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Shoprite Holdings Ltd Case Study: Challenges for Expansion in Africa

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Abstract. This study investigates the obstacles faced by the African expansion efforts of Shoprite Holdings Ltd., a South African retailer. Shoprite pursued mergers and acquisitions within its native country but established wholly owned subsidiaries as its preferred entry route for expanding into other African states. As a result, Shoprite significantly increased its operations by expanding to 16 nations by 2020. However, Shoprite currently focuses its operation in ten countries, exclusively in southern African countries and its home country. This study seeks to comprehend the reasons behind Shoprite's rapid withdrawal from multiple African countries and shed insight into the challenges of conducting business in Africa's demanding business climate. The analysis revealed a combination of economic variables, such as reduced purchasing power of customers, currency volatility, increased operational costs, and the economic shocks caused by the COVID-19 outbreak. Additionally, high customer preference for informal markets and social factors were also identified. The findings indicate that Shoprite should prioritize strategic location selection, adopt a lower entry mode, and consider the potential for developing e-commerce as feasible measures. The report proposes that African retail businesses should comprehend the intricacies of the African market and employ strategies for international expansion, entrance techniques, and the significance of adjusting operations to local conditions and regulatory environments. These discussions offer insights to organizations considering international expansion, seeking to mitigate risks, and aiming to optimize their market entry strategy in various locations, specifically Africa.
Keywords: Expansion strategy, Africa, VUCA factors, Retail industry

1. Introduction

As a prominent South African retail group, Shoprite has established a vast network of supermarkets and retail outlets across the continent. Despite its extensive growth in Africa, the company has shifted its focus back to its home country. According to Shoprite Holdings Ltd. (2023), the company is headquartered in Cape Town, South Africa, and is a leading retailer with a rich history and a significant presence in Africa. Founded in 1979, Shoprite started with the acquisition of eight grocery stores in the Western Cape province of South Africa. At this point, the company had less than 400 employees and a value of less than R1 million (Shoprite Holdings Ltd., 2023). In 1980, Shoprite formulated its vision, focusing on serving the middle to lower-income segments while pursuing additional grocery acquisitions within the country (Badal, 2021).

In 1986, Shoprite achieved a significant milestone by listing on the JSE (Johannesburg Stock Exchange), with a market capitalization of R29 million (Shoprite Holdings Ltd., 2023). In the 1990s, Shoprite expanded its footprint beyond South Africa by opening a store in Namibia, Zambia, Mozambique, Eswatini, and Botswana, marking its entry into other African markets (Badal, 2021). In 2000, Shoprite expanded its presence by opening its first supermarkets in Zimbabwe and Uganda, followed by launching the first of seven stores in Egypt and other countries, such as Madagascar and Tanzania (Wormald, 2013). The company's pan-African expansion continued, establishing operations in Nigeria, Zambia, Angola, and Ghana. Before its closure in 2010, Shoprite had operated just one store beyond the African continent, located in India (Crush *et al.*, 2020).

Shoprite utilized mergers and acquisitions to facilitate its growth and expansion within its home market. At the beginning of 1990, the acquisition of OK Bazaars and Checkers significantly expanded the company's presence in South Africa (Wormald, 2013). Over the years, Shoprite has diversified its retail formats, such as Usave and LiquorShop, to serve a variety of consumer segments and market niches. However, when entering African nations, the firm opted for the entry mode by establishing wholly owned subsidiaries, and the only exception was when entering India, where regulations forced Shoprite to enter by a joint venture (Amungo, 2020).

The company's diversified portfolio encompasses a range of businesses, with its core focus on food retailing complemented by a diverse array of services spanning furniture, pharmaceuticals, hospitality, ticketing, digital commerce, financial, and cellular services. The group operates retail stores under well-known brands such as Shoprite, Checkers, Checkers Hyper, Usave, and LiquorShop, offering a comprehensive range of products encompassing food, clothing, general merchandise, personal care, and liquor. In the furniture segment, Shoprite manages retail operations under the OK Furniture and House & Home brands, specializing in furniture, household appliances, and home entertainment systems. The Other operating segments comprise Computicket, MediRite, OK Franchise division, Transpharm, CFS Checkers Food Services, and K'nect cellular products and services, further enriching the company's diversified business portfolio. Particularly noteworthy is MediRite, an innovative pharmacy service co-located within Checkers Hyper stores, offering customers the unique convenience of filling prescriptions while doing their grocery shopping, exemplifying the company's commitment to customer-centric services (Shoprite Holdings Ltd., 2023). In response to the global COVID-19 pandemic, Shoprite introduced virtual grocery vouchers and expanded its online grocery delivery service, Checkers Sixty60, to accommodate increased demand (Badal, 2021).

