

Modern Retailing and its Implications for Developing Countries: Insights from Retail Managers

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Abstract

This paper provides insights into modern retailing, its challenges and implications for retail management in developing countries. On average 17 semi-structured interviews were conducted with retail managers in food, furniture and clothing sectors in thirteen locations across the country. Interviews were followed by two focus groups consisting of retail managers and stakeholders from relevant government departments and support institutions. Findings

reveal that influx of large foreign retailers in developing countries has made it difficult for both foreign and indigenous retailers to enjoy competitive advantage. Consumer sophistication also makes it challenging for retailers to meet consumer demands. The lack of local sources of supply, unskilled labour, small population, high rental charges, poor infrastructure, inflation and fluctuating currency increase retailers' costs in an attempt to stay competitive. Finally, product quality declines, bureaucracy in decision-making, poor store image and pressure to meet sales targets, were perceived as common challenges by retailers.

This study underscores the dilemma that retailers in developing countries face because of modernization. However, for a more comprehensive assessment, future research could extend to other sub-sectors like electronics, hair salons, auto repairs and the informal sector. A retail association working closely with government to explore means for overcoming retail challenges needs to be established. This study makes a unique contribution by assessing perceptions of retail managers from diverse sectors such as food, clothing and furniture, whereas other studies have concentrated on food retail. This study also focuses on implications of modern retailing in a developing country that has recently experienced substantial transformations that attracted large foreign retailers.

Keywords: Modern retailing, Challenges, Competition, Consumer behaviour, Economic environment, Retail-mix

1. Introduction

Retailing has been undergoing tremendous changes since the early 1990s in developing countries (Humphrey, 2007; Reardon & Gulati, 2008; Tschirley et al., 2010). Once characterised by small citizen owned stores that offer limited assortment, the retail landscape in Asia, Latin America (Coe and Wrigley, 2007) and Sub-Sahara Africa (Reardon et al., 2007; Tschirley et al., 2010) has experienced fundamental change owing to the establishment of large international retail chains. The influx of large international retail chains has modernized the retail industry in developing countries by increasing the number of establishments; introducing large and new formats and one stop shopping centres that benefit consumers by enhancing their shopping experiences (Miller & Hampwaye, 2008; Kaliappan et al., 2009). Although the main drivers of foreign direct investment (FDI) in retailing may vary across developing countries, factors such as the growing population of middle class, increased income, market reforms, high rate of urbanization, and changing lifestyles have made a significant contribution (Coe & Wrigley, 2007; Reardon & Gulati, 2008; A.T Kearney Report, 2012).

Retail FDI provides developing countries with immense benefits at the macro level. For example, modernization result in better wages for workers, lower retail prices, better quality for consumers, higher fiscal income for government and diffusion of new ideas to local companies to help them upgrade productivity (Durand, 2007; Humphrey, 2007). Additionally, developing countries offer vital growth opportunities to large foreign retailers from developed nations that experienced low margins in their saturated domestic markets (Reardon et al., 2007). The introduction of modern retailing in developing countries also poses new challenges for small indigenous retailers, local suppliers as well as policy makers (Humphrey, 2007; Durand, 2007; Emongor & Kirsten, 2009). For example, small indigenous retailers have been pushed out of the market, local suppliers have been compelled to adhere to strict quality requirements and existing policies fail to adequately address the emerging realities (Arnold & Luthra, 2000; Hart et al., 2007; Reardon et al., 2007; Ahmad, et al., 2008; Tschirley et al., 2010). However, the depth of the implications of retail transformations in developing countries remains unclear (Humphrey, 2007). The existing literature rarely offers a sound and in-depth analysis of retail trends occurring across a spectrum of principal sectors in developing countries.

Therefore, the current study seeks to extend the literature on retailing by shedding light into the implications of modern retailing for developing countries, with a particular focus on Botswana. Botswana is an ideal setting for a study of this nature as one of the developing countries that has recently seen an influx of large international retailers (Miller & Hampwaye, 2008; Emongor & Kistern, 2009) and the mushrooming of modern shopping centres in cities, towns and major villages (Census of Enterprises and Establishment Report, 2006-07). Furthermore, Botswana was recently ranked amongst the top most attractive destinations for retail investment in Sub-Sahara Africa out of 30 countries listed in the Global Retail Development Index (A.T Kearney Report, 2012; 2013). More specifically, this study addresses the following objectives:

- Assess perceptions of retailers about changes that are occurring in the retail environment.
- Explore the challenges faced by retailers as a result of the changes that are occurring in the retail environment.
- Recommend measures that retail managers and policy makers can take to deal with the challenges that changes in the retail environment have presented.

2. Literature Review

2.1 Theories of Retail Evolution

The literature on retailing is replete with theories on retail evolution. Anistal and Anistal (2011) classified these theories into four categories namely; cyclical; conflict, environmental and combination theories. An example of the cyclical theories, the wheel of retailing, contends that the evolution of retail institutions happens in three stages: the entry period, trading up and vulnerability to competition (Hollander, 1960; Levy et al., 2005). Institutions enter the market at low status, cost and price and gradually become more established by increasing their investments. They build more facilities, offer more quality services and merchandise at higher prices. Subsequently, institutions reach maturity where they operate at high cost, thus becoming vulnerable to new ones. Although the wheel of retailing theory is quite helpful in explaining how new retail formats emerge (Brown, 1990), it fails to explain the existence and the accelerated growth of new retail formats (Davidson et al., 1976; Anistal & Anistal, 2011).

One of the Conflict theories is the dialectic theory which, assumes that new forms of retailing emerge in response to the dynamic interaction between old and new retail formats (Robison, 1998; Anistal & Anistal, 2011). The newly created retail formats offer a combination of advantages based on competing retailers' best practices (Oren, 1989). This theory does not accommodate the fact that not every retailer will react to new competition.

