

# Analyszing the Cash and Carry Wholesaler's Right of Existence in the Distribution Channel

Mike Cant, Louise van Scheers

## Abstract

The traditional South African cash and carry wholesaler has survived for more than twenty years in its present form but is showing signs of being influenced by a strong innovative process. Factors/Aspects such as smaller packaging, credit, delivery and consumer marketing, which go against the principles of the traditional cash and carry wholesaler, are taking root. The impetus for innovation derives from changes in the target market, specifically as a result of the inclusion of the spaza shop target market. The research shows that the spaza shop is a vital and important future market of the cash and carry wholesaler.

The research aims to analyse the cash and carry wholesaler's right of existence in the South African distribution channel. The main findings are that mutual competition has increased and this threatens the survival of the smaller cash and carry wholesalers. The large retailer was identified as the main competitor of the cash and carry wholesaler. Intensive competition forces the cash and carry wholesaler to modify its marketing functions. Modifications have already been made to the packaging, credit, and delivery functions. Consequently, the cash and carry wholesaler performs more functions typical of the large retailer and full-service wholesaler. There are indications that a new type of cash and carry wholesaler is developing with characteristics of both the large retailer and the full-service wholesaler. It can be concluded that the cash and carry wholesaler definitely plays an important role in the South African distribution channel. The existence of the cash and carry wholesaler in the distribution channel depends largely on its ability to adapt its marketing functions to keep abreast with changing target markets.

## 1. Introduction

The wholesale sector of the economy is often known as the invisible industry because the final consumer<sup>1</sup> does not usually purchase directly from the wholesaler and therefore has little contact with it. The cash and carry wholesaler is a typical wholesaler that performs essential marketing functions between the manufacturer and the retailer, and therefore provides a link between the two. The retailer, in turn, is the link between the cash and carry wholesaler and the consumer in the distribution channel. The retailer can therefore be regarded as the cash and carry wholesaler's primary target market.

This article aims to analyse the cash and carry wholesaler's right of existence in the South African distribution channel. A cash and carry wholesaler is a typical wholesaler that sells a limited range of products, and according to Skinner (2002, p. 405), does not perform all the wholesale functions. The clients of cash and carry wholesalers must themselves perform specific marketing functions such as delivery and provision of credit in exchange for cheaper products. Kotler and Armstrong (2004, p. 372) and Etzel, Walker and Stanton (2002, p. 363) emphasise the fact that the cash and carry wholesaler markets a limited range of products with a fast turnover. It concentrates primarily on a limited range of products in order to obtain the competitive advantages of purchasing in bulk.

## 2. Literature Review

The cash and carry wholesaler developed in the 1950s and in spite of an impressive start, initially did not make a great contribution to the wholesale sector. In the USA, where the concept originated, in 1954 there were only 922 cash and carry wholesalers with joint annual sales of \$300

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<sup>1</sup>In this study, the final consumer or consumer refers to the general public who purchase products for personal or domestic use.  
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million. According to Beckman, Engle and Buzzell (1959, p. 169) at that stage, the US cash and carry wholesaler sold mainly food products. However, the scope of the cash and carry wholesaler market grew dramatically over the years.

In South Africa, the cash and carry wholesaler concept, only developed about 30 years later (in 1971), with the establishment of Makro in the then Pretoria/Witwatersrand/ Vereeniging (PWV) area. During the 20th century, the wholesale sector was ravaged by increasing competition from the manufacturers and retailers. The manufacturers contended that the cash and carry wholesaler unnecessarily increased distribution costs in the distribution channel, and attempted to perform the wholesale function themselves. The upshot was that the manufacturers eliminated the cash and carry wholesaler from the distribution channel and began marketing directly to the retailer.

However, the rise of the large retailer further reduced the involvement of the wholesaler in the distribution channel. The larger retailers were in a position to perform the wholesale functions themselves. Consequently, the manufacturer's own marketing endeavours and the development of retail led to intense competition. This competition resulted in the cash and carry wholesaler being increasingly removed from the distribution channel. Besides the competition between the larger retail and the cash and carry wholesaler, competition between the larger retail and independent retailers also developed (*The Cape Times* 1995, p. 19). Because the large retailer was in a position to market products more cheaply, it posed a threat to the retailer (Pride & Ferrell, 1995, p. 377).

