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Informal retailing through home-based micro-enterprises: the role of spaza shops

AA Ligthelm¹

The informal trade sector constitutes an important part of the South African economy, with estimated sales of R32 billion in 2002. Its emergence is largely attributed to the divergence between the growth in population, especially the urban population, and employment growth in the formal economy. Growth of informal enterprises, especially in the retail sector, is also thriving on the demand of less affluent households, whose household needs for unsophisticated and affordable products are aptly supplied by the informal sector. The aim of this article is to focus on one of the prominent sub-sectors of informal retailing, namely spaza or tuck shops, defined as small retail businesses which operate from a residential stand or home. Particular attention is paid to the size, role and characteristics of spaza trade in South Africa, which is estimated to account for nearly 3 per cent of South Africa's retail trade.

1. INTRODUCTION

The World Bank estimates that the informal economy generates 40 per cent of the Gross Domestic Product (GDP) of low-income nations and 17 per cent of the GDP of high-income countries (Farrell, 2004:7; Schneider, 2002). In Africa, it is estimated that this sector accounts for almost two-thirds of urban employment and grows at an annual rate of 7 per cent (Karl, 2000:53).

The growth of the informal sector is attributed largely to the divergence between the growth of population, and in particular the urban population, and the growth of employment in the formal economy. The rate of job creation in the formal sector is frequently far slower than the growth of the labour force. The shortfall in productive employment opportunities compels people to fend for themselves. The needs of low-income households create a significant demand for a variety of products and services at prices below those of formal sector businesses. Products and services provided by the informal sector are often more affordable, and their type and quality more appropriate, than those supplied by the formal sector (Bugnicourt, 2000:55). Although it is difficult to determine the extent of the informal sector, micro-level studies suggest that the informal sector comprises a large and growing portion of the work force in many countries. A study in Mamelodi, near Pretoria, for example, found that 40 per cent of households were running at least one home-based enterprise (Gough et al., 2003:258).

This article focuses on the informal retail sector and more particularly on a subset of the sector consisting of home-based retail businesses called *spaza* or tuck shops.

2. OBJECTIVE

The magnitude and characteristics of the informal sector are largely unresolved. This article gives an account of the size, role and characteristics of *spaza* trade, one of the

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important sub-sectors of the informal economy. An in-depth profile of, and insight into, the dynamics of *spaza* trade will allow the manufacturing, wholesale and retail sectors to measure their activities against the overall size and activities of the *spaza* market segment.

3. DEFINING THE INFORMAL SECTOR

Most authors studying the informal sector face the difficulty of definition. It is widely acknowledged that the sector includes all currently unregistered, and often unrecorded, economic activities that contribute to gross domestic product. As this broad picture leaves a number of questions unanswered, Table 1 enumerates and classifies the legal and illegal activities in the informal economy that normally escape detection in the official estimates of GDP (Schneider, 2002:3). The informal economy embraces unreported income from the production of goods and services, whether legal or illegal, from monetary or barter transactions – hence all economic activities that would be taxable if reported to the fiscal authorities.

Given that the informal sector varies greatly according to type of activity, size, regulatory requirements and legal status, no single definition of the informal sector exists, nor is one anticipated (Naidoo, 2002:13).

The International Conference of Labour Statisticians (ICLS) of the International Labour Organisation (ILO) has attempted to describe the informal sector so that it can be demarcated for national accounting purposes (ILO, 1993:25). The resolution states that:

... the informal sector as a subset of the household sector may be broadly characterized as consisting of units engaged in the production of goods and services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organization, with little or no division between labour and capital as factors of production and on a small scale. Labour relations – where they exist – are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees (ILO, 1993).

Table 1: Taxonomy of types of informal economic activities

| Type of activity | Monetary transactions | | Non-monetary transactions | |
|--------------------|---|-------------------------------------|--|--|
| Illegal activities | Trade in stolen goods; drug dealing and manufacturing; prostitution; illegal gambling; smuggling and fraud | | Barter of drugs, stolen goods, smuggling. Production of or growing drugs for own use. Theft for own use. | |
| | Tax evasion | Tax avoidance | Tax evasion | Tax avoidance |
| Legal activities | Unreported income from self-employment; Wages, salaries and assets from unreported work related to legal services and goods | Employee discounts, fringe benefits | Barter of legal services and goods | All do-it-yourself work and neighbour help |

Source: Schneider (2002:4).

For the operational purpose of collecting statistics, Charmes (2000:62) defines the informal sector as a group of individual enterprises owned by households and consisting of:

- informal enterprises of persons working for their own account and having no permanent employees; and
- enterprises of informal employers employing employees on a continuous basis, whose employment is below (in terms of number of jobs) thresholds set by statistical practices of legislation in the country (thresholds of 5 or 10 jobs being the most frequently used), or which have not registered these employees or are not registered (as companies, or for tax purposes).