The adaptive behaviour theory is one of the environmental theories which are based on the law of natural selection. It asserts that retailers have a chance to prosper if they could most effectively adapt to environmental changes (Swinyard, 1997; Robison, 1998). Environmental theorists argue that changes in retail operations are in response to transformations in the retail environment like competition, consumer behaviour, economic, regulatory and technological changes (Swinyard, 1997; Dunne & Kahn, 1997; Robison, 1998; Anistal & Anistal, 2011). Scholars have cautioned that, if left alone, the environmental drivers of retail change will lead to reduction in the numbers of retailers through shrinking profit margins and liquidations, mergers and acquisitions resulting from low sales revenues (Swinyard, 1997; Dunne & Kahn, 1997). However, this theory has been criticised for failing to provide a specific retail evolution pattern as it places emphasis on the ability of a retailer to cautiously track and respond to the changes in the market environment (Oren, 1989).

It is clear from the foregoing discussion that none of the theories of retailing could comprehensively address the developments in the retail environment. However, the adaptive behavioural theory offers a better framework for analysing and understanding environmental changes and their implications for retail operations and performance.

2.2 Retailing Modernization across Developing Countries

The modernization of retailing in developing countries can be traced back to the 1990s (Reardon & Gulati, 2008). For example, in food retailing the influx of supermarkets in developing countries in Sub-Sahara Africa, Asia and Latin America spread in three waves (Humphrey, 2007; Reardon and Gulati, 2008). The supermarket revolution started in Latin America, then Asia and finally Sub-Sahara Africa. Latin America led the developing nations in terms of growth of supermarkets with 10 percent of the food retail sales share achieved in the 1990s to approximately 60 percent recorded in the 2000s (Reardon & Berdegue, 2002). In particular, in Chile supermarkets represented 55 percent of food retail in 2003 and the share grew progressively due to the rapid expansion of international competitors such as Wal-Mart and Carrefour (Bianchi & Mena, 2004). Similarly, modern retailing dominated by international retailers accounted for approximately 60 percent of the share in the Mexican market in 2004 (Durand, 2007). In Southeast Asia, the supermarket revolution followed seven years later and this region has commanded a faster rate of growth in supermarkets. For example, the share of supermarkets in South Korea stood at 50 percent in 2003 (Reardon et al., 2007), while modern retail stores increased by 35 percent in China in 2004 (Hingley et al., 2009).

Similarly, retail modernization in Sub-Sahara Africa is portrayed as a later wave in supermarket expansion (Tschirley et al., 2010). The supermarket revolution started in the late 1990s in countries like South Africa, Kenya, Zimbabwe and Zambia (Reardon et al., 2007; Miller & Hampway, 2008). Countries in the Eastern and Southern Africa experienced a rise in supermarkets, with South Africa leading by 55 percent share of the supermarkets in 2001. In Kenya, supermarkets increased by 18 percent annually and achieved a share of 20 percent in the retail food market in urban areas (Neven & Reardon, 2006). Until the late 1980s, the food retail sector in Botswana was dominated by small family owned general dealers which operated in cities, towns and villages. However, the 1990s ushered in modern retail formats such as supermarkets, specialty stores, chain stores, department stores, hypermarkets, discount stores, convenience stores, and franchises (Policy Brief, 2008). In fact, Botswana recorded the fourth highest proportion of supermarkets in 2007, a figure lower than that of South Africa, Zimbabwe and Namibia out of fourteen SADC countries that were surveyed (Emongor and Kirsten, 2009).

The diffusion of supermarkets in developing countries has been linked with several factors such as increased urbanization, real per capita income growth, improved infrastructure, increase in female employment and policies that favour supermarket growth (Humphrey, 2007). Most important to all the driving factors, however, has been the liberalization of retail FDI (Reardon & Gulati, 2008). For example, market reforms and opening markets to FDI along with good prospects for growth, have played a significant role in influencing the share of supermarkets in India (A.T Kearney Report, 2006) and Chile (Bianchi & Mena, 2004). Although the process of opening up markets in developing countries for retail FDI was rapid in India and Chile, in South Korea and China for example, it was gradual and incremental (Sternquist & Jin, 1998; Hingley et al., 2009).

Previous studies have also contributed insights into the role of supermarkets on economic development. For example, it was found that supermarkets operating in developing countries tend to benefit consumers by introducing lower retail price on average, better product quality and higher wages for workers (Sternquist & Jin, 1998; Reardon & Berdegue, 2002; Durand, 2007). It was also noted that the influx of supermarkets has profound impact on developing economies because they inject foreign capital, knowledge and technology transfer (Coe & Wrigley, 2007; Stokke, 2009). In particular, China attracted approximately GBP 340.8 billion in retail FDI since the 1990s (Hingley et al., 2009). Supermarkets also impart effective production skills among local small farmers involved in their supply chain in developing countries (Stokke, 2009). Neven & Reardon (2006) observed that labour wages for employees of farmers supplying supermarkets were higher than those paid by farmers supplying small indigenous retailers.

Retailers from the United States and Europe for example are establishing retail outlets in unsaturated markets in developing countries due to intense competition in their domestic markets (Coe & Wrigley, 2007; Reardon et al., 2007). The influx of large foreign owned retailers in developing countries modernizes the structure of retailing, which makes it relatively different and more challenging than that of developed countries. In addition, the establishment of supermarkets has not evolved in a uniform pattern in developing countries (Humphrey, 2007). In Chile (Bianchi & Mena, 2004), Mexico (Durand, 2007), South Korea (Sternquist & Jin, 1998) and China (Reardon et al., 2007), global multinationals have established joint ventures with domestic chain stores, while modern retailing in countries in Sub-Saharan Africa is mainly dominated by foreign owned retailers (Stokke, 2009). Attempts of large foreign retailers to enter developing countries in Latin America also met a remarkable level of resistance from strong small-scale indigenous retailers. According to Bianchi and Mena (2004), Chilean retailers fought against foreign competitors by improving their retail offer, adopting best retail practices and taking advantage of the market knowledge. The diverse patterns of retail ownership and potential resistance from small scale indigenous retailers contribute to the growing uncertainty about the performance of large foreign retailers across developing countries.

