

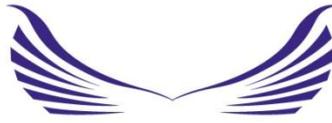
Research Project

GIBS MBA 2011/12

**Research Project
November 2012**

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MBA 2011/12

Evaluation of Greenfield Strategies of Retailers in Sub Saharan Africa: A Two Case Study Approach

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**A research report submitted to the Gordon Institute of Business Science,
University of Pretoria, in partial fulfillment of the requirements for the
degree of Master of Business Administration**

7 November 2012

ABSTRACT

This research seeks to provide a more concise understanding of multinational Greenfield strategies in emerging markets. A lot has been written pertaining to their conduct in established markets and this has proven inadequate as far as application to emerging markets is concerned. Scholars have developed theories on how multinationals operate but how practical are they on the ground?

A two case study approach was seen as the most effective way to grasp the complexities involved in managing multinational firms in emerging markets. The scope was limited to sub Saharan Africa with two retail giants Shoprite and Game being the subject of scrutiny. Literature was developed on the basis of results of previous research and enhanced by in-depth interviews with top retail managers directly involved in the expansion process. Similarities and contrasts between the two firms' strategies were examined with the aim of acquiring insights on retail Greenfield investments in emerging markets.

The findings revealed that in emerging markets successful MNEs are the ones that target customers at the bottom of the pyramid whilst internalising risk and constraints within the context of institutional voids.

KEYWORDS

Retail, Greenfield Investments, Emerging Markets, Multinationals.

DECLARATION

I declare that this research project is my own, unaided work. It is submitted in partial fulfillment of the requirements of the degree of Master of Business Administration for the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other university.

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Date:

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TABLE OF CONTENTS

ABSTRACT	III
KEYWORDS	III
DECLARATION	IV
TABLE OF CONTENTS	V
LIST OF TABLES.....	VI
CHAPTER 1: INTRODUCTION	1
Problem Definition	1
Research Aim	3
CHAPTER 2: LITERATURE REVIEW	5
Established Theories on MNE expansion	5
Proximity	11
Critical Mass.....	14
Logistics & Distribution	14
CASE STUDIES	22
CHAPTER 3: PROPOSITIONS	26
CHAPTER 4: RESEARCH METHODOLOGY	28
Unit of Analysis.....	29
Sampling Method & Size	30
Research Instrument	30
Triangulation	32
VALIDITY	32
CHAPTER 5: RESULTS	36
Game	36
Shoprite	41
Supporting Figures	45
Cross Case Analysis	50
ADDITIONAL FINDINGS	51
CHAPTER 6: DISCUSSION OF RESULTS	53
Critical Mass.....	53
Effect of Proximity	56
Impact of Logistics	59
Discussion of Additional Findings	61
CONFIRMATIONS	62
CHAPTER 7: CONCLUSION & RECOMMENDATIONS	66
Synthesis of Research Data	66
Recommendations for Stakeholders	67
Scope for Future Research.....	69
REFERENCES	70
APPENDICES	76

LIST OF TABLES

TABLE 1: DIFFERENCES BETWEEN EMERGING MARKETS & DVPNG ECONOMIES.....	18
TABLE 2: STRATEGIES USED TO GENERATE MEANING	34
TABLE 3: CROSS CASE PERFORMANCE COMPARISON.....	50
TABLE 4: TRIANGULATION OF DATA.....	52

LIST OF FIGURES

FIGURE 1: RETAIL INTERNATIONAL PREDICTORS OF SUCCESS.....	10
FIGURE 2: GAME’S SALES USD	48
FIGURE 3: GAME’S SALES USD (MOZAMBIQUE)	48
FIGURE 4: SHOPRITE SALES USD	49
FIGURE 5: MODEL FOR INTERACTION WITHIN EMERGING MARKETS	68

CHAPTER 1: INTRODUCTION TO THE RESEARCH PROBLEM

1.1. DESCRIPTION OF THE PROBLEM AND BACKGROUND

Modes of entry are alternative routes or means available to a firm for transferring resources from the home country to the host country (Malhotra, 2003). A company has to choose between non-equity modes, such as exporting and licensing, and equity based entry modes with full ownership or shared (Demirbag, Tatoglu, & Glaister, 2008). The authors further state that the second decision is whether to acquire an existing local firm (acquisition) or to create a new venture (Greenfield investment). For the purposes of this study, a Greenfield investment will be defined as a form of foreign direct investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up or in rented premises. In addition to building new facilities, most parent companies also create new long-term jobs in the foreign country by hiring new employees (Investopedia, 2012).

Studies have shown that investment agencies in developing countries have a preference of providing more incentives for Greenfield investments than for acquisitions. This is because they are principally concerned with the intention to increase employment, and transmission of knowledge and technology through Greenfield investments (Demirbag *et al.*, 2008). Furthermore, past studies are in agreement with the view that Greenfields are the most appropriate establishment mode for technologically intensive firms. This could be because the competitive advantages of technologically intensive firms are deeply entrenched in their organisational practices and labour force skills, the most efficient way of transferring them abroad is by establishing a subsidiary from the beginning, hiring and training an appropriate labour force (Hennart, 2000). Given the vast differences between characteristics of emerging markets and mature economies, one cannot expect mode of entry strategies to be the same or to be determined by the same variables. Emerging markets present a whole set of new challenges that can only be adequately addressed by obtaining a better understanding of their unique characteristics. This study will look into the relevance of studies done on mature economies to emerging ones.

By their definition, emerging markets are economies with high growth potential, but without the sophistication of the institutional framework seen in Western Europe and North America (Meyer & Tran, 2006). Demirbag *et al.* (2008) bring the research problem to light when they state that due to the fact that previous studies were done primarily on mature economies the focus has been on firm specific factors that affect entry mode choice of MNEs, with relatively few studies examining host country specific factors. The authors further explain that host country specific factors are of secondary importance for mature economies however, in emerging market economies; host country specific factors have a direct impact on the entry mode choice (Demirbag *et al.*, 2008).

The traditional American model of multinational enterprises (MNE), characterised by foreign direct investment (FDI) aimed at exploiting firm-specific capabilities developed at home and a gradual country by-country approach of internationalisation, dominated the global economy during the 1940s to the early 90s (Guillen & Garcia-Canal, 2009). In the last two decades, however, new MNEs from emerging markets have followed completely different patterns of international expansion (Guillen *et al.*, 2009). As a result, scholars have been reassessing and extending their theories to examine the strategic challenges businesses face in emerging economy contexts (Xu, 2012).

Firms expanding outside their country are faced with the reality that nations differ in political risk, culture, presence of relevant institutions or their lack thereof; understanding the complex and rapidly changing relationships between organisations and environments in emerging economies helps enhance their competitiveness, especially when venturing abroad (Peng, Wang, & Jiang, 2008). In spite of the difficulties that one can expect to face in emerging markets their attractiveness cannot be denied.

South Africa has become the largest foreign direct investor in Africa and one of the key new investment sectors is retail and services (Miller, 2005). The author further points out that these new investments have an important qualitative impact providing South African companies with high social visibility especially through retail. Most retailers that are growing have certain operational qualities in common. These include first mover advantage, serving the underserved which are those at the bottom of the pyramid, low income store concepts and store

branding. Retail stores like Pick n Pay, Game and Shoprite have within the past two decades successfully expanded into Africa.

The research problem is thus primarily focused on the emergence of this new breed of MNEs that have successfully expanded within emerging markets in spite of the adversities their economies suffer such as unstable currencies, social instability and poor government and calls for a better understanding of their strategies (Klein & Wocke, 2009). Existing theory does not adequately cover their strategies in the context of emerging markets only. What may seem vital to mature economies may have little or no significance in emerging markets.

1.2. RESEARCH AIM

Building on preceding literature this paper seeks to provide new insights into the factors affecting mode of entry particularly Greenfield strategies of Retail firms expanding into sub Saharan Africa within the context of emerging market economies. Further investigation will be made into which strategy shows the most success and why. The aim is deduce from the data received what strategy or strategies these firms adopted and the reasons for their choices.

In this research study a part of Dunning's eclectic (OLI) paradigm of international production framework (Ownership, Location and Internalisation) will be used. This framework is best regarded as a tool for analysing the determinants of international production rather than as a predictive theory of the MNE and still remains a powerful and robust tool for examining contextual specific theories of foreign direct investment (Dunning, 2001). The OLI variables can be applied interdependently.

The variable internalisation, which will be the focus of this study, points to alternative modes of market entry in competitive contexts and potential for opportunism in uncertain environments (Klein *et al.*, 2009). Nigeria, Mozambique and Tanzania have very different economic, political and social climates, with Mozambique being largely Portuguese speaking. Shoprite and Game have FDI in these respective countries so the aim of this study will be to shed more light on how the firms are faring in the different environments and what causes any differences or similarities in their strategies.

The anticipated contribution to theory will be revelations on the unique attributes of the strategies adopted by retail MNE firms operating in emerging markets. Literature on MNEs in emerging markets speaks to institutional voids and this research will go into the specific details on how these voids affect MNE operations. This includes not only infrastructural development or the lack thereof but political and economic characteristics of host countries.

This research builds on various articles on strategies adopted by MNEs with a skew towards the retail sector in emerging markets. Studies have been done on the telecom industry (MTN for example) and food franchise industry just to mention a few. The retail industry which is fast growing in Africa makes for an interesting topic worth exploring. This paper thus aims to bring about a better understanding of how MNEs in emerging markets operate successfully in seemingly impossible environments by exploring factors such as logistics, critical mass and proximity.

From the above discussion, the scope of the research is South African retail firms, namely Shoprite and Game that have expanded their operations into these selected countries of interest; Mozambique, Nigeria and Tanzania. The study will observe how these companies have managed their Greenfield strategies within the setting of emerging economies.

CHAPTER 2: LITERATURE REVIEW

2.1. ESTABLISHED THEORIES ON MULTINATIONAL EXPANSION

Literature review on emerging economy strategies points to six main theories in use namely agency theory, transaction cost theory, real options perspective, spill over perspective, resource bases theory and institutional theory, Cuervo-Cazurra (2007), Demirbag (2008) and Dunning (2001). These scholars have generated various theoretical perspectives explaining the internationalisation process of emerging market MNEs and have looked at the many different motives and the deployment methods of entering different prospective host country markets (Al-Kaabi, Demirbag, & E. Tatoglu 2010).

A brief look at the aforementioned theories gives an indication to the direction that research with regards to MNEs in emerging markets have taken. Agency theory scholars that include Cuervo-Cazurra (2007), state that economic decisions are made by rational utility maximising agents and their school of thought speaks to ownership forms. The real options theory postulates that decision makers value projects on different possible outcomes and different probabilities for example Belderbos & J.Zou, (2009) study the circumstances under which investments and divestments occur. The focal issue with spill over effects is the benefit that host countries derive from the presence of MNEs with ownership types and characteristics of the host country being the typical subject of research studies (Xu, 2005). The resource based theory explores how needs propel local forms to become MNEs from emerging economies (Mesquita & Lazzarini, 2008). Finally, the institutional theory looks at host country institutional environments and the differences between home and host institutions location choices of the MNE (Xu & Shenkar, 2002).

Recent studies have observed that internationalisation in emerging markets is a development that requires a new approach due to its complexity. Fresh insights into strategies undertaken by firms are required. Indeed, to this regard, Al-Kaabi *et al*, (2010) suggest that MNEs choice of entry into host countries is an issue that has dominated the attention of business scholars in the past two decades.

2.2. MODE OF ENTRY

Agarwal, Ramaswami, & Sridhar (1992) point out that normative decision theory suggests that the choice of a foreign market entry mode should be based on trade-offs between risks and returns. The authors further state that a firm is expected to choose the entry mode that offers the highest risk-adjusted return on investment. However, a firm's choices may also be determined by resource availability which refers to the financial and managerial capacity of a firm for serving a particular foreign market (Rodriguez, Uhlenbruck, & Eden, 2005). The options of FDI that firms can select from are wholly owned operations, Greenfield investments, full acquisition, partially owned operations, partial acquisitions or joint ventures. This study will focus on Greenfield investments.

High market potential countries are likely to attract more FDI and consequently provide firms with the opportunity to establish long term market presence (Agarwal *et al.*, 1992). The authors further states that economic and political conditions and government policies which are critical to survival and profitability determine the level of investment risk for a firm. The strategic decision on which entry mode to use for a market is very important. "Because all of the aforementioned modes involve resource commitments (albeit at varying levels), firms' initial choices of a particular mode are difficult to change without considerable loss of time and money: Entry mode selection is therefore, a very important, if not a critical, strategic decision" (Agarwal *et al.*, 1992). We see this with both Shoprite and Game that are highly invested in the countries they expand into because of the commitment levels of Greenfield ventures.

The importance of entry mode is that it determines the amount of control a firm will have in the host country. Control is desirable to improve a firm's competitive position and maximize the returns on its assets and skills. Higher operational control results from having a greater ownership in the foreign venture. However, risks are also likely to be higher due to the assumption of responsibility for decision making and higher commitment of resources (Agarwal *et al.*, 1992). Maintaining the right balance between risk and control is the aim of the strategy. The choice of Greenfield investment as a mode of entry is always closely linked to the desire to maintain that control.

The preference of entering a foreign market by either full or shared equity investments is the first decision a firm is faced with; a second decision is whether to acquire an existing local firm (acquisition) or to create a new venture from scratch (greenfield investment) (Demirbag *et al.*, 2008). The authors proceed to state that recent evidence on the trend of FDI entries to emerging market economies indicates a shift towards acquisitions while in the past entries were mainly greenfield ventures. This was not the case with the Retailers observed in this study so could be industry specific.

For MNEs in emerging markets understanding the nature of corruption in a prospective country and differentiating from other countries are central to decisions on entry (Rodriguez *et al.*, 2005). The authors also state that although corruption significantly reduces direct investment into any economy, many firms still choose to enter the market in spite of the challenges it presents. Nigeria was a case in point for both Shoprite and Game.

According to Demirbag *et al.* (2008), although a lot of prior literature on MNEs focuses on firm specific factors that affect entry mode choice, with relatively few studies examining host country specific factors in developed countries because these factors are of secondary importance for these economies and so they have been neglected. He further states that for emerging market economies, however, host country specific factors have a direct impact on the entry mode choice and appear to be as important as firm and industry specific factors. With the foundation of prior literature, host country specific factors in emerging markets require substantial attention when discussing mode of entry.

A host country's institutional environment has a direct effect on the MNE's choice between Greenfield and acquisition mode, given that the local institutional framework shapes transaction costs, business risk, and executives' perceptions on the institutional stability of the prospective host country (Demirbag *et al.*, 2008). Countries like Tanzania are very different from South Africa and in terms of development lag behind. The chances of finding retail firms to partner with effectively are very slim. Time as a factor also comes into play when deciding between modes of entry because Greenfield investments by their very nature take longer for a firm to be established in a host country.

This study thus takes into consideration host country conditions as an important part of entry mode decisions because these are highly interlinked in emerging markets. Agarwal *et al.* (1992) explain that firms interested in servicing foreign markets are expected to use a selective strategy and favour locating into more attractive markets with the expectation of obtaining higher returns. Dunning (2001) fittingly points out that decisions to locate are not static; as a country develops so do the advantages or disadvantages facing the foreign owned firm and ultimately its strategy may have to adapt to the new conditions. Furthermore, the investment risk in a host country mirrors the uncertainty over the perpetuation of current economic and political conditions as well as government policies which are critical to the survival and profitability of a firm's operations in the chosen country (Agarwal *et al.*, 1992).

2.3. GREENFIELD INVESTMENTS AS MODE OF ENTRY INTO EMERGING MARKETS

After the choice of which market to enter, a second decision is whether to acquire an existing local firm (acquisition) or to create a new venture (Demirbag *et al.*, 2008). A Greenfield investment entails building a subsidiary from the bottom up with the aim of achieving foreign sales; real estate is purchased locally and employees are hired and trained using the investor's management, technology and skills (Meyer & Estrin, 1998) Greenfield investments for retailers are arguably suitable for emerging markets given the absence of retaliatory incumbent firms. To that regard, studies done by Meyer *et al.* (1998) suggest that entry into countries with less developed markets for corporate control is more likely in the form of a greenfield investment. The choice of mode of entry that results in a Greenfield investment results in high risk, high returns and high control for the firm (Kumar & Subramaniam, 1997).

In general, Greenfield investments are suitable in circumstances when an MNE does not have a proper acquisition target in the host country or does not prefer one as is the case for Shoprite and game in Tanzania, Nigeria and Mozambique. A firm that has in house local expertise is also more predisposed to undertake a Greenfield investment (Flores & Aguilera, 2007). This certainly emerged in the in-depth interviews undertaken with management showing strong confidence in their expertise and not wanting to dilute it through mergers or acquisitions of similar organisations.

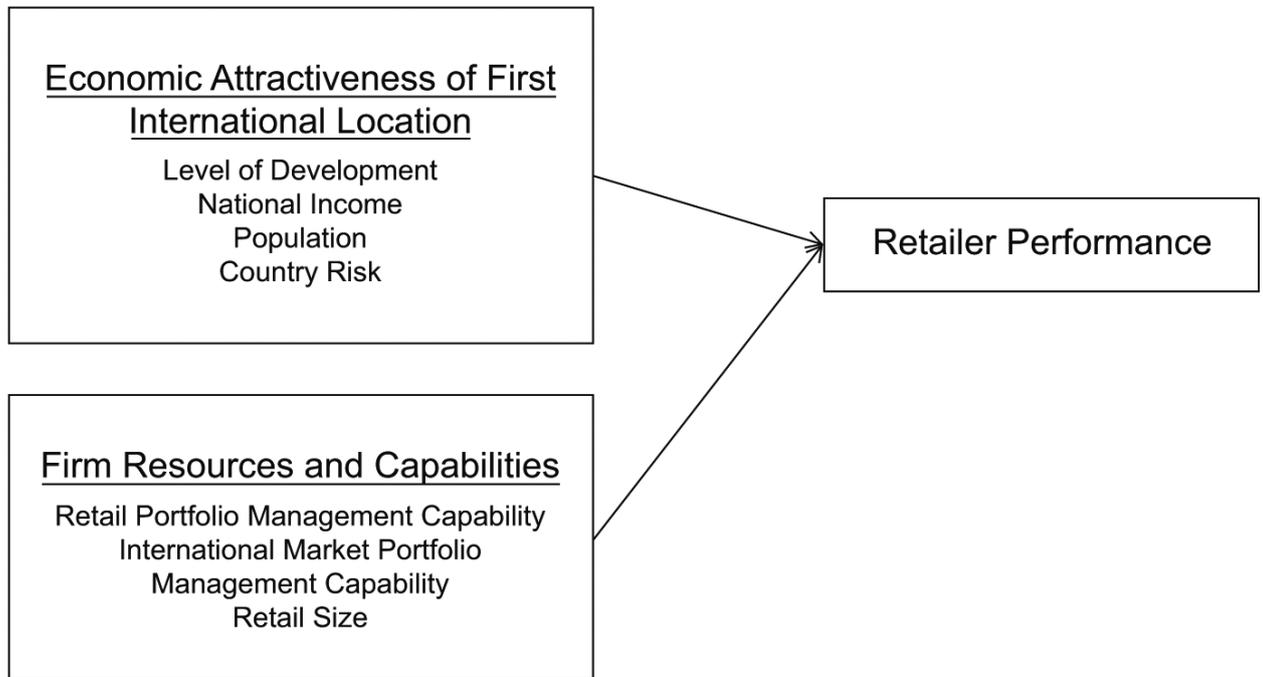
Furthermore, a foreign investor is more likely to choose a Greenfield investment as an entry mode over the possibility of acquisition when the host country is perceived to be a high risk investment (Demirbag *et al.*, 2008). In order to be able to adequately compete with host country firms within their own markets, firms must possess superior assets and skills that can bring in profits high enough to counter the higher cost of servicing these markets (Agarwal *et al.*, 1992). The author's further state that these ownership advantages can come in the form of the ability to develop differentiated products, firm size allowing for economies of scale and multinational experience. Competencies have to be relevant in the host country for them to be of any use hence adaptability is a key advantage that firms hoping to succeed in foreign markets should have. According to Enright & Subramanian, (2007), capabilities then are central to the firm if it is to compete effectively in its chosen industry and country.