Shoprite has expanded to 3326 stores across 10 countries with over 153,000 employees, making Africa's largest retailer (Shoprite Holdings Ltd, 2023). However, Shoprite has had difficulty managing overseas shops recently, closing shops in Nigeria, Kenya, Uganda, Madagascar, and the Democratic Republic of Congo (Peyton, 2022). Since Shoprite had expanded into 16 countries by 2020 (Omoruyi *et al.*, 2022), it is noteworthy that it withdrew from six countries in just two years. Now, Shoprite's primary focus is on increasing its domestic store numbers.

This study will provide a deeper understanding of the obstacles inherent to conducting business in Africa by examining Shoprite's suspension of its operations in several African countries. In addition, this study aims to provide recommendations for overcoming these obstacles and attaining substantial growth on the African continent.

2. Material and Method

This study employs a qualitative research approach, utilizing a case study method to examine Shoprite's African expansion challenges. The primary sources used for this study were the company's annual reports and website. Additionally, the peer-reviewed journal articles and articles from reputable news sources, including the Business Daily, CNN, and Reuters, provided information about the challenges faced by Shoprite and other retail companies operating in Africa and the complex business environment in Africa. The search was conducted on Google Scholar and Google. The search terms were "Shoprite," "Africa," "retail," and "expansion strategy." A measure of guaranteeing the quality of information was to minimize cross-reference and triangulation between various sources. The analysis was performed on Atlas.ti 7 (Atlas.ti Scientific Software Development GmbH, Berlin, Germany, 2016) using a thematic approach. Thematic coding was used to identify and categorize themes related to Shoprite and other retail company's challenges, expansion strategies, and business environment in Africa.

3. Problem Statement

Shoprite had been in the process of exiting or downsizing its operations in some African markets where it faced difficulties in sustaining profitability and managing overseas shops. In response to the relaxation of monetary policies following the global financial crisis, Shoprite adopted an aggressive expansion strategy in African countries by borrowing funds in US dollars. This led to a notable increase in the company's total debt, particularly from 2015 to 2018, representing a substantial 22% rise (Robb, 2022).

Shoprite is not the only company facing challenges in its African expansion strategy. For instance, Massmart, which Walmart owns, has recently revealed plans to divest 14 Game stores in Ghana, Nigeria, Uganda, Kenya, and Tanzania as a part of the strategic goal of stabilizing the company and addressing losses in this underperforming sector(Madubela, 2021). In a broader context, the problem is how the business can keep its presence in African countries in such a business environment. This case study will approach this problem by exploring resolutions for Shoprite.

4. Literature Review

By 2030, Sub-Saharan Africa, which accounts for 14% of the global population, is projected to experience more significant growth than China (Mwamba and Qutieshat, 2021). Some favorable factors anticipated to impact prospects significantly include an increasing youth population and a significant technological revolution (Dipha and Katrodia, 2022).

On the other hand, certain African economies consistently rank low on the World Bank's Ease of Doing Business list, highlighting the ongoing challenges of conducting business in the region (Boso *et al.*, 2016). For example, In a recent ranking of 190 countries, Nigeria ranked 131st, Tanzania ranked 141st, Mozambique 138th, Ghana 118th, and South Africa 84th (World Bank, 2020). It is essential to note that the business environment in many African nations can be characterized by VUCA factors: Volatility, Uncertainty, Complexity, and Ambiguity (Robb, 2022).

According to White *et al.* (2019), institutional gaps, often called "institutional voids," are a significant issue in emerging economies, particularly in Africa, encompassing problems such as the absence of regulatory structures, limited contract enforcement mechanisms, and specialized intermediaries. African governments encounter difficulties effectively regulating informal trade, resulting in a loss of crucial revenue (Mwamba and Qutieshat, 2021). The state of general infrastructure continues to be characterized by underdevelopment, with bribery and corruption persisting in most situations (Dipha and Katrodia, 2022). The presence of substantial indirect expenses and bottlenecks in the business environment often hinders the performance of African firms in comparison to their counterparts in other regions (Boso *et al.*, 2016).

5. Case Elements

5.1 The Root Causes

Shoprite reported that the withdrawal from some countries is due to a combination of economic factors, including currency instability, reduced purchasing power of customers, high operational costs, and external economic shocks from the COVID-19 pandemic (Shoprite Holdings Ltd, 2021). In addition, Shoprite cited challenges to double-digit inflation, increased import duties, and dollar-based rental costs (Peyton, 2022). For example, Landlords in Kenya are more likely to price rental properties in US dollars than Kenyan shillings in dealing with currency volatility, which increases operating costs (Muiruri, 2023).

