Competitive responses to Walmart's entry into South Africa

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ABSTRACT

Walmart's entry into South Africa is an example of global expansion that best illustrates the impact of a new market entrant on competitive strategy and industry structure.

The research explores the evolving nature of strategy and the forces that contribute to strategy formulation and development, with specific focus on competitive dynamics and industry structure. Building on this foundation, the study determines the impact of a new entrant on the competitive dynamics and industry structure, and thereafter examines the responses of competitors to the threat of a new entrant in the market.

The results of this study and thematic content were extracted from a series of semi-structured interviews conducted with retail analysts, market portfolio managers and senior management from companies within the retail sector in South Africa. This source of data was further supplemented with market research reports, written business media and, advertising and promotional campaigns.

The findings of the study support the premise that strategic responses of competitors to a new foreign entrant in the retail industry in South Africa are influenced by:

a. The competitive landscape as this is shaped by current and forecasted changes on the industry structure in retailing and the macro-environment in South Africa;
b. Strategies employed by established retailers to sustain their profitability and market share;
c. The Walmart-Massmart alliance, which introduces a new capabilities the alter the competitive dynamics; and
d. The changing industry structure and macro environmental factors that affects profitability and market share.

The entry of a dominant global retailer in a mature, well established industry therefore alters the competitive dynamics and invariably influences strategy.

DECLARATION

I, Lou-Anndree John, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Lou-Anndree John

Signed at Wits Business School, Johannesburg

On this the 30th day of July 2012

DEDICATION

In honour of

My Grandparents

for teaching me that nothing is more empowering that the pursuit of an education

&

For

My Sons

Ethan and Tristan

“you can never know too much or everything”

may your journey in life be guided by a passion for learning

ACKNOWLEDGEMENTS

Aldrin Errol John

My friend and husband for his “sponsorship”, unrelenting support and intellectual camaraderie

Mark Peters

My supervisor, for his professional guidance and exceptional ability to wade through the chaos and provide structure and clarity

My Mother

Without whom none of this would be possible, thank you for keeping our home warm and always welcoming, your presence has been a blessing

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1: INTRODUCTION

1.1 Purpose of the study

The purpose of this research report is to identify and assess the impact of a new foreign entrant on the formulation and development of business strategy in the retail industry in South Africa.

New entrants to an industry act as catalysts for change, redefining the competitive dynamics by introducing new capacity and a desire to gain market share (Porter, 1980, 2008). Thus a new entrant in a foreign market may face strong opposition from established industry leaders, in an effort to maintain their market position and levels of profitability (da Rocha and Dib, 2002). The research aims to capture the response of retailers to a new foreign competitor with a view to ascertain whether these responses, if any, will fundamentally influence the overall business strategy and potentially the industry structure.

1.2 Context of the study

In comparison to other industries, retailing witnessed fairly limited efforts at globalisation, restricted primarily by differences in consumer tastes, preferences and behaviour, local competitor advantages, operational challenges and lack of supplier availability (da Rocha and Dib, 2002). Given that most retailers failed to derive economies of scale by expanding internationally, there was a tendency to confine operations to their domestic markets or expand to neighbouring countries. The onset of information technology, global sourcing and the appearance of global consumer segments (da Rocha and Dib, 2002), catapulted the retail industry into the global landscape offering opportunities for further growth and expansion.

Walmart's entry into South Africa is an example of this internationalisation, and best illustrates the impact of a new market entrant on competitive strategy and industry structure. A new competitor entering an oligopolistic market is likely to cause uneasiness and changes in the competitive dynamics of an industry

(Uusitalo, 2004), thereby stimulating strategic evolution. As noted in Mintzberg and Lampel (1999), development of strategy is driven by four sources, namely; collaboration between organisations that encourage learning and borrowing ideas from each other; competition and confrontation by strong rivalry compelling new ideas to gain competitive advantage; recasting old ideas with new; and creativity and innovation that discovers new practices.

Further, Walmart’s global expansion strategy involves a careful analysis of the external environment in the country of entry ensuring “favourable conditions” for the organisation to satisfy a market gap or deficiency, such as a fragmented local market, dormant competitors, poorly served customer base, under developed retailing practices, high margins, and inadequate customer service (da Rocha and Dib, 2002). Thus, it is evident from the organisation’s entry into other developing markets, such as Mexico and Brazil, that a new entrant has the potential to act as a catalyst for change in the industry on a variety of levels, including structure, marketing mix, customer service orientation, and overall efficiency through the supply chain (da Rocha and Dib, 2002).

The retail industry in South Africa therefore presents an ideal platform to explore the responses of established competitors in a fairly mature, if not static industry and how they approach strategy formulation and development as a means to retain competitive advantage, profitability and ultimately market share.

1.3 Problem statement

1.3.1 *Main problem*

The main problem is to determine the competitive responses of retailers to a new foreign entrant, namely Walmart into the retail industry in South Africa.

1.3.2 *Sub-problems*

The first sub-problem is to identify the structure and competitive landscape of the retail industry in South Africa.

The second sub-problem is to consolidate the strategies employed by established retailers in the industry.

The third sub-problem is to interpret the strategies employed by new entrants upon entry in a foreign market, within specific reference to the Walmart-Massmart merger

The fourth sub-problem is to define the strategies employed by established retailers in reaction to new entrants the market.

1.4 Significance of the study

Although there appears to be sufficient investigation on the impact of new entrants in foreign global markets, the study fills a gap in that there is a lack of research on the strategic impact of a new foreign entrant into the South African retail industry, given that the acquisition of Massmart by Walmart was only approved in May 2011 by the Competition Tribunal. The analysis of this acquisition and its subsequent effect on the competitor landscape and industry dynamics presents an opportunity to explore the influence of a new entrant in the retailing environment in South Africa.

According to the authors Da Rocha and Dib (2002), Walmart's global expansion into Brazil marked an important contribution to the modernisation of the retail industry and practices in that country, therefore it is envisioned that the study will provide insight into the response by key players in the local industry, potentially altering the industry knowledge base and technologies.

The study provides insight into the formulation and development of strategy in the retail industry in South Africa following the entry of a dominant global player, as a means to retain competitive advantage and market share.

The study offers insight to the local and global retail industry on defensive strategies employed in developing markets facing a similar challenge.

1.5 Delimitations of the study

The study only addresses:

- The impact of a new foreign entrant on the formulation and development of strategy in the retail industry in South Africa
- The formal retail industry in the country as it pertains to retailers (the informal retail industry is excluded from the study)
- The period of entry, therefore involving the initial establishment of the organisation as a competitor in the market, Porter (1985) as cited in da Rocha and Dib (2002)

The study does not address:

- The period of pre-entry into a new market and the associated external analysis
- The period of "sequencing", noted in (da Rocha and Dib, 2002), as the period when a new entrants transcend from an entry position to a permanent one
- The period of post entry, when the organisation's efforts are focused on retaining it's market position (da Rocha and Dib, 2002)

1.6 Definition of terms

- **"retailing"**, is a set of business activities that adds value to the products and services sold to consumers for their personal or family use (Cant and Machado, 2005)
- **''retailer''**, with respect to any particular goods, means a person who, in the ordinary course of business, supplies those goods to a consumer
- **"supplier''**, with respect to any particular goods or services, means the suppliers who directly or indirectly contribute in turn to the ultimate supply of those goods or services to a consumer, whether as a producer, importer, distributor or retailer of goods, or as a service provider

1.7 Assumptions

The following assumptions influences the outcome of the research:

- The number of individuals identified as respondents are sufficient to gain the necessary information
- The individuals selected and interviewed are appropriately knowledgeable in the area of research to respond to the interview themes
- The individuals responses to the interview are honest and truthful

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

In November 2010, Walmart (registered on the New York Stock Exchange as Wal-Mart Stores Inc.) an American based multinational and the largest retailer in the world, announced its intention to acquire a 51% share of Massmart Holdings Limited, the third largest retailer in South Africa (hereafter referred to as Massmart), (Massmart, 2011). The anticipation of the Walmart-Massmart merger generated a wave of contention regarding the potential effects on the structure of the retail industry and the economy in South Africa. Porter (2007, 2008) noted that the industry structure drives competition and profitability, stimulating strategy formulation. Given that globalisation has profoundly impacted market structures in developing countries (Humphrey, 2007), there is little doubt that the entry of a dominant global retailer such as Walmart will redefine the competitive landscape, and influence the nature of strategy in the retail industry.

The literature review explores the evolving nature of strategy and the forces that contribute to strategy formulation and development, with specific focus on competitive dynamics and industry structure. Building on this foundation, the review will determine the impact of a new entrant on the competitive dynamics and industry structure, and thereafter examine the responses of competitors to the threat of a new entrant in the market. The concepts explored in this section of the research proposal are evaluated in the context of Walmart's merger with Massmart as a new entrant into the South African retail industry with a view to ascertain the strategic responses of competitors to retain dominance and a competitive advantage.

2.2 Definition of topic and background discussion.

2.2.1 *Creating a agile and resilient business*

The 21st century has witnessed an explosion of business and academic perspectives on the role of strategy as fundamental to creating business agility and resilience. Porter (2002), describes strategy as a long-term series of initiatives that are geared towards a sustainable business plan delivering profitable growth and further expanded in Porter (2008), that the essence of a good strategy is to understand and cope with competition, therefore summarising that strategy is about what makes one organisation different or unique in comparison to the next. While the underlying concepts in the field of strategic management have remained true to Porter's views on the subject, the nature of strategy in organisations has experienced challenge in more recent years, driven by a rapidly changing business environment and the exponential growth of globalisation.

According to Eisenhardt and Brown (1998), market volatility has forced leaders to adopt a different approach to strategy where the key performance driver is an organisations ability to change persistently over the long term. Strategy is therefore defined as "temporary, complicated and unpredictable", as a successful strategy at one given point in time may not be successful at another (Eisenhardt and Brown, 1998).

Traditional approaches to strategy appear to align strategic initiatives to the competitive landscape, therefore ensuring a long term defence and sustainable advantage over one's competition (Eisenhardt and Brown, 1998; Hamel and Prahalad, 2005). By so doing however, such organisations utilise tools that offer little insight because they "implicitly or explicitly assume that industry boundaries remain constant" (Jacobides, 2010). Creating an agile, resilient organisation thus lies in steering between structure and chaos of an ever changing set of factors such as globalization, technological innovation, legislative impetus, demographic shifts, and environmental pressures (Jacobides, 2010). The essence of strategy is therefore not merely to cope with competition, or to understand the underlying structure of an industry, but rather to view the industry at a level that informs the strategic direction and sustains long-term profitability.

2.2.2 *The South African retail industry*

South Africa boasts the largest retail market in sub-Saharan Africa and the 20th largest retail market globally with retail sales in the country valued at an estimated R707 billion (US$86 billion) in 2008 (EIU, 2010). With a population of approximately 49 million, the country benefits from a modern infrastructure that enables an effective distribution of goods to urban centres, townships and rural areas, facilitating the expansion of modern retailing (Ntloedibe, 2011).

Although the country's consumer goods and retail sector deteriorated in the midst of the 2009 economic recession, the persistence of high inflation and restrictive credit options imposed by the National Credit Act, the movement of black consumers into middle to high income groups sustained consumer demand and influenced overall consumer spending (EIU, 2010). The growing middle class and high rate of urbanisation has fuelled the demand for convenience shopping driving expansion in the retail industry and presenting opportunities for retailers (Ntloedibe, 2011).

The South African retail industry is dominated by few local companies that accounted for 80% of retail sales in 2009, namely Shoprite, Pick 'n Pay, Spar, Massmart and Metcash (Farfan, 2011; Ntloedibe, 2011). The Global Powers of Retailing Report 2011, which is an annual report compiled by Deloitte Touche Tohmatsu and STORES Magazine ranking retailers from all over the world according to total revenue, introduced a new contender in the local market, namely Woolworths, noting the company's strong growth in revenue from 2009. While Woolworths continues to capture the middle to high income consumer, Shoprite focuses primarily on the lower income market and Pick 'n Pay and Spar maintain their middle class appeal (EIU, 2010).

The industry offers the full spectrum of retailing formats, similar to developed countries, ranging from convenience stores, supermarkets, hypermarkets, discount stores, speciality stores, cash and carry wholesale outlets and co-operative stores serving rural areas (EIU, 2010; Ntloedibe, 2011). In recent years major local retailers sustained growth by franchising and acquisition of smaller independent retailers rather than establishing large-format stores. However, supermarkets account for the largest group of retail outlets, with an evident trend towards hypermarkets that offer large quantities of all consumer goods supporting the idea of convenience shopping (EIU, 2010).

2.2.3 *The Walmart-Massmart merger*

As noted earlier, retailing experienced a relatively slower pace of globalisation in comparison to other industries, however, as modern retailing accelerates, so too does the race by multinational companies seeking new markets (Kearney, 2005).

In September 2010, Walmart extended its first offer to acquire 100% ownership of Massmart in an attempt to secure the company’s entry into the South African market. The offer was rejected, and in November 2010, Walmart announced a second offer to purchase 51% of shares of Massmart permitting the company to continue trading on the JSE Limited to provide Massmart shareholders with the ability to participate in the growth opportunity of the combined entity (Walmart, 2011).

The President and CEO of Walmart International, declared the multinational’s excitement at the opportunity to invest in Massmart as a means to accelerate its growth and expansion in South Africa and the surrounding countries given the region’s attractive growth potential (Walmart, 2011). Doug McMillon further stated in a media article “this combination fits perfectly with our strategy to enter high growth markets in which we can apply our global expertise and generate strong returns. Also, this acquisition will allow us to bring to South Africa our significant experience in connecting small farmers with Walmart's global supply chain, boosting farmer income as well as helping them improve the quality of their produce. We hope to help South African suppliers grow their businesses, become more efficient, environmentally friendly and ultimately more competitive," (Walmart, 2011).

Despite Walmart's public acknowledgement of the potential of the merger, the pending transaction created intense debate and objection from trade unions, business and government based on the perceived negative spin-off to the economy from increased imports, such as a compromised local supply chain and job losses increasing unemployment. Amidst the launch of an "anti-Walmart coalition" by the South Africa Commercial, Catering and Allied Workers Union (SACCAWU) and the establishment of an "advisory panel" by the Ministry of Economic Development aimed at identifying the potential economic implications, Walmart maintained that the merger would be subject to rigorous regulatory scrutiny that included an independent investigation by the Competition Commission, and a public hearing before the Competition Tribunal (Massmart, 2010). The transaction followed the appropriate regulatory process allowing an avenue for interested parties to express their views. The timeline attached below illustrates the regulatory process necessary for approval of such a transaction, as adapted and summarised from the sequence of media releases by Massmart.

