

# Walmart: Where are the voices?

Africa need not be a victim again. But important parties are mute on how Walmart's entry into South Africa can be turned to the continent's advantage. **JACO LEUVENINK** finds the facts.

Where [are] the voices of business leaders or academics, and political guidance in the debate about the complexities around these issues, so that misperceptions and risks can be managed?

– Prof Wolfgang Thomas

“The world has changed its mind on Africa, which is now the third fastest growing region in the world after China and India. And South Africa is being viewed as the gateway to Africa.”

That was the reaction of Clem Sunter, well-known scenario-planner, writer and speaker, when asked about the multinational grocery chain giant Walmart's offer of R17 billion to acquire 51% of Massmart's shares.

“We are in a two-speed world where emerging rather than advanced economies are the sources of growth,” says Sunter.

Will Africa again be exploited by this new invasion of multinational giants – this time in a battle over the continent's under-served and growing market of approximately 1 billion people – as was the case with the colonial scramble for resources and political power a century or two ago? Besides the Massmart deal, HSBC made a bid (that did not succeed) for Nedbank, while Japan's Nippon Telegraph & Telephone bought Africa's biggest technology company, Dimension Data. According to Bloomberg Business Week, deals worth \$15 bil-

lion have been struck across Africa from July 2010 to January 2011.

According to Forbes Global 2000, Walmart, with its head office in Arkansas, USA, was rated in 2010 on its annual sales of approximately \$420 billion (more than SA's GDP of more or less \$350 billion) as the world's biggest public company. It then had nearly 9 000 shops in 15 countries, under 55 different names, and approximately 2.1 million employees.

Andy Bond, executive vice-president of Walmart, said to Sake24 when the initial bid (for 100% of the shares) was announced in September last year that Massmart is an excellent growth opportunity for Walmart and a gateway to expand to the rest of Africa. Massmart, the holding company of stores like Game, Di-onwire, Makro, Builderswarehouse, Jumbo Cash & Carry, CBW and Shield, already has 290 shops in 13 African countries apart from South Africa. The Walmart-Massmart transaction was subject to approval by the competition authorities at the time of going to press.

On the face of it, Walmart's entry holds big advantages for SA. But the opinions are contrasting.

## Post your comment

on [www.usb.ac.za/agenda](http://www.usb.ac.za/agenda); or send an email to [agenda@usb.ac.za](mailto:agenda@usb.ac.za); or sms us at **39841** (standard rates apply)

**WALMART'S ENTRY INTO SA**

**FOR**

The ANC spokesperson, **Keith Khoza**, welcomes "any initiative that will pump foreign direct investment into SA".

**Thami Bolani**, chairperson of the **National Consumer Forum**, supports bigger and cheaper choices for consumers.

According to **Professor Wolfgang Thomas**, lecturer in economics at the **University of Stellenbosch Business School**, there are a few key questions, the answering of which would make an objective assessment of such transactions and gaining from them easier. These include the flow of foreign capital; Walmart's labour relations; the dynamics of the retail sector; the potential 'overwhelming' of rural small business; innovation and technological sophistication; attitude about black empowerment; and then finally SA as a platform for expansion into Africa.

The desirability of more foreign direct investment (FDI) like this into SA is obvious. According to a UN report, **Global Investment Trends Monitor**, earlier this year, FDI into SA fell nearly 78% last year from \$5.7 billion in 2009 to just \$1.3 billion. But real greenfields brick-and-mortar-investment rather than the change of shareholders, of course, always remain the first prize.

"The entry of a group the size of Walmart will definitely impact on the dynamics in the local retail industry and cause power and positional shifts. But it will be a long-term process that can benefit many, especially if seen in a wider African context," says **Prof Wolfgang Thomas** of USB.

Walmart's labour relations reputation issue is probably exaggerated because it will have to comply with **South African labour laws** and conditions that the competition authorities set for the transaction.

**Andy Bond**, executive vice-president of Walmart, stressed that Massmart's business would not be changed materially. Walmart likes the local management team and will rather "invest for growth that would rather create new job and career opportunities than lay off workers".

**Brian Leroni**, Massmart's spokesperson, said they respected the unions' right and duty to ensure responsible investment in SA. Repeated assurances have been given that existing labour agreements will be honoured and preference given to local suppliers.