The weaknesses of institutions in emerging markets can result in smaller more volatile and less liquid stock markets reducing the potential for acquisitions (Lin, Peng, Yang, & Sun, 2008). Due to their shortcomings Arnold & Quelch (1998) argue that traditional analyses applied to the study of emerging markets ignore their long term potential and produce under sized GNP figures because of the large unaccounted informal sector. Khanna, Palepu, & Sinha (2005) further state that weak institutions lead to lack of transparent financial data and other pertinent information required raising the cost necessary for acquisitions. This makes Greenfield investments most appropriate as the level of control is high for the multi-national allowing for internal strategising that can result in risk mitigation.

Flores *et al.* (2007) present the advantages of Greenfield investments as the avoidance of the risk of overpayment that normally comes with acquisitions as well as the avoidance of problems that come with integration. Another advantage was the retention of full control. Having control allows for a better ability to manage risk and consolidating of assets on the financial statement which provides financial flexibility (Al-Kaabi *et al.*, 2010). The disadvantages that the authors advanced were the high risk and high commitment that comes with Greenfield investments as well as the slower start up process. This was seen in the Mozambique start up for Game as well as Nigeria for both Shoprite and Game. The requirement of knowledge of foreign markets was also a disadvantage of Greenfield entry.

The diagram below shows Chan, Finnegan, & Sternquist (2011) predictors of retail success which are quite relevant to this study:

2.4. FIGURE 1: RETAIL INTERNATIONALISATION PREDICTORS OF SUCCESS



Source: Country and Firm Level Factors in International Retail Expansion Chan *et al.*, (2011)

Dikova & Witteloostuijn (2007) consider Greenfield investments as the most appropriate establishment mode for technologically intensive firms. They further argue that as the competitive advantages of technologically intensive firms are deeply embedded in their organisational practices and labour force skills so much that the most efficient way of transferring them abroad is by establishing a subsidiary from scratch, hiring and training local labour force.

2.5. SCALE OF ENTRY

The scale of entry falls into two main categories. Firstly, according to Flores *et al.* (2007) a firm can establish a foothold in order to acquire more knowledge. Acquiring knowledge in emerging markets is crucial. A true understanding of the unique challenges that face emerging markets helps in selecting an appropriate strategy for market entry. Some scholars such as Johanson & Vahlne, (2009) however consider knowledge gaining as simply a welcome side effect rather than a strategic move on the firm's part. In emerging markets a poor understanding of the market is a costly oversight time wise because setting up shop is generally cumbersome so firms intentionally seek out information on prospective markets

and certainly consider this knowledge more important than a ‘welcome side effect’.

Issues such as corruption are a reality that cannot be ignored when operating within emerging markets. Corruption, which for the purposes of this research can be defined as the abuse of public power for private benefit, distorts the rules of the game and tends to reward unproductive behaviour by channelling unmerited contracts and rights in firms in exchange for bribes, thus punishing efficient and innovative firms (Rodriguez *et al.*, 2005). The authors point out that corruption may significantly reduce FDI into an economy, but many firms choose to enter a locate despite the challenges corruption presents. Studies have shown that *ceteris paribus*, the presence of pro-social policies in a country are positively correlated with an ability to attract foreign direct investment (Martinez & Allard, 2009).

2.6. PROXIMITY

Benefits of proximity are normally seen through cultural similarities that assist firms in offering the relevant products. Culture, which is sometimes referred to as psychic distance may be the last thing management think about when choosing to locate in specific countries but its effects will be felt regardless. A study by Griffith & Russell (2005) reveals that managers of MNEs are more aware of cultural differences today than they were two decades ago through increased knowledge via the media and as such managers are more comfortable diversifying into countries with dissimilar backgrounds. Extensive knowledge and understanding of a host country is more likely to lead to a Greenfield investment if that information is positive and the host country has the requisite resources.

It is also prudent to know the extent to which the host country is able to create a satisfactory legal system, commercial infrastructure and business culture as well as provide transport and communications facilities; these are crucial factors to consider for locational decisions (Dunning, 2001). The author goes on to state that locational requirements will vary depending on the firm’s strategy, for example, strategic asset seeking FDI are different from those seeking natural resources as the former will require the availability of high quality physical and human infrastructure as a priority.

The second category of scale of entry occurs when a firm enters foreign markets on a larger scale to acquire the benefits of first mover advantages (Flores *et al.*, 2007). Shoprite is certainly known for that and this aggressive tactic has so far worked in its favour. Demirbag *et al.*, (2008) argue that when an investor decides to make a fast move and capitalise on first mover advantages, an acquisition of a local business is more preferable to a Greenfield investment because the latter is too slow in the face of rapid market growth. However, Greenfield investments are important for first mover advantage because attempting to displace an already existent retailer can prove costly and time consuming given the high level of commitment it involves. The ability and foresight to have proper timing when entering host countries can be well supported if the firm has the right competencies to begin with. Competencies that allow it to have more than one start up in each selected country for example.

Agarwal *et al.*, (1992) advocates that competencies can vary from the ability to develop differentiated products, to firm size and multinational experience and these can be adapted to the targeted environment to maximise benefits. Klein *et al.*, (2009) point out that emerging market firms develop firm specific advantages in overcoming institutional voids in their home markets and these form a basis for international expansion. It has been argued that the very same difficulties that firms face in their home country are the ones that actually strengthen them and make them successful in foreign countries (Rodriguez *et al.*, 2005). The skills learnt in the home country can be harnessed and adapted to the host country allowing for a large scale entry due to confidence derived from in-house competencies. South Africa, the home country of Game and Shoprite is faced with a fluctuating Rand back home and deals with various currencies between host countries.

The spill over effects that may result from the retailer starting a Greenfield investment in a city may solidify attachment to that retailer and strengthen its position against competitors. The arguments for spill over effects according to Green & Vasilakos (2011) are built on the premise that MNEs possess firm specific advantages and once a firm sets up in the host country, some of these advantages may not be totally internalised and thus spill over to domestic firms. In preceding chapters the benefits of Retailers locating in an area are evident and some of them unlikely. Spill over effects can also have the indirect effect of

intensifying competition in the industry by increasing the number of competitors and introducing new ways to compete given the local firms are willing and able to adapt their strategies to counter the challenge resulting in a raised competitive edge making foreign entry that much more difficult (Meyer & Sinani, 2009).

2.7. SPEED OF EXPANSION

The choice and speed of expansion is a decision that is linked to the retailer's international marketing strategy. It generally includes the marketing strategy and retailing mix of the brand in a foreign country in reference to its marketing policy on the domestic market (Alexander, 1997) Modes of international expansion for retail outlets can be analysed using four dimensions: possible control over decisions, resource commitment, dissemination of risk specific assets and flexibility (Picot-Coupey, 2009).

It has been suggested that emerging market MNEs compensate for their competitive disadvantages by accelerating the internationalisation process in order to acquire the necessary capabilities to compete globally (Bonaglia, Goldstein & Mathews, 2007). Other schools of thought such as Dunning, (2001) suggest that emerging market MNEs have less internal advantages than traditional MNEs and as such are more explorative than exploitative in their internationalisation strategy. This is in line with knowledge seeking FDI.

Speed of expansion occurs in markets where an organisation has received positive feedback from the prospective host country. Greve (2000) suggests that small organisations have modest economic reserves and are unlikely to grow or even survive if they have experienced losses, and thus small organisations that add branches are likely to have had a history of only successful prior niche entry decisions, leading to momentum. He further argues that large organisations have greater reserves and may be able to continue growing even if they have experienced losses in some branches, and thus they are less likely to have had only successful prior entry decisions and may not show momentum in all their markets (Greve, 2000).

Flores *et al.* (2007) posits that speed of expansion could also be inversely related to value of learning. An organisation's desire to acquire extensive knowledge may justify a slow and less aggressive approach. This seems to be Games strategy.

The authors also add that pre-emption of competition is another reason for speedy expansion; however this is subject to constraint of external resources in the host country.

2.8. CRITICAL MASS

A strong brand can be used to attain critical mass. Game has a well-known brand Logik and builds upon it to attract a great number of customers who bank on its reliability. Such a concept would only be effective if there is considerable investment in advertising and sales awareness campaigns. These build awareness which snowballs through word of mouth resulting in reputation being built.

Critical mass exploitation also works for firms that use opportunism as a strategy. Countries with larger populations represent interesting targets to explore (Chan, *et al.*, 2011) because they tend to possess a larger potential demand, even when per capita income levels are not particularly high. Emerging markets offer long-term growth opportunity that no longer exists in saturated and highly competitive developed markets (Sakarya, Eckman, & Hyllegard 2007). The authors' further state that beside the large base of young consumers, these highly populated markets have sizable middle income groups with purchasing power far beyond the country's per capita income. The combination of age and potential spending power are enough to gain critical mass which attracts international marketers. This is currently the case in the retail sector.

2.9. LOGISTICS & DISTRIBUTION CHANNELS

Distribution and logistics are key to any internationally or regionally expanding firm. They are complex as they are crucial. Flores *et al.* (2007) argue that three important factors intertwined with decisions on distribution are retailer's financial resources or available financial commitment, the age of the firm and the ability to network with stakeholders. A highly financially committed firm can invest in highly complex distribution channels that are tailor made to its situation thus increasing the chances for success. Mature firms are also likely to succeed as compared to younger ones due to their vast experience that is disrupted by mistakes that become lessons. This theory points to the capabilities of a firm being highly important to succeed in distribution. This could arguably be more accurate for

firms in developed economies than those in emerging markets. No matter how sophisticated a firm is if it fails to grasp the complexity of institutional voids and their impact on logistics success will be very difficult. The ability to network with appropriate individuals could assist in curbing distribution costs. Logistics relationships are long term and forged relationships can ultimately result in reliable distribution channels.

Personality of the leader may also play a part in the adoption of distribution strategies. Risk averse management will select channels that allow for maximum control and little room for flexibility. Doherty & Alexander (2004) observed that the attitude of top managers toward internationalisation has a great impact on the process as their attitude if favourable, can influence the choice by moderating the risk management is willing to take via the chosen mode of expansion.

Motivation behind internationalisation (Flores *et al.* 2007) can also be a determinant to distribution channel. A firm that is responding to the host government's incentives to invest will tend to use local services as much as possible. This is because according to Demirbag *et al.* (2008) the aims of the incentives are most likely to increase local employment and induce spill over effects.

2.10. STAND-ALONE STORES VERSUS MALL CONCEPT

Different customers can be attracted depending on the channel used to attract them. In the retail sector the channel used to attract customers is just as important as price classes and brands used by different stores. A multinational can decide that being conspicuous will be of benefit and adopt a mall concept. They may on the other hand feel that stand-alone shop is more appropriate for that particular environment. The shop-in-shop requires less resource commitment and guarantees greater flexibility (Alexander, 1997). This mode however according to Hutchison & Sidhartha (2007) offers little protection for the retail network's specific assets and limited control over operations.

Potential of the target market is a deciding factor when determining whether to adopt a mall concept or a smaller approach Flores *et al.* (2007). A market with great potential will certainly call for a grander approach to meet that need. The

authors further state that the characteristics of competition in the target market may also influence this decision; for instance, if the firm desires to take on a competitor head on they may imitate the strategy but if they feel they may not be in the position to adequately do so they could approach the market in a more different subtle manner.

2.11. PRIOR INTERNATIONAL EXPERIENCE

Emerging economies comprise very diverse customers that have to be targeted with different products, brands and business models (Dawar & Chattopadhyay, 2002). Market penetration starts with the entry strategy which provides access to local resources such as distribution networks (Meyer *et al.*, 2006). According to Myers & Alexander (2007) it has been widely accepted knowledge that cautious retailers pass through a period of successful expansion in markets that offer few challenges and incrementally learn their craft within a gradually increasing range of diverse markets. Recent studies, Evans & Mavondo (2002) have challenged this thinking and argued that retailers may become complacent when only choosing to operate in environments that are physically close.

Demirbag *et al.* (2008) posit that investment agencies in developing countries tend to provide more incentives for Greenfield investments than for acquisitions with the intent of assisting in curbing unemployment for locals and knowledge as well as technology transference as previously mentioned. This results in their proposed hypothesis that foreign investors are more likely to choose a Greenfield investment mode when investment incentives are perceived as important. However, Brighthouse & Brighthouse (2000) argue to the contrary stating that Greenfield investments may provide a superior method to capture the economies of independent activities than do acquisitions.

Firms that are smaller in size and whose multinational experience is much less than other players do not normally have sufficient resources or skills to enter a large number of foreign markets with a strong competitive base according to Agarwal *et al.* (1992) because their chances of obtaining higher returns are minimal in such markets. This should not however be a yardstick for all prospective MNEs. Some may inadvertently benefit from being smaller in size as

well as benefit from anonymity especially if their country of origin is not well favoured by those in populations the host countries.

International experience goes a long way in helping a firm understand a country's institutional context. Khanna *et al.* (2005) state that a nation's institutional context can be divided into political and social systems, openness, product markets, labour markets and capital markets. These will determine the level of government interference in the business sector, availability of customer information, mobility of employees as well as security of the investment in the country (Khanna *et al.*, 2005). They go on to point out that when companies tailor strategies to each country's contexts, they can capitalise on the strengths of particular locations. Some firms may only explore areas that are culturally, politically or economically similar but most have to deal with the risk associated with diversity (Guillen *et al.*, 2009).

A general trend in emerging markets is that government and government related entities not only set the rules but actively participate in the economy (Xu, 2012). The author further states that network based behaviours are common due to less efficient markets and they influence how firms interact with each other plus risk and uncertainty are high because of volatility of key political and economic institutional variables making it difficult to predict parameters needed for strategic decisions. Vast international experience results in building of key networks with relevant stakeholders providing a level of risk mitigation for the firm.

International experience in emerging markets is the best informer on what actually happens on the ground as opposed to what theories may suggest. Experience simply points out the glaring shortcomings that traditional MNE models have. Traditional MNE models are based on the premise that markets work smoothly as is the case in developed countries. In such instances according to McMillan (2007), the market supporting institutions may not be overtly visible but in emerging markets the markets perform poorly making their absence quite conspicuous. All these challenges are unique to MNEs in developing countries and have thus resulted in different strategies that this research seeks to explore.

The above theory reveals how MNEs respond to conditions in the host country, tailor make their agendas to suit the prospective environment with the ultimate goal being profit maximisation. The firm's size and level of technical intensity

along with the importance of prior experience are themes which emerged in the theory. The propositions that will follow will be looking at whether there is a unique relationship that retail MNEs in Sub Saharan Africa have with critical mass potential, logistics and distribution issues and proximity to host country, A brief comparison is also made between developed economies and emerging markets.

TABLE 1 DIFFERENCES BETWEEN EMERGING MARKETS & DEVELOPED ECONOMIES

	Emerging Markets	Developed Economies
Scale of Entry	Mixed depending on whether management is risk averse or not	Incremental with aggressive investment strategies
Speed of Expansion	Generally Slower	Relatively fast
Critical mass as MOE	Countries with larger populations tend to possess larger potential demand in spite of low income levels (Chan <i>et al.</i> , 2011)	Most markets saturated. Emphasis on value not on volumes.
Logistical and distribution issues	Networking with locals critical. Institutional voids very apparent.	Well established cross border relation, institutions and laws.
Stand-alone versus mall concepts	Unlike South Africa, several African countries only began building malls in the last decade and the progress has been delayed by the recession.	The mall culture is more widespread and common
Proximity effects	Both language and geographic distance affect choice of location but language to a lesser extent.	Linguistic barriers are more pronounced than geographic ones.
Competencies of retail firm	Managers are well informed of what transpires on the ground as they are directly involved in the expansion process.	Managers at headquarters lacked experience in international markets on managing a dispersed firm (Cuervo-Cazura, Maloney & Manrakhan, 2007).

A brief look at the countries that form part of this study follows. This is to enable a better understanding of the contexts within which the retailers are operating in. South Africa's background as a home base for MNEs and Mozambique, Tanzania and Nigeria as host countries; a glimpse into these countries is necessary.

2.12. SOUTH AFRICA

South Africa is a quasi-industrialised country with arguably good infrastructure in comparison with its neighbouring markets and has played host to firms from advanced industrialised nations for decades (Bhaumik & Gelb, 2003). After the removal of international trade sanctions in the early 1990s several South African firms were able to resume growth and initiate purchasing operations in sub Saharan Africa and abroad (Klein *et al.*, 2009). Today South Africa finds itself in a precarious economic situation in spite of all its economic progress. South Africa's economy is being held back by one of the world's lowest Labour-participation rates. Almost half of South Africa's working-age populations are unemployed, a figure which is much less than the rest of the other emerging markets (Economist, 2012).

One of the fastest growing sectors in South Africa's economy is wholesaling and retailing. According to Stats SA (2010) retail is the fourth largest contributor to Gross Domestic Product amounting to almost 14% of the total. It further states that the recession whose worst effects were felt in 2009 coupled with a strengthened rand that resulted in inflation negatively affected sales in all sectors and retail was no exception. The benefits from increased customers from the 2010 world cup were only temporary.

South Africa's economy is open and as such the country did not escape the global recession. According to France24 the volatility of the rand has also exacerbated fuel price changes which have a negative knock on effect on consumers. The recession by its very nature was not sector specific thus the retail industry was hard hit like other sectors due to the shrinking spending capacity of consumers most of which had been affected by job layoffs. The economy contracted by 1.8% in 2009; weak consumer spending, job losses and large scale contraction in Europe, the US and Asia resulted in a declining sector (France24, 2010).

With locally saturated markets a lot of firms have ventured into foreign markets to further their chances of growing profitably. Competencies and skills acquired in South Africa are proving quite useful and relevant in other countries. This expansion has been evident across sector with MTN in telecoms aggressively expanding into Africa; Nando's a franchising food outlet, SABMiller manufacturers

of beer and several other firms albeit on a smaller scale (Klein *et al.*, 2009). The Retail sector has been no exception. Several retailers namely, Pick 'n' Pay, Spar, Edcon, Woolworths, and Shoprite Checkers have successfully expanded operations in different African countries. In South Africa, a large number of malls have frequent visits possibly due to the presence of malls in them as this is a convenient placement that allows for people to enjoy their leisure and still manage catering for some outstanding chores such as last minute grocery shopping.

