

Time to gauge in invisible market's size

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Hunched on a white plastic chair, Romeo Makwela takes a bite of his lunch. It is a three-layered sandwich (i-slice) with fried chips, achar, a smoked Russian sausage, cheese and lettuce oozing out from all sides.

"I started coming here in 2010, but initially I didn't come to this shop. There's another one near the taxi rank that I would pass when I came back from school," said Makwela.

Mbopha's Place in Alexandra, 7km from Sandton, is "The best Kota place in Alex", says the sign outside the building.

The pink blush structure has all the makings of a formal retailer, with an FNB ATM and a flat-screen TV playing reruns of a local drama series.



But it is just one of many informal stores in Alexandra selling the local delicacies islice, and kota, also known as sphahlo or bunny chow. A half or quarter loaf of bread hollowed out and filled with curry, the bunny chow was introduced to South Africa by the Indian community .

Mathabatha Jobo, the general manager at Mbopha's Place, said they had three stores across the township, which collectively made about R50000 a day, with at least 1000 bunny chows being sold.

The food costs from R12.50 to R50, depending on the filling and whether you order a bunny chow or an i-slice.

GG Alcock, CEO of Minanawe Marketing, told the Fast Moving Consumer Goods Insights Conference this week that this "invisible market" was valued at about R10bn, with cheese makers such as Parmalat gaining R1bn from it.

"To a large extent informal structures and societies are invisible to us, they don't have signposts and to an extent our economy is sustained by these informal sectors that we don't quantify," said Alcock.

"Because people can't quantify the size of that market, they don't believe it exists. So it was a curiosity, related to spending time in townships and rural areas," said Alcock.

Alcock's company conducts consumer research to develop insights for companies such as Tiger Brands and Unilever looking to capture market share in the informal economy.

But he said that established retail players are starting to recognise the scale and potential of informal retail, which is currently growing at 7% compared to the 4% of formal retail.

Pick n Pay's partnership with a spaza shop in Diepkloof in Soweto this year was one of the group's first attempts at recognising the value of the informal economy.

David North, Pick n Pay's head of corporate affairs and group strategy, said the group's decision to start a pilot project with a spaza was to improve the stores' offering.

"The pilot is designed to test our view that we can help them [informal traders] by providing training, mentoring and access to our products, services and supply chain."

The store, called Monageng Market, is owned by Solly Legae, who has operated the business since 1972. "Spaza owners are natural traders but some are facing challenges in trying to compete in a tough market," said North.

Pick n Pay has opened 175 new stores, many in communities that have not previously had a local Pick n Pay.

Unemployment is the largest driver of a growing informal sector.

According to StatsSA, the unemployment rate rose to 26.7% in the first quarter of 2016 compared to 24.5% in the previous quarter.

The formal economy "normally look at them as lower LSM and don't ascribe a value to them, in terms of having money to spend. Companies are starting to say how can we penetrate that environment that they have ignored for years," said Alcock.

Kevin Hedderwick, Famous Brands' group strategic adviser, said: "Famous Brands has no intention of entering the bottom end of the food service market via any stand-alone brand because our view is that this part of the business is far better serviced by independently owned and managed entrepreneurs.

"This does not mean that we do not participate within this category, but we do so via these consumers trading up to a brand like Debonairs Pizza when they can afford it," he added.

When asked if there was an investment case for trading in the lower-LSM market, Hedderwick said: "There is, and many of these bottom-end traders make good money because their cost of entry is generally low, as are issues like rentals [and]

staffing."

But for Makwela, who lives in Sandton, the price points also make an attractive value proposition.

"The prices are reasonable and even my white friends, who want to go out, I bring them here and they say that they didn't know that ekasi [township] had such places."

But Alcock believes it's time that formal retail tapped into the growing market. "It's not just the black diamonds. There's a level below the black middle class and there's a whole new class of people with money."

Source: Business Times

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