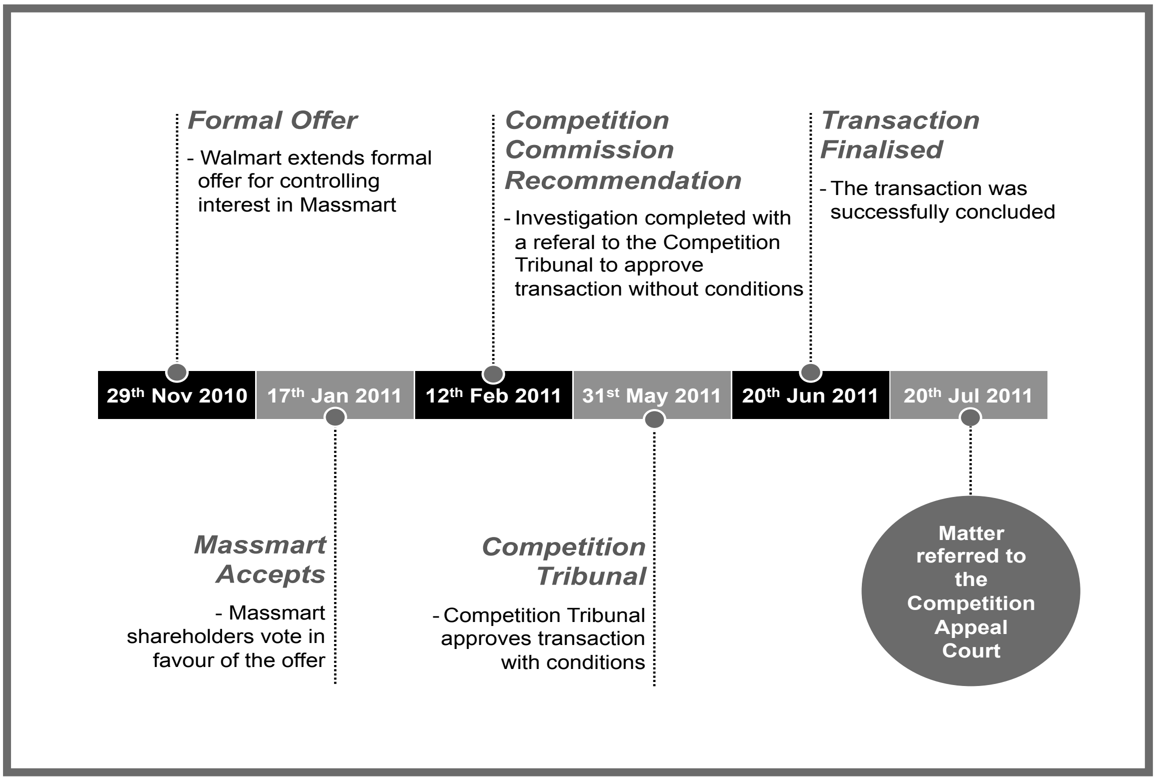

Figure 1: Summary of the Regulatory Approval Process

A construct of news articles and media releases (Massmart, 2010; Competition Tribunal, 2011; Massmart, 2011; Walmart, 2011; Business Live, 2012)

As demonstrated in Figure 1 above, the regulatory approval process was concluded on 31st May 2011 by the Competition Tribunal approving the merger between Walmart and Massmart subject to conditions, accepting that there is a likelihood that the merger "will indeed be good for competition by bringing lower prices and additional choice to South African consumers" (Competition Tribunal, 2011; Business Live, 2012). The tribunal approved the voluntary conditions proposed by the companies including the establishment of a R100 million supplier development fund, no merger-related retrenchments for a period of two years as well as continued recognition of SACCAWU for three years post the merger (Competition Tribunal, 2011). On 20th June 2011 the transaction between Walmart and Massmart was concluded upon approval by shareholders, The Johannesburg Securities Exchange (JSE) and relevant regulatory authorities.

Following from this, in an unprecedented move on 20th July 2011, the government represented by the Minister of Economic Development, Ebrahim

Patel, Minister of Trade and Industry, Rob Davies, and Minister of Agriculture, Forestry and Fisheries, Tina Joemat-Pettersson filed papers with the Competition Appeal Court seeking a reversal of the Tribunal's decision (Times, 2011). In a joint statement, the above mentioned Ministers identified the main risk of the merger to be "an increase in imports by Walmart-Massmart, causing a decline in local manufacturing and production across a wide range of consumer product sectors, including agro-processing, the furniture industry, electronics, plastics and household goods, as well as clothing and textiles," (Times, 2011). On the 20th-21st October 2011, the hearing commenced at the Competition Appeal Court with the Judge objecting to the government exploiting the process to endorse more conditions on the Walmart-Massmart merger. All parties were urged to consider remedies that would avoid the matter reverting to the Competition Tribunal and as of 31st October 2011, the decision remained pending.

Although interested parties have expressed strong resistance to Walmart's entry into the South African market, citing negative repercussions for the economy, there are global examples that demonstrate positive consequences. According to da Rocha and Dib (2002) Walmart's entry into the Brazilian market in the 1990's while perceived as a bad competition, triggered substantial change in the industry, ultimately contributing to the modernisation of retailing in the country. With respect to the Walmart-Massmart merger, the Competition Tribunal acknowledged that reinforcing Massmart's local market position in a highly concentrated retail market "is likely to benefit consumers by strengthening rivalry and improving choice," (Competition Tribunal, 2011), alluding to the changing competitive dynamics in the local retail industry.

2.3 Discussion of sub-problems

2.3.1 *The structure and competitive landscape of the retail industry*

The sophistication of a country's retailing infrastructure is an vital indication of it's economic development, Saimee (1990) cited by (Cant and Machado, 2005). While the South Africa retail industry may be considered a leading authority on the African continent, the country reflects an interesting combination of a first world retailing industry in urban areas and a third world retailing infrastructure in rural areas, presenting a challenging landscape (Cant and Machado, 2005).

According to Porter (1980, 2007, 2008), the success of a company's strategy depends on how it relates to it's environment, namely the industry or industries in which it operates as this structure defines the rules of the competition that underpin profitability. The first step is therefore a structural analysis of the environment given that the intensity of competition is not merely a matter of luck but rather an interaction between numerous competitive forces that reveal the essence of an industry's profitability (Porter, 1980, 2007, 2008). Further, developing an understanding of the competitive forces and their sources provide an effective framework for anticipating and influencing a company's status in the industry, noting that the strategic goals of a company is primarily to position itself such that competitive forces will operate to it's advantage. However, few western companies can proclaim success at anticipating competitor dynamics as they assume that competitor analysis focuses on existing resources and present competition, preventing them from understanding the "resolution, stamina and inventiveness of potential competitors" (Hamel and Prahalad, 2005: 64).

"Traditional competitor analysis is like a snapshot of a moving car", when assessed in isolation, it reveals very little about the direction and speed of the vehicle (Hamel and Prahalad, 2005: 64). Porter (1980, 2007, 2008) declares that the structure of an industry is embodied in five competitive forces as illustrated in Figure 2, that collectively determine the intensity of competition and potential profitability, while noting in Porter (2008:87) that good industry analysis is "not just a list of pluses and minuses" but an inclusive, systemic appraisal that offers strategic foresight.

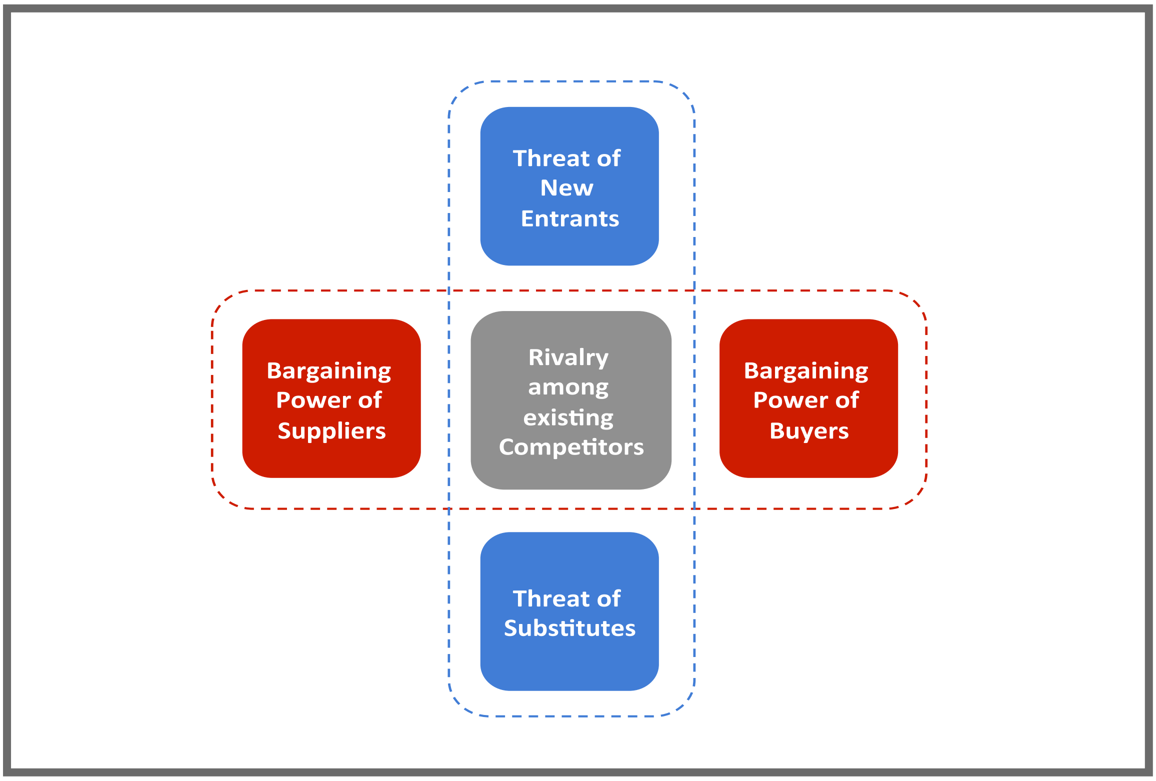

Figure 2: Five Forces that shape Industry Competition, Porter (2008)

The industry structure develops from a set of economic and technical characteristics that determine the strength of each competitive force, as illustrated in Figure 2 above, Porter (2008) described below:

- Threat of new entrants

New entrants in an industry leverage existing capabilities and cash flows to unsettle competition in a market, however this is dependent on the barriers to entry. Porter (Porter, 1980, 2007, 2008), notes seven major sources that enable incumbents to enjoy an advantage relative to new entrants, namely, supply-side economies of scales, demand-side benefits of scale, customer switching costs, capital investment, product differentiation, unequal access to distribution channels, and restrictive government policy.

- The bargaining power of suppliers

The power of suppliers is driven by the concentration in the industry, product differentiation, cost and difficulty of switching, level of dependency on the industry for revenue and profitability and the lack of substitutes (Porter, 1980, 2007, 2008). Thus powerful suppliers can erode profitability of retailers by increasing prices, transferring costs downstream and/or limiting the quality of goods and services they provide (Porter, 1980, 2007, 2008).

- The bargaining power of buyers

Powerful buyers or customers can compromise the profitability of the industry by driving prices down if they are price sensitive, demanding a higher quality product or more services and negotiating between incumbents (Porter, 1980, 2007, 2008).

- Threat of substitutes

The threat of substitutes measures the ease of switching to an alternate product that performs the same or similar function as that offered by the industry. Substitute products or services restrict an industry's potential profitability especially if it offers an attractive price-performance "trade-off" in comparison to the industry product or service (Porter, 1980, 2007, 2008).

- Rivalry among existing competitors

Rivalry measures the degree of competition between existing companies within the industry, impacting on the industry's potential profitability by the intensity and basis of competition, and reflected in price discounting, new product launches, advertising campaigns and service escalation, to name a few (Porter, 1980, 2007, 2008).

Understanding the forces that shape industry competition is often a starting point for developing strategy, positioning the company to better cope with the current dynamics, while anticipating and exploiting changes for a strong market position (Porter, 1980, 2007, 2008).

While the five forces explore the operating environment of an industry, it is evident that it is not the sole explanation of competition and profitability. Research has demonstrated that companies gain a competitive advantage based on the comprehensiveness of their analysis and an appreciation that the environment beyond the industry can influence dynamics within (Fleisher and

Bensoussan, 2007). Thus the authors proposed a model adapted from Porter's Five Forces and the "PESTLE" analysis, a useful tool to evaluate the macro environment in which an industry operates. "PESTLE" is an acronym for the political, economic, social, technological, legal and environmental factors that may influence the business environment and subsequently impact the industry dynamics. The tool's origins can be traced to Aguilar (1967) who identified techniques for 'Scanning the Business Environment', but evolved over the decades into the "PESTLE" analysis as was proposed by Fahey and Narayaman (1986). According to Fahey and Narayaman (1986), the dimensions of business environment relevant to strategy development and decision making include:

- Political factors

  Referring to the impact of political decisions that may impact business as well as government policy as it affects the degree of intervention in the economy

- Economic factors

  The impact of interest rates, taxation changes, economic growth, inflation and exchange rates

- Social factors

  Demographics, lifestyles and cultural values and their relationship to be related to demand, productivity and political processes and social trends that affect supply of products and services

- Technological factors

  The impact of technological advancements and its influence on pricing, quality and innovation

- Environmental

  Changes in the physically environment that can potentially impact supply and demand and consumer preference

- Legal factors

  Referring to the legal environment in which the industry operates and its impact on new systems, procedures and ways of conducting business

The Nine Forces (Fleisher and Bensoussan, 2007) illustrated in Figure 3, integrates the macro environmental and industry forces, in a more robust analysis to provide accurate, objective insight into external and internal industry changes that informs the strategy development process. In addition, the framework captures the inevitable influences of the political, legislative and social transformation in South Africa on the economy and their subsequent influence on industry structure and strategic decision-making.

