster in order to remain in the market.

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10 Information accessed from http://www.massmart.co.za/corp_profile/corp_overview.asp

11 In 2010, Wal-Mart’s revenue is said to have been $418.9bn. Information sourced from the Global Powers of Retailing 2012 report.
2.2.2 Retailers Associations

This section discusses the Consumer Goods Council of South Africa, the South African Retail Council, the Franchise Association of South Africa and the Council of Shopping Centres South Africa, as some of the associations that retailers are members of. Currently the retail industry does not have a regulatory board that oversees all operations of the industry.

The Consumer Goods Council of South Africa

The Consumer Goods Council of South Africa (CGCSA) is a section 21 company that represents over 11,000 member companies that are in the retail, wholesale and manufacturing of consumer goods. The CGCSA’s mission is to promote partnership amongst its stakeholders across the consumer goods industry in resolving shared non-competitive matters in the most efficient manner to the ultimate benefit of the consumer. Diagram 1 shows the structure of the CGCSA, with its business units.

Diagram 1: CGCSA Structure, 2012

Source: CGCSA, 2012

The South African Retail Council

The South African Retail Council (SARC) is a new unit within the CGCSA which will focus particularly on retailers’ interests. The SARC is said to focus on areas of economic & legislative affairs and labour relations that impact on the
on the retail industry. It offers its members the following benefits:

- **Advocacy**: members are said to enjoy a single voice in the industry to government and other stakeholders;
- **Networking**: members are envisaged to enjoy a platform for networking opportunities through seminars, workshops and conferences; and
- **Information and Resources**: members would receive regular updates on industry position statements, policy papers and government submissions.

**The Franchise Association of South Africa**

The Franchise Association of South Africa (FASA) represents franchisors, franchisees and the professional organisations that service the franchise industry. Amongst others, members of FASA include those in the retail industry, fast-food & restaurants and real estate services. Some of its members in the retail industry are the Ceramic Tile Market (CTM), OK franchise division, Pick n Pay supermarkets and Verimark Direct.

FASA is the only recognised representative body of the franchise industry and it aims to ensure that its members practice ethical franchising and the franchising business environment is continually developed and expanded in the country. FASA is also a member of the World Franchise Council.

**The Council of Shopping Centres South Africa**

The Council of Shopping Centres South Africa (CSCSA) is a professional body specifically dedicated to members of the retail and property sector. It is a non-profit organisation aimed at setting standards and promoting the development of the industry by creating communication opportunities, providing information and education, encouraging ethical and professional behaviour and to safeguard the interests of its members. Membership in CSCSA is open to retail property investors, retailers, tenants, researchers, property financing institutions, brokers, property professionals and developers. The key focus areas for development by CSCSA are:

- The development of national and local specialised forums;
- Retailer training and development;
- Facilitating the creation of partnerships with retailers;
- Improving communications with members and specific interest groups;
- To boost Chapter activities and support through forums;
- To grow and develop the representativity through forums;

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13 Information was accessed from http://www.fasa.co.za/history.php
14 Information obtained from http://www.sacsc.co.za/page.aspx?Id=3&CateId=3&Category=Join SACSC
15 The CSCSA chapter activities are mainly breakfast events which are held, where certain topics related to retail are presented. See http://www.sacsc.co.za/page.aspx?Id=139&CateId=28&Category=Chapters&SubCateId=139&SubCategory=Past Events
- To promote shopping centre development within rural and urban areas;
- To expand the retail performance indices; and
- To promote shopping centre retailing as a career of choice.

2.3 Retail Trends

2.3.1 Retail Sales

Retail trade sales data is released monthly by Stats SA. Stats SA conducts monthly retail trade sales surveys for the purpose of compiling estimates for GDP and its components. The frequent release of retail trade sales makes it simple to track the performance of the industry.

**Figure 1: Composition of the Retail Trade Sales, SA, 2011**

Figure 1 illustrates the composition of retail trade sales by type of retailer for 2011. The industry is dominated by general dealers, which contribute approximately 38 percent to total retail trade sales. This can be explained by the dominance of non-specialised stores with food, beverages and tobacco such as the mass gross retailers mentioned as key industry players. Retailers in the textiles, clothing, footwear & leather goods make up the second largest share, at 21 percent. ‘Other’ retailers contribute 12 percent to total retail trade sales.
Figure 2 demonstrates the performance of the retail industry through the retail trade sales figures from January 2004 to January 2012.

Figure 2: Retail Trade Sales, SA, January 2004-January 2012

Figure 2 shows that retail trade sales follow a particular pattern annually. During the reviewed period, every December, retail sales figures spiked upward and in January, a contraction occurred. This trend is explained by the tendencies of households to shop more during the December month since most people are on holiday or have received bonuses. In the month of January, consumer spending reduces as people prepare to go back to work or school and also pay off short-term debts incurred in December. The overall trend is an increase in retail trade sales over the reviewed period. On average, retail trade sales increased by 1.32 percent on month-on-month.

