Private Label Consumption and Entrepreneurship in South Africa

Juanita Malgas

0606451d

A research article submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Business Administration

Johannesburg, 2018

Protocol number: (WBS/BA0606451D/644)

(Version 2 December 2018)

DECLARATION

I, Juanita Malgas, declare that this research article 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 Graduate School of Business Administration, University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Juanita Malgas

(Type your name in full here, and sign in the space above)

Signed at ……Bryanston………………………………………………

On the ………10th…….. day of ………December………………… 2018…..

DEDICATION

I would like to dedicate this project to my husband who has been so supportive on this MBA journey. I’d like to thank him for believing in me and for motivating me to keep going when I sometimes felt like giving up.

ACKNOWLEDGEMENTS

I would like to express my gratitude to my supervisor, Nomusa Mazonde, for the ongoing support. The Wits Business School is a great institution and I am grateful for all lecturers, coordinators and coaches who made the MBA the wonderful learning experience it was.

Lastly, I would like to thank my family and friends for the undying support.

SUPPLEMENTARY INFORMATION

Nominated journal:	Journal of Retailing and Consumer Services
Supervisor:	Nomusa Mazonde
Word count [†]:	13,438
Supplementary files:	Annexures including interview transcripts

ABSTRACT

This paper highlights how the unemployed can capitalise on the growing trend of private label consumption. With high unemployment rate figures, coupled with poor economic growth there is a real need for the unemployed to establish businesses as a means of generating income. Trends in consumer behaviour signal that private labels are growing in popularity and are becoming more significant in a consumer's basket (within retailers and wholesalers). Literature on entrepreneurship focuses on elements that entrepreneurs need to focus on such as marketing, accounting, and identifying opportunities, etc. This paper demonstrates that it is possible, albeit challenging in some instances, for hopeful entrepreneurs to become suppliers of private labels for retailers. These hopeful entrepreneurs need to make themselves known to retailers so that they are considered when a product is needed. This can be achieved through marketing but also by approaching retailers and asking what it is that they require and meeting their need by producing the required product.

Data was collected from professionals who have exposure to private labels because they are either private label buyers or their companies manufacture private labels, entrepreneurs who make their own products and unemployed women or hopeful entrepreneurs as they will be referred to in this paper. This data was collected by way of interviews. Ultimately, the unemployed participating in the production of private labels is a viable alternative source of business which has not received much attention from leading entrepreneurship schools of thought. Entrepreneurship is one of the key elements for reducing unemployment levels in this country and it is of great importance that ideas such as the ones this paper will centre around are explored in order to achieve the countries employment goals. Black Economic Empowerment (BEE) was also considered in this paper because when analysing the country's unemployment, it is important to be cognisant of the majority of the unemployed and they are black South Africans. What this paper reveals is that whilst the government requires companies to be BEE compliant, there are companies that do not consider BEE when choosing suppliers to work with.

Keywords: Entrepreneurship, Unemployment, Private Label, Consumer Trends, Manufacturing, Retail, Black Economic Empowerment

1. INTRODUCTION

1.1. Purpose of the study

This study explores how private label manufacturing can be a method for growing entrepreneurship in South Africa, increasing economic activity and thus reducing unemployment.

South Africa's unemployment rate is currently sitting at 27.7% and measures that are aimed at boosting economic activity are imperative (STATSSA, 2017). South Africans tend to look to the government when trying to find solutions on how to deal with unemployment (Yu, 2017). One of the reasons for this is that South Africans who are unemployed are on the brink of poverty therefore the government needs to intervene in order to reduce the effects of unemployment (Yu, 2017). Besides the rife youth unemployment, the elderly face reduced chances of getting employed once they have lost a job (Yu, 2017). Women in South Africa also face tough living conditions where some are sometimes forced to become domestic workers due to their lack of education, poor financial literacy, etc. (Flatø, Muttarak, & Pelser, 2017). Women in South Africa also generally receive less pay than men and there is a need for them to feel empowered (Flatø et al., 2017). This can be achieved by them becoming entrepreneurs. Starting a business is a way that the unemployed can generate an income (Yu, 2017). This study guides those who are interested in starting businesses to consider manufacturing private labels. This study also highlights some of the advantages and disadvantages of the private label manufacturing route. This study also highlights a way that makes it possible for the unemployed to become entrepreneurs and this is through private label manufacturing.

1.2. Context of the study

Government acknowledges and places focus on small, medium and micro sized enterprises (SMME's) as a way of achieving economic growth (DTI, 2018). The government seeks to do this by providing support to these structures which is positive because this is aimed at encouraging the creation of these enterprises (DTI, 2018). Small and medium enterprises continue to create employment opportunities in this country therefore their establishment should be encouraged (SAICA, 2015). The establishment of SMME's should be guided by current economic needs and consumer trends. One such trend is the growth of private labels in prominent retail chains in the country. Nielsen, the consumer research company, valued the private label retail category in South Africa at R43b (Nielsen, 2017). By 2025, private labels will have 50% share globally (Nenycz-Thiel & Romaniuk, 2016).

South African consumers are not shying away from purchasing private labels over manufacturer brands and this implies that there are several business opportunities that can be exploited (Nielsen, 2017). Retailers are gradually becoming suppliers because they sell private labels. In the context of a retailer, selling private labels is an example of backwards integration. There are opportunities that small and medium enterprises can exploit in a retailer's supply chain. When one walks into a store, they can notice that private labels are prevalent in several categories ie. biscuits, beverages, chips, toilet paper, etc. and this highlights the opportunity that a supplier of these private labels can produce for one category or even more than one category. Some of these private labels are identifiable by the retailer's name on the packaging. However, some may not be easily identifiable because they can adopt a brand other than the retailer's name.

An example of a private label is Shoprite's Ritebrand, this brand is exclusively sold by Shoprite and has the retailer's name on the packaging. Shoprite also has another private label called Chelsea and another called Tiffany, these brands are also found in Shoprite stores. Therefore, a private label can carry the retailer's name on the packaging but it can also carry a brand name but will only be sold within the retailer. An interesting aspect to the success of private labels in South

Africa is the willingness of consumers to part with their money to purchase these private labels instead of manufacturer brands. Manufacturer brands would be those supplied by manufacturers and sold to retailers or wholesalers. An example of this would be Bakers® biscuits which are manufactured by National Brands, a subsidiary of Anglovaal Limited (AVI). Trends show that private labels continue to grow year on year therefore this is a trend that can be exploited.

Backwards integration and the required competencies

Backwards integration in the context of a retailer ensures that the retailer has some control over the supply of required products (Johnson, Whittington, Scholes, Angwin, & Regner, 2014). Backwards integration also allows buyers to improve their bargaining power. As explained through Michael Porter's Five Forces Model, buyers have power when they can set low prices and request more services from suppliers (Strydom, Heerden, Nel, & Grove, 2002). A retailer will also consider factors when choosing a vendor and they are the price of a product, its quality, how quickly the product can be delivered and the associated payment terms (Lancioni, 2005).

There are other criteria that retailers would consider when choosing a new vendor such as the ones described in the following table:

Table 1: Attributes and sub attributes for the vendor selection (Haq & Kannan, 2006)

Attribute	**Sub attribute**
Quality (Q)	Inspections methods and plans (Q1) Percent rejections (Q2) Quality systems (Q3) Adherence to quality tools (Q4)

Delivery (D)	Distribution capacity (D1) Transportation cost (D2) Upcoming the delivery commitments (D3) Delivery-on time-every time (D4) Safety and security of components (D5) Modes of transportation facility (D6)
Production capability (P)	Managing inventory (P1) Lead time requirement (P2) Change order capability (P3) Meeting internal schedules (P4) Forecasting (P5) Production ramp up co-ordination (P6)
Service (S)	Flexibility in service (S1) Spare parts availability (S2) After sales service (S3) Commitment to customer service (S4)
Engineering/technical capability (E)	Similar product experience (E1) Understanding of technology (E2)

	Engineering/technical support resources (E3) Technical know-how, know-why (E4)
Business structure (B)	Knowledge of market (B1) Financial stability (B2) History (B3) Information systems (B4) Contract terms (B5)
Price (R)	Price deviation or differences (R1) Quantity discount (R2) Payment terms (R3)

The financial position of a supplier is also important because it indicates whether the company can fulfil what is required of it and also if the business is at risk of closing down due to liquidity issues (Handfield, Monczka, Giunipero, & Patterson, 2009).

In terms of the attributes of the product, under consideration would be the following:

- The shelf life of the product,
- how the product should be transported due to the perishable nature of it and
- cost per unit (Strydom et al., 2002).

It is also important to highlight that businesses evaluate the performance of vendors from time to time therefore a retailer would also do the same (Haq & Kannan, 2006). When a retailer enters into an agreement with a supplier, the key points mentioned above have to be discussed and agreed on. Dependability is important because the retailer needs to be satisfied that it will get the required product at the required quality and at the agreed cost that makes financial sense.

