

## EXPLORING THE MANAGEMENT ABILITIES OF SPAZA SHOP OWNERS IN THE NELSON MANDELA METROPOLITAN MUNICIPALITY

S Perks

*Department of Business Management, Nelson Mandela Metropolitan University*

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### Abstract

South African entrepreneurs have a poor skills record, which often leads to business failure. To effectively manage a spaza shop requires applying management functions and some management skills. The implementation of simple systems can assist spaza shop owners to manage their businesses more successfully and even grow. A quantitative study was done, by interviewing sixty spaza shop owners in the township. The empirical results identified the gaps in the management abilities of spaza shop owners in terms of the eight management functions and show that the purchasing, financial and information management function are the most neglected. Guidelines on how each of the functions could or should be applied are given. This research indicates that spaza shops can assist in economic growth and relieve unemployment in the country.

JEL M11, I3, L26, 81

### 1 Introduction

South Africa is one of the most sophisticated and promising emerging markets in the world, offering a unique combination of highly developed first world economic infrastructure with a vibrant emerging market economy (Timmons & Spinelli, 2003:47). More than 80 per cent of businesses in South Africa can be described as small businesses (Rwigema & Venter, 2005:475). Most South African cities and towns have at least one township associated with them. New initiatives have been taken to renew and re-vitalize the view of South African townships, especially in preparation for the 2010 Soccer World Cup (Wikipedia, 2009). It is within these townships that many small businesses are struggling for survival and growth. Fuller (2003:297) emphasises that "to develop the South African economy, things need to be done at the smallest scale in every township". Policy makers in South Africa continue trying to identify and support those productive, and innovative small businesses that will generate employment and promote economic growth within the country (Dobbs & Hamilton, 2007:296).

In 2000, 2,7 per cent of South Africa's retail trade was from spaza shops, amounting to R7,4 billions (Ligthelm, 2002:1). This illustrates the importance of spaza shops to the economy in terms of contributing towards income generation and possibly reducing unemployment. The owners of these spaza shops start these micro businesses for various reasons, but can nevertheless be regarded as an entrepreneur in that they have identified an opportunity. Small businesses always carry low overheads, which enable them to become more competitive and responsive to demand changes (Kesper, 2000:8).

The manner in which small businesses entrepreneurs manage their businesses can contribute towards becoming competitive with other small businesses. This study explores how spaza shops in the township are or can be managed. As literature on spaza shops is scarce, the literature study includes the management functions in informal businesses, where possible with specific reference to spaza shops. The results of the biographical profile of the spaza shop owners and their businesses, and how they execute the eight management functions proposed by Van Aardt, Van Aardt & Bezuidenhout (2000:150) are tabulated, followed by the conclusions and management

implications on how spaza shops could or should apply these management functions. In the next section the research objectives are outlined.

## 2 Problem statement and objectives

A spaza shop owner, as an entrepreneur, needs a range of abilities to be able to execute daily business operations, requiring him to be a generalist. Hodgetts and Kuratko (2001:616) define a generalist as a person who possesses the ability to view operations in broad terms. Various authors (Smart Force, the e-learning company, 2002:1; Van Dyk, Nel, Loedolff & Haasbroek, 2001:52), identify various skills and daily tasks needed for managing a business, for example financial aspects like budgeting, interpreting financial statements, business. Amongst others the following are necessary: accounting, business finance; marketing by developing a marketing strategy, selling, advertising; human resource management and labour relations; interpersonal skills for customer services, operations management like finding resources and possible suppliers; purchasing such as ordering goods or services, receiving and inspecting the goods and stock control. Spaza shops should engage in these management activities on a daily basis.

The main objective of the study was therefore to explore how township spaza shops manage their businesses. The secondary objectives of the study were:

- To define the range of management functions of micro or small businesses in the informal sector which can be applied to spaza shops;
- To explore how spazas shop owners are applying each of these management functions;
- To determine the gap(s) between how spaza shops are managed and how they should be managed, and
- To address how these gap(s) could be eliminated or reduced.

## 3 Concept clarification

The following key concepts used in the article are defined below.

### a) A very small business

Very small businesses in South Africa can be described as owner-managed, having more than five, but less than twenty employees and less than R2 million in assets, except in the agricultural sector (Small Business Amended Act, 2003:6).

### b) A micro business

Micro businesses in South Africa can be described as informal, having less than five employees, and very few assets (Small Business Amended Act, 2003:6).

### c) A spaza shop

According to Von Broembsen (2008:1) a spaza shop is an informal business run from a room in a shack or small house where customers stand outside and purchase basic groceries over a counter, to the less common and more sophisticated grocery shop.

Both definitions of micro and very small businesses could be identified as fitting the description of a spaza shops. If having the whole family involved (more than five employees but less than 20), spaza shops can be regarded as a very small business. A spaza shop can also be a micro business should it have fewer than five employees. In the next section, the management functions are discussed.

