

**COMPETITIVE ANALYSIS OF THE RETAIL AND WHOLESALE
SECTOR IN BOTSWANA
(With Specific Focus on Food and Groceries)
2013**



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PREFACE

According to section 49 (1) of the Competition Act (Cap 46:09), the Competition Authority can initiate market inquiries in particular sectors of the economy. These inquiries refer to conducting market research in identified sectors of the economy as the Act states that *“The objective of an inquiry shall be to determine ... whether any feature, or combination of features, of each relevant sector and each type of agreement has the effect of preventing, restricting or distorting competition in connection with the supply or acquisition of any goods or services in Botswana or part of Botswana”* (section 49(2)(a)).

Such research is the means to provide relevant, valid and up-to-date information mainly for decision making in competition matters by the Competition Commission (Board of Directors). The research also enables the Authority to advise Government on the actual or likely anti-competitive effects of current or proposed policies. In that regard, the Competition Act states that the Authority can *“make recommendations to the Minister for such further action, including amendments to legislation, as is required to provide an effective remedy”* (section 51 (2)(b)).

To fulfill the mandate of the Authority, the research output should be continuous and up-to-date. The studies can be done at the macro level, thus sector research; and can also be done at micro level in terms of specific firm-level assessments. Some of these studies can be done in-house by analysing the available information/data while others require field surveys. In that respect, this study about the Retail and Wholesale Sector in food and groceries required a field study mainly because there was no data available to address the set objectives.

In all these instances of research, the Authority seeks to understand market structures or characteristics, as well as areas of unfair competition. Sectoral studies involving field work, such as this one for the Retail and Wholesale Sector, are one way of going out to meet enterprises, than to wait for them to come to the Authority's office, to raise any competition concerns. The proactive initiative of research by the Authority is one way of addressing the Competition Act that seeks to ensure that there is fair play in the market place in Botswana's economy.

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PART I

BACKGROUND AND SCOPE OF RESEARCH

1. BACKGROUND

1.1. Introduction

The Retail and Wholesale Sector in the global market is one of the most diverse industry sectors as it encompasses all enterprises that provide goods and services directly to consumers and households. This market is also categorised as 'Fast Moving Commodity Goods' (FMCG), which comprises, *inter alia*, the following:

- (i) grocery stores, fast-food outlets and supermarkets;
- (ii) clothing shops;
- (iii) beer, wine and liquor stores;
- (iv) fuel oil and LP gas dealers, and
- (v) other FMCGs.

In Botswana, the retail and wholesale sector is similarly important as the country continues to develop economically and strives to provide essential products to consumers. The sector in the economy is expected to expand and create more jobs while meeting the demands of the consumers. Developments in the Retail and Wholesale sector have visibly taken place and they increased mostly at the turn of the 21st century. The latest developments manifested in robust physical structures of shopping malls which have become increasingly popular in major cities of Gaborone and Francistown.

The malls are occupied by retail giants particularly from the neighbouring South Africa such as Spar, Pick n Pay, Checkers and others from abroad such as Wal-Mart through its 2010 acquisition of Massmart (Game stores). These foreign direct investors have greatly altered the landscape of the retail sector and also accentuated the level of competition in the country by providing quality and wide variety of food and groceries.

The variety of small and medium enterprises (SMEs) development programmes in the country have also led to the expansion of the retail and consumer trades. Tuck shops and street vendors are visible, especially in high population density areas such as bus and taxi stations, and along main streets. These traders form part of the supply chain in retailing; whereupon they buy their supplies from supermarkets and wholesalers in their catchment areas.

As much as the supermarkets, wholesales and general Dealers contribute to employment creation, the self-employed entrepreneurs in tuck shops and street

vendors are also counted in the total employment level in the Retail and Wholesale sectors. According to the Central Statistics Office (CSO, 2011), the Retail and Wholesale industry employed nearly 50,000 people in Botswana, which made it one of the highest employers in the country. The employment level signifies the importance of this sector and its potential to grow with the ultimate objective of improving the welfare of Botswana populace. That is why this sector had to be studied to ensure that there are fair trading systems which will facilitate its smooth growth.

Moreover, this type of study by the Authority endeavoured to assist in addressing the pillar of the National Vision (Vision 2016) which emphasises on the promotion of competitive markets; with the high level objective to transform the country into “a competitive, winning and prosperous nation”. Fittingly, the Authority’s vision “To secure prosperity through fair markets” is compatible with the ideals of Vision 2016.

The premise of this development-oriented applied economic research stems from the Authority’s mandate of ensuring that there are fair markets in the economy; because the fairness will usher-in great benefits for consumers which, among others, include:

- (i) reasonable prices;
- (ii) a wider range of choice of products and services;
- (iii) more innovation; and
- (iv) higher quality of products and services.

1.2. Rationale

The Competition Authority (hereafter referred to as ‘The Authority’) is expected to proactively scan the market or business environment with the aim to uncover any competition anomalies which require redress. One way of information gathering is to undertake sector studies involving field surveys, such as this one for the Retail and Wholesale sector. The field survey involved meeting and discussing with enterprises to decipher competition concerns that may require the intervention of the Authority.

Due to its dynamic nature, the Retail and Wholesale industry is highly susceptible to challenges, including anti-competitive practices, as enterprises strive to survive and thrive; and also as large independent retailers possess the ability to dominate the market and possibly abuse their market position. Internally, in the Authority, the Retail and Wholesale sector demonstrated to be the most affected by anti-competitive concerns subject to the higher proportion of received complaints during the financial year, 2011-2012. Of the received 142 complaints, 56% were Retail and Wholesale sector related (highest). It was upon that rationale that the Retail and Wholesale market became the first sectoral study to be conducted since the inception of the Authority in 2011.

Reflecting on the Economic Mapping Study of Botswana (EMS, 2002), that launched the cumulative process towards the development of the Competition Policy and ultimately the Competition Act (hereafter referred to as ‘The Act’), highlighted that there was market dominance in major industries which led to competition concerns in the country.

The study also noted that the Retail Sector was characterised by rapid increase of chain stores and supermarkets, and the proliferation of franchising stores which tended to exclude local firms. These aspects had to be ascertained; and it is through this type of research study that competition matters could be identified.

When this Retail and Wholesale study was undertaken, it was also used as the platform or opportunity to sensitise the business community on the essentials of competition law and policy, including the functions of the Competition Authority as well as the Competition Commission. In that regard, presentations were made to the business community and their views were recorded. In brief, the importance of this research was:

- i) to receive important information about competition issues in the Retail and Wholesale sector;
- ii) to get closer to business community to open-up for future consultations by the Authority;
- iii) to find useful information that can advise Government on the actual or likely anti-competitive effects of current or proposed policies; and
- iv) to also add to the Botswana literature on the Retail and Wholesale sector.

1.3. Layout of the Report

The layout of this Report is divided into three chapters. Part 1 is the introductory part that provides the background to research and rationale. Part 2 is the main one that explains the findings of research work. It attempts to provide the general baseline picture of the Retail and Wholesale landscape by elaborating on structural issues, as well as characteristics and competencies in the sector. Finally, Part 3 is basically the summary on all aspects raised in the previous chapter, and it also addresses policy implications and future outlook of the Retail and Wholesale sector. The chapter concludes by putting up recommendations in view of the elements discussed in the Report.

2. SCOPE OF RESEARCH

2.1. Research Focus and Objectives

Although the Retail and Wholesale sector is diverse, the study was designed to be focused in a specific common area of Food and Groceries. During stakeholder interactions in conferences, seminars and workshops, and other modes of interaction, most of the concerns revolved around retail issues, especially pertaining to Fast Moving Consumer Goods (FMCGs). Most of the merger notifications at the Authority also revolved around FMCGs. It was therefore upon that logic that the research priority should cover Retail aspects as well as the Wholesale scenario since the latter is directly involved in the vertical supply value-chain in this sector.

The research endeavoured to evaluate and review some topical assertions such as the allegations of chain stores being anti-competitive in that they tend to out-compete the traditional old stores. This also took into consideration other mindscapes about this issue, which considers chain stores and supermarkets as the indispensable foreign direct investment (FDI) similar to the writing by Emongor (2008) that *“the benefits of these increased FDI investments in supermarkets in countries such as Botswana include the increased competition among retailers and lower prices in some food products”*.

Specifically, the objectives of the study were to:

- (i) understand the landscape of retail and wholesale sector for food and groceries in Botswana;
- (ii) identify competition aspects that need to be addressed through the law and policy;
- (iii) determine the cost-price ratio and develop a model for capturing data for the future, to provide a trend analysis; and
- (iv) establish competition factors in the food franchising industry in Botswana.

Based on the above objectives, the overall main goal of research was:

To study the competition dynamics in the Retail and Wholesale Sector, in the food and grocery industry in Botswana.

This objective, therefore, relates closely to the topic of this research report which is 'Competitive Analysis in the Retail and Wholesale Sector in Botswana (with specific focus on food and groceries).

whether there will be any growth or decrease in the number of these businesses. That is why this research can be said to have obtained baseline information.

Table 1: Places and number of shops visited

No.	PLACE	POPULATION (2011 Census)	TOTAL SHOPS
1.	Ghanzi	14809	10
2.	Charleshill	3591	5
3.	Kang	5985	7
4.	Hukuntsi	4654	8
5.	Karakubis	881	2
6.	Sekoma	1190	3
7.	Mabutsane	2386	6
8.	Jwaneng	18008	15
9.	Lobatse	29007	40
10.	Pitsane	3654	10
11.	Goodhope	6362	5
12.	Maun	65693	38
13.	Shakawe	6693	9
14.	Sehithwa	2748	4
15.	Gumare	8532	9
16.	Etsha 6	3130	4
17.	Nata	6714	10
18.	Kasane	9008	12
19.	Kazungula	4133	2
20.	Pandamatenga	829	4
21.	Mabele	773	3
22.	Parakarungu	845	1

23.	Francistown	98961	50
24.	Masunga	5666	5
25.	Tonota	21031	5
26.	Selibe Phikwe	49411	32
27.	Sefhophe	6062	5
28.	Mmadinare	12086	5
29.	Pilikwe	1282	1
30.	Palapye	37256	39
31.	Gaborone	231592	49
32.	Molepolole	66466	40
33.	Thamaga	21471	5
34.	Lethakeng	7229	5
35.	Serule	3241	5
	TOTAL	662972	453

1.3.1 Timeframe

The study was done concurrently with other duties for the Authority, which contributed to the lengthening of the timeframe. The preparation for logistics took one (1) month and data collection was done over three (3) months period in 35 localities around the country (see localities in Table 1 herein the Report). Thereafter, data entry, cleaning, coding and analysis was done in two (2) months. The Report writing also took two (2) months. That means the total timeframe of this study was eight (8) months from September 2013 to May 2013 (excluding December 2013).

2.2.2. Limitations and Remedial Measures during research

The following were the challenges experienced during the data collection stage:

- (i) Low attendance at focus group presentations: Despite repeated reminders the attendance in meetings was too low or there was non-attendance at all. The research team therefore resorted to making brief presentations to interviewees upon visitations to their respective enterprises;
- (ii) Reluctance to provide company information: Some were not willing to provide company information because they were unsure of whether the Competition

Authority may use it against them. It was therefore expressly stated that the information was for the understanding of the landscape of the sector so that it can be discerned on how the Authority can improve fair play in the markets of Botswana. Sensitive information was treated with utmost confidentiality;

- (iii) Fear of raising competition concerns due to victimisation/blacklisting: Enterprises were made aware that they can choose to be anonymous if they fear vengeance or victimisation upon reporting anti-competitive practices of a supplier or any competitor in the market place; and
- (iv) Record keeping problem: It emerged during the study that most enterprises, especially SMEs do not keep business records such as sales records, price data, accounting ledgers, etc. It is even possible to find a General Dealer (SME) that does not have a record of when it was established or how much stock was purchased in the past one year. The bigger ones (i.e. Supermarkets and Wholesales) at least had some records despite the problem with some Supermarkets which referred us to the head offices that are centralised in Gaborone. In regard to SMEs, it might be helpful to sensitise them about the importance of record keeping (for future planning and projections). That sensitisation or training could be apportioned to the Local Enterprise Authority (LEA).

2.3. Methods of Data Collection

- (i) **Presentations in Focus Groups:** Focus group discussions were planned for Retail and Wholesale entrepreneurs in all the localities listed in the above section whereby the researchers intended to make presentations to groups of entrepreneurs about competition issues before going to the enterprises on a one-by-one basis. Focus group research can be used to gather information that is beyond the scope of quantitative research; and the approach generally uses a fairly standard methodology. However, this approach was not successful because of very low attendance as stated in section 2.2.3(a) above.
- (ii) **Question Design:** The study used a mixed approach of obtaining qualitative and quantitative information for the Retail and Wholesale sector. Both quantitative and qualitative information was obtained through a questionnaire designed to address the objectives of the study. The question path was open-ended, designed to gather ideas and opinions that are outside the scope of prepared questions. The data collection instrument (questionnaire) was designed to address the objectives of the study(see attached questionnaire in Appendix 1).

- (iii) **Documents reviewed:** The literature reviewed in advance of this study was within the subject area of retailing and marketing in the global and local environment. Other national blue prints such as the Vision 2016, National Development Plan were also considered. The literature reviewed can be seen in the attached Research Proposal that led to this study (see Appendix 4).