The ICLS further proposed that agricultural activities and non-commercial production should be excluded from the informal sector, but that multiple occupations carried on by workers in the formal sector, who also participate in informal enterprises, be taken into account. The recommendation to exclude the agricultural sector is due mainly to practical problems of data collection. The ICLS considers that agricultural activities should be measured separately through agricultural surveys, for example.

The ICLS resolution, while very general, nevertheless provides a perspective on the nature of enterprises considered to be part of the informal sector, a perspective that is also applicable to small *spaza* retailers discussed in this article.

Naidoo (2002:31) maintains that activities undertaken in the informal sector can be categorized into two main groups. Some people find employment in the informal sector as a result of a survival or employment strategy (working on casual jobs, having temporary or unpaid jobs, or holding more than one job). Others are involved in illegal or unofficial earnings strategies (actively participating in tax evasion, avoidance of labour regulation and other government or institutional regulations or operating an unregistered business). Generally, the majority of people in developing countries, and to some extent those in transition countries as well, resort to the informal sector as the only means of survival; illegal participants in the informal sector are normally found in the more developed countries. The informal sector plays an important and controversial role. While it offers opportunities for the unemployed, jobs in this sector tend to be low-paid and have little job security. Moreover, entrepreneurial activity is promoted, but at the price of non-compliance in respect of tax, labour and other regulations.

4. RETAIL TRADE IN SOUTH AFRICA AND THE ROLE OF SPAZA SHOPS

First, an indication will be provided of the importance of the retail trade sector in South Africa, and more specifically its role in the informal economy.

Table 2 shows the relationship of retail sales to consumption expenditure in 2002. Total consumption expenditure (expenditure of households on goods and services) amounted to R686,5 billion in 2002, of which 58,3 per cent was spent on goods and 41,7 per cent on services. Potential retail sales (expenditure on goods minus expenditure on personal transport equipment such as cars, tyres, petrol, paraffin and household fuel and power such as electricity) amounted to R316,6 billion. Of this R206,7 billion or 65,3 per cent was channelled through formal retail outlets such as Pick'n Pay, Checkers, Spar and other retail outlets. Just over a third (34,7 per cent or R109,9 billion) was channelled through the following outlets:

- informal retail outlets such as *spazas*, hawkers and township general dealers
- non-store retailers such as mail order services and vending machines

Table 2: Relationship between retail sales and private consumption expenditure, 2002

| | 2002 (estimated) R million |
|---|-------------------------------|
| 1. Total private consumption expenditure (2 + 3) | 686 517 |
| 2. Expenditure on services | 286 457 |
| 3. Private consumption expenditure on goods | 400 060 |
| 4. Private consumption expenditure on personal transport equipment and fuel and power | 83 480 |
| 5. Potential retail sales (3–4) | 316 581 |
| 6. Formal retail sales | 206 680 |
| 7. Retail sales other than by formal retail outlets (5–6) | 109 901 |
| | per cent |
| 8. Services as a percentage of consumption expenditure | 41,7 |
| 9. Potential retail sales as a per cent of private consumption expenditure | 46,1 |
| 10. Formal retail sales as a percentage of potential retail sales | 65,3 |
| 11. Other than formal retail sales as a percentage of potential retail sales | 34,7 |

Source: Tustin (2003:16).

- non-retail establishments such as wholesalers and agricultural and manufacturing outlets
- e-commerce and e-retailing.

It is estimated that approximately 10 per cent of potential retail trade, amounting to approximately R32 billion, was channelled through informal outlets in 2002. The share of *spazas* amounted to approximately 2,7 per cent of retail trade with a total sales volume of just more than R8 billion in 2002.

Businesses in the informal sector embrace all sectors ranging from manufacturing to personal services and trade. The informal trade sector consists of various types of enterprises, ranging from *spazas* or tuck shops to hawkers and catering enterprises. *Spazas* represent an important component of the informal trade sector and form the focus of this study. For purposes of this article, a *spaza* or tuck shop is defined as a shop or business operating in a section of an occupied residential home or in any other structure on a stand in a formal or informal township which is zoned (or used) for residential purposes and where people live permanently. The business practice of *spazas* entails ordinary retailing; that is, purchasing consumer goods from manufacturers, wholesalers, other retailers and private individuals and selling goods to customers. The terms *spaza* and tuck shop are used interchangeably to refer to the same type of business. *Spazas* are also referred to as home-based enterprises in the literature (Gough et al., 2003; Strassman, 1987; Kellett & Tipple, 2000).