## 4 Management functions

Management is the process whereby human, financial, physical and information resources are employed in order to reach the goals of a business (Cronje, Du Toit, Marais & Motlatla, 2004:122) or is the tasks and activities performed by managers (Hellriegel, Jackson, Slocum, Staude, Amos, Klopper, Louw & Oosthuizen, 2005:7). The following eight functions are identified by several authors (Cronje, et al., 2004; Hellriegel, et al., 2005:11; Kotler, 1999:9; Mol, 2001:99; Marx, Van Rooyen, Bosch & Reynders, 2004;

Sibiger, 2001:29; Van Aardt, Van Aardt & Bezuidenhout, 2000:150): general management; human resources; finance; marketing; purchasing; operations; administration or information; and public relations. Table 1 highlights literature on issues within the business functions pertaining to managing spaza shops or small businesses.

**Table 1**

Literature on issues pertaining to managing spaza shops or small businesses

<p><b>General management</b> (Friedrich Ebert Stiftung Library, 2000:1; Longenecker, Moore &amp; Petty, 2000:389; Martins &amp; Ligthelm, 2004:15; Robbins &amp; De Cenzo, 1998:75; Tladi &amp; Isaacs, 2003:3, 4; Von Broembson, 2005:1; 2007:14,15)</p>
<ul style="list-style-type: none"> <li>• No need for a licence in SA, except if trading in perishable food, medicines, liquor or adult entertainment.</li> <li>• Owner's lack of ability to converse with customers in English limits market access to only the community.</li> <li>• Lacks a safe and protected stock storage space.</li> <li>• Often victims of break-ins, property theft, vandalism and physical attacks.</li> <li>• Lack of security and crime affect spazas negatively.</li> <li>• Buys in small quantities as lots of stock can attract more crime.</li> <li>• Requires short-term planning with a monthly, weekly and day-to-day time frame.</li> <li>• Should have a short-term operating plan (budget) prepared one year in advance.</li> </ul>
<p><b>Human resources</b> (Katz &amp; Green, 2009:634; Kirsten, 1995:204; Ligthelm &amp; Lamb, 2006:1,3; Longenecker et al., 2000:409; Munbodh, 2003:1)</p>
<ul style="list-style-type: none"> <li>• Major source of employment (20,6 per cent of all employment in South Africa - 2,3 persons employed per business).</li> <li>• Normally use family and unpaid labour as employees and rely mostly on manual labour.</li> <li>• Employee selection for performance important as it affects profitability and sales revenue.</li> <li>• Mostly females are employed to clean, cook, serve clients and pack products on the shelves.</li> <li>• On-the-job training favourable as it is less costly than off-the-job training.</li> </ul>
<p><b>Purchasing</b> (Friedland, Merz &amp; Van Rensburg, 2008:5, 6, 9; Hatten, 1997:431; Ligthelm, 2002:2; 2004:2; 2007:19; Tladi &amp; Isaacs, 2003:2, 3, 4, 6; 2004:9; Ntloedibe, 2005:1; Rogerson, 2008:223, 235; Von Broembson, 2005:1; 2008:2; Whythawk, 2009)</p>
<ul style="list-style-type: none"> <li>• Mostly sell soft drinks, cigarettes, paraffin, candles, maize meal, alcoholic beverages, bread and sugar.</li> <li>• Buy stock in small quantities (what they can carry), from a variety of retailers and wholesalers, but mostly wholesalers.</li> <li>• Lacks adequate stock storage space.</li> <li>• Due to little stock, out-of stock situations requires frequent buying.</li> <li>• Pay high prices for stock due to lack of money or inadequate knowledge and insufficient bargaining power or high transport cost.</li> <li>• Regard quality as justifying high stock prices in spite of lack of money.</li> <li>• Good inventory control advisable as about 80 per cent of the capital tied up in stock.</li> <li>• Choose suppliers based on accessibility and proximity of the suppliers to the business; special discounts or prices; customer brand preferences; packaging or quantity; convenience, and other services provided e.g. loading of stock, trolleys, etc.</li> <li>• Most important needs are to receive discount from wholesalers and transport of products (only soft drinks, dairy and bakery products are delivered).</li> <li>• Suppliers offer no credit sales (less than 10 per cent receive supplier credit) or discount.</li> <li>• Rely on taxis or hired vehicles for transport (there is an informal transport system operating from wholesalers in Cape Town).</li> <li>• Should forge a long-term relationship with suppliers.</li> <li>• A phone-in order system – pre-packed for pickup or stock delivery is advisable.</li> <li>• Only a few engage in cooperative buying schemes.</li> <li>• Development of spaza shop business association, to handle group bulk buying, discount and special arrangements from suppliers advisable.</li> </ul>