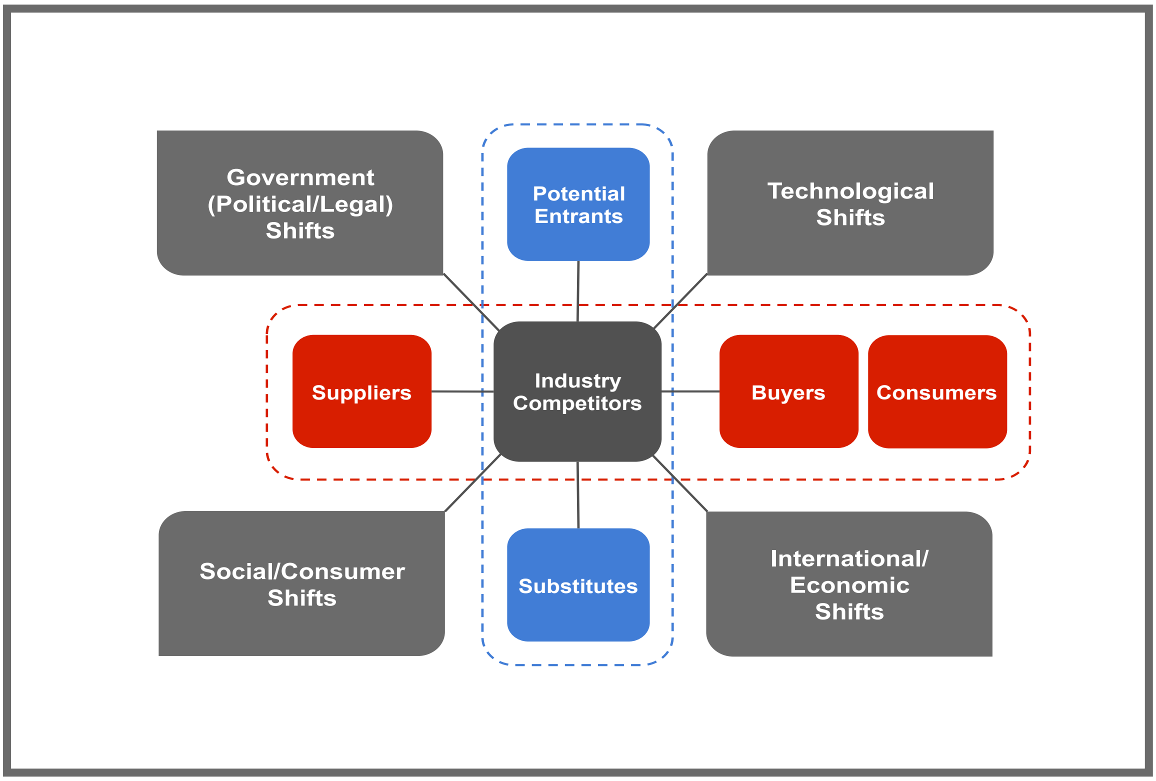

Figure 3: The Nine Forces (Fleisher and Bensoussan, 2007)

Thus it delivers an effective context for a holistic analysis of the rapidly evolving competitive landscape, enabling companies to understand, anticipate and prepare to defend themselves against competitive forces in a proactive manner.

2.3.2 *Strategies employed by established retailers in the industry*

The essence of strategy is about creating sustainable differentiation, that is, intentionally performing the same or similar activities differently in comparison to competitors or performing different activities that deliver a unique blend of value (Porter, 1998, 2002). The author notes that strategic positions emerge from three distinct sources that are not mutually exclusive and often intersect, namely, varieties, needs and access that forms the foundation of generic strategies at the simplest level (Porter, 2002). Variety-based positioning is based on the selection of product or service varieties rather than customer segmentation, whereas, needs-based positioning aims to target groups of customers or segments that exhibit differing consumer needs, and access-based positioning describes an orientation to customers are that accessible in different ways, either by geography, scale or any distinction that requires a different positioning of activities (Porter, 2002).

Porter (2002) thus summarises that strategic positions can be based on customers needs, customers accessibility, or the variety of product and service offerings, and introduces the concept of generic strategies based on this theory, while emphasising that trade-offs are essential for maintaining a specific strategic position. Trade-offs are “pervasive” in competition and fundamental to developing strategy as they create the necessity of choice and purposefully restrict a company’s offering (Porter, 2002). Following from this Porter’s generic strategies are defined by two dimensions, strategic scope that identifies the size and composition of the target market and, strategic intention that aligns to the core competencies of a company, either cost or product differentiation, as illustrated in Figure 4 below (Porter, 1998).

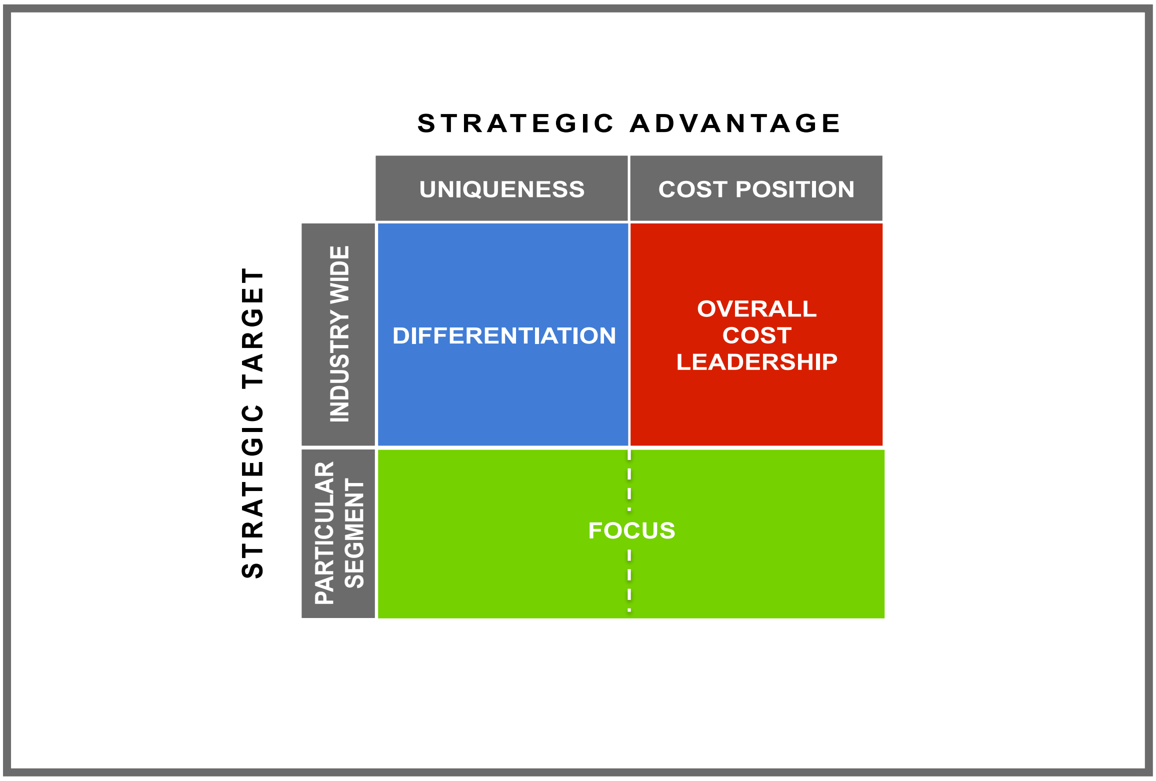

Figure 4: Porter's Generic Strategies (Porter, 1998)

The generic strategies are approaches that enable companies to attain superior performance in the market by effectively aligning a company's core competencies and primary focus to overall cost leadership, differentiation, or focus (Porter, 1998).

- Overall Cost Leadership

Porter (1998), suggests that overall cost leadership involves achieving a strong market share by offering the lowest prices in the market or segment or at the very least the lowest price to value ratio by taking advantage of economies or scale, experience curve effects, managing low direct costs and indirect operating costs, rigorous cost controls, and minimising spend in other areas such as service and marketing.

- Differentiation

Offering a product or service that is perceived as unique creates differentiation and thus companies can develop a viable strategy by design or brand image, technology, customer service or dealer networks (Porter, 1998), positioning themselves for sustainable profitability.

- Focus

The final generic strategic approach is focused on a particular segment or buyer group, specific product line or geographic market resting on the premise that the firm is able to serve its narrow strategic target more effectively or efficiently than competitors who are competing more broadly, and thus achieving either differentiation from better meeting the needs of a particular target, or lower costs in serving this target, or both (Porter, 1998).

The generic strategies demonstrate that there is no single relationship between profitability and market share (Porter, 1998) thus the selection of an appropriate and effective strategy is a consequence of the company's capabilities and industry structure to the extent that these advantages cannot be replicated by competitors. However, given that strategic continuity does not imply a static view of competition, it is critical to evolve strategy with the major structural changes in an industry, and leverage new trade-offs (Porter, 2002).

2.3.3 *Strategies employed by new entrants upon entry into a foreign market*

The onset of globalisation, a shift toward a more integrated and interdependent world economy (Hill, 2005), facilitated by favourable political and economic trends presents a multitude of opportunities for companies to compete in foreign markets, extending the potential for their revenue base. According to Hill (2005), it is essential for companies that contemplate foreign expansion to consider basic entry decisions, specifically, the decision of which foreign market to enter, when to enter and on what scale; and the choice of entry mode. For the purposes of this research the literature review will only focus on the choice of entry mode as relevant to the competitor landscape.

Once a company decides to enter a specific foreign market or region, the next decision is to identify the best mode for entry from six different approaches, exporting, turnkey projects, licensing, franchising, establishing joint ventures or launching a new wholly owned subsidiary in the foreign market (Hill, 2005). Each entry mode is summarised in Table 1 below together with their respective advantages and disadvantages. Companies focusing of international expansion into new markets will align the entry mode to maximise the advantages that it delivers and mitigate the disadvantages.

Table 1: Table describing Entry Modes (Hill, 2005)

ENTRY MODE	ADVANTAGES	DISADVANTAGES
Exporting Selling the goods and services produced in one country in a foreign market	• Ability to realise location and experience curve economies	• High transport costs • Trade barriers • Problems with local marketing agents
Turnkey Projects A contractor in the foreign markets agrees to manage the entire project and is used as a means to export process technology to foreign markets	• Ability to earn returns from process technology skills in countries where foreign direct investment is restricted	• Creating efficient competitors • Lack of long term market presence
Licensing Is based on a licensing agreement whereby the licensor grants the rights to intangible property to another entity for a specified period and receives a royalty fee	• Low development costs and risks	• Lack of control over technology • Inability to realise location and experience curve economies • Inability to engage in global strategic co-ordination
Franchising Similar to licensing, however tends to involve longer term commitments with stricter rules on how to do business	• Low development costs and risks	• Lack of control over quality • Inability to engage in global strategic co-ordination
Joint Ventures Entails establishing a company that is jointly owned by two or more independent entities	• Access to local partner knowledge and competencies • Sharing development costs and risks • Fulfils political expectations	• Lack of control over technology • Inability to engage in global strategic co-ordination • Inability to realise location and experience economies
Wholly-owned Subsidiaries The company owns 100% stock by either a new venture and acquisition of an established company	• Protection of technology • Ability to engage in global strategic co-ordination • Ability to realise location and experience economies	• High costs and risks

The race for market dominance and strategic advantage by both global and local competitors necessitates the development of insight, capabilities and infrastructure at a faster pace than traditional entry modes can accommodate (Doz and Hamel, 1998). As discussed in Section 2.2.3, Walmart entered the South African market by acquiring a 51% controlling stake in an established local company. The merger or alliance is an interesting alternate to the joint venture or wholly owned subsidiary modes of entry presented in Table 1 as it potentially maximises the advantages of both while minimising disadvantages. The acquisition of an established and dominant player in the local market permits Walmart to rapidly increase it's presence, is relatively quicker to execute than other alternatives and allows the new entrant to pre-empt its competitors, especially in a market with mature incumbents (Hill, 2005).

2.3.4 *Strategies employed by established retailers in reaction to new entrants*

In an established industry, traditional supermarkets face intense competition from each other as well as from the fast growing discount formats that can be characterised by: "everyday low prices (EDLP), one stop shopping for a wide variety of products categories, and limited assortment of brands within most categories" (Ailawadi, Zhang, Krishna and Kruger, 2010: 557). A new entrant is often perceived as a threat, depending on the degree to which it challenges established industry rules, the intensity of it's ambitions and it's ability to disrupt the competitor dynamics (da Rocha and Dib, 2002).

Walmart's entry into international markets such as Brazil, the United Kingdom (UK), Germany and France prompted strong reactions by foreign competitors motivated by:

- The company's size as it is one of the largest retailers in the world
- It's commitment to global expansion to reinforce its historic growth rates,
- The existence of favourable conditions, such as fragmented industry, dormant competitors, underserved customers and traditional retailing practices or unsatisfactory customer service,
- Walmart's reputation for aggressive retailing practices, and

- The enthusiasm of consumers as they invariably increased customers awareness of price differences (da Rocha and Dib, 2002).

Porter (1998) notes that competitor analysis is essential to develop a more sophisticated profile of a competitors strategic positioning and it’s most likely response to a range of strategic responses and industry changes. Understanding the competitors strategy, future goals, assumptions and capabilities enables a company to examine it’s own strategy and explore potential responses to competitors actions in an informed, deliberate manner.

A central characteristic of competition in most industries is mutual dependence, where the result of a competitive action is to some extent based on the reaction of it’s rivals (Porter, 1998). This describes a situation that economists term an oligopoly, where competitors in an industry feel the effects of others’ actions and are prone to react, creating a dilemma for themselves in selecting strategic responses that avoid warfare versus pursuing initiatives that deliver potential profit and market share (Porter, 1998). Industry structure influences the position of competitors and the intensity of rivalry, creating pressure for incumbents to respond and establishing limitations to the success of offensive or defensive strategies (Porter, 1998). The author further expands on three different strategic responses, namely:

a. Co-operative or non-threatening

This describes responses that the company initiates that may potentially increase its profitability or even market share while preserving the goals and performance or its competitors. Responses are classified as non-threatening if they fulfil the following criteria:

- Internal initiatives that are often overlooked by competitors,
- Competitors fail to notice them due to their perceptions of their own capabilities and their knowledge of how to compete in the industry,
- Competitors performance is compromised very little, if at all when evaluated by their internal measures (Porter, 1998).

b. Threatening

Competitors consider any strategic responses that significantly improve an incumbent's industry position a threat.

c. Defensive

Defensive strategies involve creating a perception of the company that deters competitors from acting after the necessary competitor analysis.

The most appropriate strategic response to a new entrant is based on the capabilities of the competitor and it's unique situation, as there is no substitute for knowledge of one's market, customers and resources as a foundation for developing a successful strategic advantage (Parnell and Lester, 2008). After extensive investigation, da Rocha and Dib (2002) classified the competitive reactions to Walmart's entry in the Brazilian retail market into the following categories:

a. Retain their present strategy but implement initiatives to neutralise competitor actions;
b. Evolve their strategy to reinforce competitive advantages;
c. Evolve their strategy to redefine markets; or
d. Changing ownership,

each of which is explored in detail below.

a. Retain their present strategy but implement initiatives to neutralise competitor actions

Efforts to neutralise Walmart's actions was not unexpected and may be considered pre-emptive to a certain extent. The first was to pressurise suppliers not to sell to Walmart on the premise that the company was selling below cost thus creating unfair competition (da Rocha and Dib, 2002). The second was the threat of legal sanction by charging Walmart with dumping, however these allegations were not sustained to completion (da Rocha and Dib, 2002). The third was the concept of self regulation which expressed the desire to control the market and protect it was predatory price competition, typical of oligopolistic practices, but not initiated (da Rocha and Dib, 2002).

b. Evolve their strategy to reinforce competitive advantages

Local retailers hastily attempted to adopt new technologies and capabilities that would reinforce their competitive advantage in the industry by adapting their retail practices, such as broadening their marketing mix, improving services and increased efficiency (da Rocha and Dib, 2002). Investment in employees increased substantially with the introduction of training programmes and the level of professionalism in the industry, while the implementation of information technology accelerated, the logistics capability developed and store size expanded with the introduction of economies of scale (da Rocha and Dib, 2002).

c. Evolve their strategy to redefine markets

Another strategic response involved the redefinition of the local market where local companies focused on domestic expansion, concentration in certain key markets, development of niche strategy that avoid direct competition, introduction of new retailing formats and international expansion (da Rocha and Dib, 2002).

d. Changing ownership

In numerous examples competitors were forced to change their ownership structure to exit, survive or improve their position in the industry by associating themselves with other foreign retailers thereby strengthening size, market position and access to resources; or acquisition of smaller and medium sized chains and lastly; exiting the industry (da Rocha and Dib, 2002).