2.13. MOZAMBIQUE

According to iss (2012) online economic profiles, During the 1990's Mozambique was one of the world's fastest growing economies, albeit off a very low base as it is was one of the poorest and most aid-dependent countries in the world, with a GNP per capita of USD90 in 1997 the lowest in the world. The website also mentions that thirty years of civil war devastated the economy and its recovery only began in 1994 with a new party in power and as a result Mozambique's infrastructure seriously lagged behind that of its SADC counterparts. The Government responded to the nation's economic woes by implementing policies that were focused on poverty reduction and rebuilding the state. This endeavour went a long way in improving the livelihoods of the people because of its inevitable effect of being labour and capital intensive.

Iss (2012) further describes Mozambique as a country characterized by a dual economy due to the large split between the relatively well performing capital-intensive sector and an under-performing traditional sector. This website goes on to point out that all sectors contribute significantly to the country's GDP with agriculture being the highest contributor (up to a third of GDP) and employing 80% of the population. The mining industry has also been highly invested in with aluminium as the target.

Mozambique may seem culturally worlds apart from South Africa, but a quick drive through most towns reveals a lot of South African brand names operating there in spite of the language barrier. South Africa views Mozambique as a strategic logistical partner as well as a ready market for products that have become common place in South Africa. Although Mozambique has improved it still has a long way to go given its dependence on foreign aid and its population

that is over reliant on agriculture. Value in country like this can be acquired through volumes. The purchasing power of the consumers may not be as strong as its neighbours but the vast number of people in the working age bracket is high and set to increase making it a lucrative market (iss, 2012). The country thus has a positive attitude towards FDI from South Africa.

2.14. TANZANIA

“Tanzania is one of the poorest countries in the world. The economy is heavily dependent on agriculture, which accounts for half of GDP, provides 85% of exports, and employs 80% of the work force. Topography and climatic conditions, however, limit cultivated crops to only 4% of the land area. Industry is mainly limited to processing agricultural products and light consumer goods. The World Bank, the International Monetary Fund, and bilateral donors have provided funds to rehabilitate Tanzania's deteriorated economic infrastructure. Growth in 1991-2000 featured a pickup in industrial production and a substantial increase in output of minerals, led by gold. Banking reforms have helped increase private sector growth and investment. Continued donor support and solid macroeconomic policies should allow Tanzania to achieve real GDP growth” (Transverse, 2012).

2.15. NIGERIA

According to iss (2012), Nigerian Economic Profile, (2012) Nigeria has a dual economy with a modern segment that is highly reliant on oil earnings, and a traditional agricultural economy. The website further states that the oil sector, which emerged in the 1960's is now of overwhelming importance to the point of over-dependence by the economy: it contributes 20% of GDP, 95% of foreign exchange earnings, and about 65% of budgetary revenues. The political scene further complicates Nigeria's problems with competition between ethnic and regional groups fighting for power and access to the country's oil wealth increasing in intensity (iss, Nigerian Economic Profile, 2012).

South Africa and Nigeria have a lot in common. Both countries represent great economic benefits for their populations. SAIIA (2012) states that South African

firms like MTN and Standard Bank have performed exceedingly well in Nigeria and contributed towards employment, revenue generation and improved quality of goods and services. Government has alluded to the fact that intervention should not be about insisting on which companies should be awarded contracts, but it should shield these companies from falling victim to the creeping bad politics, while creating even further conditions for business opportunities beyond big business (SAIIA, 2012). Nigeria is thus accustomed to MNEs from South Africa as well.

2.16. CASE STUDIES

Shoprite

The following brief history was obtained from Shoprite's online company history page (Shoprite, 2012). Shoprite Group was started in 1979 with the purchase of a chain of 8 Cape-based supermarkets for R1 million. From there up until 2009, the retailer's various acquisitions and innovative expansion strategies brought it to the R72 billion business that it is today. Local expansion was very successful resulting in an increase in turnover of almost 600% over the four years since its inception.

Shoprite opened in Namibia in 1990 and the expansion plans for the rest of the continent were put into action leading to the 1995 opening of the Lusaka store in Zambia. That same year Shoprite in a bid to increase its distribution substantially acquired the central buying organisation, Sentra. This enabled Shoprite to compete in smaller markets where the emphasis is on convenience. In 1997 Shoprite opened in Maputo Mozambique. In Swaziland all the OK stores were converted into Shoprite stores and this occurred in Botswana a year later.

In 2000 Shoprite opened its first supermarkets in Zimbabwe and Uganda. A year later in it opened seven supermarkets in Egypt. The Group also started operating in Malawi and Lesotho. The November 2002 opening of the Group's first outlet in Mauritius - the first Shoprite Hyper beyond South African borders - made Group history by achieving the highest turnover ever recorded for a single opening day of trade. Shoprite in 2002 acquired Score Supermarkets' Tanzanian operation - three supermarkets and a small distribution centre - which became effective on

31 December. The Group also opened its first stores in Ghana and Angola in 2003.

In 2004 Shoprite started trading as a wholesale operation in India and franchised its first Shoprite Hyper in this country. In December of 2005 Shoprite entered Nigeria, in Lagos. During 2006 the Group divested from Egypt due to on-going restrictions on retailing. Its seven stores were closed, resulting in a loss of R19, 9 million. In December 2007 Shoprite announced an investment of US\$80 million into the Democratic Republic of the Congo for the development of two world class supermarkets in the major cities of Lubumbashi and Kinshasa (Shoprite, 2012).

In 2010 Shoprite made the decision to disinvest from India and focus on investment opportunities in the commodity rich countries of Western Africa in line with its long term growth plan. Today the Shoprite Group trades with 1303 corporate and 427 franchise outlets in 16 countries across Africa, bringing the total number of stores in the Group to 1730. Shoprite was the first SA food retailer to trade north of SA's borders. Shoprite's footprint has since grown to 123 stores in 15 countries (FM, 2012).

Shoprite made plans to raise \$1 billion through the issue of shares and bonds. This will enable it to roll out its plan of opening 12 new stores and expanding further into Nigeria cities such as Abuja and Illorin. The Democratic Republic of Congo is also on the cards for Shoprite (Nigeriannewline, 2012)

Shoprite's expansion strategy has according to ABNBulletin (2009), been a two-component expansion strategy: it builds its domestic market share while simultaneously developing its international presence. The company has developed new retail configurations, targeting different income classes in different countries with hypermarkets, supermarkets, discounters, convenience and cash and carry stores. The article further states that this reduces the risk of entry into somewhat problematic markets.

In its bid to target low income classes Shoprite has Shoprite's Usave. This is a small format chain that sells a limited range of goods at prices below those of its competitors because of its low overheads that are a result of no branding and no extras on the goods. By reaching a wider range of consumers in new markets

Shoprite manages to lower the risk of failure in that country. The company has also franchised to manage risk. Instead of Shoprite assuming all costs including that of site acquisition and store construction, the franchisee takes up much of the capital outlay (ABNBulletin, 2009).

Game

Game is part of a holding company Massmart which was founded in 1990. It is one of two merchandise discounters with the other being DionWired. Game offers a vast array of products to its customers ranging from furniture, non-perishable food, toys; fast moving consumer goods to house hold electrical appliances. The store has brands such as Logik that are well known and accepted in South Africa.

Game targets the upper LSM customers who currently seek value especially in consumer electronics (Massmart, 2012). Game Discount world was first opened in 1970 and operated as a family business. It was acquired by McCarthy retailing 1992 and in 1998 became a subsidiary of Massmart. Game began its expansion into Africa by opening its first store in Gaborone, Botswana in 1993. Stores were also opened in Namibia in 1999. Game Lusaka soon followed within the same year and all three countries were entered with relatively minimal difficulty (Massmart, 2012).

In 2002 Game expanded into Port Louis, Mauritius where it faced great challenges due to the proven sensitive nature of the locals. Games strategy was to spread into as many African countries as possible to mitigate the risk associated with being in just one country so the good performance of Botswana, Namibia and Zambia offset the poor performance in Mauritius but this was not sustainable. In 2004 game opened a store in Maputo, Mozambique. The store was successful because of brand awareness that already existed due the familiarity of people in Mozambique with South Africa due to its proximity.

Expansion further north into Africa resulted in stores opening in Uganda in 2004, Nigeria the following year, Tanzania in 2006 and Ghana in 2007. By 2010 Game had successfully began operations in 11 African countries and the profits realised from these countries were higher than in South Africa. Shoprite has proved to be a formidable competitor in the retail race for Africa as it benefited from a first

mover advantage in most countries and as a result has more store outlets than game. Further still, the obvious success of the two is likely to attract more competitors.

CHAPTER 3: PROPOSITIONS

Previous studies that have been done on MNEs focus on different measures that can be used to decipher their strategies as well as factors contributing to their success or failure. Because a lot of these studies were skewed towards developed countries, what may have been an important factor may be irrelevant in this research study which focuses on emerging markets.

During the process of internationalisation firms may exhibit activities that are common to all by virtue of the process itself. For instance, Contractor, Kundu, & Hsu (2003) point out that there may be a diminution in performance of MNEs because of the initial learning costs, cultural and foreign market inexperience, an insufficient scale of global operations, and, in general, the liability of foreignness. They go on to explain that firms, in some sectors, may 'over-internationalise' by expanding into too many countries concurrently and thus suffer a net (or incremental) negative effects on performance, because the expansion is into bordering or small markets, and because coordination and governance costs increase faster than incremental revenues resulting from further expansion (Contractor *et al.*, 2003). This study will look at the following hypotheses in relation to Shoprite and Game and their expansion into Mozambique, Tanzania and Nigeria from South Africa:

Proposition 1:

The identification of critical mass potential of a location is an important factor in the success of Greenfields retail FDI.

Proposition 2:

The second proposition states that proximity to the host country has a positive correlation to a retailer's successful performances in that country.

Proposition 3:

The third proposition states that logistical issues such as distribution are largely exposed to and controlled by institutional voids in emerging markets.

CHAPTER 4: RESEARCH METHODOLOGY

Data collection was undertaken using qualitative research method, specifically case studies. Qualitative method was seen as the most appropriate method as opposed to a survey because it allows for an improved understanding of underlying reasons and motivations for certain patterns and behaviours that may emerge during the study. Furthermore, findings from this study are specifically for the retailers selected and can therefore be used to make generalizations about the population of interest. Case study research was chosen as an approach because it assists in understanding complex issues by bringing in experience to strengthen what is already known through previous research (Soy, 2006). The author further states that case studies emphasise detailed contextual analysis of a limited number of events or conditions as well as their relationships.

This qualitative method was used for gaining a first-hand experience of the expansion process through in-depth interviews with carefully selected senior management that were directly involved in the retailers' expansion into sub-Saharan Africa. The interview guide (Appendix C) guided the respondents on the constructs that were to be developed and left room for new ones to be introduced. Financial statements and sales volumes were used to strengthen or refute the findings deduced from the interviews.

The questions were targeted at a specific number of events and conditions and their inter-relationships. To assist in targeting and formulating the questions, a build-up was made from the literature review. This review established what research had been previously conducted and subsequently led to refined, insightful questions about the problem. The research propositions were carefully defined and these were somewhat like cues guiding the direction of the data collection process. The literature review, definition of the purpose of the case study, and early determination of the potential audience for the final report guided how the study will be designed and conducted (Soy, 2006)

The study aimed to bridge the gap between current thinking on multinational enterprises' expansion with what is actually happening in emerging markets. This allowed building on current theories on expansion into emerging economies with specific reference to Africa and a focus on Retail industry. A case study approach was suitable for this because it clearly set a background to the study and allowed for events

to unfold as they were in their given contexts. Access to key people for the purposes of holding interviews was also assured. These persons had first-hand experience in the day to day running of the Retail outlets and the processes that were undertaken in the quest for domination in the African playing field.

For the purposes of this study a two case study approach was used to allow for a comparative analysis within three countries they had in common (Mozambique, Nigeria and Tanzania). The cases were chosen to represent a variety of geographic regions with Mozambique in the south, Tanzania in the east and Nigeria on the west of Africa. The cases revealed findings that were unique in some way typical and unexpected (Soy, 2006)

Yin (2009) mentions that a 'multiple' case study approach enhances the chances of doing a good study when compared to a single-case design, as there is then the possibility of doing direct replication, with the analytic conclusions independently arising from the two cases being more powerful than from a single case. The cases provided similarities and differences that allowed for some deductions to be made which were supported by relevant literature. The literature also added value by building on these findings as well as directing to pertinent research questions.

4.1. UNIT OF ANALYSIS

The unit of analysis were Retailers that have operations originating from South Africa and extending into other African countries; namely Shoprite and Game.

4.2. POPULATION OF RELEVANCE

The universe for the purposes of this study consisted of all retail stores that are operating as multi-national enterprises in Africa with their base in South Africa. The target population was all the retail outlets operating in Tanzania, Mozambique and Nigeria under Shoprite and Game. The selection of these stores was largely based on familiarity with their activities both locally and outside the country. Each case's conclusions were used as information contributing to the whole study and careful discrimination at the point of selection helped erect boundaries around the case (Soy, 2006).

4.3. SAMPLING METHOD AND SIZE

The sampling method that was used was similar to that used for multiple-case sampling. This is a method of deductive reasoning where a range of similar and contrasting cases are studied to enable a degree of generalisation (Klein *et al.*, 2009). The “logic” underlying the use of more than one case study is that each case must be selected so that it either predicts similar results or it produces contrasting results but for predictable reasons (Yin, 2009). “Examining the paths taken by firms in the past represents an important direction for research in international business. With specific reference to this research, sampling in qualitative research generally consisted of small samples of people found within the context and studied in-depth” (Miles & Hubberman, 1994). For the purposes of this study, four senior level managers were interviewed within Shoprite and Game.

4.4. RESEARCH INSTRUMENT

The research instrument that was used was an interview guide for in-depth interviews. An in-depth interview is a qualitative research technique where intensive interviews are conducted on a particular idea or situation and they are used to provide context to other data offering a complete picture to what happened and why (Boyce & Neale, 2006). Since the research involved exploring various aspects of the MNEs strategies and their outcomes, in-depth interviews was the most suitable method.

Face to face and telephonic interviews were held with selected respondents. Four respondents were carefully selected based on their positions and role in the expansion process. From Game one respondent was the Director of Game Africa who is responsible for strategising the expansion process. The other was the Merchandise Manager responsible for logistics. For Shoprite, both respondents were heads of their departments and were involved in the process of visiting prospective countries to gauge whether they could invest there or not. All respondents were directly involved in the expansion of the retail firms to the rest of Africa and were therefore important sources of data (See Appendix A). The interview guide allowed room for any new constructs that the respondents had that shed light on what the researcher may have overlooked. It allowed for some

order and consistency between different interviews undertaken. This allowed the respondents to speak freely without being restricted by highly specific questions.

Zucker (2009) confirms that for in-depth interviews the interview questions had to be broad and loosely structured, following the intent of the research questions. As stated by Zucker (2009), the case study approach which had more than one case study followed a certain pattern of research methodology as was shown in this study. These were describing the experience, describing meaning towards the experience and then the analysis. During the first stage, relevant literature was revisited between interviews to gain a better understanding of new acquired data.

The second stage allowed for the linkage between the questions and methods to the framework. Multiple perspectives were reviewed from responses given allowing for a robust analysis (Zucker, 2009). During this stage of the study the researcher endeavoured to explain what was observed while contrasts and similarities were drawn between the strategies of the two MNEs. The aim was to deduce from the findings a suitable theory or better understanding of what drove the success of retail firms locating in various African countries using Greenfield investments as mode of entry.

The third stage of the study looked at the 'why' aspect of things; the causal relationship between MNE strategies and their performance. This was discussed further under quantitative research methods. The quantitative data was processed during the analysis phase of the research study.

Saunders & Lewis (2012) state that combining research strategies suggests that certain approaches and strategies are more suited to particular stages of the research than others as in this case. This allowed for triangulation because the information obtained in the interviews was analysed against other sources like readily accessible documents such as online company statements as well as research charts that are generated by a research firm on a monthly basis with unit and value sales of both Game and Shoprite.

4.5. TRIANGULATION

A lot of effort has been spent by research specialists over the years, trying to give some guidance to qualitative researchers in improving or judging the quality of qualitative research. Triangulation has been defined as an attempt to map out, or explain more fully, the richness and complexity of human behaviour by studying it from more than one standpoint (Cohen & Manion, 1994). Triangulation is useful as a tool to minimise bias. Another expectation from triangulating is that different data sources may lead to a common conclusion about a proposition that is being looked at.

As a practical tool, triangulation provides a robust and multifaceted picture of specific social phenomenon being studied, but it seldom provides a clear path to a singular view of what the case encompasses. Results may be inconsistency among the data, contradiction or convergence (a situation where data from different sources or collected from different methods agree, the outcome is convergence (Mathison, 1988).

Zucker (2009) elaborates on the chosen process by mentioning that the use of multiple sources for analysis allowed for triangulation which is searching converging findings from different sources which were then used to increase construct validity. Maintaining the relationship between the issue and the evidence is mandatory. Raw data is examined using many interpretations in order to find linkages between the research object and the outcomes with reference to the original research propositions. Throughout the evaluation and analysis process, room was left for new opportunities and insights (Soy, 2006).

4.6. VALIDITY

Although in quantitative research, validity is related to accuracy, relevance, and reliability of measurement, in qualitative research the aim is not to measure but rather to understand, represent, or explain something, which in most cases is a fairly complex social phenomenon (Pyett, 2003).

Internal validity was used. To show and explain the relationships between country specific factors and the retailers' performance in that country, interview notes were supported by financial statements and sales graphs all painting the same

picture. Internal validity is especially important with explanatory or causal studies and demonstrates that certain conditions lead to other conditions and requires the use of multiple pieces of evidence from multiple sources to uncover convergent lines of inquiry (Soy, 2006).

4.7. DATA COLLECTION PROCESS

Data was collected from three main sources and these included the already mentioned interviews, secondary data through company history documents and online progress reports on how the expansion process was panning out and charts developed for industry research purposes.

Data collected was tabulated to address the initial propositions and the purpose of the study, and conduct cross-checks of facts and discrepancies in accounts. Interviews were recorded and filed together as mp3s. These were later transcribed and were added to the appendix for ease of reference. Secondary data was also retrieved for various websites and made use of as well. Data was collected under three specific themes for each Retailer. The collection process focused on the following themes to mention just a few:

- Critical mass as a strategy in mode of entry
- The logistical issues that the firm faces such as distribution and warehousing
- Proximity of the host country in relation to the home country

4.8. TABLE 2. STRATEGIES USED TO GENERATE MEANING

<p>What Goes with What? Noting Patterns Clustering Seeing Plausibility</p> <p>What Goes with What? Noting Patterns Clustering Seeing Plausibility</p>	<p>Integration Among Diverse Pieces of Data Making Metaphors</p>
<p>What's There? Counting</p>	<p>Sharpen our Understanding Making Comparisons Partitioning Variables</p>
<p>See Things and Their Relationships More Abstractly Subsuming Particulars Into the General Factoring Noting Relations Between Variables Finding Intervening Variables</p>	<p>Assemble a Coherent Understanding of the Data Building a Logical Chain of Evidence Making Conceptual/Theoretical Coherence</p>

Source: Miles & Huberman, 1994

There are a number of advantages in using case studies. First, the examination of the data is most often conducted within the context of its use and can therefore bring rich insights into the study. Secondly, there are vast variations in terms of intrinsic, instrumental and collective approaches to case studies and third, the detailed qualitative accounts often produced in case studies not only help to explore or describe the data in real-life environment, but also help to explain the complexities of real life situations which may not be captured allow for both quantitative and qualitative analyses of the data (Zainal, 2007).