PART II

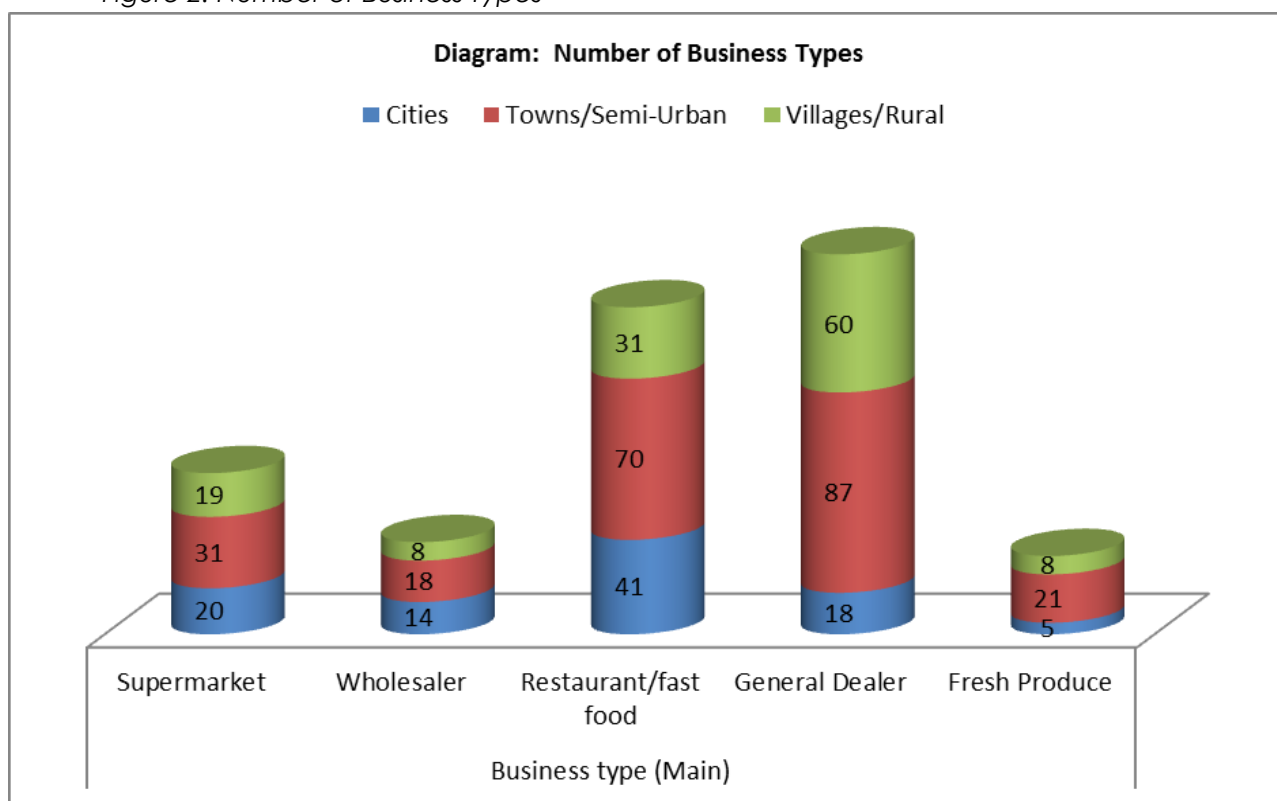
3. RETAIL AND WHOLESALE SECTOR STRUCTURE

3.1. Types of Businesses considered

The main categorisations involved the following in the study on Retail and Wholesale sector for food and groceries:

- (i) wholesales;
- (ii) supermarkets;
- (iii) grocery stores;
- (iv) fast-food outlets; and
- (v) fresh produce grocers.

Figure 2: Number of Business Types



Wholesale generally refers to the activity of selling goods or services to stores and other businesses, rather than to the public. A wholesale business lies between manufacturers and retailers in the value chain; whereupon the wholesaler buys products in bulk from manufacturers and sells them to retailers still in their bulky form. That means, the forty (40) wholesales identified in the diagram above are supposed to sell goods in large quantities for resale by retailers.

Regarding supermarkets, the size of these businesses tends to be determined by the locality and concentration or density of customers.

For example, you cannot find a large chain store supermarket in a rural settlement because of the obvious customer-base number and buying power. The chain stores are usually located in major villages whereupon the populace from small surrounding villages travel to the major village supermarket for supplies.

A supermarket, by definition in this study, refers to a large retail market that sells food and other household goods (groceries) and that is operated on a self-service basis. During the study, a total of seventy (70) supermarkets were visited. The majority of them (31) were located in towns and semi-urban areas; whilst twenty (20) and nineteen (19) were in cities and villages respectively.

General Dealers are also given the license to retail/sell food and groceries but are usually smaller in size and do not provide a self-service to customers. The retailer stands behind the counter that secures goods in the shelves whereby the customer has to speak or point at the item needed (see the typical picture at Figure 3 below). These types of stores are also referred to as the traditional independent types of stores. They are considered independent as they are usually a family business but not owned by a group of directors/shareholders as is the case with large supermarkets and wholesalers.

General Dealers form the majority of business that were visited (165) constituting 36.6%; followed by Restaurants (including fast-food outlets) at 31.5%; Supermarkets at 15.5%; Wholesalers at 8.9%; and finally Fresh Produce at 7.5%. General dealers are in fact the majority in semi-urban areas (87) and in rural villages (60). Even though there was an average of 3 derelict and closed down General Dealers in all localities visited throughout the country, they represented the start of business thinking (retail business) in the 60s and 70s. The desire for their survival also brought hope that they could be turned-around to become vibrant businesses for future prosperity of the country and its people.

Figure 3: Traditional General Dealer counter-service



The other group of businesses relate to Fresh Produce stores. These refer to those enterprises licensed to sell greeneries (vegetables and fruits) as well as meat products. A total of thirty-four (34) Fresh Produce stores were interviewed, of which most of them (21) were in semi-urban areas. Usually, the license of a General Dealer is combined with that of a Fresh Produce store in Figure 7 in section 4.2 below. However, in other instances, the Fresh Produce businesses stayed aloof. In the event of being combined in one license with the General Dealer business, the researchers endeavoured to separate the two entities for the purpose of assessing each one individually.

Apparently, in the two cities of Gaborone and Francistown the total number of Fresh Produce stores visited were only five. The majority of them (21) were in semi-urban areas. It was clear that the small number (5) of Fresh Produce stores in cities was due to that business (fresh produce) being integrated in large Supermarkets. The study did not disentangle the Fresh Produce business from the rest of the Supermarket.

Finally, the category of Restaurants/Fast-Food outlets was the second biggest entity, in number, after General Dealers. A total of 142 were interviewed of which the majority (70) were in semi-urban areas while 41 were in cities. This category included the franchise Fast-Food outlets such as KFC, Nandos, Chicken Licken, Barcelos and Bimbos. Competition issues that arose concerned the franchise businesses which are discussed later in Section 5.5 of this report.

3.2. Size and Growth of the Retail and Wholesale Sector

3.2.1. Growth Pattern

According to Iyanda *et al* (2011), the average growth rate of the wholesale and retail sector was 18.21% during the period 1996/97 to 2002/2003. The contribution of this sector to GDP was 29%, which made it the second highest after mining. That contribution signals the importance of the wholesale and retail sector in the country. The Authority's study also observed a closer growth rate of 17.6% during the 1990s, from 1990 to 1999 as shown in the last column of Table 2 below:

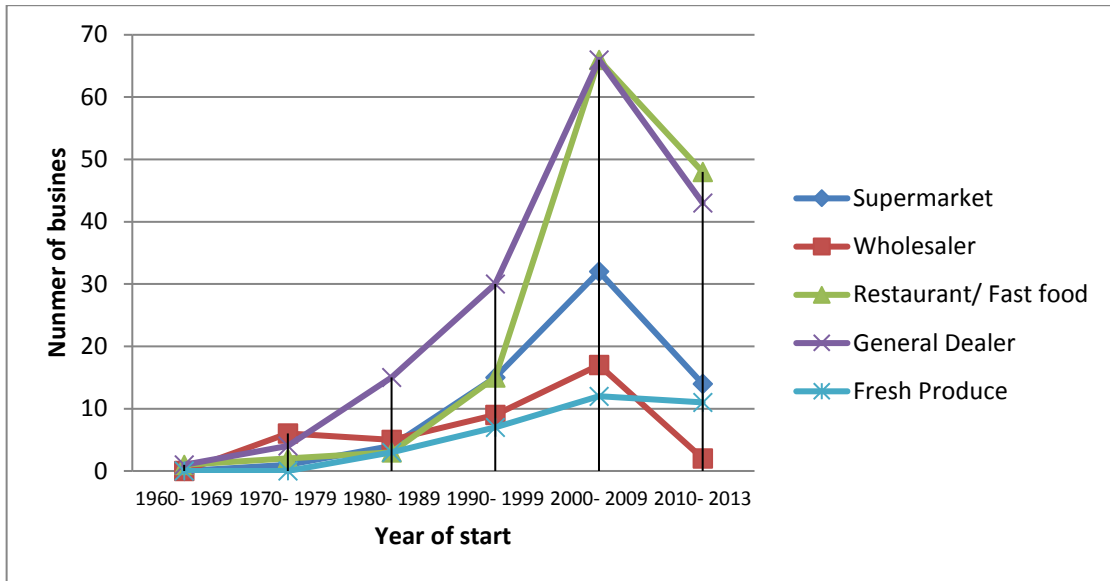
Table 2: Year of Start of Business Type

Year of start	Business type (Main)					Total	% increase
	Supermarket	Wholesaler	Restaurant / fast food	General Dealer	Fresh Produce		
1960-1969	0	0	1	1	0	2	0.5
1970-1979	1	6	2	4	0	13	3.0
1980-1989	4	5	3	15	3	30	6.9
1990-1999	15	9	15	30	7	76	17.6
2000-2009	32	17	66	66	12	193	44.7
2010 -	14	2	48	43	11	118	27.3
Total	66	39	135	159	33	432	100.0

Note: 21 enterprises neither had records nor recalled the start date and therefore are not included in these statistics

During 1960 to 1989 there was a steady growth of start-ups of the retail and wholesale businesses showing 0.5% growth from 1960 to 1969, 3% growth from 1970 to 1979, and 6.9% from 1980 to 1989. Since 1980 there were many start-up businesses in the retail and wholesale sector shown by the exponential growth rate of 17.6% and then 44.7% in 2000 to 2009. The growth possibly happened during the economic boom years in Botswana. After that period, from 2010 to 2013 the recorded figure of 27.3% is only for three years, therefore difficult to compare it with previous periods that have a range of 10 years, (e.g. 2000-2009 inclusive). Diagram 4 below shows the graphical trend:

Figure 4: Year of Start of Business Type



It is reflected in the above diagram that most of the retail businesses that set up in the country were the General Dealers since the 1970s. However, these businesses later experienced a sharp decline which the study observed that it was due to the closure of the existing ones by the emergence of large chain supermarkets. The latter started to increase in Botswana in the 1990s and these were mostly from South Africa.

Amongst the large chain stores, a local brand; Choppies supermarket, started to expand exponentially in the mid-2000s. The brand is well established and gives competition even to the well-known and established South African chain stores. Choppies supermarkets have increased a lot since 2007 with 40 outlets. By December 2013 it already had 69 stores in Botswana under its portfolio. This enterprise (Choppies) competitively became the household name regarded by customers as the typical success story in the local retail sector.

The other retail businesses comprising restaurants or fast food outlets and the fresh produce stores also experienced similar trend of ascending during the 1990s and descending in the mid-2000s. Most of the modern fast-food outlets came in the form of franchise licenses given out from established franchise owners in South Africa. This included Kentucky Fried Chicken (KFC), Nandos, Chicken Licken, Barcelos, Bimbos and others.

Regarding the wholesale establishments, a total of 39 were located in the places visited. Wholesalers are normally fewer than retail stores as they are suppliers in the value chain process. Although some anomalies were identified about the conduct of operations of wholesale businesses, internationally wholesales distribute bulk products to supermarkets and other stores in the supply chain. They are vertically integrated with the retail outlets in the downstream. In the upper-stream, they obtain products from distributors or direct from manufacturers. However, the anomaly identified was that the wholesales in Botswana tend to sell products in small units (not in bulk)

therefore competing with retail enterprises. During the study, this aspect on unfair trading practice by Wholesalers was the main complaint by several Retailers. It is therefore the reason why the trading licenses were discussed in Section 5.1.

3.2.2. Shopping Malls

Another notable growth factor in the retail industry for food and grocery was the emergence of shopping malls especially in major cities. The global trend nowadays is characterised by a rapid transformation of where shopping is done at a one-stop centre. The transformation or trend has shifted from independent stores to shopping malls that bring together different types of stores in one place. This shopping service has also infiltrated the Botswana market where shopping malls mushroomed in the recent past. The Gaborone's first mall (Diagram 5 below) which is often referred to as 'The Main Mall' is a commercial centre that continues to boast with some of the city's oldest shops, office buildings, and hotel, the President Hotel. When the mall was developed there were two pre-existing small shopping centres near the Railway station and at the Village Township.

Figure 5: Gaborone 1st Main Mall (2013 picture)



However, with the advent of new architectural designs, shopping malls have emerged in Botswana and others are still under development. Shopping malls which have emerged by early 1970's, are the African Mall, Pop Inn Shopping Centre, Moonland Shopping Centre, White City Shopping Centre and Bontleng Shopping Centre while the new malls amongst others are River Walk Shopping Mall, Game City Shopping Mall, Galo Mall, Airport Junction Mall, and Sebele Mall. All major towns in the country including Maun and Kasane have shopping malls, where many of the regional chain stores operate.

Figure 6: Modern Shopping Centre



The different shopping malls are constructed in line with the country's development plans. The Department of Town and Regional Planning (DTRP) as the custodian of the country's development plans has guidelines in place which determine as to how and when the areas will be developed. Shopping malls around the country are however dependent on the population around their locality, that is a population of over 5000 people and every 10 000 plots in a particular locality will need for such a shopping mall to be erected.

Prior to the emergence of most of these shopping malls, the competition law was not yet in place. However, the common trend around the country is that major retail shops are found in these new malls. Most of the older shops have overtime changed ownership through mergers and acquisitions that were not notified because of the non-existence of competition regulations/law. In the shopping malls there are different players who compete in the retail property space and there is engagement of property management companies in terms of lease agreements.

The property leasing landscape in shopping malls has changed whereby there is discrimination against tenants due to the recent focus on 'anchor tenants'. The anchor tenants are usually the main or bigger supermarkets that attract business in the shopping mall.

For example, at Molapo Crossing Mall in Gaborone the anchor tenant is Pick n Pay supermarket. At Galo Centre in Francistown, the anchor tenant is also Pick n Pay supermarket. At Game City Mall in Gaborone south, there are multiple anchor tenants involving Game Store, Choppies and Checkers. Anchor tenants are therefore considered to be an influencing factor to the financiers for the investment of construction of a shopping mall as this means that the shopping mall is able to repay the loan from the rentals received from reliable tenants.

However, there are possible competition issues relating to the existence of anchor tenants in the shopping malls. It is apparent that the shopping mall property developers need the Anchor tenants more than the Anchor tenants need the shopping mall, hence the Anchor tenants enjoy lower rental prices per square meter (e.g. in a shopping mall where an Anchor tenant pays BWP75 per square meter, an ordinary tenant will pay more than double the price, i.e. about BWP150 per square meter).

The competition issue that might arise here is price discrimination and/or restrictive agreements. According to some respondents during the study, it was reported that some Anchor supermarkets were too powerful that they could even dictate lease agreement lease agreement conditions and impose them on the owners of the shopping malls. They can even give specifications to owners of shopping malls as to how they would like their retail spaces to appear; and also deny competing enterprises to be allowed in the shopping mall. This in itself is laden with anti-competitive issues which is why this study recommends that a specific market inquiry should be carried out on shopping malls.

The aim is to address possible competition issues and to set the tone and principle of fair competition into the future. The study should cover all shopping malls around the country.