2.3.2 Online shopping

The retail industry has also seen a revolution whereby retailing does not only take place through the traditional method of physically going into a store, but gradually more people are shopping online. Online shopping is a form of electronic trade whereby consumers use the internet to buy products that they require, these products are then delivered to their doorstep. According to the 2011 Online Retail Study conducted by the World Wide Worx17 online retail in the country has entered a period of sustained acceleration.

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17 World Wide Worx is an independent technology research and strategy organisation which focuses on technology in business strategy. Amongst other services provided by the organisation are web site audits, benchmarks and evaluations using the Webagility.
Figure 3: Online Retail Sales, SA, 2004-2011

![Online Retail Sales Chart]


Figure 3 shows the sales figures for goods generated in South Africa and purchased online from 2004 to 2011. Online sales have been gradually increasing over the reviewed period. The total amount spent on online retail goods in the country increased from R470 million in 2004 to above R2bn in 2010; this was an average annual increase of 29 percent. In 2011, online retail totalled to R2.6bn, a 30 percent increase from 2010. The increase in online retailing is assisted by the continuous increase in the number of experienced internet users. In 2011, Stats SA reported that retail sales from physical retail reached R541.3bn. Goods that are mainly purchased online are cosmetics, toiletries, toys and games.

2.3.3 The Development of Shopping Centres

Shopping Centres’ developments have been increasing at a rapid pace in the country. Since the year 1960, the number of retail developments in a decade has been increasing by an average of 36 percent. Below is a figure which shows the additional supply of retail space over these past years.
Figure 4 illustrates the size of retail space that was provided before 1970 to 2007 and land that was being developed for retailing between 2008 and 2010 in South Africa. Before 1970, there was a total of 207,000m$^2$ of land area being used for retail space in. It is evident from the figure that between 1970 and 1974, the size of additional retail space tripled to 620,000m$^2$. It was during the 1970’s when the very first regional shopping centres were developed. Since 1985, there has been acceleration in the supply of retail space. An additional 1.2 million m$^2$ of retail space was developed between 1985 and 1989. The increased supply of retail space from 1985 was stimulated by improved economic conditions in the country. In 1984, the economic growth rate was high at 5.1 percent; this was an improvement from the negative 1.8 percent growth realised the previous year. Due to a lag period between economic growth and shopping centre development, the effects of improved economic performance can be seen from 1985 with the dramatic increase in the supply of retail space. It was also during the 1980s when developers and investors realised the potential economic benefits that shopping centre developments could have, thereafter more investment was made on shopping centre developments. Between 2000 and 2005, a number of super-regional centres were constructed as 1,380,000m$^2$ of additional new retail space was developed. The period 2006 to 2010 is marked as the highest boom period ever in the supply of retail space, as approximately 2.8 million m$^2$ was added to the market (Prinsloo, 2009).
Figure 5 is an extension of Figure 4 and shows the annual increase of new shopping centre space from 1994 to 2009, plotted against the GDP growth rate. Though significant increases in the supply of retail space commenced in the mid-1980s, figure 6 gives a snap shot of recent data available.

**Figure 5: New Shopping Centre Space & GDP Growth Rate, 1994-2009**

Source: Urban Studies and Stats SA, 2012
Note: The totals for additional retail space in figure 5 & 6 do not add up due to data updates.

Figure 5 shows that during the review period, new shopping centre space created relatively tracked the country’s economic growth rate. There is a positive correlation of 42 percent between these two variables. In 2006, when the country grew by 5.6 percent, the highest growth rate experienced in the century, the additional new shopping centre space created also increased by its largest area, at of 750,000m². When the country was hit by the economic crisis in 2008/2009, retail real estate was also hit as the additional shopping centre space created in 2009 plummeted to 330,000m² from 690,000m² in 2008. To date, the total square meterage of shopping centre space stands at about 16,770,332m². There are roughly 1,400 shopping centres in the country.
Table 1: Shopping Centre Classification, 2011

<table>
<thead>
<tr>
<th>Shopping Centre Classification</th>
<th>Shopping Centre Size</th>
<th>Number of Centres in SA</th>
<th>Examples in Gauteng</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neighbourhood Centre</td>
<td>under 10,000m²</td>
<td>866</td>
<td>Northcliff Square in Johannesburg</td>
</tr>
<tr>
<td>Community Centre</td>
<td>10,000m²-30,000m²</td>
<td>432</td>
<td>Randridge mall in Johannesburg</td>
</tr>
<tr>
<td>Small Regional Centre</td>
<td>30,000m²-50,000m²</td>
<td>58</td>
<td>Wonderboom Junction in Pretoria</td>
</tr>
<tr>
<td>Regional Centre</td>
<td>50,000m²-100,000m²</td>
<td>40</td>
<td>Fourways Mall in Johannesburg</td>
</tr>
<tr>
<td>Super regional Centre</td>
<td>over 100,000m²</td>
<td>8</td>
<td>Sandton in Johannesburg</td>
</tr>
</tbody>
</table>


Table 1 shows that the largest share of shopping centres is held by neighbourhood centres, with a total 866 for the country. There are also 432 community centres, 58 small regional centres, 40 regional centres and 8 super regional centres, nationally.

