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## Large chain supermarkets competition and innovation of small retail shops in Botswana

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### Abstract

*In this paper we explore recent developments in the retail industry in Botswana, especially the emergence of larger supermarket chain stores and their impact on the small retail entrepreneurs. Based on explorative research and case study analysis of 50 small retail entrepreneurs in Gaborone and Mahalapye, in Botswana, we examine the role and relevance of small service vendors in the face of tough-hostile business environment. Our findings show that despite the manifold problems inherent in this business model, the small retailers are still needed since they provide a stop-gap measure of essentials goods for the neighbourhoods. We conclude that there is a relationship between competitive pressure and entrepreneurial innovation. Hence for small retailers to continue surviving they have to adapt and embrace new ways of managing, such as service innovation.*

**Key words:** Supermarkets, Small Retailers, Management, Service innovation, Competition



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### INTRODUCTION

This research investigates the impact of chain store supermarkets competition on the small retail industry, with a specific focus on the performance, profitability and sustainability of small general dealership and tuck-shops to maintain their presence and relevance given high competitive advantage of large scale supermarkets which are well resourced. The objectives of the study were to assess the challenges faced by small retail operators in battling with cut-throat competition from big chain store supermarkets and to examine some of the measures used by small retailers and tuck-shops to counter competitive pressure by exploring their innovative and creative strategies adopted to remain competitive, and the extent to which such measures were beneficial in enhancing their performance and profitability.

This study is significant in that it departs from the norm since Botswana's economic performance is normally assessed from the huge contribution made by the extractive industry, mainly diamonds. Though correct, such analysis normally negates other sectors which, nevertheless, contribute to the overall economy in a small way like small retailers. The retail industry is one such sector which has not received deserved attention and appreciation in employment creation. Our research sheds some light on the state of small retailers in Botswana, opportunities they enjoy from citizen empowerment programmes, and also articulates some of the real threats and challenges they face posed by giant multinational supermarkets. Since this was an applied research we hope the recommendations from this study might help small retailers to come up with new innovative strategies to differentiate their businesses and boost their competitiveness. Yet some of the findings could help in policy intervention so that government develops programmes aimed at addressing some of their peculiar challenges to improve their entrepreneurial skills and promote access to funding.

### BACKGROUND AND CONTEXT

Botswana has a long history of retail business which goes back to the colonial era when residents were not allowed to venture into business by colonialists. Though many indigenous people did not have the capital nor the skills, those who wanted to try were denied this opportunity not only because of the colour bar, but primarily out of fear of competition, hence this served as an artificial barrier to deny them entry.

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Post-independence however saw citizens taking their rightful participation in retailing albeit at a lower small level. Settler colonialists still maintained a grip on general dealer shops. But over the years, local entrepreneurs began to learn the ropes and gradually small general dealership began to mushroom across the country.

Since independence the general dealership retail business model has been popular in Botswana. Entrepreneurs found it easier to engage in because of varied factors. The main advantage is lower start-up capital. Sometimes they enjoy backward integration support in the form of supply chain from the wholesalers who often offer discounted merchandise and credit terms. They also have market niche in terms of locational convenience, because consumers within the neighbourhood assure them a ready willing market. However, it is from this vantage point that in recent years the general dealers have become lax, inefficient and uncaring for their customer's needs. More often the general dealers operated like small empires as they enjoyed full monopoly as sometimes they were the only service providers in the area or village. For decades they enjoyed this competitive opportunity and were living in comfort zones. Thus they could easily afford to overprice their goods and not injected back into business to replenish stock or re-invest in business to enhance growth. Worse still they did not find it pertinent to conduct any market research in order to understand complex and changing customer's needs. And so the long standing dictum "the customer is the king" did not seem to apply as they faced no serious challenges or competition. Perhaps they were not so ambitious and they were comfortable with the little to modest income from their businesses as it provided for subsistence.

It was not until the last two decades that things started to change and their merry luck began to fade. The emergence of big giant chain stores, popularly known as supermarkets, was a game changer in the Botswana retail industry. This phenomenon created some kind of shock and awe to general dealers as some of them were totally overrun while others collapsed. Those which managed to hold are operating on marginal basis, which raises concern on the sustainability of general dealership model.

The first entrants were the South African brand-franchise chain shops such as Supa Save, Spar, Pick and Pay and Game. Their sheer size in terms of capital structure and networked supply chain could not be matched by the small general dealers. Then came the local innovation, Choppies supermarkets, which established itself faster by penetrating areas where the South African stores were reluctant to venture into. It is Choppies which tracked general dealers to their hidden abode in the periphery, which posed serious competition and survival threat to small general dealers. Since the coming of these giant shops general dealership model has had a tough time and dwindled to the point of threatening their very existence.