SUMMARY BOX 1

1. The Retail and Wholesale sector growth rate increased exponentially from 17.6% in the 1990s (1990 to 1999) to 44.7% in 2000s (2000 to 2009).
2. Most of the retail businesses that set up in the country were the General Dealers since the 1970s. However, these businesses later experienced a sharp decline which the study observed that it was due to the closure of the existing ones by the emergence of large chain supermarkets. Many General Dealer shops closed down because they could not withstand competition of large retail chain stores.
3. Amongst the large chain stores, a local brand, Choppies supermarket, started to expand exponentially in the mid-2000s. The brand is well established and gives competition even to the well-known South African companies. Choppies supermarkets increased much since 2007 with 40 outlets. By December 2013 it already had 69 stores under its portfolio.
4. The anomaly identified was that the wholesales in Botswana tend to sell products in small units (not in bulk) therefore competing with retail enterprises. During the study, this aspect on unfair trading practice by Wholesalers was the main complaint by several Retailers.
5. Shopping malls mushroomed in the recent past. The retail transformation has shifted from independent stores to shopping malls that bring together different types of stores in one place.
6. There is a tendency to have what is called 'anchor tenants' in shopping malls. The anchor tenants are usually the main or bigger supermarkets that attract business in the shopping mall. However, there are possible competition issues relating to these anchor tenants in the shopping malls because some anchor supermarkets were too powerful that they could even dictate the conditions on a lease agreement to the owners of the shopping malls. Anchor shops gave specifications as to how they would like their retail spaces to appear; and also that they do not accept competing enterprises to be allowed in the shopping mall. This in itself is laden with anti-competitive issues which is why this study recommends that a specific market inquiry should be carried out about shopping malls with the aim to resolve the present issues and to set the tone and principle of fair competition into the future.

RECOMMENDATION

1. A specific market inquiry should be carried out about shopping malls with the aim to resolve the present issues and to set the principle of fair competition for the future. The study should cover all shopping malls around the country.

3.3. Competition Landscape for Retail Businesses

According to Emongor (2008) the food retail sector in Botswana changed due to internal and external factors. Notably, the external retail and wholesale firms from South Africa infiltrated the market due to the nature of a liberalised market trade in Botswana. That increase of foreign direct investment (FDI) was caused by the greater demand for food in the country, attributed to the growth in income of the employed people, and the changing consumer tastes and preferences. Additionally, the favourable internal or domestic policies such as the relaxation of exchange controls, political stability and regional integration lured the South African chain stores to operate in the Botswana market.

Similar to the foregoing, the Authority's study figured out that the South African chain stores which entered the Botswana market such as Pick n Pay, Spar, Game/Massmart, Checkers and others, were attracted by the openness of the economy or free market trade, as well as the political stability, customers' affordability and the potential for economic growth. These positive attributes are also perceived to be the drivers for future growth in the retail and wholesale sector in the country.

The Retail and Wholesale sector in Botswana is composed of both the foreign owned and local owned enterprises involved in the food and grocery business. By 2013, the study observed that the majority of businesses (86.9%) in the food and grocery sector were owned by citizens, as shown in the table below. Non-citizens comprised 13.1% and they mainly owned large chain store supermarkets.

Table 3: Citizen vs. Non-Citizen Shareholding

Citizen or non-citizen for shareholder	Business type					Total
	Supermarket	Wholesale	Restaurant/fast food	General Dealer	Fresh Produce	
Citizen	36 76.6%	11 68.8%	106 81.5%	149 93.7%	31 100.0%	333 86.9%
Non-Citizen	11 23.4%	5 31.3%	24 18.5%	10 6.3%	0 .0%	50 13.1%
Total	47 100.0%	16 100.0%	130 100.0%	159 100.0%	31 100.0%	383 100.0%

The advent of many large foreign chain supermarkets in the 1990s in the country changed the competitive landscape that showed the demise of traditional independent General Dealer stores. The Authority study noted concerns about the continuing trend of the remaining general Dealers being unable to withstand competition with larger chain store supermarkets. During the study, it was observed that in every locality visited there were stores that completely closed down trading business.

This mostly affected the independent traditional old General Dealer stores. An average of three (3) stores was closed in each of the thirty-five (35) localities visited. Some supermarkets were also closed due to management and competition issues such as the Cooperative Supermarket in Lobatse. In another example in Molepolole, a General Dealer had closed and resorted to use the premises for the distribution of chibuku (a local opaque beer) because it had better returns than the highly competitive area of food and groceries. Ninety percent (90%) of the respondents who were located stated that their stores closed down because of not being able to withstand competition posed by Choppies stores. They referred to the closure of shops, both in rural and urban centres, to be caused by the vibrant Choppies enterprise.

Figure 7: A General Dealer store closed down



In the previous study by Lyanda *et al*, in 2011, on “Retailing and Sustainable Development in Botswana” it was noted that most respondents stated that “competition ... is a major challenge facing the retail industry as a whole”. The study attests to that some retailers cannot withstand competition leading to their exit of the market. The National Development Plan 9 of 2003/08 also made reference to that many citizen-owned general Dealer stores “could not withstand the competition from the major retailers; they “either closed down or experienced stagnation”. This in itself is a major challenge which the respondents during the Authority’s study were concerned about. Some even suggested policy intervention to protect smaller stores.

Similar competition concerns were expressed in the South African study (Ravhugoni and Ngobese, 2010) which stated that “complainants allege that larger retail stores have bargaining power which inhibits smaller and medium enterprises development into the grocery retail market. It is also alleged that bargaining power is also resulting in independent retail outlets exiting the grocery retail market”. Bargaining power is the

state of dominance in the market where because of the critical mass of products required from the producer, the chain stores received discounts which allowed them to compete at lower retail prices. Wholesalers were also able to obtain discounts from manufacturers or producers. It was therefore in the context of quantity (or critical mass) that the traditional independent stores could not have a bargaining power to stay in the market; hence their closure.

This dynamic nature of competition brings the question of whether the squeezing out of independent suppliers is good or bad. However, there was no specific answer to that. It had been noted that "competition problems are likely to be particularly prevalent in retailing, since markets tend to work imperfectly when there are asymmetries in bargaining power (consumers are small), high transactions costs (consumers are immobile), and information asymmetries (consumers are uninformed)" (OFT, 1997).

In the long term the disappearance of independent retailers could be bad for consumers because the big wholesalers and chain stores will dominate and could act by charging high prices. In the short-term they might charge low prices for the purpose of wiping out competition from independent retailers; and once competition is lessened the prices may rise. In any instance of breaching the law, the Authority can invoke provisions of the Act with the aim to establish a fair trading environment in the market place.

3.4. Competition and Managerial Aspects for Development

The foregoing about retail enterprises which cannot withstand competition guided the Authority's study to consider the general managerial aspects as the factor for success or failure in the business environment. Retailers such as the closed one in the picture below are indicative of no developments having taken place, and perhaps due to no innovation and inadequate of managerial capability to keep the business afloat (i.e. SMEs involving General Dealers and Fresh Produce).

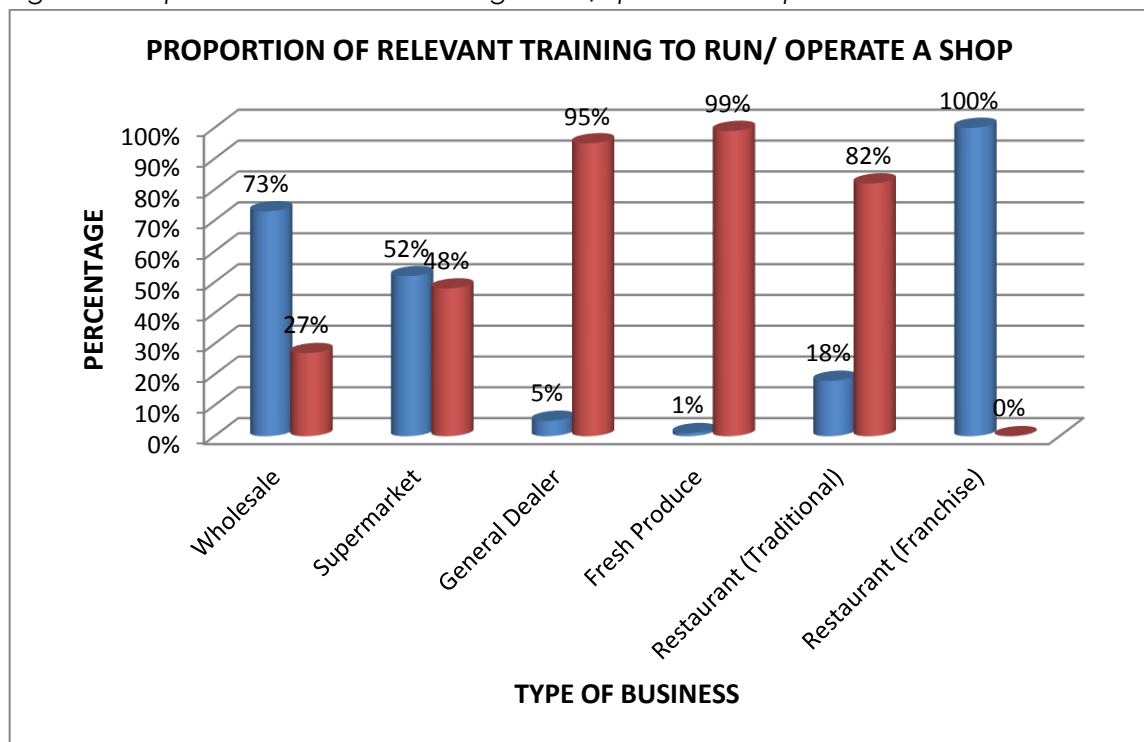
Figure 8: Lack of developments in retail stores



The study of retail businesses noted a considerable lack of knowledge to run the store by employees placed in charge. Most employees are 'dumped' in the business without any specific and targeted training.

This happened mostly in smaller establishments (SMEs) comprising General Dealers and Fresh Produce outlets. The following chart depicts the information obtained from the study:

Figure 9: Proportion of relevant training to run/operate a shop



The license for Fresh Produce store is mostly combined with General Dealer (“General Dealer and Fresh Produce”) but the research study placed them in separate categories because there were instances where Fresh Produce outlets operated independently. In all the Fresh Produce entities visited (99 percent) of the managers or individuals responsible for operations responded to have not received any specific training on how to run the business entity. Most of them became responsible by default that they were members of the family. Some were high school drop-outs who take up any job available. Others were the owners of businesses themselves who either inherited the businesses or started them from proceeds accrued from agricultural ventures.

The same reasons of ownership and training apply to General Dealer stores where 95% of operators did not receive any training relevant to operations of the retail business. In several occasions, majority of the respondents indicated that they did not see the need for training for such small operations. Another dissenting view was that one does not need to be trained (formal or on-the-job training) to run a successful retail store. The lack of that sensitisation may explain why there is no innovation and lack of growth in the traditional independent General Dealers, Fresh Produce stores and other Supermarkets.

The non-progressing retail stores on the verge of closure (unless some funds were injected into the business) normally follow the physical situation portrayed in Figure 10; and the thriving ones in Figure 11 below:

Figure10: Example of a store facing closure/struggling to survive



Figure 11: Example of a thriving shop



This research study raised an interesting perspective on how the rest of the retailers can compete with large chain stores. Typical lessons could be learnt from other countries' experiences. For example, the Chilean experience can be recited on how local retailers defended their local market from foreign large chain stores. The defence was premised on fair competition; aggressive competition for that matter. In an environment where retailers were trained and abreast of modern trading initiatives, the Chilean retailers simply became innovative.

"Retailers have fought cleverly against foreign competitors by improving their retail offer, imitating the best practices of the foreign retailers (e.g., customer service), and strengthening their market knowledge.

This formula has been successful for most of the retail industries in Chile and has led to greater consolidation, concentration, and professionalisation of the retail industry, which results in a better retail offer for consumers" (Bianchi, C. & Mena, J., 2004). Another regional example is that of the Shoprite chain stores of South African origin which boasts of more than 1600 outlets in South Africa.

This is a basic managerial tenet which traditional old stores in Botswana could adapt in order to withstand competition from emerging chain store dominance. In fact, consumers nowadays demand better products and they cannot stretch their loyalty in the old traditional service that does not provide optimal satisfaction. The Choppies Enterprise is a typical example which has followed that route of being innovative and aggressive in its marketing strategy to the extent of giving tough competition to foreign chain stores. While most retailers close down Choppies Enterprises on the other side opens more outlets almost every quarter. That is why this study perceives it (Choppies Enterprises) to be the fastest growing retailer in the country. It is even expanding to neighbouring countries with stores opened in South Africa and some opportunities being pursued in Zimbabwe, Zambia and Namibia.

The example of Choppies stores can be likened to the success of one of the biggest chain stores in the world, Wal-Mart of the USA, which already gained its foothold in Africa to pitch strong competition in the retail sector. Wal-Mart also entered the European market through the acquisition of Interspar, ASDA, Werkauf, and others (Cola, E. And Dupuis, M., 2002). It is also present in Asia and other American countries. Wal-mart has big international presence in South Africa and Botswana through Massmart of Game Stores. In 2011, the South Africa's competition tribunal approved Wal-Mart's bid for Massmart which had 288 stores in South Africa and other African countries such as Botswana. Despite the strong objection of trade unions in South Africa, Wal-Mart was approved (Competition Tribunal). In order to compete against such big chain stores, Cola, and Dupuis, (2002) advised that the managers of local retail stores and wholesalers should improve on some of the following aspects:

- (i) Competition specialisation - this refers to the identification of niche markets and specialisation in that area to grow and excel. *During the Authority's research study, it was noted that 62% of General Dealers and Supermarkets target the working class as their customers. The working class in Government departments in rural and semi-urban areas are very important customers necessary for the survival of retailers. The Supermarkets and General Dealers consider them as their niche market. In other areas especially in the north west of the country (Kasane, Maun, Gumare and Shakawe) the niche market for retailers are the tourists (70%) who are big spenders on their way to the tourist sites of Okavango and Chobe reserves. The working class constitutes 20% of customer base to retailers while 10% is for the rest of the population in those localities.*

The identification of niche markets is generally appreciable as retail and wholesale businesses strive to survive the competitive environment.

For example, at one General Dealer store in Pitsane village in the southern part of the country, the closure of the business (due to chain stores) was avoided as its owner proactively requested the District Council authority to allow it to distribute foodstuffs to the registered elderly and destitute people. The Council pays the enterprise on regular basis whereby its buyership and returns are assured. This Government system of supplying destitutes and the elderly through smartcard technology has proven to create direct positive returns to about 50% of supermarkets and General Dealers in the country. Most respondents preferred that the niche area of that elderly and destitute populace should be extended to smaller businesses only but not the large chain stores which already had a larger customer foothold.

- (ii) Innovation in retailing - that means new store concepts should be learned and improved. In the case of Wal-Mart, it became successful because it developed sophisticated data warehouse tools and computerised its data exchanges with suppliers, thus providing impressively accelerated stock turnover.