While Porter (1998) offers a generic repertoire of strategic responses to changing industry dynamics, da Rocha and Dib (2002), extend these theories in their research of Walmart's entry into the Brazilian market and illustrates the interplay of offenive and defensive strategies that in itself affect the structure of the industry.

2.4 Conclusion of Literature Review

According to Parnell and Lester (2008), no class of retailer has influenced the business landscape in recent years more than Walmart, as they not only apply pressure to suppliers and alter the mix of shopping alternatives for consumers, but they fundamentally influence the competitive dynamics in a market. As noted in the literature review, the central theme of competitor dynamics is the underlying structure of the industry and the macro environment in which it operates, thus the framework introduced by (Fleisher and Bensoussan, 2007) is valuable to understand the key drivers in the retail industry as a precursor for evaluating the impact of a new foreign entrant on the market. Competitors respond by defining offensive and defensive strategies relative to the current and future view of the industry and position the company such that its capabilities provide the best defence to competition.

Following from the discussion of the sub-problems, the following research propositions have relevance in assessing the impact of a new foreign entrant in the South African retail industry:

2.4.1 *Proposition 1*

Walmart’s entry will impact the competitive landscape by initiating current and forecasted changes on the industry structure in retailing and the macro-environment in South Africa.

2.4.2 *Proposition 2*

Strategies employed by established retailers to sustain their profitability and market share are based on cost leadership, differentiation or focus.

2.4.3 *Proposition 3*

The Walmart-Massmart alliance has strengthened the capability and industry position of the legal operating entity in South African, therefore altering the competitive dynamics.

2.4.4 *Proposition 4*

Competitor strategies evolve in response to the changing industry structure and macro environmental factors, in an attempt to protect profitability and market share that is threatened by a new foreign entrant.

These research propositions are explored in detail with a view to resolve the main research problem.

CHAPTER 3: RESEARCH METHODOLOGY

The research aims to determine the strategic responses of competitors to a new foreign entrant in the retail industry in South Africa.

This chapter describes the research methodology/paradigm utilised to conduct the research, supported of appropriate academic literature. The methodology proceeds to identify the supporting research design approach noting the appropriateness of the method as well as the associated advantages and disadvantages. Thereafter, the population and sample of the research is defined, followed by a review of the research instrument, procedure for data collection and methods for intepretation. In conclusion, the chapter confirms the limitations of the study as well as validity and reliability.

3.1 Research methodology / paradigm

Qualitative research methodology is applied as a framework to design, collect and interpret data for the above mentioned research problems.

According to Creswell (2009), there are three (3) approaches to research, namely, qualitative, quantitative and mixed methods that can be described as follows:

- Qualitative research is a means for exploring and understanding the meaning that individuals ascribe to a problem supporting an inductive style. The process of research involves emerging questions and procedures, data collection in the participant’s locale, data analysis based on general themes followed by interpretation;
- Quantitative research is a means for developing knowledge deductively from testing objective theories by examining relationships between variables, typically utilising instruments so that data can be analysed via statistical procedures;
- Mixed methods research combines both approaches to collect and analyse philosophical assumptions.

As per the descriptions of the three paradigms, it is evident that the qualitative research approach is the more appropriate methodology for this study given that there is a lack of research on the strategic impact of a new foreign entrant in the local retail industry, and noting that the Walmart-Massmart alliance was recently approved by the Competition Tribunal and is in the early phases of business integration. According to Morse (1991) cited in Creswell (2003), the match between the problem and approach is important for selecting a methodology and merits qualitative research if a concept or phenomenon requires exploration because the topic is new or was never addressed with a certain sample or group of people.

Qualitative research is defined as "an inquiry process of understanding based on distinct methodological traditions of inquiry that explore a social or human problem. The researcher builds a complex, holistic picture, analyses words, reports detailed views of informants, and conducts the study in a natural setting" (Creswell, 1998: 15). In addition to a strong synergy between the research problem and methodology, the choice of approach is aligned to the researcher's professional training and experience in conducting open-ended interviews and observations and applies a more literal writing style that is appealing to the relevance audience that the research aims to reach, as proposed as criteria for selection by Creswell (Creswell, 2003; Creswell, 2009).

Thus qualitative research methodology supports the nature and context of the research problem, personal experiences and the envisioned audience in the field of strategy.

3.2 Research Design

The research design is based on simple interpretive analysis and takes the form of semi-structured interviews. Interpretive analysis has it's origin in phenomenology that defines a strategy of inquiry in which "the researcher identifies the essence of human experiences about a phenomenon as described by participants" (Creswell, 2009). It involves a study of a small number of participants through extended interaction in order to develop patterns and relationships of meaning, Moustakas (1994) cited in Creswell (2009), such that researchers construct an interpretation of what is they observe, hear and understand. The researcher's interpretations cannot be separated from their own backgrounds, history, context, and prior knowledge and exposure, thus upon summation of data, the researcher contributes to interpretation as well (Creswell, 2009).

Upon review of the characteristics of qualitative research it is easy to discern that this is in fact interpretive research, where the researcher is undeniably involved "in a sustained and intensive experience" with participants (Creswell, 2009: 177). While this offers the advantage of in-depth access to people, data and issues it also introduces a range of ethical and personal issues in the research process whereby researchers unconsciously shape their interpretations by their values, background, culture and socioeconomic status (Creswell, 2009).

The methodological approach that the research adopts is semi-structured, face-to-face, one-on-one interviews, with the intention of gathering information to fulfil the research objectives. According to Gubrium and Holstein (2002), qualitative interviewing is based on conversation and is more constructionist than positivist as the purpose is to derive interpretations, not facts or legislation. The authors further elaborate that researchers select interviewing if their topic of interest is concerned with establishing common patterns and themes, noting the appropriateness of this method for the research topic. The advantages of this method is:

- The ability to build rapport and personally commit to the ethical guidelines which may improve the quality of information offered,
- The ease of co-ordination in comparison to other forms of qualitative data collection as there may be fewer logistical difficulties in arranging a series of semi-structured interviews with a small number of interviewees than to design a longitudinal study,
- The advantage of preparation that offers a clear direction to focus participants responses and probe further if necessary,

- Create an opportunity to return to the participant with additional questions that may emerge as the research advances.

In addition to the research bias, the disadvantages include:

- The difficulty of securing and investment in time to conduct the interviews,
- The necessity of prior training or practice to execute the interview more professionally,
- The expense to transcribe the interview records,
- The ability of the researcher to influence the participant.

3.3 Population and sample

3.3.1 *Population*

A research population is generally a large collection of individuals or objects that share similar characteristics. Following from the research topic and main problems, the population for this research is identified as retail companies in the local industry, and leading subject matter experts including financial/retail analysts and business journalists. As illustrated below in Table 2, the Global Powers of Retailing 2011 lists the Top 10 Retailers per Region and further identifies the more dominant competitors in the South African Retail Industry.

Table 2: Global Powers of Retailing 2011 (Deloitte, 2011)

African/Middle East				
1	95	Shoprite Holdings	$8,823	South Africa
2	130	Pick 'n Pay	$6,810	South Africa
3	138	Massmart	$6,274	South Africa
4	206	Migros Ticaret	$3,691	Turkey
5	211	SPAR	$3,627	South Africa
6	220	BIM	$3,440	Turkey
7	245	Metcash	$3,105	South Africa
8	248	Woolworths Holdings	$3,093	South Africa

3.3.2 *Sample and sampling method*

As mentioned, interpretive studies are conducted on small groups given that the aim is to translate findings in detail about the understanding and perceptions of group rather than making generic claims.

- Sampling method

In a nomothetic study, analysis is at the level of groups and populations, however a interpretive study, analysis is more meaningful in a fairly homogenous sample as the basic logic of interviewing is not conducive to random or representative sampling (Smith and Osborn, 1998). The authors contend that purposeful sampling in interpretive analysis identifies a more closely defined group for which the research question has significance.

Thus non probabilistic quota sampling was applied as this form of purposeful sampling is, “based on the assumption that the investigator wants to discover, understand, and gain insight and therefore must select a sample from which the most can be learned” (Merriam, 2009b: 77).

- Sample size

The size of the sample includes 15 potential participants, noting that the general trend in literature mentions 3 to 10 respondents and Polkinghorne (1989) and Riemen (1986) cited in Creswell (1998) both support 10 respondents as a reasonable size. The sample size therefore appears to be generous, however accommodated possible interview declines.

- Composition of sample

Participants were selected on the basis of their level of seniority in the company, their knowledge of the industry and their experience and exposure to the competitors and strategy development.

Appropriate alternatives were sourced to accommodate participant refusals and unavailability during the period of data collection.

Table 3: Profile of Participants

DESCRIPTION OF PARTICIPANT	NUMBER
SENIOR MANAGER/EXECUTIVE RESPONSIBLE FOR STRATEGY	6
LEADING SUBJECT MATTER EXPERTS: FINANCIAL ANALYSTS	7
LEADING SUBJECT MATTER EXPERTS: JOURNALISTS	2
TOTAL	**15**

3.4 The research instrument

The research instrument assumes the form of a series of semi-structured interviews as per Appendix B that were conducted with the potential participants as proposed in Table 3.

3.5 Procedure for data collection

Interview participants were contacted telephonically to pre-arrange the interview and followed by an email summarising the intention of the interview with relevant contact details. Interviews were conducted at the participant's business location to preserve the professionalism of the interaction and the business environment.

The research applies two data collection types, observations and interviewing, where observations of the physical layout, atmosphere and organisational dynamics, were recorded by means of written notes and interviewing was supported by written notes. There was no evidence of discomfort from the respondents, however due to the sensitive nature of the subject matter, confidentiality and anonymity were managed throughout the interview process. The researcher also recorded changes in body language, tone of conversation and level of engagement during the interview. All interviews were conducted in English as the generally accepted business language.

3.6 Data analysis and interpretation

The process of data analysis and interpretation involves making sense of the text and image data (Creswell, 2009). Identifying meaning is therefore central to understanding the content and complexity of qualitative data rather than measuring frequency (Smith and Osborn, 1998). Various authors have proposed methods and processes for data analysis and interpretation that is consistent with content or thematic analysis. Thematic analysis seeks to reveal themes that are salient in the data at different levels (Attride-Stirling, 2001).

Upon review of Creswell (1998:2009) and Smith and Osborn (1998), the steps for analysing and interpreting data can be summarised as follows:

- Preparing and reducing the data by summarising and condensing the information in a systematic manner, usually involving coding,
- Structuring the data into common themes or trends that emerge from the information, and
- Presenting information into the appropriate context that are consistent with the dominant themes,
- Discussion of findings.

The value of qualitative research is found in its exploratory and explanatory power, however this cannot be realised with the necessary methodological rigour (Attride-Stirling, 2001).

3.7 Limitations of the study

The research was confined to the retail industry, and inferences to other industries may be limited given the specific industry structure and underlying competitive dynamics.

Also, due to the sensitive nature of the Walmart-Massmart merger and the unresolved legal process that was pending at the Competition Appeal Court, the sample was dependent on retail analysts as a primary source of data with a few participants that are actively employed within the major retailers. There is a minimal possibility that this may impact the results, as these senior employees are reluctant to share strategic information pertaining to their organisation in detail.

3.8 Validity and reliability

Unlike quantitative researchers who seek “causal determination, prediction, and generalization of findings, qualitative researchers seek instead illumination, understanding, and extrapolation to similar situations”, Hoepfl (1997), cited in (Golafshani, 2003). Although quantitative researchers attempt to disassociate themselves as much as possible from the research process, their involvement and role in the research is often essential, thus the credibility of the research is dependent on the “researcher as the instrument” (Golafshani, 2003). Reliability and validity are conceptualized as trustworthiness, rigor and quality in qualitative research since it eliminates bias and increases credibility (Golafshani, 2003).

3.8.1 *External validity*

External validity refers to the degree that the results of qualitative research can be generalized or transferred to other contexts or settings. It is important to mention that if research is not internally valid, external validity will be impossible to obtain (Merriam, 2009a). The research offers strong external validity as its relevance in terms of strategy responses and analysis of competitor dynamics can be transferred to other industries and possibly similar international markets.

3.8.2 *Internal validity*

Validity is concerned with congruence, or a 'goodness of fit' between the details of the research, the findings, and the conclusions drawn by the researchers. Creswell (2009) notes that validity refers to the accuracy of findings by employing certain procedures during the research design, data collection and analysis and proposes various strategies that can enhance the researcher's ability to assess accuracy.

Three options discussed below were introduced to the study to increase internal validity as per Creswell (2009):

- Peer debriefing as an effective tool to ensure validity by enriching the accuracy of the process through interpreting information beyond the researcher, counteracting potential biases;
- Utilising an external auditor to review the research that is not familiar with the researcher or the study and can therefore offer a more objective assessment;
- Triangulation of multiple sources of information whereby one compares and cross-references data collected during the research and to identify conflicting or diverging ideas that may warrant further investigation.

3.8.3 *Reliability*

Reliability in qualitative research "indicates that the researcher's approach is consistent across different researchers and different projects", Gibbs (2007) cited in (Creswell, 2009). The following was recommended as ways to increase reliability:

- Documenting the procedures throughout the research process,
- Reviewing transcripts for obvious errors during transcription,
- Ensuring consistency of codes and the coding process.

It is important to understand the connection between reliability and validity as a study is more valid if the study is repeated a number of times (Merriam, 2009a). Maintaining a comprehensive list of procedures implemented throughout the study and monitoring the thematic analysis assures the reliability of this research.

CHAPTER 4: PRESENTATION OF RESULTS

4.1 Introduction

This chapter provides a framework of the dominant themes that emerged from the research.

The results of this study and thematic content were extracted from a series of semi-structured interviews conducted with retail analysts, market portfolio managers and senior management from companies within the retail sector in South Africa. This source of data was further supplemented with market research reports, written business media and, advertising and promotional campaigns.