<p><b>Marketing</b> (Friedland et al., 2008:5-6; Ligthelm, 2004:2; Ryan, 2004b:1, 3; The Economic impact of Coca-Cola on South Africa, 2008:8; Tladi &amp; Isaacs, 2003:2; 2004:9; Von Broembsen, 2005:1)</p>
<ul style="list-style-type: none"> <li>• Target market comprises of township residents.</li> <li>• Three quarters of the customers buy daily as it is conveniently close to home.</li> <li>• Insufficient and limited ranges of products satisfying basic needs are offered.</li> <li>• Higher prices compared to shops in town are justifiable, because of their proximity to customers (the community).</li> <li>• Shopping hours are from 7am to 11pm.</li> <li>• Night shopping, selling in small quantities and giving credit make up for higher prices customers pay.</li> <li>• Suppliers provide signboards, sometimes posters for advertising e.g. milk or Coke or promotion material such as name on signboard and shop equipment.</li> <li>• Signage sought after especially Coca-Cola signage as it attracts customers and stimulates sales of other products.</li> <li>• Promotion material includes flyers, pamphlets and/or specials with word-of-mouth advertising being the preferred method.</li> <li>• Severe competition and small customer numbers are challenging but can be improved through clustering.</li> </ul>
<p><b>Financial management</b> (CGAP, 2009:1; Friedland et al., 2008:5-6; Ikoja-Odongo, 2001:3; Ndhlovu, Petersen &amp; Ndhlovu, 2006; Ntloedibe, 2005:1; Ryan, 2004a:1; Ryan, 2004b:1; The Economic impact of Coca-Cola on South Africa, 2008:4; Tladi &amp; Isaacs, 2003:2, 4, 6; Venter, Urban &amp; Rwigema, 2008:334, 337; Von Broembsen, 2005:1,2)</p>
<ul style="list-style-type: none"> <li>• Need a minimal capital outlay and no skills to start the business.</li> <li>• Few have a credit card or cheque account, and use mostly a savings account.</li> <li>• Use savings to start the business and credit for expansion.</li> <li>• No formal support received to start the business, with few aware of business support organizations.</li> <li>• Those that have used support services are satisfied with service received and resultant business growth.</li> <li>• Providers regard poor payment records as a major obstacle in granting credit.</li> <li>• Money can be obtained by contributing to a stokvel or from informal moneylenders such as matshonis that charge a high interest rates on loans, but require little paperwork.</li> <li>• WIZZIT introduced a mobile banking payment system especially for spaza shops.</li> <li>• Earnings are about R20 200 annually with bread and soft drinks contributing to turnover the most.</li> <li>• Electricity and transport are regarded as the biggest business expenses.</li> <li>• Have a high input cost with low profit margins.</li> <li>• Cannot leave the business, even for one day.</li> <li>• Bad debt, or granting too much credit is one of the biggest problems, together with lack of funding to buy stock or to expand.</li> <li>• No record-keeping, except of purchases, sales and debtors.</li> </ul>
<p><b>Operations management</b> (Kirsten, 1995:202)</p>
<ul style="list-style-type: none"> <li>• Operations limited to fast food like 'vetkoek' and 'roast koek', maize, fried fish, homemade ginger beer, or cement slabs (stoep).</li> <li>• Women often involved in cooking and brewing beer.</li> <li>• Making food or beer is major source of income.</li> </ul>
<p><b>Information management</b> (Friedland et al., 2008:11; Ikoja-Odongo, 2001:4, 5; Oliver, 2005:1; Spaza News, 2005; 2008:1)</p>
<ul style="list-style-type: none"> <li>• Information is needed for daily operation and management purposes.</li> <li>• Little information available about this sector, indicating a need for empowerment.</li> <li>• Need information about marketing, raw materials, supplies and where to seek advice.</li> <li>• Network with people they know, with some reading newspapers or listening to the radio.</li> <li>• Spaza News established to help owners improve their businesses.</li> <li>• Word-of-mouth, printed media and letters, radio and television preferred ways of receiving information due to high level of illiteracy.</li> <li>• Information needed on competitors, contracts, marketing, training and raw material prices.</li> <li>• Need filing systems for finances (bank statements, bills, mortgage or loan information, receipts for major</li> </ul>

<p>purchases); correspondence (letters or faxes); and information sources (business cards, warranties and equipment manuals).</p> <ul style="list-style-type: none"> <li>• Should discard unwanted receipts, out-of-date price list and newspapers.</li> <li>• An SMS service for placing orders suggested.</li> </ul>
<p><b>Public relations</b> (Bolerjack, 2008:1-5; Van Rensburg, 1999:177)</p>
<ul style="list-style-type: none"> <li>• Recommended to be better than anybody else in the areas of knowledge, product and services offerings, production, compilation, interpretation, provision, marketing, analysis, or understanding the customers.</li> <li>• Community participation, public speaking, relationships with local area reporters recommended.</li> <li>• Create favourable, objective business image and sound mutual interest group relationships.</li> </ul>

In all types of businesses, all these functions are essential to efficiently manage a business, especially a micro or very small business. Ryan (2004:2b) found that spaza shops wanted business training in management, book-keeping, computer skills and marketing. The scope of the functions varies according to the size of the business; for example, the human resources function only comes into play when they have employees. In the next section, the methodology of the study is explained.

## 5 Methodology

The focus of this study was to establish how spaza shop owners in townships manage their businesses. A survey was conducted amongst spaza shop owners in the Nelson Mandela Metropolitan Municipality in Port Elizabeth, South Africa.

### 5.1 Sampling

A convenience sample of spaza shop owners in the NMMM, Port Elizabeth, was chosen from all the township areas in Port Elizabeth, Uitenhage and Despatch. Fieldworkers chose the spaza shops within their residential area and interviewed those willing to participate. Although 60 questionnaires were received, the final response rate was 56 as some questionnaires were incomplete.