BEE Requirements (vendors)

In South Africa 'preferential procurement' improves a company's BEE Scorecard. Preferential procurement refers to using suppliers who are identified as 'previously disadvantaged' (DTI, 2012). Out of the 105 points on the scorecard, Enterprise and Supplier Development (ESD) contributes 40 points, preferential procurement specifically contributes 25 points (DTI, 2012). The criteria for meeting the preferential procurement requirements is as follows (DTI, 2012):

- Procurement spend on B-BBEE suppliers should be a percentage of total procurement spend,
- Procurement Spend on Small Enterprises should be a percentage of total procurement spend,
- Procurement Spend suppliers who are 50% black owned and
- Procurement Spend on suppliers what are 30% black women owned

The retailer BEE ESD points are as follows (note that the BEE certificate does not state how many points would be attributed to preferential procurement):

- Shoprite Group – 22.7% out of 40% (Shoprite, 2017b)
- Pick n Pay Group – 24.93% out of 40% (Pick'nPay, 2017a)
- Spar – 26.15% out of 40% (Spar, 2017a)
- Woolworths – 23.48% out of 40% (Woolworths, 2017)

1.3. Problem Statement

1.3.1. Main problem

This study assesses whether proposing private label manufacturing to the unemployed could possibly lead to a reduction in unemployment by creating entrepreneurs.

1.3.2. Sub-problem 1

Will private labels be around in the future so that entrepreneurs can create a business model around them?

1.3.3. Sub-problem 2

Will hopeful entrepreneurs have access to capital that is required for manufacturing and supplying a private label?

1.3.4. Sub-problem 3

Is information readily available for hopeful entrepreneurs and current entrepreneurs who want to start manufacturing for retailers?

1.4. Significance of the Study

One of the reasons why venturing into private labels is feasible is because retailers are aware of the dependency they have on manufacturers therefore private labels reduce this dependency (Ter Braak, Deleersnyder, Geyskens, & Dekimpe, 2013). If one considers the manufacturer brands that are category leaders, consumers demand these products more than others and the retailer realises this. This creates the dependency that retailers sometimes have on manufacturer brands.

In the case of private labels, relationships are key: the retailers need to know that the supplier they have chosen is dependable and will be able to provide the required quantities, at the specified amount and at the agreed time frame. Suppliers on a retailer’s preferred list of suppliers get first preference for business

(Handfield et al., 2009). This could pose a threat for small businesses as they could be blocked from getting business from the retailer due to the existence of this list as well as the history between the suppliers and the retailers. This is where the existence of an agency with the requisite skills and experience could play a vital role in managing this risk – be the effective medium between the entrepreneurs and the retailers. Also, as it pertains to transformation, the current legislation around Black Economic Empowerment (BEE) Scorecards could help alleviate this issue and help further encourage retailers to subscribe to these newly created entrepreneur businesses (this issue is discussed later). Small businesses will face such barriers to entry.

It is important to state that entering into an agreement with a retailer has potentially negative aspects such as the retailer choosing different suppliers per order (Dunne & Narasimhan, 1999). Small businesses would need to ensure that the contracts they have in place with the retailers are sound and do not leave them in a weaker position. Some suggestions for these contract drafting's include: ensuring you remain the supplier for a fixed period, requiring to supply 'X' amount of stock and requesting a notice of termination of contract.

It is also important to note that private labels are called as such because the manufacturers that supply them are generally unknown to the public (Parumasur & Roberts-Lombard, 2013). This could be negative for small businesses because it could indicate that they would not get the public recognition and thus the exposure in whichever industry they participate in. On the flip side of the coin however, an aspiring small business owner who dreams of selling their stock to consumers through retailers can cut costs such as listing fees, marketing expenses, etc. in trying to get their product to sell. By providing a retailer with a private label, the only costs they will bear will be manufacturing and transportation costs.

1.5. Delimitations of the Study

This paper looks at an aspect of the retail industry in South Africa.

The major retailers and their private labels will be discussed in this paper, ie. Pick ‘n Pay, Spar, Shoprite, Checkers and Woolworths.

Consumer behaviour will only be viewed in the context of private labels.

The exact share losses that manufacturer brands have lost to private labels is confidential and will not be included in this study.

1.6. Assumptions

Participants were honest in answering the questions.

Participants did not misrepresent the state of their businesses.

1.7. Limitations of the research

Identified respondents who had agreed on participating in the study reneging thereby shrinking the sample size.

Due to my experience in the field, some of the topics covered are glaring issues to someone in the FMCG and retail industry and may not be issues to someone else not in the industry. Therefore, it is possible that someone else may spot another possible area not touched on in this paper.

Some of the respondents have given answers that are in contrast to this study’s core arguments (for example that hopeful entrepreneurs can be in a position to supply a private label).

1.8. Definition of Terms

Manufacturer brands or national brands are brands that are made, supplied and branded by a manufacturer (Parumasur & Roberts-Lombard, 2013).

Private labels refer to products that are supplied to a retailer (therefore not produced by a retailer) but will be packaged as the retailer’s own product (Parumasur & Roberts-Lombard, 2013).

Broadsheets are in store pamphlets that reflect the latest price specials. It can also be inserted into a community or national newspaper.

Listing fees are fees that the retailer charges a supplier to list their product in store – this fee ensures the supplier that they will get shelf space.

A buyer is someone employed by the retailer and whose main role is to source the right products to be sold in the store.

The hopeful entrepreneur mentioned in this paper is someone who is unemployed but wants to become an entrepreneur to generate an income.

2. LITERATURE REVIEW

2.1. Entrepreneurship as a means of reducing unemployment

Most businesses on the African continent are micro businesses and they have a maximum number of 3 people (McDade & Spring, 2005). Therefore there is an appetite for small business creation on this continent however most of these companies are usually in the informal sector (McDade & Spring, 2005). Bringing this notion closer to home, there is a need to create income opportunities for South Africans not only in the informal sector but the formal sector as well.

Nigeria once formed a small-scale industries and graduate employment programme that was aimed at reducing the unemployment rate of its youth and elderly that were about to retire (Owualah, 1999). This government initiative would provide capital and support, through the Entrepreneurship Development Programme (EDP), so that individuals would start their own businesses (Owualah, 1999). Entrepreneurship was indeed a viable solution for unemployment however those unemployed would have to be granted funding in order to start those business (Owualah, 1999). Due to the poor repayments to the loans available through the EDP, the programme was no longer achieving what it set out to do (Owualah, 1999). Capital is important when one is starting a business therefore it is important to stress that one can exploit some of these options for funding: applying for a bank loan, applying for a grant from the government, searching for funders who would give money in exchange of shares and less formally, one could request money from a friend or a relative (Alvarez & Barney, 2007). The purpose of this paper is not to explore ways of funding however one cannot negate the effects of a lack of funding as this could mean that the business does not form at all.

For an entrepreneur to be successful they need to be able to establish and build networks (Lee & Tsang, 2001). Resources (capital) enable a small business to grow (Wiklund, Patzelt, & Shepherd, 2009). Indeed there are other factors besides capital that can contribute to a small business' growth such as its entrepreneurial activity (taking risks, being proactive and innovative), the opportunities presented in the environment in which the small business operates, the strategic fit of the firm in relation to the environment and the growth attitude of the owners of these businesses (Wiklund et al., 2009).

Corporate entrepreneurship describes what retailers are practising when they create private labels. It can be defined as organisations diversifying by creating new products and services that they did not offer before in areas that are similar or not similar to their current area of business (Sharma & Chrisman, 2007). This highlights that entrepreneurship can be observed from hopeful entrepreneurs but also from the organisations selling private labels (retailers).

2.2. Private labels and entrepreneurship

Due to the threat of private labels, some manufacturer brands are producing products for retailers and these are becoming the retailer's private labels (Farris, Parry, & Johnson, 2001). An example of this is when Kimberley Clark, producer of the Huggies diaper brand, started producing diapers for Walmart which became Walmart's private label (Farris et al., 2001). The same scenario is occurring in South Africa where manufacturers brands are producing for retailer's (this will be explored later). The threat that this can pose for hopeful entrepreneurs is that they would be competing with established manufacturers who have the manufacturing capacity to satisfy the market (Berges-Sennou, 2006).

There is a need for hopeful entrepreneurs to look for opportunities and to capitalise on them quickly (Alvarez & Barney, 2007). In terms of how supplying private labels can be a branch of entrepreneurship in the South African context where the unemployment rate is high, there is not a lot of literature around this. There is literature that suggests that entrepreneurship can indeed be a means of reducing unemployment but there is no link directly to private label manufacturing and this is an opportunity.

Some of the advantages of manufacturer brands over private labels are that they are considered to be of higher quality, to be less risky and are more recognisable (Hosany, Ekinci, & Uysal, 2006).

According to Kirzner, entrepreneurs move the market towards an equilibrium and this means that the entrepreneurs enable the markets to reach a certain level that it would've reached regardless (Kirzner, 2009). In this case, this suggests that entrepreneurs manufacturing private labels would ultimately aid in increasing the presence of private labels in the market.

2.3. The Production of Private Labels

Retailers command a very low factory price when it comes to production of their private labels (Steiner, 2004). This is to ensure a low selling price versus the manufacturer brands (Steiner, 2004). Besides quality and price, there are other factors that consumers deem important when purchasing a private label therefore retailers need to keep these in consideration when producing their private labels (DelVecchio, 2001). These other factors are: complexity (in terms of how complex the consumer perceives the production of the product) and interpurchase times which relate to how quickly a consumer will purchase the product (DelVecchio, 2001). The interpurchase time influences whether the consumer will be willing to take a risk and buy a private label rather than a manufacturer brand (DelVecchio, 2001).