An extensive amount of literature has concentrated on the implications of supermarkets for developing countries. While the evolution of supermarkets in developing countries is worth the academic attention it has received, studies on other advancing sectors such as furniture and clothing have been under-represented. Of the limited studies that concentrated in countries in Sub-Saharan Africa more emphasis has been on the evolution of supermarkets and its implications for local farmers as they attempt to meet the supply requirements set by large foreign retailers (Dolan & Humphrey, 2000; Neven and Reardon; 2006; Emongor and Kirsten, 2009). However, Sub-Saharan Africa is increasingly attracting recognition from global retailers as one of the fastest growing consumer markets in this decade (McKinsey Report, 2012). In particular, personal consumption in Sub-Saharan Africa increased by GBP346 billion from 2000 to 2012, a figure higher than that of India or Russia. Clothing, food and major household goods accounted for 45 percent of the total personal consumption in Sub-Saharan Africa.

Phenomenal consumer trends such as urban spending, internet usage, demand for high quality products, well known brands and latest fashion have been reported in Sub-Sahara Africa.

As enormous changes are occurring in the retail environment in Sub-Sahara Africa, it is imperative to offer a more comprehensive perspective of the implications of these changes by extending focus to other evolving retail sectors. An investigation of the modern dynamics that characterize the retail structure in countries in Sub-Sahara Africa will provide both the foreign owned and indigenous retailers sound insight that will inform their strategies for ensuring competitive advantage. The perspective adopted in this study corresponds to the views raised by Humphrey (2007), who argued that in order to build a meaningful assessment of the implications of retail transformations, it is critical to conduct investigations across developing countries. Robison (1998) also asserted that if the challenges that occur within the retail industry are not adequately addressed, they could inhibit the performance of both foreign owned and indigenous retailers.

2.3 Implications of Modern Retailing in Developing Countries

2.3.1 Competition

The retail industry is vulnerable to competition due to the mix of large and small retailers as well as foreign and indigenous retailers operating in developing countries (Arnold & Luthra, 2000; Hart et al., 2007; Ahmad et al., 2008). In developed countries, retail is characterized by high competition which results in low profitability among large retailers and a reduced number of mid-sized retail businesses. This situation has led to expansion of major retailers into consumer markets of developing countries. Such retailers, especially supermarkets, are large and their increasing presence in developing countries modernizes the retail structure (Humphrey, 2007). They offer a wide variety of merchandise and this intensifies competition which, is largely felt by small domestic retailers, leading to low sales revenue or the closure of some of the small retailers.

An example is the Malaysia retail environment, which has undergone great changes since the mid-1990s. Before this period, the retail sector was mainly made up of small indigenous retail stores that offered a limited variety of goods and services (Ahmad et al, 2008; Kaliappan, et. al., 2009). Similarly, the rise of supermarkets in the Singaporean retail industry in the 1990s has impacted negatively on small indigenous retailers due to changes in consumer tastes, modern technology, financial difficulties and competition (Sim, 1999). The emergence of supermarkets in China influenced many to engage in the industry including those who did not have the expertise to do so. This intensified competition, which became more prominent with the opening of big multinationals (Wing-Chun Lo et al., 2001; Hingley et al., 2009). The retail industry in Chile (Bianchi & Mena, 2004) and Mexico (Durand, 2007) is also very competitive although small-scale indigenous retailers have tried to defend themselves from large foreign competitors by adopting improved customer service and modern technology.

2.3.2 Changes in Consumer Behaviour

Consumers in developing countries display characteristics such as high quality expectations,

nutritional concerns, price sensitivity, demand for latest or fashionable styles and extended shopping hours (Arnold and Luthra, 2000; Hingley et al., 2009; McKinsey Report, 2012). For example, Chinese people prefer to spend their weekends shopping for best prices before purchasing rather than staying at home (Wing-Chun Lo et al., 2001; Hingley et al., 2009). In India, retailers are forced to deal with high consumption levels, highly informed and demanding consumers (A.T Kearny Report, 2006). Although poverty and unemployment are common in most countries in Sub-Sahara Africa, urban consumers demand quality, latest fashion, modern shopping experience and are brand conscious (McKinsey Report, 2012). These consumer trends have created a more complex and competitive environment, which present a huge challenge for both indigenous and foreign retailers.

2.3.3 Labour Related Issues

Inadequate labour skills and training make it extremely difficult for retailers to recruit suitable employees with the necessary skills due to the poor image of the industry (Hart et al., 2007). In India, retail employees complained about the lack of adequate entry level training programs and career progression plans (A.T. Kearney Report, 2006). In China it was observed that it was extremely difficult to retain the existing staff or to provide further training as employees would often leave the company to set up their own small scale retail stores (Wing-Chun Lo et al, 2001). The lack of skills and training among employees in the retail industry common in developing countries diminishes the ability of retail managers to communicate effectively with their subordinates. Stock theft by retail employees working in collaboration with customers is considered to be the greatest problem in developed countries (Aslete, 2006). Bamfield (2006) revealed that 29% and 48% of retail shrinkage in Western European countries was due to employee and customer theft respectively. In the United States, consumer theft in retailing amounts to approximately \$12-\$26 billion annually (Lin et al, 1994). However, it has not attracted similar attention in developing countries. For instance, when supermarkets were introduced in China in the 1980s, stock theft by retail employees and customers received little attention from public security officials when complaints were lodged (Wing-Chin Lo et al, 2001).