5. SURVEY METHODOLOGY

5.1 Scope

The survey units consisted of individual *spaza* shops located in South Africa and that participate in the loan scheme of Quatro Trading, which forms part of the New Africa

Investment Limited (NAIL) group of companies. It specializes in micro-lending in the niche market of informal trade finance and operates as a franchiser. At the time of the survey (2000/2001) Quatro Trading had 262 franchisee branches in South Africa and elsewhere in Southern Africa, and supplied trade credit to an estimated 15 000 to 20 000 informal traders. There were approximately 6 000 *spaza* retailers actively utilising Quatro Trading's loan facilities at the time of the survey and these were used as a sample frame to select *spazas* for interviewing (Ligthelm, 2002:7).

Since the sample frame consisted exclusively of Quatro Trading clients, it must be asked whether there was any difference between the clients of Quatro Trading and other *spaza* retailers who did not make use of Quatro Trading's credit facilities. When the survey was initially planned, it had been proposed that both clients and non-clients of Quatro Trading should be included. Practical reasons, and especially the national coverage of the survey and the limited time available to franchisees who acted as interviewers, meant that non-clients were ultimately excluded.

Quatro Trading applies very lenient selection criteria for extending loans to *spazas* and only enterprises in existence for fewer than six months are excluded. Quatro Trading does however inspect the businesses of applicants to ensure that the applicants operate from some form of physical facility, and thus excludes hawkers from its client base. The relatively lenient approach is based on empowerment considerations, especially since Quatro Trading supplies business finance to marginalized and under-banked sectors of the South African economy. Its distribution network is comprehensive, and covers all types of areas, from rural to metropolitan. It can therefore be assumed that the clients of Quatro Trading are fairly representative of all *spaza* shops in South Africa. Only newly established *spazas* operating for less than six months, and larger informal *spazas* who are not in need of credit from Quatro Trading, may be excluded from the survey population. Thus the two extremes of the *spaza* spectrum are excluded; small, newly established shops and *spazas* that can negotiate loans or credit directly from wholesalers or financial institutions. Clients of Quatro Trading may, however, make more extensive use of credit and this may influence their turnover and employment size. When interpreting the survey results, this qualification of the survey population should be kept in mind.

5.2 Research instrument

A pre-structured questionnaire was used. As a large part of this had previously been used in a survey of *spazas*, it was considered to be a well-tested instrument. The issues on which the owners were questioned included: profile of the *spaza* owner, physical characteristics of the *spaza* shop, financing, employment, procurement of merchandise, relationship with suppliers, transport, hostilities towards *spazas*, business problems, advertising and promotion, and location.

5.3 Sample frame and response

The sample frame consisted of all the active clients of Quatro Trading. It contained information of all franchisee branches with numbers of all active customers. A random selection of *spazas* was drawn from this list. Quatro Trading supplied interviewers with the names and addresses of the *spazas* to be interviewed. If a *spaza* owner refused to participate, the *spaza* was replaced by another *spaza* retailer from a separate list in the possession of the field manager.

A total of 340 *spaza* retailers were interviewed. The respondents were spread over all types of areas: 124 in formal residential areas, 67 in informal residential areas, 95 in rural areas and 4 in hostels. They were located in all nine provinces, ranging from 26 in KwaZulu-Natal to 64 in the North-West. The survey was conducted mainly during the latter part of 2000 but excluded the holiday season. Some of the questionnaires were completed during the first quarter of 2001.

6. SURVEY RESULTS AND FINDINGS

6.1 The informal entrepreneur

A generation of new entrepreneurs has become the creators and leaders of entire companies and even industries in the USA. Since World War II, small entrepreneurial firms have been responsible for half the innovation and 95 per cent of all radical innovation of new technologies, products, processes and services in the USA (Timmons, 1999:5). Wealth and job creation can only succeed if dynamic entrepreneurship thrives.

The Global Entrepreneurship Monitor (Foxcroft et al., 2002:13) measured the rate of entrepreneurial activity in 37 countries. Entrepreneurial activity is measured by the total entrepreneurial activity (TEA) index (the proportion of adults between 18 and 64 years who are either actively involved in starting a business, or are owner-managers of a business less than three and a half years old). South Africa is below the average of these 37 countries; of particular concern is the fact that South Africa has the lowest TEA index of all the developing countries that were investigated.