In between the supermarkets and general dealers was a market gap, especially across streets and remote areas. This gap created a new business model: Tuck-shops or Semausu as they are called in Botswana. The tuck-shops are a replication of general dealers but at a much lower level. Similarly, they share similarities in terms of advantages and disadvantages. For example, they are simple to start, require less capital to start, and offer convenient location to customers. But because they are family run and informally managed they struggle to grow and face vigorous competition.

The retail industry deals mainly with fast moving consumer goods. Such commodities are often cheap and perishable. This makes it dynamic, highly competitive and sometimes turbulent. Like in other businesses, traders in this sector take a risk because of uncertain competitive outcome which can be suicidal if not fatal. With the emergence of multi-million chain shops the competition took a different trend and dimension. These large supermarkets had obvious competitive advantages over small general dealers and tuck-shops. Therefore, it became simply impossible for them to match the huge resources at the disposal of giant retailers: financial, infrastructure, logistical, and marketing power. For small retailers to continue in this different ball game they need to find strategies that will effectively counter the big chain stores. It is obvious that they cannot match the financial resources of giant multimillion supermarkets. However, they are things they can develop to ameliorate the deteriorating situation. This research attempts to find out what strategies small retailers are using and if so to what extent are they relevant and effective to their business's performance and success.

## LITERATURE REVIEW

Retailing is Botswana's second largest job provider and accounts for 29% of the country's GDP (Moriarty, et al., 2014), making it a very important player in the socioeconomic landscape of the country. As at 2009, about 40.5% of the informal sector businesses were in wholesale and retail trade (Central Statistics Office, 2009). The results of the 2015 informal sector study were not yet out at the time of writing this paper, but we expect to see a downward trend as a result of the presence of large super markets.

Currently, large chain supermarkets (for example, Choppies, Spar, Woolworths, Shoprite, Pick n Pay, Checkers, and Payless) dominate this industry. The entrance of these large chain supermarkets in Botswana has increased competition among them, and this should benefit the consumer in terms of lower prices and customer service. But at the same time, the entrance of these supermarkets negatively impacted on small retail entrepreneurs, and has led to the "closure of some of the smaller retail stores" (Emogor & Kirsten, 2009). In addition, concern has been raised over unfair value chain practices by some large chain supermarkets in Botswana. The unfair practices include predatory pricing (pricing below cost), exclusive dealing, bid rigging, market allocation, price fixing, refusal to deal, and unreasonable prices (Daily News, 2013; The Botswana Gazette, 2013). Such practices erect and/or raise barriers to entry into the retail industry against small retail entrepreneurs (Brenes, Ciravengna, & Montoya, 2015).

Porter (1980) identified five forces that drive competition in an industry (threat of new entrants, bargaining power of suppliers, bargaining power of buyers, threat of substitute products, and rivalry among competitors). An analysis of the threat of new entrants into an industry entails examining barriers to entry. A barrier to entry is an obstacle, in the form of cost and/or legal requirement, which makes it difficult for a business to enter a particular industry or market. The small retail shops in Botswana face barriers to entry in various forms or ways.

Because of their sheer scale of operations, large chain supermarkets enjoy economies of scale. Economies of scale arise when, as the quantity of products produced increases, the unit cost of production declines since fixed costs are spread over many units. The lower unit cost of production of an established business can act as a barrier to entry for a new business, whose start-up costs may make it difficult for it to compete against lower-unit-cost established businesses. Economies of scale can also be used to make it difficult for a small business to operate in a particular market, culminating in the small business being driven out of that market. A case in point was when millers in Botswana complained that some supermarket chain stores had ventured into production and were now competing directly with their product. As the Assistant Minister of Trade and Industry explained, when answering a question in Parliament, "Since millers rely on these retail stores to sell their products, it has now become difficult to get good prices as retailers now prefer to market their own brands, and usually due to economies of scale, are sold at cheaper prices than the millers' products. As a result, retailers are not prepared to price other brands at a competitive rate as their own brands" (The Botswana Gazette, 2013). Although this discussion on the millers' complaint on unfair trade practices is not about large chain supermarket power over small retail entrepreneurs, it explains how economies of scale act as a barrier to entry to a new business joining an industry or market, and that they help a business which enjoys them to offer lower prices than businesses which do not find economies of scale.

Similarly, an owner of a small bakery business in Moshupa, Botswana, complained in an interview that Moshupa Choppies supermarket was selling "a loaf of bread at a very low price which is below the cost of production for small bakeries like hers... The small entrepreneur gave an example that while her bakery sells a loaf of bread at P7, Choppies sells the same product at P5, a situation which has resulted with the majority of customers such as schools and churches now abandoning her bakery" (Echo Online, 2014).