2.3.4 Lack of Developed Local Sources of Supply

Cho and Kang (2001) noted that the success of retailers in the modern retail marketplace which is characterized by sophisticated, demanding and more quality conscious consumers depends on suppliers' ability to constantly provide quality products at reduced costs. Supermarkets are aware that customers will switch to other competitors due to the unavailability of quality products (Dolan and Humphrey, 2000) and thus they prefer large farmers who have the potential to meet the quality and quantity requirements (Hingley et al., 2009; Stokke, 2009). However, many small farmers are excluded from the supermarkets supply chains in developing countries because of inadequate capacity to produce the quality and quantity required. In particular, the A.T Kearney report (2006) observed that the local supply in India is fragmented because of government policies and legal issues and thus it is difficult for farmers to enjoy benefits associated with economies of scale. Small-scale farmers in Chile were also unable to

penetrate the supermarkets supply chain because of failure to meet the quality and quantity demands of supermarkets (Reardon & Berdegue, 2002). Similarly, in Sub-Sahara Africa, there is growing concern about the exclusion of small-scale local farmers from the supermarket supply channels because they are unable to meet the specific quality and quantity requirements and standards set by supermarkets (Emongor & Kirsten, 2009; Tshirley et al., 2010).

2.3.5 Government Hurdles

Governments are considered as a definitive factor in economic development due to their role in policy making. Policies are used to regulate the business environment in order to achieve economic objectives (Sternquist & Jin, 1998). However, the form and effectiveness of such policies vary across developing countries. For instance, various schemes and action plans to help small and medium size retailers to cope with the effects of foreign competition were introduced in Singapore (Sim, 1999). Similarly, the Korean government took a developmental role rather than regulatory to help small and medium size retailers to cope with the changing retail environment (Sternquist & Jin, 1998). In India, non-uniform value added tax (VAT) regimes across the country led to differential pricing of goods and multiple taxation formats for the same goods in different states (A.T Kearney Report, 2006). Wing-Chu Lo et al., (2001) also noted a high level of bureaucracy in China, where a variety of licences required approvals from different government departments before one could open a retail store. Such requirements therefore are not only cumbersome but time consuming for potential retailers interested in opening up businesses.

3. Research Methodology

In order to gain insights into the challenges faced by retailers in developing countries as a result of the growing influx of large foreign retail establishments, Botswana was selected as the context for the study. The retail market in Botswana is one of the most attractive for foreign retailers seeking to operate in Sub-Sahara Africa (A.T Kearny Report, 2012; 2013). It is also estimated that currently Botswana has a retail market that is worth approximately GBP1.25 billion (Financial Mail, 2014). The emergence of modern retail formats in Botswana has led to the introduction of new shopping malls. The malls are populated with a large number of retailers offering a variety of products and shopping amenities such as large parking space, rest rooms, security and banking services that give consumers a shopping experience far superior to what existed in the era before the 1990s. According to the African Development Bank (2011), the middle class population in Botswana increased from 18.3 percent in 2008 to 29.3 percent in 2011. The last few decades have also ushered in technological advances in the retail industry in Botswana such as the instant processing of retail purchases using smart cards and the use of point-of sale scanning equipment, which offer customers a convenient means for paying for goods and services as well as security (Themba & Tumedi, 2012).

Additionally, the retail sector continues to make a significant contribution to economic growth in Botswana. At independence in 1966, the contribution of the sector to Gross Domestic Product (GDP) was 9 percent and the major contributors were agriculture and the financial sector at 43 percent and 20 percent respectively (National Development Plan 9,

2003-08). Currently, the retail sector's contribution to GDP is estimated at 14.4 percent and it remains the largest employer in cities and urban villages. The sector employed 14 percent of the 539, 150 employed people in Botswana and was ranked the second highest employer in Botswana after agriculture (Central Statistics Office, 2006/7).

The study adopted a qualitative research approach in order to tap into the experiences of those involved in retailing particularly managers, government officials and policy makers. Data for this study was collected from key informants drawn from three selected sectors including clothing, food and furniture. These sectors were selected on the basis of their economic significance, high consumption rate, and unlimited availability in Botswana. This was considered important as a ground breaking study of modern retailing because studies focussing on Sub-Sahara Africa have excluded clothing and furniture by concentrating on food retail (Dolan & Humprey, 2000; Emongor & Kirstern, 2009; Tschilrley et al., 2010).

Semi-structured interviews were conducted with store managers in 13 geographical locations in Botswana. Informants were asked about the current changes in the retail environment and how they were affecting their operations. Each interview took about 45 minutes. On average, 17 interviews were conducted in each location selected on the basis of retail concentration and geographical spread over the country. The interviews were recorded verbatim and content analysed to identify common themes. Researchers compared the individual results and discussed differences until a consensus was reached. These themes were then subjected to two focus group discussions involving 30 participants from previously interviewed retail managers, senior people from related government ministries and some industry support institutions. The aim of focus groups was to reflect on the initial findings and to consider policy options that could be used by the government to help the retail industry deal with the challenges.

4. Profile of Respondents

Table 1 and 2, show some profiles of the respondents.

Table 1. Demographic Characteristics of the Respondents

	Frequency	Percentage
Respondent Education		
Below Ordinary level Certificate	73	33.3
Ordinary Level Certificate (Cambridge)	86	39.2
Pre-First Degree (Certificate and Diploma)	34	15.5
First Degree and More (e.g., BBA, B.Com, MBA, Msc))	26	11.9
Respondents Experience		
Less than a year	24	10.7
Between 1 year and 5 years	91	40.4
5 years or more	110	48.9

Most of the respondents were at the position of store manager (85 percent). A summary of the demographic characteristics of the respondents in Table 1 show that about 49 percent of the sampled store managers had more than 5 years' experience suggesting that the respondents were more knowledgeable about the operations of retail stores. The highest level of educational qualification attained by the respondents was Ordinary level (12 years of schooling). A higher level of education seems to be less important in Botswana's retail market.