The findings of the local *spaza* survey are closely aligned with international evidence regarding the gender, age and educational level of the owners of small retail businesses (Reynolds et al., 2002:6). Nearly two-thirds of *spaza* owners (64,0 per cent) are male and 36,0 per cent female. Almost eight out of ten (78,5 per cent) fall into the 25 to 49 year age group. Just over one-third (36,9 per cent) have completed 12 or more years of schooling, while only 4,2 per cent have no formal education. A follow-up study on the level of entrepreneurship in large informal markets elaborates on the entrepreneurial acumen embedded in informal business markets as well as the extent to which normal entrepreneurial functions are applied in these markets (Ligthelm, 2004). It was found that the majority of businesses in large informal markets (mainly kerbside traders) show limited dynamism and hence entrepreneurial spirit.

6.2 General characteristics of firm

6.2.1 Starting a business

A global entrepreneurship study (Reynolds et al., 2002:6) enquired why people became entrepreneurs. The responses to this question showed that about two-thirds of the entrepreneurially active adults voluntarily pursued attractive business opportunities, while about one-third were engaged in entrepreneurship out of necessity, because they could find no other suitable work. Opportunity-motivated entrepreneurs predominate in developed countries, while necessity-motivated entrepreneurs comprise up to half of all those involved in entrepreneurship in developing countries.

The local survey among *spaza* retailers indicated that just under one in every four retailers could be described as opportunity-motivated entrepreneurs; only 6,2 per cent of *spaza* owners had chosen to start their own business when they perceived a lucrative

business opportunity. A further 17,6 per cent joined a business which was already in existence, evidence that some form of family business culture was present in the survey communities. Necessity-motivated entrepreneurs predominate in the *spaza* retail trade. Just over half (52,1 per cent) the *spaza* owners were unemployed when they started their own businesses. Since the majority of the unemployed today are young aspirant entrants to the market who have never held a job, or the long-term unemployed with non-transferable skills, this entrepreneurship pattern suggests that most entrants have limited business experience when starting their own retail businesses. A further 17,9 per cent wished to supplement their income and 5,6 per cent wished to work from home. Neither of these motivational forces necessarily ensures an effective business endeavour.

6.2.2 Business survival

Almost 40 per cent of *spazas* have been in operation for over five years. In rural areas, close to half (45 per cent) had been in existence for longer than five years, compared with 33,3 per cent in informal residential areas and 38,0 per cent in formal residential areas. The age of a business reflects its market experience and affects its ability to grow and move to the next size class. Both market experience and size are important in determining a business's access to financial resources. That 39,7 per cent of *spazas* have been in business for five years and more may be considered encouraging, against the backdrop of the high unemployment rate in South Africa, indicating that *spazas* may be regarded as a more permanent option for those unable to find work in the formal economy. However, the survey also confirmed the relatively high rate of establishment of new businesses. Almost one in every four businesses (23,0 per cent) has been in operation for less than two years, and 39,5 per cent for under three years. International experience has shown that births and deaths among small and medium-sized enterprises tend to be concentrated among younger and smaller firms (Picot & Dupuy, 1995).

6.3 Physical characteristics and infrastructure

Efficient service delivery, good infrastructure, and safety and security are some of the leading factors that contribute to a productive business climate and influence an investor's decision to locate in a certain area. This section highlights the locational aspects and access to infrastructure by *spazas*.

Quatro Trading's clients are spread across all types of areas. About one in three (29,9 per cent) were located in rural areas, 23,4 per cent in informal residential areas and 44,9 per cent in formal residential areas. Just under 2 per cent were located on hostel premises.

By definition *spazas* are located in residential areas, either attached to or in the main residential structure or operated from a separate structure on the residential stand. Just over a quarter of *spazas* (28,8 per cent) are operated from a brick building in the back yard, and 20,5 per cent use a room or garage attached to the house (20,5 per cent). One in every five *spazas* (19,9 per cent) is located inside the main house and 13,1 per cent are housed in a shack on the residential stand.

A substantial percentage of respondents confirm the availability of basic infrastructural services. Just over three-quarters (76,5 per cent) indicated that they have electricity and 62,5 per cent have access to water on the stand from which the *spaza* is operated. However, *spaza* shops are operated with only basic equipment and amenities.

Only 17,1 per cent had refrigeration facilities available, and 22,2 per cent a deep-freeze. Fewer than one in ten had access to a telephone and a cash register.

The majority of *spaza* clients are served over a counter (76,4 per cent) or through a window (17,4 per cent). Only 6,2 per cent of *spaza* retailers allow self-service. 86,1 per cent of respondents confirm that merchandise is displayed in the shop; 89,4 per cent of respondents display the selling price of merchandise either on the items themselves or on the shelves; and three out of every five *spaza* shops use a signboard to advertise the location of the shop.