Besides the causes mentioned, operating in diverse African countries with varying social factors, economic conditions, and consumer preferences has posed operational difficulties. The primary reason for Shoprite's discontinuation in Nigeria was the challenging business environment, exacerbated by incidents of store looting in response to xenophobic attacks against African nationals in South Africa (Salaudeen, 2020). Furthermore, in Africa, informal retailers account for 90% of the retail market (Amungo, 2020). In Uganda, similar to Tanzania, the Shoprite Group faced significant challenges in competing with the informal market, as Whitey Basson, the Shoprite Holdings Group CEO, expressed in the interview: "We just could not compete with the informal trade" (Kisembo and Muhumuza, 2021).

Despite these external challenges, like Massmart, Shoprite has embarked on an ambitious expansion strategy across Africa, primarily motivated by the vast market size, its untapped potential, and the growth trajectory of the retail S-curve (White *et al.*, 2019). Shoprite initially held the advantage of being a first mover as a South African retail, but it lacked a clear and well-defined long-term strategy.

4.2 Possible alternatives

Any business that wants to succeed in Africa needs to have the endurance to stick with it for five, ten, or even twenty years to increase shareholder value and implement the right plan (Dipha and Katrodia, 2022). Based on the suggested problem and causes, the following alternatives can be considered:

- Rather than solely prioritizing market size and growth potential, Shoprite should comprehensively assess markets where it can address historical challenges, leverage emerging opportunities, and align with its long-term objectives for sustained growth and profitability;
- Instead of starting entirely from scratch and making subsidiaries (greenfield entry), Shoprite can consider alternative lower-risk entry modes, such as franchising or joint ventures;
- Shoprite can invest significantly in e-commerce and digital retailing to cater to changing consumer preferences, boost online sales, and expand its reach beyond physical stores;
- Effective international expansion in Africa necessitates market-tailored operations, a multi-category approach with frugal innovation and a wide range of price brands, and a push-and-pull strategy combining distributor sales and demand generation through marketing activities (Dipha and Katrodia, 2022).

6. Recommended Action Plan

6.1 Analysis and Evaluation of Alternatives

Shoprite should derive valuable lessons from its previous failures, encompassing currency stability, customer purchasing power, competitors, operational costs, and adequate infrastructure, while also taking into account social factors such as local preferences for traditional markets over supermarkets and potential biases against South African companies, all of which can pose substantial barriers to successful market entry. Additionally, Shoprite should seek to understand how the quality of host-country governance influences its location choices (White *et al.*, 2019). For instance, Rwanda has diligently focused on rebuilding its economy and enhancing its business environment through extensive regulatory reforms, and subsequently, the government has retained substantial control over its economic liberalization and modernization policies (Bernatzki *et al.*, 2022). Thanks to its governance, Rwanda has consistently enhanced its position in the World Bank's Ease of Doing Business Index, achieving a remarkable 38th rank out of 190 economies worldwide in the latest report for 2020 (World Bank, 2020).

Given the complex African business landscape, Shoprite's emphasis on strategic location selection is prudent. By aligning location choices with these crucial factors, Shoprite can make more informed and strategic decisions for expansion. This strategy aligns with the idea that a favorable business environment is crucial for long-term success, even if it may limit the number of locations initially targeted. The effectiveness of this strategy depends on Shoprite's capacity to execute thorough market research and adapt to diverse host-country conditions. Additionally, it might limit the expansion speed, and Shoprite should balance this approach with the need for growth.

Lower-risk entry modes, such as joint ventures and franchising, can help Shoprite leverage the existing infrastructure, local knowledge, and customer base.

Franchising is the lowest-risk entrance strategy with little commitment and control (Amungo, 2020). Franchising allows Shoprite to expand more rapidly and with lower capital investment. However, maintaining service and product quality standards would be challenging in franchising. As an example, South African retailer Fruit &Veg and City (FVC) quickly expanded with franchising and managed its quality by implementing a system in which the regional manager visited all stores once a week. There, store managers and franchisees were graded on several performance factors related to quality, freshness, and cleanliness (Vilakazi *et al.*, 2020). The success of franchising depends on selecting suitable franchisees aligned with Shoprite's brand values and quality standards.

Joint ventures involve partnering with local firms to establish a new entity, often with shared ownership. This approach enables Shoprite to leverage the local partner's knowledge of the market, distribution networks, and customer base. Joint ventures can reduce market entry risks and facilitate smoother operations (Hitt *et al.*, 2014). In a context characterized by weak political structure, corporations tend to opt for entry modes with lesser risk, such as joint ventures, in order to establish business operations that are more secure and sustainable (White *et al.*, 2019). The primary reason why joint ventures fail frequently is because it is challenging for companies of diverse cultures to collaborate (Långbacka, 2018). Clear governance structures and agreements are essential to prevent market conflicts where regulatory requirements favor local participation.