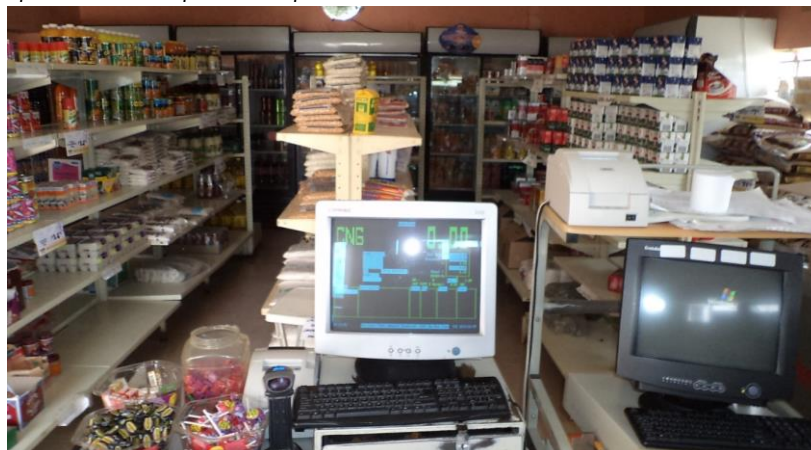
The study made an observation that there is lack of or insufficient demonstration to improve on the services offered by most wholesale and retail businesses countrywide, especially in the rural and semi-urban centres. Seventy percent (70%) of General Dealers were perceived to lack innovation to boost their sales. These stores were operated either by pensioners or inexperienced youth who lacked training to run the store. Innovation in retailing does not mean a high cost to provide services at all times. It requires to at least re-investing some funds to improve on service delivery. For example, the shelving, tills and inventory in the picture above shows an improved version of a rural village store that can attract more customers. Innovation can be anything aimed at increasing the sales. For example, in the era of mobile telephone technology, an entrepreneur can also be innovative by starting to obtain orders from loyal customers and deliver goods at their doorstep. "Consideration of the information society and the electronic commerce challenge – stores can install electronic networks to receive orders and to contact customers about promotional sales. This can include customers's electronic payments through debit or credit cards while at the comfort of their homes" (Cola, and Dupuis, 2002).

- (iii) Maintain the "supplier-retailer" and retailer-consumer" relationship (working on value-chains) – this refers to maintaining credible relationships with business in the upstream and downstream of the value-chain. For example, the supplier-retailer relationship can provide retailer with credit terms.

The supply value-chain relationship is crucial for the operations of wholesales (in the upstream) and retailers (in the downstream). Sixty six

percent (66%) of the interviewed wholesale enterprises were concerned that the system of providing credit terms to retailers was not effectively working because of failure by the latter to repay. This by interpretation spoiled the supplier-retailer relationship. Thirty four percent (34%) offered the credit facility to retailers after careful due diligence and assessment of retailers.

Figure 12: Improved set-up of a supermarket in a rural/semi-urban area



The above aspects could be a cue for developing the retail and wholesale sector in Botswana, and that if businesses have a clearer vision and mindscape to be successful in the marketplace they should adopt some of these principles. Otherwise, they will run the risk of failure to defend the local market against chain stores and foreign competition.

According to the Office for Fair Trading, UK, (OFT, 1997) the economics of retailing maintains that retailers should uphold manufacturer relationships, concentrate on efficient logistics and maintain consumer relationships in order to be successful. Regarding the dimensions of competition in retailing, OFT advised that the main areas involve pricing, geographical location, product selection, and the level and quality of retailer service.

In view of this deep-rooted problem of management inadequacy, lack of innovation and deficient visionary initiatives to grow the SME retail sector, researchers sought for some opinions for improvement. While others did not see the importance of training “just to run a shop” many suggested that perhaps the Local Enterprise Authority (LEA) could assist with strategies to upscale their ventures. Some opined that if there was collaboration of some kind the SMES could merge to establish big supermarkets that could compete with large chain stores. Whether that is possible; it appeared a far-fetched dream for entrepreneurs.

SUMMARY BOX 2

1. By 2013, the study observed that the majority of businesses (86.9%) in the food and grocery sector are owned by citizens involving mainly small stores while non-citizens comprised 13.1% and these own large chain store supermarkets.
2. The Competition Authority research figured out that the South African chain stores which entered the Botswana market such as Pick n Pay, Spar, Massmart/Game, Checkers and others, were attracted by the openness of the economy or free market trade, as well as the political stability, customers' affordability and the potential for economic growth. These positive attributes are also perceived to be the drivers for future growth in the retail and wholesale sector in the country.
3. An average of three (3) stores was closed in each of the thirty-five (35) localities visited.
4. The study of retail businesses noted a considerable lack of knowledge to run the store by employees placed in charge. Most employees are 'dumped' in the business without any specific and targeted training. This happened mostly in smaller establishments (SMEs) comprising General Dealers and Fresh Produce outlets. Lack of innovation and inadequate of managerial capability to keep the business afloat seems common in many SME businesses.
5. In most of the Fresh Produce and General Dealer entities visited (90 percent) the managers or individuals responsible for operations responded to have not received any specific training of how to run the businesses. Most of them become responsible by default that they are members of the family. Some are high school drop-outs who take up any job available. Others are the owners of businesses themselves who either inherited the businesses or started them from proceeds accrued in agricultural ventures.
6. The lack of that sensitisation may explain why there is no innovation and lack of growth in the traditional independent General Dealers, Fresh Produce stores and other supermarkets.
7. Consumers nowadays demand better products and they cannot stretch their loyalty in the old traditional service that does not provide optimal satisfaction.
8. Local retail stores and wholesalers should improve on some of the following aspects:
 - Competition specialisation;
 - Innovation in retailing; and
 - Maintain the "supplier-retailer" and "retailer-consumer" relationship.

RECOMMENDATION

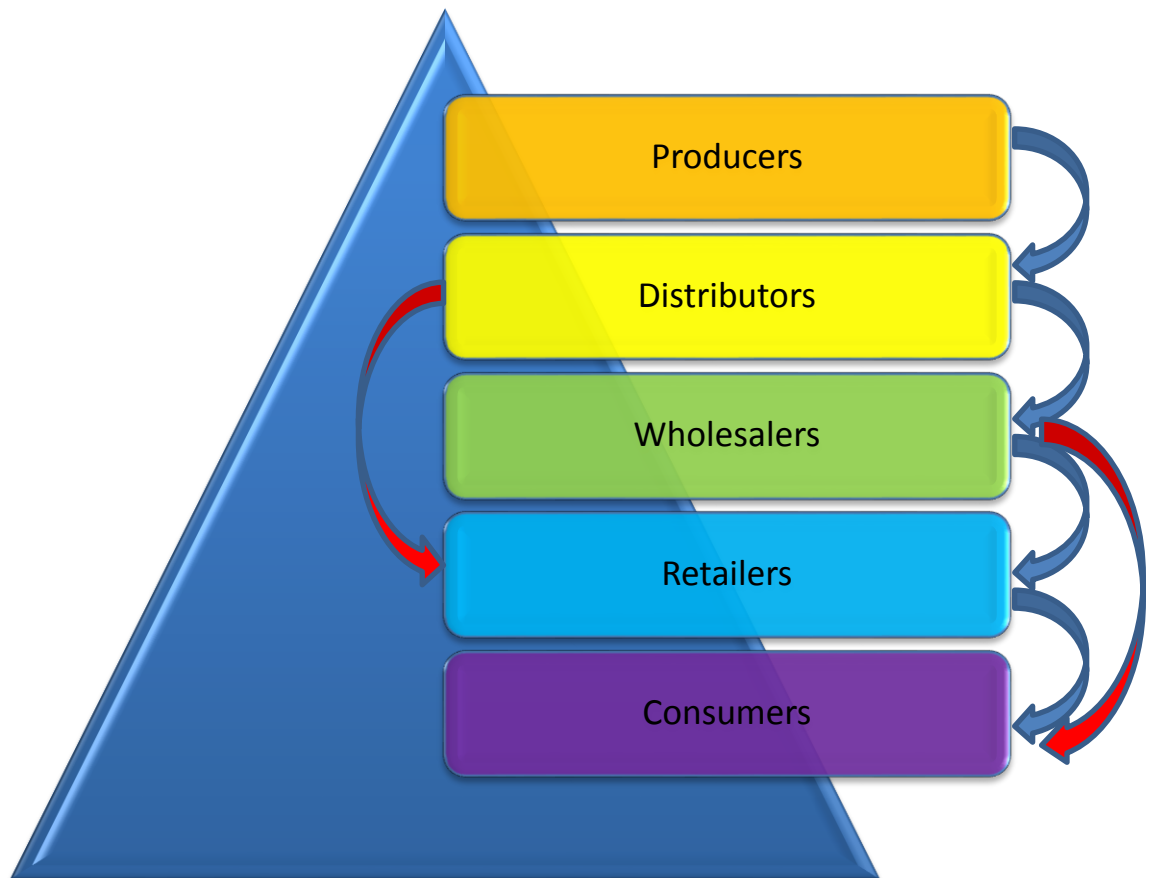
1. In terms of capacity building of potential drivers of Botswana economy the Ministry of Trade and Industry and the Local Enterprise Authority (LEA) could consider addressing the skilling of SMEs in the Retail and Wholesale sector with the aim to leverage them to withstand competition while providing quality and a wide variety of food and groceries.

4. CHARACTERISTICS AND COMPETENCIES

4.1. The Value-Chain: Vertical Supply Value-Chain

The Retail and Wholesale sector in Botswana is characterised by a more linear vertical supply chain with the producers or manufacturers at the apex, followed by distributors, then retailers and consumers at the lower downstream as shown in diagram below:

Figure 13: The Vertical Supply Value Chain



Botswana is predominantly an importing economy because ninety-two percent (92%) of food and groceries are produced outside the country. The producers in the value-chain are mostly in the neighbouring South Africa, and that is why there are distributing companies that supply wholesales and some retailers in the country. The major distributing companies in the country comprise CA Sales, Global Holdings, Pula Sales, Ten CC Marketing, Kalahari Distributors, Bokomo etc. which distribute products countrywide.

The linearity of the supply value-chain is represented by producers, distributors, wholesalers, retailers, and finally consumers.

However, the study noted some breaks in the chain especially that Wholesale businesses sell products directly to consumers in small items, instead of selling to retailers (shops) in bulk. That means, Wholesalers skip the chain (skip retailers) to sell directly to consumers. This has caused discontent among retailers and they complained that 'wholesalers are competing with them'. Wholesalers tend to sell at a lower price than retailers who try to put a mark-up after procuring products from the same wholesales.

When interviewing Wholesalers about that *breaking-of-the-chain*, some stated that their action to sell in smaller units to consumers stems from that some major retailers in the country do not buy from them; instead they source products directly from distributors. Therefore, Wholesales miss the business opportunity to supply all retailers. The interpretation to this is that the *trade wars* in the Retail and Wholesale sector distort the normal vertical supply value-chain.

In other instances, Wholesales claimed that there was nothing that restricts them from selling products in smaller items hence they hold a departmental store license which allows apparently allow for such a trade. The Wholesale trading licenses were also alleged to differ from one administrative district to the other. Meaning that, the wording of the Wholesale trading license, for example, in Chobe District differed fundamentally with that of the Southern District Council. However, that aspect was not verified by the research team; and remained crucial for the Ministry of Trade and Industry to ensure its alignment. The alignment of other businesses in General Dealership, Fresh Produce and Restaurant activities also became necessary to ensure.

The definition of retailer can be interpreted as an entrepreneur that sells the final product in small or itemised units. In contrast, the Wholesaler does not sell in small units but in bulk. The normal vertical value chain of a wholesaler distributing to a retailer who in-turn sells to consumers is mixed up in Botswana as wholesalers have taken the role of retailers to sell in small units, and consumers by-pass Retailers to obtain products direct from Wholesalers. This mix-up has led to competition concerns that wholesale entities trespass into the domain of retailers. The study has therefore found that the boundaries of retailing are highly blurred and the categorisation of retail companies into specific product derived sectors is difficult.

In a similar arrangement of ensuring and enforcing that Wholesales or General Dealers stick to what they have been licensed to trade on, the study observed that some food and grocery items were sold in hardware stores especially those operated by people of Chinese origin. That appeared to be contravening the trading license rules, unless the hardware licenses allowed them to also trade in food and groceries. In essence, this study recommends that the Ministry of Trade and Industry should ensure that there is no crossover of trading boundaries. In fact, the SME trading businesses such as General Dealers may be allocated solely to citizens.

Upon the interest of knowing how much of stock is sourced locally and how much imported, in the value-chain, the study requested for that information from

respondents in money ranges from below 100,000 to over 5 million Pula. Companies are usually not keen to provide information about their precise income but are comfortable to specify their income range. That explains why the price ranges were being used as in Tables 4 and 5 below:

Table 4: Amount of stock from local suppliers

	000's		Business type (Main)					Total
			Supermarket	Wholesaler	Restaurant/fast food	General Dealer	Fresh Produce	
Amount of stock from local suppliers	< P 100	Count %	10 15.2%	3 8.8%	43 34.1%	60 39.7%	14 46.7%	130 31.9%
	P100 - P500	Count %	6 9.1%	3 8.8%	45 35.7%	59 39.1%	8 26.7%	121 29.7%
	P 500.1 - P 1000	Count %	9 13.6%	1 2.9%	21 16.7%	16 10.6%	2 6.7%	49 12.0%
	P 1000.1 - P 5000	Count %	13 19.7%	5 14.7%	10 7.9%	15 9.9%	5 16.7%	48 11.8%
	>P5000	Count %	28 42.4%	22 64.7%	7 5.6%	1 .7%	1 3.3%	59 14.5%
Total		Count %	66 100.0%	34 100.0%	126 100.0%	151 100.0%	30 100.0%	407 100.0%

Table 5: Amount of stock from foreign suppliers

	000's		Business type (Main)					Total
			Supermarket	Wholesaler	Restaurant/fast food	General Dealer	Fresh Produce	
Amount of stock from foreign suppliers	< P 100	Count % within Business type (Main)	2 10.5%	1 5.0%	7 50.0%	3 33.3%	1 50.0%	14 21.9%
	P100 - P500	Count % within Business type (Main)	3 15.8%	3 15.0%	4 28.6%	5 55.6%	0 .0%	15 23.4%
	P 500.1 - P 1000	Count % within Business type (Main)	3 15.8%	3 15.0%	2 14.3%	1 11.1%	0 .0%	9 14.1%
	P 1000.1 - P 5000	Count % within Business type (Main)	5 26.3%	5 25.0%	1 7.1%	0 .0%	1 50.0%	12 18.8%
	>P5000	Count % within Business type (Main)	6 31.6%	8 40.0%	0 .0%	0 .0%	0 .0%	14 21.9%
Total		Count % within Business type (Main)	19 100.0%	20 100.0%	14 100.0%	9 100.0%	2 100.0%	64 100.0%

The Fresh Produce stores are consistently showing to be the smallest in size but in terms of receiving stock from local suppliers they pitched a better tally of 14 companies procuring locally and 2 buying outside the country. The stock for Fresh Produce stores is predominantly vegetables and fruits probably arising from the improved horticultural market in the country. The General Dealers and Restaurants also buy a lot of products locally.

Although this information was obtained from individual retailers, it may not give a true picture of products sourced locally against imports because the main importers are Distributors such as CA Sales, Global Holdings etc. Wholesales, Supermarkets, General Dealers and Restaurants mainly stock products supplied by local Distributors; and to General Dealers and some Restaurant they assume that the products originate locally and not abroad. That is a factor which the study should ascertain in future reviews.