### 5.2 Data collection

The measuring instrument used in this survey was a semi-structured questionnaire consisting of two sections, containing mostly open-ended questions. Section one consists of biographical information regarding the respondents and their businesses. The second section contains

open-ended questions on whether and how they execute the particular management functions. The reasons, importance and purpose of the completion of the questionnaire were emphasized to the respondents prior to the interview. Self-administered questionnaires would not have had the required result as the literacy level of the spaza shop owners was not known prior to the interview and could thus have impacted the reliability of the results.

Use was made of field workers that could speak the respective languages of the respondents, as English was mostly the second language of the respondents. Field workers from certain residential areas were chosen for more convenience, more control in obtaining feedback and because it was less costly to administer the questionnaire. The field workers were briefed prior to the interviews on how to conduct the interview and the intention of the questions.

### 5.3 Validity and reliability

Content validity was ensured as the content of the open-ended questions was based on the literature study of the eight management functions. A pilot study was conducted with ten spaza shops to ensure that the questionnaire was worded correctly and to test reliability. Field workers could explain the open-ended questions to respondents in their own language and further increase the reliability of the results.

### 5.4 Data analysis

The completed questionnaires were checked for completeness and then allocated a number. As respondents gave different responses in the open-ended questions, data sheets were

designed with new categories added as data capturing took place. It was difficult to categorise the responses as respondents had many different views on what was asked. In spite of this the results are meaningful as they captured the real views on how they execute the management functions. The results of the questionnaires were captured in an EXCEL spreadsheet. Data capturing was a lengthy process as categories were continuously refined to make the data analysis more manageable. The 56 respondents gave many different responses and expressed their views in poor English which required further refinement of categories. The descriptive results were analysed by calculating the frequency of responses and presented in terms of percentages in tables or figures.

### 5.5 Limitations

The sample would have been more representative if spaza shops in other provinces in

the country had been included in the study, but this was impossible due to time constraints and the high costs involved. It would have been interesting to compare the various business operations skills levels of respondents in the different provinces. The researcher had to rely on the integrity of the fieldworkers in completing the questionnaires.

## 6 Results

### 6.1 Biographical data

The results of the biographical data can be seen in Table 2.

**Table 2**  
Biographical profile of respondents

Biographical criteria	Category	%	Biographical criteria	Category	%
Age	26 – 35	18	Gender	Male	59
	36 – 45	30		Female	41
	46 – 55	41	Number of employees	1 (Only owner)	21
	56 – 65	9		2 – 3	59
	> 65	2		4 – 5	16
		> 5		4	
Highest qualification	Grade 7 or less	6	Time in business (years)	5 or less	52
	Grade 8 – 9	10		6 – 10	32
	Grade 10 – 11	18		11 – 15	8
	Grade 12	46		16 – 20	2
	Certificate	2		20 – 25	2
	Diploma	7		Above 25	4
	Degree	7			
	Post Degree	2			
	None	2			

As can be seen in Table 2, no respondents were under 25 years of age. The sample comprised more males than females. Their qualifications vary from as low as Grade 4 to an Honours degree. One respondent had never attended school.

All respondents operate as sole traders. Most businesses had been in existence for ten

years or less. Some respondents had no employees, just the owner. Previous working experience ranged from: Teaching 4 per cent, protection services 4 per cent; mechanical engineering 12 per cent; business 4 per cent; administration 10 per cent; sales and marketing 30 per cent; cashier 8 per cent; nursing 6 per cent; Building 2 per cent; transport 2 per cent;

domestic workers 6 per cent, upholstery 2 per cent and 10 per cent had no experience.

The reasons given why they started their businesses are: no shop in area (15 per cent); business reasons such as retrenchment, retirement, business closure, and being medically unfit for work (19 per cent); personal reasons such as divorce and no job satisfaction (4 per cent); needed money to make a living (14 per cent); inherited family business (8 per cent); had money, experience, saw an opportunity (12 per cent); to have independence and achieve goals (4 per cent); and unemployment (24 per cent). Fifty seven per cent of the sample grew up in a family business environment where a family member like an uncle or parents had a business. Only 39 per cent of these respondents had worked in the family business.

## 6.2 Management functions

### 6.2.1 General management

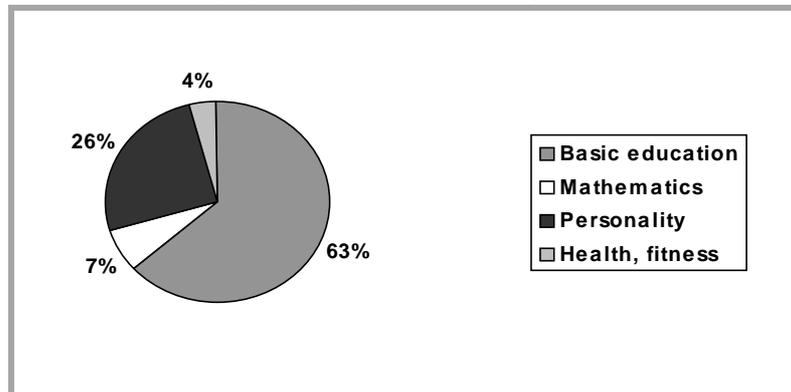
Seventy five per cent of respondents plan daily, while there was an even number of