In the same interview, another entrepreneur noted that "some Chinese shops in the country are selling low quality Botswana traditional attire such as German-print dresses which have been known to be sewn and sold by locals only. As the Chinese are now selling German-print dresses known as dichiba or mateisi, local businesses which have been surviving through the business are now struggling to sell. We want government to intervene and protect us from the Chinese businesses that have the capacity to import raw materials in bulk and enjoy economies of scale," she said. Again, although the Chinese shops are not large chain supermarkets, enjoying economies of scale has enabled them to offer lower prices than

the local small businesses. Thus enjoying economies of scale can enable a company to engage in predatory pricing, whereby it sets very low prices for its product or service. Such low prices can deter a new entrant from entering an industry or market or, alternatively, can drive an existing competitor out of the industry or market.

However, in the same interview, the Director of Competition and Research Analysis at Competition Authority, Botswana, indicated that "...we heard concerns that some general dealers are closing down, but we have discovered that this came as result of lack of innovation by small businesses." Lack of small retail shop's innovation against large chain supermarkets' competition is thus viewed as the root cause of general dealers closing down, and not the practice of lowering prices, which can be viewed as a strategy in price competition. The Economist echoed the Director's sentiment by saying "owners of general dealers cannot come up with innovations as most of them are school drop-outs who need training on use of innovations such as establishment of contract relationship with customers."

Another barrier to entry in Botswana is the restrictive practice of exclusive lease agreements between the large chain supermarkets, as anchor tenants, and landlords. The Competition Authority in Botswana received a complaint from the landlord of a shopping mall in Gaborone against the anchor tenant "with respect to an exclusive lease agreement, as competitors are excluded from entering the mall where the particular anchor tenant is present. Specialist stores, such as liquor stores, fruit and vegetable stores, as well as full-line grocery stores, are excluded in shopping malls where the main supermarket chains are the anchor tenant." The Competition Authority intervened to remove the restrictive clauses, and the "removal of the barrier to entry has since resulted in the entry of a specialist grocer" at that shopping mall in Gaborone (Competition Authority, 2014, pp. 17-18).

In the same vein, the Roman Catholic Diocese in Gaborone had "included in the lease, provisions that do not allow other tenants especially in Commerce Park and Finance Park to operate retail supermarkets or restaurants so as to allow the main tenant in Game City to enjoy minimized competition in the area, and prohibit the entry of new retailers" (Newel, 2013). Such a lease caused complaints from some tenants in Game City, Commerce Park, and Finance Park. So, even if a small retail shop could afford the rent payment at Molapo Crossing, Rail Park, Sebele Centre, and Airport Junction shopping malls in Gaborone, the restrictive lease agreements would act as a barrier to entry to the small retail shop.

The emergence of large supermarkets has developed through phases, from early to mid-1990s across the different continents starting from richer economies to less richer ones, largely due to relaxation of foreign direct investments in the retail sector (Reardon & Gulati, 2008). According to Reardon and Gulati (2008) the first wave hit USA and UK as supermarkets took 5-10% market share of the retail trade. The second wave was experienced in Mexico and much of Southeast Asia, Central America, and south-central Europe with a market share of between 30 to 50%. The third wave was felt in Eastern and Southern Africa, Central and South America, East Asia (China and Vietnam), Russia, and India with supermarkets capturing about 5 to 10% of the retail market share. Reardon and Gulati (2008) further suggest that much of the growth in the third wave countries was felt in China which experienced a 40% growth in market share compared to its counterparts.

At a country level, large supermarkets continue to grow, following the entry strategies adopted for entry into different countries by chain stores, moving from richer localities to less richer ones (Reardon & Gulati, 2008). Initially, the presence of large supermarkets was a phenomenon that was associated with large cities, but large supermarkets gradually made their presence in distant poorer villages. A case in point, in Botswana, are chain super markets such as Choppies and Shoppers who are now spreading out of urban centres, and making presence even in small villages.

Whilst the presence of large players in the market may seem to provide the average consumer with more access to a wide variety of goods at an affordable price, history elsewhere has shown that appearance of large players in the market results in the disappearance of small players (Schoenborn, 2011; Reardon & Gulati, 2008). This is due to the fact that large market players tend to enjoy economies of scale and their economic power enables them to reduce costs resulting in low price offerings compared to small market players (Schoenborn, 2011; Seely, 2012). UK literature also suggests that large supermarkets outperform small retailers because they have the capacity to supply a wide range of goods and services (Seely, 2012).