SUMMARY BOX 3

1. The Retail and Wholesale sector in Botswana is characterised by a more linear vertical supply chain with the producers or manufacturers at the apex, followed by distributors, then retailers and consumers at the lower downstream.
2. However, the study noted some breaks in the chain especially that Wholesale businesses sell products directly to consumers in small items, instead of selling to retailers (shops) in bulk. That means, Wholesales skip the chain (skip retailers) to sell directly to consumers. This has caused discontent among retailers and they complained that 'wholesales are competing with them'. Wholesales tend to sell at a lower price than retailers who try to put a mark-up after procuring products from the same wholesales. Upon the consideration of compliance and enforcement of licence requirements, this research suggested that the Ministry of Trade and industry may consider exploring and pronouncing on the abolition of licences that specify that Wholesalers should sell items in bulk and Retailers to sell in itemised units. This will give freedom to enterprises in the food and grocery sector to sell as they wish; i.e. whether in bulk or in smaller items.
3. Botswana is predominantly an importing economy because ninety-two percent (92%) of food and groceries are produced outside the country. The producers in the value-chain are mostly in the neighbouring South Africa, and that is why there are distributing companies that supply wholesales and some retailers in the country. The major distributing companies in the country comprise CA Sales, Global Holdings, Pula Sales, 10C, Kalahari Distributors and Bokomo which distribute products countrywide.

RECOMMENDATION

1. In order to avoid the administrative constraint of ensuring compliance by Wholesalers and Retailers throughout the country the Ministry of Trade and Industry may consider exploring and pronouncing on the abolition of licences that specify that Wholesalers should sell items in bulk and Retailers to sell in itemised units. This will give freedom to enterprises in the food and grocery sector to sell as they wish; i.e. whether in bulk or in smaller items.

4.2. Retail and Wholesale Operations

4.2.1. Size of Annual Turnover

The following table is a cross-tabulation of data of companies that agreed to answer the question about Annual Turnover:

Table 6: Annual turnover 2012 (by business type)

		Business type (Main)					Total	
000's		Supermarket	Wholesaler	Restaurant/fast food	General Dealer	Fresh Produce		
Annual turnover 2011	< P 100	Count	3	0	20	56	11	90
		% within Business type (Main)	4.5%	.0%	15.4%	36.6%	37.9%	21.7%
	P100 - P500	Count	10	2	37	47	12	108
		% within Business type (Main)	15.2%	5.6%	28.5%	30.7%	41.4%	26.1%
	P 500.1 - P 1000	Count	3	2	25	27	2	59
		% within Business type (Main)	4.5%	5.6%	19.2%	17.6%	6.9%	14.3%
	P 1000.1 - P 5000	Count	12	8	32	20	1	73
		% within Business type (Main)	18.2%	22.2%	24.6%	13.1%	3.4%	17.6%
	> P 5000	Count	38	24	16	3	3	84
		% within Business type (Main)	57.6%	66.7%	12.3%	2.0%	10.3%	20.3%
Total		Count	66	36	130	153	29	414
		% within Business type (Main)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The data above signifies a sector (Retail and Wholesale) characterised by small and large enterprises, in terms of the turnover recorded. Supermarkets (38) constituted the majority of large enterprises that have an annual turnover of above P5 million. They were followed by Wholesalers (24) and then Fast-Food outlets (16).

General Dealers by their nature were the smallest whereupon the majority of them (56) earned less than P100,000 in 2012. The twenty (20) Restaurants that earned less than P100,000 did not involve the Fast-Food franchise outlets. The latter mostly accrued between P1 million and P5 million of annual turnover; and sixteen (16) made over 5 million Pula.

By interpretation, most of the business earnings were accrued by supermarkets and Wholesalers as portrayed in the annual turnover data. The two categories could then be regarded as the most competitive enterprises in the Retail and Wholesale sector in Botswana economy. The truth behind that scenario is epitomised by the countrywide foreclosure of General Dealers which cannot withstand competition of large chain store supermarkets.

The dominance of Supermarkets is also visible from the data on customers entering the premises per day. The table below shows the estimated customers per day, as obtained during the field research work. In terms of over 1,000, 2,000, 3,000 and 5,000 customers per day, the Supermarkets dominate. On the other side, the 123 General Dealers dominate in terms less than 100 customers per day who trickle into the business premises. The shopping logic is that a customer who visits the retailing premise is likely to purchase something, than to come out empty-handed. That is why the customer traffic into Supermarkets correlates with its high volumes of stock being purchased; hence high returns/turnover.

The Wholesale businesses that experience less than 100 customers per day are mostly in the villages. For example, a Wholesaler in Hukuntsi complained that there were few customers than it had anticipated. Competition from Wholesalers in the neighbouring Kang Village and Jwaneng, as well as Choppies stores posed a huge business challenge.

Table 7: Estimated customers per day

		Business type (Main)					Total	
		Supermarket	Wholesaler	Restaurant /fast food	General Dealer	Fresh Produce		
Estimated # of customers/day	<=100	Count	23	20	83	123	24	273
		% within Business type (Main)	35.9%	55.6%	61.0%	80.9%	77.4%	65.2%
100 - 500		Count	11	11	45	26	6	99
		% within Business type (Main)	17.2%	30.6%	33.1%	17.1%	19.4%	23.6%
500 - 1000		Count	8	3	6	1	1	19
		% within Business type (Main)	12.5%	8.3%	4.4%	.7%	3.2%	4.5%
1000 - 2000		Count	4	1	1	1	0	7
		% within Business type (Main)	6.3%	2.8%	.7%	.7%	.0%	1.7%
2000 - 3000		Count	13	0	0	0	0	13
		% within Business type (Main)	20.3%	.0%	.0%	.0%	.0%	3.1%
3000 - 4000		Count	3	0	1	0	0	4
		% within Business type (Main)	4.7%	.0%	.7%	.0%	.0%	1.0%
4000 - 5000		Count	1	0	0	1	0	2
		% within Business type (Main)	1.6%	.0%	.0%	.7%	.0%	.5%
> 5000		Count	1	1	0	0	0	2
		% within Business type (Main)	1.6%	2.8%	.0%	.0%	.0%	.5%
Total		Count	64	36	136	152	31	419
		% within Business type (Main)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

4.2.2. Average Total Cost as threshold for Predation

Emanating from the allegations that the chain Supermarkets were forcing the closure of other retailers by selling at lower prices (predation) it became necessary to ascertain the conduct of predation in the market. This test was done through the identification of the average total cost (ATC) curve for some basic products; whereupon the price below ATC can lead to the presumption of predatory pricing. That means the retailer would be sacrificing profit by selling below the ATC.

Predatory pricing refers to the conduct of selling a product or service at a very low price, intending to drive competitors out of the market, or create barriers to entry for potential new competitors. If competitors or potential competitors cannot sustain equal or lower prices without losing money, they either go out of business or choose not to enter the business. The predatory merchant then has fewer competitors or is even a de facto monopoly (ICN, 2008).

After the weaker competitors are driven out, the surviving business can raise prices above competitive levels (to supra competitive pricing). The predator hopes to generate revenues and profits in the future that will more than offset the losses it incurred during the predatory pricing period. This is known as recoupment of the losses incurred during predation period.

In essence, the predator undergoes short-term pain for long-term gain. Therefore, for the predator to succeed, it must have sufficient strength (financial reserves, guaranteed backing or other sources of offsetting revenue) to endure the initial lean period. There must be substantial barriers to entry for new competitors, hence predation involves lowering prices to an unreasonably low (usually below-cost) or unprofitable level in a market in an effort to weaken, eliminate, or block the entry of a rival.

Logic dictates that only dominant enterprises would be able to sustain below cost pricing sufficiently too long to harm competitors in the short term and customers in the long term. While competing enterprises sometimes have similar cost structures which should allow them to match prices, the dominant enterprise's economies of scale may allow it to price far below the price of the competing fringe (DiLorenzo, 1992).

In order to ascertain the predatory conduct, the following average total cost of some key groceries was obtained:

Table 8: Average total cost of some products

Quantity	Five Roses (100 sachets)	Pampers (Maxi Plus 62)	Sunlight Washing Powder (2kg)	Tastic Rice (10kg)	Blue Crystal White Sugar (5kg)	White Star Maize Meal (12.5kg)	Ultra Mel UHT Milk - Clover (1L)
1	20.16	111.19	31.94	99.45	39.84	54.69	10.67
2	40.32	222.38	63.88	198.9	76.68	109.38	21.34
3	60.48	333.57	95.82	298.35	119.52	164.07	32.01
4	80.64	444.76	127.76	397.8	159.36	218.76	42.68
5	100.8	555.95	159.7	497.25	199.2	273.45	53.35

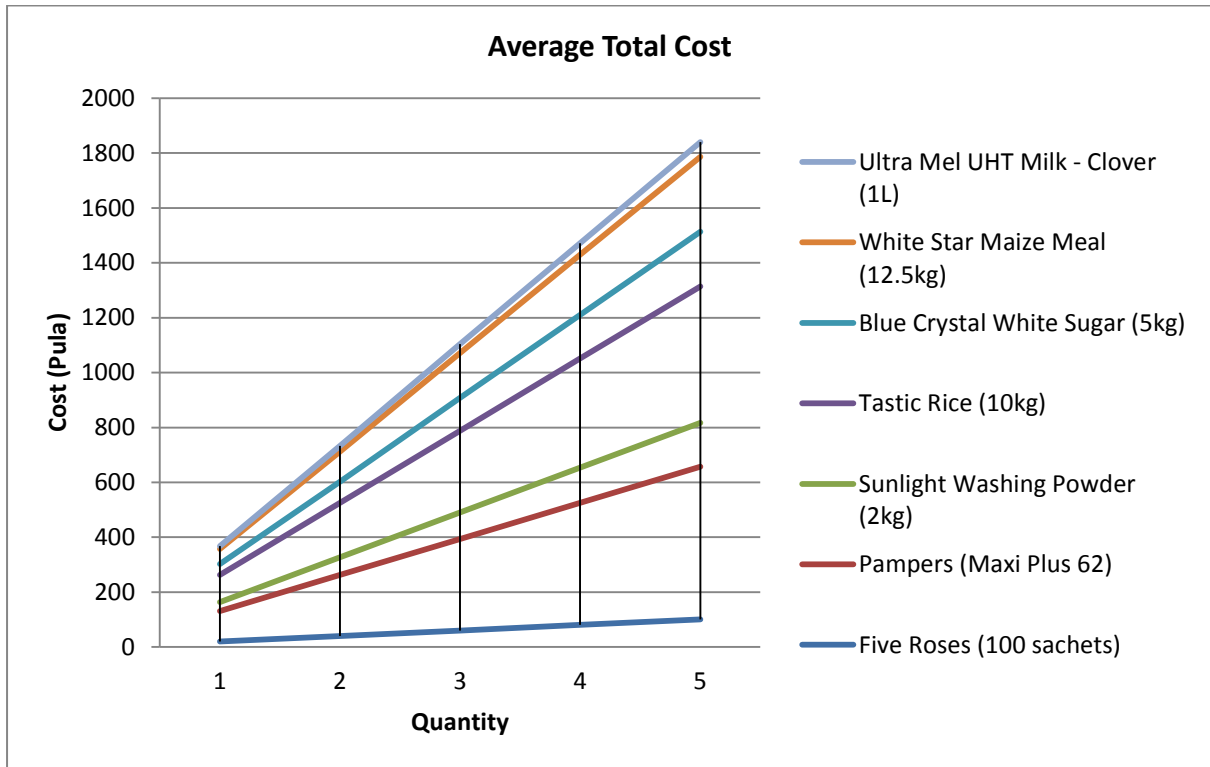
Table 9: Average total price

Quantity	Five Roses (100 sachets)	Pampers (Maxi Plus 62)	Sunlight Washing Powder (2kg)	Tastic Rice (10kg)	Blue Crystal Sugar (5kg)	White Star Maize Meal (12.5kg)	Ultra Mel (Clover UHT Milk - 1L)
1	26.68	180.69	41.29	123.94	49.7	64	13.5
2	53.36	361.38	82.58	247.88	99.4	128	27
3	80.04	542.07	123.87	371.82	149.1	192	40.5
4	106.72	722.76	165.16	495.76	198.8	256	54
5	133.4	903.45	206.45	619.7	248.5	320	67.5

In view of the two tables above, it is clear that the prices obtained are generally above the average total price (ATC). The concern for predation would arise if prices are below the ATC. That means prices above the ATC are considered a safe haven because you cannot argue that there is a sacrifice of profit. The study, therefore, did not pick any evidenced act of predation by supermarkets in the sampled data.

Using data from Table 8, the graphs for average total cost (ATC) were derived as below. An area below any of the ATC curves would signify predatory pricing.

Figure 14: Average total cost graphs



4.2.3. The Cost-Price Ratio as proxy of Competition Index

When determining the Cost-Price Ratio the following basket of food and groceries (55 commodities) were considered:

Figure 15: Basket of Food and Groceries

TOILETRY	BEVARAGES	COMMON ESSENTIALS	
CLERE GLYCERINE (100ml)	FRUITREE 1L	TASTIC RICE (10kg)	KELLOGS CORN FLAKES (1kg)
VASELINE BLUE SEAL (100ml)	OROS 2L	BLUE CRYSTAL SUGAR (5kg)	RICOFFY (250g)
DETTOL (175ml) BAR	ROIBOS TEA (80'S)	WHITE STAR MAIZE MEAL(5kg)	LUCKY STAR FISH-CHILLI (15)
INGRAMS CAMPHOR (500g)	FIVE ROSES 100	WHITE STAR MAIZE MEAL(12..)	TEXAN BEEF- CHILLI (300g)
NEVIA FOR MEN BODY LOTION (400ml)	SWEETS AND CHOCOLATE	FATTIS & MONIS (3kg)	AROMAT (75g)
AQUAFRESH TOOTHPASTE (100ml)	MONSTER POP (48'S)	WHITE BREAD FLOUR-SNOWWHITE (5kg)	VINEGAR (750ml)
ALWAYS PADS MAX SUPER PLUS	SMOOTHIES (72'S)	KOO BAKED BEANS (410g)	KNORR SOUP (50g)
FRESH FLORAL (1'S)/ LEFOFA (1'S)	CHOCOLATE ECLAIRS (60'S)	ULTRAL MEL- CLOVER (1L)	NOTWANE EGGS (18)
STA-SOFT (2L)	TENNIS BISCUITS (200g)	ULTRAL MEL- CLOVER (500ml)	CHICKEN BRAAI PACK (2kg)
SUNLIGHT LIQUID (750ml)	TOPPERS (125g)	LONG LIFE MILK- BONNITA (1L)	POLONY (200g)
SUNLIGHT WASHING POWDER(2KG)	BABY PRODUCTS	CREMORA COFFE CREAM (1kg)	CHOPPIES MACARONI
DETTOL LIQUID (750)	PAMPERS (MAXI PLUS 62)	ALL GOLD TOMATO SAUCE (750ml)	SNOW WHITE 5KG BREAD FLOUR
SHIELD ROLL-ON (50ml)	JOHNSON'S BABY POWDER (100ml)	C&B MAYONNAISE (750ml)	CHOPPIES COOKING OIL 2L
SUNLIGHT BAR SOAP (500ml)	JOHNSON'S BABY OIL REGULAR (200ml)	COOKING OIL (2L)	
	JOHNSON'S BABY JELLY (250ml)		



This perspective of the Cost-Price Ratio therefore shows that it can be used as a proxy of competition index. The Competition Authority, therefore, will be interested to see

Prices going down to benefit consumer welfare, and the Ratio going up to indicate that more and more companies are entering the market to compete. Competition itself brings about reasonable/lower prices, more innovation, increased quality of products and a wider choice of products and services.