The vibrancy of the retail industry can be seen through trends such as the following:

- More retailers opening stores in centres that are in townships and rural areas, targeting communities that are in lower income groups;
- Retailers are planning to expand the number of stores or trading space in the near future;
- To improve quality control, supermarket chains are buying back their franchised outlets; and
- Most retailers have introduced point systems, whereby customers can collect points by buying their goods and therefore qualify for discounts and/or other rewards.
2.4 Industry Analysis

This section gives background on the economic structure of the country’s economy by showing the sectoral contributions. Thereafter focus is made on the sub sector within which the retail industry falls.

Table 2: Sectoral Contribution, 2009-2011#

<table>
<thead>
<tr>
<th>Sector</th>
<th>2009</th>
<th>2010</th>
<th>2011#</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry &amp; fishing</td>
<td>2.6%</td>
<td>2.5%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Mining &amp; quarrying</td>
<td>5.9%</td>
<td>6.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td><strong>Primary sector</strong></td>
<td><strong>8.5%</strong></td>
<td><strong>8.6%</strong></td>
<td><strong>8.6%</strong></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>16.8%</td>
<td>17.2%</td>
<td>16.9%</td>
</tr>
<tr>
<td>Electricity, gas &amp; water</td>
<td>2.1%</td>
<td>2.1%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Construction</td>
<td>3.6%</td>
<td>3.5%</td>
<td>3.4%</td>
</tr>
<tr>
<td><strong>Secondary Sector</strong></td>
<td><strong>22.4%</strong></td>
<td><strong>22.8%</strong></td>
<td><strong>22.4%</strong></td>
</tr>
<tr>
<td>Wholesale &amp; retail trade</td>
<td>13.6%</td>
<td>13.7%</td>
<td>13.8%</td>
</tr>
<tr>
<td>Transport &amp; communication</td>
<td>10.3%</td>
<td>10.2%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Finance &amp; business services</td>
<td>23.7%</td>
<td>23.5%</td>
<td>23.6%</td>
</tr>
<tr>
<td>Community, social &amp; personal services</td>
<td>21.5%</td>
<td>21.3%</td>
<td>21.3%</td>
</tr>
<tr>
<td><strong>Tertiary Sector</strong></td>
<td><strong>69.1%</strong></td>
<td><strong>68.7%</strong></td>
<td><strong>69.0%</strong></td>
</tr>
</tbody>
</table>

Source: IHS Global Insight, 2012
Note: # indicates estimate

Table 2 shows the sectoral contributions in the country’s economy from 2009 to 2010 and the estimates for 2011. The table shows that the tertiary sector contributes the most to the economy. In 2009, its contribution was 69.1 percent, in 2010, 68.7 percent and in 2011, 69 percent. In highlight is the wholesale & retail trade sub-sector (also referred to as the trade sub-sector) which contributes approximately 13.7 percent to the economy. The retail industry falls within this sub-sector.
Figure 6: Wholesale & Retail Trade Industry Contributions, 2011#

Figure 6 shows the contribution made by the respective industries within the wholesale & retail trade sub-sector. Retail trade & repairs of goods make the largest contribution (45 percent), followed by wholesale & commission trade (32 percent). It is therefore safe to assume that the retail industry drives the performance of the trade sub-sector. In 2011, retail industry contributed about 9 percent of the Gross Value Added\(^ {18} \) (GVA) by the tertiary sector.

This section uses the Location Quotient\(^ {19} \) to highlight the areas where the retail industry has a comparative advantage. A location quotient of greater than one would indicate comparative advantage\(^ {20} \), while a location quotient of less than one indicates comparative disadvantage.

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\(^ {18} \) The GVA represents the net result of output valued at basic prices less intermediate consumption valued at purchasers’ prices. Definition is according to the Provincial Economic Review and Outlook, 2010.

\(^ {19} \) According to the IHS Global Insight Encyclopedia, the Location Quotient is computed by taking the percentage share of the sector in the regional economy divided by the percentage share of the same sector in the national economy.

\(^ {20} \) Investopedia defines comparative advantage as a situation in which a country, individual, company or region can produce a good at a lower opportunity cost than a competitor.
Figure 7: Trade Location Quotient, Provinces, 2000 & 2010

Source: IHS Global Insight, 2012
Note: LP=Limpopo, MP=Mpumalanga, GP=Gauteng, NW=North West, KZN=KwaZulu-Natal, FS=Free State, NC=Northern Cape, EC=Eastern Cape and WC=Western Cape.