The disadvantages of case studies as pointed out by critics are that the study of a small number of cases can offer no grounds for establishing reliability or generality of findings and the intense exposure to study of the case biases the findings. Case studies have also been dismissed in research based on the opinion that they are useful only as an exploratory tool. In spite of these reservations, researchers continue to use the case study research method with success in carefully planned and crafted studies of real-life situations, issues, and problems (Soy, 2006).

Data was analysed using multiple case comparisons. From the interviews conducted it emerged that Game and Shoprite had several encounters and experiences that were similar and some that were unique to each. This allowed for comparisons to be made enriching the investigation. Deductions were drawn from the narrations of the respondents and tested against performance figures. By comparing the two cases together one was able to pick up vital insights whilst avoiding focusing on coincidental occurrences that were of no consequence.

4.9. RESEARCH LIMITATIONS

The investigation that was conducted in this research project had, *inter alia*, the following limitations:

- The research was limited to South Africa as the home country of the MNEs and this limited the cultural context making it difficult to generalise to other countries without a similar background;
- Due to the use of in-depth interviews as the research instrument, generalisations on the results cannot be made because purposive sampling is used to select candidates to be interviewed;
- The study considered interactions of Retail MNEs in an African context only as the emerging market;
- The study was not a multi-industry sector study, and as such only covered Retail sector firms.

CHAPTER 5: RESULTS

The following results that will be laid out in this chapter are a result of four in depth interviews with senior management that were directly involved in the expansion of Game and Shoprite into sub Saharan Africa. This covers the first phase of qualitative analysis with the aim of developing insights on the expansion onto Africa. The second stage of quantitative analysis was done using data derived from financial statements and sales value charts. Shoprite in particular has its expansion into Africa well documented on its website and as such offers a good platform for comparison between the data collected in the interviews and other sources. The chapter will be laid out following the different constructs that emerged during the interviews as a result of the interview guide and separated between the two retailers.

5.1. GAME

5.1.1. OVERVIEW

Game's value proposition is consistent in each country; offering the widest range of products at a competitive price. The expansion has been based on the premise that "Africa is hugely untapped territory with a market potential of 900 million consumers" (Mark Turner, 2012). Game is interested in expansion in Sub Saharan African countries only. The expansion into Tanzania, Mozambique and Nigeria were Greenfield investments sometimes by choice or because there were no real preferred alternatives available. Game employed an outside research company to assess the feasibility of a potential country before proceeding with any venture. It was not specified which criteria the researchers used but one can certainly expect profitability potential to be in the forefront.

Game does a thorough research on a prospective country both desk research and an actual visitation of the country to know what is actually on the ground. To date, Game has only closed one store and it is not in any of the countries within the scope of this study. This high success rate speaks to a modus of operation that has and continues to work in expanding within emerging markets. Game management attributed the desire for expansion to the saturation of the Retail industry in South Africa. Mark Turner Director of Game Africa, pointed out that "Potentially all companies end up realising that in South Africa growth is limited and a natural extension is to cross the borders and go trade in those countries."

5.1.2. STAND ALONE VS MALL CONCEPT

Given a choice between stand-alone stores and mall concepts the preferred model was shopping malls as they have more foot traffic and are accompanied by other services such as banks and restaurants. Another reason given was that “we become an anchor, we get a better rental so that keeps our cost down and so we can sell our goods at a better price. We have gone stand-alone where we haven’t been able to get into a shopping centre the unfortunately the cost is higher because you don’t have the benefit of large stores around you paying the rental” (Lloyd Briggs Game Merchandise Manager Africa).

However, the mall concept is relatively new to most African countries unlike in South Africa. Management need to take this into consideration when investing in areas that are not situated in major cities The Mozambique store is a stand-alone as a last resort option because the idea of a mall never got off the ground due to several complications. Briggs pointed out that “generally the most common as you will see in many African countries are shopping centres not like the big shopping centres in South Africa but rather smaller”. Stand-alone stores still work as a concept for Game because it has a vast range of products under its roof. However the store has to be central because travelling in certain African countries can be a daunting task. These are certainly issues that may not be pertinent to a developed country multinational firm expanding its operations within another country of equal economic development.

5.1.3. SPEED OF EXPANSION

The speed of expansion was viewed as slow by management; Briggs in particular pointed out that “the only thing that is holding us up is that the significant expansion plan especially in Nigeria what is holding us is the accessibility of land or space to build our shops”. Respondents expressed the unrealistic expectation of stores progressing at the same pace as those in South Africa. This of course has not been the case because conditions in host countries are not as predictable as those in the home country. “Our pace is slow in that to find countries that are developing shopping centres is not that easy”, Turner. Further still, the global financial crisis put a stop to well to do countries investing in Africa through building malls and this has slowed down progress noticeably.

5.1.4. CRITICAL MASS

Critical mass for each prospective country was difficult to gauge because accurate data in these countries is not available so one cannot rely on that aspect to determine which country to explore. The level of commitment to a store opened is high in each country simply because of the high cost of investment involved in Greenfield ventures. Greenfield ventures by their very nature call for the highest level of commitment. Game opens one or two stores in primary cities and these are normally sufficient to meet demand in that particular area. Nigeria and Tanzania were unique in that even if you located where there is a large population, if commuting from one place to another is difficult this will be an inhibitor and reduce sales volumes. In addition to this, having a large number of people, as was the case in Nigeria does not automatically constitute to sales. Turner stated that “they’ve been trading for hundreds of years informally and they have been quite ok with it so to try and convince people to do this formal Retail thing hasn’t been easy”.

5.1.5. LOGISTICS & DISTRIBUTION

Logistical issues seem to be most difficult for all. In Mozambique the border is highly bureaucratic. “At the moment we just had a bad six months with trucks taking twice as long as they should. They are being pedantic just because they can”, Briggs. Tanzania’s biggest logistical issue is the ever changing rules and inconsistency in applying them. Nigeria is dogged by restrictions imposed by legislation that stipulates that 80% of goods sold there should be locally sourced. The result has been compromised quality as well as repeated under stocking as local suppliers appear to be unreliable.

5.1.6. PROXIMITY

Respondents had opposing views on proximity. Kevin Lucke the Head Buyer for Shoprite Africa stated that “proximity really helps, Mozambique is close to SA and the culture is the same more or less in spite of the language difference”. It was felt that Mozambique did exceptionally well due to its closeness and thus familiarity with South African products. On the other hand, Turner felt that “the distance away from South

Africa is not an issue, yes our lead times are long so it takes longer to get our goods there but the real inhibitor is the location in the country and the traffic and congestion in that zone". In fact most African countries had never heard of Game, Mozambique included.

Target markets vary greatly from country to country. Turner emphasised that "what works in one country does not necessarily work in another country". This calls for a tailor made approach to each country. Tanzania (East Africa), Nigeria (West Africa) and Mozambique (SADC country) are very different countries with diverse needs. Across all countries Game supports local businesses and employs locals. Even with research "the point is yes it is important to look at the data but it is more important to go see what's going on in the country; it's more important to see the overall data and get a feel so it's important to see what's happening on the ground, can my product work there, is there demand for what I am selling, all those things rather than just looking at the macro picture" Turner.

Mozambique is a country that has done well and with good recovery from the war it has a vibrant economy and promising economy. Tanzania is unlikely to see any new store opened due to stringent restrictions on FMCGs and a low customer base. "It's more about local tastes because we realised that we started with our brands and they were not familiar with them also found them expensive so we are now upping the local content" Briggs. Tanzania may have the advantage of low retail competition but because the cost of registering to bring the goods in Tanzania is so high it is very difficult to operate there. Nigeria on the hand has a highly sophisticated customer base that is very brand conscious. The country is hugely import based. Legislation prohibits Game from exporting as much merchandise as it would like into Nigeria. The little that is exported comes from the Far East into South Africa and then to Nigeria. "What was unique about Nigeria was just getting used to the long delays and customs. When we wanted to open up a store we couldn't get the goods out of the port. We had to delay the opening", Briggs. Complications that are faced with all countries are import duties and differing currencies. All countries operate according to certain rules and regulations and it is wise to invest in understanding these.

5.1.7. COMPETENCIES

Competencies that have helped Game in its expansion include offering customers a price that they perceive as reasonable. This is very important given a background where prior to the retail MNEs, customers were charged exorbitant prices and for poor quality products due to lack of competition. Game's entry into these countries has helped lower prices and force local suppliers to improve on quality. Game is able to keep prices low through the benefits of bulk buying. The management team running the expansion is highly competent. Years of successful experience are building up and locals employed in respective countries have also proved to be advantageous and an asset to Game. Turner pointed out that "in some of the countries we find that the levels of competency of locals are much better than South Africans, Zambia for example. The level of customer service, customer and product knowledge is exceptionally good. It is not a hindrance at all". The management team takes learning and understanding local culture very seriously. The team in Tanzania in particular consists of all locals and only two South African managers.

The reasons why Greenfield investments were preferred over mergers & acquisitions for example was because Game management felt that there were no businesses worth buying and losing their culture over. "There is very little formal retail in other African countries hence the incentive for us to just go and put our brand there. We understand our business better and it is best that we continue to run it on our own. Our model works so far so there is no need to change it; so we have a level of control", Briggs.

5.1.8. PRIOR INTERNATIONAL EXPERIENCE

Game's experience in its expansion into Africa has been varied with periods of high success as well as periods of great challenges. Factors beyond its control such as currency changes made imports more expensive and the Game was not immune to the effects of the global recession. The fluctuating Rand was said to affect performance because some of the stock coming from Asia to South Africa and then being exported to the final destination as well as buying stock from locals. Management felt they were currently going through another growth phase. In Africa, the volume of products that are produced varies but is a lot less than that in South Africa. According to Turner, the future looks good because "we've also figured out that although people have

traditionally shopped in local markets they will, over time, move to formal retail and that's what they want, they want a better environment they want a place where they can buy goods and have a guarantee and that kind of thing; there is an aspiration towards that”.

Tanzania and Nigeria shared the title of the most difficult country. Nigeria was the most difficult logistics wise and it has cumbersome legislative requirements. It was described as a difficult and complex place to do business in. Tanzania's problem was simply its poor performance. “The reason for Tanzania's poor performance is that our investment there is probably a little ahead of its time. It will come right with time but the customer is still behind certainly compared to Mozambique and Nigeria. Nigerian shoppers are extremely well versed in all aspects of understanding consumers and retail”, Turner. This not only speaks to critical mass as a sign of potential customers but understanding the nature or make-up of these customers is of equal importance. Having a lot of people in an area that have no interest in a marketed product does not constitute as critical mass. In spite of the obvious language barrier in Mozambique the country has proved to be the easiest to work with. Packaging, rules and regulations are all done in Portuguese and an additional issue is that Mozambique uses different plugs so this has to be taken into consideration for all electrical gadgets. Apart from these glitches sales in Mozambique remain strong.

5.2. SHOPRITE

5.2.1. OVERVIEW

Shoprite's furniture division (House & Home and OK) is growing at a rate of about 30 stores each year. The grocery stores precede the furniture stores in each country. Shoprite Management first assesses potential in a prospective country and then start with one store and added more as performance permits. Mozambique started with one store and now has more so it was an incremental growth because we got the formula right. The stores that opened four years ago were almost immediately profitable.

Unlike Shoprite groceries, the Furniture division has to assess a country for its credit potential. Different from South Africa, most African countries operate on a cash basis so an understanding of each country's legislation on credit facilities is essential to prevent any unforeseen losses. Of the three countries, Mozambique, Tanzania and

Nigeria, Mozambican stores have been the most successful. It has a large customer base that can easily allow the opening of up to 20 stores. “Opening many stores in one country works well for Shoprite because we first do aerial studies to see what the country is like and whether the population is big enough. You need to choose the right towns as well”, according to Paul Fairhurst, Head of Furniture department Shoprite Africa. This is because travelling long distance within Mozambique and Tanzania for example is relatively difficult because the infrastructure is not like in South Africa. Stores should therefore be centrally located as far as that is possible making them easily accessible.

5.2.2. SPEED OF EXPANSION

Generally the speed of expansion of any country is dependent on the availability of land or property to rent. Rental prices or cost of land are critical because each venture costs up to about R2 million and is therefore a high commitment project. Logistical issues are of great importance as well. Getting to countries like Nigeria and Tanzania is no easy task with several borders in between. “For Mozambique we transported goods by road, the products are very much similar to South Africa and crossing the border is not too complex given that it is a SADC region”, Kevin Lucke, Senior Buyer Shoprite Africa. A warehouse in Musina allows stock to be temporarily housed before being sent to Mozambique. Its proximity to South Africa has made it an easy country to succeed in. Mozambique’s positioning also means that it receives stock directly from China unlike Tanzania and Nigeria that are faced with the costly issue of double duties that is, importing stock from the Far East then re-exporting to the respective countries.

5.2.3. COMPETENCES

Shoprite’s reason for preferring Greenfield investments is because it felt competent to run its concepts without diluting its culture with the inclusion of another organisation. The benefits include having teams of competent staff that do not have to unlearn their previous organisation’s way of doing business as well as a management team that is inspired by setting its own brand of pioneering strategies.

Each country is faced with difficulties of having to get around in understanding legislation with regards to putting credit into the stores as well as setting up guarantees

and repair networks as an after sales service. This is a difficult task because in Mozambique for example if an electrical gadget breaks it is the customer's responsibility to get it fixed. Shoprite offers after sales service to this regard and this is an important differentiator between local competitors and a confidence builder for buyers ensuring return customers.

Selection of employees to work in the host country normally takes the same pattern in each country. All management is from South Africa to start with and employees are locally staffed. Interestingly, Shoprite also claims that its competitive advantage is derived from its buying power. This could be true for both retailers (Game and Shoprite) given that they target different LSMs, Shoprite on 1 to 4 and Game playing in the middle and the higher end LSM.

5.2.4. PRIOR EXPERIENCE

Expansion into Africa has become highly competitive and as such Shoprite is capitalising on first mover advantage. It also strives to keep competitors at bay by keeping prices of products as low as possible and ensuring that products are of good quality, up to date and refreshed. For Shoprite furniture buyers stock the latest electrical gadgets and through bulk buying keep prices low. According to Fairhurst "the strategy for the future is to continue to expand due to profitability, very few stores have battled in Africa, new stores are most welcome, African countries are developing in such a way that stores are needed".

5.2.5. LOGISTICS & DISTRIBUTION

Several lessons have been learnt as Shoprite expanded into Sub Saharan Africa. Firstly, logistics are very important. "If you can't land your product there at a decent price it makes you uncompetitive from day one", Fairhurst. Shoprite have various warehousing located through-out Sub Saharan Africa. This helps easing logistic processes. Secondly, for Shoprite furniture stores credit lines are a powerful tool for profit making. These have to be continually added but this is a challenge specific to each country because acquiring banking licenses and permission and the power to collect the credit is dependent on a country's legislation. Finally, setting up repair networks is also of great importance in Mozambique, Nigeria and Tanzania. The importance of this has already been discussed.

5.2.6. CRITICAL MASS

When assessing critical mass as a strategy for selecting a country it is difficult to establish accurately in Africa because there is very little research done to this regard. Economies of scale have been attained in warehousing. Shoprite has warehouses that are large enough to serve three stores and thus the cost of the warehouse is split between the stores. In Mozambique, areas such as Beira that require shipping for accessibility are not economic as it is expensive to transport stock there. In general, Mozambique's channels of distribution constitute of a warehouse in Komatipoort and workers based at the border get the stock cleared at the border and gets it to the branches. Stock is from Asia or South Africa and it all comes through SA first. Here, the benefits of networking with locals to strengthen distribution channels are apparent.

The level of commitment in each country is very high given the nature of Greenfield investments. Shoprite management does not intentionally pursue mall concepts or single stores but instead selects whichever is most profitable at that particular location. What is important is that the location should be a high traffic area with sufficient customer base. Mozambique has a strip mall and a stand-alone mall and they are all profitable. Tanzania and Nigeria also have various combinations. The major barrier with each location was the simplicity of demands in Tanzania, high corruption in Nigeria and language barrier in Mozambique.

5.2.7. PROXIMITY

Mozambique's tastes and preferences are somewhat close to South Africa's and this has been attributed to its proximity to the home country. Shoprite foodstuffs are generally uniform however the furniture stores initially misread Mozambique's tastes and preferences assuming they may prefer anything. It turned out instead that "they are very brand conscious so our entry level brands don't do so well there but Samsung and LG sell well. Locals are certainly more comfortable with international brands", Lucke. Shoprite's operations continue to increase in profitability, brought along by a strong growth in turnover. The supermarkets in Mozambique are supported by developing infrastructure and demand for products produced in South Africa continues to grow (Shoprite, 2012).

Due to its heavy reliance on exports the Nigerian economy is very vulnerable to global occurrences such as fluctuating oil prices. Shoprite has a large supermarket located in the leading shopping centre in Lagos and plans to open a number of outlets in the country in the near future (Shoprite, 2012). Along with its large population Nigeria shows great potential for growth in the retail sector. Expansion is however limited because volatility in the oil-rich Niger delta so Shoprite has been limited as far as expanding there is concerned (Shoprite, 2012).

In Tanzania Shoprite operated four supermarkets but was forced to close one of the two smaller stores due to poor performance and incessant strikes. “Its major supermarket in the new Mlimani Mall in Dar es Salaam benefited from the centre and showed growth in turnover. Although all the stores performed satisfactorily, the business in Tanzania still lacks the critical mass needed for breaking even” (Shoprite, 2012).

Thus far, Shoprite’s mode of operation has been to enter markets with competitive prices because according to Fairhurst “business has to first offer locals something better than they are receiving and once you are established they will see you as a brand”. The products are backed by quality service that has customers not only coming back but spreading the word as well. On the furniture side a wide range of electrical goods are sold at the lowest price possible. The expansion process has not been smooth without any mistakes. “Initially getting to know which products were going to sell was difficult. We expected a relatively poor country in Mozambique and went with low entry level brands. Those didn’t work. So we see what sells. We had to mark down those entry level brands clear off sales and bring in better brands. You can go to other stores to see what they carry on the shelves but that’s not what sells. It takes a bit of time to get this right” Lucke.

Given that the South African market is saturated Shoprite needs to remain competitive in its expansion through Africa. Sub Saharan Africa is not only the easier option when compared with expanding overseas but is also the most profitable one given Africa’s rapidly growing population. “Emerging markets are a good source of customer base as they are not used to so much variety and that is what we have to offer. The purpose of any business is to make money so we will only go to countries that offer us this possibility”, Fairhurst.