4.2 Demographic profile of respondents

A sample of fifteen (15) respondents were approached as a primary source of data gathering, however only ten (10) individuals positively acknowledged the request for a research interview, with the remaining either declining to comment or failing to respond. Interviews were therefore conducted as per Table 4 below:

Table 4: Profile of Respondents

DESCRIPTION OF RESPONDENTS	PLANNED	COMPLETED
SENIOR MANAGER/EXECUTIVE RESPONSIBLE FOR STRATEGY	6	3
LEADING SUBJECT MATTER EXPERTS: FINANCIAL ANALYSTS	7	7
LEADING SUBJECT MATTER EXPERTS: JOURNALISTS	2	0
TOTAL	**15**	**10**

The researcher experienced difficulty sourcing and completing the proposed number of interviews as a result of:

- the level of confidentiality of the subject matter
- the topical nature and sensitivity of the subject matter in general, given the recent media coverage and referral to the competition commission of the Walmart-Massmart merger
- the availability of respondents to schedule a research interview

4.3 Overview of Thematic Content

An overview of the dominant themes was identified by condensing the interview information, applying coding and organising the data into common trends that are aligned to the structure of the literature review and interview guide. The trends and distribution of responses (frequency) offers a good context to present the results of the research in this chapter (Chapter 4) and further analysis in the subsequent chapter (Chapter 5), as illustrated in the Table 5.

The distribution summarises the extent to which respondents discussed the themes as relevant to their perceptions of Walmart's impact on the competitive landscape.

Table 5: Distribution of Responses per Dominant Theme

Proposition	Themes	Interviews										
		1	2	3	4	5	6	7	8	9	10	Total
1	The competitive landscape of the retail industry is shaped by the following forces that invariably influence strategy:											
1.1	Government (political/legal) Shifts			✓		✓		✓				3
1.2	Social/Consumer Shifts	✓	✓		✓	✓				✓		5
1.3	International/Economic Shifts			✓						✓	✓	3
1.4	Technological Shifts	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
1.5	Rivalry amongst existing Competitors	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
1.6	Threat of New Entrants		✓	✓	✓	✓		✓				5
1.7	Threat of Substitutes	✓			✓	✓		✓		✓	✓	6
1.8	Power of Consumers	✓	✓		✓	✓	✓	✓	✓	✓	✓	9
1.9	Power of Suppliers		✓	✓	✓		✓	✓	✓	✓	✓	8
2	South African retailers employ well established strategies to position themselves in the market:											
2.1	Cost Leadership	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
2.2	Differentiation	✓	✓		✓		✓			✓	✓	6
2.3	Focus	✓	✓	✓	✓					✓	✓	6
3	The Walmart-Massmart alliance has impacted the company's ability to compete in an established market by:											
3.1	Strengthening it's local organisational capabilities	✓	✓	✓	✓		✓		✓		✓	7
3.2	Providing leverage to expand into Africa	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
4	Competitor strategies evolve in response to new competition by:											
4.1	Retaining their present strategy but implementing initiatives to neutralise competitor actions	✓		✓		✓	✓	✓	✓	✓	✓	8
4.2	Evolving their strategy to reinforce competitive advantages	✓	✓	✓			✓	✓	✓		✓	7
4.3	Evolving their strategy to redefine markets	✓	✓								✓	3
4.4	Changing ownership			✓		✓			✓			3

At the onset, it is critical to note that while respondents were comfortable to discuss the potential impact that Walmart's entry may have on the competitive landscape and strategy, there was accord amongst the sample that they had not truly seen evidence of aggressive changes in the industry despite the media hype surrounding the merger. The results will be presented in detail according to the propositions identified in Chapter 2, (points 2.4.1 to 2.4.2).

4.4 Results pertaining to Proposition 1

The results pertaining to Proposition 1 as detailed in Chapter 2, (Point 2.4.1), regarding the potential impact that Walmart's entry may have on the competitive landscape was structured during the interview process according to the Nine Forces (Fleisher and Bensoussan, 2007) and will be presented conferring to this model. The distribution and frequency of responses across the dimensions of the nine forces model is graphically represented in Figure 5.

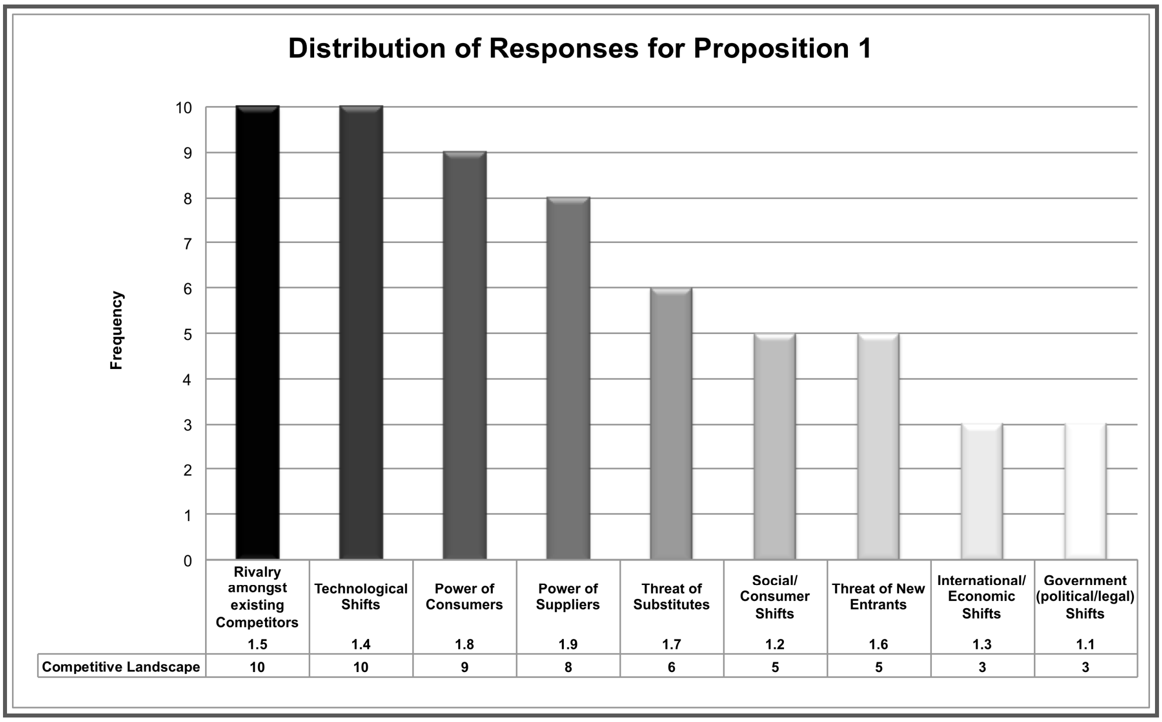

Figure 5: Distribution of Responses as per the Nine Forces Model

As demonstrated in Figure 5 above, there is a high frequency of responses concentrated on 5 dimensions, listed in order of relevance:

- Rivalry amongst existing Competitors
- Technological Shifts
- Power of Consumers
- Power of Suppliers
- Threat of Substitutes

The results of these dimensions as well as the remaining will be shared in detail below.

4.4.1 *Rivalry amongst existing Competitors*

The respondents reflected unanimous consensus that South Africa supports a mature, well established retail industry with companies that boast, “strong heritage” and well “entrenched brands”, contributing to intense competition for market share. Competition in the retail industry is however based on categories and income groups with retailers dominating in specialised areas as per the table below:

Table 6: Retailers as per Product Category

Consolidated from respondent interviews and company corporate websites

Retailers	Retail Catergories						
	General Merchandise	Building Supplies	Audio & Electronic	Clothing	Food (per income category)		
					Middle-High	Middle-Low	Low
Massmart	x	x	x	x		x	x
Makro	x		x	x		x	
Game	x		x				
DionWired			x				
Builder's (Warehouse/Express/Trade Depot)		x					
Jumbo							x
Shield							x
Cambridge							x
Pick n Pay	x		x	x	x		
Shoprite	x		x			x	x
Shoprite						x	
Checkers/Checkers Hyper						x	
House & Home	x						
OK Stores	x		x				
Usave							x
Woolworths				x	x		
Spar						x	
Clicks	x						
JD Group		x	x				
Pennypinchers		x					
Incredible Connection			x				
High-Fi Corporation			x				
Cashbuild		x					

Table 6 captures the focus of dominant retailers in the South African retail market across categories and income groups.

Respondents confirmed that Massmart dominates in market share in the general merchandise category and promotes a very clear value proposition, namely, a wholesale retailer for general merchandise and bulk packaged food embedding the concept of “value for money” in the mind of the consumer, although this may not necessarily be so. Retailers not only focus on product category but also position their offering in specific consumer markets that are defined along living standard measures (LSM’s) or income categories. Respondents acknowledged that Walmart’s entry into the country impacts the competitive dynamics by increasing competition across the retail environment and within specific product and LSM categories, therefore many of the established retailers, such as Pick n Pay, Shoprite, Spar and Woolworths do not perceive the Walmart-Massmart merger as a direct threat. This is evident from the lack of assertive market positioning and strategy deviations in the last 12 months, despite the excitement about the Walmart-Massmart merger.

It was further noted that competition will increase amongst competitors in terms of, evolving pricing strategies, expanding footprint in South Africa and Africa (given that Shoprite has raised R8bn in capital without divulging future investment strategies, and Pick n Pay’s sale of Franklins to raise capital to deploy in South Africa), increasing promotional activities that target specific markets and strengthen brand identity, and driving internal business efficiencies to maintain gross margins and profitability.

4.4.2 *Technology Shifts*

The technology shifts within the retail industry in the last five (5) years was fairly progressive, with some of the more established retailers such Shoprite, Spar and Woolworths introducing new supply chain strategies. The majority of respondents commented that Pick n Pay is lagging in maintaining the industry standard, as the company did not until recently own any distribution centres (DC’s), contributing to a high number of issues on product availability, especially during their promotional campaigns. Pick n Pay are only now in the process of centralising distribution with one (1) established DC in Gauteng and two (2) planned for Cape Town and KwaZulu Natal, respectively, accelerating the integration of the central distribution model in their business.

According to respondents, supply chain efficiencies was increasing in importance in the last few years given the expensive route to market created by poor logistics infrastructure and technology in the country. Respondents further emphasised that Walmart's entry introduces a great sense of urgency for companies to drive supply chain strategies that can enhance their competitive advantage as the Walmart business model is underpinned by their expertise in "driving costs down through supply chain management".

Respondents noted that the industry has demonstrated traction by including new supply chain strategies that they've observed, such as:

- centralised distribution (discussed in detail above)
- shift to category buying
- direct sourcing and international procurement (as in the case of Shoprite who was investigating a Buying Office in China, Woolworths who already has an established Buying Office/s off-shore and Clicks who are sourcing directly from the East)
- centralised buying function versus regional buying offices

Walmart has earned a reputation in this area internationally and while this function has not previously been included in the core business model, local competitors have no choice but to explore this as an essential pre-requisite to compete.

4.4.3 *Power of Consumers*

Consumer behaviour in South Africa is traditionally driven by discounting as noted by the high amount retailers spend on advertising and promotions. This behaviour was exacerbated by the economic recession, and in the last twelve (12) months, consumers have become quite cautious about disposable income and spending. As a result, there is an increasing trend for consumers to shop according to lowest price decreasing their average "basket" value across other items, and ultimately overall profitability for the retailer. The industry is thus exceptionally susceptible to the degree of price sensitivity demonstrated by consumers and pricing becomes the key element of the value proposition to the consumer. While the general trend is towards competitive pricing in the lower LSM's, consumers in the middle to higher income range are placing an emphasis on quality and product variety as well as competitive pricing ensuring that they are receiving good choice and value.

4.4.4 *Power of Suppliers*

The structure of the industry changes with respect to suppliers because Walmart's entry into the country raises questions about local supplier ability to compete on scale and price. The supplier base consists of a few dominant suppliers that are prominent with respect to brand and a number of smaller suppliers, but lacks range with medium sized suppliers, creating limitations for bargaining power. Although Walmart-Massmart has voluntarily committed to establishing a "supplier fund", thereby demonstrating it's intention to work with local suppliers , suppliers appear to be positioning themselves strategically with more dominant players to increase their bargaining potential and there is evidence of collaborations, consolidation, and possibly mergers and acquisitions in the future.

Respondents shared concerns about the bargaining power of suppliers given the pressure on pricing, as suppliers they believed "may not be efficient enough" to remove costs from their business model and retain margins. There are robust negotiations on pricing and volume, especially with retailers that have warehousing capacity to support the increase in promotions and campaigns. While retailers appear to have the balance of power, they continue to promote a strong collaborative relationship with their supplier network as margins are funded by the working capital cycle which is essential to revenue.

4.4.5 *Threat of Substitutes*

The threat of substitutes and there ability to impact the competitive dynamics of the industry is high. Respondents concurred that the legacy of South African retailing is based on brand identity and heritage, creating a generation of consumers that are brand conscious and ultimately supporting their profitability model. However, the recent economic crisis and subsequent change to conservative spending supports a new trend towards private label brands as reasonable substitutes. Consumers appear to be more open to explore alternatives and welcome accessibility to international product ranges and “no name” or private label brands that deliver value for money. Further, there is potential for this trend to be adopted by the industry as a means to drive better volume and margins in the future.

4.4.6 *Social/Consumer Shifts*

Respondents alluded to a number of social factors that was influencing the industry landscape, including an increasing middle economic class, acceleration in urbanisation, and a growing trend in convenience shopping creating further opportunities for competition in the retail industry.

4.4.7 *Threat of new Entrants*

The industry is dominated by a “healthy” oligopoly, with strong turnover and “fantastic” return on equity, making South Africa an attractive prospect for the future. The threat of new entrants in the retail industry has been high in more recent years, as the profitability of the industry was very attractive, and positioning for expansion into Africa ideal. Massmart was preparing itself for an international buy-out as was declared by Mark Lamberti two years prior to Walmart’s formal offer. The company shaped it’s business format to align to the Walmart “big box” concept and promoted food retail by increasing investment, while dominating the cash & carry market in the last ten years. The structure of the merger is not different from Walmart’s historical trend of acquisitions, pursuing the dominant market player in specific categories with the intention of expanding into categories where Walmart has demonstrated high growth in their domestic market. The Walmart-Massmart merger sets the scene for further foreign direct investment (FDI) in the country and opens a gateway for increased competition for market share given that there are still opportunities in the market. New entrants, similar in calibre to Walmart will prove highly beneficial for consumers as they will further evolve the competitive dynamics in the industry.

4.4.8 *International/Economic Shifts*

The global recession and economic turbulence that followed in a number of developed countries raised the question of expansion into emerging markets that promised strong growth. South Africa, in comparison to many countries was fairly stable as the economy was more defensive and more importantly, offered entry to the rest of Africa, therefore flagging the country as an ideal destination for FDI.