Figure 7 shows the location quotient of the trade sub-sector for 2000 and 2010 according to different provinces. Due to unavailability of appropriate data on the retail industry, the data used includes both retail and wholesale as a proxy. The figure shows that the Eastern Cape Province had the highest comparative advantage in the trade sub-sector in 2000, with a location quotient of 1.13. It was followed by the Western Cape with 1.1 then Gauteng with a 1.04 location quotient. In 2010, the Western Cape had the greatest comparative advantage of 1.22 in trade, followed by KwaZulu-Natal and Eastern Cape with 1.06 and Gauteng, 1.03.

Figure 8 shows the provincial shares of GVA by the retail industry. The GVA by an industry is a good indicator for the contribution that the industry will make on the total of GDP. In this case, the share of the GVA by the retail industry of the various provinces to the national total, would give indication of how much each respective province contributes to the GDP of the retail industry.
Though the Western Cape had the highest location quotient in 2010, Gauteng’s retail industry contributed a far greater share to the total GVA of the retail industry for the country. The province’s share was 26 percent in 2010, followed by KwaZulu-Natal’s share of 19 percent and the Western Cape at 18 percent. For 2011 and 2012, the provincial contributions to the national total of the GVA by retail are estimated and forecast to remain largely unchanged. The figure shows the importance of Gauteng’s retail through its large contribution to total GVA by the industry.

2.4.1 Performance of the Retail Industry

Due to unstable macro-economic events, the performance of any industry is likely to fluctuate, depending on the kind of economic impacts affecting it. The retail industry is not exempt from this. The level of interest rates, household indebtedness, inflation, employment and consumer confidence all have an impact on the performance of the retail industry.
Figure 9: Retail Trade Sales, 2004-2011

Source: Stats SA, 2012

Figure 9 illustrates the retail trade sales figures and the annual growth rate for the years 2004 to 2011. Retail trade sales were increasing between 2004 and 2008, from R389.8bn to R504bn. The growth rate reached its peak in 2006 at 11.9 percent before diminishing to negative 3.7 percent in 2009. The peak in the 2006 growth rate can be linked to the peak in the consumer confidence level of 91.9 in the second half of that year. The major contributors to the 2006 increase in retail trade sales were general dealers, other retailers and retailers in textiles, clothing, footwear & leather goods.

After 2006, retail sales growth decelerated due to the hike in the interest rates, which made overall economic conditions tougher. The implementation of the National Credit Act, No. 34 of 2005 (NCA) in 2007 reduced the ability of households to access credit, thereby providing the further impetus behind the slowdown of retail sales in 2008. The 2009 growth rate suggests that the retail industry contracted because of the adverse economic conditions brought on by the global financial crises, which led to an increase in interest rates. According to the South African Reserve Bank (SARB), the interest rates reached a high of 15 percent during 2008, accompanied by job losses and therefore lower consumer spending. In 2009, there were approximately 490,000 job losses in the country and this undermined consumer spending. During this period household consumption is said to have fallen by 5.8 percent. The industry’s
speedy recovery from recession was boosted by retail expansions of large retail chains, high retail activity during the Fédération Internationale de Football Association (FIFA) World cup, above inflation wage increases and lower interest rates. According to the SARB, in 2010, the average prime overdraft rate was 10 percent. The growing middle-class in the country also supported growth in the retail industry. In 2010, the retail trade sales growth rate was 5.1 percent and in 2011 it was 6.1 percent. The strong growth in retail sales during 2011 can be explained by cheerful consumer spending as well as a stronger rand that made retail imports cheaper. Some improvement in employment figures, rising disposable income as well as relatively low interest rates have provided the required momentum for higher household expenditure which supported increased retail sales. During 2011, consumer spending was particularly high on household furniture & appliances and hardware items like paint and glass.

**Figure 10: Business Confidence, SA Economy & Retail Industry, 2009Q1-2012Q1**

Business confidence in the country’s economy has been dissatisfactory in the past three years. Figure 10 indicates that in the reviewed period, the third quarter of 2009 saw business confidence reach a low-point of 23 index points. Though confidence in the national economy recovered, it became optimistic only in the first quarters of 2011 and 2012. As for business confidence in the retail industry, there has been a mixture of optimism and pessimism over the period. The first quarter of 2012 saw confidence in the retail businesses becoming increasingly optimistic, increasing by five index points, from the recorded 56 points in the last quarter of 2011. The performance of business in the country and retail industry could be expected to be encouraging in future since confidence has improved.
On average, the retail industry has grown by 4 percent annually over the past 10 years. This average is above that of the total GDP growth of the South African economy of 3.5 percent. Figure 11 illustrates the average annual growth of the retail industry for the country and Gauteng. In 2004, the retail industry grew by 4.5 percent and 2.6 percent respectively for the country and the province. This increase can be linked to the increase of retail area that was added in the same year. In Gauteng, 2005 saw the industry grow by 6.1 percent. Between 2004 and 2005, the industry was in a recovery period from the 2001 dip where it grew by negative 1 in the province and 2 percent in the country. It dipped to reach 0 percent average annual growth in 2009 during the global economic crisis. For 2011, the industry’s average annual growth is estimated to have been 3 percent for the country and 2 percent for Gauteng. Forecasts point to an industry that is set for further development, where a 4 percent annual growth rate is predicted for the country and Gauteng by 2015.