respondents that never or occasionally plan. Eighty two per cent of respondents daily check whether their stock sold, matches their cash received. Ninety eight per cent of respondents arrange their stock to be eye catching (94 per cent); for the display inside to be visible from the outside (2 per cent), and for easy customer access (2 per cent). Respondents speak the following languages when they serve their customers: English (36 per cent); Afrikaans (22 per cent); Xhosa (34 per cent); Zulu, Sotho, Somali (2 per cent each) and Setswana and Swahili (1 per cent each). As can be seen the majority of respondents have good communication skills and speak two languages, namely English and another language.

### 6.2.2 Human resources

Twenty one per cent of the respondents do not employ staff. Sixty one per cent of respondents who have employees, have employment requirements as can be seen in Figure 1.

**Figure 1**  
Employment requirements of respondents



Fifty seven per cent of the employees have specific jobs such as packing shelves (40 per cent); cleaning (12 per cent), and serving customers (48 per cent).

Eighty six per cent allows their staff to make decisions as shown in Table 3.

**Table 3**

Types of decision delegated to employees

<b>Stock decisions</b>	<b>%</b>
What quantity of stock to buy	26
What to sell	11
What is on special	5
Which stock to purchase	21
When to increase prices	5
How to display stock	5
When to take stock	5
<b>Other decisions</b>	<b>%</b>
Returns and queries	11
When to take leave	6
Which customers to grant credit	5

Table 3 indicates that staff mostly makes stock decisions related to which stock or the quantity

of it to buy. Table 4 indicates the percentage of staff that were trained and motivated.

**Table 4**

Staff receiving training and motivation

<b>Staff trained</b>	<b>Percentage</b>	<b>Staff motivated</b>	<b>Percentage</b>
Yes	43%	Yes	66%
No	57%	No	34%

Table 4 indicates that less than half of the respondents train their staff, while nearly two thirds motivate staff. Table 5 shows how

respondents train and motivate staff to sell more.

**Table 5**

How staff are trained and motivated

<b>Training</b>	<b>%</b>	<b>Motivation</b>	<b>%</b>
Show staff how to serve customers	5	Give monetary incentives	52
Tell staff how to serve customers	5	Give groceries to take home	3
On-the-job training	63	Tell staff to meet customers needs	14
To pack shelves and serve customers	11	Tell staff to sell more	3
To operate the cash register	16	Tell staff to friendly and be good to customers	28

On-the-job training is regarded as the most important way of training staff and about half of the respondents give monetary incentives as

a motivator to sell more. As indicated in Table 6 sixty one per cent of respondents delegate some tasks to staff.

**Table 6**  
Tasks delegated to staff

<b>Physical in-store tasks</b>	<b>%</b>	<b>Administrative tasks</b>	<b>%</b>
Purchasing products	6	Bookkeeping	3
Displaying products	12	Stocktaking	6
Packing shelves	14	Counting money daily	3
Cleaning	14	Issuing receipts	3
Baking	6	<b>Customer related tasks</b>	<b>%</b>
Cutting and wrapping products	3	Customer complaints	3
<b>Other tasks</b>	<b>%</b>	Serving customers	9
Managing shop in absence	9	Generating sales	3
Transportation of products	3	Lotto machine sales	3

Respondents delegate physical minor in-store tasks such as packing shelves and cleaning to staff, but few important tasks such as bookkeeping and counting daily money.

### 6.2.3 Finance

Table 7 shows where respondents obtain funding to start their spaza shops.

**Table 7**  
Main funding sources

<b>Own funding</b>	<b>%</b>	<b>Funding source</b>	<b>%</b>
Unemployment insurance	2	Bond	2
Savings	29	Business Partners	2
Pension	16	Friends	2
Investments	9	Loan	8
Salary	3	Family	16
Retrenchment	5	Took over family business	2
Inheritance	2		
Another business venture	2		

Some respondents used more than one main funding source to start their business. Besides using their own funding, twenty per cent had to also obtain a loan to start their business from: ABSA bank (9 per cent); Standard bank (46 per cent); Unibank (9 per cent); People's bank (9 per cent); Business Partners (18 per cent), and the Step-up program (9 per cent).

Seventy five per cent of the respondents plan their spending, with 20 per cent never or 5 per cent sometimes planning their spending. Two per cent of respondents let their budget dictate what to use their profits for, while

others use their profits for: savings (33 per cent); paying business expenses (8 per cent); paying house-hold expenses (27 per cent); re-investing in business (5 per cent); bond repayments (3 per cent); buying stock (16 per cent), and paying loans (6 per cent).

Eighty two per cent of respondents indicated that they do save money, while 11 per cent never or 7 per cent sometimes save money. Eighty six per cent of respondents keep sales records, using the methods indicated in Table 8.