5.3. SUPPORTING FIGURES

Company financial statements and monthly charts done on sales volumes per store as well as revenue had interesting revelations. Both Game and Shoprite seemed on face value to be doing well in their quest for domination of retail sub Saharan Africa. Sales volumes, profit margins, share values and headline earnings per share (EPS) all provide hard evidence as to whether these two retailers see themselves as they really are. Each country saw performances that were unique to the area chosen and also some similarities as well. Both Game and Shoprite have benefited from a weaker rand and have successfully managed to counter balance a downturn in South Africa and exploit the current market trend of venturing into emerging markets.

5.4. SHOPRITE FIGURES

According to June 2011's financial statements, the Group's diluted headline earnings per share amounts to 507,6 cents for the year and increase from 451,6 cents from the previous year. Below is a summary of a comparison between Shoprite's performances within its home country against its performance in sub Saharan Africa.

Geographic Analysis June 2011

Sales

	South Africa	Outside South Africa	Consolidated
	R'000	R'000	R'000
Sales of merchandise	64 068 311	8 229 466	72 297 777

Source: June 2011 Shoprite Financial Statements

The same financial statements show the attributable interest of Shoprite Holdings in the taxed profits and losses of its subsidiaries for the same period as follows:

Profits & Losses

R'000	2011	2010
Total profits	2 936 174	2 578 668
Total losses	(338 615)	(251 703)

Source: June 2011 Shoprite Financial Statements

The June 2011 financial statements point out that treasury department hedges the Group's net position in each foreign currency by using call deposits in foreign

currencies and derivative financial instruments in the form of forward foreign exchange rate contracts for all cumulative foreign commitments to being over exposed to inevitable currency fluctuations.

5.5. GAME FIGURES

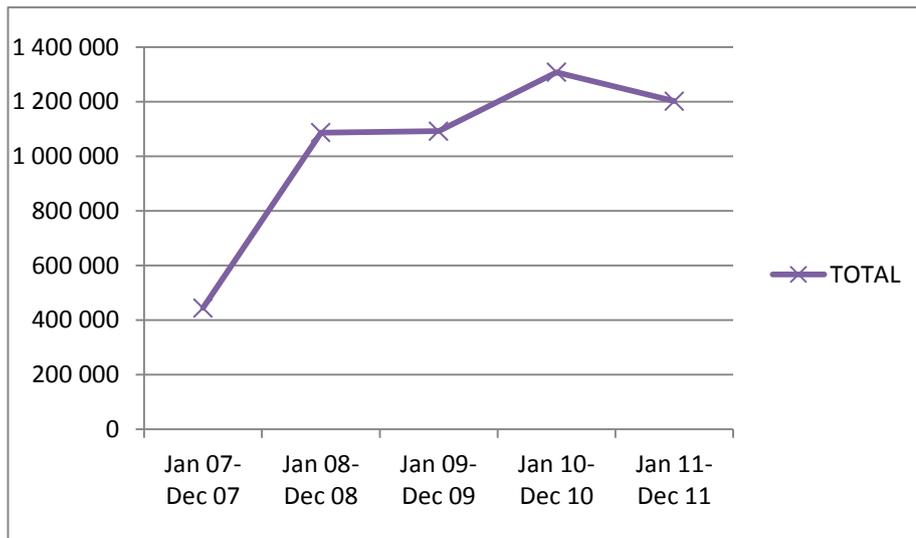
Massmart, the group that Game belongs to, saw an annual increase in its earnings per share from 567.2 cents to 615.5 as reported by the 2011 financial statements. Cash generated however declined from R2 639.4m to R1 878.1m. This could be attributed to any of its many subsidiaries and not necessarily be linked to Game's individual performance. Game has one store in each capital city, Maputo, Lagos and Dar es Salaam.

5.5.1. NIGERIA

Consumer demand is recovering in Africa's biggest economy after a contraction during 2009 (Reuters, 2011). For Shoprite, profits increased by 13.6% as cash strapped consumers flocked to the largest retailer in Africa. Headlines earnings per share increased year on year from 208.5cents to 236.8 cents a sure sign of profitability for the firm. Sales rose 9.4 percent to 36.3 billion rand (\$5.07 billion). Shares in Shoprite have also gained 305 year on year.

Although its earlier experience during its inception in Nigeria in 2005 led management to decide against future investment, Game's performance there eventually picked up. The first year literally recorded no performance because the first consignment of stock sent was delayed at the Nigerian customs office for nine months. With this out of the way, operations in Lagos were eventually successful as shown by the graph below. The stagnation between 2008 and 2008 could be attributed to the effects of the recession given how open Nigeria's economy is.

5.6. FIGURE 2 GAME'S SALES USD

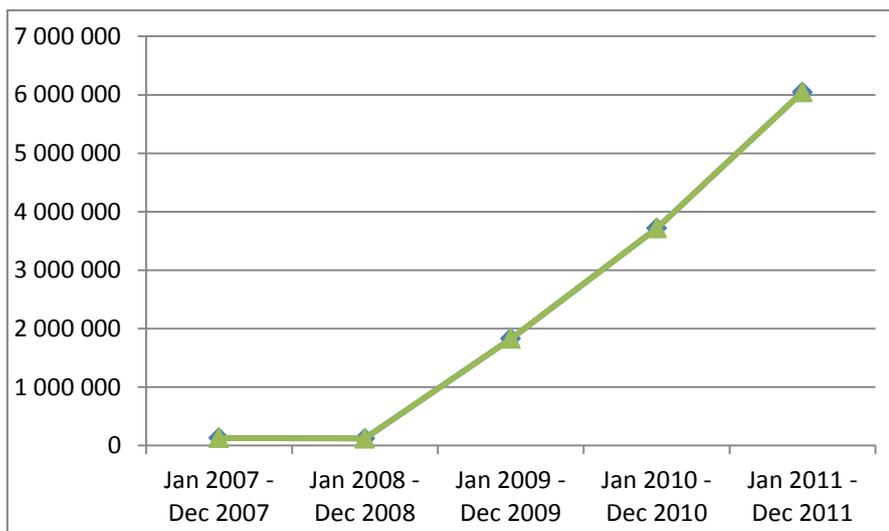


Source: Retail Research Company 2012

5.6.1. MOZAMBIQUE

The Game store which opened in Maputo in 2004 was immediately successful. The graph below only has figures from 2008 which was when the company started tracking Game's performance in Mozambique. Locals in Mozambique were comfortable with South African brands and products as a whole and the demand continues to grow. The exponential growth shown in the graph below may indicate the need to build more stores to adequately meet the needs of the locals.

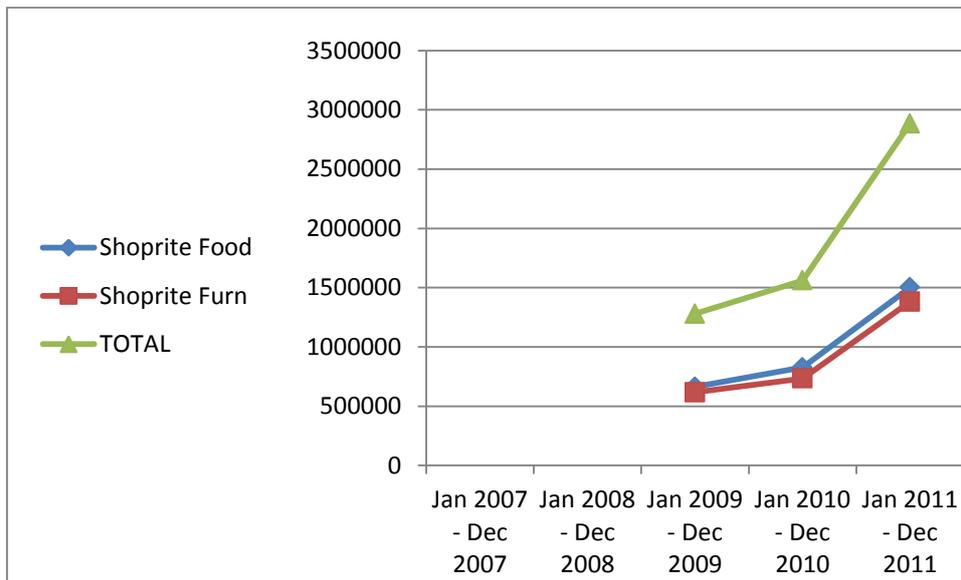
5.7. FIGURE 3 GAME'S SALES USD



Source: Retail Research Company 2012

Shoprite found in Mozambique a population ready and willing to purchase its products. Although the furniture stores initially got it wrong by selling lower level brands they soon realised that in spite of its outward appearance Mozambique is a nation with people that are willing to pay for the quality of products they prefer. The centrally located store had enough footprint to warrant the building of other stores. Currently, a Shoprite is been built in Xai Xai as the area has shown the ability to build sustainable critical mass. The graph below shows sharp growth in sales values albeit at a lower scale than Game. It can be observed here that when Shoprite realises success in one country it does not follow this by expanding into another as Game does but instead adds other stores in that country until all potential customers are reached.

5.8. FIGURE 4 SHOPRITE SALES USD



Source: Retail Research Company 2012

5.8.1. TANZANIA

Tanzania did not have any readily available figures that would allow for a deeper assessment. Deductions from the respondents from Game however revealed that the country did not have any sustainable critical mass which would ultimately result in profitability. Game continues to underperform in Tanzania with sales hardly breaking even. The story is not so different with Shoprite.

The spokesperson of Shoprite Checkers Ms Sarita van Wyk, was reported by The East African from South Africa explain that the group closed its Mayfair Plaza store in Dar es Salaam because it was making losses and went on to explain that although all the stores in Tanzania performed satisfactorily, the business in the country lacked the critical mass needed to break even (Mande, 2009). This was ultimately the fourth store in Tanzania to be closed by the Shoprite since it started operations in Tanzania in December 2001. The East African revealed that the closure of Mayfair supermarket was necessitated by a reported loss of Tsh70 million (USD66,667), a loss which was said to be caused by market shrinkage and competition from smuggled goods (Mande, 2009).

5.8.2. TABLE 3. CROSS CASE PERFORMANCE COMPARISON

	GAME	SHOPRITE
Nigeria	<ul style="list-style-type: none"> • Profit/ loss: operating profitably • Time taken to succeed: set up phase was tedious and long • Number of stores established: Game has one store • Closures: None 	<ul style="list-style-type: none"> • Operating profitably • Set up was not unnecessarily complicated • Huge potential for present and future demand for retail presence in the country. Shoprite has four stores. • No closures
Mozambique	<ul style="list-style-type: none"> • Profit/ loss: Operating profitably • Time taken to succeed: operations took off successfully from the first day • Number of stores established: Game has one store • Closures: None 	<ul style="list-style-type: none"> • Operating profitably • Immediate success upon inception • Shoprite has nine stores. Five food stores, two furniture and two under its Usave brand. • No closures
Tanzania	<ul style="list-style-type: none"> • Profit/ loss: struggling to break-even • Time taken to succeed: has been in Tanzania since 2001 but is yet to realise any notable profit. • Number of stores established: Game has one store • Closures: None 	<ul style="list-style-type: none"> • Some stores performed better than others with four presenting losses • Slow progress as far as breaking even was concerned • Shoprite has three remaining stores all food outlets. • Closures: Four

5.8.3. ADDITIONAL FINDINGS

The Living Standard Measurement (LSM) emerged as an important construct that influences a firm's activities in a chosen country. Both firms claim to have as their competitive advantage the ability to charge low prices. Shoprite appeals to the lower LSM market whilst Game middle to upper LSM. One may argue that this shows that they are not directly placed as competitors but in fact they are. In bountiful times Shoprite is likely to lose customers to Game and the same is possible when economic hardships occur; Game will lose customers to Shoprite.

Emerging markets have a disproportionately large population that falls under LSM one to four and as such it is important to understand the type of population before locating in an area. Price sensitivity is more pronounced within this group as well as exposure to any shocks in the economy. Most African countries have a much different make up from South Africa with the very apparent absence of the middle class in society. This poses challenges on appropriate targeting methods and should thus be looked at carefully to prevent misdiagnosing a potential market. This leads to the second finding.

Desk research and ground research produce very different results. It is not that desk research is incorrect but more on the probability that the method used may be inappropriate for emerging markets. Respondents pointed out that thorough desk research may present a country as the best suitable choice to expand to. However, the situation on the ground could be entirely different. Data given on Tanzania suggest that this could be the case in that country.

Formal procedures and measurements such as GDP have serious shortcomings when it comes to measuring performance in emerging markets. The informal sector plays such a large role in economic development but cannot be accurately quantified with the absence of tax contribution. The definition of unemployment for example may need to be revisited with regards to relevance to emerging markets. Mozambique on the surface looks impoverished and yet the customer base is highly liquid and quality sensitive. Where is the income coming from? All these questions emerged as respondents shared their experiences in the selected African countries.

5.8.4. TABLE 4 TRIANGULATION OF DATA

	GAME	SHOPRITE
Scale of Entry	Slow (one store in each country)	Incremental (four stores in Nigeria, nine in Mozambique and three stores in Tanzania).
Speed of Expansion	Slow	Relatively fast
Critical mass as MOE	Yes	Yes
Logistical issues	Transport a large percentage of stock from South Africa to host country except in Nigeria where legislation stipulates that 90% should be sourced from locals.	Established several warehouses in different African countries where exports are directly housed.
Stand-alone versus mall concepts	Preference for malls but will build wherever possible	Preference for malls and any affordable premises
Proximity effects	Confident that consumers will seek them out since they house a large variety of products under one roof.	Place great importance in locating in the exact area where the population is situated.
Competencies of retail firm	Highly adventurous and committed team pioneering expansion. Company share price in host country at R140 as at June 2011.	Vast experience of managers with years of practice in expanding into Africa. Company share price in host country at just above R12 000 as at June 2011.
Performance in each country	Losses only in Tanzania	Losses only in Tanzania

CHAPTER 6: DISCUSSION OF RESULTS

The purpose of this research was to establish a better understanding of MNE Greenfield strategies in emerging markets given the shortcomings of applying theories meant for developed economies. Some of the case studies' revelations were summarised in the table below according to the themes investigated. These will be further analysed in detail through-out the chapter.

6.1. CRITICAL MASS AS A FACTOR INFLUENCING FIRM SUCCESS OR FAILURE

Game and Shoprite have different strategies when it comes to responding to perceived critical mass. While Game seems to be more cautious and thoughtful about its approach, Shoprite simply builds another store if the first one works. In cases where Game preceded Shoprite in entering a country one may conclude that it failed to utilise that to its gain. A lot of hard work goes into selecting and assessing the potential of a country. Certainly if that host country has a population large enough to warrant more than one store then Game's cautious approach may keep it behind its far more aggressive counterpart Shoprite. Shoprite by coming in where Game has succeeded avoids the initial hassles of testing the waters and by building several stores subsequently reaps the better benefit.

The above observation indicates a connection between the availability of critical mass and speed of expansion. The entrance of several retail outlets in a country whose population and demand justifies it greatly benefits the customers. Choice availability pushes prices down and raises quality levels *ceteris paribus*. In the world of business however, and in the eyes of either Game or Shoprite, usurping all the potential customers and leaving none for the competitors is ideal. Shoprite has shown insight by adopting such a strategy. Game may need to consider being more aggressive with regards to incremental expansion in response to available critical mass.

On the other hand, Shoprite could also be seen to be more effective because of the benefits of being the incumbent retail store in most African countries. The benefits of incumbency are numerous. Retailers like any firm, gain from first mover advantages. Followers such as Game have to spend more time, money and effort relative to the first entrant to compete effectively (Chan *et al.*, 2011). Shoprite in this regard has secured its leadership position through a pioneering strategy. Given that in most African

countries malls are of a relatively smaller size and generally locals informally name them after a large retailer; the first retailer to locate in a particular mall benefits from this indirect type of advertising which is effective.

One can therefore suggest that critical mass to be fully exploitable should be complemented by the benefits of incumbency. The presence of a retailer already meeting customer needs may not prevent another entrant but will increase the difficulties that the firm will face. Customer switching costs may be high due to emotional or psychological reasons and these results in them staying with the current supplier to avoid the switching experience (Burnham, Frels & Mahajan, 2003). Whether it was intentional or not, this strategy has gone a long way in helping Shoprite reach the masses more so than Game keeping it ahead.

Critical mass is not merely the numbers but the characteristics constituted in those numbers. Do the people possess adequate buying power that is sustainable? If the incomes are extremely low will they still result in profits through volumes? If the answer is no to any of the questions then critical mass is simply an idea on paper that cannot be converted to economic wealth. Market potential has several variables that need to be taken into consideration. Market size, growth, competition and ease of access, as well as models of indirect measures prediction of demand for specific products, estimates of import demand are all indicators of market potential (Sarkarya *et al.*, 2007).

Both Game and Shoprite experienced difficulties in Tanzania because the custom base is not nearly as economically sound as they perceived it to be. Tanzania has a population of 43.5 million people with the majority of economic activity in the capital Dar es Salaam. However, of that large population only about 3 million people live in the capital drastically reducing the possible purchasing power of the individuals hence the poor performance (Mundi, 2012). . Their assessment of Dar es Salaam could have been erroneous on this aspect. The fact that Shoprite, which targets lower LSMs still experienced difficulties speaks volume of the income levels of the majority of the population. Tanzania proved to be high in numbers and low in buying power. This does not constitute critical mass.

Of equal importance is the firm's ability to provide the right product to the right market. Nigeria for instance is divided into distinct areas each dominated by either Christianity

or Muslim religion. Not only would one expect foodstuffs to vary but clothing as well. For Tanzania and Mozambique, the composition of the population in the capital city does not necessarily translate to what will be the composition in other smaller cities. Xai Xai which Shoprite has eyed for its next store in Mozambique may need products that are different from those that were well accepted in Maputo.

This is arguably an easy observation to make in retrospect; to foresee such a situation may not be so straight forward. To minimise the risk of misreading the market to with regards to taste, a prudent manager may collaborate with locals in the initial stages of assessing a prospective market were critical mass potential has been identified. No amount of desk knowledge can refute the importance of acquiring relevant information directly from carefully selected locals. Neither of the two case study respondents showed any evidence that they engaged in this, perhaps to source certain products locally but not to the extent of making the locals a rich source of much needed information.

The nature of emerging market economies also calls for very different strategic responses to the availability of critical mass. Critical mass in emerging economies generally speaks to numbers and the ability to meet the demand arising from that population. Developed economies are different in that they are generally saturated and as such require a much more different approach. Product differentiation, value add and other intangibles are key to better business performance in these markets. Keeping it simple as Shoprite has so effectively done and Game to some extent is more appropriate in emerging market economies. Volumes drive sales. Keeping it simple is also a strategy that can result in competitive advantage.

Game and Shoprite originate from a host country that is more economically developed than the host countries they invest in. Local demand for these Retailers products is varied because of the different LSMs they target. What may be seen as basic in South Africa could therefore be viewed as a luxury in the host country. Product selection cannot be the same in any two countries. Game mixes its products with local tastes as the requirement predicts. Both retailers could benefit from well informed product adaptation without dilution of the store brand.

The mention of institutional voids is inevitable given the nature of emerging market economies. The case studies undertaken indicate that when one establishes critical

mass potential in an area, the store has to locate where it is directly accessible for that population. Difficulty in travelling from one area to another is a reality in many African countries. Customers should be able to reach stores with as little difficulty as possible because retailers deal with goods that need to be purchased on a regular basis. Sensitivity and awareness to customers' conditions and situation will place a retailer ahead of competitors.