Table 2. Profile of Retail Outlets

	Frequency	Percentage
Retail Stores by Types		
Clothing	105	47
Furniture	59	26
Food	63	28
Retail Stores by Location		
Bobonong	11	4.8
Francistown	22	9.7
Gaborone	73	32.1
Ghanzi	8	3.5
Kanye	15	6.6
Kasane	6	2.6
Letlhakane/Orapa	6	2.6
Lobatse	15	6.6
Mahalapye	15	6.6
Maun	17	7.5
Mochudi	9	4.0
Selebi Phikwe	17	7.5
Serowe	13	5.7
Size of Retail Stores by Annual Sales (GBP12 = P1)		
Small (Less than P5 million)	45	24
Medium (between P5 million and P10 million)	100	52
Large (more than P10 million)	45	24
Ownership		
Indigenous retailers	99	45.6
Foreign retailers	102	47
Joint Ventures	16	7

Table 2 indicates that a majority of the respondents' retail stores were located in the two largest cities in the country, Gaborone and Francistown, which accounted for almost 42 percent of the sample. This corresponds to the general distribution of retail establishments in the country. The clothing retailers accounted for about 47 percent of the respondents, while furniture and food

retailers constituted 26 and 28 percent respectively. Over half of the retail stores were established from year 2000, which confirms the relative novelty of chain retail stores in Botswana. A mix of small and large retailers exist in Botswana and a majority of retail stores are medium sized as described by annual sales between P5 million (approximately GBP416, 667) and P10 million (GBP833, 333). The sample consists of an equal proportion of foreign (47 percent) and indigenous (46 percent) retailers, while the remaining 7 percent represented joint ventures.

5. Findings

The key themes representing retail challenges in Botswana were categorised into four categories including: *competition*, *consumers*, *economy* and *the retail-mix*.

5.1 Competition

Nearly all the respondents identified competition as a major challenge. Competition was felt by the retailers of all sizes from every location that was visited. On further scrutiny of competition in the retail sector, three sub-themes emerged representing sources of competition including: the dominance of foreign retailers, market saturation and a lack of product differentiation among the various the retailers.

5.1.1 Dominance of Foreign Retailers

In Botswana, the general dealer has, for generations, been the supplier of choice for all kinds of merchandise to communities in rural and other areas of the inner cities. These businesses have thrived for many generations, despite their generally high prices and restricted consumer choice. The key to their success was mainly market stability due to lack of competition and the fact that consumers in rural areas did not hold high service expectations. The appearance of large foreign retail stores with cheaper and more varied merchandise has changed all that. By virtue of their size, these stores are able to negotiate favourable deals with suppliers, thus taking advantage of economies of scale to sell at lower prices the same products that small scale traders sell. The impact of chain stores on small general dealers was evident everywhere the researchers visited where “Big Brother” opened a store. Almost all the general dealers were either closed or in the process of closing down. For instance, one retail store manager commented that *“although our company is local it has to compete with many foreign companies. Another said “the retail market is saturated with companies from outside Botswana which even kill some small local companies and I do not see the small general dealer coping.*

The growing number of Chinese retail stores was also perceived as an area of concern by respondents. One respondent summed it in two words: *“Chinese invasion”*. Another observed *“influx of Chinese retailers”*. The influence of Chinese retailers was discernible in cities, towns and villages. In some places, Chinese retailers occupied a larger portion of the major streets or shopping centres. The challenge posed by Chinese retailers is not limited to numerical superiority over indigenous retailers but also includes allegations by other foreign retailers that Chinese sell counterfeit products at very low prices: One respondent said *“Chinese retailers*

imitate our products which often create customer complaints. Our customers are complaining that they bought something at a high cost in our store and now have seen the product at a lower price in some Chinese shops". Another said "In my opinion they are dumping low quality products here and this does not benefit Batswana".

5.1.2 Market Saturation

A significant proportion of retail managers in all the three sectors covered in this study raised concerns about the unlimited number of retail licenses that are issued by authorities. Some respondents made the following comments: *"There is intense competition from large supermarkets. I am afraid that the way large supermarkets are opening branches, small traders are going to close business and most Batswana will lose business. The issue of licensing needs to be reviewed. Another commented that "there is an Over-licensing of retail outlets in Mahalapye and Palapye."*

5.1.3 Lack of Product Differentiation

A majority of retailers continue to sell similar products which fuelled competition. Some respondents observed that lack of product differentiation contributed to market saturation. As one of the respondents observed *"The market is saturated because most retail stores sell the same products."* Another respondent noted that *"Competition is stiff because most retailers sell similar items and this challenges [us] to explore other strategies to differentiate from others."* Researchers also observed first hand that many retailers traded in similar products and operated in close proximity with each other in major shopping centres. Whilst shopping centres offered the advantages of collective security and drawing large crowds of potential buyers, they also served as a battle ground for intense price competition as each retailer attempts to outperform others. However, small retailers fared badly on price competition compared to large retailers who benefited from economies of scale.

5.2 Consumers

Two sub-themes emerged including increased consumer complaints and deceptive behaviour among customers.

5.2.1 Increasing Consumer Complaints

As more Batswana become enlightened about their rights as consumers in recent years, they grow in quality consciousness and their expectations of what is better customer service have also increased. Retail managers, particularly in the clothing and furniture sectors have borne the brunt of high consumer expectations. As a result, consumer complaints relating to issues of price, quality and after-sale services have increased manifold in these sectors. As one respondent pointed out *"Our customers are complaining that they buy products at a high price in our store and later find the same product at a cheaper price in some Chinese shops."* High dependence on imports also exacerbates customer complaints as a respondent noted *"Since we buy from outside, it is not always easy to solve customers' complaints. This disadvantages our customers as they have to wait for a product while it is taken to South Africa for service."*

5.2.2 Increasing Deceptive Behaviour Among Customers

As a variety of new products flood the Botswana market owing to retail modernization, there is a growing trend of consumers who acquire products they cannot afford. Thus, theft and default payment have become a concern for retailers. About a third of the respondents mostly in the food and clothing sectors mentioned theft as a major challenge. Furniture experienced comparatively little theft because of its bulkiness. However, because of the high unit costs of furniture, customers are often allowed to pay in instalments, thus allowing credit which result in default payment. The extent of the problem is reflected in the following statements: *“In the furniture business people are given goods on credit but people are not able to pay as per the agreement.”*