**Table 8**  
Record-keeping methods

<b>Purchases and sales records</b>	<b>%</b>	<b>Other methods</b>	<b>%</b>
Invoices	10	Computer	2
Receipts	4	Filing system	14
Record sales and purchases	6	Bookkeeping	6
Receipts and invoices	2		
Record purchases	2		
Stock counting	6		
Cash register	10		
Counter book	38		

Eighty two per cent of respondents lose money due to stock problems. These problems include: theft (29 per cent); being out of stock (4 per cent); late stock delivery (2 per cent); perishable products (57 per cent) and 8 per cent did not specify their stock problems.

#### **6.2.4 Marketing**

Seventy nine per cent of customers are from the community and the remainder can be classified as the general public. Ninety five per cent of customers are regular customers. The customers are aware of the business through: word-of-mouth advertising (32 per cent); advertisements on notice boards (19 per cent); advertisements in free papers (21 per cent); advertisements on Coke truck (2 per cent); posters (2 per cent); pamphlets (6 per cent); the owner's personality (3 per cent); being an established business (5 per cent); and the visibility of the business (10 per cent).

Respondents advertise by means of: a notice board (29 per cent); specials on pamphlets (23 per cent); posters (11 per cent); signage of name of shop (6 per cent); visibility of shop (2 per cent); word-of-mouth (8 per cent); greeting passers-by (4 per cent); product display (4 per cent) and business cards (2 per cent). Eleven per cent of spaza shop owners do not use any means of advertising.

Fifty seven per cent of respondents have specials or give discount. Fourteen per cent only sometimes give discount, while twenty nine per cent never give discount or have specials. Their business hours vary considerably, from 05:00 to 22:00, with the majority having a 12-hour day, working seven days a week. The business hours categories are available on request.

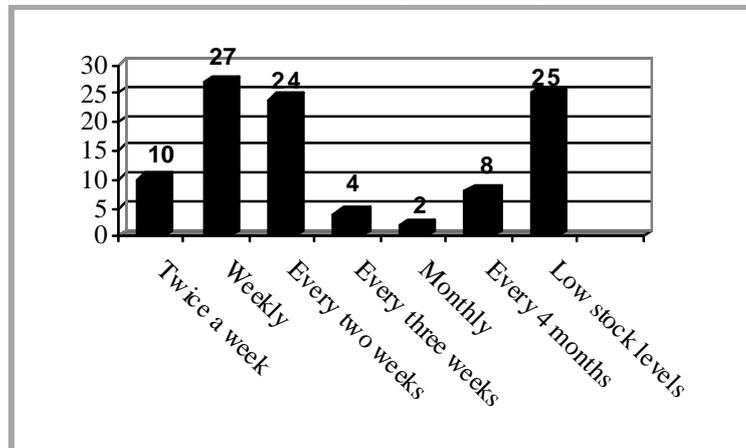
#### **6.2.5 Purchasing**

All respondents obtain their products from wholesalers. Thirty nine per cent of respondents always use the same supplier, while the remainder buy from the supplier with the lowest price. Forty one per cent of respondent receive credit from the suppliers. The various periods credit is given for are: 2 days (4 per cent); 7 days (35 per cent); 14 days (15 per cent); 1 month (34 per cent); 6 months (8 per cent), and one year (4 per cent).

The 2-days credit was given for purchasing bread. It could not be established for what one-year credit was obtained. Fifty two per cent buys only stock that customers demand or request, or stock which sells quickly (46 per cent), with only 2 per cent buying a variety of stock. How often respondents buy stock is shown in Figure 2.

**Figure 2**

How often respondents buy stock



Respondents buy stock weekly, two weekly or when stock levels are low. The amount of

stock that respondents buy depends on various factors as outlined in Table 9.

**Table 9**

Factors determining how much stock to buy

Resource availability factors	%	Stock demand factors	%
Display space	3	Customer requests	30
Storage space	2	Turnover	10
Money available	18	Stock levels	30
Other factors	%		
Lifespan of product	5		
Monthly purchase cycle	2		

Seventy three per cent of respondents use their own transport to get the stock to their shop, while some stock is delivered by suppliers (8 per cent), hired transport (5 per cent); taxi (3 per cent), bus (8 per cent), or family transport (3 per cent).

#### 6.2.6 Operations management

Fourteen per cent of respondents also offer take-aways or bake bread. The time to make the food varies from 20 minutes to four hours. The food that takes long to make is normally only available at lunchtime. Respondents use kitchen appliances such as stoves and pots (30 per cent); microwave (20 per cent), deep fryers (10 per cent); primus stove (10 per cent),

bakery equipment (20 per cent) and a blowlamp (10 per cent). They bought the appliances new (63 per cent) or second hand (13 per cent) or use their home appliances (24 per cent). They use their profits to buy the appliances (50 per cent) or obtain a loan (33 per cent) or borrow from their husbands (17 per cent).

#### 6.2.7 Information management

Fifty seven per cent of respondents have a business plan. This does not mean a traditional business plan, but an idea of their future expansion plans. Eighty four per cent of respondents read information sources indicated in Table 10.