2.4.2 Economic Contribution

If the amount of informal retail trading that takes place in the streets of city centres, townships and rural areas had to be considered, the economic contribution made by the retail industry can be expected to be extremely large. Unfortunately because most vendors or street traders are not registered businesses, their sales figures are not easily traced and accounted for.
Owing to South Africa’s link to the global economy, the economic performance of domestic industries is heavily impacted by international events. This is evident from the fluctuating trend of percentage share of the retail industry’s contribution to GDP.

**Figure 12: GDP Contribution of the Retail Industry, 2004-2015#**

[Graph showing GDP contribution from 2004 to 2015, with data points indicating a trend of increasing and then decreasing percentage share of the retail industry’s contribution to GDP.]

Source: IHS Global Insight, 2012
Note: # indicates forecast and * indicates estimate

Figure 12 shows the retail industry’s contribution to the GDP from 2004 to 2010, the estimate for 2011 and then forecasts for 2012 to 2015. The amount contributed by the retail industry to GDP has been increasing in the review period. In 2004, R85bn was contributed by the industry to the total GDP value of R1.492 trillion, which is a 5.7 percent share. Though the monetary value of the retail industry has been increasing, its share of total GDP has had a diminishing trend. This could be explained by the larger increases that other industries have experienced, therefore increasing their contribution share to GDP. These include industries like finance and insurance. The industry’s contribution to GDP is forecast to increase to R122bn by 2015. The Business Monitor International\(^1\) (BMI) credits underlying economic growth, rising disposable incomes, falling unemployment, increasing urbanisation and the emergence of the Black middle class as the drivers of the expansion of the retail industry. The industry’s percentage of GDP is estimated to have been 5.6 in 2011 and it is forecast that by 2015 the retail industry’s percentage of GDP would reach 5.5.

\(^1\) Business Monitor International is an independent information provider in the field of country risk and research. It offers a comprehensive range of products and services designed to help senior executives, analysts and researchers assess and better manage operating risks, and exploit business opportunities, across 175 markets.
2.4.3 Employment Contribution

The retail industry has the ability to absorb unskilled workers and train them into cashiers in stores. To promote skills development and afford people the opportunity to obtain better employment, the Wholesale & Retail Sector Education and Training Authority (W&RSETA) provides the necessary training. The training also helps fill skills shortage in the industry.

Figure 13: Employment Contribution by the Retail Industry, 2004-2010

The retail industry is among the top industries in the country in terms of the share of employed labour force. Figure 13 shows that the number of persons employed in the retail industry increased from 642,000 in 2004 to a high of 800,000 in 2008 before declining to 745,000 in 2010. The decline in the number of people employed in the industry in 2009 can be explained by the global economic crisis which led to poor industry performance and the layoff and retrenchments of employees.

The industry’s share of employment to the national total has been fluctuating around 7 percent. The highest contribution made by the retail industry to employment was in 2006 when it reached 7.9 percent. In 2010, 7.2

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22 The W&RSETA is a public entity which was established to address skills development through the provision of quality learning within the Wholesale and Retail sector by implementing learnerships, disbursement of grants and monitoring of education and training. The W&RSETA aims to increase the level of investment in education and training in the sector and to improve the return on that investment.
percent of employed people were in the retail industry. This placed the retail industry as the fifth largest employer in 2006 when it reached 7.9 percent. In 2010, 7.2 percent of employed people were in the retail industry. This placed the retail industry as the fifth largest employer in the country. At first place was, households at 10.5 percent, followed by other business activities at 10.1 percent. Third place was held by education, which accounted for 7.5 percent of total employment and in fourth place was public administration and defence which accounted for 7.2 percent.