Both Game and Shoprite have adequately placed themselves in easily accessible areas with reliable foot traffic. The strip mall in Mozambique where Game is situated is a popular area. Shoprite chose a mall that is also very popular in the same country. In Nigeria both retailers are located in the most populated city Lagos. By internalising a problem arising from institutional voids both retailers have effectively increased their potential of being reached by otherwise disadvantaged customers.

Physical accessibility may not be so important to developed economies where retail has successfully gone online. The systems to back this are in place and the customers have ready access to the internet and can therefore make purchase online. In several African countries a lot can be done online or via a phone, banking included. This has however not spread to other industries. Internet facilities are unreliable at best and costly at worst in many remote African areas. This leaves no room for various forms of accessing the store but physically going there. With poor roads and high fuel costs the constraint is further worsened placing the responsibility solely on the retailer's choice of direct location. As mentioned earlier, both Shoprite and Game have taken this argument into consideration as seen by their preference of larger cities when expanding into Africa.

6.2. EFFECT OF PROXIMITY TO HOST COUNTRY

Shoprite attributed most of its success in Mozambique to the benefits of proximity. Game respondents on the other hand had conflicting views as far as Mozambique's positive performance being linked to its proximity to South Africa was concerned. Proximity can be looked at geographically and culturally as well. Cultural spillage is common between countries that are geographically close. Shoprite management's suggestion that Mozambicans are familiar with South African brands because of their geographic positioning making it easier for South African MNEs to establish profitable businesses there holds some water. Familiarity as is discussed later in this chapter in

more detail, could also lead to resentment as well. This then makes this particular argument heavily reliant on the *ceteris paribus* assumption.

Researchers however in international marketing have long examined the impact of distance factors such as cultural and geographic on firms' selection of target markets but these studies have brought about inconsistent results (Malhotra, Sivakumar & Zhu, 2009). The case studies indicate that proximity may not be a factor that stands alone for it to have any merit. It could suggest that perhaps the benefits of proximity are realised as a complement to other benefits a firm may be looking for.

The purpose of any business is to make profits. Favourable geographic distance minimises cost while increased distance poses several risks to managers. This may further reduce market potential and other opportunities or returns. However, if the market potential is large, managers may be willing to take risks by targeting countries that are a larger distances (Malhotra, Sivakumar & Zhu, 2009). Nigeria is a case in point here. Cumbersome procedures kept Game's first consignment at Nigeria's border for almost a year and certainly crossing several borders to get there was no easy task. The large market potential in Nigeria justified all the hardships. The losses made through the larger distance were recouped through high sales volumes given the large population base.

Given a small market potential in a nearby country, the benefits of expanding into the country are justified by costs lowered due to proximity. Having to cross multiple borders is not only costly and cumbersome but also exposes stock to pilferage. Mozambique's geographic location has allowed Game to ship stock from China directly to relevant ports thus cutting down on costs through double duty avoidance. A firm pursuing a smaller market because of its closeness indicates that proximity is valued for its cost and risk reduction. Being geographically close to a country that has no demand for a firm's products presents no advantage at all. This leads to the next deduction.

Conversely, one of Game's respondent strongly felt that proximity of a host country to the home country brought about no difference to the firm's performance. Success it was felt largely depended on characteristics of the host country. A politically hostile environment, economic instability and draconian laws that leave business on a losing are likely to deter MNE investments no matter how close the host country is. For example, Game has completely left out Zimbabwe from its exploits despite that

countries are only a border apart and share a lot of cultural similarities. Shoprite which is known for its aggressive expansion tactic has had only one store in Zimbabwe for over a decade.

From this observation it can be deduced that the host country should have receptive conditions allowing for mutual benefits. This may seem obvious but several investors tend to misdiagnose the economic or political climate in a given country. The most common error is completely writing off potential countries due to media exaggeration on what is actually happening there. Media tends to be sensational and it therefore takes a shrewd and practiced manager to see beyond the noise and invest in the value of a country.

The same respondent also suggested that closeness to a country may actually work against the home country. Familiarity may breed contempt given country history. MNEs may conduct all the necessary research prior to entering a country but a host country's mood is not easily detectable. Xenophobic attacks have received worldwide coverage and South Africa's stance on certain political issues could be a sore spot with countries that border around South Africa making them unwilling recipients of any form of FDI that ultimately benefits South Africa. Culture in this context also brings about unpredictability to some extent. History has shown that nations with somewhat similar cultures to the neighbouring one which may be larger tend to exhibit hostile patriotism to that country and this usually extends to negative demand for that particular country's brands.

In situations like this the best course of action for a firm to take is to distance itself from its home country to minimise the liability of foreignness. Several MNEs that have been successful in the past had no obvious ties to their country of origin. This gives the firm an opportunity to develop a relationship with the locals in the host country on a clean slate. Greenfield investments may not be the best option in situations like this. Mergers and acquisitions could help in camouflaging the presence of a foreign MNE in a hostile country.

These results make a significant conceptual contribution demonstrating that MNE investors are willing to overlook immediate disadvantages for example, language barrier in Mozambique to acquire benefits of proximity. Language is a component of culture and as a result influences culture, culture influences proximity decisions and

distance influences commercial decisions. Normally linguistically proximate markets are likely to be geographically close (Alexander, Rhodes & Myers, 2007). This however this has not been the case with South Africa and Mozambique. The relations between the two countries have been amicable because as mentioned in Chapter 2 MNE managers of today are more culturally informed than those before and have a better understanding of the people they interact on a business level with. Distance gives opportunities, for example, a firm may get nearby customers to use its services, although better ones are available elsewhere (Greve, 2000).

6.3. IMPACT OF LOGISTICS AND DISTRIBUTION ON RETAILERS' PERFORMANCE

Game and Shoprite's distribution style varies mainly on Shoprite's use of warehousing as part of its distribution chain. Shoprite generally builds several stores in a country and erects warehouses as a source for the outlets and purchasing in bulk for all stores resulting in benefiting from economies of scale. This helps Shoprite keep its prices as low as possible which is in line with its strategy and suitable to its price sensitive lower LSM buyers. Game on the other hand transports as much as 80% of its goods to the host country. This could have attributed to the difficulties faced in Tanzania. The products were said to have been perceived as pricy by the locals and not quite their taste. This is a costly error to rectify having crossed several borders to get there.

Game's approach could be interpreted as lack of trust in the countries it deals with. By attempting to have full control of the supply chain it is highly unlikely that Game has not been exposed to unnecessary expenses and delays. No business can flourish without some level of trust. The difficulties faced in the initial stages of determining who can be a trustworthy partner may make the process seem pointless but the rewards of long term businesses built on trust are self-evident. Building warehouses in several countries involves trusting the government, trusting the legislation of that country and trusting local employees to oversee the stock reliably.

In chapter two a discussion on infrastructure in emerging markets revealed that because of their prevalence, institutional voids are not felt in developed economies but are glaring in emerging ones. Emerging economics lack properly tarred roads, reliable electricity supply, well reputed financial systems as well as dependable legislation. These institutions are essential for the development of sustainable businesses and their lack causes the effort to run a firm both cumbersome and costly. Corruption is another obstacle that further complicates the ease of flow of the supply

chain. By Building warehouses Shoprite is taking control of the supply chain and internalizing the risks and uncertainty of distribution. Game by relying heavily on exported home products exposes itself to shortages that may occur as goods are held up at borders.

With this observation in mind one can deduce that the already complex procedure of distribution is worsened by institutional voids. Rather than attack them head on as Games purposefully does it is more progressive to adopt Shoprite's strategy of circumventing them. As was mentioned in Chapter 5, one of Mozambique's problems was the ever changing rules at the border. Game, in response to this challenge can situate warehouses in its host countries that store non-perishables. The warehouse on the South African side of the border serves its purpose but one on the Mozambican side could act as a buffer to any delays arising from the border.

Partnering with locals is another logistical issue worth considering. Both retailers did so but to varying extents. Game mixed its products with local products to cater for people's tastes and this came with its challenges. In Nigeria for example, due to legislation both Shoprite and Game had to collaborate with locals to source products they could not export. The results were mixed. Some suppliers proved incompetent and unable to deliver resulting in shortages. In developed economies MNEs are likely to partner with reputable firms but in emerging economies they may not be such options easily accessible given time and information constraints. Because of institutional voids in emerging markets management cannot count on supply chain partners to make and deliver products to customers inexpensively or reliably (Khanna *et al.*, 2005).

With ever changing political sentiments, South Africa can easily fall out of favour with its neighbours for any conceivable reason given the fickle nature of humans. By working with locals the dilution that results can minimise any potential loss of sales that may arise from locals being resentful. Locals also have a natural knowledge of the workings of their surround which can be tacit in nature and thus difficult to transfer making working with them the only solution.

Since the quality of institutions may be lacking notwithstanding their importance as a determinant of an MNE's choices, particularly for emerging market economies due to poor legal protection, entrant's firm's need for networking and relationships with local authorities are high (Demirbag *et al.*, 2008). Game offers guarantees for its products

and thus requires support from local repair stores. The likelihood of these being formal is slim. Trust plays a significant part in these relations. Shoprite is certainly more trusting of its host countries, quickly establishing more than one outlet and confident that the population will absorb the supply. This indicates that although in developed economies seeking out a relationship with authorities in order to run a business may be frowned upon, in emerging market economies it is sometimes the only way of doing business and is neither a question of whether it is wrong nor right but simply the way things are done.

6.4. DISCUSSION OF ADDITIONAL FINDINGS

The Living Standard Measurement emerged as an important variable to consider when assessing prospective countries to venture to. Understanding LSM is critical especially when a firm is looking at a pricing strategy and what products to sell. Both Game and Shoprite misread Tanzania's market with dire consequences. Tanzania's economy is one of the poorest in the world, according to the UN statistics for 2009. Almost 36% of the total population lives below the international poverty line with over 80% of the workforce dependent on agricultural production (EconomyWatch, 2010). Losses have been made because the two retailers provided products that were a little too sophisticated for the simple tastes of the majority of the population in Dar es Salaam. The market there also appeared to be highly price sensitive. Shoprite caters for the lower LSM but Tanzania may need special attention and adjustments such as sourcing products locally to keep prices down while staying in line with their tastes and preferences.

Game seems to satisfy customers that go for quality. During economic difficulties customers could arguably migrate to Shoprite from Game, again making Shoprite's strategy more economically viable than Game. The reverse does not necessarily translate though that a migration to Game would follow. Customers could simply buy more from Shoprite with the extra income. Understanding influences and outcomes of LSMs is thus a very important aspect.

Another interesting find was that the use of macro-economic indices to gauge a country's openness to sound business, potential exploitable incomes and other variables such as GDP may not be entirely appropriate for an African or more broadly, an emerging economy context. The measurements are designed for economies where

records are reliable and measurement criteria relevant to for example, well established economies. GDPs in various African countries are arguably understated due to the large unaccounted for informal sector. Further, unemployment records are inaccurate and with inaccurate data on incomes MNEs may grossly miscalculate the buying potential of a prospective host country as was the case in Tanzania.

A new tool which is more appropriate is required. Perhaps a guideline on understanding the informal sector and its actual impact on the whole economy is what is needed. What is the contribution of the informal sector and how is this contribution measured given that they fall through the cracks of taxation? How do these informal incomes flow in the system when most people at the bottom of the pyramid are unbanked? This study certainly points out a need for a more thorough understanding of the dynamics of economies in emerging markets.

Developing this point further, Xu (2012), states that within the macro context risk and uncertainty are high given the high volatility of key economic, political and institutional variables. The author goes on to state that as a result businesses find it harder to predict parameters they need for strategic decisions, parameters such as business cycles, government actions, or the outcome of legal proceedings (Xu,2012). The absence of such insights can make a country look great on paper when it is in fact a disastrous investment idea.

Maximising on organic growth as opposed to other strategies such as value adding could be more effective given the potential of a growing population that emerging markets possess. Accessing customers cheaply, advertising widely and keeping abreast with customer needs may seem obvious but such a simplistic approach is what works in Sub Saharan Africa today. Overthinking a product offering in markets where customer needs are basic is not sensible or economical as was observed for Shoprite in Tanzania where the million dollar losses were evident. On a larger scale both Game and Shoprite are benefiting from organic growth.

6.5. CONFIRMATIONS

From analysing the data that was brought forward, several confirmations came through. The first was the importance of not under estimating cultural differences. Mozambique may have been open to South African products but Game also recognised their disposition to Portuguese and Brazilian products and adjusted their

product line accordingly. Nigeria has a culture of brand consciousness and the market has a taste for high end products. This is in contrast with the highly simplistic demands in Tanzania. Misconstruing these differences can result in supplying products that the market has no interest in or under supplying goods that are in demand.

A second confirmation was that for a task as important as new startups in another country it is imperative to send the best people for back ground work. The respondents interviewed were senior management who were directly involved on the ground with minute details of the process. The process is too delicate to delegate to middle level management because the level of commitment is extremely high. Greenfield investments have little room for failure because of the high costs of start-ups.

Thirdly, once operations are ready to commence it is prudent to blend expatriates with local management. As mentioned by one of the Game respondents, some offices would not be operational if they were not run by locals. It is very important for multinationals to blend with their surrounds and nothing is more effective than employing locals especially for client facing activities. Retail personnel largely deal directly with customers and having locals deal with their own lessens the misfortune of misunderstandings that could cost a firm repeat-clients.

Another conformation was the importance of management taking necessary steps to mitigate risk through careful due diligence of prospective areas they intend to locate, modes of transportation they intend to use and key people that they can work with. Game management was faced with delays that partly came from individuals scouting as suppliers of particular goods and then not delivering at the last minute. This is an everyday reality in emerging markets. It is however important to point out that careful due diligence can only mitigate partial risk given the ever changing terrain of African countries.

A final confirmation was that multinationals planning to venture into emerging market economies must be prepared to take on prolonged difficulties. Nigeria proved this point upon inception and Game is currently experiencing border difficulties with Mozambique. The presence of institutional voids presents with it huge uncertainties that ultimately make it difficult to budget activities time-wise. Delays are usually accompanied by the burden of additional cost. Resilience is a quality that separates

those firms that survive in emerging markets and those that pack up and return to the host country.

6.6. WHAT WAS MISSING THAT COULD HAVE BEEN ADDED

A look at more countries like Namibia, Botswana, Mauritius and Zambia where both Game and Shoprite are located could have enriched the analysis of retail MNE expansion into sub Saharan Africa. Given time constraints only the three could be looked at. Mauritius for example would have provided a rich analysis on what can go wrong and what not to do as both Game and Shoprite had to exit this market after disastrous performance. Tanzania showed some of that but to a lesser extent than would have been portrayed by the Mauritius case study. A wide range of case studies to strengthens an argument and brings about more relevant constructs. Namibia as well would have brought interesting insights because of its proximity to South Africa both geographically and linguistically.

This is in line with Yin's approach mentioned in chapter four the more cases one has the more comparisons or similarities that can be drawn from them. Each country has undertakings that are unique to it and cannot be generalised. It therefore, may not be accurate to stretch the findings in one country and attempt to apply it in the next as a substitute to it having a separate case study of its own. A study inclusive of all countries would have been more conclusive.

A comparison of legislation and bilateral agreements between South Africa and chosen host countries could have provided interesting insights. South Africa has favourable trade agreements with Botswana and Namibia which usually result in much easier cross border operations. Mozambique, in spite of its favourable regional location, does not have any such agreements. The main benefit from these agreements is duty exemption. Any reduction in costs has a positive impact on the bottom line. Trade agreements can also be seen as a benefit of proximity because they normally begin with immediate neighbouring countries. One might argue though that a country will only enter such agreements if they see some benefit to themselves and not necessarily mutual benefit. If a country in question has serious economic or political woes and wide spread poverty other countries will be hesitant to enter any trade agreement with it.

Therefore from the above analysis one can deduce that the top drivers of critical mass as an influence in Retail firm performance are whether the firm possesses and fully

utilises first mover advantage, the speed at which it expands in the host country, its understanding of the composition of the perceived critical mass and its ability to understand and meet their needs. This ultimately indicates that the proposition of the concept of critical mass impacting a firm's performance in a country is well founded and supported by both literature and findings. The proposition of the effects of proximity on MNE performance proved inconclusive. Proximity has both positive effects as well as demerits. Furthermore, the concept of proximity as a benefit only works in conjunction with another factor such as lower cost or risk but does not hold much weight on its own. The propositions about logistics of distribution impacting the Retailers' performance was shown through the proven positive impact of warehousing, internalising distribution constraints that are brought about by institutional voids and partnering with locals. Thus we can conclude that the three propositions have been proven against findings with support from literature review.

The contribution to theory is that although it may seem as though both developed and emerging markets are affected by similar themes (such as critical mass, proximity and logistics) the intricacies of these relationships are very different. Developed economies strategise their distribution by maximising use of available institutions and infrastructure. Emerging markets do this in response to the lack of availability of these institutions. Availability of critical mass in emerging economies is a more complex dynamic than simply looking at numbers and disposable income. The literature certainly builds on the importance of these constructs; however this study provides a different perspective and sheds new light on what is on the ground in emerging markets.

CHAPTER 7: CONCLUSION AND RECOMMENDATIONS

The purpose of this chapter is to draw conclusions from the analysis of the results presented in chapter six and to present implications of findings as well as to make recommendations for future areas of research base on the limitations of this study. The study had three research objectives and these were to determine the impact of critical mass, proximity and distribution logistics on Retail Greenfield investments in sub Saharan Africa.

7.1. SYNTHESIS OF RESEARCH DATA

Financial statements for both Game and Shoprite supported the success claimed by management interviewed for Mozambique and Nigeria. Losses revealed by the Spokesperson of Shoprite and Tanzania also supported the findings that spoke of difficulties faced in Tanzania. Shoprite's share price is much higher than Games as mentioned in chapter five confirming that investors see the value and continued success of the Retailer going forward. Shoprite has a more aggressive expansion strategy; more experience and a broader pool of potential customers form its targeted lower LSM. Game has management that also has a pioneering attitude although arguably risk averse. In certain markets it is disadvantaged by the presence of Shoprite which has managed to expand into several African countries first.

Findings from case studies pointed to differences in approaches that are required for firms operating in developed economies from those in emerging markets. Several constructs emerged and these included scale of entry, proximity, critical mass, logistics and distribution, speed of expansion and firms' internal competencies. The in-depth interviews narrowed in on logistics, critical mass and proximity as these played a larger role in impacting both Game and Shoprite's strategy and performance. New findings that emerged also added different angles to the analysis bringing in more aspects to the evaluation. These broadened the examination and brought on a better understanding of the themes that were already being investigated.

7.2. IMPLICATIONS OF FINDINGS FOR RESEARCH

The findings confirmed that there is room for more if not new research on expansion of MNEs in emerging markets. Current research is inclined in the right direction with concentration on typical characteristics of emerging market economies such as prevalent corruption, institutional voids and a large customer base emanating from the bottom of the pyramid. Challenges unique to emerging markets emerged revealing the inadequacy of applying these studies done on developed economies to emerging ones.