5.3 The Economy

Nine sub-themes representing the unfavourable economic conditions in Botswana and their implications for the success of the retail sector are as follows:

5.3.1 Lack of Local Supply

The study probed for the proportion of domestically produced goods sold by retailers. On average, only about 10 percent of total stocks sold were domestic products and about 90 percent were imports, largely from China and South Africa. High import-dependence is attributed to the absence of local manufacturers. In fact, while most respondents claimed that they were willing to increase the local content of their stock, this was impossible because of the shortage of local producers and their inability to meet the volumes required by large foreign retailers as observed in the following statement *‘The retail trade is challenged in Botswana because we are not a producing country. Local suppliers often do not have the stock and we always have to order materials from South Africa which takes time.’* Another one said *“I do not think that there is any producer in Botswana that can supply the quantity that is needed by our company.”*

Labour Related Issues: Skill development is necessary to handle the ever changing and competitive environment in the retail sector. Most retail managers are semi-skilled regardless of the experience and length of service. Hence, they might not have sufficient skills to deal with competition. With limited training, most retail managers consider price reduction as an alternative form of differentiating their products. In reality, this only reduces margins leading to poor business performance. Retail managers do not have the opportunity for further training. One respondent commented that *“The retail sector is normally managed by people who are semi-skilled. People will assume responsibility based on long service and experience.”* Another said *“Decision-making is still in the hands of non-citizens and this inhibits the flow of skills.”*

Another finding is that there is a relatively high level of stock theft by staff in food and clothing retailing. It was noted that most of these retailers pay wages which are equal to or just above the recommended minimum of P650.00 per month which is approximately £54.00 and barely covers the costs of basic daily requirements like food and transport minus cost of utilities.

Respondents also complained of unfair treatment of employees. Since the retail labour market is mainly semi-skilled, it is in abundance and employers mistreat the employees knowing that they are easily replaceable. A respondent noted that *“It is very easy to lose a job in the retail sector due to unfair dismissals and retrenchments.”* This is perpetrated by lack of unions in the retail industry to represent workers. One branch manager argued *“We need workers associations so that we can talk and relay our problems. A visit from government officers is also necessary so that they understand our problems.”* Another noted that *“Due to limitation in skills, it is hard to negotiate remuneration. This is even frustrating that although managers at the branch level will assume responsibilities, people are not trained so that they will get the skills that will be beneficial in the long term.”*

5.3.2 Inflation

It increases operational costs across all sectors studied. However, furniture is the most affected because the retailer often assumes responsibility for transport costs for the delivery of furniture to the customer. The increase in costs erodes business profits and retailers that cannot keep operational costs under control may easily go out of business. Inflation also lowers consumer purchasing power and consumer demand as it increases the price charged to consumers. This is confirmed by the following quotes from respondents: *“High prices of merchandise will make it difficult for most Batswana to afford. To encourage the economy to grow, we need to ensure that we strike a balance between inflation and salaries.”* Another noted that there was pressure on them to meet sales targets as business is low and observed that *“this could be influenced by the general rise of food and fuel prices and as a result people cannot afford to buy furniture anymore.”*

5.3.3 Fluctuating Local Currency

Unfavourable currency fluctuation lowers demand and ultimate business performance and has negative consequences on both domestic businesses and customers. The devaluation of currency makes it expensive to acquire supplies from outside the country and as such expenses are passed on to customers by retailers. A respondent noted that: *“Devaluation of Botswana Pula increased the prices of goods which affected customers. Now we buy goods that are expensive from suppliers bearing in mind that customers may not be able to afford highly expensive products.”* Another commented that *“The devaluation of pula and fluctuating Pula compared to the South African Rand is a challenge.”*

5.3.4 High Rental Charges

Rental property charges in Botswana have become extremely high and the respondents expressed concern that without government intervention, many retailers will close as observed in the following statements. *“A number of stores that used to employ a good number of people are closing down due to losses because the rental charges are too high, if this is left without any proper monitoring system, it will reduce the growth of retailing”,* *“Rents are high in Botswana”* and *“The land lord has hiked the rent by double. The company is planning to close 2 of its branches. In the long run this will affect the economy of Botswana negatively.”*

5.3.5 Shortage of Utilities

Frequent power cuts often force businesses to close down temporarily. Retailers located mainly in rural areas, loose business because banks are mainly in cities and towns. Customers visit banks and subsequently use the opportunity to do their shopping at once as noted: *“Electricity cuts affect our businesses as we are not able to sell when there is power shortage”* and another pointed out that *“We are operating in a village and there is one bank. We lose business when people go to another major village for banking as they end up buying there.”*

5.3.6 Lack of Infrastructure

The quality of roads in most areas that are located far from the cities is relatively poor, thus making it extremely difficult to deliver merchandise on time and in good condition as observed in the statement that: *“Bad roads damage goods supplied to the store.”* In the process of delivering merchandise, retailers also incur high operational costs and stock shortage, which lead to low sales and growing customer complaints. In an attempt to avoid frequent travel on bad roads or late deliveries, suppliers sometimes distribute large quantities as observed from a comment made by a clothing retail manager *“We often get stock in large quantities and when the store is over stocked this discourage customers.”* Customers often want to shop where clothing rails are not congested to enable them to move the merchandise freely.