Another low-risk entry mode can be the acquisition of minority equity positions. Acquiring minority equity positions in local companies allows Shoprite to gain influence and access to local market insights without assuming full ownership. This approach aligns with the firm's resource-based view (RBV), as it allows Shoprite to tap into the resources and capabilities of local partners (Barney, 2015). Acquiring minority equity positions requires careful selection of investment targets and establishing mutually beneficial relationships. While Shoprite may not have complete control, it can still influence the strategic direction and benefit from local knowledge and expertise. Moreover, Africa has diverse institutional and cultural distinctions among its countries. South African beverage company SABMiller did not take a "one-size-fits-all approach," knowing that each country was unique socially, culturally, economically, and politically (White *et al.*, 2019).

Shoprite has a unique e-commerce service in its home country, South Africa. This new service, Checkers Sixty60, is an innovative and customer-friendly online shopping service. A mobile app lets customers easily place orders in just 60 seconds, and their purchases are delivered to their doorstep within 60 minutes. By investing in online retail capabilities, Shoprite can tap into a rapidly growing market segment and offer customers the convenience of online shopping. Africa is expected to have more than half a billion e-commerce customers by 2025, demonstrating a consistent 17% compound annual growth rate (CAGR) for online consumers in the market (International Trade Administration, 2022). However, e-commerce in Africa is hampered by several challenges: still-low banking rates, weak industry laws and regulations, increased cybercrime, and a lack of cross-national harmonization of these regulations (Igue *et al.*, 2021).

Adapting operations to each African market's unique characteristics is crucial due to the continent's diversity (Dipha and Katrodia, 2022). Offering various products caters to varying consumer preferences and captures a broader market share. Shoprite offers a low-price brand, but it also has a brand called Checkers, which caters to higher-income South African customers. Additionally, implementing a push-and-pull strategy, combining distributor sales with consumer demand generation through marketing activities, ensures that products reach the market and gain consumer acceptance (Dipha and Katrodia, 2022). The success of this strategy hinges on effective market research, cost-efficient innovation, and a deep understanding of local conditions.

6.2 Recommended Plan of Action

The recommended action plan is shown in Table 1 based on the analysis and evaluation of alternatives. Such strategies position Shoprite for successful expansion, balancing financial stability, global branding, and adaptation to diverse market conditions. Each component contributes to a comprehensive plan for entering and thriving in the complex African market.

Table 1. Recommendations for Shoprite expansion strategy in Africa.

Recommended Course of Action	**Details**
Focus on Home Country Business	Firstly, Shoprite should prioritize strengthening its operations in its home country, South Africa. This involves reducing debt and accumulating retained earnings, which can be reinvested for re-entry into target markets.
E-commerce and Global Branding	Shoprite should invest in e-commerce, building on its successful Checkers Sixty60 service through South Africa. This caters to changing consumer preferences and enhances the brand's global value.
Strategic location selection	Shoprite should not solely focus on market size and growth potential when choosing new markets. To make informed decisions, various factors should be considered, including governance quality, cultural preferences, and regulatory environment.
Tailored Marketing	Optimizing ShopRite's extensive business portfolio involves strategically allocating various brands to suit specific markets. Expanding Checkers is a viable strategy in wealthier markets while promoting the existing Shoprite private label "RITEBRAND" can stimulate demand in lower-income markets. Exploring partnerships with local retailers for increased market penetration is also essential.
Reconsider Franchising or Ventures	As Shoprite Group expands and establishes a more substantial presence in target markets with low-risk entry modes, it can reassess the need for more control over service quality. This might involve repurchasing franchising rights or adjusting joint venture agreements to ensure consistent quality standards.

7. Conclusion

This case study explores the challenges faced by Shoprite Holdings Ltd, a prominent retail corporation with a strong presence in African markets. Shoprite has experienced complexities while doing business in Africa, leading to the suspension of operations in some countries.

The issues discussed in this case are highly relevant to the business world. They include:

- Understanding the complexities of African markets.
- Strategies for international expansion, entry modes, and risk management.
- The importance of adapting operations to local conditions and regulatory environments.
- The significance of financial stability and strategic planning for successful global expansion.
- The growth potential and challenges of e-commerce in emerging markets.

These discussions provide valuable insights for businesses planning to expand internationally, manage risks, and optimize their market entry strategies in diverse regions, particularly Africa.

8. Limitation of the case study

This study has some limitations. It primarily focuses on financial and business aspects, while the success of any international business venture in Africa also heavily depends on understanding and navigating complex social, cultural, and ethical considerations. Additionally, the reliance on secondary data, such as company reports, journal articles, and news sources, could introduce some bias. Although efforts were made to cross-reference and triangulate information, the limited range of sources might impact the comprehensiveness of the analysis. Furthermore, the thematic coding in Atlas.ti, while systematic, is subject to interpretation, potentially influencing the identification of key themes.

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