(Berges-Sennou, 2006) touches on three traditional ways that private labels have been produced. Either retailers make the product themselves because they own the means of production or they outsource to a medium sized company that has the capacity and expertise to produce the products or the retailer approaches a manufacturer that makes the national brand to produce for them (Berges-Sennou, 2006). This paper proposes an alternative way which is for retailers to consider using small businesses to produce for them because this would help alleviate unemployment and poverty in this country.

The retailer is able to get the product at low costs if they produce for themselves or they outsource to another company (Berges-Sennou, 2006). If the retailer approaches the National Brand manufacturer, it is able to use the product as a bargaining tool when negotiation with the manufacturer on other existing lines in the store (Berges-Sennou, 2006). Even though it seems that the retailer would benefit more because it will have a cheaper product that competes with the manufacturer brand, the manufacturer also gains because it gets to utilise excess capacity it may have in its factory (Berges-Sennou, 2006). Over and above this, it is possible for the manufacturer to gain more shelf space by opting to produce a product for a retailer (Ter Braak et al., 2013). The reason for this would be that the manufacturer would be favoured by the retailer because it is producing a product for them (Ter Braak et al., 2013). Small businesses however should not be intimidated by larger manufacturers because they can find their own niche when it comes to production (Jin, 2004).

There is also the phenomenon of global sourcing which gives companies a competitive advantage because they can source items from all over the world to specifications and prices that would not necessarily be available (Jin, 2004). Companies like Walmart produce just their apparel in multiple countries around the world (Lobel, 2006). This global sourcing is a result of globalisation however there is still a need for companies to remain socially responsible in their sourcing methods (Lobel, 2006).

2.4. Why private labels are thriving in South Africa

High inflation and high debt levels are cited as some of the reasons why private labels are growing in this country (Nielsen, 2017). Furthermore, other reasons for private label success are because private labels have a great value proposition and retailers are moving towards promoting their own brands (Parumasur & Roberts-Lombard, 2013). Private retailers are offering good quality products and in some instances these products are cheaper than the manufacturer (Nielsen, 2017). The economic situation of South African citizens can be cited as one of the reasons why private labels are growing: consumers seek cheaper alternatives because of their financial situation (Nielsen, 2017). The retailers also influence the demand because they are increasingly promoting their products. Annexure 1 shows how a retailer has one broadsheet for the manufacturer brands and then it has a separate broadsheet with only its private labels. Not only does this emphasise the deliberate promotion tactic but it also illustrates how private label prices are cheaper than manufacturer brands. In the example, a manufacturer brand tea pack is slightly more than double the price of the private label (Five Roses at R33.99 versus Shoprite's Ritebrand Tea at R14.99).

To further elaborate on the link between the economy and private labels, an interesting school of thought is that the success of private labels is indicative of economic conditions: they gain share when the economy is not performing well and the opposite is true when the economy is performing well (Steenkamp, Van Heerde, & Geyskens, 2010). If one thinks about South Africa's current economic state of low GDP and economy downgrades, high unemployment, etc. one realises that consumers could be downgrading from their much-loved manufacturer brands because of their financial position (Nielsen, 2017). Seemingly, when the economy improves, less of the private labels will be demanded because consumers will be in a better financial position and they will afford manufacturer brands which are, in some instance, more expensive than private labels (Nenycz-Thiel & Romaniuk, 2016). This is not necessarily true because there currently are private labels that are viewed as premium for instance the Woolworths brand. Even though prices of manufacturer labels and private labels can be similar, consumers still perceive private labels to be better value for money (Nenycz-Thiel & Romaniuk, 2016). In some instances, consumers will try a private label and continue using it even when their economic conditions have improved (Martos-Partal, 2012). This suggests that even when the economy performs better, there may still be demand for private labels.

Private labels are also hard to miss because retailers ensure that they get great shelf space and this ensures that they are highly visible versus competitor brands (Ter Braak et al., 2013). Some retailers give manufacturer brands very little shelf space because they want their private labels to dominate the shelves (Ter Braak et al., 2013). Globally, there are even stores that only sell their private label – no other brands feature in the store (Liu & Wang, 2008). Retailers also invest heavily on promoting their private labels (Ter Braak et al., 2013). Furthermore, retailers also have the financial means to invest further into private labels (Ter Braak et al., 2013). Considering the investment that retailers have made in building their own brands, they want to ensure that they are successful. Retailers have an advantage over manufacturer brands because they dictate what happens in store in terms of shelf space, position of point of sale elements, etc. The packaging of private labels has also improved, appealing to consumers and encouraging them to trial the product (Nenycz-Thiel & Romaniuk, 2016). Retailers want to entice customers by using packaging that is visually impactful thereby drawing them to purchase the private label.

Another aspect to discuss is that private labels are able to thrive because there is diminishing brand loyalty because more and more products are being introduced (Choi, 2017). Furthermore, it is said that generations also have an impact on the success of private labels (Pasquarelli, 2017). Millennials for instance are not loyal to certain brands and they will try private labels (Pasquarelli, 2017). It is not the objective of this paper to examine loyalty however it is important to note that the research is indicating that consumers are becoming less loyal to manufacturer brands. This could be due to the competitive landscape but it can also be attributed to generational differences.

2.5. Retailer Strategy on Private Labels imply longevity of private labels

2.5.1. The significance of the strategies

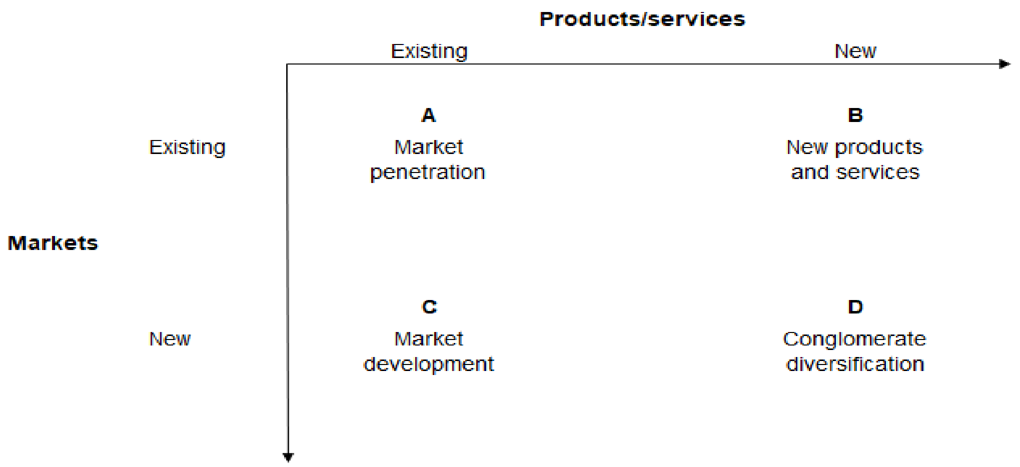
Michael Porter mentions three types of generic strategies that are used by businesses to achieve competitive advantage and these strategies are aimed at generating more value than other businesses (Johnson et al., 2014). These strategies involve cost, differentiation and scope (Johnson et al., 2014). When one considers private labels, it is clear that cost is a consideration although some are premium priced. Differentiation is also a consideration despite private labels generally imitating manufacturer brands. Retailers are also able to differentiate themselves by providing store specific products (do Vale, Matos, & Caiado, 2016). Private labels allow retailers to distinguish themselves from other retailers (Rubio, Villaseñor, & Yagüe, 2017).

This is understandable because for instance, a private label product sold at Shoprite and Checkers can only be found in those stores and will not be found in

Pick ‘n Pay. Scope is also a private label strategy consideration because these products cater to consumers who will shop at a particular retailer that offers its own private labels (Rubio et al., 2017). Store loyalty is also a reason why retailers want to supply private labels (Rubio et al., 2017). Research has shown that the existence alone of private labels does not guarantee store loyalty as there are other factors that consumers consider (do Vale et al., 2016). Some of the other considerations include: services offered by a store, ease of shopping, pricing of products, the type of shoppers that shop at a store and the quality of the products (do Vale et al., 2016).

The Ansoff Matrix also sheds light into the strategy behind private labels. This matrix was created in order to demonstrate the options that exist for organisations when they want to grow (Johnson et al., 2014). This is more applicable to the retailers and wholesalers who invest in private labels. The four main pillars of the Ansoff Matrix represent the four main options of expansion and they are: market penetration, product development, market development and conglomerate diversification (Johnson et al., 2014). Product development and conglomerate diversification are important in the private label strategy formulation. Product development is relevant because private label innovations are largely based on existing products. Conglomerate diversification explains the relationship between the retailers and the suppliers that would supply the private labels.

Figure 1: Ansoff Matrix (Johnson et al., 2014)



Source: Adapted from H.I. Ansoff, Corporate Strategy, Penguin, 1988, Chapter 6. Ansoff originally had a matrix with four separate boxes, but in practice strategic directions involve more continuous axes. The Ansoff matrix itself was later developed.

2.6. The South African Private Label Landscape

2.6.1. Spar’s Private Label Strategy

In terms of the overall retail strategy, Spar’s strategy is to achieve or have the following: a world-class replenishment system, compelling pricing, a comprehensive range, world-class brands, to be the best retailers and to garner new business growth (Spar, 2017b). Of the strategy pillars mentioned above, Spar’s private label fits in with the comprehensive range strategy (see Annexure 2). This illustrates that Spar is taking its private label range seriously and has made it one of its strategic pillars.