The authors have observed a similar trend in Botswana, where these supermarkets have diverse offerings, ranging from household goods, grocery, hardware, bakery, and cooked food to butchery. However, evidence from elsewhere has shown that the demise caused by appearance of large firms could be averted if small firms become innovative. Evidence from India has shown that when small firms become innovative in service mix they can perform above par relative to their competitors (Chattopadhyay, Dholakia, & Dholakia, 2011). This shows that eminent closure of small retail shops, caused by the presence of large supermarkets, could be avoided if small retail shops become innovative enough to attain strategic positioning relative to their competitors (Reardon & Gulati, 2008). This study tries to understand the demise of small retailers from the context of Botswana.

### CONCEPTUAL FRAMEWORK AND METHODOLOGY

We follow Porter's Five Forces model to understand the competitive pressures and challenges imposed on the small retail shops by the emergence of large scale supermarkets. The Porter's Five Forces model is used to understand the competitive pressures of an industry (McGrath & Bates, 2013). According to Porter (1980), organizations develop business strategies to counter five main forces, namely; the threat of new entrants, competitive industry rivalry, the bargaining power of customers, the bargaining power of suppliers and the threat of substitute products and services. Thus, other than evaluating the attractiveness of an industry, the model could also be used to understand the strategies that are formulated by industry players (David, 2011; McGrath & Bates, 2013).

Explaining Porter's five forces, McGrath and Bates (2013) posit that the five forces affect the industry in several ways. Firstly, threats of new entrants could potentially reduce industry profits as new entrants seek to enter profitable markets. Secondly, substitutes could result in customer switch as competitors come up with new and improved alternative products. Thirdly, bargaining power of customers are more felt when an organisation supplies a small but strong customer base, as they could potentially pressurise the firm to employ strategies in their favour. Fourthly, limited number of suppliers is disadvantageous as they could potentially dictate conditions to the firm in their favour. Lastly, competitiveness of the industry is determined by the extent of competitive rivalry. Thus the collective strength of the forces determines the ultimate profit potential of an industry. This scenario is relevant to our study since the retail sector in Botswana is experiencing a highly competitive environment aligned to Porter's analysis.

*Figure 1: Porter's Five Forces Model*



Adopted from Porter (1985)

This study takes a qualitative approach, using in depth interviews, with a view to understand from the small retailer's perspective how the presence of large retail supermarkets has impacted their performance. The paper highlights the experiences of fifty owners of tuck shops and small general dealers in Botswana. The respondents were purposely selected to participate in the study on the basis that they were currently operating either tuck-shops or small retail shops. Thematic analysis was used to capture the common themes that emerged as the owners communicate the reality of the challenges imposed by large retail supermarkets on small tuck shops and small retail shops.

Our sample size of 50 respondents was based on purposeful group of small retailers. This kind of sampling has been widely used in social science research, especially in qualitative and case studies. In this kind of sampling the focus is on a specific case of interest to explore issues of peculiarity intensively and also get in-depth insight. Unlike random and probability sampling, purposive sampling is intentional in nature thus it not meant to attain general results which could be validated across the entire population and replicated. Hence it is not intended to be representative. A wide study of a large population of which the sample must be representative will be useful for future research

## DATA ANALYSIS AND DISCUSSION

The findings are organised into two sections. The first section discusses the demographic profile of the respondents, while the second section focuses on themes emerging from the study.

### Respondents' profile:

#### *Gender and Age*

Of the 50 respondents who participated in the study, 70% were females, while 30% were males. This shows that more females than men are operating small retail shops. This finding is consistent with the 2009 informal sector report, which estimated that 67.6% the total number of informal sector businesses were owned by females and 32.4% by males (Central Statistics Office, 2009).

As shown in Table 1 below, the ages of the respondents ranged from 20 years old to over 46 years old. Fifty six per cent of the respondents were young, aged between 20 and 35 years old, which shows that most of those operating small retail shops were young and active, in their prime where they could apply their energy to start and run a business. This shows a move towards start-up of small businesses by the youth who are currently experiencing the problem of high unemployment (Siphambe, 2007). In so doing, they create employment for themselves and others and provide essential commodities and service in the community. However, the effectiveness of this type of entrepreneurship is a subject to be addressed in another paper.