Table 3: Employment by Retail Trade Type, June 2009

<table>
<thead>
<tr>
<th>Type of Retail Trade</th>
<th>Female</th>
<th>Male</th>
<th>Total</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>General dealers</td>
<td>103,616</td>
<td>80,727</td>
<td>184,343</td>
<td>28.9%</td>
</tr>
<tr>
<td>Food, beverages &amp; tobacco in specialised stores</td>
<td>23,312</td>
<td>29,836</td>
<td>53,148</td>
<td>8.3%</td>
</tr>
<tr>
<td>Pharmaceutical and medical goods, cosmetics &amp; toiletries</td>
<td>18,521</td>
<td>10,483</td>
<td>29,004</td>
<td>4.5%</td>
</tr>
<tr>
<td>Textiles, clothing, footwear &amp; leather goods</td>
<td>81,599</td>
<td>49,530</td>
<td>131,129</td>
<td>20.5%</td>
</tr>
<tr>
<td>Household furniture, appliances &amp; equipment</td>
<td>30,801</td>
<td>32,941</td>
<td>63,742</td>
<td>10.0%</td>
</tr>
<tr>
<td>Hardware, paint &amp; glass</td>
<td>11,221</td>
<td>23,744</td>
<td>34,965</td>
<td>5.5%</td>
</tr>
<tr>
<td>All other retailers</td>
<td>75,804</td>
<td>66,214</td>
<td>142,018</td>
<td>22.2%</td>
</tr>
<tr>
<td>Total</td>
<td>344,874</td>
<td>293,475</td>
<td>638,349</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Stats SA, 2012

Employment numbers in the retail trade industry for June 2009 are tabulated in Table 3. Due to unavailability of more recent data, 2009 information is used. There were a total of 638,349 people who were employed in this industry. General dealers employed the highest share at 28.9 percent followed by all other retailers (22.2 percent), then retailers in the textiles, clothing, footwear and leather goods which employed 20.5 percent.

2.5 Impact of Retail Centres in Township Areas

According to eProp (2012) there has been strong retail growth in townships and rural areas (which are also known by retailers as “emerging economic areas”). Between 1962 and 2009, there were about 160 retail centres developed in these “emerging economic areas” and their success is evident through the sales figures and trading densities of these centres. Maponya mall in Soweto is one example of the many shopping centres springing up in townships across the country.
The development of retail centres in townships and rural areas has had positive impacts on these areas and their citizens. Prior to the development of local retail centres, consumers would travel very long distances to conduct most of their shopping. This would result in consumers' disposable income being reduced due to transportation costs and in a leakage of income from township areas. The development of local retail centres has positively impacted consumers since it has substantially reduced the travel and time costs that consumers have to pay to get to distant retail centres.

3. Factors Influencing the Growth of the Retail Industry

The development of the retail industry in the country is highly influenced by global economic conditions and domestic macroeconomic factors. Key to retail growth is also the availability of consumers with disposable income to boost the industry. The increase of retail developments can be largely explained by urban sprawl. Residential growth in a particular area results in new retail developments which in turn increase retail sales.

The demand for retail is driven by a number of factors. These factors include customer related aspects which are population size, population growth and existing quality of retail space, household income, household expenditure patterns, consumer preferences and seasonal aspects. The supply of retail markets is dependent on retail demand, competition, current useable area, rent/m², infrastructure availability, construction costs, surrounding land uses, speculative climate and vacancy\(^\text{23}\).

\(^{23}\) In this instance, vacancy refers to unoccupied shopping area space.
With retail depending largely on the consumer, it is imperative to view the level of consumer confidence in the economy as this will give some indication of consumer propensity to spend.

**Figure 14: Consumer Confidence Index, 2008H2-2011H1**

Based on Figure 14, in the first half of 2011, MasterCard’s South African consumer confidence index rebounced from historical lows to its highest level since 2009. The first half of 2011 recorded an optimistic score of 65.5, which indicates that South Africans were optimistic about the following six months; therefore retail sales were expected to increase. Although the consumer confidence level picked up in the first half of 2011, it was still lower than the peak (91.9) it reached in the second half of 2006. Figure 15 below shows the relationship between the prime interest rate and retail trade sales.
South Africans are characterised to have high household debt, meaning that the majority of the people finance most of their purchases through credit. Figure 15 shows that whenever the prime interest rate is high, retail sales trend lower. Therefore there is a negative correlation. This suggests that consumers shop less when interest rates are high, causing retail sales to decrease. Between 2007 and July 2009, the prime interest rate was high, ranging between 12 percent and 16 percent. During this time retail sales were low. The high level of the interest rate during 2008 was a result of tight monetary policy that was implemented to correct runaway inflation experienced in the country, combined with global financial market instability that had a negative impact on the economy. During 2011 when the interest rate was 9 percent, retail trade sales were picking up.

4. Impact of the Industry in Gauteng

The retail industry plays a very particular role in attracting large populations from other provinces who mainly come to the province of Gauteng. For Gauteng’s citizens as well, shopping in the province’s high quality retail centres has become some kind of social activity. For this reason, Gauteng is said to be a shopping magnet.

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25 Runaway inflation is defined as very rapid inflation, which is almost impossible to reduce. Definition sourced from [http://www.investorwords.com/10963/runaway_inflation.html](http://www.investorwords.com/10963/runaway_inflation.html)
4.1 Gauteng’s Major Shopping Centres

Of the eight super regional centres in the country, four are located in Gauteng and these are Sandton City, Menlyn shopping centre, Eastgate shopping centre and the Westgate shopping centre. These centres house a range of retailers, from large retail chains like Pick n Pay to small specialised fashion stores. Table 4 shows a few characteristics of these large shopping centres in the province.