2.6.2. Woolworth’s Private Label Strategy

In Woolworth’s strategy, innovation is a key pillar. This innovation drive not only includes innovation in the food category but the clothing category as well (Woolworths, 2016). Investments into its private labels is key to driving innovation for the retailer. Woolworths acknowledges that it needs to invest in price but also alludes to having a price premium compared to other retailers and that is because the retailer wants to deliver high quality. This goes against the thinking that private labels need to be cheap. As mentioned earlier, some can indeed be premium priced.

2.6.3. Pick ‘n Pay’s Private Label Strategy

Pick ‘n Pay has observed its customers and has grouped them by ‘low income’, ‘budget’, ‘core’ and ‘core upper customers’ and the retailer understands their relative Living Standards Measure (LSM) and household income brackets (Pick'nPay, 2017b). The retailer has observed that due to the negative performance of the economy, its customers have less money to spend and are therefore looking for more affordable options (Pick'nPay, 2017b). Pick ‘n Pay has noted that its private label is one of the ways that it will cater to its cash strapped customers (Pick'nPay, 2017b). This signals that Pick ‘n Pay’s private label strategy is to offer cheap products to its customers.

2.6.4. Shoprite’s Private Label Strategy

Shoprite views its private label as one of the key pillars that will drive its growth (Shoprite, 2017a). Shoprite details how it has increased participation to 14.7% and how the retailers want to grow to 18.5% of the market (Shoprite, 2017a). The retailer has reported that margins of private labels have increased by 2.3% (Shoprite, 2017a). Not only is Shoprite growing in market share, but it is also profiting from its private label strategy.

2.7. Marketing Strategies

In addition to the strategies mentioned above, providing a private label can be linked to several key marketing tools that are used to create marketing strategies such as a SWOT Analysis (Johnson et al., 2014). A business analyses its strengths, weaknesses, opportunities and threats and then sees gaps that can be filled or strategies that need to be deployed. The retailer can do this as an effort to differentiate itself from other retailers thereby selling a private label to the market. The entrepreneur can also realise that as an effort to raising capital to invest in his or her product and by overcoming barriers to entry into a market, it can supply a private label to make headway.

Other tools that can be linked to the supply of private labels are targeting, segmenting and positioning (J. Paul Peter & Donnelly, 2015). A retailer has a certain target market it wants to service, it finds ways of segmenting the market and then positions itself in a way that it can best serve that market. It can achieve supplying what the market wants through its private label. Likewise, an entrepreneur could use the same tools to build its repertoire within a certain group in the market. Therefore, supplying a private label gives the entrepreneur sufficient expertise to achieve this.

Conclusion of Literature Review

This literature review explored the current state of entrepreneurship in this country and built an argument for why it is feasible for hopeful entrepreneurs to open businesses with the intention to supply private labels. Consumer trends indicate that private labels are going to continue to grow year on year. Retailers are also not going to cease producing them because they are key in differentiating one retailer from the next. There is a strategic reason why retailers explore the private label route and the most significant of these reasons besides differentiation seems to be having control over quality and pricing of products. Furthermore, the phenomenon of corporate entrepreneurship allows room for retailers to support entrepreneurs who further their own entrepreneurial aspirations within the private label retailing space.

There is an opportunity for small businesses to exploit these trends. Retailers also need to boost their BEE scorecards and they can achieve this by giving small businesses an opportunity. These smalls businesses need to understand though that they need to be equipped and ready to supply a retailer with several stores. This however, should not overwhelm these businesses because they can stick to supplying one product rather than multiple. It is also important to note that these small businesses also need to provide a solution to manufacturers because manufacturers have the ability of destroying their businesses. Perhaps another option for entrepreneurs is to liaise with manufacturers that already have the relationship with retailers as a means of supplying private labels instead of supplying the private label directly to retailers.

Some entrepreneurs who seek to establish a brand of their own could be discouraged by the motivation to supply a private label. This group of individuals should see supplying private labels as a means to an end. Supplying private labels is a suggestion and does not mean entrepreneurs will not be successful otherwise. An entrepreneur can look into supplying a private label in order to raise enough capital. With enough capital at their disposal, this could enable them to further expand their product offering. Therefore, supplying private labels can also be seen as a strategy for small to medium enterprises to grow.

3. RESEARCH METHODOLOGY

3.1. Research design:

A qualitative approach was used to collect data. This was achieved through conducting interviews. The reason for using this method is because it was a clear way of addressing the main and sub problems mentioned in chapter 1, section 1.3. Quantitative data is typically used to measure something and answers questions that relate to finding out quantities (McCusker & Gunaydin, 2015). Qualitative data however gives answers to questions that seek to find out ‘what’, ‘how’ and ‘why’ (McCusker & Gunaydin, 2015).

Furthermore, quantitative research provides numerical data however qualitative research delves into the following: what people believe, what their experiences are, their behaviour and attitudes (Pathak, Jena, & Kalra, 2013). These metrics are important for this study, particularly the experiences of the professionals who are employed by retailers or who work for companies that supply private labels because they are aware of the possibilities that exist within retailer value chains and they can tell whether it would be feasible for small entrepreneurs to supply private labels. The respondents’ attitudes are also important, especially of the hopeful entrepreneurs because it is important to determine whether they see the opportunity that lies within private label manufacturing.

3.2. Population

There are three types of respondents whose information was collected. This information was collected through conducting interviews. The respondents interviewed were professionals whose occupation involves working on private labels such as private label buyers and account managers of companies who source and provide private labels, small entrepreneurs who are making their own product and the unemployed. The unemployed respondents were women because women are less prone to becoming entrepreneurs when compared to men (Leader, 2017). It is important to get a view from women whether manufacturing for private labels would make them consider becoming entrepreneurs.

3.3. Sample and sampling method

The total sample size is 11 respondents. The reason for collecting data from people who are exposed to private labels was to gain insight into what would be expected of hopeful entrepreneurs who were considering entering this field. The reason for collecting data from the entrepreneurs that are not yet supplying private labels was to understand why they have not done so. Answering these questions revealed whether the entrepreneurs were never exposed to the possibility of creating a private label or whether they were not doing so by preference. Lastly, collecting data from unemployed people revealed whether they were aware of the private label trend and whether they saw this as an opportunity to start a business.

3.4. Procedure for Data Collection:

Telephonic interviews were conducted due to the geographic areas of respondents and because some respondents wanted to remain confidential. Another factor for telephonic interviews was due to conflicting time schedules that did not allow for sit-down and face-to-face interviews. The interview schedule is in Annexure 6. Each group of respondents had different questions because the goal was to collect different insights from each group. The questions posed to the respondents who are exposed to private labels because of their occupation were meant to expose the procedures of getting a supplier and this was meant to reflect how the hopeful entrepreneur could start supplying a private label. The questions posed to the entrepreneurs were meant to uncover whether they would consider supplying a private label. Their answers would reveal whether it is worth it to consider the private label manufacturing route. Finally, the questions posed to the unemployed were meant to determine whether they were aware of the opportunity to supply private labels and whether they thought this was a feasible route of generating income. Annexure 7 has the schedule of respondents however some have requested to remain confidential.

3.5. Data Analysis:

The answers to the questions posed in the interviews were analysed and key themes were identified that address the problems stated in chapter 1, section 1.3.

3.6. Assessing the data

The data collected can be assessed using the validity criteria developed in 2001 which takes into account several schools of thought (Whittemore, Chase, & Mandle, 2001). The primary criteria identified are integrity, criticality, authenticity and credibility (Whittemore et al., 2001). Authenticity and credibility are means to reflect the experiences of the respondents (Whittemore et al., 2001). The data is credible and authentic because the respondents based their answers on their experiences: the respondents exposed to private labels responded based on their involvement with private labels, the entrepreneurs responded based on what they have encountered as entrepreneurs and the hopeful entrepreneurs answered based on their current position of being unemployed. Integrity and criticality refer to the unbiased manner in which the data needs to be analysed and presenting the findings in a truthful manner (Whittemore et al., 2001). The data collected was analysed with integrity and criticality because there is data that contradicts the premise of this paper however it has not been left out of the study.

The second criteria identified are vividness, creativity, sensitivity, congruence, thoroughness and explicitness (Whittemore et al., 2001). This criteria refers to the manner in which the data must be interpreted or relayed (Whittemore et al., 2001). The data analysis is presented in themes and this illustrates that the data was analysed in a vivid, creative, sensitive, congruent, explicit and thorough manner.

Below are further data criteria that is relevant to qualitative data such as the one collected for this paper:

Credibility

The interviewees also hold the view that the private label trend is still going to be relevant in the near future and that this trend does offer opportunities for entrepreneurs or small businesses. This was established through the interviews that were had.

Dependability

The data collected for this report entails information from private label experts within the retail industry and entrepreneurs who do business with retailers that are pursuing private label manufacturing.

Transferability

The findings in this paper can be applied to other entrepreneurial activities as the principles will remain the same. This paper has a focus on private labels however the principles of entrepreneurial theory such as access to capital and networking can be applied to other activities that involve starting a business.

Confirmability

Quotes from individuals interviewed have been used in this paper and the purpose of this is to relay the exact words mentioned by experts in the private labels space, entrepreneurs and hopeful entrepreneurs.

3.7. Potential ethical issues

Some of the respondents have asked for confidentiality and the companies they work for to remain confidential.