7.3. RECOMMENDATIONS FOR STAKEHOLDERS

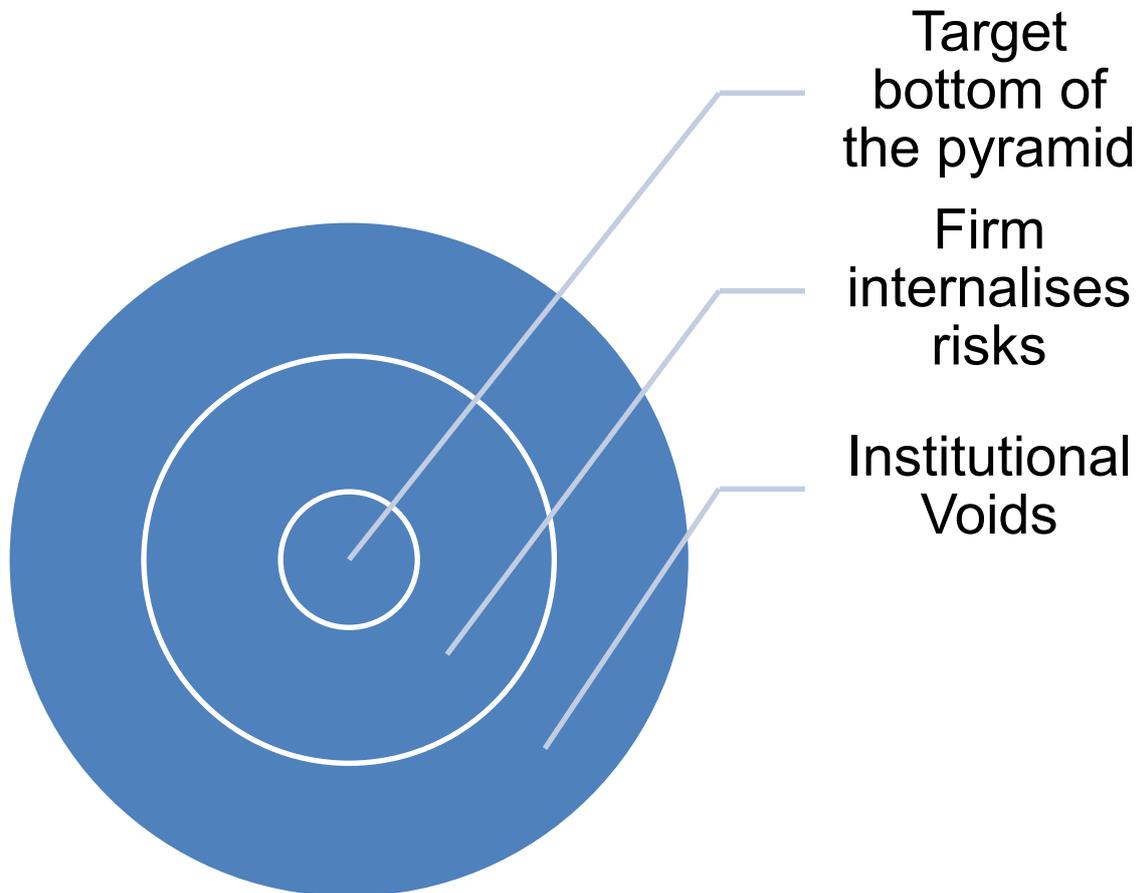
The findings conclude that Greenfield investments have positive spillover effects on the host country such as job creation, improved quality of products and better choice. Government can tap into this by ensuring that policy is investor friendly and protects any MNEs that establish within its confines. Government can further facilitate this by offering incentives to attract more FDI through Greenfield investments. By doing so, government and investors reap mutual benefits.

CEOs of Retail firms or other MNEs can benefit from the insights on how to effectively expand in emerging market economies. A much broader investigation prior entry is needed to avoid any investing in markets that may not be receptive. Given the high commitment that comes with Greenfield investments desktop research alone should never replace on the ground research because the two brought together will present a more accurate picture of prospective country.

Logistics companies can gain competitive advantage in their industry by understanding the context within which they operate as was investigated by this study. Knowing when to partner with locals and where to build warehouses could reduce costs brought on by delays and positively affect the bottom line for the distributors if they are outsourced, or the MNEs themselves.

Finally, MNEs in South Africa by observing the strategies implemented by Shoprite and Game can learn from what they did right and avoid where they went wrong. Of the three propositions investigated the least impactful was proximity with critical mass and distributions revealing a number of concepts that can be examined to improve the performance of the Retailers in the host countries.

7.4. FIGURE 5 MODEL FOR FIRM INTERACTION WITHIN EMERGING MARKETS



A conclusion that can be drawn from a cross case analysis is that Shoprite's strategy is more effective. The above diagram shows a model deduced from observing Shoprite's activities as it expands across Africa. At the centre of Africa's largest Retailer is the customer base that consists mainly of consumers from the Lower LSM or bottom of the pyramid. As was seen in the analysis in chapter six, Shoprite, by internalising the risks and constraints unique to emerging markets mitigates any unforeseen circumstances that inevitably arise. All this is done within the context of institutional voids that are prevalent in sub Saharan Africa. Understanding the outer layer is critical for success in emerging markets. Successful firms develop strategies for doing business in emerging markets that are different from those they use at home whilst adding innovative ways of implementing them as well (Khanna *et al.*, 2005). Game and Shoprite managed to do this well albeit to differing extents.

7.5. SCOPE FOR FUTURE RESEACH

Future research can focus on the role of technology plays in Africa with regards to the expansion of MNEs. Despite the spread of the internet and cable television, and the rapidly improving infrastructure in several African countries (Khanna *et al.*, 2005) CEOs from MNEs in South Africa cannot expect to do business the same way they do it in their countries. Future research can zero in on the effects of technology on MNE expansion into emerging markets.

In addition to this, a look onto the development of new measurement tools and indices for emerging market economies as mentioned in previous chapters could yield interesting results. The purpose of this research could be to develop or discover a measurement kit that management of MNEs hoping to expand into Africa, some parts of Asia or South America can apply without the concern of misdiagnosing prospective markets.

Another possible area of interest could be a similar study with the scope drawn from different industries. Industry specific findings cannot be generalised but so there is a lot of potential for future research each focusing on a particular industry and what challenges are faced that are unique in each setting.

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APPENDICES

APPENDIX A: LIST OF RESPONDENTS

Name	Job Title
Mark Turner	Director of Game Africa
Lloyd Briggs	Merchandise Manager Game Africa
Paul Fairhurst	Head of Furniture Department Shoprite Africa
Kevin Lucke	Senior Buyer Shoprite Africa

APPENDIX B: TRANSCRIBED INTERVIEW NOTES



Interview 1: 23 June 2012

Give a little background on Shoprite from your perspective. Well I will be talking from the furniture division because I do not deal with the groceries section. The furniture division is growing at about 30 new shops a year so we have 260 odd shops now. Quite often we go into countries where the Shoprite grocery division has gone to and start with one or two stores until we get the right formula and mix, then we expand into the rest of the country.

How do you know you have the right formula? We go ourselves to see what other retailers are doing and see if we can do something similar. For Mozambique how was your scale of entry? We started with one store and now we have four so it was incremental because we got the formula right. We opened four years ago and it has already been profitable. We had to sort out credit sales, every country has different legislation.

What influenced the choice for Mozambique? Store is profitable, country has recovered well from war, growing population, does not have any political issues, stable. Mozambique has a fairly big customer base that allows for the opening of about 20 stores. Opening many stores in one country works well for Shoprite because we first do aerial studies to see what the country is like and whether the population is big enough. You need to choose the right towns as well. Speed of expansion depends on the availability of property and rental prices. Once you get this formula right it all falls into place. Rentals are critical. We have a very high level of commitment, we do not waste money; this is a huge commitment because just setting up shop cost up to R2 million. We can't afford to lose any money in these stores so the nature of commitment is high. Logistical issues; for Mozambique we transported goods by road, the products are very much similar to South Africa and crossing the border is not too complex given that it is a SADC region. Duties are fine, warehousing in Musina helps for storage. All goods come from South Africa and only one or two agents in Mozambique.

Is there a difference between stand-alone stores and mall concepts? In Mozambique we are in a strip mall. As long as there are enough feet they both work. If there are other stores nearby, it is better, as well as a busy part of town. People in Mozambique have difficulty travelling long distance so malls should be accessible.

Before choosing where to go, the buying division needs to know whether it can easily ship stock to that destination. Logistical issues need to be sorted out carefully. Proximity really helps, Mozambique is close to SA and the culture is the same more or less in spite of the language difference. If there are local reputable suppliers in the host country we buy from them. We've had very few problems with Mozambique, Namibia is actually more difficult. Mozambique is a forward looking country, not too much corruption at the border. Choice of Greenfield start-ups was because we felt we could do better with our own concepts. Benefits of this have been setting our own culture and have fresh people not needing to unlearn anything but beginning on a fresh page. Managers are responsible for starting new brands and establishing themselves. Difficulties have been logistics and putting credit into the stores because of different legislation. Setting up guarantees and repair networks was difficult because in Mozambique if something breaks it is your own problem but we did not want this for our customers.

How is selection of employees done? All management is from South Africa and then we choose other employees locally. Shoprite's competitive advantage is derived from buying power, we source affordably worldwide especially China, we have good warehousing in various places and in every country we are, good controlling systems, understand stocking and banking, manage stock properly and competent management. Mozambique has been profitable since the first year, all new stores are profitable, all four. Expansion into Africa has become highly competitive and some ways of protecting Shoprite against competitors is capitalising on first mover advantage. We also benefit from keen pricing of products, good quality products that are up to date and refreshed. Electrical plugs are dictated by manufacturers. Keeping the latest electrical gadgets, bulk buying low pricing keeps us ahead of the game. Containers from China are much cheaper. Strategy for the future is to continue to expand because due to profitability, very few stores have battled in Africa; new stores are most welcome, African countries are developing in such a way that more stores are needed.

Lessons learnt are that logistics are very important. If you cannot land your product there at a decent price it makes you uncompetitive from day one. Continually add credit to the business because we have banking licenses but they are not applicable to those countries, so we need to get the permission and the power to collect the credit because credit sales for furniture retailers are very profitable. Also set up repair networks, usually independent guys to add service issues to customers; our stores carry guarantees and this sets us apart from other local stores.

Interview 2: 28 June 2012

As I said in Mozambique we started off with one branch which was in Maputo. From there a year later we opened a second branch just outside Maputo now quite a number of years later we opened more. *In your opinion how was the process of opening? Was it slow or quick?* Mozambique was one of the easier ones to get into. It is not super-fast but it wasn't that slow mainly because it is cheaper to get stock to Mozambique because it is closer. Nigeria was a nightmare. Initially for Mozambique we started off by taking stock from Pretoria. Then eventually we opened a branch in Komatipoort. *How long did it take you to open the stores you have now?* It's a third we have now, it took over five years.

Would you say you use critical mass as an attracting factor? Critical mass is difficult to define for a place like Mozambique. There is no need to have too many stores in a place like Mozambique unless there will be additional footprint. One warehouse can serve three stores and these split the costs. That is where we can get our critical mass (*respondent mistakes economies of scale with critical mass*). There is no doubt we want to expand, critical mass is there in the countries we have expanded to and there is room for expansion simply because the more stores we have the more profit we make hence bringing in critical mass as an entry strategy. Xai Xai takes us as far as we can go by road economically. Other areas like Beira need shipping and that is expensive making it difficult to go there.

The level of commitment is very high. Mozambique has been profitable for us so it is worth expanding. Channels of distribution constitute of a warehouse in Koomateport and workers based at the border get the stock cleared at the border and transport it to the branches. Stock is from Asia or South Africa and it all comes through South Africa first. As far as stand-alone or mall concepts are concerned we do not specifically

decide although malls have more foot traffic, the rentals are very high so rental costs are the determining factor. But it still has to be a main traffic area where there is sufficient traffic coming through. The store has to be viable. So we have a stand-store and a strip mall location in Mozambique and various combinations of these in Tanzania and Nigeria. The major barrier with each location was the simplicity of demands in Tanzania, high corruption in Nigeria and language barrier in Mozambique. We get queries were we are requested to have instruction manuals done in Portuguese.

Are the tastes of people in host countries similar to that of South Africa? Mozambique is reasonably similar. Given its proximity to South Africa we see the same tastes and they are very brand conscious so our entry level brands do not do so well there but Samsung and LG sell well. Locals are certainly more comfortable with international brands. *Does somebody precede the team by first going into the country for a feasibility study?* We have a division that looks at sites and decides we are going to go there. The logistics side of business has to be looked at as well. *Do you have a model that you use when you decide to go into each country?* A lot of it has been based on knowledge in a country such as duty structures and we have a whole division that handles exports.

What do you feel are your strengths and competencies in expanding into other African countries? The policies of Shoprite are that we want to be the cheapest in going into the market, prices have to be competitive. Business has to first offer locals something better than they are receiving and once you are established they will see you as a brand. Giving the customer the best services ensures not only that they come back but that they tell other people about us.

How do you keep your prices low? We obviously buy in bulk, and we thus have buying power so are able to get the best deal. *How are you dealing with competitors?* Pricing is our trump card plus we are well known. On the furniture side we offer them a wide range for example our electrical goods which other furniture stores don't have. We obviously advertise to make customers aware of what we have, and our stores are standard with a certain appeal that attracts customers. We offer after sales service using local service agents that are available. We are also pioneers. Once people are used to you they don't easily go somewhere else. *How would you describe your performance thus far?* We have actually done quite nicely. That is why we have expanded. In the beginning we struggled a bit, it takes a while to be established but once the first store started doing well we introduced more.

Store performance varied between countries with Mozambique being the least difficult. We do not rush into a country; we build on the performance of the first stores. You have to look at which towns are able to handle your branches. *Are there any particular mistakes that you made and what did you learn from them?* Initially getting to know which products were going to sell was difficult. We expected a relatively poor country in Mozambique and went with low entry level brands. Those didn't work. So we see what sells. We had to mark down those entry level brands clear off sales and bring in better brands. You can go to other stores to see what they carry on the shelves but that's not what sells. It takes a bit of time to get this right. Do you employ *any local workers?* All the staff is locally based. Only the senior managers are South African.

If we look at Africa as a whole our biggest challenge has been Angola. The cost of getting stock there from South Africa is ridiculous. Road conditions are not great there are potholes and dongas. Having to pay double duties to bring in products into South Africa and then have them shipped out is another problem. Shipping stock from Asia would be much easier. It's much easier to deal with SADC countries. So the challenge is to remain competitive in each country. Market in South Africa is saturated so all retailers are looking elsewhere. Expanding into Africa is a lot easier than expanding overseas. Shoprite tried in India and it didn't work. Emerging markets are a good source of customer base as they are not used to so much variety and that is what we have to offer. The purpose of any business is to make money so we will only go to countries that offer us this possibility.



Interview 3: 22 June 2012

On the expansion of Game into Tanzania, Nigeria and Mozambique could you explain the scale of entry? Let me give you a bit of background within Game. I think it's a general trend in the world to identify the tapped and untapped market regions that hold a lot of potential. So Africa has 900 million potential consumers and obviously this is with poverty but it remains a vastly untapped market. So what has happened from a couple of years ago, we decided to expand the Game branch through sub Saharan Africa, that's where the cut-off point is. We have a model that we work through in other

words is it viable to start a game store, there is whole lot of other parameters that we had included such as how much turnover the stores will get. When that has been proved then our guys go in liaising with prospective developers and various people in those countries to secure a hub for our retail investment. We've had a couple of instances that proved to be more difficult for instance Mozambique as an example. It is not Massmart's agenda to own retail property but in some instances in Africa it's best to do that.

When you enter countries are your investments Greenfield investments? We start from scratch in every country. Basically what happens is one of the criteria is that the funds or the profits of the business have to be able to be repatriated to South Africa. So obviously one of the things are to give employment to the local people, provide a service for them and the benefits of spillover effects. And obviously that's changing because what is happening is that more and more South African retailers are starting to go there so at the moment the majority of retailers expanding in Africa are South African. Game and Shoprite are the pioneers of expansion in Africa. When people see that our endeavor has been successful then we see a lot people coming in as well.

What would you say about your speed of expansion? Well, the only thing that is holding us up is that the significant expansion plan especially in Nigeria what is holding us is the accessibility of land or space to build our shops. For example we identified that we need to be in Angola five years ago and there has been no progress because of no available site at the right price. We are still chatting with them. Nigeria is also being held back by difficulties in finding available premises or land. We already have a store in Maputo, and we are building a second one there and we have a store in Tanzania already.

Would you say you are using critical mass as mode of entry? That is our disadvantage unfortunately, that is, in each country, unlike South Africa where we have several stores, our strategy in each country has been that we start off with one store so we end up with two or three outlets in each country except for Nigeria. That's probably because it's not practical in terms of starting with more than that. *So what attracts to you to those countries?* The cost of being in the country outweighs everything. What we do is go to a primary city with a store or two. Mozambique is an example where things have gone well so we are likely to build another store in northern Mozambique. In Tanzania for instance, we are highly unlikely to build more.

How would you describe the level of commitment to the countries you have discussed?

Because of the cost of Greenfield investments they are long term investments as well as long term arrangements. We certainly don't have the mindset that that if things don't go well we can pack up and go as it is not feasible. We only ever closed one store in Africa and that was in Mauritius. The reasons for that were we didn't get the market right. We tried, we were there for eight or nine years and eventually we decided to call it quits.

Do you have malls or stand-alone stores? Generally the most common as you will see

in many African countries are shopping centres not like the big shopping centres in South Africa but rather smaller. Traditionally Game never sold food but that is changing now through Foodco albeit a very limited assortment. One has been added to the Mozambique branch. *What made you decide to sell food?* It's a decision that was taken at group level partly because of Wal-Mart. They did that in the US 15 to 20 years ago. Wal-Mart's food component is bigger than its general merchandise. In the future I think we are going to see more and more stand-alone developments coming up as well. It is not the preferred intention but it is another option. Currently the Mozambique store is a stand-alone because the development site never got off the ground so we went ahead and did our own thing. *Which concept works best for Game between single and mall concept?* I think it's a mixture because the advantage that you have in a mall is the availability of other services such as banks and restaurants and that in itself adds to the flavour. What we find is that we are able to attract people exclusively to us because we offer a wide range all in one place. The only disadvantage with that in Africa is the travelling. Travelling around in some of these cities is an absolute nightmare so you have to be careful about that. If you are a stand-alone store and not easily accessible that could be a problem. *Was that the problem in Mauritius?* No the problem was target market. It is not really an affluent market.

Could you get into detail on the experiences you had in Mozambique, Tanzania and

Nigeria? I think first and foremost, as a retailer you have to understand that these markets are essentially different by country. What works in one country does not necessarily work in another country. There is a lot of cross over between countries. What we also see is that there are a lot of incentives to support local business. As long as it makes financial sense we look to work with local suppliers as a moral obligation towards supporting local business. The other complications we have are the import

duties and differing currencies in Africa. The other thing obviously is different products and components of products require different services and there are a lot of complications around that and one has been the most difficult is Nigeria because Nigeria I think has about a 98% import economy and yet we buy 80% of our merchandise within Nigeria because legislation prohibits us from importing. It's a weird scenario. There the model is completely different from anywhere else. The other thing is that a lot of our stock comes in from the Far East into South Africa and then it is re-exported into Africa. This has to change because if you are dealing directly with a country that makes more sense. We as a business are measured by our performance in these countries.