6.4 Financial issues

6.4.1 Sources of capital

The survey findings indicated that the majority of *spazas* financed their start-up capital requirements through personal saving and loans from friends and relatives. Figure 1 shows that private savings, consisting of savings of owners and household members, were used by 62,6 per cent of firms as the main source for establishing their businesses. A further 20,0 per cent used loans from relatives and friends. Private savings and loans from family and friends are therefore used by no less than 82,6 per cent of firms as the main start-up capital source. Several other surveys indicate that the majority of retailers in South Africa source their start-up capital requirements from their own private savings or other household members (Ligthelm, 2003:36).

The conventional wisdom that guides government policy on entrepreneurship in South Africa identifies lack of access to finance as the principal impediment to the small enterprise economy. Aspirant entrepreneurs often consider this the most visible constraint. However, research increasingly finds that new entrants erroneously blame lack of finance for the failure or stagnation of their businesses. A report by the Centre for Development and Enterprise (CDE, 2004:27) states that it is necessary to distinguish between cause and effect in this issue, to be aware of constraints other than access to finance, and to consider the collateral dangers of 'soft' access to finance.

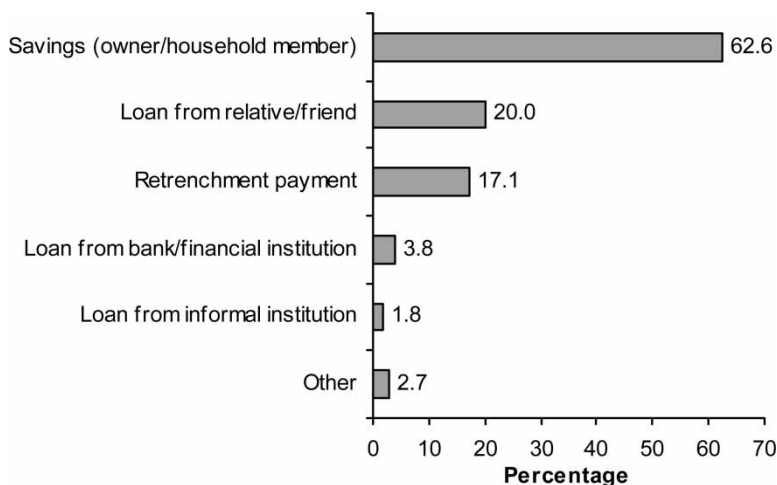


Figure 1: Main sources of finance for starting informal businesses

The question arises whether the limited use of external capital derives from inability to access external capital resources, or whether it is purely a matter of not needing debt capital for starting a business. From a survey among small and medium enterprises conducted in Johannesburg in 1999, the World Bank (Chandra, 2000:37) concluded: 'The majority of firms that do not use bank finances are not necessarily limited by lack of access to capital. On average, poor business conditions that pre-empt the need for capital investment seem to be a far more critical explanation than limited access to capital markets.' Although a survey of entrepreneurs in South Africa by the Global Entrepreneurship Monitor (Reynolds et al., 2002) also reported that a lack of financial support was widely viewed as one of the main problems facing entrepreneurs in South Africa, a thorough cross-country analysis shows that:

- compared to other countries, South Africa does not stand out as having a financial system that is reluctant to support entrepreneurs;
- internationally, formal financial institutions appear to provide funding to only a small minority of entrepreneurs. The entrepreneurs' own savings, and their ability to access investment informally from friends, family and colleagues, appear to be far more important sources of start-up finance.

Releasing the credit 'bottleneck' may well bring to the fore other problems not previously identified, and which have nothing to do with access to finance. There is an important distinction between access to finance at prevailing market rates of interest and access to subsidized or soft loans. Subsidized rates may be helpful to very poor retailers who can become impoverished by debt, but they do not adequately prepare those aspirant entrepreneurs for the financial discipline that will be required after the start-up phase. Subsidized interest, and financing policies that require minimal security and collateral, pose particular risks in the development of careers in small business. Local and international research agree that personal and family savings, as well as non-formal sources of funds, are the keys to entrepreneurial success.

6.4.2 Capital investment

The capital requirements for establishing a *spaza* are limited. The average start-up investment for outlets in this survey amounted to R4 058. This contrasts with other findings: an investment of only R1 082 was made for new *spazas* in Tembisa in 1998 (Ligthelm & Van Zyl, 1998:65) while on the other an initial investment of R27 800 was made for establishing small and medium enterprises in Tshwane in 2001 (Ligthelm & Morojele, 2001:23).

International experience confirms that small, medium and micro-enterprises across the world are often established with limited capital. Of the fastest-growing American private companies in 2000, 16 per cent started with less than US\$1 000, 42 per cent with US\$10 000 or less, and 58 per cent with US\$20 000 or less; and fewer than 5 per cent started with venture capital. Hence, small investments made primarily by family and friends are crucial in funding not only micro-companies but also future superstars (Reynolds et al., 2002:34).