**Bryan Roberts**, director at Kantar Retail, said that bigger suppliers are excited about new opportunities.

**American studies** on the impact of a new Walmart store on a community show conflicting conclusions. On one hand, researchers found that jobs are created, consumer products become cheaper and neighbourhood programmes are supported.

**AGAINST**

Labour unions are worried about the impact on hiring, workers' rights, wages, suppliers and smaller enterprises and their employees.

Already in January Cosatu threatened to launch a boycott of Walmart's products should the takeover succeed – **Patrick Craven**, spokesperson of Cosatu.

The problem is that Walmart has gained a reputation in North America as being anti-unionist, unsympathetic towards workers and careless regarding the environment. Through enforcement of cheap bulk purchases from suppliers, low wages and a high turnover Walmart achieves, according to critics, a morally indefensible competitive price advantage – **Saccawu (SA Commercial, Catering and Allied Workers Union)**

**USB's Professor Wolfgang Thomas** points out that the large initial capital inflow can cause the rand to strengthen, which may at this stage not be desirable. Then again there is the probability that many Massmart dividends will later on flow out of the country to benefit overseas shareholders.

**Whitey Basson**, CEO of Shoprite, is worried that food security and manufacturing capacity in SA will suffer if Walmart imports cheap food and forces other retailers to do the same. Other retailers will have to remain competitive.

**Cosatu's** anti-investment signal can undermine government efforts to attract foreign investors.

**Nazeem Martin**, executive director of **Business Partners**, noted in Business Day that small and medium-sized enterprises account for 35% of GDP, but 65% of new jobs in SA.

Smaller suppliers are anxious about whether they will be able to meet the expectations of a Walmart or be pushed out of the market – **Tebogo Khaas**, president of the **Small, Medium and Micro Enterprise Forum**.

The presence of Walmart stores could impoverish communities owing to the closure of smaller shops and shifts in wages – **Laurie Grant** in USA Today (2005).

**NO COMMENT**

Other store chains such as **Pick n Pay** would in principle not comment on a competitor's activities, while **Massmart** did not want to anticipate the investigation of the competition authorities.

**Ebrahim Patel**, minister of Economic Development, appointed a panel to investigate and advise him on the matter. He wants the opposing parties to talk to each other and says the transaction should support local procurement and job creation.

It is clear that the number of Massmart stores will increase fast. Walmart opens around 200 new stores annually just in Mexico. According to Deloitte Touche Thomatsu, takeovers and mergers are again on the rise worldwide and a United Nations report said in January that multinationals in developed countries hold \$4 000 to \$5 000 billion in cash, accumulated as a buffer against a possible double-dip recession. It has to be put to work now and can be used for business opportunities in emerging markets, particularly Africa (via South Africa).

The deal certainly holds distinct advantages for South Africa. But fears and dangers should be addressed. USB's Prof Wolfgang Thomas says retailers who feel threatened should also look for expansion opportunities in Africa. There should not be losers. But SA companies are often seen in a negative light in the rest of Africa if local small enterprises are affected and feelings and perceptions of neo-colonialism arise.

Care should be taken that more cheap imports into SA are not encouraged. Local wages are high, says Thomas, and moving production and manufacturing to other southern African countries is a possibility, although this will probably not be acceptable to the unions. He believes the government is aware of the problem. Dr Rob Davies, minister of Trade and Industry, stressed at the World Economic Forum's last meeting in Davos that the government wants to encourage economic integration in Africa (Southern Africa first) because "Africa will be the next economic story."

Thomas says: "The debate on the entry of large multinational groups is a fascinating example of how issues in South Africa are often emotionalised and dramatised around things like workers' rights, black empowerment, small business promotion, job creation, job losses and so on. These issues are present in any case, whether you're entering from outside or doing business as a local company."

He then asks where the voices of business leaders or academics are, as well as political leadership to debate the complexities around these issues so that misperceptions and risks can be managed. This should be discussed more openly, including at business schools. The challenge is to keep expanding in Africa in a way that would benefit the entire continent.

There are lots of opportunities and Africans should manage the process themselves. Africa does not have to be the victim of power and money greedy colonials like during the first scramble for Africa. **a**