4.4.9 *Government (political/legal) Shifts*

A fairly small number of respondents commented on the political and legal influences on the competitive environment as a means for influencing the way that the retail industry conducts business. Specific reference was made to government's intervention to prevent the Walmart-Massmart merger by its appeal against the approval of the Competition Tribunal. According to the Mail & Guardian (2012), the court dismissed government's appeal ending months of speculation about the future of the deal, however acknowledged that there were legitimate concerns with respect to suppliers and employment. In light of this the court ruled that a study is commissioned within a month from the ruling to produce a report, which will determine "the best means by which South African small and medium-sized suppliers could participate in Walmart's global value chain and thereby ensure that benefits from this merger will flow to this important sector of the economy" (Mail & Guardian, 2012).

4.5 Results pertaining to Proposition 2

Respondents emphasised that the retail industry adopts well established strategies that support their market share objectives as per the table below.

Table 7: Retailers as per Strategic Advantage

Consolidated from respondent interviews

Retailers	Strategic Advantage		
	Cost Leadership	Focus	Differentiation
Massmart	x	x	
Pick n Pay	x	x	
Shoprite	x	x	
Woolworths	x	x	x
Spar		x	x
Clicks	x	x	
JD Group	x	x	
Cashbuild	x	x	

The table demonstrates that the majority of retailers with the exception of Spar promote a pricing strategy. In comparison, all retailers combine pricing and focus strategies, and a few, in this case Woolworths and Spar include differentiation as a key strategic driver.

4.5.1 *Pricing*

The concept of price as a key driver of competition in the industry emerged as an overarching theme. Respondents unanimously acknowledged that pricing has and will always be a central force for competition especially in emerging markets and where there is a higher prevalence of lower to middle income groups.

The local retail landscape consistently supports a "high-low" pricing model from as far back as anyone can remember. The model positions a retailers "normal" prices higher than competitors, but introduces lower prices or discounting for certain products through promotions and campaigns. The discounting is designed to encourage consumers to the store where they engage in convenience shopping extending their basket.

Walmart’s strategy is to be the market leader on price as they believe that this delivers big market share gains. The EDLP strategy was designed to encourage consumers to shop everyday at Walmart stores instead of searching for better promotions, based on their guarantee that the basket of goods will be cheaper than other retailers, ensuring consistent discounting and product availability. Respondents believed that Walmart will position it’s EDLP strategy as a key element to gain a competitive advantage, however there is no indication whether they will implement this immediately as the Massmart systems are not aligned to support the concept in the short to medium term.

Competitors on the other hand have been observed to “not only emphasise lower prices but lower prices more frequently and for a longer duration” demonstrating a definite impact on pricing intensity across the market. Spar has stated that it intends to remain competitive via pricing as is evidenced by it investment in the supply chain, while Pick n Pay and Checkers have already laid a foundation to compete on price. This is exciting for the consumer as there is potential to drive down prices further, with extensive price-cuts across various product categories over an extended period of time. Despite the threat of EDLP, local retailers are continuing to support a high-low pricing model and their reactions are grounded in this strategy.

4.5.2 *Focus*

The industry reflects a strong emphasis on focus as an important driver of strategy, as illustrated in Table 6: Retailers as per Product Category. Retailers specialise in specific product categories versus consumer income groups to position their value proposition and manage their internal capabilities.

4.5.3 *Differentiation*

The change in consumer demand for convenience, product variety and quality, especially with higher LSM’s or middle to high income groups have contributed to a differentiated strategy for some retailers, example, Woolworths and Spar. These retailers promote differentiation to enhance the consumer shopping experience including a “multi-faceted” approach on dimensions of price, quality, convenience and range. Respondents commented that Pick n Pay has in recent years attempted to gain momentum by adapting their store formats to include differentiation, however it has not been as successful as was expected and they are struggling to compete with Woolworths for the middle to high income consumer.

Respondents further stated that Walmart’s entry into the retail industry may trigger a new breed of retailer who positions differentiation as a competitive advantage rather than pricing alone. As it evident with Woolworths who have successfully implemented a pricing/differentiation strategy by re-engineering their offering and sourcing locally manufactured products of high quality but reducing the price point.

4.6 Results pertaining to Proposition 3

Walmart’s core business model internationally is general merchandise, however more recently they entered food retail food in the domestic market. Their strategy was so competitive in this category that they experienced impressive growth to become the “biggest food retailer in America”. Walmart therefore has strong capabilities in both general merchandise and food retail. They do however lack an understanding of local dynamics or exposure to the rest of Africa. Massmart offered the perfect store format to easily adapt into the Walmart model while capitalising on market position, footprint and supplier networks. Although the Massmart business was in a very strong position as the market leader in general merchandise, Walmart’s ability to immediate translate it’s global sourcing strategy in terms of scale across product categories is invaluable, especially it’s impact on pricing. In addition, the retail environment is well established and that the country enjoys economic stability, creating an ideal platform to launch into Africa. Given Walmart’s reputation, the company’s entry into South Africa places the country and Africa on the radar for other international companies and further FDI.

As mentioned earlier, Massmart is dominant in general merchandise and recently accelerated investment in food retail. Walmart's partnership will enhance Massmart's investment capabilities to extend their food network in South Africa and then transfer this into Africa. Massmart's continued success and business sustainability was dependent on a partnership to consolidate the current business, maximise efficiencies and share best practice. In essence the merger will not fundamentally alter Massmart's strategy but rather create a better leverage to expand its value proposition and footprint locally and into the rest of Africa.

Respondents believed that Walmart's concept of a superstore will evolve in South Africa and will equip them with a better business model to pursue in other emerging markets.

4.7 Results pertaining to Proposition 4

There was general consensus amongst the respondents that it is difficult to determine whether the recent competitor activity was a direct result of the Walmart-Massmart merger or merely an acceleration of company strategies already in the pipeline. As is illustrated by Figure 6, respondents that recent competitor activity was prevalent in two (2) categories, namely:

a. Retain their present strategy but implement initiatives to neutralise competitor actions; and,
b. Evolve their strategy to reinforce competitive advantages.

There appears to be less emphasis on evolving strategies to redefine markets and/or changing ownership.

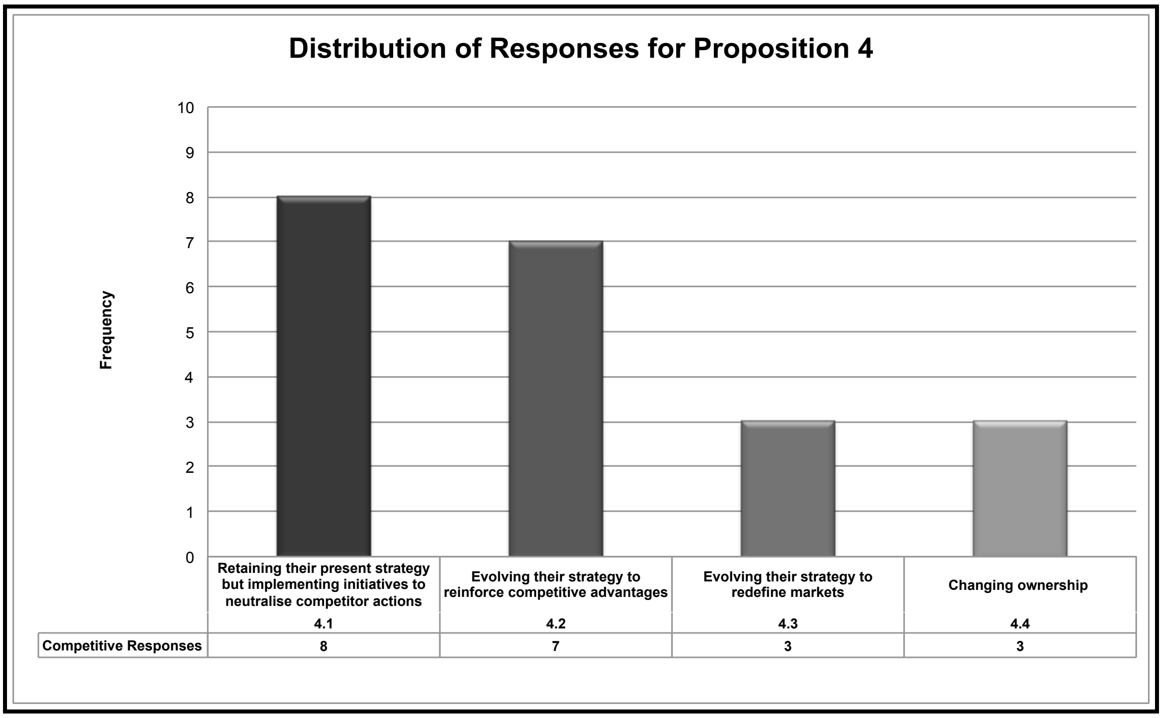

Figure 6: Distribution of Responses as per Competitive Strategies

The results pertaining to these themes will be shared below.

4.7.1 *Retain their present strategy but implement initiatives to neutralise competitor actions*

Respondents have observed an increase of advertising, promotions and discounting campaigns across the industry in the last twelve (12) months. The more established retailers such as Pick n Pay, Shoprite and Woolworths have increased their visibility in print and electronic media, as well introducing specific initiatives such as:

- Pick n Pay's "Smart Shopper" Programme
- Woolworths "W Rewards"
- Spar's "My Spar, My Community" Programme

Retailers launched these initiatives as a means to re-engagement consumers with their brand and perceived "value proposition". Although these were included in their long-term strategy, some retailers implemented the loyalty programmes hastily and in the midst of the media hype surrounding the Walmart-Massmart merger.

In addition, a few respondents had alluded that retailers had encouraged the union and government concerns about the impact of the merger on the economy as a means to delay the transaction.

4.7.2 *Evolve their strategy to reinforce competitive advantages*

As stated previously, respondents noted that the industry has demonstrated traction by including new supply chain strategies, such as:

- centralised distribution (discussed in detail above)
- shift to category buying
- direct sourcing and international procurement (as in the case of Shoprite who was investigating a Buying Office in China, Woolworths who already has an established Buying Office/s off-shore and Clicks who are sourcing directly from the East)
- centralised buying function versus regional buying offices

Although there is no direct correlation between Walmart's entry into South Africa and many of the strategic initiatives listed above, it would appear that the merger was definitely a catalyst.

4.7.3 *Evolve their strategy to redefine markets*

It was noted that two trends was evident in the last twelve to eighteen (12-18) months, namely:

- competition for "mall space", and
- "land grab",

where retailers are attempting to increase their footprint in South Africa and Africa to secure "first mover advantage". As an example of this trend, respondents indicated that Shoprite had raised R8bn in capital recently without disclosing their intentions to invest, although the company was “aggressively purchasing property both in and outside of South Africa”.

In addition, Pick n Pay’s recent sale of Franklins demonstrates that local retailers are raising capital to deploy in the country, and position themselves to compete, by possibly investing in store growth, infrastructure and warehousing facilities.

4.7.4 *Changing ownership*

The research yielded very little in terms of retailers changing ownership as a means to survive or improve their market position in the industry. A few respondents referred to recent activity by Spar to re-purchase ownership from their independent retailers as a means to strengthen their corporate base and prevent Walmart-Massmart from acquiring their footprint.

4.8 Summary of the results

The research aims to determine the strategic responses of competitors to a new foreign entrant in the retail industry in South Africa by proposing that:

e. Walmart’s entry will impact the competitive landscape by initiating current and forecasted changes on the industry structure in retailing and the macro-environment in South Africa.
f. Strategies employed by established retailers to sustain their profitability and market share are based on cost leadership, differentiation or focus.
g. The Walmart-Massmart alliance has strengthened the capability and industry position of the legal operating entity in South African, therefore altering the competitive dynamics.
h. Competitor strategies evolve in response to the changing industry structure and macro environmental factors, in an attempt to protect profitability and market share that is threatened by a new foreign entrant.

It is evident from the robust data that was captured during the research process, that the specific sample of respondents delivered a comprehensive framework of themes aligned to the above-mentioned research propositions to analyse in the subsequent chapter.

CHAPTER 5: DISCUSSION OF THE RESULTS

5.1 Introduction

The term "competitive dynamics" has been applied in many contexts, ranging from studies of the competition among species for survival to those contemplating how different organizations vie for dominance (Chen and Miller, 2012).

For the purposes of this research, "competitive dynamics" will be defined as study of inter-firm rivalry based on specific competitive actions and reactions, their strategic and organizational contexts, and their drivers and consequences Baum & Korn (1996); Smith, et al. (1992) as cited in (Chen and Miller, 2012).

Competitive dynamics is securely positioned in the literature on competitive strategy, expanding on the concept that competition is a central element of strategy, and underpins the actions and reactions of firms to each other as they pursuit market opportunities for survival and long term performance. Following from this, it is essential to reiterate that competitive dynamics is characterised by dynamic, interactive competition where the focus is on actual actions exchanged by firms, including new product introductions or advertising campaigns, entry into new markets, changes in pricing policy, and relocation or redesign of facilities (Chen and Miller, 2012). This interaction or engagement between firms lies at the heart of strategy.

5.2 Context

As detailed in the literature review, Chapter 2.2.3, the Walmart-Massmart merger in South Africa has been the centre of much speculation in the last eighteen (18) months. This was fuelled by the public, government and private sector interest in the potential impact of the merger on the economy.

The Competition Tribunal originally approved the merger in May 2011, subject to four (4) caveats, namely that the merged entity:

- may not retrench workers for a period of two years;
- provide preferential employment opportunities to 503 workers retrenched during June 2010 (and take into account their years of service in Massmart);
- honour existing labour agreements and not challenge SACCAWU's role as the collective bargaining agent for at least the next three years; and
- establish a R100m Fund to support local suppliers and small businesses as well as provide training to South African suppliers on how to do business with the merged entity and Walmart (Department of Economic Development, 2011).

However, the three government departments, Agriculture, Forestry and Fisheries; Economic Development; and Trade and Industry set out their grounds for a legal review and appeal of the decision by the Competition Tribunal to approve the merger with minimal conditions.

Following from the referral to the Competition Appeal Court in July 2011 and subsequent review hearing in October 2011, the decision remained pending as at 31st October 2011. On 9th March 2012, the South African Appeals Court upheld the decision made by the Competition Tribunal, but acknowledged that there were legitimate concerns about the effect of the deal. The Judge imposed an additional two (2) conditions, ordering that:

- a study is commissioned to "determine the most appropriate means together with the mechanism by which local South African suppliers may be empowered to respond to the challenges posed by the merger"; and the
- reinstatement of 503 employees previously retrenched by Massmart (Business Live, 2012).

Figure 1, Chapter 2.2.3, that summarized the Regulatory Approval Process was revised to reflect the status of the transaction as at the time of research illustrated in Figure 7 below.