6.5 Turnover and products traded

The *spazas* were requested to indicate their monthly turnover according to specified class intervals (Figure 2). Just less than one third of the businesses (31,1 per cent) recorded a

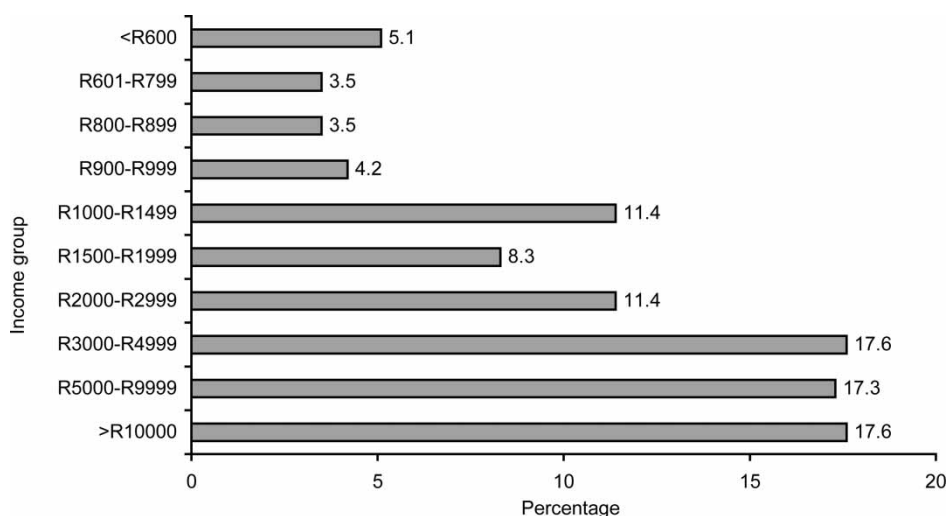


Figure 2: Monthly turnover of *spaza* retailers, by income group

turnover of between a R1 000 and R2 999 while just more than a third reported monthly turnover figures between R3 000 and R9 999. A total of 16,3 per cent experienced a turnover of less than R1 000 per month and 17,6 per cent more than R10 000.

The average monthly turnover reported by *spaza* retailers was R4 480. This figure is close to the R4 350 monthly turnover of *spaza* retailers in Tembisa in 1998 (Ligthelm & Van Zyl 1998:141). Some differentiation is evident between areas; reported turnover was almost 50 per cent higher in formal residential areas than in rural areas. The average turnover by area was:

- formal residential areas : R5 150
- informal residential areas : R4 400
- rural areas : R3 620

Respondents were also requested to list the products that contributed the most to their monthly turnover. The seven products mentioned most often by respondents are:

| product | per cent of <i>spazas</i> |
|-----------------------|---------------------------|
| • soft drinks | 57,1 |
| • cigarettes | 55,9 |
| • paraffin or candles | 41,5 |
| • maize meal | 38,5 |
| • alcoholic beverages | 32,6 |
| • bread | 27,6 |
| • sugar | 20,9 |

Generally, it appears that *spaza* retailers stock a limited product range, and depend for their existence on large volumes of low-income earners. Their connections with formal businesses are confined to a small number of suppliers (see section 6.7). Napier & Moshwa (2001) confirm that home-based enterprises in township areas are small in scale and of limited diversity.

6.6 Labour

Recent indications of government policy highlight the notion that small business development can become an important source of employment and income generation. However, the employment provided by *spaza* retailers is very limited and is constantly eroded by the high degree of mortality in this sector. New firms enter on a regular basis but less than half survive beyond five years (Ligthelm & Morojele, 2001:21).

Table 3 depicts the average employment of *spaza* retailers, which stands at 2,46 per business. This figure correlates closely with a *spaza* survey in Tembisa in 1998 that showed an average employment of 2,35 (Ligthelm & Van Zyl, 1998:27). The table further shows that *spazas* can be described as family-run businesses, since household members represent 80,1 per cent of all employees. This is true for both full-time and part-time employees. It is also evident from the table that just more than 75,0 per cent of household members (75,6 per cent) and other employees (75,5 per cent) are involved in running the *spaza* shop on a full-time basis.

Average employment by type of area shows limited differentiation, namely:

| | Average employment |
|------------------------------|--------------------|
| • Formal residential areas | 2,40 |
| • Informal residential areas | 2,37 |
| • Rural areas | 2,80 |

Respondents were requested to disclose their total payroll for the month preceding the interview. In 2000 *spaza* retailers made average outlays of R1 558 on labour remuneration, including their own remuneration. Employees were paid R533 per month on average, despite the extended trading hours of *spaza* retailers. This compares unfavourably with the minimum wage of R800 for a 45 hour week prescribed for domestic workers in metropolitan areas from November 2002. Total labour remuneration amounted to 34,9 per cent of turnover.