5.3.7 Small Consumer Market

In general the population size of Botswana is not encouraging for retailers as observed by one respondent *“Population of Botswana is limiting.”* For other parts of the country it can be more discouraging as the product demand can even be lower as observed by a branch managers located in one of the towns that: *“The market for furniture is too small. There are a few people willing to buy furniture, business has gone down”* and another commented that: *“Small population and lower demand make project unviable.”*

5.3.8 Lack of Support of Entrepreneurial Development

Botswana government and related institutions are still trailing behind in their support of home grown entrepreneurs. Lack of support to instil domestic entrepreneurial spirit has thus led, among other factors, to lack of citizen involvement in all aspects of retailing from production to marketing, less chances of employment creation, heavy dependence on imports and increased poverty in the country. Respondents made the following comments that: *“It will take years for Citizens to dominate the retail industry in Botswana. This is because there is lack of confidence by financial institutions like Citizen Entrepreneurial Development Agency that citizens can perform well in retailing”, “.... I feel employees who have more experience in this sector should be supported so that they can create business”* and *“the government should support the agricultural sector to encourage the spirit of farming which could possibly help to reduce food shortage.”*

5.4 Retail-Mix

5.4.1 Declining Product Quality

Retailer managers, in all the three subsectors studied, complained about the quality of local producers, which, they claimed, were not acceptable to consumers. Consumers on the other hand preferred imported merchandise, particularly clothing, as they perceive that “made in Botswana” products are either not up-to-date in fashion or poor in quality. One manager noted that: “...it is often very difficult to sell the stock purchased from Botswana. Manufacturers in Botswana will need support from government on how to improve their production skills.” Another observed that “There are a few manufacturers which could supply the quality of goods needed by consumers.”

5.4.2 Store Image

Store image is important to attract many customers whereas lack of visibility drives customers away. Respondents complained of lack of property management for shopping centres located in urban villages. Street vendors sell in front of their stores, inhibiting store visibility as one observed that; “Overcrowding of hawkers inhibit the visibility of our shops and take parking and of course the place around the shop is unclean and unhealthy.” Another said “The squatters selling in front of our shops make the environment unclean. It is important for the council to ensure that there are facilities like toilets and that these people keep environment unclean.”

5.4.3 Bureaucracy in Decision Making

Foreign retailer dominance in Botswana has led to centralized decision making at headquarter level in the foreign countries. This lack of involvement in decision making limits the retail managers’ ability to implement decisions at the retail store level. This results in poor business performance and increases operational costs. The retail store managers in Botswana noted that: “Decision making is still in the hands of non-citizens and this inhibits the flow of skills.” “The main challenge is that we are not involved in decision making. In addition there is no job description, I am supposed to be a manager but I do everything including cleaning.”

5.4.4 Pressure on Retail Sales People to Meet Sales Targets

Pressure on employees to meet sales target is common cause for complaints in the clothing and furniture sectors as confirmed by the following comments: “In our business there is a lot of emphasis on meeting sales targets, which puts a lot of pressure on employees” and “Sales targets are set high and it is very difficult to meet them. Business is low and fluctuates.” Given the intense competition, sales personnel are compelled to push products to people who do not have adequate finance for fear of losing their jobs, which could perpetuate poverty. One manager commented: “Lack of business which could lead to retrenchment, because business fluctuates. This is a big challenge given that we have sales targets. This is perpetuated by competition.”

5.5. Proposed Conceptual framework of the Implication of Modern Retailing

Figure 1 presents the relationships between the retail challenges and their specific dominant

themes and the perceived consequences of each retail challenge on retail performance.