<table>
<thead>
<tr>
<th>Mall</th>
<th>Area</th>
<th>Number of Shops</th>
<th>Retail space (m²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Menlyn Park Shopping Centre</td>
<td>Pretoria</td>
<td>264</td>
<td>119,124</td>
</tr>
<tr>
<td>Eastgate Shopping Centre</td>
<td>Bedfordview</td>
<td>259</td>
<td>109,000</td>
</tr>
<tr>
<td>Westgate Shopping Centre</td>
<td>Roodepoort</td>
<td>176</td>
<td>109,000</td>
</tr>
<tr>
<td>Sandton City</td>
<td>Sandton</td>
<td>311</td>
<td>127,380</td>
</tr>
</tbody>
</table>

Source: Mall Guide, 2012

According to the Guide to Business and Investment in Gauteng Province for 2011, greater Johannesburg has above 80 large malls, this shows the concentration of the retail industry within the province. Maponya mall in Soweto is the biggest mall in any township in the country. It is mentioned that the demand for retail goods in Soweto outweighs the current supply, even though Soweto currently has about four other major malls. All this information is indicative of a retail industry that has the potential to rise further, specifically in Gauteng.

4.2 Economic Contribution

Gauteng is a retail powerhouse in the country as more than a quarter of the retail sector’s contribution to the total GVA of South Africa is from the province.

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26 This report was compiled for GEDA, Nafcoc and JCCI.
27 These include Protea Gardens Mall, Baramall Shopping Mall, Jabulani Mall and Protea Glen Shopping Centre. Information accessed from http://www.commercial-property.co.za/383_news_Mall-Boom-In-Soweto.html
The pie-chart in Figure 16, shows that in 2011, Gauteng contributed 26.5 percent to the total of the retail industry. This could be explained by the large share of Gauteng’s household’s that have a salary as a source of income. Such households are therefore able to spend more money, thereby contributing to the retail industry. According to the Gauteng Provincial Treasury’s Socio-Economic Review and Outlook for 2012, about 71.1 percent of Gauteng’s household’s depended on salaries as their source of income. The figure also shows that KwaZulu-Natal made the second largest retail contribution of 18.9 percent, followed by Western Cape. Limpopo made the smallest contribution, at 2.3 percent, when compared to the other provinces.
Figure 17: GDP-R Contribution of the Retail Industry, Gauteng, 2004-2015#

Source: IHS Global Insight, 2012
Note: # indicates forecast and * indicates estimate

Figure 17 shows the retail industry’s contribution to the Gross Domestic Product by Region (GDP-R) from 2004 to 2010, an estimate for 2011 and then forecasts to 2015. It is evident that the industry’s contribution has been gradually increasing in actual values over the review period. In 2004, retail contributed R24.4 million to the economy of the province. This was a contribution of 4.7 percent to the total GDP-R. In 2008 and 2009, when the country experienced economic recession, most industries contracted. Gauteng’s retail industry could be seen to have been very resilient during the economic downturn as its contribution has been increasing, though its share of GDP-R had been deteriorating. The finance industry’s contribution to the provinces economy has been increasing faster than that of retail, making retail’s share of GDP-R lesser over the years. Retail’s share of GDP-R is estimated to have been 4.3 percent in 2011 and it is forecast to reach 4.1 percent by 2015.

4.3 Employment Contribution

The retail industry has offered a lot of young people employment opportunities. Despite the lack of skills by young people in the province, the retail industry has been able to absorb and train them as cashiers and into other professions. According to information by Stats SA, a significant share (50.4 percent) of the youth (14-35 years)
had the highest qualification attainment of between Grade 8 and 11. With the increasing number of new retail developments and new stores opening, more people will be employed by the industry.

**Figure 18: Youth Employment by Sub-Sector, Gauteng, 2011 Q1 & 2012 Q1**

![Bar chart showing youth employment by sub-sector in Gauteng, 2011 Q1 & 2012 Q1.]

Source: Stats SA, QLFS, 2012

Figure 18 shows the share of youth employment by sub-sector for the first quarter of 2011 and 2012 respectively. A large share of the youth is employed by the trade sub-sector. In the first quarter of 2011, 27 percent of the youth were employed by this sub-sector and in 2012, 26.9 percent. This data reveals the importance of the trade sub-sector within which the retail industry dominates, especially with the provision of employment opportunities to the youth.