**Table 10**  
Business information sources

Magazines	%	Newspapers	%
Retail magazines	1	Herald	44
Wholesale magazines	1	Sunday Times	22
Liver brother magazine	1	Business day	3
Enterprise Zone	1	Sowetan	2
Trade value	1	City press	2
Makro magazine	1	Burger	5
Success	1	Mirror	1
SA India	1	Weekend Post	8
		Illizwi	1

Other media included: TV advertisements (1 per cent); Catalogues (1 per cent); and whatever reading materials could be found (2 per cent). Table 10 shows respondents favoured reading newspapers (88 per cent).

Respondents have knowledge of customers' preferences as they:

- record it in a book (4 per cent);

- obtain information from customers (32 per cent);
- notice what is selling (38 per cent); and
- notice the decrease in stock levels (26 per cent).

Seventy seven per cent of respondents give advice to their customers as indicated in Table 11.

**Table 11**  
Type of advice given to customers

Product options	%	Purpose of products	%
Linking product to needs	14	Display show product use	5
Cheaper quality product replacements	19	Demonstrate use of product	2
New products	14	Product information	2
Better quality products	23		
Quantity to buy	7		
Which baby products to use	2		
Specials	12		

Advice is given only when asked for in the interest of the customers.

### 6.2.8 Public relations

Three per cent of respondents did not know why customers buy from them. The other respondents indicated customers buy from them because of: cheap prices (28 per cent); good service (38 per cent); personality such as friendliness and fairness (18 per cent); only shop in area (6 per cent), and other, e.g. having the right stock, good quality, give credit, open early and have qualified staff (7 per cent).

Returns are handled either by refunding customers (20 per cent) or exchanging the

product (58 per cent) or by solving the problem (14 per cent) which could be either refunding or exchanging, depending on the type of returns. Eight per cent of respondents do not accept any returns.

## 7

### Conclusions

#### 7.1 Biographical data

Nearly half of the respondents have a Grade 12 qualification and are 36 to 55 years of age. Few respondents are in the 26 to 35 years category. It seems that they probably have

furthered their education and/or found employment. More males than females in this sample started spaza shops. Regardless of the type of previous working experience, respondents start spaza shops, with some even having no working experience whatsoever. There are many spaza shops across all the township areas, with the majority in the more densely populated areas. As they are informal businesses, they favour sole proprietorship. The majority of respondents had spaza shops for less than ten years. The number of spaza shops has nearly doubled in the last five years (52 per cent versus 32 per cent). Spaza shops are not a new business opportunity as two of the shops have been in operation for more than 25 years. The majority (79 per cent) of spaza shops employ staff. The spaza shop owners have entrepreneurial background as they had someone in the family that had a business (57 per cent), and some (39 per cent) even worked in the business. Nearly two thirds of respondents are necessity entrepreneurs as they were forced to start the spaza shops, mostly due to lack of income. The other third are opportunity entrepreneurs (only shop in area, had money and wanted to be independent).

## **7.2 Functional activities**

### **7.2.1 General management**

Literature and the empirical findings confirm that the majority of respondents engage in daily planning and plan their monthly expenses (household and business) but do not have a budget. All spaza shop owners are conversant in English and either Xhosa or Afrikaans and can thus contrary to literature findings, serve their customers in a language they can understand. Some can even speak more than two languages.

Literature indicated that spaza shops do mostly not need a licence to trade, lack a safe and protected stock storage space and are often victims of break-ins, property theft, vandalism and physical attacks. They buy in small quantities due to lack of security and crime.

### **7.2.2 Human resources**

Literature concurs with the empirical findings that spaza shops are a major source of employment and they rely on manual labour

such as packing shelves, cleaning and serving customers. Spaza shop owners favour on-the-job training by showing staff how to execute jobs such as working the cash register.

### **7.2.3 Purchasing**

Literature and the empirical findings confirm that spaza shops frequently buy either weekly or two weekly, mostly from wholesalers although retailers are also used, depending on who has the best price at the time. Furthermore, they buy from suppliers selling the brands customers prefer. The empirical findings contradict literature findings by the fact that spaza shops buy in small quantities as they lack storage space. Only 2 per cent of respondents regard storage space as a factor that determines the amount of stock bought. Forty one per cent of respondents indicated they receive credit, whereas literature indicated that they mostly receive no suppliers' credit. Contrary to literature findings, the majority of respondents use their own vehicle for transport with only a few relying on taxis or hire transport.

### **7.2.4 Marketing**

Literature concurs with empirical findings that regular customers of spaza shops are mostly from the community (township residents). Business hours are very long, allowing for night shopping. Customers are mostly aware of the business through word-of-mouth. Marketing communication is either by notice boards or pamphlets.

### **7.2.5 Finance**

Literature and empirical findings confirm that spaza shop owners received no formal support to start their businesses and mostly use their savings with their biggest expense being business expenses. The empirical findings find that respondents regard household expenses as big an expense as business expenses. The empirical findings concur with the literature that they do not keep records, except for purchases and sales.

### **7.2.6 Operations management**

Literature concurs with empirical findings that operations are limited to selling take-aways. The empirical findings also indicated that

besides the take-aways respondents also bake bread.