The Cost Price Ratio is the simple calculation of the cost of an item against its price which is derived by the following formula:

$$\frac{\text{Cost}}{\text{Price}} = \text{Ratio}$$

For example, since during the study the cost of Sunlight Washing Powder (2kg) was noted to be P31.94 and was sold at P41.29 the Ratio is calculated as follows:

$$\frac{31.94}{41.29} = \underline{\underline{0.77}}$$

If the calculation is to be stated in percentage form, the formulae can be written as follows:

$$\frac{\text{Cost}}{\text{Price}} \times 100 = \text{Percentage / Proportion}$$

$$\frac{31.94}{41.29} \times 100 = \underline{\underline{77\%}}$$

The 0.77 or 77% means that the price is presumably reasonable (based on the cost) since the Ratio is high. The Cost-Price Ratio is such that – the higher the Ratio the lower the Price. The Price becomes low because of enhanced competition.

Consider, for example, there is more competition in the retail market, the Price of the same product may go much lower to, say P38.00, the Ratio will be:

$$\frac{31.94}{38.00} = \underline{\underline{0.84}}$$

The Ratio increased from 0.77 to 0.84 meaning that there is an inverse relationship between Price and the Ratio; because when the Price goes down (due to intense competition) the Ratio goes up.

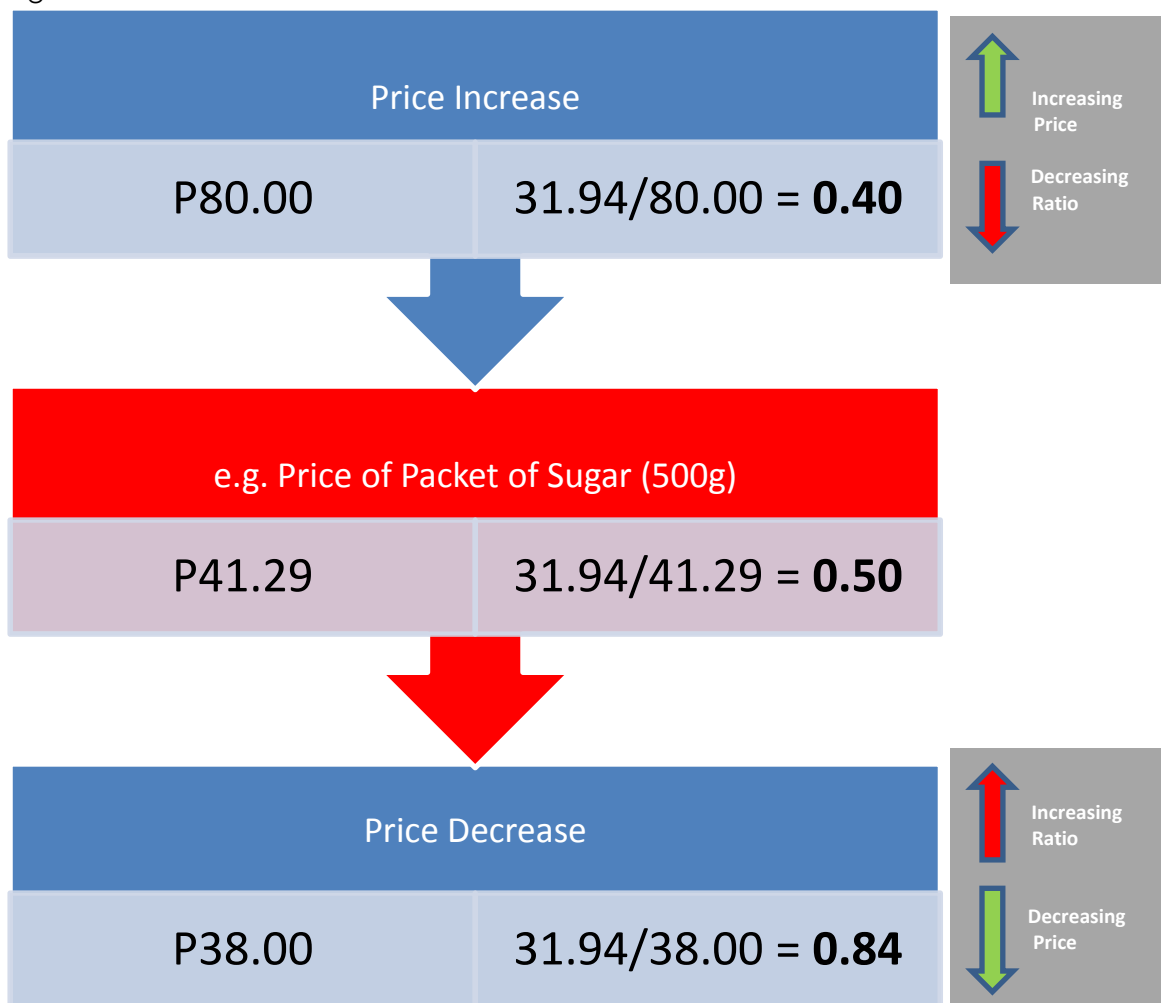
In contrast, when the Price goes up (due to lack of competition or monopoly situation) the Ratio will go down.

Consider a scenario of lack of competition or the existence of a monopoly, the price can be hiked too high, say P80 (and cost remaining the same), the Ratio will become:

$$\frac{31.94}{80.00} = \underline{\mathbf{0.40}}$$

That means, the higher the Price the lower the Ratio. Or it can be interpreted that, the higher the Price the indication that there is a monopoly or there is a general lack of / inadequate competition in the marketplace.

Figure 16: Demonstration of calculation of Cost-Price Ratio



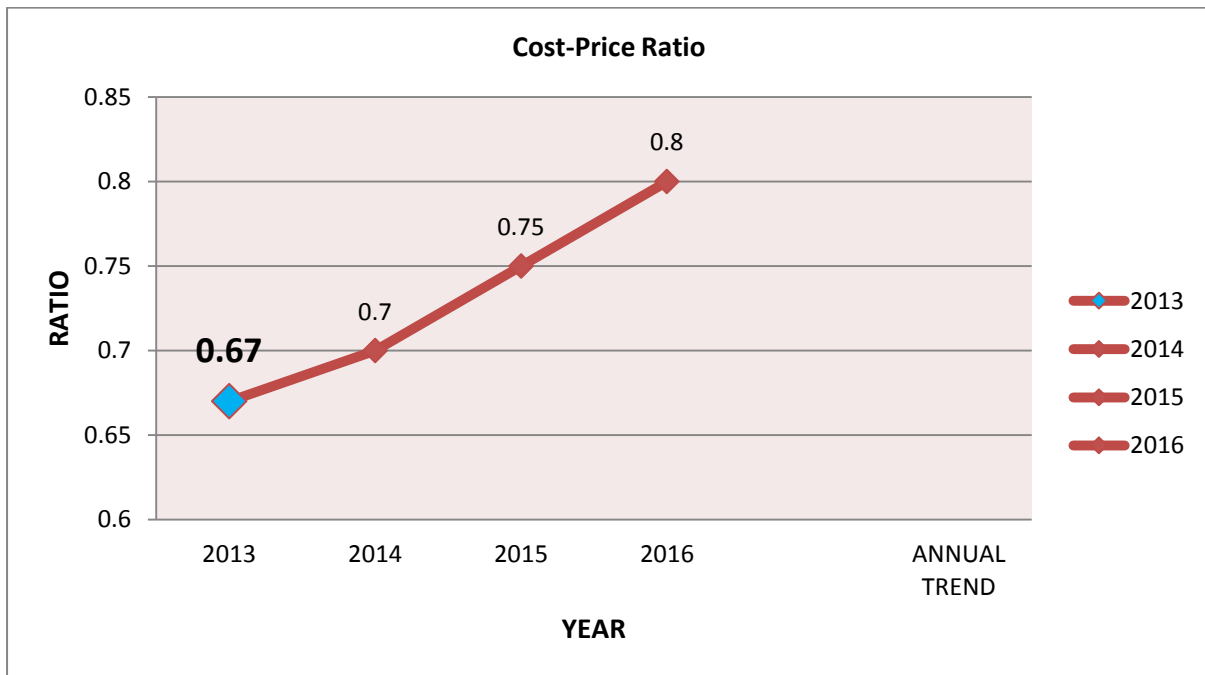
To achieve a competitive environment, the Authority shall strive to ensure that there are no anti-competitive practices in the economy and remove barriers to market entry. The free and fair market place is the main objective for the competition agencies, thus the Authority and the Competition Commission.

In regard to the foregoing formulae of calculating the Cost-Price Ratio, the overall index for the basket of commodities stated in Diagram 17 was calculated to arrive at the following (see the Cost and Prices of the selected basket of commodities in Appendix 2:

$$\frac{\text{Total Cost}}{\text{Total Price}} = \text{Ratio}$$

$$\frac{15\,135.72}{22\,305.51} = \mathbf{0.67}$$

Figure 17: Annual Trend: Cost-Price Ratio



As shown in Figure 17 above, the Cost-Price Ratio in the Retail sector was 0.67 in 2013. This can be considered as the proxy of competition indicator in this sector. It will be interesting to obtain the continuous series of the Ratio year-by-year in order to plot the trend and get a perspective of the competition trend in the Retail sector.

The plotted points of 0.70, 0.75 and 0.80 for 2014, 2015 and 2016 respectively are estimation but not the calculated index like the 0.67 for 2013. The ideal is to have an increasing trend of the Ratio which will indicate (inversely) that the general price level in the Retail sector is lowered to signify enhanced competition in the market. Lower prices would benefit consumers.

Since the Cost-Price Ratio for 2013 is now ascertained, the data for 2014, 2015, 2016 and so on, will be collected towards the end of each year, and the Index/Ratio will be calculated by the end of the first quarter (every March) in the following year. That means the market analysis of the Retail sector will be an on-going process for each year.

SUMMARY BOX 4

1. The data above signifies a sector (Retail and Wholesale) characterised by small and large enterprises, in terms of the turnover recorded. Supermarkets (38) constituted the majority of large enterprises that have an annual turnover of above P5 million.
2. Most of the business earnings were accrued by supermarkets and wholesales as portrayed in the annual turnover data. The two categories could then be regarded as the most competitive enterprises in the Retail and Wholesale sector in Botswana economy.
3. The study did not pick any evidenced act of predation by Supermarkets in the sampled data. The prices obtained are generally above the average total price (ATC). The concern for predation would arise if prices are below the ATC. That means prices above the ATC are considered a safe haven because you cannot argue that there is a sacrifice of profit.
4. Cost-Price Ratio was used as a proxy of competition index. The Ratio was determined to be 0.67 in 2013. The ideal situation is to have an increasing trend of the Ratio which will inversely indicate that the general price level in the Retail sector is lowered to signify enhanced competition in the market. Lower prices would benefit consumers.

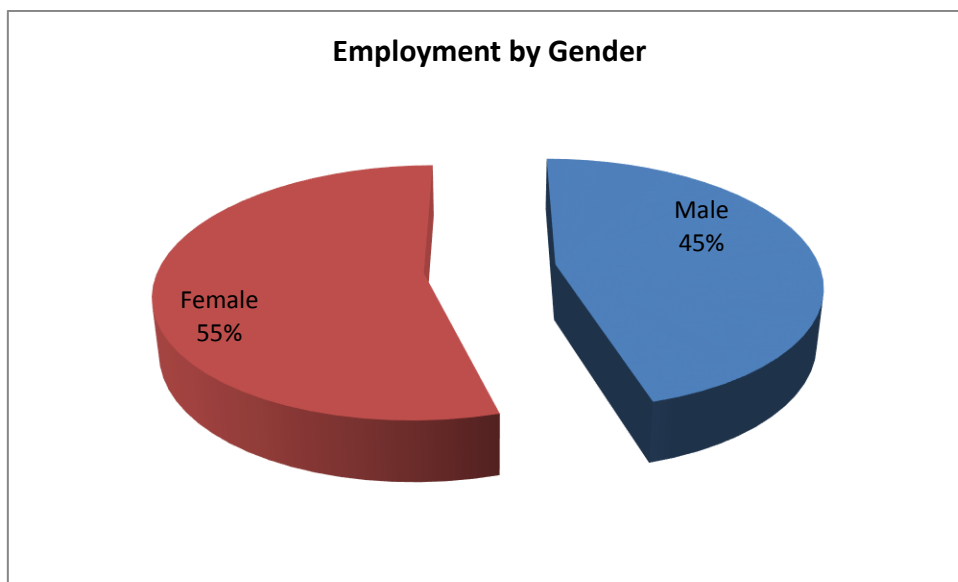
RECOMMENDATION

1. Competition Authority to obtain the continuous series of the Ratio year-by-year in order to plot the trend and get a perspective of the competition trend in the Retail sector.

4.3. Employment Characteristics

The study observed that employment by gender in the Retail and Wholesale sector is almost equal. The analysis by gender showed 54.5% to be females against 45.5% for males.

Figure 18: Employment by Gender



In the Wholesalers, the count of males was the same as that of females (38 in number as shown in Table 8 below). Most women were in the lighter duties at teller machines, counting of stock, and doing bookkeeping. Men on the other side performed manual heavy/ labour intensive duty (i.e. lifting and carrying stock and driving vehicles). A similar division of duties between males and females is apparent in other business types of supermarkets, restaurants, general Dealers and fresh produce stores.