6.7 Relationship with suppliers

6.7.1 Type of suppliers

In response to the question: 'Indicate type of suppliers from whom merchandise is purchased', the majority of *spaza* owners (96,8 per cent) indicated that they procured their merchandise from wholesalers, followed by the fresh produce market (23,2 per cent) and manufacturers or producers (10,0 per cent). Only 4,7 per cent procured some of their merchandise from supermarkets and hypermarkets, and 3,8 per cent from other retail outlets. The prominence of wholesalers as a source of merchandise may be influenced by the fact that Quatro Trading clients constitute the sample frame for the study.

Table 3: Average number of employees, by type of employment

| Type | Full-time | Part-time | Total |
|----------------------|-----------|-----------|-------|
| Members of household | 1,49 | 0,48 | 1,97 |
| Non-members | 0,37 | 0,12 | 0,49 |
| Total | 1,8 | 0,60 | 2,46 |

6.7.2 Support received from suppliers

Suppliers are becoming more aware of the size and growing importance of the *spaza* market. As a result suppliers are increasingly providing some form of support to *spazas*. Figure 3 shows the percentage of *spaza* retailers that have received some form of support from suppliers. The most important is the provision of credit (47,7 per cent), discount to *spazas* (40,9 per cent), delivery of merchandise (21,8 per cent) and discount prices (18,2 per cent).

6.7.3 Product delivery

Respondents listed the following types of merchandise in order of importance as goods delivered by suppliers: bakery products, soft drinks and dairy products. These comprise by far the greatest volume of products which are delivered. Maize, personal care products such as soap, gas, and cigarettes and tobacco are also delivered in some areas.

6.8 Relationship with customers

6.8.1 Advantages and disadvantages of *spazas*

Respondents were asked what advantages and disadvantages shopping at *spazas* had for the buying public. The three most important advantages of *spazas*, as perceived by their owners, are that they are close to or within walking distance of customers' homes (51,8 per cent), that they offer friendly and good service (40,0 per cent) and they are open for long hours or at all times. Another important service, mentioned by 20,9 per cent of respondents, is the extension of credit.

Spaza owners perceived high prices for branded products as the major disadvantage of *spazas*. This was mentioned by 62,6 per cent of *spaza* owners, and was followed by the following disadvantages: stock shortage (39,1 per cent), poor customer service (26,9 per cent), dirty shop or environment (22,4 per cent), poor product quality (16,2 per cent) and the reluctance of some owners to offer credit buying (14,4 per cent).

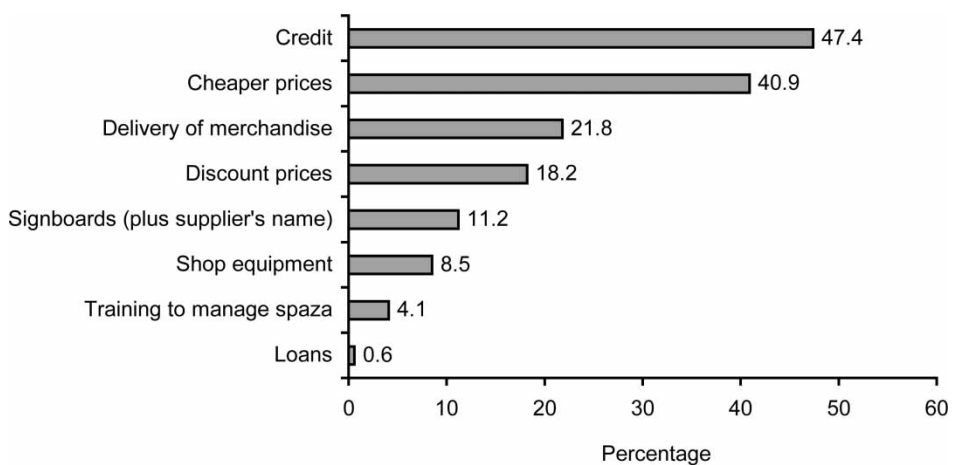


Figure 3: Type of support received from suppliers

6.8.2 Number and composition of customers and credit

The estimated average number of households (not persons) that regularly buy at a particular *spaza* amounted to approximately 44 per week. Just over two in every five *spaza* shops (41,2 per cent) serve between 21 and 50 households regularly. Just over a third (34,2 per cent) reported fewer than 20 households, and 9,2 per cent reported between 50 and 75 regular customers (households). *Spaza* customers are composed as follows:

- on average 42,4 per cent of customers are male and 57,6 per cent female
- on average 44,0 per cent of customers are adults and 56 per cent children.