3.8. Unintended outcomes

Confidentiality was achieved by utilising a source who works in the retailer. The respondents wanted to talk to someone they trusted and they were more comfortable talking to the source.

4. DATA COLLECTION RESULTS & DISCUSSIONS

There are dominant themes that came to the fore in the discussions around private labels and entrepreneurship. The feedback received will be grouped into these themes and discussed in that manner.

4.1. Longevity of Private Labels

What is clear is that retailers are continuing to invest in their private labels and they are doing this by getting suppliers to make the products for them. The fact that retailers are continuing to invest shows that private labels are still going to continue to grow in this market. Retailers even have personnel or staff specifically dedicated to private labels such as some of the buyers who were interviewed. A Private Label sourcing specialist stated that “the South African market is catching up on private labels, particularly in recent years”. It is important to note that there are international markets that are ahead of South Africa in terms of having private labels more dominant in their markets than manufacturer brands and seemingly this country is also heading in the same direction. It will be very interesting to see whether private labels will outgrow manufacturer brands in this country over the next few years but they certainly are projected to grow.

Some of the unemployed respondents also noted that they see private labels more and more in stores and this observation leads them to believe that these products are still going to be relevant in this market. It has been noted that globally, retailers are investing in different tiers of private labels ranging from the cheap products to the premium product which are closely priced to the manufacturer brands (Hökelekli, Lamey, & Verboven, 2017). The continuous investments into private labels also indicates that these are products that are going to be around in the future.

4.2. Access To Capital

Exactly how much the entrepreneur requires will be determined by the scale at which they need to produce as well as how frequently they will need to produce.

As a private label sourcing specialist highlighted, in his line of work, buyers from retailers will approach him and ask him to source a certain amount of a certain product. He mentioned that he has "…a network of manufacturers (local and international) who I approach when I have the specifications and ideal price of the required product". He then places the order with the suitable factory, pays a deposit for that order and only receives final payment from the buyer once he delivers the final goods. He mentioned that "cash flow is a barrier to businesses hoping to enter the private label industry". This implies that if he did not have the capital for the initial deposit, he would not have been able to meet the buyer's requirements and therefore would have lost out on business. The implication for the hopeful entrepreneur wishing to enter this private label space therefore is that they will have to have the required capital in order to meet the retailer's volume needs.

Access to capital is important in distributing the product. As the owner of a small hygiene company mentioned, her contract with Clicks allows her to "…deliver to their distribution centre". The benefit of this is that she only has to arrange for delivery into one place instead of all the Clicks stores. "From the distribution centre, Clicks then arranges for the product to reach all the stores". This allows the entrepreneur to save on costs because it would be expensive to ensure that all stores in the country have access to your product. The logistics of this would also prove to be taxing because quantities would vary by store therefore servicing all stores with their different quantity needs would be a big task to bear for a small entrepreneur.

If the hopeful entrepreneur is making the product him/herself, he/she will have to have enough capital to buy the materials needed to produce the product. In some instances, a retailer can even require a sample of the product therefore the hopeful entrepreneur needs to be able to produce a sample of the product. The owner of a small hygiene company also had to tackle this issue. She took her product to various retailers therefore she had to have it in its final packaging. She had to invest on the design and artwork of her product. Some retailers preferred the product just as it was, but some did have requests to change it for their stores. For example, she "…tried to get a listing at Boxer stores however they required a slightly thicker product for their market”. She then had to invest in getting new samples to take to this retailer. Another retailer informed her to change some of the colours on her packaging in order to make the product more visually appealing and again she had to invest in making the product slightly different.

What is important to highlight in this case is that the owner’s primary goal is to launch her own product however if she was supplying a private label, the retailer would be concerned with how to make such changes as packaging updated. All she would have to do is to just supply the product as it is. This business owner is however, open to supplying a private label in future “…if it makes business sense then it will be considered”. The hopeful entrepreneur would be able to dodge these costs because they would not be concerned with how the final product will look on shelf, all that would be important is getting it to the retailer in the required specifications.

One meat company for example supplies about “…600 tons a week to its contracted retailers”. The company also has to supply different products to the different retailers that it supplies. For this meat company, the recipe of the product supplied has to be tweaked for each retailer because each retailer requires certain specifications. This further demonstrates the flexibility that is required when supplying a private label, particularly for multiple retailers.

As mentioned by the account manager for this meat company, “the major expenses are overheads, particularly human capital”. Overhead costs are some of the costs that these private label packers face. The hopeful entrepreneur would then have to be mindful of his/her capital expenditure and to monitor the costs involved in producing the product. They need to be careful to not supply the product at any cost – even if it means they make a loss.

4.3. Leveraging Networks

Networking yields positive results for small businesses especially if the communication is frequent (Lee & Tsang, 2001). A small business’ networks can also give it a competitive advantage over other small businesses (Man, Lau, & Chan, 2002).

The meat company is affiliated with an Ireland based company that packs meat for the McDonalds chain. This relationship has helped them secure contracts because it is supported by a larger company. This meat company only used to pack meat for Woolworths however the company has now managed to secure more contracts with other retailers. In so doing, this company has since expanded its network base. In this case, it is advantageous to have international networks and to be able to use them effectively. Within the context of a hopeful entrepreneur without this type of international backing, they may have to pull other levers in leveraging networks.

In some instances, retailers want to work with manufacturers and suppliers they know. They also have suppliers that they have been using and who they prefer to use on a regular basis. As a brand manager for a manufacturer mentioned, the company he works for supplies the coffee private label for a retailer. The retailer approached the company he works for and asked whether it would be possible to get a product packed by them. The retailer then asked for certain specifications and because the manufacturer had excess capacity on their current production line, it agreed to pack the private label for them. All the manufacturer has to do is to deliver the product to the retailer and once this happens, it is the retailer who becomes concerned by how it is packed and how it reaches all of its stores. The challenge for the hopeful entrepreneur then becomes how do they get themselves recognised by such retailers in order for these retailers to take a chance on them. Indeed one can imagine that competing with established suppliers would be a challenge because they have capabilities that a small to medium business might struggle to replicate. In the example above these capabilities refer to shutting down a section of the factories normal production run in order to pack the private label.

If the private label supplier is not planning to produce the product themselves, they must have established repertoire with a few factories that would be relied on to supply the product. As the private label sourcing specialist mentioned, “it is difficult to get into private label manufacturing without relationships with factories and manufacturers”. This is definitely a lever that hopeful entrepreneurs can pull because this is essentially relationship building. As a private label sourcing specialist mentioned, the advantage of getting along with factories is that they can prioritise your orders when they come through and that they would always be ready and willing to assist.

As the toy buyer mentioned, she uses "…Google to search for suppliers or… through word-of-mouth from other buyers". Word of mouth is also a great way of getting people in the market to know about your business. If hopeful entrepreneurs would get the chance to work with retailers, they would be building their business portfolio and they would become more popular and possibly generate more business. It is important for hopeful entrepreneurs to not become complacent and to ensure they keep networking within their industry.

4.4. Barriers To Entry

Whilst some people believe that there are high barriers to entry in this sector, there are some people who believe otherwise.

Price is key

One of the reasons why retailers are interested in selling private label products is because they are able to make significant margins off them. These margins are sometimes better than the margins that they make off manufacturer brands. A firm generates margins that are prescribed by the industry however with a pricing strategy, it can be able to gain more margin versus the industry norm (Lancioni, 2005). In order for retailers to generate the margins that they want, they have to negotiate a price that will be beneficial to them. As the private label sourcing specialist mentioned, "retailers want their private label to have a cheap price point and they also want to make good margin off it. This holds the national brand's price stable however the supplier of the product has to supply at prices that will generate profits regardless of the lower price expectation of the retailer". This may prove to be a challenge for hopeful entrepreneurs if they are not able to supply their product at a price optimal level where they also make a profit. Therefore, they need to be mindful of the margins they can make when negotiating with retailers. The best way to do this would be to have a high-low pricing scenario where the hopeful entrepreneur understands how low they can price their product and what the highest price they can charge is. As alluded to earlier, retailers will have certain specifications in mind which highlight what product they want and what price they want to pay for it. The hopeful entrepreneur therefore must ensure that their product falls within the range specified by the retailer but also that the price makes sense for them as well. The hopeful entrepreneur then needs to understand the financial side of their business so they can understand their breakeven points. This will prevent them from entering into agreements that will not be beneficial for them.

Demonstrating a reputable track history such as business portfolio

One of the buyers of a major retailer mentioned that in instances where an entrepreneur approaches them and does not have a significant business portfolio highlighting past work they have done, they ask the entrepreneur to provide a projection of the business for the future. As he mentioned, “I would need to understand their marketing and business plan – if they do not have the capacity today, what are their growth prospects for the next 5 to 10 years?”. This is done so that they can see what the likelihood of the business surviving is, how serious the entrepreneur is about acquiring new business and how the entrepreneur will go about getting this new business. This is something that the hopeful entrepreneur needs to be mindful of. It will not be enough to create a product and take it to a few buyers. In the event that a hopeful entrepreneur cannot get access to a buyer, at least having an online presence makes the entrepreneur discoverable.