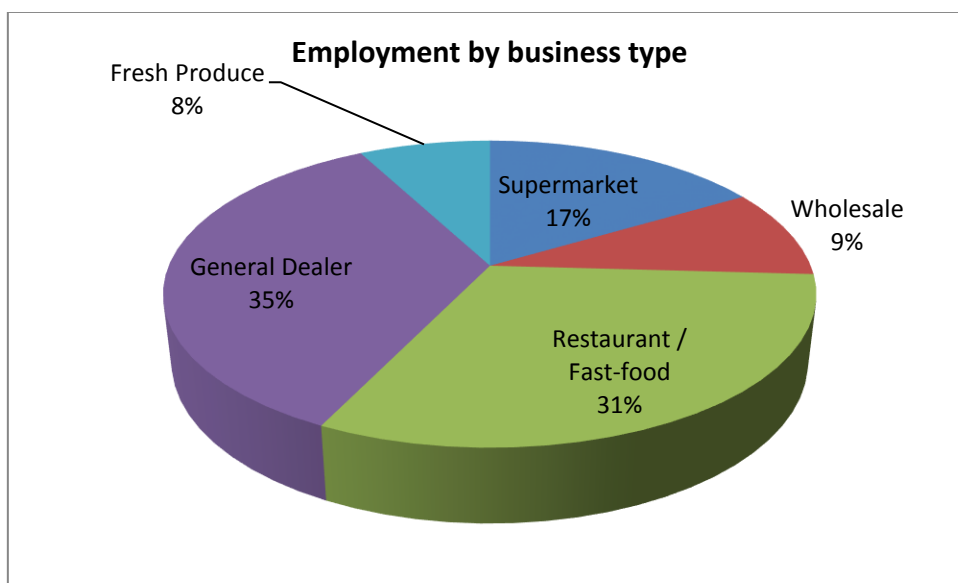
Table 10: Gender employment by business type

Gender	Business Type					Total
	Supermarket	Wholesaler	Restaurant/fast food	General Dealer	Fresh Produce	
Male	66	38	112	122	31	369 (45.5%)
Female	68	38	142	162	32	442 (54.5%)
Total	134	76	254	284	63	811
	16.52%	9.37%	31.32%	35.02%	7.77%	

The highest employer involves General Dealers at 35% mainly because many of them are spread around the country, especially in rural areas. Restaurants are the next highest employers at 31% followed by Supermarkets at 17%. The Wholesaler level (9%) of employment is usually lower because they are spread according to the density of

shops and customers which they supply. Thus, one Wholesaler normally supplies a group of retailers in its catchment area.

Figure 19: Employment by business type



Despite the potential of the Retail and Wholesale sector to employ more people its training of workforce tends to be static. There are insufficient skills to operate shops. Employability happens by chance of oneself being a relative or untrained. This is common in all the business types that were considered. Even the large Supermarkets (according to interviewed employees) do not have comprehensive training plans that seek to enhance the skills and capability to run retail businesses.

4.4. Marketing Activities

4.4.1. Wholesale Banner Groups – Resale Price Maintenance

The glaring observation of contravention of the Act (section 26(1)) about 'resale price maintenance' was noted between Wholesalers and Retailers through the practice of what is called 'banner groups'. Resale price maintenance (RPM) is the practice whereby the manufacturer or Distributor or Wholesaler control the resale prices of their products charged by resellers. The practice is common in retail sales. The Wholesaler agrees with Retailers that the latter will sell the former's product at certain prices. This conduct, Resale Price Maintenance (RPM) prevents resellers from competing too fiercely on price because Wholesalers worry it could drive down profits for themselves as well as for distributors and manufacturers.

RPM is prohibited in many jurisdictions around the world. In China it is 'per se' illegal because the law "prohibits undertakings from reaching agreements, decisions or concerted actions (oral or written) that eliminate or restrict competition, and contains an express prohibition on vertical agreements that fix the resale price or restrict the minimum resale price of goods (i.e. RPM)" (Han and Heger, 2013).

In the United Kingdom, the Office of Fair Trading (OFT) recently (in 2010) made a warning on resale price maintenance by imposing its largest ever fine totalling £225 million on companies involved in the infringement. *“This penalty is expressly intended by the OFT to send a clear deterrence message that is directly relevant to the food and drinks sector ... This enforcement action will send out a strong message that such practices, which could in principle be applied to the sale of many different products, can result in substantial penalties for those who engage in them ... This is an important reminder of the general principle that independent customers must be free to set their own resale prices and that any arrangement or understanding that restricts this could amount to a serious infringement, with substantial penalties”* (OFT, 2010).

The Organisation for Economic Cooperation and Development (OECD) also endorsed that RPM constitutes a violation of competition law and it defines it as:

The term “resale price maintenance” (RPM) refers to a particular type of vertical agreement in which an upstream firm controls or restricts the price (or sometimes the terms and conditions) at which a downstream firm can on-sell its product or service, usually to final consumers.

Resale price maintenance arises when an upstream firm – usually the manufacturer, producer, or importer of a good or service – limits or restricts the ability of a downstream firm – usually a distributor or retailer – to set the prices at which it on-sells the products of the upstream firm. (OECD, 2008)

OECD also explained that usually the upstream wholesale or distributor would threaten to cut-off supply to the retailer if it does not stick to the prescribed resale price; and that is a violation of the free market trade.

In Botswana, RPM is also prohibited by law. The competition law states that:

“An enterprise shall not enter into a vertical agreement with another business enterprise to the extent that the agreement involves resale price maintenance.” (Section 26(1), Competition Act, 2009).

Clearly this section shows that RPM in Botswana is a *per se* offence punishable by law. It is therefore important for Wholesalers to recognise that aspect of infringing the law.

The Wholesalers in the country (mostly large Wholesalers) conduct RPM marketing activity through what is commonly known as ‘banner groups’. The Groups belong to Wholesalers (where Wholesalers identify small General Dealers and agrees to brand them under its banner group members) which supply the General Dealers with stock at better trading terms. These General Dealers are given prices to retail at by the Wholesalers. Wholesalers identify the products to be sold by Retailers at the end of each month (as sale items). Retailers are provided with marketing material including banners, leaflets and publicity boards.

When interviewing Retailers that are 'banner group' members, they indicated that they are compelled to sell at the stipulated price on the pamphlet.

Failure to do so can lead to the forfeiture of that selling opportunity hence benefits of better trade terms may be revoked from the General Dealer by the Wholesaler.

Unfortunately, none of the Retailers and Wholesalers consented to the existence of a written contract relating to banner group membership. They said it is simply an agreement done by enlisting the name of the Retailer at the Wholesaler that it deals with. The Retailers meet with the respective Wholesalers each year for the Annual General Meeting (AGM) during which they discuss marketing strategies especially on the FMCGs to focus on during the following year. In addition to that, they agree on a monthly basis which products to promote through pamphlets. It is through this strategy that most Wholesalers push their in-house brands and other fast moving product lines.

The following banner groups were identified during the survey:

Table 11: Banner Group categories

	Wholesale	Banner Group	Estimated no. of members/shops countrywide
1.	SEFALANA	LUCKY SEVEN VIVA BONANZA	+/- 350 members <i>(including tuck shops /convenience stores)</i>
2.	EUREKA/TRIDENT	BIG ELEVEN SUPA ELEVEN	+/- 350 members <i>(including tuck shops /convenience stores)</i>
3.	TRANS AFRICA	3 SQUARE	+/- 150 members <i>(including tuck shops /convenience stores)</i>
4.	TRADE WORLD	TRADE DEAL	+/- 100 members <i>(including tuck shops /convenience stores)</i>

With regard to the RPM infringement or contravention of the Act, it is recommended that the Wholesalers be advised to cease from practising 'resale price maintenance' with Retailers in the vertical downstream. Failure to desist from such would compel the Authority to enforce the Act. The ideal situation is that Retailers should freely and independently set their own selling prices. That is the premise of a free market environment which is embraced in Botswana's economy.

4.4.2. Retail Marketing

Supermarkets showed aggressive marketing of their products through varied means including newspaper inserts, fliers and leaflets, television and radio adverts, and customer prizes through raffles, and month-end price discounts. The marketing strategy by some supermarkets is more aggressive than others to the extent that some customers' psych is made to believe that they are the cheapest and offer high quality products. That should be appreciable as long as there is fair competition in the market place.

General Dealers and Fresh Produce, in contrast, showed insufficient or lack of sales marketing. Most of these are in rural areas, and they rely on that there are no alternative competitors in the closer vicinity; hence no need to promote their services and products. They rely more on the loyalty of customers in the traditional environments; even though that is a weak-link since modern customers are knowledgeable on product quality and they desire optimal satisfaction on what they spend money on. Customers need quality and a wide variety of products and services. This is a factor which leads to customers by-passing General Dealers and Fresh Produce and even going longer distances to obtain better service in Supermarkets. Ultimately a factor leading to closure of most of these traditional old stores, due to lack of innovation.

Restaurants and Fast-Food outlets differ in terms of location, size and management structure. For example, Restaurants in rural areas are lethargic on the marketing front. Similar to General Dealers they rely on customer loyalty. They are mostly small in size and do not use advanced technology/appliances perhaps due to the low income received in the areas they operate at. On the other side, the management structure of franchises is more organised and more driven towards profit maximisation. The level of service is advanced in franchise Restaurants with better sitting arrangement and quick service. Advertisements of franchise businesses are common in billboards on highways and newspaper appearances. That shows a high level marketing throughput of franchise enterprises. Although franchises are competitive in the market they have some licensing concerns which were raised during the study. These are discussed in the next section of this report.

4.4.3. Franchising

Franchising in the food sector was another area of consideration by this study. Franchising is an arrangement where one party (the franchiser/franchisor) grants another party (the franchisee) the right to use its trademark or trade-name as well as

certain business systems and processes, to produce and market a good or service according to certain specifications. The franchisee usually pays a one-time franchise fee plus a percentage of sales revenue as royalty, and gains (1) immediate name recognition, (2) tried and tested products, (3) standard building design and décor, (4) detailed techniques in running and promoting the business, (5) training of employees, and (6) on-going help in promoting and upgrading of the products. The franchiser gains rapid expansion of business and earnings at minimum capital outlay. The franchiser usually will already be having a successful product or service in the market. Some well-known international franchises that originate from the United States include McDonalds, 7-Eleven, KFC and Subway.

According to the OECD, the definition of retail franchising involves the following elements:

- (i) ownership by one person (the franchisor) of the rights to a trademark, brand name or other similar sign;
- (ii) the grant of a license to selected independent retailers, not agents, (the franchisees) to use the trademark, brand name or other sign in exchange for some agreed upon payment in order to provide retail products or services; and
- (iii) a license (franchise) agreement establishing an on-going contractual relationship between franchisor and franchisee of significant duration and specifying some set of obligations on the franchisee, the franchisor, or both.

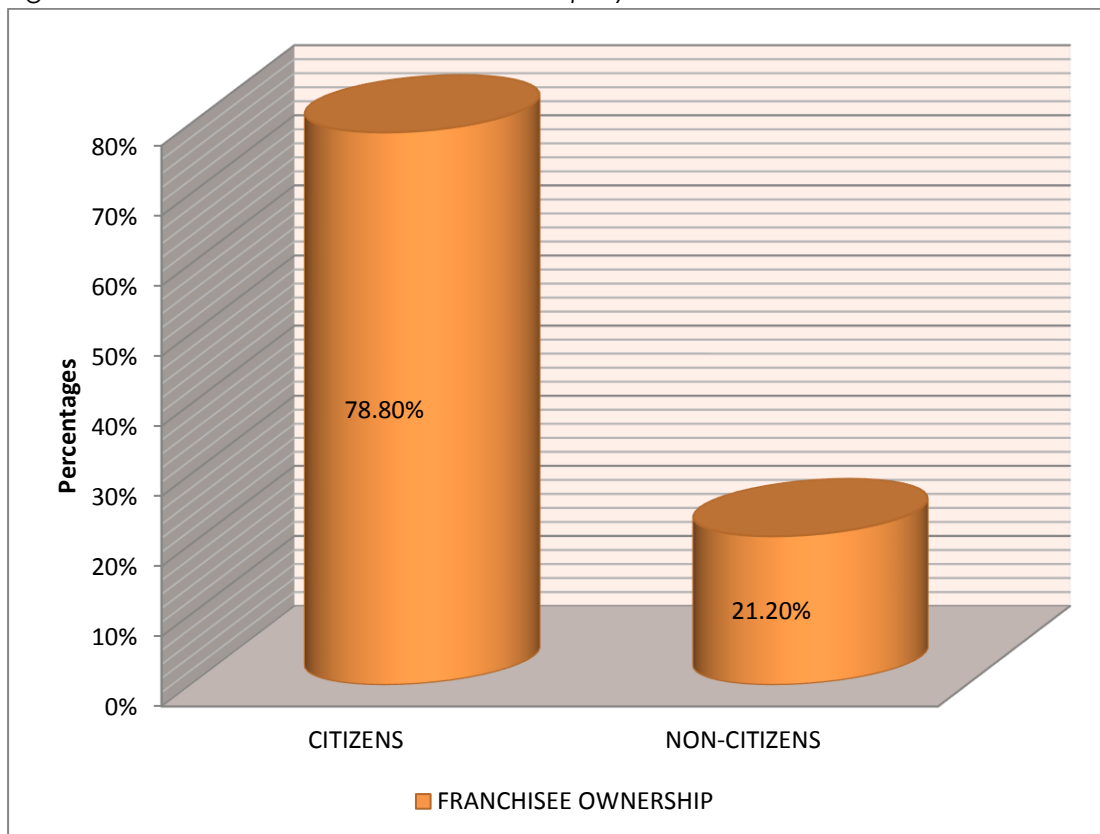
The OECD refers to territorial restrictions as a factor that may restrict competition in some jurisdictions. Other anti-competitive practices under franchising include exclusive dealing, tying arrangements, and refusals to deal.

Usually, countries have some guidelines or regulations for franchise enterprises. In South Africa, the Franchise Association of Southern Africa (FASA) aims to ensure that its members practice the highest standard of ethics and fair business practices in franchising. It is from the same country, South Africa, that franchise businesses find their way into Botswana. Those food-related franchises in Botswana include KFC, Nandos, Mugg & Bean, Wimpy, Chicken Licken, Bimbos, Barcelos e.t.c.

During the field survey, a total of sixty-six (66) enterprises were visited to interview them competition issues in franchising. Interviews were also done with other enterprises on their perception about franchising in the food sector in Botswana. The franchises list (see Appendix 3) shows the category of citizen and non-citizen ownership in those types of businesses. Citizens comprised 78.8% while non-citizens accounted for 21.2%. That indicated that most franchisees are locals.

The proportion of citizen to non-citizen franchisees is as shown in the table below:

Figure 20: Franchise businesses: - % ownership by franchisees



Even though the proportion of citizen ownership of franchisees was higher, most respondents (85%) were concerned that the licensing of franchises was unfairly done. Licensing of franchises was based on either being connected through family/blood relations or belonging to the business clique who preferred exclusive dealing. This was said to have resulted in what is called master franchise companies that unfairly determined who to be offered the license in the whole country.