*Table 1: Age distribution of respondents*

| Years            | Frequency | Percentage |
|------------------|-----------|------------|
| 20-25            | 7         | 14         |
| 26-30            | 6         | 12         |
| 31-35            | 15        | 30         |
| 36-40            | 7         | 14         |
| 41-45            | 1         | 2          |
| 46+              | 13        | 26         |
| No age indicated | 1         | 2          |
| <b>Total</b>     | <b>50</b> | <b>100</b> |

#### *Educational Background, Ownership and Years in Business*

Regarding education, the results of the study shows that most of the respondents did not have tertiary education. About 48% of the respondents hold a J.C., 28% hold a BGCSE. Therefore it could be concluded that small retail shops and tuck shops tend to be started by people who have not attained tertiary education.

In any society, education is of paramount importance in achieving human development hence among Botswana's goals enshrined in Vision 2016: *Towards Prosperity For All* is that Botswana will be an educated and informed nation: "The education system will empower citizens to become the best producers of goods and services. It will produce entrepreneurs who will create employment through the establishment of new enterprises. Public education will raise awareness on skills needed for life" (Vision 2016, 1997, p.5). Education has empowered Botswana to start their own small businesses, provide service and commodities, and create employment in the communities they are operating in. Table 2 shows the education qualifications attained by the respondents.

*Table 2: Education qualifications*

| Qualification     | Frequency | Per cent   |
|-------------------|-----------|------------|
| JC                | 24        | 48         |
| BGCSE             | 14        | 28         |
| Certificate       | 3         | 6          |
| Diploma           | 4         | 8          |
| Bachelor's degree | 2         | 4          |
| Master's degree   | 0         | 0          |
| Other             | 3         | 6          |
| <b>Total</b>      | <b>50</b> | <b>100</b> |

With respect to ownership of the small retail shops, 42% the respondents were the owners, while 42% were workers, and 16% were managers of the small retail shops. The owners have thus created employment for themselves rather than waiting to be employed by the public or private sector. In addition, these owners have also created employment to other members of society: 58% of the respondents. This is indicative of the potentiality of small retailing to contribute to the Government's efforts in poverty alleviation.

The respondents had been operating their small retail shops for some time, with the length of operating time ranging between 1-5 years and 26 years and above which is indicative of the small retail shops' resilience and capability to survive in the face of stiff competition from large chain supermarkets in their neighbourhoods.

#### *Training offered prior to start up*

Of the 50 respondents only 6 had undergone minimal training related to business. An overwhelming majority (88%) of the respondents did not receive any type of training on starting and managing a business before going into business or working in the business, with a paltry 12% receiving some form of training before starting their businesses or working in these businesses.

Training before starting a business is of crucial importance, as business skills acquired through training help a business person to run a business more successfully. In order to promote entrepreneurship in the country, the Government of Botswana has provided an enabling environment by putting in place mechanisms to assist aspiring business persons financially and also to offer them training in running a business. Local Enterprise Authority (LEA), for example, provides training services in the form of business incubators; Citizen Entrepreneurial Development Agency (CEDA) provides funding to businesses, so do two schemes targeting the youth: the Youth Development Fund, under the Ministry of Youth, Sport and Culture, and the Young Farmers Fund, administered by CEDA. No Government scheme or facility exists to offer training, funding, or facilitate access to finance to small retail shop owners before or after they start a business.

The 12% of respondents who received training attended short courses on small business management and on customer service. The short courses might not have sufficiently equipped and prepared the participants to be able to start and successfully manage a business.

Most of the training carried out by small retail shops is on-the-job-training, and this is consistent with the finding of Makgosa, et al. (2013). The researchers found that "85 per cent of retail businesses develop the

skills of their employees informally or through in-house training programmes.” Thus, most of the staff training and development is On-the-Job-Training, and such training is informal, and it “appears to be the only widely used activity in cultivating entrepreneurial skills and knowledge within retail firms” (Makgosa, et al., 2013).

**Major product or service offer and Customers**

Most of the respondents were selling groceries, airtime, prepaid electricity, fast foods, refreshments, and meat products. These are essential items that are bought on a daily basis for consumption by households in the neighborhood, who are their main customers. Although they are operating at a small scale, the small retail shops deal in items which move fast, and do not tie their working capital in non-salable items. Such items, commonly known as fast moving consumer goods (FMCG), have a high consumer demand.

When asked for the strategies small retail shops put in place to attract customers, the respondents alluded to the following:

- Cleanliness
- Customer care
- Promotions and specials
- Extended hours
- Consistency in opening and closing hours

The next section presents a summary of the themes that have emerged from the interviews in relation to the research questions.

**EMERGING THEMES FROM THE INTERVIEWS**

Table 3 below summarises the themes that have emerged from the interviews in relation to challenges posed by large supermarkets on small retail shops. The small retail shops have reported that they have experienced a downward trend in their performance as a result of the emergence of large supermarkets. Problems that have been experienced by small firms span discontinuation of line items, loss of customers and loss of profits. These could be attributed to the fact that not only do the large supermarkets have their own brands, but also that they enjoy economies of scale. The large scale supermarkets can afford to hold mid-month and month-end sales promotions. Furthermore, the large chain supermarkets had a wider variety of products and services, and because of economies of scale, their prices were lower than the prices charged by the small retail shops.