As indicated, the extension of credit by *spazas* is perceived as an important service to the community. Credit is extended to 81,7 per cent of the regular customers (households) of *spazas*. In reply to the question how frequently customers settle their accounts, *spaza* owners indicated that almost three in every five (59,1 per cent) settle their accounts on a monthly basis and 21,7 per cent on a weekly basis.

6.9 Problems experienced by *spazas*

In this survey owners were requested to indicate the three most serious problems that they encountered. Figure 4 shows that limited trading stock, resulting from lack of finance, heads the list as the most prominent constraint experienced by *spaza* retailers (38,8 per cent). This is followed by the high crime rate, mentioned by 25,0 per cent of the respondents. Other constraints mentioned by respondents are severe competition resulting from overtrading (20,6 per cent); no transport, or expensive transport, making it difficult to procure merchandise (19,7 per cent); allowing too much credit and consequently incurring bad debts (17,1 per cent); and no water or electricity (13,5 per cent).



Figure 4: Problems experienced by *spaza* owners

The respondents were also requested to state what they considered were the three most important means of improving their businesses. Maintaining sufficient stock levels was mentioned by almost a third of respondents as an important way of improving profitability. This is followed by more competitive prices (17,4 per cent), financial assistance or loans (16,5 per cent), and advertising and promotion (15,9 per cent).

7. SUMMARY AND CONCLUSIONS

Informal retailing in developing communities depicts a continuum of fairly established to survivalist businesses. Township general dealers seem to be on the upper end of the spectrum and portray a far more established character than hawkers, who are overwhelmingly survivalists (Ligthelm, 2003:65). *Spaza* shops occupy more or less an intermediate position. They are often also depicted in literature as survivalist enterprises (Rogerson, 1996; Ruiters et al., 1994; Horn et al, 1993). Empirical evidence from the national *spaza* survey shows signs that the respondents are becoming a permanent phenomenon in the South African economic arena, and also more sophisticated and more closely linked with the rest of the economy.

Signs of permanency and linkages with the formal economy include the following:

- In reply to the question: 'Would you accept a job in the formal sector if offered one today?' two out of every five respondents (41,1 per cent) answered in the negative. It seems, therefore, if these owners perceive their *spazas* as a permanent career (perhaps owing to a lack of alternative opportunities).
- Although there is a relatively high rate of establishment of new *spazas*, the survey confirmed that 25,0 per cent of *spazas* have been in operation for more than seven years and a further 14,7 per cent have been in operation for between five and seven years. It is possible that relatively long periods of existence may indicate limited conversion or trading-up of businesses to higher business echelons.
- The majority of *spazas* have electricity and running water.
- In nine out of every ten *spazas* goods are displayed with their prices marked on the items or shelves.
- Three out of every five *spaza* retailers advertise the location of their shops through signboards.
- Although the establishment of *spazas* requires only a small initial investment (R9 140), two-thirds of *spaza* owners recorded additional capital needs once the business was in operation.
- The majority of *spaza* owners use bank facilities such as savings and cheque accounts in running their businesses.
- Posters, pamphlets, catalogues and magazines are consulted by a large percentage of owners when deciding on what merchandise to procure.
- Ninety-six per cent of *spaza* retailers buy their stock from wholesalers.
- Several producers and suppliers realize the importance of the *spaza* market and deliver goods to *spaza* shops.
- *Spaza* owners increasingly monitor marketing communication trends. For example, a large percentage confirmed an increase in turnover for a specific product during a radio advertising drive of that specific product.

In a study covering low-income areas in South Africa and Ghana, Gough et al. (2003:264) confirmed that home-based enterprises are an important income-generating activity for less affluent households, and play a key role in poverty alleviation at the

household level. Most households in their study rely very heavily on the income that these generate – more than half the households involved in home-based enterprises have no other income.

The change in the composition of the South African economy as informal retailers (*spazas*) occupy a larger share in the market requires some adjustment to be made in market views and in production planning in various sectors of the South African economy. It is estimated that *spaza* retailers had captured approximately 2,7 per cent of retail trade in 2002, amounting to more than R8 billion (Martins, 2001; Martins, 2002). The importance of this market segment is highlighted by the fact that the turnover of *spaza* retailers is larger than the combined turnover of the branded ‘superettes’ that include Kwikspar, 8 Till Late, Seven Eleven, Friendly Grocer, Foodies, OK Foods, Score, Rite Valu, Shield and Sentra. The turnover of *spaza* retailers constitutes just more than 20 per cent of the combined turnover of hypermarkets and supermarkets, including Shoprite/Checkers, Pick’n Pay, Spar, Clicks and Woolworths Food Stores (AC Nielsen, 2002).

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