It also works in the entrepreneur’s favour if he is able to market himself. Some of the buyers will do a Google search as part of researching manufacturers in the market for a particular product they want. Therefore, it is in the hopeful entrepreneur’s favour if he is able to create a website that will allow him or her to be picked up by such Google searches. The toy buyer mentioned that attaching key words that differentiate you in a website search is key for example “using the right tags for your search". This toy buyer specifically looks for suppliers who mention that they do not use hazardous materials in creating their products. This is important to her because the toys that ultimately end up in children's hands need to be safe. If the safety of the children is at risk then this would have negative consequences for the retailer. Although funds for hopeful entrepreneurs can be low, they do need to invest in some form of marketing just in order to ensure that there is awareness around their product. One could also make use of cheaper mediums of advertising such as social media (Facebook for an example).

Regulations

The meat company that supplies meat to retailers is one of three suppliers who have International Food Standard Accreditations in the country and this sets them apart from their competition. The company also has a laboratory in Cambridge, in the United Kingdom that is Halaal approved. The company is therefore able to deliver a high-quality product because of its resources. The retailers that receive this product are generally pleased and this aids the company's competitive edge. This indicates therefore that it would be advantageous for the hopeful entrepreneur to get some type of accreditation as soon as they can in order to boost the image of their company. The hopeful entrepreneur also has to be mindful of all regulations that they need to adhere to when producing or supplying a product so that they are not found at fault by the retailer and consequently the law. This will require some education on the regulations that exist and apply to entrepreneurs in a certain field.

What one of the buyers from one of South Africa's major retailer mentioned, there are no sourcing regulations that they face. However, all their sourcing activities have to "abide by the country's laws and regulation of certain products or ingredients or substances that we are legally not allowed to import into the country however customs assist with that and so do our legal department". The retailer's Research & Development department also checks product labels and once they validate them, they are sent to the legal team for final sign off. A crucial piece of accreditation that the retailer specifically looks for (for food products) is

"…official UTZ certification…" which means that the product was sourced in a sustainable manner.

Black Economic Empowerment (BEE)

Interestingly, the feedback that was received around BEE vendors and suppliers were mixed. While some respondents felt that it is important to source BEE vendors or suppliers, some felt that it was not the top priority. The top priority to some respondents was getting the right price, product and distribution of a product regardless of how it is sourced. While this could be discouraging to hopeful entrepreneurs, they still need to remember that there are retailers who do not hold this view and will consider a supplier with this accreditation.

As mentioned earlier, accreditations can set a company apart from its competition and can make your company more desirable to work with. When companies work with BEE accredited suppliers, it does count towards their overall BEE scores therefore there is an advantage in using a BEE accredited supplier. The implication then is that it would be beneficial for hopeful entrepreneurs to ensure they get their BEE certificates and to let companies that they come in contact with know what their BEE rating is.

It is important to note however that some companies do not choose suppliers on the basis of their BEE rating and this is sometimes not even a consideration. As the buyers from the one of South Africa's major retailers mentioned, "…the retailer does not enforce that all suppliers they work with be BEE compliant". What they are concerned with is launching the right product for the market at the right price. One buyer from this retailer even mentioned that whether someone has the accreditation or not will not make any difference. Research has shown that companies that work closely with the public sector are more likely to be BEE compliant than companies that solely work in the private sector (Akinsomi, Kola, Ndlovu, & Motloung, 2016).

An owner of a company that makes agricultural products had an interesting take on the BEE issue. Some of his battles are working with government to get approval on his products especially because he is a small company competing against larger companies that have more funds. He founded his company after spotting a gap in the market. He did not have funding when he started but he knew that a certain retailer was looking for BEE suppliers and he knew there was a certain product not being sold in that retailer. What he offered to do then is to source the product for the retailer. He then "…found a suitable supplier who could supply this product at a good price and he then he became the middleman between the retailer and the supplier". The product will launch later this year and he will receive a fee for constant supply of the product even though he had no funding. The retailer paid for all the necessary costs to the supplier and his business will be awarded the fee. What this demonstrates is the willingness to go out and hunt for business but it also demonstrates that hopeful entrepreneurs can do business even if they do not have funds. What they need to understand is the industry they participate in so that they are able to spot potential gaps and be skilful in their suggestions to close them. He also mentioned that he believes entrepreneurs should be bold and not be afraid to ask retailers where their shortcomings are because a business opportunity could lie in helping the retailer fix those shortcomings.

Specific retailer requirements

One of the private labels sourcing specialist' clients is Walmart or Massmart as it is commonly known in South Africa. Based on some of his experiences, this retailer has auditors who screen products that come in. Therefore, over and above the buyer who has to approve the product, there is a second layer of screening. Regardless of whether the buyer approves the product, the auditors can override the buyer's decision if the product fails to meet their standards. This is a barrier that could prevent hopeful entrepreneurs from getting business.

4.5. Shifting Private Label Trends

When the private labels sourcing specialist sources products, he looks for suppliers both locally and internationally. He admits that in the past he was more prone to using suppliers from East Asia, China to be specific because those suppliers would always have a price advantage. However, he has noticed over the recent years that China is infiltrating the South African market more and more and they are marketing their products themselves. This is in contrast to how it used to be: when Chinese suppliers would be approached, now they are approaching local industries and offering them goods. This has been a major shift in recent years and what this implies for the hopeful entrepreneur is that not only will they have to compete with local suppliers, but they will also be competing with international suppliers who can potentially supply the product at a much cheaper price point. This is an example of the consequences of globalisation: whilst global trade has increased, so has inequality (Kaplinsky, 2000).

As a way of countering international competition, the private label sourcing specialist highlights the importance of finding other ways of creating value that you can present to the retailer. This highlights the importance of differentiating yourself from the competition and this is something the hopeful entrepreneur will have to spend time on: figuring out how they will differentiate themselves. One way of doing this is checking up on the buyer even after the product is delivered, the follow up call could improve the buyer's perception of the entrepreneur.

Buyers informed by global trends

Local trends are not enough anymore to launch products. Whilst retailers keep an eye on them, they also base some product launches off trends they see in the international market because eventually these global trends start infiltrating the South African market. What the marketing team of one of the biggest retailers in South Africa does is to scout for international trends and to advise the buyers on product launches based on the trends they see. A buyer at one of the retailers mentioned that the marketing team is always researching global trends and once they have found some that are aligned to the retailer's strategy, they inform the buyer so that he can source similar products. This is another reason why retailers will not choose products based off a catalogue, they want a bespoke product based on what their strategy is. Gone are the days when retailers would rely on local trends and only monitor the products that are in high demand. Now retailers are looking at international trends as well. This does not negatively affect the hopeful entrepreneur however the implication is that they may or may not be able to supply a product that the buyer is looking for at a certain time especially if this product is influenced by an international trend. This reaffirms that hopeful entrepreneurs need to understand their industry.

Local versus international suppliers

International suppliers also imply that hopeful entrepreneurs will have greater competition in the market. This competition would be over and above the competition the hopeful entrepreneurs would face locally from manufacturers who adopt a strategy of producing private labels for retailers. Whilst retailers source both locally and internationally, they are aware of the pros and cons of each option. As the buyers of one of the biggest retailers in South Africa mentioned, sourcing locally can be price effective and sourcing internationally can pose a lot of administrative expenses and the exercise ends up being very costly. He went on to mention that when dealing with local suppliers you don't have to forecast stock well in advance whereas "…sourcing internationally comes with forecasting complications such as factoring in 'trans-ship' times" when the product is en-route to the country. Another issue to consider is exchange rates – as they fluctuate they impact your profitability. He also mentioned that the positives about sourcing locally involve "…job creation and having a positive effect on the community". Another advantage of having a local supplier is that you have more command into the specifications of the product you want. Local suppliers are the most likely to be flexible to customization whereas it is not always as easy to negotiate new product specifications with an international supplier (international suppliers, in most cases, have an established product catalogue and are less likely to be willing to negotiate otherwise).

Another buyer in this retailer noted that his "…marketing team asks him to source a lot of products following trends that are not even available in the South African market yet (e.g.: vegan, flexitarian, no-plastic solutions) thereby sourcing internationally, where the trends are more prevalent”. He also mentioned that he already has established relationships with international suppliers and the problem with local suppliers is that they are already active within their specific category so it becomes difficult to get the right solution between quality, pricing and distribution. It can become a conflict of interest for suppliers already active locally.

The toy buyer for this retailer mentioned that she is currently forced to look for suppliers internationally and opportunities to import products because there are no suppliers in the country that can manufacture the product with the specifications that she needs. For example, “...a black doll with appropriately coloured eyes, or black doll with slightly fuller lips than a Caucasian doll, or a doll with natural curly hair”. Most of the suppliers she currently uses are based in China. This buyer definitely sees value in finding a local supplier to solve her current issues but she has not found the ideal supplier yet. She also mentioned that local suppliers understand the local culture and local ‘taste’, local is cheaper and shoppers are more likely to support a local brand than an international one. As a retailer, they want to be perceived as adding value and empowering our local community.

As owner of an agricultural products business mentioned, the raw material that he sources is from China even though the final product is manufactured and produced in Kempton Park, South Africa. This illustrates how a part of the production can be outsourced. What he also mentioned is that there are things some retailers would rather outsource because it is not their area of specialisation to do and they do not want to lose focus on their primary goals. An example he gave was logistics. Products need to be moved to various retailers’ stores and retailers would rather hire a logistics company to do this because transportation is not their area of expertise and it is comforting to them to know that there is a party who can ensure that products go to where they need to go, when they need to go.