Whereas large chain supermarkets used to be centrally located, which allowed small retail shops to capitalise on location and allowed them to offer convenience to their customers, recent years have seen some of the large supermarkets encroaching into their neighbourhoods.

*Table 3: Effects of large supermarkets on Small retail Shops*

| <b>Attribute</b>                                  | <b>Emerging themes</b>  |
|---|---|
| Effects of large chain supermarkets               | <ul style="list-style-type: none"> <li>• Have had to stop selling some items</li> <li>• Profits had gone down</li> <li>• Fewer customers</li> <li>• Large supermarkets have own brand</li> <li>• They enjoy economies of scale, hence low prices</li> </ul> |
| Ways supermarkets disadvantage small retail shops | <ul style="list-style-type: none"> <li>• Specials: month-end and mid-month</li> </ul>   |
| Strategies to counter supermarket competitors     | <ul style="list-style-type: none"> <li>• Specials and promotions</li> <li>• Extended operating hours</li> <li>• Better customer service</li> <li>• Responsive to customer needs</li> <li>• Knowledge of customers</li> </ul>                                |

To counter these challenges, the small retail shops report that they have to emulate supermarkets by also putting their products on specials, which only goes to deplete their little profits. It was surprising to learn that small retail shops could also compete on sales promotions. This has been facilitated by innovative partnerships small retail shops forged with their suppliers, under wholesale banner membership. This has allowed the small retailers to buy stock from the wholesaler at a discount of up to 20%, which they could then pass on to their customers. As a result, small retail shops could also afford to have promotions and specials every month. One of the wholesalers gives stock to small retail shops to sell at a discount from the 20<sup>th</sup> of a month to the 5<sup>th</sup> of the following month. This enables them to compete on sales promotions with the large supermarkets as well as to attract more customers, generate sales and improve their cash flow.

It was interesting to note other arrangements for those who do not have special arrangement with suppliers. They reported that they were able to compete on sales promotion without stretching their funds flow by buying at a discount during promotions and specials. Some reported having opened credit accounts with wholesalers and could buy stock from the wholesaler at any time on credit with longer payment period terms. Also, a small butchery shop indicated that it had entered into an arrangement with its meat suppliers to buy meat on credit and pay after seven days. Thus the small retailing shop uses “borrowed money” to finance its operations in the meantime until the debt is paid. Trade credit is one of the sources of debt financing.

**Challenges and Survival strategies of small enterprises**

Notwithstanding the above, the small retail shops have reported other challenges such as crime and bargaining power of suppliers. Whilst supplier partnerships were mentioned earlier to have enabled small retail shops to compete at par with large supermarkets, the small retail shop owners have suggested this as a challenge. This is due to the fact that the wholesalers tend to have high bargaining power, which allows them to dictate what the small retail shops could stock.

Despite these problems, it appears small retail shops are here to stay, with some reporting survival and success. This they attribute to strategies associated with personal relations which could not otherwise be provided by their competitors, see Table 4 below.

**Table 4: Challenges and survival strategies of small retail shops**

|   |  |
|---|--|
| Challenges faced by small retail shops                                      | <ul style="list-style-type: none"> <li>• Crime</li> <li>• Competition</li> <li>• Suppliers dictate prices and types of products (bargaining power of suppliers)</li> </ul>   |
| Factors that have contributed to survival and success of small retail shops | <ul style="list-style-type: none"> <li>• Patience</li> <li>• Supplier relations</li> <li>• Customer care</li> <li>• Participation in government programs such as distribution of rations (smart switch)</li> <li>• Good customer service</li> <li>• Cooperation with customers and land lords</li> <li>• Loyal customers</li> <li>• Commitment</li> <li>• Low but profitable prices</li> <li>• Goodwill</li> </ul> |

Besides large supermarkets, all the respondents indicated that they were facing stiff competition from other tuck shops in the same area, street vendors, general dealers, as well as wholesalers who sold direct to the end-user. All these competitors were selling the same products as those offered by small retail shops. However, the small retail shops tend to use the same strategies for countering all forms of competition (see Table 5 below).