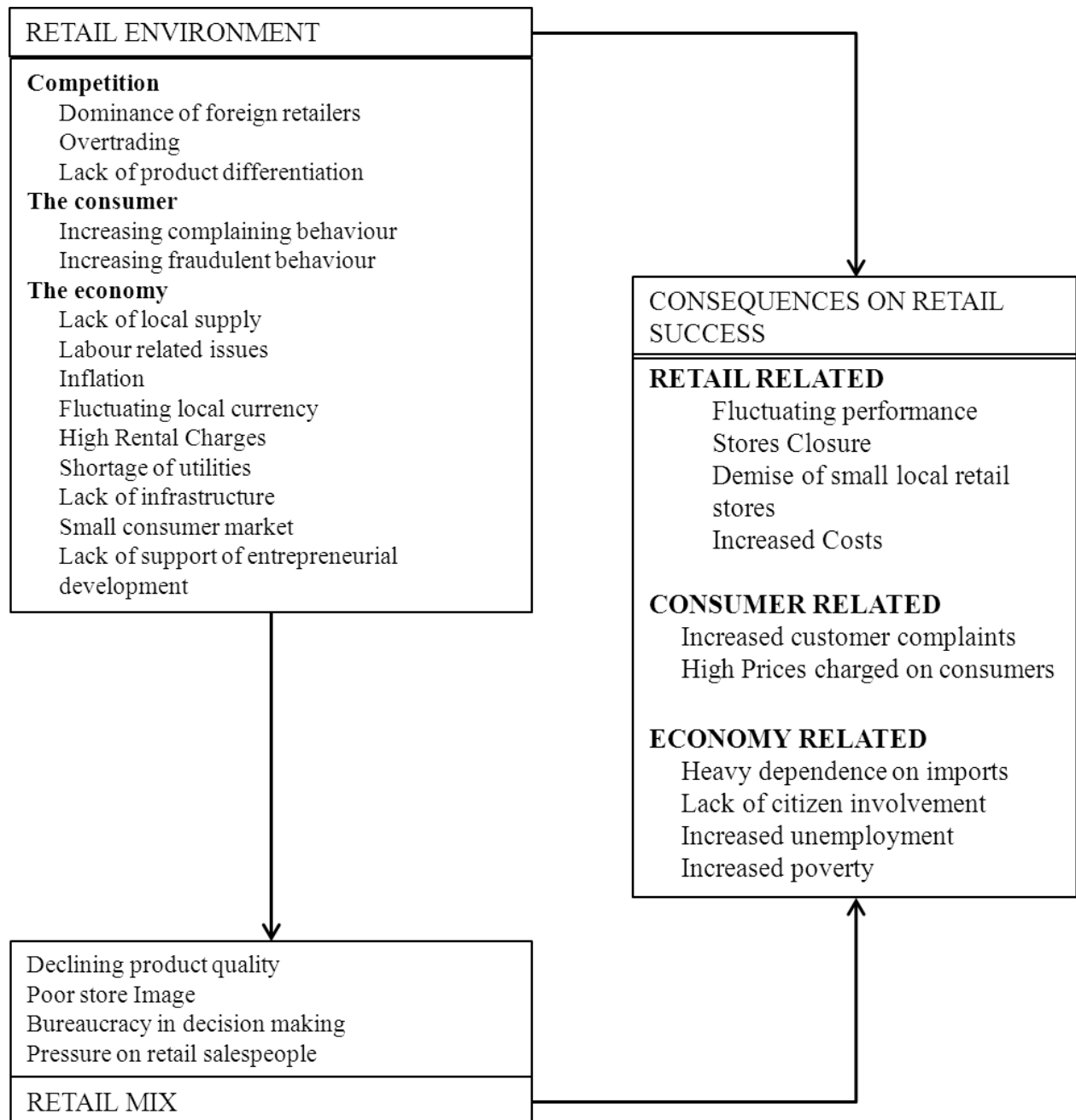


Figure 1. Retail Environmental and Mix related Challenges and the impact on Retail Success in Botswana

6. Discussions and Conclusions

Findings of our study show that the competitive environment in the market for food, furniture and clothing in Botswana is characterized by lack of product differentiation, price competition, market saturation, closures of small local retailers, dominance of foreign retailers and

overtrading. These characteristics are also evident in developing countries in Asia that have attracted large foreign retailers such as India, China, Malaysia, and Singapore (Sim, 1999; A. T Kearny, 2006; Ahmad et al., 2008). In spite of the similarities across developing nations the intensity of competition experienced by retailers in Botswana appears to be on the high side. This is likely to erode the attractiveness of the country as the destination of choice for foreign retailers. Consumers for food, clothing and furniture products in Botswana are evolving and becoming more demanding as they openly express their dissatisfaction. This feature corresponds to findings by previous studies (Wing-Chu Lo et al., 2001; Ahmad et al., 2008) that ranked changes in consumer needs highly after competition as a problematic area in the retail sector in China and Malaysia. It appears there is also a developing unique trend of unethical consumption in Botswana. This is largely due to the provision of inaccurate personal information, failure to honour agreed commitments, indebtedness and the strategy of selling products on the basis of hire purchase especially in the furniture sector.

The study also indicates that the economic environment in Botswana may not be as conducive to food, furniture and clothing retailers as the recent ratings by A.T Kearney Report (2012, 2013) suggest. Economic factors such as lack of domestic supply, lack of skilled labour, inflation, high rental charges and poor infrastructure portray Botswana as a costly environment for retailers to operate in. The Botswana government has recently instituted measures designed to relax restrictions on investment of retailing (A.T Kearny Report, 2013); stimulate entrepreneurial activity through initiatives such as Citizen Entrepreneurship Development Agency and Local Enterprises Authority (National Development Plan 10, 2009/14) and diversify the economy away from diamond by increasing investment in the private retail sector (National Development Plan 10, 2009/14). However, the real impact of these measures on retailing has yet to be realised.

The effects of competition, the economic environment and consumer behaviour adversely affect the retail-mix and thus call for food, clothing and furniture retailers to explore strategic decisions to set themselves apart from other competitors. It is even of great concern that retail store managers have acknowledged that their current retail-mix is below the expected level due to poor product quality, lack of visibility of retail stores in urban villages, lack of flexibility in decision-making at the branch level and overemphasis on meeting set sales targets. Specifically, large foreign retailers can deal with characteristics associated with intense competition by ensuring that the retail-mix provides consumers with unique benefits such as high product quality, superior customer service, convenient shopping to minimize the time it takes them to shop, the use of knowledgeable and problem solving oriented salespeople, ease of product accessibility through user friendly check out points and merchandising. For small local retailers the challenge is to identify mechanisms for coping with intense competition or risk to discontinue. Small local retailers could find competitive advantage for themselves by opting for cooperation or collaboration amongst themselves as well as joint ventures with foreign retailers.

With regard to labour related issues like stock theft by employees, retailers could review their staff wages and align them with best practices of offering a living wage. Lack of local supply,

government lack of support for entrepreneurial development, shortage of utilities, lack of infrastructure and high rental charges are also among the major economic challenges that retailers in Botswana face. Retailers are more likely to effectively deal with these challenges by speaking in one voice and ensuring a continuous dialogue with government and relevant stakeholders. Currently, retailers in Botswana deal with the challenges they face independently or through the voice of the Confederation of Commerce, Industry and Manpower which represents general private sector. There is no association specific to retail sector and thus the proposed association will be very instrumental to the development of policies that can help to address the challenges affecting the retail sector. For instance, policy programs on how to increase local manufacturing, entrepreneurial development and minimize high rental charges, to mention but a few can be handled effectively at the industry level in association with the government.

However, retailers alone cannot resolve challenges associated with the competitive and economic environment. Government has a responsibility to facilitate retail performance. For example, the Government of Botswana could intensify its assistance in the form of training and finance to enhance the skills and capabilities of indigenous retailers in order to enable them to compete effectively with foreign retailers. The proposed Government support is not in any way peculiar to Botswana. Coe and Wrigley (2007) emphasised that it is vital for governments in host economies to support indigenous retailers to help them match the sources of competitive advantage used by foreign retailers. Kaliappan, et al, (2007) pleaded with the Malaysian government to support domestic suppliers as they faced strict supply requirements that were brought about by the foreign hypermarkets. The Singaporean and South Korean governments have also introduced measures to protect small and medium size retailers (Sternquist & Jin, 1998; Sim, 1999).

7. Limitations and Future Direction

Research on retailing is important given the sector's tremendous transformation and economic significance. The current study explored challenges brought about by modern retailing in a context of a developing country. In order to contribute meaningfully to the implications of retail modernization, a quantitative study could be conducted. The study could include other related sectors such as electronics, hair-salons and auto repairs, rather than just concentrating on clothing, food and furniture. Future studies could also establish the impact of modern retailing on the operations of small indigenous retailers and the informal retail sector, a sector that is very significant in developing countries in Sub-Sahara Africa such as Botswana.

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