What has also changed is how the East (China) has more direct access to the country than before. As the private label sourcing specialist mentioned, in the past he would look for suppliers locally and internationally as well. International suppliers would typically come from China because they had competitive prices.

He would then propose Chinese products to the buyers that he dealt with. Nowadays however, the "…Chinese suppliers are making direct contact with retailers…" and are bypassing companies who would approach them in the past. This means that retailers and Chinese suppliers are able to have a direct relationship. This also poses a great threat to hopeful entrepreneurs.

4.6. How Feasible Private Label Manufacturing Is For The Unemployed

Exposure to private labels

Some of the respondents were not aware what private labels were however upon explaining what they were, they were interested to understand the business side of them. One of the things they mentioned was that they were not aware that retailers actually got suppliers to manufacture their private labels. They did see the value in supplying a private label because as they viewed it, this would give them a steady source of income because the entrepreneur would be guaranteed a customer. The respondents also realised that creating their own product could be an expensive exercise that they would not be prepared for however supplying a private label would allow them to incur revenue once an order has been received. The respondents also saw providing private labels to retailers as a way of building up one's portfolio so that they can learn the ins and outs of the business before branching out on their own. Therefore, they see this as an opportunity to launch their own product one day. Another advantage that was mentioned is that a retailer already has an established name therefore very little marketing would have to be done.

What this demonstrates is that hopeful entrepreneurs are not aware of the opportunities that exist within the market particularly in this retail space. This is alarming because the government supports the creation of small to medium sized entrepreneurs, but these businesses may not always have the guidance that they require. It is imperative that people are given exposure to such opportunities because they do not know that they exist.

Passion

One of the respondents had run their own business before and the business entailed generating social media content for companies. She had done this because she was passionate about writing and she enjoys social media. This illustrates that even though someone is unemployed, they still want to be involved in something they like. One other respondent had never run a business before but she said that if she had to, it would probably be in her line of work and expertise – she would have to consider her current skill set and she is a qualified Chartered Accountant. The business she would open therefore would most likely be a service business. Another respondent said however that she had in fact looked into creating a product, which is why supplying a private label would be ideal for her.

Therefore, if someone is not in retail and is not interested in private labels it will be a challenge to get them to consider supplying them to retailers. However, taking the exposure element into consideration, the respondents seemed interested in this opportunity even though their passion lied somewhere else. The hopeful entrepreneurs could enter this field to generate the capital they require in order to do what it is that they are really passionate about.

Identified challenges

One of the respondents mentioned that she would feel as if she has no ownership over the business if she only supplied private labels. She said she would be more comfortable to create her own brand regardless of the costs because that way she feels she would have a say in the entire product process including the packaging. Packaging is of course handled by the retailer in the instance of a private label.

Another challenge that was identified is more of a risk: one of the respondents mentioned that if they rely on the contract with a retailer in order to stay in business, then the retailer could at any moment cancel the contract and this would mean the hopeful entrepreneur is put out of business. This has the potential to restrict how big the private label stores make their product.

Margins also came up as a potential challenge. The reason for this is that retailers want to make high margins off products, but the entrepreneur also wants to make decent margins. Supplying to a retailer would require the entrepreneur to be able to price their product well.

Access to capital was a recurring theme for all hopeful entrepreneurs because for them to be able to produce a product, they have to have some funds to get started. One hopeful entrepreneur did say however that she believed she would get a higher return on investment if she solely supplied a retailer with a product.

5. RECOMMENDATIONS AND CONCLUSION

The implications for management particularly within retailers is that they can improve their BEE scorecards by supporting small black owned businesses. This has long term benefits and can prevent them from receiving penalties for not being BEE compliant. Furthermore, management needs to support these small businesses because they reduce unemployment in the country and thereby improve the living conditions of South Africans. This means that more South Africans would have disposable income and they would be able to buy more in retailers. Another recommendation for management is to continue to outsource private label manufacturing not only because it generates an income for suppliers (hopefully small businesses in this case), but because it allows the retailer to focus on their core function which is to sell. Management in retailers also need to consider investing in small businesses. By sharing in the profits of the business, the retailer will be invested to see it grow. The small business then could start off supplying one product but after a while, it can supply more than one product because it would have raised sufficient capital. This sustainability would be beneficial to the retailer because they can be guaranteed a supply of their private label product. By investing in local suppliers, retailers will also avoid the route of sourcing internationally as this (as discussed in section 4 above) may come with expenses, forcing prices up.

Having discussed the points in section 4 above, it is clear that there will be crucial obstacles standing in the way of the unemployed venturing into private label manufacturing however there are ways to overcome these obstacles by starting on a small scale, with something that is within reach and more manageable. One of the respondents that were interviewed mentioned that he knew an individual who was selling mushrooms out of his garden and supplying them to pie manufacturers. This illustrates that an entrepreneur can start small and start a business off something that is not too capital intensive. Therefore, it is feasible for manufacturing private labels to be a way of reducing unemployment in this country.

On the topic of private labels growth in the future, it is evident from some of the respondents that they are going to continue to grow. The hopeful entrepreneurs have also noticed that they see more of them in stores lately and this does suggest to them that they are still going to see more of them in the future. Retailers also have dedicated personnel whose main job is to grow the private label portfolio of the retailer. This illustrates that retailers are serious about investing in private label products. The meat company mentioned earlier is solely producing meat for retailers and it does not want to form its own brand in the future. This implies that it has structured a feasible business model that allows it to generate enough margins just by supplying a private label product.

Access to capital is a barrier that all entrepreneurs face. In South Africa, there are various sources of funding but one may not always have the exposure to them. The government has funding structures in place but seemingly not a lot of individuals are aware of them. More needs to be done to raise awareness on the current funding options available to small businesses. The owner of the company that makes agricultural products spotted a gap in the market and he was able to fill it without spending any of his money. Hopeful entrepreneurs should not allow not having capital to prevent them from getting a business started, they need to be skilful in trying to spot gaps in the market. They also need to approach retailers and ask what problems they are currently facing so that they can figure out a way to solve them and this is how they will add value and generate income for themselves.

The 4P's of marketing come to mind when one considers the entrepreneur, they have to ensure that they have the right product, with the right price, sold in the right place and that it is promoted adequately. Supplying a private label would mean that the entrepreneur is only concerned with the product and its price. How it is promoted would be the retailer's responsibility and whether it is sold in the right place (stores) would also be the retailer's responsibility. These are areas where the hopeful entrepreneur would save on costs.

When respondents were asked whether they would encourage hopeful entrepreneurs to manufacture products for retailers, the responses were mixed. Some respondents did not believe that hopeful entrepreneurs would ever have the capabilities to supply on the scale that retailers require however some respondents believe that all the hopeful entrepreneur would need is drive and determination. Indeed, if the hopeful entrepreneur could tackle a product that they can supply without hassles this would be the most ideal situation.

Hopeful entrepreneurs would have to understand the industry they wish to play in. This is because buyers are constantly looking at trends and they launch products that fall within these trends. If hopeful entrepreneurs are not aware of the direction the industry is moving in, they would not be in a position to supply an appropriate product for the market.

6. AREAS FOR FUTURE RESEARCH

Based on everything discussed in this paper, the following are potential areas for future research:

- How a retail specific program could be started as a means of alleviating unemployment where people are exposed to how a business operates without them receiving a stipend. This would take the form of an internship but the idea is not for the individuals to work but to learn – this would be purely for exposure.
- The accessibility of small business funding – there is a need to research the success rate of the funding programs that exist in this country. Have they in fact achieved what they have intended to achieve and whether the

awareness of them is at the level where it ought to be. Several entrepreneurs get stuck with accessing capital meanwhile there are options available besides the banks.

- The education of entrepreneurs on the rules and standards that they need to adhere to in a certain field. One can deduce from observations that South Africans may not be in tune with all the laws that they need to adhere to, particularly in business. It would be a grave mistake to promote the creation of Small to Medium Enterprises and then to assume that people know everything that entails. A study looking into just how much South Africans know in this field would be beneficial.
- Whether private labels in this country will outgrow manufacturer brands over the next few years. The composition of private labels in the market is going to grow over the next few years therefore the implication is that manufacturers brands will lose market share and consequently profitability. What would be interesting is to determine just how much manufacturer brands are going to shrink in size.
- BEE Compliance needs to be monitored closely because there does not seem to be an urgency from retailers to comply.

REFERENCES

Akinsomi, O., Kola, K., Ndlovu, T., & Motloung, M. (2016). The performance of the Broad Based Black Economic Empowerment compliant listed property firms in South Africa. *Journal of Property Investment & Finance, 34*(1), 3-26.

Alvarez, S. A., & Barney, J. B. (2007). Discovery and creation: Alternative theories of entrepreneurial action. *Strategic entrepreneurship journal, 1*(1-2), 11-26.

Berges-Sennou, F. (2006). Store loyalty, bargaining power and the private label production issue. *European Review of Agricultural Economics, 33*(3), 315-335.

Choi, S. C. (2017). Defensive strategy against a private label: Building brand premium for retailer cooperation. *Journal of Retailing and Consumer Services, 34*, 335-339.

DelVecchio, D. (2001). Consumer perceptions of private label quality: the role of product category characteristics and consumer use of heuristics. *Journal of Retailing and Consumer Services, 8*(5), 239-249.

do Vale, R. C., Matos, P. V., & Caiado, J. (2016). The impact of private labels on consumer store loyalty: An integrative perspective. *Journal of Retailing and Consumer Services, 28*, 179-188.