*Table 5: Strategies for dealing with competition*

| Attribute   | Emerging themes   |
|---|---|
| Strategies to counter competition                     | <ul style="list-style-type: none"> <li>• Good customer service</li> <li>• Variety</li> <li>• Competitor pricing</li> <li>• Monthly specials and promotions</li> <li>• Avail what customers want</li> <li>• Knowledge of customers</li> <li>• Extended hours</li> <li>• Quality</li> </ul> |
| Innovative strategies to attract and retain customers | <ul style="list-style-type: none"> <li>• Discounts and specials</li> <li>• Monthly promotions</li> <li>• Sell on credit</li> <li>• Buy products that are mostly wanted by customers</li> <li>• Flexible pricing</li> <li>• Variety and wide selection</li> </ul>                          |

***Marketing, Advertisements and promotions***

Half of the respondents indicated that they were advertising the products and services they offered. The media used were posters, banners, and pamphlets. Satisfied customers also advertise for them by word of mouth. In addition, the small retail shops which had special arrangements with their suppliers had promotions and specials during month-end, and these also helped to attract customers.

***Competitive advantage***

As price takers of ready-made products and with no room for brand differentiation, small retailers are largely constrained in terms of competitiveness. However, one avenue of manoeuvre is spatial differentiation by way of using location as a strategy for providing neighbourhoods with reliable daily sought-after consumable commodities and services such as airtime. This calls for innovative approaches to customer service. Without such home-grown differentiation small retailers have no chance in competing with large and global retailers, such as Choppies, which are listed in the stock market, and which also brand some commodities with their names, from milk, sugar, and maize meal to washing powder, thus ensuring their market power is projected and visible. Table 6 below highlights the competitive advantages possessed by small retail shops, and how they use the competitive advantages in order to boost sales.

*Table 6: Small Retailers' Competitive advantage*

|   |  |
|---|--|
| Small retail shops competitive advantage    | <ul style="list-style-type: none"> <li>• Location</li> <li>• Knowledge of customers</li> <li>• Extension of operating hours</li> <li>• Close relationships with customers</li> <li>• Sell on credit</li> </ul> |
| Use of competitive advantage to boost sales | <ul style="list-style-type: none"> <li>• Stock what customers want</li> <li>• Stock latest</li> <li>• Stock fast moving</li> <li>• Sell on credit</li> <li>• Customer care</li> </ul>                          |

**MODEL FIT**

From this study we have found that several forces have impacted on the performance of the small retail shops, namely, competition from large supermarkets, power of suppliers, and power of buyers. Not only do small retail shops compete with large firms, other small players compete directly with these establishments. This could imply high threats of new entrants, since other small players enter the

industry despite the presence of large supermarkets. There is also high competition amongst large chain supermarkets. Therefore, to compete effectively and gain competitive advantage, small retail shops have to employ differentiation strategies. However, as shown in Table 6 above, the competitive advantages of the small retail shops are by far inadequate to confer competitive advantage to the small retail shops over their large counter parts. According to David (2011), a firm has competitive advantage over another when it can create value for its customers at the lowest possible cost. Furthermore, competitive advantage arises when a firm is able to create a lasting differentiation (Porter, 1996).

The study has also highlighted that the bargaining power of suppliers is high as small retail shops have sought to have partnerships with suppliers to meet competitor pricing tactics of sales discounts and specials, albeit with suppliers dictating the type of products and mark-up levels. The power of buyers also seems to be equally high, since the small retail shops rely on a few customers. Nascent literature suggests one way of dealing with pressures from these forces is to increase both supplier and customer bases (McGrath & Bates, 2013). However, this may not be feasible for small industry players as they lack both resources and capacity to extend their supplier and customer base.

The study has also shown evidence of threats of substitutes. The study has highlighted that the small retail shops customers tend to switch to buying from large retail shops as they supply branded products at lower prices. However, we have found that the strategies that small retail shops develop are not directly related to the competitive pressures, save for competition. Notwithstanding that, the study found that the strategies formulated by small retail shops to counter competition pressures would not in any way confer sustainable competitive advantage.

## **GOVERNMENT INTERVENTION**

Below we suggest measures which could be taken by the Government to assist small retail shops. Although Government has a number of empowerment schemes to assist entrepreneurs such as farmers, intervention is critically needed in the form of deliberate policy intervention geared at addressing unique needs and challenges faced by small retailers. A number of ideas emerged from the study which could help address the situation.

### *Financial Assistance*

All the respondents indicated that Government should provide financial assistance to small retail shops, in the form of start-up costs and funding to expand their businesses. With business expansion, they would also qualify for tendering for projects like the Government-sponsored food coupon project for the supply of food to home-based patients, orphans and destitutes.

Advocacy was also raised by the entrepreneurs. Since BOCCIM recently branded Business Botswana seems to be predominantly serving medium to large businesses, small retailers need to have a strong voice to push their agenda. A suggestion was made for small retail shop owners to form an association which would advance and protect the interests of small retail shop owners, and approach Government and other agencies for assistance.