### 7.2.7 Information management

Literature and empirical findings confirm that they keep abreast of product and supplier information by reading newspapers. They use printed media such as newspapers or magazines to obtain information. The empirical findings contradict the literature study that indicated spaza shop owners prefer to watch television to obtain information.

### 7.2.8 Public relations

Literature concurs with empirical findings that spaza shops need to be better than others with respect to their offerings of service and products. They have sound customer relationships by accepting returns or exchanging them where possible.

In the next section recommendations and management implications for spaza shop owners are given.

## 8

### Managerial implications for spaza shops

Spaza shops have become a popular choice as a way to enter the business market. It can be an alternative opportunity to matriculants who cannot find employment or do not have money to further their studies, to become independent and earn money. This is in line with government's policy of encouraging the development of the SMME sector as it creates employment opportunities. Contrary to findings in the Global Entrepreneurial Monitor report previous working experience is not essential, but a basic education level of Grade 10 is recommended. Growing up in an entrepreneurial environment is beneficial. Spaza shop owners should seek to grow and better their standard of living while at the same improving the lives of the community. Savings can assist in times of need, or give them the opportunity to expand. Table 12 indicates how spaza shops should or could engage in the management functions.

**Table 12**

Functional managerial recommendations for spaza shops owners

<p><b>General management</b></p> <ul style="list-style-type: none"> <li>• Stock displays should be eye-catching to the customers</li> <li>• Ensure that daily money received matches stock sold.</li> <li>• Have long-term expansion plans.</li> <li>• Compile a monthly budget showing expenses and income.</li> </ul>
<p><b>Human resource</b></p> <ul style="list-style-type: none"> <li>• Provide employment for family members and the unemployed.</li> <li>• Selection criteria of staff should include a basic education and favourable personality traits to customers and business.</li> <li>• Delegate stock decisions about usage, quantity and which stock to purchase or sell to staff.</li> <li>• Delegate physical minor in-store tasks to staff e.g. packing shelves and cleaning.</li> <li>• Preferably train staff by showing them what and how to do a task.</li> <li>• Motivate staff by offering incentives, preferably money.</li> </ul>
<p><b>Purchasing</b></p> <ul style="list-style-type: none"> <li>• Good inventory control using stock control systems is important.</li> <li>• Avoid out-of-stock or expiry perishable stock situations by linking demand to stock levels.</li> <li>• Build long-term relationships with key suppliers to obtain credit and free delivery.</li> <li>• Use a phone-in order system.</li> <li>• Belong to a spaza shop business association or engage in cooperative buying schemes to obtain bulk buying benefits, discount and other special arrangements such as getting credit.</li> <li>• Buy stock according to customers' preferences or those that sell fast.</li> <li>• Exercise visual stock control to determine when stock levels are low.</li> </ul>
<p><b>Marketing</b></p> <ul style="list-style-type: none"> <li>• Trading hours should remain long.</li> <li>• Charge fair prices due to severe competition.</li> <li>• Give regular customer discount.</li> </ul>

<ul style="list-style-type: none"> <li>• Offer specials at times and advertise using flyers or attractive notice boards.</li> <li>• Obtain signage from Coco-Cola to increase visibility.</li> </ul>
<p><b>Finance</b></p> <ul style="list-style-type: none"> <li>• Plan monthly expenses using a budget.</li> <li>• Invest monthly savings in a Stokvel.</li> <li>• Use monthly savings for expansion or emergency purchases.</li> <li>• Alternatively, apply for expansion loans (Standard Bank the most prominent supplier in this sample) if being able to afford repayments.</li> <li>• Separate business and household expenses.</li> <li>• Employ a simple filing system for record keeping for business documents</li> <li>• Employ a basic bookkeeping system to determine profit.</li> <li>• Limit customers' credit to avoid cash flow problems.</li> <li>• Keep a tight stock control to avoid losing profits due to stock problems, e.g. perishable products, or theft.</li> </ul>
<p><b>Operations</b></p> <ul style="list-style-type: none"> <li>• Use household fixed assets for business purposes if possible, to decrease expenses.</li> <li>• Save money to buy new assets to avoid problems in obtaining credit.</li> </ul>
<p><b>Information management</b></p> <ul style="list-style-type: none"> <li>• Engage in business planning, especially future expansion plans.</li> <li>• Let customer stock demands be a guide to which stock to buy.</li> <li>• Advise customers only when asked.</li> <li>• Give advice to customers on specials and cheaper or better quality products.</li> <li>• Engage in networking to obtain information about suppliers, where to seek advice, on competitors, marketing and training.</li> <li>• Implement an SMS service for customer to place orders.</li> </ul>
<p><b>Public relations</b></p> <ul style="list-style-type: none"> <li>• Create a favourable business image.</li> </ul>

Spaza shop owners should not neglect the purchasing-, information- and financial function. Information is knowledge, purchasing systems can increase profits and handling their financial affairs as a business, not as part of their personal finances can lead to possible expansion. Finally, spaza shops owners could provide employment opportunities and so relieve unemployment in South

Africa if managing their spazas as efficiently and effectively as any other business. Previous entrepreneurial experience gained from working in a family business or growing up in an entrepreneurial environment could assist spaza shop owners in knowing how to apply the management functions within their spaza shops.

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