The counter-argument to that concern by some franchisees was that master franchises and franchisors themselves give licenses to those who know the rules of the business and are confident that they will prosper the brand. It may be necessary to mention that others commented that "people are at liberty to start their own franchises and give licenses to their own family members". Generally, the summary of five main concerns about licensing on franchises was as follows:

Table 12: Franchise concerns

	Franchise Concerns
1.	Franchise licenses being too expensive, e.g. it is difficult to bring McDonalds franchise in Botswana
2.	Franchise royalty charges on every sale are high (e.g. 10.5% on each item). The charges limit the profit of franchisees
3.	Master franchises discriminate by giving licenses to either family members only or close business associates
4.	Franchises buy from outside the country (imports) but not local products
5.	Franchisors dictate the selling prices, which should not be changed

On the other hand, some respondents highlighted the positives of franchising as highlighted in the table below:

Table 13: Franchise benefits

	Franchise Positives
1.	Easy for start-up companies to 'hit the ground running' because of the continuous support offered by franchisor
2.	Relevant training to operate the business is provided
3.	Sales marketing assisted by franchisors (immediate name recognition)
4.	Quality customer service (preparation of food and restaurant setting)
5.	Stock availability at all times

Franchising has recently emerged to be an important and topical issue especially with regard to whether it is done right. The local budding entrepreneurs, technocrats and politicians have rightly raised misgivings about franchising. The questions they raised were repeated during the Retail and Wholesale sector study. Unfortunately, franchising is not covered under the Act; therefore the matters raised cannot be addressed under the law. It should be noted that this study focused on food and grocery market only, whereas franchising happens in many other sectors. For example, franchising happens in hardware products, agricultural goods, telecommunications, motor vehicle Dealers, electronic products and many other products and services. Therefore, it may not be representative enough to make inferences and conclude for the franchising environment out of this study.

The logical recommendation, therefore, is that a wholesome study that covers all sectors on franchising should be carried out. It is therefore recommended that the Ministry of Trade and Industry should facilitate a study that focuses on franchising with the objective to consider whether a law or policy should be formulated to regulate franchises.

SUMMARY BOX 5

1. The study observed that employment by gender in the Retail and Wholesale sector is almost equal with females at 54.5% and males being 45.5%.
2. The highest employer involves General Dealers at 35% mainly because there are many of them spread around the country, especially in rural areas. Restaurants are the next highest employers at 31% followed by Supermarkets at 17%. The Wholesale level (9%) of employment is usually lower because they are spread according to the density of shops and customers which they supply. Thus, one Wholesaler normally supplies a group of retailers in its catchment area.
3. The Wholesalers in the country (mostly large Wholesalers) conduct 'Resale Price Maintenance' (RPM) marketing activity through what is commonly called 'banner groups'. RPM contravenes Section 26(1) of the Competition Act. The banner groups are formed by Wholesalers and set selling prices which Retailers should stick to. This involves the Fast Moving Commodity Products (FMCGs) sold in the retail market. Wholesalers identify the products to be sold by Retailers at the end of each month (as sale items). Retailers are provided with marketing material including banners, leaflets and publicity boards. Examples of banner groups are Lucky Seven, Vivo, Bonanza, Big Eleven and others.
The ideal situation is that Retailers should freely and independently set their own selling prices. That is the premise of a free market environment which is embraced in Botswana economy.
4. Under franchise businesses, citizens comprised 78.8% while non-citizens accounted for 21.2%. That indicated that most franchisees are locals.
5. Even though the proportion of citizen ownership of franchisees was higher most respondents (85%) were concerned that the licensing of franchises was unfairly done as it was based on either being connected through family/blood relations or belonging to the business clique who preferred exclusive dealing. This was said to have resulted in what is called master franchise companies that unfairly determined who to be offered the license in the whole country.

RECOMMENDATIONS

1. With regard to infringement or contravention of the law by Wholesalers upon their marketing strategy of 'banner groups', the Competition Authority could consider that matter with respect to the Competition Act, Cap 46:09.
2. Since the study focused on food and grocery market only, whereas franchising happens in many other sectors, it may not be representative enough to make inferences and conclude on the franchising scenario out of this study. The logical recommendation, therefore, is that a wholesome study that covers all sectors on franchising should be carried out. It is therefore recommended that the Ministry of Trade and Industry should facilitate a study that focuses on franchising with the objective to consider whether the law or policy should be formulated to regulate franchises in Botswana.

PART III

SUMMARY AND RECOMMENDATIONS

5. SUMMARY

5.1. Summary of the Findings and Conclusion

The Report discussed the following empirical findings:

(i) Existence of large chain stores

The closure of traditional old shops was due to the arrival and increase of large food chain stores in the country. Thus, cross-border competition is a challenge in the retail sector. This influx of businesses from outside the country has posed both a challenge and benefit to Botswana economy. The benefit is in terms of consumers enjoying alternative products and experience reasonable price levels. The challenge is for local retailers to improve their service facilities and product quality.

The foregoing challenge is in agreement with the notion of USDA (2010), which stated that competition is good because "increasing competition will force existing supermarkets and other modern retailers to focus on targeted consumer groups, to become more sophisticated in their marketing efforts, and to improve efficiency of store operation". Importantly, this is the premise upon which both the retail and wholesale businesses in Botswana should base their strategy on. They should know their targeted customers; they should enhance their marketing strategies; and they should be effective and efficient in the operation of stores.

(ii) Customer Knowledge

Consumers nowadays are educated on product information such that they demand quality and competitive pricing. This is evident from the strong price competition between the major retailers and the various other promotions used to attract consumers. Customer satisfaction therefore is a challenge to the old-type General Dealers and other smaller retailers which do not offer attractive trade terms and the service needs ample improvement. Although customer knowledge is good its prominence is the reason why small retailers tend to close down. That is because larger retailers/supermarkets provide what the contemporary customer needs and as such they are able to survive competition. In contrast, the smaller ones suffer the consequences of customer knowledge. This simply means that the Retail and Wholesale sector should become extremely innovative in order to meet and overcome the challenge of contemporary customer needs and requirements.

(iii) Wholesalers selling direct to consumers

Similar to problems faced by the food retail outlets internationally, Ravhugoni and Ngobese, 2010, submitted that the wholesalers also face competition challenges whereby retailers buy directly from producers; thereby by-passing the vertical value chain costs which is a challenge for Wholesalers. This in a way has compelled wholesalers to also sell items in smaller units directly to consumers, than to sell in bulk to retailers. Whether that form of trade is a breach of the licensing law, it needs to be investigated from the legal point of view.

In the experience of the Food and Agricultural Organisation (FAO), "wholesale market development in Africa has essentially lagged behind the needs of most of the countries. In general, dedicated wholesale markets are only found in the capital cities and these often serve a combination of wholesale and retail marketing functions... In many cases the wholesale markets were erected during colonial time, when the cities were much smaller and the traded volumes were much lower, with the result that today the markets are too small and spill over into adjacent, unplanned and generally unsuitable areas" (Seidler, E., 2001). However, that need not be used as the justification for wholesalers to trespass into the retailing domain.

(iv) Resale Price Maintenance by Wholesalers

The observed resale price maintenance (RPM) is a marketing challenge to Wholesalers as they face legal action in case the practice persists. Once the banner group marketing strategy is ceased, the challenge to Wholesalers would be to devise new marketing strategies without flouting the Act.

(v) Shopping Malls

In the shopping malls, the Authority faces the challenge to ensure that there is free entry and exit in the market place in accordance with the ideal of a free market economy. Since there are reports that the anchor tenants do not allow competing enterprises to occupy tenancy in the malls, the Authority should investigate the matters and accordingly enforce the law.

(vi) Franchising

The other challenge in the retail sector for food and groceries relates to franchising, especially when there is no policy framework to regulate franchise businesses. Franchising is a form of business arrangement in which a firm which already has a successful product or service (the franchisor, such as Kentucky Fried Chicken (KFC)) enters into a contractual agreement with other businesses (franchisees) operating under the franchisor's trade name and usually with the franchisor's guidance, in exchange for a fee. Other common international franchises in the food and grocery sector involve McDonalds, 7-Eleven, Nandos and Subway.

(vii) Development of Retail Sector and Wholesale Sector

The demise of old traditional stores and competition concerns in the Retail and Wholesale sector for food and groceries requires all players to swiftly take the initiatives that seek to develop the sector. The main players include the Ministry of Trade and Industry, Local Enterprise Authority, Competition Authority and others. The challenge is to ensure that the growth pattern shows an increasing trend, but not a decrease. The growth and competitiveness of the sector should be characterised by reasonably low prices, quality products and services and a wide variety of goods available to consumers.

5.2. Future Outlook

(iv) Going for Growth

Borrowing from the words in an advertisement by Alpari, an international financial services company, that *“the markets never stop moving, to be a successful trader you need to move with them”* (Alpari). Although the word “traders” refers to professionals in derivatives or stock market the Retail and Wholesale traders can be considered an analogy of such traders. They are both in business and seek to prosper and maximise returns or profit. That means the Retail and Wholesale players in the country should be sensitised that they need to move with the current market upswing. The market nowadays consists of consumers who are educated on product information such that they demand quality and “highly competitive pricing” (Jacenko and Gunasekera, 2005).

Now that the recommendations centre around Governments' intervention to correct market imperfections and to stimulate growth through policy and licensing changes, training, and levelling the market environment there is hope for growth in the Retail and Wholesale sector for food and groceries. As portrayed in Diagram 21 below, the Sector is going for upswing growth. The future is bright and not bleak.

Diagram 21: Going for Growth

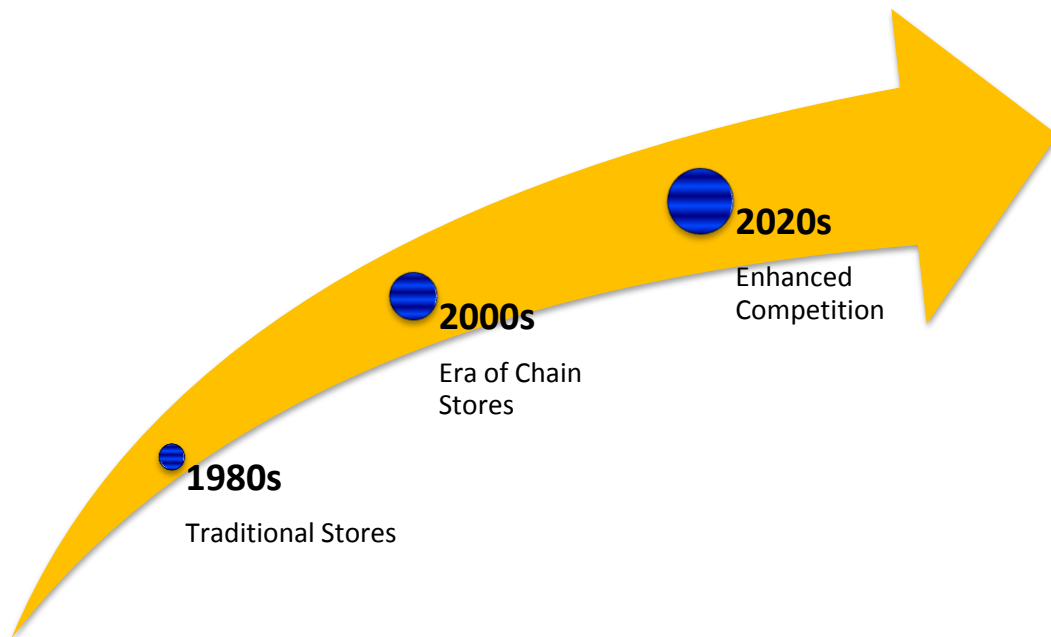


Figure 21 tries to show from the data obtained that in the 1980s there was enthusiasm to start retail businesses in the form of General Dealers and Fresh Produce stores. The stores were distributed in many parts of the country; rural areas, towns and cities. There was not much competition during that era until foreign chain stores entered the market around 2000s leading to the withdrawal of General Dealers. The latter started to fold business because they could not withstand competition; and the remaining ones have “lamented” to the research team that they request for Government intervention to help them stay afloat. It is now recommended that, although Governments' intervention in the market economy is limited, Government could come in to address policy aspects; and its quasi organisations such as the Authority and Local Enterprise Authority (LEA) can address market imperfections and entrepreneurship aspects respectively.

The priority to address issues raised in this report would inevitably lead to stimulation and growth of the sector; and that is why the Retail and Wholesale sectors can be considered to be *going for growth* by year 2020. By that time, the sectors are expected to contribute hugely to the country's GDP because of high competitiveness, employment and innovation.

(v) Enhanced Competition with Foreign Chain Stores

The rollercoaster to the establishment of Choppies chain stores which is now a vibrant local company is reminiscent of Chile's retailers which ultimately replaced foreign large chain stores from the US that entered the country (Chile). In Chile, “Retailers have fought cleverly against foreign competitors by improving their retail offer, imitating the best practices of the foreign retailers (e.g., customer service), and strengthening their market knowledge.

This formula has been successful for most of the retail industries in Chile and has led to greater consolidation, concentration, and professionalisation of the retail industry, which results in a better retail offer for consumers" (Bianchi, C. & Mena, J., 2004).

The Choppies store which started as a General Dealer way back in the 1970s appeared to have emulated the business strategy of foreign large chain supermarkets; and today it is known to be one of the biggest in the country. Similar to the Chile market environment, the Choppies conglomerate is already competing with foreign chain stores in Botswana.

When taken positively, the story of Choppies can be uptaken by other smaller stores in the country and work towards building entities in the likes of Choppies. The General Dealers can be told to "*stop crying and forge ahead*". They can group themselves together to form big retail establishments (even cooperatives); and can formulate comprehensive business models to request for funding that can leverage them to penetrate the market and become successful.

With that strategy in action, by year 2020 there would be several Choppies-like stores in the country which will be competitive in the marketplace. The Retail and Wholesale sector, therefore, should recognise that Good Business Practices plus Innovation equals Competitiveness.

Good Business Practices + Innovation = Competitiveness

6. RECOMMENDATIONS

In regard to the foregoing discussions in Part 1, 2 and 3, the research Report recommends the following:

6.1. Policy Matters for Government

- 6.1.1. In order to avoid the administrative constraint of ensuring compliance by Wholesalers and Retailers throughout the country the **Ministry of Trade and Industry may consider exploring and pronouncing on the abolition of licences that specify that Wholesalers should sell items in bulk and Retailers to sell in itemised units**. This will give freedom to enterprises in the food and grocery sector to sell as they wish; i.e. whether in bulk or in smaller items.
- 6.1.2. In terms of **capacity building** of potential drivers of Botswana economy the **Ministry of Trade and Industry and the Local Enterprise Authority (LEA) could consider addressing the skilling of SMEs in the Retail and Wholesale sector** with the aim to leverage them to withstand competition while providing quality and a wide variety of food and groceries.

6.1.3. Since the study focused on food and grocery market only, whereas franchising happens in many other sectors, it may not be representative enough to make inferences and conclude for the franchising scenario out of this study. The logical recommendation, therefore, is that a wholesome **study that covers all sectors on franchising should be carried out**. It is therefore recommended that the Ministry of Industry and Trade should facilitate a study that focuses on franchising with the objective to consider whether the law or policy should be formulated to regulate franchises in Botswana.

6.2. Issues for the Competition Authority

6.2.1. A specific **market inquiry should be carried out about shopping malls** with the aim to resolve the present issues and to set principle of fair competition into the future. The study should cover all shopping malls around the country.

6.2.2. The Competition Authority should obtain the series on the **Cost-Price Ratio year-by-year** in order to get a picture of the competition trend in the Retail sector over the future years.

6.2.3. With regard to infringement or contravention of the law by Wholesalers upon their marketing strategy of '**banner groups**', the Competition Authority could consider that matter with respect to the Competition Act, Cap 46:09.

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