### *Zoning*

The respondents called on the Government to control the spread of large chain supermarkets into their neighbourhood. They indicated that large chain supermarkets should be confined only to the shopping malls, and not to be allowed to set up shops in the communities.

### *Product offering and operations*

Some of the respondents also called upon the Government to regulate product offering by large chain supermarkets. They indicated that large chain supermarkets should not be allowed to sell certain products, for example beef by-products, fat cakes, and chicken feet: these should only be sold by small retail shops. Also, while large chain supermarkets could sell potatoes, only small retail shops should be allowed to sell fresh chips.

Another call was that Government should not allow wholesalers to sell to end-users. Selling to end-users should only be done by retailers, not wholesalers.

### *Training*

Another issue of concern was that of training. As already seen above, the majority of the respondents (88%) did not receive any training at all in starting and managing a business. The respondents called on Government to have a programme of training aspiring small retail shop-owners in business management. The Government should, for example, include small retail shop-owners when it trains people in poverty eradication programmes so that they too could acquire knowledge in business management and how to expand a business. Sponsoring small retail shop-owners to enrol in business-related programmes is another way Government could assist small retail shop-owners. Moreover, Government should avail people qualified in business management to teach and advise small retail shop-owners on how to start and run a business.

### *Commercial plots*

Most of the small retailers operate from home and therefore lack exposure as they are confined to the periphery. A call was made for Government to make it easier for Batswana to acquire commercial plots so that they too can explore other possibilities which could spring up growth. Land is a valuable asset which can help these entrepreneurs to have access to loans. Another option is for Government to build small retail markets and rent them. For example, the Gaborone city council has done a wonderful empowerment initiative by letting commercial spaces to small entrepreneurs at the station.

## **CONCLUSIONS**

This study aimed to investigate the impact of large chain supermarkets competition on the small retail shops. In this regard, challenges faced by the small retail shops in battling cut-throat competition from large chain supermarkets were assessed, and measures used by small retail shops to counter this competitive pressure were examined, as well as exploring innovative and creative strategies adopted by the small retail shops in order to survive and remain competitive.

The literature indicated that retailing contributes both to Botswana's GDP and job creation. Although large chain supermarkets dominate this business activity, this study showed that small retail shops played an important role in providing goods and services to the community and in job creation. It also showed that the emergence of large chain supermarkets, which ushered in a wave of cut-throat competition in retailing, including one chain encroaching into their neighborhoods, resulted in a downward trend in the performance of the small retail shops. This finding is supported by evidence elsewhere that appearance of large players in the market resulted in disappearance of small players (Schoenborn, 2011; Reardon & Gulati, 2008).

In order to survive and to remain competitive, some small retail shops developed survival strategies by forging innovative partnerships with their suppliers, and some developing personal relations with customers which could not otherwise be provided by their competitors.

A major limitation of this study is that the sample size was small and that data were collected from only two towns in Botswana. Nevertheless, the emerging themes could provide a platform for future research directions in order to assist Government to formulate policies aimed at promoting this sector. Furthermore, strategies for survival, innovation, and competitiveness employed by some small retail shops, could also be emulated by other small retail shops.

## **RECOMMENDATIONS**

The following are the recommendations from this study:

1. Government should formulate a policy to assist the small retail shops financially, in terms of start-up costs for a new small retail shop and costs associated with business expansion for an existing small retail shop.
2. Government should ensure the funding or access to funding in 1 above should only be provided after the aspiring small retail shop owner/manager has successfully undergone training in a Botswana Qualifications Authority-approved business management course for starting and managing a business.
3. Government should sponsor aspiring small retail shop owners/managers for training indicated in 2 above.

4. Government should remove large chain supermarkets from the communities and confine them to the shopping malls in town.
5. Government should indicate product offerings by large chain supermarkets, and those to be offered by small retail shops, and also prevent wholesalers from selling direct to consumers.
6. Government should ensure that there are no exclusive lease agreements between the large chain supermarkets, as anchor tenants, and landlords, as these exclusive lease agreements contain restrictive clauses which prevent the landlord from allowing competitors to operate in the mall where the large chain supermarkets are the anchor tenant.
7. Research should use The Porter's Five Forces Model to facilitate an understanding of how small firms develop relevant strategies with a view to gaining sustainable competitive advantage by small retail firms.
8. Conduct a large scale study to capture the plight and issues facing the small retail shops. This could extend beyond the borders of Botswana to other Southern Africa countries, given the similarities of factors at play as well as challenges.

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