

The government can do more to enable growth in the retail sector

South Africa's diverse and competitive retail sector is a key driver of economic growth with an average GDP contribution of 13%. It is also one of the biggest employers at roughly 23% of the labour force, behind only the public and the mining sectors. In terms of size and scale, the country remains the biggest retail market in sub-Saharan Africa and 20th globally.



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Unlocking the massive potential this sector holds will require the government to play an even greater role in easing some of the challenges and enabling areas where opportunities for growth exist.

The government's role must be stressed as the sector operates in a macro environment outside the sphere of influence that shapes how retailers and wholesalers do business. The macro environment includes governmental influences like taxation, regulation and monetary policies.

Taxation and regulation inhibiting growth

Taxation and regulation in this sector is believed to be inhibiting growth, especially in the retail SMME sector. Whilst the role of taxation in any economy is to steer it in the right direction by ensuring that its population has access to basic services, in the retail sector it affects the cost of doing business and does have an impact on investment, the ability to create jobs and sustainability. No surprise there, as retail stocks took a beating as soon as Finance Minister Nhlanhla Nene raised income tax earlier this year.

Large contributions from this sector are made to the government in the form of various taxes, including VAT imposed both on the retailer and consumer, and, therefore, the government should be mindful of the taxes it imposes, as a too-stringent taxation regime can have an adverse effect on the sustainability of the sector and its contribution to the economy.

Already there are strong hints that the government is looking to raise the value-added tax (VAT) rate rather than increasing income tax following the release of an interim report on VAT by a committee led by an eminent judge.

Higher inflation generally leads to increased operational costs, such as rising costs of electricity, transport and salaries. During such times, consumers buy less because they are spending more on basic items, such as food, transport, fuel etc. This results in retailers encountering new pressures on their profit margins.

The government, therefore, could be mindful in terms of the levers it pulls when imposing these taxes. This also applies to regulation around development of new shopping centres, business expansion or foreign direct investment.

Bureaucracy and red tape

Extensive bureaucracy and red tape discourages investment or infrastructure development in the country. Using public-private partnerships to fund retail development projects will enable growth in the retail sector by catering to more consumers and create lasting economic benefits that will benefit both parties.

With some major retailers already looking at townships for expansion, the sector is more poised than any other for growth. Shopping centre development in townships, besides boosting employment, also reduces transport costs incurred by locals who previously had to travel to the nearest town to do their shopping. These factors mean that these savings are ploughed back into the sector.

According to Professor Roger B. Mason, Wholesale and Retail Leadership Chairman, Cape Peninsula University of Technology: "Despite the above benefits, these may need to be offset against the possible negative effects that shopping centres in the townships can have on local stores, small businesses, the informal sector and, thus, job creation."

This is an opportunity for the government to get involved in a manner that promotes growth. For example, public/private investment into these areas in the form of infrastructure development could have a positive impact on the lives of residents and the economy. By encouraging partnerships between local suppliers, small businesses and larger national stores, the government can promote growth in these areas.

Earlier this year, the Portfolio Committee on Small Business Development agreed to facilitate the establishment of a public-private partnership steering committee in the retail industry. This is a step in the right direction and in the best interests of all role players in the sector.



Roger Mason, Wholesale and Retail Leadership Chair at Cape Peninsula University of Technology.
Image source: RetailCongressAfrica.com

Need for skills in retail

"The changing expectations of consumers exposed to omni-channel has made the need for skills in retail more important than ever before. It has also, therefore, increased the need for retail employees to hold specialist skills to be more adept and persuasive to retain consumers on the shop floor," Mason added.

An oft repeated adage in retail is it takes more than just great products and great brands to turn a profit, it takes great people.

Skills diagnosis by W&RSETA reveals that the sector faces a chronic shortage of retail store managers, retail buyers, merchandisers and sales managers - positions that, if filled, would boost the sector's ability to generate further employment. The government could play an active role here by facilitating skills development, giving people a better chance of employment, and introducing more initiatives for job creation in the retail sector.

The growth and development of this third-largest sector of the South African economy will continue to be highly influenced by long-term planning embraced by all its role players.

By actively combatting and addressing some of the challenges the sector faces, the government can play a vital role in ensuring the sector that employs millions, is a provider of goods and services people want and need, continues to be central to the economic and social wellbeing of the nation, and also becomes a key partner in delivering policy.

Roger Mason will be speaking at Retail Congress Africa in Cape Town on 3 to 4 November 2015.

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