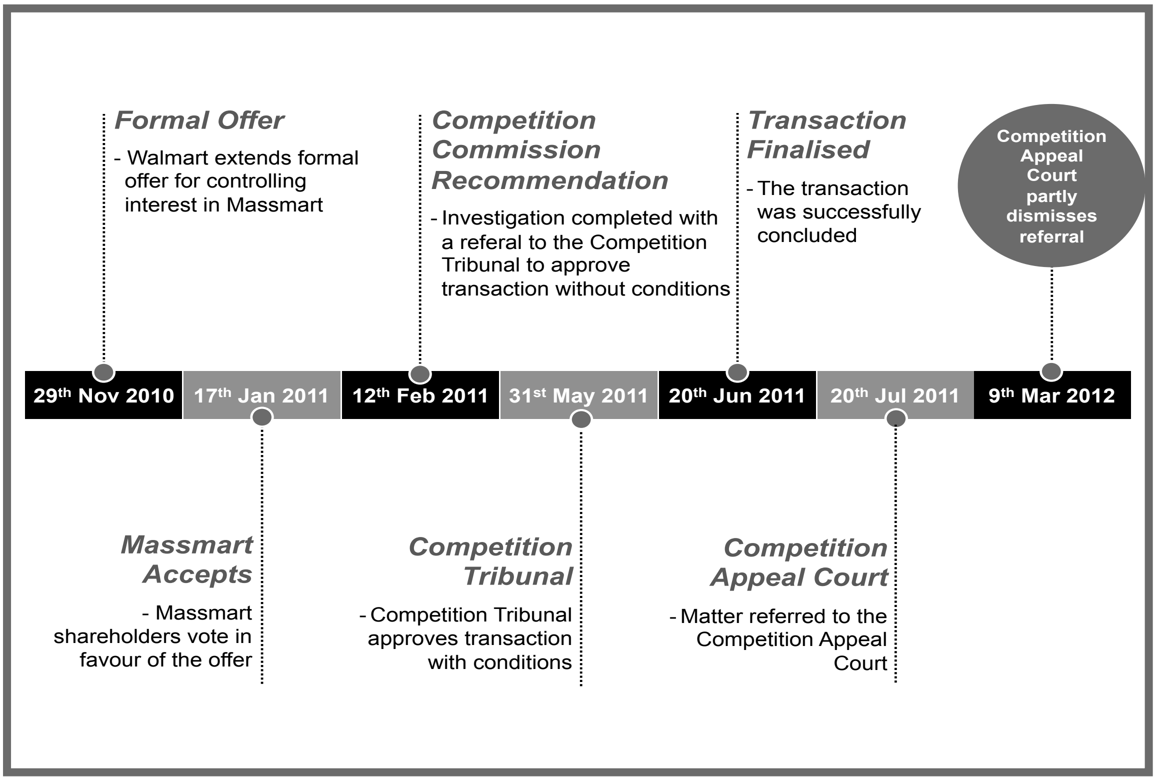

Figure 7: Revised Summary of the Regulatory Approval Process

A construct of news articles and media releases (Massmart, 2010; Competition Tribunal, 2011; Massmart, 2011; Walmart, 2011; Business Live, 2012)

The context of the research provides an ideal setting to analyze the changes that are evolving our local retail landscape.

5.3 Discussion pertaining to Proposition 1

According to Eisenhardt and Brown (1998), in an environment of continuous volatility and competitive forces, it is inadequate to adopt and apply traditional views of strategic that fail to accommodate the dynamic nature of business and competition today.

The nine forces model was noted in the literature review as an effective tool to deliver a holistic analysis of the rapidly evolving competitive landscape, by integrating the forces that underpin both the environment and industry. The objective in the research is thus to assess the impact of Walmart's entry on the nine forces that shape the competitive dynamics in the industry.

As noted in the results, the retail industry in South Africa is a well established oligopoly with major retailers dominating in specific categories and income groups. Given that retailers operated as dominant players in sub-markets, they continued in accord through the decades with minimal disruption to their ways of doing business. The Walmart-Massmart merger catapulted South African retailing into a new era of co-existence with a global super-power, prompting a frenzy of activity on various levels and influencing the forces that drive industry profitability. The impact of Walmart's entry and evolving competitive pressure is summarised in Figure 8.

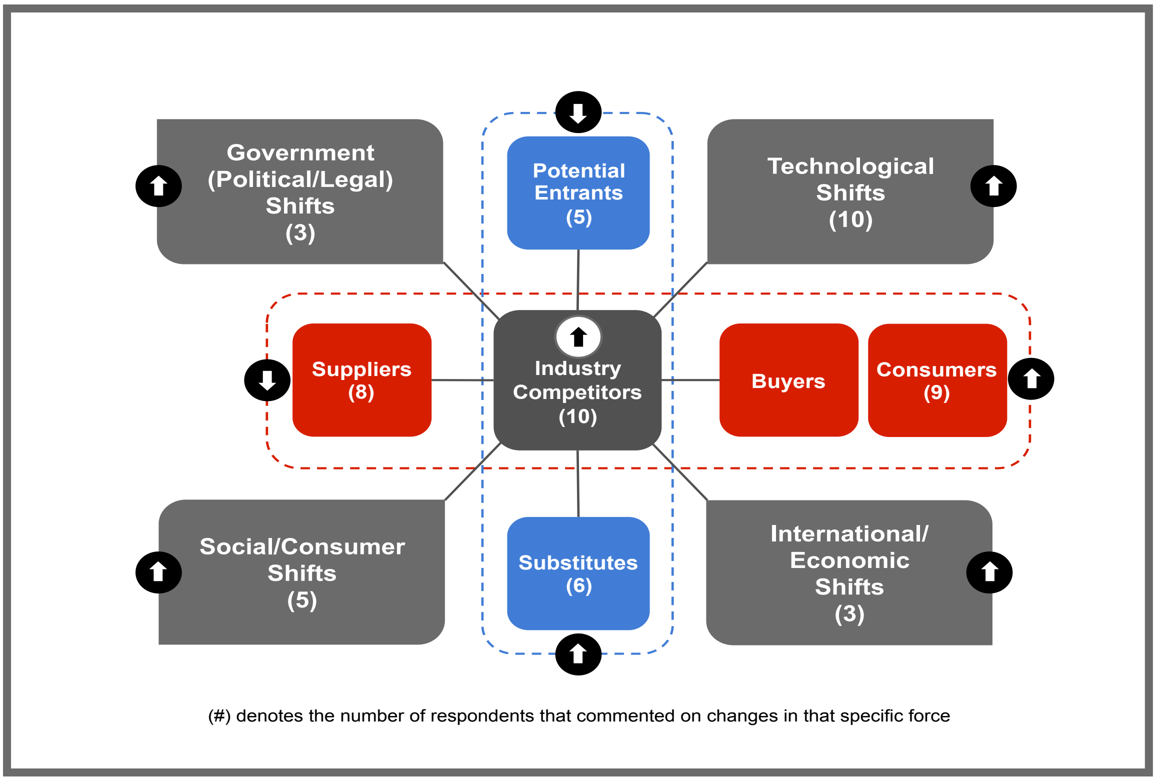

Figure 8: The Nine Forces (Fleisher and Bensoussan, 2007)

Adapted to reflect the analysis of Walmart's impact on the South Africa Retail Industry

While there was consensus amongst the respondents that the retail industry does not reflect aggressive changes, the nine forces model illustrates that the environment is experiencing pressure and this pressure is a catalyst for change in the short, medium and long term.

Fishman (2006:9) notes in his book The Walmart Effect that,

"Walmart didn't just change the lives and spending habits of grocery shoppers, though. It changed the very ecosystem and rhythm of the supermarket business, often with devastating consequences for those who couldn't adjust."

The immediate effects of Walmart's reputation was apparent following the approval and conclusion of the legal transaction in three (3) of the nine (9) forces.

5.3.1 *Level of rivalry amongst existing competitors*

There is a definite increase in the level of rivalry amongst existing competitors, especially with the perceived threat of the Walmart-Massmart merger and Walmart's ability to leverage better deals with suppliers. Analysts have touted Walmart's entrance into the local market as a "game changer", emphasising the urgency for competitors to reformulate their strategy (Business Live, 2012), and this in essence has fuelled the rivalry and "price war" evident in the market.

5.3.2 *Technological shifts*

Industry Consultant, Malcolm Leitch stated that

"Walmart might be defined as a supply chain business that happens to be a retailer, as opposed to supermarket chains, who are retailers that happen to be in the supply chain business." (Engineering News, 2011)

The degree of sophistication of the supply chain is fairly low in South Africa. While is can be argued that some of the dominant retailers have concentrated on supply chain capability as a competitive advantage, the overall market still supports direct store deliveries. Competitors have accelerated technological improvements and re-engineering of their supply chain strategies, with a view to improve efficiencies and maximise their value proposition to the consumer. The significant competitive pressure will thus force more meaningful collaborations and evolve retailers into more effective supply chain businesses.

5.3.3 *Bargaining powers of suppliers*

"Walmart was the creation of a single man, Sam Walton, who latched on to a single idea that he somehow knew in his gut was singularly powerful: Sell stuff that people need every day just a little cheaper than everyone else, sell it at that low price all the time, and customers will flock to you. That single idea drove Walmart to keep the costs of his own company as modest as possible, and soon caused Walmart to ask whether its suppliers couldn't be more frugal too and lower the price of their products." Fishman (2006:11)

At face value, the bargaining power of suppliers decreases substantially, as competitors are even more focused on managing their margins to deliver competitive pricing strategies. As noted in a recent store advert by Woolworths, promoting their "great value" concept, they declared

"we're working hard to save you money. We've bought bigger volumes and negotiated better prices to make the quality you trust more affordable." (Woolworths In-store Advertisement sourced by the Researcher, 2012)

In addition, Walmart's supply chain management strategy is supporting Massmart's drive for market share and places pressure on its retail competitors, who are asking their own suppliers to improve efficiencies and reduce prices. This is similar to the trend that followed Walmart's entry in other emerging markets, such as Mexico, where retailers attempted to mimic Walmart's practices in order to compete, creating devastating consequences for the supplier base.

The trend is central to the concerns raised at the Competition Tribunal and Appeal Court, and the impetus for Walmart's commitment to a Supplier Development Fund that aims as broadening the local supplier base. It is noteworthy to mention that precedent was set in Chile, China, India and Mexico, where Walmart established a broader base of locally based suppliers, supporting their efficiency goals and expanding it's private label offering through them where possible (Business Report, 2012).

In the long term, there is potential for the bargaining power of suppliers to increase, as they exploit the opportunity to export into other Walmart markets, boosting sales revenue and volume.

5.3.4 *Summary*

The above analysis reflects that there are obvious changes in the industry structure that was immediately effected. However, it is also important to acknowledge that the other forces provide context for these changes and have contributed to the competitive dynamics in the industry. Further, there is potential for Walmart's entry to continue influencing the structure of retailing in the medium to long term by:

- further increasing the level of sophistication and ultimately the power of consumers via aggressive marketing campaigns; and
- fuelling the trend towards private label brands as a means to manage margins more effectively and increase competitive advantage.

This analysis supports the proposition that Walmart's entry will impact the competitive landscape by initiating current and forecasted changes on the industry structure in retailing and the macro-environment in South Africa.

5.4 Discussion pertaining to Proposition 2

5.4.1 *Positioning the Generic Strategies*

In South Africa, retailers adopt a combination of generic strategies, as per (Porter, 1998), aligning the company's core competencies and primary focus to overall cost leadership, and/or differentiation, and/or focus. This approach substantiates that there is no single relationship between profitability and market share, but that strategy is a consequence of the company's capabilities and positioning in the industry structure such that it sustains competitive advantage in a rapidly evolving landscape.

The research suggests that the local industry adopts a typical high-low discounting pricing strategy as the basis of competition and then includes focus and/or differentiation as a means to position their value proposition to the consumer. While companies compete along many dimensions, pricing strategy is clearly one of the most important (Ellickson and Misra, 2008).

Walmart is clearly an example of a company that has changed the way consumers perceive value by driving that single idea of lower prices per shopping basket. According to Fishman (2006:9),

"Walmart has changed our sense of quality, it has changed our sense of what a good deal is. Walmart's low prices routinely reset our expectations about what all kind of things should cost…Walmart has changed the lens through which we see the world."

And therein lies the concept of EDLP, delivering lower prices on average to the consumer versus less frequent promotions for shorter periods with the high-low discounting model.

In the retail industry, pricing strategy can be characterised as a choice between offering lower, stable prices across a wide variety of products, thus EDLP, or offering discounting and frequent promotions on a smaller range of products. Athough Walmart did not create the concept of EDLP, there success at implementing this strategy was a primary factor in their rapid rise to the top of the Fortune 500, (Ellickson and Misra, 2008). The company's mantra is eloquently captured by Fishman (2006:226),

"Always low prices. Always. The second always is in italics and underlined, just so there's no confusion about the mission."

This "mission" has earned the company a reputation in the retail world and is the cause of intense debate and anxiety when they enter a new market.

While EDLP is perceived as an immediate threat, and offers a different proposition, it does not necessarily imply a better alternative for consumers in South Africa. Ellickson and Misra (2008) propose that consumer demographics play a significant role in the choice of local pricing strategies, as companies align themselves to consumer demand. The authors further expand that an EDLP strategy is favoured in low income, racially diverse markets, while high-low discounting is aimed at the more affluent. As such, the move towards an EDLP strategy sets the stage for disruption, as it may appeal to the diversity and economic complexity of our population. However, this may be a slow process in comparison to other emerging markets, seeing that local consumers are comfortable with bargain hunting across different supermarkets and brands and may not easily adapt to a less promotionally driven strategy. Analysts continue to express their confidence in local retailers, believing that their knowledge and experience of the market and industry structure, equip them to response to the pricing threat appropriately.

As one is absorbed by the frenzy of pricing strategies, given Walmart's reputation in this area, it is not difficult to understand the lack of emphasis that is placed on differentiation and focus as drivers of competitive advantage. According to Ellickson and Misra (2008), companies compete across the entire retail and marketing mix, enticing consumers with attractive products, competitive prices, convenient locations and a host of services, features and promotions initiatives, so it becomes critical to formulate a multi-faceted competitive advantage.

5.4.2 *Introducing the concept of footprint*

In addition, competitors illustrate a clear benefit by acquisition in stores and customer base (Golden, Jeutang, Pattaik, Rosenbaum and Thompson, 2006). The data proposes that there is an increasing trend towards the concept of "land grap" and investment in "growth strategies" with the intention of competing on footprint and first mover advantage into Africa. Competitors are increasingly securing space to ensure consumer accessibility as well as a means to inhibit Walmart-Massmart's footprint.