Figure 19 illustrates employment by sectoral share in the province for the first quarter of 2012. This is general employment which includes the labour force (people aged 15-64 years).
Although Gauteng’s economy is driven by the finance & business services sub-sector, provincial employment is dominated by the wholesale & retail trade sub-sector. The share of total employment by this sub-sector was 22.8 percent. The government, social & personal services sub-sector had the second largest share of employment (19.9 percent). At third place was finance & business services (18.4 percent). Although this industry is amongst the largest economic contributors, it is not the highest employer since it is not labour intensive and it mostly employs skilled people.
Figure 20: Employment Contribution by the Retail Industry, Gauteng, 2004-2010

Source: IHS Global Insight, 2012

Figure 20 shows the number of people employed by the retail industry in Gauteng and the employment share. It is noticeable that the number of people employed by the industry increased from 2000 to 2008 before slowly declining to 2010. In 2000, there were 233,000 employees in the industry and the share of the industry’s contribution to the province’s employment stood at 8 percent. Retail’s share of the region’s employment reached its peak in 2006, when it was 9.23 percent. This share declined to reach 8.4 percent in 2010. The peak in the share of employment in 2006 within the industry can be explained by the increase in additional retail space created in that year, which meant more stores opening and therefore new jobs being created in retail. The drop in the industry’s share of employment in 2010 is a result of job losses that were experienced in 2009 due to the recession.

5. Challenges and Opportunities in the Retail Business Environment

The South African retail industry is very dynamic and retailers constantly have to find ways to survive. Challenges faced by retailers include:

- Customers changing buying habits (South African consumers are becoming more health conscious and brand conscious);
• Imminent entry of far larger foreign retailers (e.g. Wal-Mart) may find local retailers that are not modernised, struggling to compete in the market;
• Rising food prices could see retailers reporting lower sales figures;
• Logistical challenges due to a very wide spread of consumer demographics;
• Skills shortage is a major problem in the industry. The W&RSETA has identified retail store managers, retail buyers, merchandisers and sales managers as some of the scarce skills in the industry;
• Retailers face increased operational costs. With rising costs of electricity and transport, retailers will soon encounter new pressures on their profit margins contracting; and
• According to Moneyweb, developers of shopping centres also experience extensive bureaucracy and red tape that discourages them from developing further shopping centers in the country. Others have indicated to move to Nigeria.

The industry is also full of possibilities which include:
• Internationalisation of the retail business, whereby retailers can expand their businesses beyond national borders;
• With consumers demanding more convenience, supermarkets can take advantage by increasing the amount of ready to eat food items in their deli’s, fresh food departments, home meal replacements and bakery departments;
• The value of the retail industry is forecast to increase from an estimated R622.91bn in 2011 to R938.59bn by 2015;
• Due to the high unemployment rate in the country (25.2 percent), wage rates are comparatively low;
• Lots of room for growth in the food retail industry;
• There is a demand for longer store hours or even 24-hour shopping; and
• Given the relatively developed infrastructure and institutions in South Africa, multinational companies view the country as a hub where they can establish and expand business to the rest of the Sub-Saharan African region.
6. Conclusion

Economic activity within the retail industry has flourished over the years. This can be seen by the increased developments of formal retail shopping centres. Gauteng in particular, has seen rapid growth of shopping centre development. The province makes up 45 percent of shopping centres of the country. An increase in shopping centres leads to the employment of more people, thereby addressing the country’s problem of high unemployment rate. About 27 percent of the youth are employed by the wholesale & retail sub-sector in the province. Gauteng contributes the largest share (26.5 percent) to the country’s retail industry. The province is also home to four out of eight super regional centres in the country, these include Sandton City, Menlyn shopping centre, Eastgate shopping centre and the Westgate shopping centre.

The key players in the industry include major retailers which are Edcon Pty (Ltd), Pick n Pay Holdings Ltd, Shoprite Holdings Ltd, Spar Group Ltd, Woolworths Holdings Ltd and Massmart Holdings Ltd. An indication that these retailers are globally competitive is that, most of them were in the rankings of the global top 250 retailers. Although the retail industry in South Africa does not have a formal regulatory board, retailers are members of certain associations. These are the Consumer Goods Council of South Africa, the South African Retail Council, the Franchise Association of South Africa and the Council of Shopping Centers South Africa.

Supported by reduced interest rate and improved consumer confidence, retail trade sales have been increasing over the years. From 2004, retail trade sales have been increasing by an average of 1.32 percent month-on-month. Due to the 2008 and 2009 recession, retail trade sales grew by negative 3.67 percent. The industry managed to rebound in 2010 and recorded trade sales growth of 5.1 percent. The future of the retail industry appears to be encouraging. The industry’s contribution is forecast to increase from around R106bn in 2011 to R122bn by 2015. With some major retailers indicating their plans to put up more stores, especially in townships, the industry is set to grow further. Shopping centre development in townships has had positive impact by reducing transportation costs that were incurred by locals that had to travel to the nearest town to shop. It has also managed to reduce the leakage of income from township areas. Also, with the increasing number of internet users in the country, retail sales would be boosted by people who shop online.

Though the industry has some challenges, opportunities also present themselves in various ways. The recent acquisition of Wal-Mart by Massmart is evidence of opportunities that present themselves for retailers in the country.
7. References


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