DTI, T. (2012). Amended Broad Based Black Empowerment Codes of Good Practice October 2012. Retrieved from https://www.thedti.gov.za/economic_empowerment/docs/bee_launch.pdf

DTI, T. (2018). Small Medium Micro Development. Retrieved from http://www.thedti.gov.za/sme_development/sme_development.jsp

Dunne, D., & Narasimhan, C. (1999). The new appeal of private labels. *Harvard Business Review, 77*(3), 41-48.

Farris, P. W., Parry, M., & Johnson, R. (2001). Procter & Gamble, Private-Label Brands, and the Wal-Mart Partnership (a) Condensed. Retrieved from https://hbr.org/product/procter-gamble-private-label-brands-and-the-wal-mart-partnership-a-condensed/UV4013-PDF-ENG

Flatø, M., Muttarak, R., & Pelser, A. (2017). Women, weather, and woes: The triangular dynamics of female-headed households, economic vulnerability, and climate variability in South Africa. *World Development, 90*, 41-62.

Handfield, R. B., Monczka, R. M., Giunipero, L. C., & Patterson, J. L. (2009). *Sourcing and Supply Chain Management* (Fourth ed.). Canada: South-Western Cengage Learning.

Haq, A. N., & Kannan, G. (2006). Fuzzy analytical hierarchy process for evaluating and selecting a vendor in a supply chain model. *The International Journal of Advanced Manufacturing Technology, 29*(7-8), 826-835.

Hökelekli, G., Lamey, L., & Verboven, F. (2017). Private label line proliferation and private label tier pricing: A new dimension of competition between private labels and national brands. *Journal of Retailing and Consumer Services, 36*, 39-52.

Hosany, S., Ekinci, Y., & Uysal, M. (2006). Destination image and destination personality: An application of branding theories to tourism places. *Journal of business research, 59*(5), 638-642.

J. Paul Peter, & Donnelly, J. H. (2015). *A Preface To Marketing Management* (fourteenth ed.). New York: McGraw-Hill Education.

Jin, B. (2004). Apparel industry in East Asian newly industrialized countries: Competitive advantage, challenge and implications. *Journal of Fashion Marketing and Management: An International Journal, 8*(2), 230-244.

Johnson, G., Whittington, R., Scholes, K., Angwin, D., & Regner, P. (2014). *Exploring Strategy* (Tenth ed.). Italy: Pearson.

Kaplinsky, R. (2000). Globalisation and unequalisation: What can be learned from value chain analysis? *Journal of development studies, 37*(2), 117-146.

Kirzner, I. M. (2009). The alert and creative entrepreneur: A clarification. *Small Business Economics, 32*(2), 145-152.

Lancioni, R. (2005). Pricing issues in industrial marketing. *Industrial Marketing Management, 34*(2), 111-114.

Leader, G. T. (2017, 15 August 2017). What all the entrepreneurship stats tell us about the reality of being a female entrepreneur in SA. Retrieved from https://www.smesouthafrica.co.za/17480/women-entrepreneurs-report-survey/

Lee, D. Y., & Tsang, E. W. (2001). The effects of entrepreneurial personality, background and network activities on venture growth. *Journal of management studies, 38*(4), 583-602.

Liu, T.-C., & Wang, C.-Y. (2008). Factors affecting attitudes toward private labels and promoted brands. *Journal of Marketing Management, 24*(3-4), 283-298.

Lobel, O. (2006). Sustainable capitalism or ethical transnationalism: Offshore production and economic development. *Journal of Asian Economics, 17*(1), 56-62.

Man, T. W., Lau, T., & Chan, K. (2002). The competitiveness of small and medium enterprises: A conceptualization with focus on entrepreneurial competencies. *Journal of business venturing, 17*(2), 123-142.

Martos-Partal, M. (2012). Innovation and the market share of private labels. *Journal of Marketing Management, 28*(5-6), 695-715.

McCusker, K., & Gunaydin, S. (2015). Research using qualitative, quantitative or mixed methods and choice based on the research. *Perfusion, 30*(7), 537-542.

McDade, B. E., & Spring, A. (2005). The ‘new generation of African entrepreneurs’: networking to change the climate for business and private sector-led development. *Entrepreneurship & Regional Development, 17*(1), 17-42.

Nenycz-Thiel, M., & Romaniuk, J. (2016). Understanding premium private labels: A consumer categorisation approach. *Journal of Retailing and Consumer Services, 29*, 22-30.

Nielsen. (2017, 12/08/2017). The Rise Of The Private-Label Retail Category In South Africa. Retrieved from http://www.nielsen.com/ssa/en/insights/news/2017/the-rise-of-private-label-retail-category-in-south-africa.html

Owualah, S. L. (1999). Tackling youth unemployment through entrepreneurship. *International Small Business Journal, 17*(3), 49-59.

Parumasur, S. B., & Roberts-Lombard, M. (2013). *Consumer Behaviour*. Cape Town: Juta & Company.

Pasquarelli, A. (2017, 21/08/2018). Marketers' Millenial Dilemma. Retrieved from http://adage.com/article/news/millennials/310152/

Pathak, V., Jena, B., & Kalra, S. (2013). Qualitative research. *Perspectives in clinical research, 4*(3).

Pick'nPay. (2017a). Pick 'n Pay Bee Certificate. Retrieved from http://www.picknpay.co.za/picknpay/action/media/downloadFile?media_fileid=71186

Pick'nPay. (2017b, 2017). Pick 'n Pay Results Presentationfor the 26 weeks ended 27 August 2017. Retrieved from http://www.picknpayinvestor.co.za/downloads/investor-centre/results-and-presentations/2017/interim-result-presentation-for-the-26-weeks-ended-27-august-2017.pdf

Rubio, N., Villaseñor, N., & Yagüe, M. J. (2017). Creation of consumer loyalty and trust in the retailer through store brands: The moderating effect of choice of store brand name. *Journal of Retailing and Consumer Services, 34*, 358-368.

SAICA. (2015, 2015). 2015 SME Insights Report. Retrieved from http://www.saica.co.za/portals/0/documents/saica_sme.pdf

Sharma, P., & Chrisman, S. J. J. (2007). Toward a reconciliation of the definitional issues in the field of corporate entrepreneurship. In *Entrepreneurship* (pp. 83-103): Springer.

Shoprite. (2017a, 08/2017). Results Presentation For The Year Ended 2 July 2017. Retrieved from https://www.shopriteholdings.co.za/content/dam/MediaPortal/documents/shoprite-holdings/analyst-presentations/2017/Shoprite_Holdings_Analyst_Presentation_Aug2017_FINAL_WEB.pdf

Shoprite. (2017b). Shoprite Group BEE Compliance Report. Retrieved from https://www.shopriteholdings.co.za/content/dam/MediaPortal/documents/shoprite-holdings/B-BBEE/2017/Compliance-Report-13G2-(SHH-000283-REV5.1).pdf#

Spar. (2017a). Spar BBEE Certificate. Retrieved from https://www.mpowerratings.co.za/mPowerServices/Downloads.ashx?clientGuid=f372f8b7-e1e1-4652-8e92-cf473e0d538c&membershipViewer=

Spar. (2017b, 21/12/2017). Spar Results Presentation. Retrieved from http://investor-relations.spar.co.za/wp-content/uploads/2017/12/SPAR-Results_Presentation-Nov-2017.pdf

STATSSA. (2017, 31/10/2017). Quarterly Labour Force Survey. Retrieved from http://www.statssa.gov.za/publications/P0211/P02113rdQuarter2017.pdf

Steenkamp, J.-B. E., Van Heerde, H. J., & Geyskens, I. (2010). What makes consumers willing to pay a price premium for national brands over private labels? *Journal of Marketing Research, 47*(6), 1011-1024.

Steiner, R. L. (2004). The nature and benefits of national brand/private label competition. *Review of Industrial Organization, 24*(2), 105-127.

Strydom, J., Heerden, N. v., Nel, D., & Grove, T. (2002). *Distribution Management*. South Africa: New Africa Books (Pty) Ltd.

Ter Braak, A., Deleersnyder, B., Geyskens, I., & Dekimpe, M. G. (2013). Does private-label production by national-brand manufacturers create discounter goodwill? *International Journal of Research in Marketing, 30*(4), 343-357.

Whittemore, R., Chase, S. K., & Mandle, C. L. (2001). Validity in qualitative research. *Qualitative health research, 11*(4), 522-537.

Wiklund, J., Patzelt, H., & Shepherd, D. A. (2009). Building an integrative model of small business growth. *Small Business Economics, 32*(4), 351-374.

Woolworths. (2016, 2017). Woolworths Holdings Limited / Unaudited Interim Results For The 26 Weeks Ended 25 December 2016. Retrieved from http://www.corpcam.com/showstream.aspx?presId=4596#

Woolworths. (2017). Woolworths B-BEE Certificate. Retrieved from http://www.woolworthsholdings.co.za/downloads/2017/B-BBEE-Certificate-2017-2018.pdf

Yu, D. (2017). The lesser known and scarier facts about unemployment in South Africa. Retrieved from https://mg.co.za/article/2017-09-04-the-lesser-known-and-scarier-facts-about-unemployment-in-south-africa