How has Tanzania been? Tanzania has a lot of restrictions on FMCG. Because the cost of registering to bring the goods in is so high it is very difficult to operate there. So we are currently buying most from there. *Given that the economy is so poor, how do you manage there?* The competition there is low, there are not many formal retailers; we therefore appeal to certain LSM groups.

What competencies have helped Game in its expansion? I think the key has been to offer the customer reasonable pricing. What we have noticed in these markets is that people were offering products at exorbitant prices without any competition. We have lowered those prices across the markets because through our efficiencies in terms of being able to stock at lower prices we bring the prices down for customers and it forces other competitors to do the same thing so the customer benefits. *How are you able to keep the prices very low?* The key is our buying power as an organisation. *What about the management skills and people running the show?* Basically what we do is when we are opening a new store we have an expatriate go there so the management will be from South Africa, however, the rest of the people are locally employed, however the view is to train and pass on the necessary skills to local citizens of those countries so in a number of our stores that's exactly what's happened. In Mozambique though we have a Mozambican citizen running the show there and we have the same thing in one of our stores in Botswana. We have only the senior management from South Africa to start off with then the locals in middle management or lower. *The rest of the positions are recruited locally. How has it worked for you?* In some of the countries we find that the levels of competency of locals are much better than South Africans, Zambia for example. The level of customer service, customer and product knowledge is exceptionally good. It is not a hindrance at all.

How does culture affect things in countries like Nigeria for example? I think what happens is a country runs according to certain rules and regulations, structures and procedures. Those are not negotiable. In terms of understanding local culture and all of that it is up to the management team to understand it. We have no conflicts whatsoever with any of the countries that we service. The team in Tanzania are all locals except for two senior managers.

What determined the decision to enter the market as a Greenfield investment? Firstly there a few businesses worth working with or buying so that is not an option. Secondly, it may be an option but it certainly isn't as in South Africa for example. There is very little formal retail in other African countries hence the incentive for us to just go and put our brand there. We understand our business better and it is best that we continue to run it on our own. Our model works so far so there is no need to change it. So we have a level of control. We have not ruled out acquisitions.

How has the performance been in each of these countries? Since the last six or seven years we have had fantastic growth and we also had a period where the growth was really difficult. That was beyond our control as the economy as well as the currency changes with our rand and the dollar making costs of imports more expensive and in general coinciding with economic issues worldwide which affected our business. However, at the moment that cycle has changed and we are at another growth phase. It's cyclical. There are four factors why the fluctuating rand affects the performance of other countries. Some of the stock comes from other countries; some of it is South African manufactured. Some of it comes from the Far East into our distribution warehouses and then to the respective countries. The third component is taking the stock that comes from China and sending it directly to the country, and then the fourth component is buying from local suppliers. And those local manufacturers don't necessarily have stock that is manufactured in the country but some are agents who have been dealing in those countries for a number of years. In Africa, the volume of products that are produced varies but is a lot less than South Africa.

Did anything stand out for you in each of these countries? Out of those countries the most difficult has been Tanzania. Mozambique has been the easiest because it is closer to South Africa. Logistics wise the most difficult has been Nigeria. Tanzania out of the three of them is at the low range of the scale. It hasn't done as well as the

others; it's the lowest performer. Nigeria's difficulty comes from its huge amount of requirements in terms of legislation. It's a difficult and complex place to do business in. Nigeria has the highest volume of local procurement. The reason for Tanzania's poor performance is that our investment there is probably a little ahead of its time. It will come right with time but the customer is still behind certainly compared to Mozambique and Nigeria. Nigerian shoppers are extremely well versed in all aspects of understanding consumers and retail.

Why do you think Mozambique has performed the best? There is no barrier as such. Packaging has rules and regulations so it has to be in Portuguese for the Mozambicans. The whole component of merchandise not mentioned in Portuguese so what we do is switch languages and at this stage this is not a barrier. Most countries do not differ on the plugs used but Mozambique does so we send special plugs there. *What is your future strategy to fight competitors that are also expanding into Africa?* At the end of the day what will really allow us to compete are price and our ranges, yes, these people will come into the market but we are confident in the guarantee of our products. The same way that Wal-Mart operates in other countries is the same way that we are going to operate. At the end of the day it's all about saving our customers' money.

Interview 4: 24 August 2012

What factors encouraged or brought about the need for Games expansion into Africa? Potentially all companies end up realising that in South Africa growth is limited and a natural extension is to cross the borders and go trade in those countries. What we do is we go into these countries; kind of get an overall feel of whether it's a country that people can invest in. We do a bit of desktop research first looking at what the field is like and the rules and stuff like that. Then we go on the ground and actually have a look there. We talk to professional firms like Deloitte and Price Waterhouse Coopers, Banks and we go and see lawyers to kind of get a feel how on how that country works and if there's an opportunity. We then look around at the market and see who is there. If the competition isn't there is there a need for our goods.

So for speed of expansion how has that been? Essentially we are in nine countries now; we didn't suddenly end up in nine countries. We kind of went in one at a time as we felt our way up. Our pace is slow in that to find countries that are developing

shopping centres is not that easy and also what also put a stop to things is that two years or three years ago the global financial crisis just kind of put a stop to anybody borrowing money to building shopping centres and things like that in Africa. It's kind of put us back a few years. We know exactly where we want to be but it's about trying to get the land and get developers to do it actually has been our biggest challenge.

Mozambique is a new country in democracy, it's only been a country in democracy for about ten or so years out of the war and its really coming into its own; it's a vibrant economy. The challenges are there. Funny enough, the language is a massive challenge for us. In South Africa obviously as a country we have people that speak Portuguese but everything that comes out of that country is Portuguese. When we get sent any letter anything legal it comes in Portuguese. Things like that, that's always a challenge. The border, the border is just a nightmare. We find generally in Africa Mozambique is pretty bad; it's very bureaucratic. At the moment we just had a bad six months with trucks taking twice as long as they should. They are being pedantic just because they can. Our easiest counties are Namibia and Botswana, they are so easy there is no duty it's so easy.

Logistics: As soon as there's a border there's duty to be paid. From time to time they (Mozambican border officials) change the rules, they change the processes or suddenly instill a rule that was there but never instilled before. That's probably mainly one of the hardest things mainly logistics. We do it mainly by road and road out of South Africa. If we are importing into a country straight from China we will try and do some of it direct and therefore not pay duties. But it all depends because there are times when all the ports are just clogged and things like that are just a nightmare to manage. So we try and do road because it's a quick way for us. *Why does Mozambique have duties and Botswana and Namibia not?* That's just how it works. For South Africa, Namibia and Botswana its duty free but for all the other countries, as we re-export they charge more duty.

Do you normally rent or build from scratch? Our preference is to rent from somebody but if we can't do that we build ourselves. Now for Mozambique we built it ourselves.

Would you say you use critical mass as mode of entry? Absolutely, we do desktop research on how big the population is in the country; how much sales we think we can do and if it can feed our "big box" as we call it then we can zero in on it. *How has this*

been for Mozambique, Nigeria and Tanzania? They've all been different. I think that's mainly a point to make that every country is completely different; it comes with its own complexities, its own culture, its own dynamics so for example the traffic in Nigeria and Tanzania is worse than Mozambique. So in Mozambique we don't have the traffic issues but in the other two countries wherever you put that site is more critical than Mozambique. So in Tanzania we think we got it wrong. We put it in a mall that we thought was good but the traffic to get to that centre was actually our biggest inhibitor. With Nigeria our inhibitor has been the country is so big with so many people and we only have two stores; we currently building our third. To try and get people to know who we are hasn't been that easy. So we really don't have the critical mass although we are really on the only kind of formal Retail they've been trading for hundreds of years informally and they have been quite ok with it so to try and convince people to do this formal Retail thing hasn't been easy.

Would you say proximity has been the issue? No I wouldn't say that. The distance away from South Africa is not an issue so yes another way of looking at it is yes our lead time are long so it takes longer to get our goods there but the real inhibitor is the location in the country and the traffic and congestion in that zone as it were. *Did it not help with Mozambique that they already knew about Game?* No, in fact they didn't really know Game. People out of South Africa don't really know Game. Some of the expats may know and people who have lived in South Africa but the expats communities are not that big and the majority of our customers is actually the local people.

How is your level of commitment in each country? Very committed otherwise we wouldn't go. We give it everything; we don't spare cost we don't say we are going to a market worse than South Africa so let's make it cheaper, we don't do that. We do a proper job of it.

What are logistical issues involved for each country? For Mozambique we do mainly road, and it's just all about bureaucracy. It's about taking extra time to get the trucks through that's about it. And obviously they have restrictions so we can't cross with fresh meat you know the foot and mouth issue so we just buy it locally. Tanzania we do that by a port. Tanzania's biggest logistical issue is they are changing the rules so they keep changing the rules as to what items are allowed and what they won't allow so when you arrive they may say you can't allow this in so you pay an extra amount of

duty which is very expensive or we've got to register the product with the TFTA which is the Tanzania Food Travel Authority and that's becoming very expensive and very tedious. Nigeria is all about restrictions. Nigeria, 80% of goods I sell in Nigeria I buy in Nigeria because I am not allowed to import them. So it's all about exclusions, things you can't bring in. You have to buy locally and then getting the quality is not always as good as if I'm getting it from South Africa. Quality is therefore compromised and the supplies are not always in stock so they are not brilliant at their own logistics so we sometimes run out of things we are supposed to be selling. If it's plastic or wood you can't import it because they want to encourage their own manufacturers to produce it.

Do you have stand-alone stores or mall concept, what do you prefer and why? We prefer doing a Retail mall so we prefer a shopping centre because everybody is coming for the shopping centre. What else is good is that because we become an anchor, we get a better rental so that keeps our cost down and so we can sell our goods at a better price. We have gone stand- alone where we haven't been able to get into a shopping centre the unfortunately the cost is higher because you don't have the benefit of large stores around you paying the rental. With a shopping centre or mall a lot of people come to it so there are a lot of feet. In Nigeria together with a developer we built the first shop. So we went into a shopping centre with Shoprite and other line shops. In Tanzania we went with Shoprite and other line shops. In Mozambique we did stand-alone. It was supposed to be built in a centre but that never happened but we continued because we wanted to enter the market.

What were your experiences unique to each country? I think what was unique about Nigeria was just getting used to the long delays and customs. When we wanted to open up a store we couldn't get the goods out of the port. We had to delay the opening. That was probably our worst there. Tanzania and Mozambique were fine. Initially in Tanzania we were buying the top end stuff and entry level in small packs and as we got to know more about the demand we got better. So you we are now focusing on the lower LSM. It's more about local tastes because we realised that we started with our brands and they were not familiar with them also found them expensive so we are now upping the local content. For Mozambique is a lot about imported Brazilian or Portuguese Items. So again what they are familiar with. There we are able to sell more expensive stuff because there is more money in that market. Then in Lagos it's all about high end of the market. The lower end of the market they buy in the market and they know and it's cheap whereas the discerning customer coming to is coming to us

and we actually only sell premium products. We get something, let's call it a mid-tier product or our private brand we couldn't sell it there. It's all about premium in Lagos which is where we are situated. We think as we get further out it's going to be different but in this market it's what it is.

How has the competence of your team helped? As a team we realise that every market is different. So we have a mass discounters team and we call that the engine room, so they are buying for South Africa and Game and whatever and what our role is to understand what will and will not work and applying that to each country. So it's about applying local knowledge to what we are doing in South Africa to what we are doing. Going forward we will stick with this strategy.

Any surprises? Being in Tanzania, we've only been there four years so we are only just getting to be better now learning the market and only now have we kind of figured out what the best range is. Mozambique out of the three is probably our best. We added a stand-alone and we are just in an area where people love us actually it's a great story. Nigeria has its ups and downs so as the economy feels the pressures of the likes of a new president or oil strikes or those things so we experience ups and downs all the time, it's a very difficult market to trade in.

In Mozambique we still manage to make profits even if we are faced with double duties we can still add a margin to our sells. Tanzania is still touch and go. In Tanzania we are not really out of the woods from a profit point of view. We only have one store there situated in Dar es Salam. So we mainly focus on the capitals, Maputo and Lagos as well.

Any particular difficulties faced? Well we can actually make it so far we are doing fine. What you need to know is that every day there is a new challenge a new problem and a new situation and it's about just being constantly on top of it. We've also figured out that although people have traditionally shopped in local markets they will, over time, move to formal retail and that's what they want, they want a better environment they want a place where they can buy goods and have a guarantee and that kind of thing; there is an aspiration towards that.

What have been the spillover effects been in the countries you've been to? Every market we've been to we have noticed that the retailers have gotten stronger and

stronger and as other retailers see where we have gone they realise that competition is continuing so the customer is benefiting all the time because we are upping our game, more competition is coming in so there is definitely benefits to customers.

Does coming from South Africa as a host country help? There is some resentment (towards South Africa from other African countries). Recently Namibia didn't want to pass the Wal-Mart deal and what emerged was the resentment all based on the war there. So the trick is you don't go in with a Western arrogant mindset. We go there and try and work with the people and try and develop the people and we try and uplift them, we give them opportunities and we listen to the customer. That we find is working. As far as local employment is concerned, typically what we do is send in a store manager, and/ or an expat from South Africa. At the moment we probably have 30% of our store managers are local. So if we find that they can manage our stores just fine then we hire a local. In fact I have some stores that are run by locals if I put an expat there it would fail. It's all about the different market.

What is your view on emerging markets; is there real potential in Africa or just Latin America? I think it's both. I think they are a potential and so is Africa. As people are getting more jobs created, as industry is starting, so there is need for consumption so the whole thing starts to take over. And certainly in my four or three years in this seat Africa's infrastructure is improving, there more people, more activities, it's definitely growing, definitely. The downside of Africa is so apparent that is why so few people have gone in but it's about managing the risk. That risk is always going to be there in various forms but I think if you have a healthy view of what that risk is and know how to manage it you can manage through it.

Do you feel this is good time for Retail? Certainly in Nigeria there is such a lot of work to be done in Retail. I think if more Retail started in Nigeria I think the thing is we don't want all the Retailers to be from South Africa it just doesn't look right, it's not right for those economies. So it's about everybody wanting to go there so it's about the local Retail wanting to get the skill and grow plus the international Retail coming in and showing what it's about so that there is a frame of reference.

What has helped you succeed coming from South Africa? I think it's because we offer value and a wide assortment so that's what actually worked for us. So if we had gone in with the smaller shops and more expensive nothing would have happened. The

difference between competitors is wide assortment at good value and of course guaranteed products and that combination, almost the same as that has worked in SA is what has helped us in these markets. When consumers go and buy they don't want a product that will break in a week or two they want something that will last. So with us they pay the same amount of money knowing that if something happens with it they have a guarantee. That's the difference.

We just closed a store six months ago in Mauritius. You go and look at Mauritius on paper and you go and compare it, in fact I did this at a conference recently. You go and compare it to Tanzania and Mozambique on paper, that is, its growth its CPI its population, GDP and you look at it you go and open Mauritius tomorrow because it just looks so rosy. But the truth is it's just the worst. It's over traded, it's a small island and we just closed it. We had a store there for nine years and never made money. We just closed our stores so I guess the point is it yes it is important to look at the data but it is more important to go see what's going on on the ground; it's more important to see the overall data and get a feel so it's important to see what's happening on the ground, can my product work there, is there demand for what I am selling, all those things rather than just looking at the macro picture. It's accurate but it's not about that. If you look at Malawi on paper you would never one there but on our first day we had a queue of people coming to buy goods. Because they are looking for value and they've got the money, not a lot of money, but the money they have they are looking for value so the compared to Mauritius where they are probably earning ten times more, they are more fragmented and it just doesn't work. People are all over the place. People are wealthy there (Mauritius) but generally not that wealthy. It's almost like they are servants, they work in hotels and they are not being paid exceptionally well so to then come and shop with no great public transport it just didn't work with the whole market.

Which countries have worked well for you and why? For the SADC countries, Namibia, Botswana and Zambia we got them right. We started off well with logistics and they have worked well without much effort. You need to easily repatriate your money. All the other countries had hassles and issues in various forms. They are double to triple harder as it were. Of the three, Mozambique, Tanzania and Nigeria, Mozambique is the least hard.

APPENDIX C: INTERVIEW GUIDE

The aim of the interview is to gain insights on:

- Scale of Entry (Slow incremental stages or on a large scale).
- Speed of expansion
- Critical mass as mode of entry strategy
- Level of commitment of the firms in the host country
- Channels of distribution and other logistical issues
- Stand-alone or mall culture as establishment mode
- Proximity effects
- Experiences unique to each country and those common to all
- Competencies of retail firms that may have influenced choice of entry mode
- Performance of each store in each country (sales units, volumes, market shares)
- Anything of relevance that the respondent may feel is worth talking about

APPENDIX D: INFORMED CONSENT LETTER

I am conducting a research on Greenfield strategies of retailers in Africa and would like to find out more about the strategies used by the relevant management in expanding into Africa. Our interview is expected to last about an hour, and will help us understand how specific modes of entry impact the performance of retail multi nationals in emerging markets. Your participation is voluntary and you can withdraw at any time without penalty. All data will be kept confidential. If you have any concerns, please contact me or my supervisor. Our details are provided below:

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Signature of participant: _____

Date: _____

Signature of researcher: _____

Date: _____

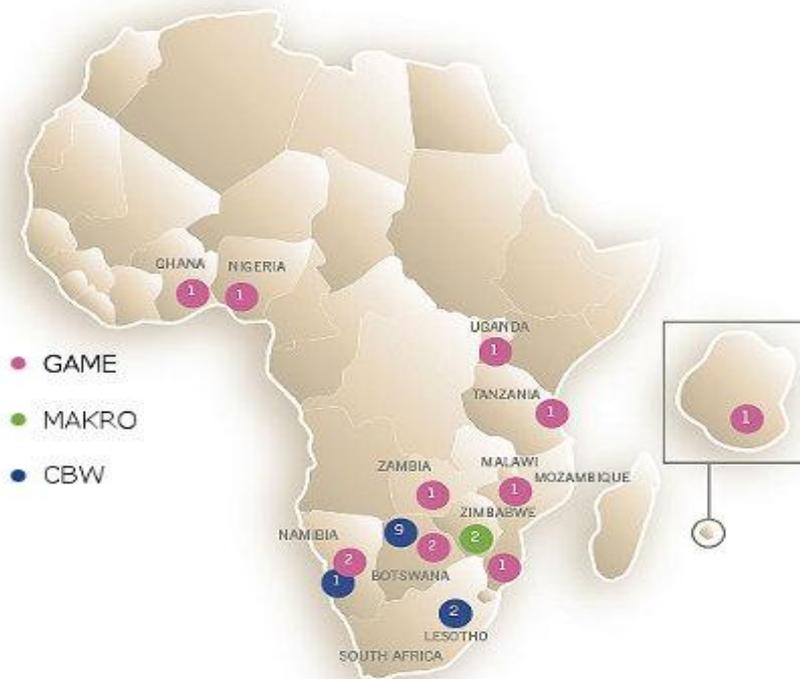
APPENDIX E: SHOPRITE & GAME'S GEOGRAPHIC SPREAD

SHOPRITE



Source: <http://www.shopriteholdings.co.za>

GAME



Source: <http://www.howwemadeitinafrica.com>