5.4.3 *Summary*

As reflected in the research data, the local retail market is segmented along categories and income groups, with retailers customising their value proposition to include quality, service, convenience and variety. Although the recent competitor activities for the majority of retailers are based on pricing, the market may begin to re-engineer their customised offering further to extend their competitive advantage, with more retailers exploring differentiation. Fishman (2006:135) proposes that,

"The other way to compete with Wal-mart is to focus, even in the mass market, on things besides price: design, fashion, quality, cachet, the feel of the shopping experience."

This strategy underpins Walmart's most astute competitors, Target and Whole Foods in America who have enjoyed strong growth, demonstrating the power of quality, even when competing against low prices (Fishman, 2006).

The research supports the proposition that established retailers sustain their profitability and market share based on cost leadership, differentiation and focus. However, there is distinct departure from the traditional model of generic strategies with the increasing trend towards expanding footprint and accessibility.

5.5 Discussion pertaining to Proposition 3

Walmart's global expansion is driven by the two (2) objectives, that is:

- driving aggressive growth; and
- improving return on investment, (Walmart, 2012).

Doug McMillion, President and CEO of Walmart International confirms that the expansion strategy is grounded in the company's goals to:

- Meet “local needs”, thus localising the value proposition and aligning formats, product variety and service to fulfil the expectations of the specific market;
- Drive “powered by Walmart” such that they share best practice across geographies in operations, logistics and information technology, leveraging the companies global scale and expertise to deliver at the lowest prices; and
- Introduce “e-commerce solutions” as a market first to capitalise on explosive growth of on-line retailing in emerging markets (Walmart, 2012).

According to Walmart, its rationale for entering into the local transaction is a desire to be in emerging markets, especially South Africa and the sub-Saharan region. Wal-Mart believes South Africa is a key market for growth, accounting for approximately 20% of consumer spending on the African continent as a whole. Also, South Africa is a sophisticated market with a stable economic, political and regulatory environment.

It was therefore no surprise that Massmart, South Africa’s largest wholesaler, and dominant general merchandise retailer was Walmart’s second-biggest acquisition after the $11 billion takeover of U.K. retailer Asda in 1999, based on the exciting long term growth prospects.

The Walmart-Massmart merger is therefore the ideal vehicle to enter an emerging market, and more specifically, the African region as it will facilitate an exchange of benefits that a greenfields venture cannot deliver. The merger is a critical enabler for the global retail giant in an unknown mature market with well established players. The benefits are invaluable in terms of maximising Massmart’s local experience and market knowledge, while enhancing it’s capabilities by an infusion of global experience and expertise across a variety of disciplines.

Massmart’s CEO, Grant Pattison, declared that the company, “plans to expand trading space by 20 percent over three (3) years”, and expand its food retail business by more than 50 percent over five (5) years, as Massmart is “geared toward” opening between 50 and 100 stores in the next three years (Bloomberg, 2011).

The merger reinforces Massmart’s position in the market and accommodates attractive growth opportunities long term through procurement benefits, attractive middle-income growth and continued supply chain efficiencies.

5.5.1 *Summary*

The analysis supports the proposition that the Walmart-Massmart alliance has strengthened the capability and industry position of the legal operating entity in South Africa, altering the competitive dynamics.

5.6 Discussion pertaining to Proposition 4

“Wal-mart is something utterly new. Wal-mart is carefully designed as something ordinary, familiar, even prosaic. The business model is built on the shopping cart. But, in fact, Wal-mart is a completely new kind of instituition: modern, advanced, potent in ways we’ve never seen before. Yes, Wal-mart plays by the rules, but perhaps the most important part of the Wal-mart effect is that the rules are antiquated; they are from a different era that didn’t anticipate anything like Wal-mart.” Fishman (2006:18)

The underlying sentiment of the research data proposes that the strategic initiatives evident in the marketplace are an acceleration of competitive strategies rather than an aggressive re-design of strategy, albeit in direct response to Walmart’s entry into South Africa. Competitive responses can be juxtaposed to the theory presented in the literature review as per Table 8 below. The table illustrates that initiatives implemented in the market may be aligned to specific competitor responses and lends itself to a type of strategic response that the literature classified as co-operative, threatening or defensive.

Table 8: Retailers as per Strategic Advantage

Consolidated from respondent interviews

Competitor Responses		Examples	Type of Strategic Response
1	*Retain their present strategy but implement initiatives to neutralise competitor actions*	Introduction of loyalty programmes	Co-operative
		Increase in advertising, promotional and promotional campaigns	Threatening
		Informally encourage government regulation	Co-operative
2	*Evolve their strategy to reinforce competitive advantages*	Introduce new supply chain strategies	Co-operative
		Explore international sourcing options	Co-operative
3	*Evolve their strategy to redefine markets*	Increased trend towards "land grab"in South African and Sub-Saharan Africa	Threatening
		Competition for "mall space"	Threatening
4	*Changing ownership*	Re-purchase of independent retailers trading under corporate brand	Defensive

Competitors have introduced an array co-operative, threatening and defensive strategic responses with a view to protect their market share and profitability. While these may be successful in the short to medium term, there is cause to question the viability of responses in the long term as a means to sustain profitability.

Parnel and Lester (2008) claim that to effectively counter a competitor of Walmart's scale, it is a non-negotiable to assess the threat it creates and the influence on industry dynamics. The authors further argue that Walmart, by its very nature possesses key competitive strengths and weaknesses that should be clearly framed before crafting any strategic response. While the examples solicted from the market reflect some competitor initiatives, it fails to adequately capture a more sustainable strategic approach. This may be a consequence of timing, in that the research was conducted during the infancy of Walmart's entry into the country and competitors have not had the opportunity to visibly execute long term strategic responses.

5.6.1 *Summary*

Evidence advocates that competitor strategies evolve in response to the changing industry structure and macro environmental factors, in an attempt to protect profitability and market share that is threatened by a new foreign entrant. In the case of local retail competitors, strategies in the pipeline were accelerated, while others evolved according to immediate, medium and long term objectives to retain a market advantage or recapture consumer interest.

5.7 Conclusion

"The Wal-mart effect…shorthand for a whole range of impacts resulting from Wal-mart's way of doing business." Fishman (2006:7)

The phrase describes Walmart's ability to introduce lower prices through competition and reshaping shopping habits by applying relentless downward pressure on the price of everyday necessities. This uncompromising attitude to "low prices always, always" has not only had an impact on suppliers and the mix of shopping alternatives for consumers, but significantly influenced the competitive behaviour of retailers.

Although there is growing evidence that Walmart's hold on retail may be slipping, it remains a competitive "nightmare" for many of it's competitors (Parnell & Lester). There is, however, no substitute for understanding one's customers, markets and resources as a foundation for crafting and refining competitive strategy that is sustainable in the long term.

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

The final chapter of this research will contextualise and summarise the key findings of the study, structured accordingly to the propositions presented in the literature review. The report will conclude with recommendations and suggestions for further research.

6.2 Conclusions of the study

"The Walmart effect is like the wake of a huge ship passing along the horizon – by the time the waves rock you, the vessel that made them has almost steamed out of sight. It is rare indeed to catch the Walmart effect as it is happening, to be able to see it play out in real time" Fishman (2006:249)

The intention of the study was to determine the competitive responses of retailers to a new foreign entrant into the retail industry in South Africa. More specifically, to explore the effect of Walmart's entry on competitor strategy as they position themselves to retain or defend their competitive advantage, levels of profitability and essentially market share.

The research reveals that the propositions are fundamental to analysing the forces that influence competitive strategy, emphasising the notion of relativity, that is, strategy is best understood within the context and vis-à-vis the competitive landscape.

6.2.1 *Proposition 1*

Walmart's entry will impact the competitive landscape by initiating current and forecasted changes on the industry structure in retailing and the macro-environment in South Africa.

Walmart's entry into South Africa is but in it's infancy, however there are definite trends evolving the forces that shape industry competition. The changes appear incremental in nature in most instances, especially when viewed in isolation, however holistically, it informs the strategic positioning evident by dominant retailers as they perceive the current and forecasted changes on the industry structure and macro environment.

6.2.2 *Proposition 2*

Strategies employed by established retailers to sustain their profitability and market share are based on cost leadership, differentiation or focus.

The findings indicate that the basis of competitive advantage in the retail industry is consistent with the generic strategies presented by Porter (1998), with a distinct emphasis on pricing strategies that drive cost leadership. Research that examined the success of competing with Walmart "on it's own turf", demonstrated that once markets are segmented by the five (5) primary dimensions of retailing; quality, service, convenience, selection, and price, Wal-Mart only dominates in price, and to a limited extent, selection (Golden et al., 2006). The premise that is it exceptionally difficult to compete with Walmart on pricing strategy is acknowledged by the major players and thus the research implies a divergence from the traditional model. A trend to expand footprint in South Africa and into Africa is a consisent theme in the findings, conceding that competitors recognise the necessity of reassessing their strategic advantage.

6.2.3 *Proposition 3*

The Walmart-Massmart alliance has strengthened the capability and industry position of the legal operating entity in South African, therefore altering the competitive dynamics.

The merger that has generated a wave of controversy is no doubt a deliberate positioning of both companies to expand the offering in South Africa and exploit first mover advantage into Africa. The alliance enables Walmart to effortlessly clone its corporate "DNA", noted as their key to success in a number of previous acquisitions. In addition, it enhances Walmart's ability to understand the uniqueness of the local market or markets (Africa), and anticipate and respond to competitor threats, while repositioning Massmart in the retail space to expand their offering in food retail. The alliance acts as a catalyst for change in the existing competitive landscape.

6.2.4 *Proposition 4*

Competitor strategies evolve in response to the changing industry structure and macro environmental factors, in an attempt to protect profitability and market share that is threatened by a new foreign entrant.

As illustrated by the pace of supply chain improvements and speed of execution of key elements in the competitive mix, competitors are consciously investing to accelerate change that will evolve their competitive advantage.

Walmart's entry into South Africa has impacted the fundamentals of local retailing but altering the industry structure and competitive landscape. While competitors are cognisant of the evolving competitor dynamics, their responses are more aligned to retaining their competitive advantage by accelerating strategies already in the pipeline rather than re-engineering their value proposition. This approach will influence their ability to compete in the long term and sustain their profitability and market share.

6.3 Recommendations

The findings of the research indicate that the entry of a dominant global retailer in a mature, well established industry alters the competitive dynamics and invariably influences strategy. In addition, the research has unveiled nuances that may complicate the understanding and nature of competitive dynamics, thus the following recommendations are proposed.

6.3.1 *Facilitate vigorous competitive analysis*

Although the changes in the short term appear incremental, evidence suggests that there is spin-off in the medium to long term that may not be internalised timeously for companies to re-engineer their competitive strategies.

It is therefore valuable for the local retail industry to approach industry and competitor analysis in a more vigorous manner that examines the impact of Walmart's entry along a time continuum. This will equip competitors with a visual map of the implications in a short, medium and long term and adapt their strategies accordingly.

6.3.2 *Explore alternative pricing strategies*

The concept of EDLP strategy appears to be a common thread that underpins the nature of competition when Walmart enters a market and has been a point of intense debate in the country. While local retailers have successfully promoted a high-low discounting strategy for decades, the changing consumer trends are cause to further explore pricing as central to the value proposition for the rapidly growing middle-income group.

6.3.3 *Introduce differentiation*

The local retail landscape is dominated by retailers that primarily endorse cost leadership and focus as competitive advantages. It is noteworthy to reiterate evidence from other markets, where competitors have successfully positioned differentiation as a strategic advantage to compete with Walmart.

6.3.4 *Strengthen private label brands*

The change in consumer trends and pressure on pricing sets the scene for retailers to further strengthen their private label brands in partnership with local suppliers. This may create opportunity to broaden the local supplier base, alter the bargaining power of suppliers and simultaneously support local branding for retailers.

6.3.5 *Execute Scenario planning*

In addition, competitors should consider the benefits of scenario planning, given the high level of uncertainty in predicting the competitive environment medium to long term. Van der Heijden (undated) argues that companies experience paralysis when faced with uncertainty in strategic decisions, often resulting in panic reactions and less than optimal consequences. Further, according to Coyne and Horn (2008) companies determining how to respond to a competitor generally consider "three or fewer options and don't look forward more than two years."

Scenario planning thus offers a way of systematically analysing possible future states and developing strategies that effectively counter these circumstances ensuring a sustainable advantage.

6.4 Suggestions for further research

A consistent challenge that presented itself throughout the research is the timing of the study, in that Walmart's entry into the country is in it's infancy and therefore conclusions may not be as rich when examining impact on the local retail industry. Following from this, it is suggested that a longitudinal study is conducted in three (3), five (3) and ten (10) years intervals on similar variables to better measure "The Walmart Effect".

Also, repeatedly mention has been made regarding the opportunity that this presents for Walmart to drive efficiencies in the country's high-cost retail environment, delivering low prices and value to consumers. Further research into the effect of Walmart's entry on pricing strategies and value proposition for the consumers will offer valuable insights. As Fishman (2006:88) eloquently captures,

> "Walmart wields it's power for just one purpose: to bring the lowest possible prices to its consumers."

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APPENDICES

APPENDIX A: Letter to Participants

Graduate School of Business Administration
University of the Witwatersrand
P O Box 98
Wits
2050

December 2011

Dear Sir or Madam

Re: Request for Interview

As per our telephonic discussion, I am an MBA student at The University of Witwatersrand, Johannesburg (Wits), in the process of completing my dissertation. My research topic seeks to explore ***"The competitive responses to Walmart's entry into South Africa"***.

I am currently busy with data gathering on this subject and would value your time to accommodate an interview at your offices, in order to solicit your opinion on the impact of a new foreign entrant in the market.

Please feel confident that your confidentiality will be maintained as per the research rules observed by the business school and that the final report is for academic purposes only.

I look forward to receiving possible interview times.

Yours sincerely

Lou-Anndree John
WITS MBA Student

APPENDIX B: Research Instrument

	INTERVIEW QUESTIONS
General/Context	1. Describe the nature of your role in the business? 2. What has been your involvement in strategy development in your company? 3. What do you believe are the key drivers of business strategy in a) your company and b) the industry? 4. Who do you believe are the dominant industry competitors and why?
Proposition 1	5. In what way has Walmart's entry into the industry affected the way of doing business? 6. Do you think that Walmart's entry will change the retail practices in the country? 7. If so, in what way? 8. In what way do you think a new foreign entrant will influence market share in the industry? 9. How will this affect the current structure in the industry in terms of a) suppliers, b) consumers?
Proposition 2	10. What do you think has contributed to your company's success in retailing? 11. Describe your company's current competitive advantage?
Proposition 3	12. What do you believe motivated the merger between Walmart and Massmart? 13. How will this alliance impact the industry? 14. What do you think are the advantages and disadvantages of Walmart's entry?
Proposition 4	15. Has your company amended its business strategy in the last 12 months? 16. If so, why? 17. Describe the new strategies that were implemented? 18. Do you foresee any further strategic changes in the short term? 19. If so, why?