The cash and carry wholesaler gradually began to realise that its survival was linked to that of the smaller retailer because the latter was compelled to support the cash and carry wholesaler. Owing to the fact that the retailer purchases smaller quantities, it is unable to buy from the traditional full-service wholesaler. Next the development of the cash and carry wholesaler in the distribution channel is outlined.

#### ***The development of the cash and carry wholesaler***

The development of the cash and carry wholesaler in the South African distribution channel from 1960 to 2004 will now be highlighted.

#### ***The period of 1960-1970***

During this period, there were no cash and carry wholesalers in South Africa. According to secondary sources consulted, the cash and carry wholesaler concept was unknown in the distribution channel in this country. During this period, the full-service wholesaler was primarily responsible for distributing products to retailers.

#### ***The period of 1971-1985***

It was during this period that the cash and carry wholesaler was introduced in South Africa. Makro was one of the first cash and carry wholesalers in the country, and in 1971, the first Makro was established in the then PWV area by the Dutch group Nederlandse Steenkolen Handelsvereniging (NSHV) (Makro's method, 1991, p. 31). In 1987, owing to anti-apartheid pressure on the Dutch enterprise, Makro was taken over by the Wooltru Group.

The second cash and carry wholesaler to be established in South Africa was Metro. According to a report in *The Citizen* (1990, p. 11), Metro came into being in 1979 when the former Kliptown Wholesalers started taking over competitive wholesale groups such as Leiserowitz Brothers, Savex and Kirsh. Metro grew so rapidly that in the same year, it was listed on the Johannesburg Securities Exchange. In the period from 1971 to 1984, only Makro and Metro developed from the cash and carry wholesalers.

#### ***The period of 1986-1990***

The period from 1986 to 1990 was characterised mainly by the growth of Makro and Metro as well as the establishment of new cash and carry wholesalers in the country. The latter development increased intratype competition between Makro, Metro and the other smaller cash and carry wholesalers in South Africa. Increased competition resulted in further takeovers which resulted in the race to acquire a greater share of the cash and carry wholesale market.

In 1987, Makro changed owners because the Dutch Group was compelled by political pressure to withdraw from South Africa. The group sold its interests to the Wooltru Group. Makro went from strength to strength over the years, and in 1987 already boasted five outlets in the densely populated urban areas of South Africa. Makro's unprecedented growth emphasised the importance of the cash and carry wholesaler in the distribution channel. If there had been no room for the cash and carry wholesaler in the distribution channel, this market would not have grown so rapidly. Makro is pursuing even higher growth as expressed in the following objective: "Our objective is to be considered by retailers as the most desirable alternative to purchasing direct from a manufacturer or importer" Makro's existence in the distribution channel is possibly justified by the fact that it renders a specific and unique service to the retailer. The retailer contends that this service can only be rendered by the cash and carry wholesaler --- hence its right of existence (*Financial Mail*, 1993, p. 21).

Metro also expanded its interests and by 1987 already had more than 250 wholesale outlets. It concentrated on the specific needs of builders as well as the formal retailers and spaza shops in the black residential areas. In March 1987, Metro took over the Frasers Group, comprising mainly 41 cash and carry wholesale outlets in Lesotho, for R21 million. The upshot of this new takeover was that the Metro group had become a formidable competitor, and in 1987 was already the largest group in the country. During this period, the Metro group operated three different kinds of cash and carry wholesalers, namely Metro, Bingo and Trade Centre. A report in *Finansies en Tegniek* (Stryd om verskaffing aan spaza's 1994, p. 27) explained the difference as follows: "Trade Centre has a wider product composition than the other wholesale groups and sells groceries, building products and household fittings, while Bingo markets household fittings only and Metro groceries only" (my translation). Through the retailer, Metro concentrates on the consumer who comprises mainly the C and D income groups. This means that Metro is in direct competition with the large retailer Pick 'n Pay (*Finance Week*, 1991, p. 10). Owing to this competition between the cash and carry wholesaler and the large retailer, Pick 'n Pay established its own cash and carry wholesale outlet, Price Club. According to a report in *The Cape Times* (Wooltru R173,4 m Capex, 1990, p. 18), the first Price Club was opened in October 1986 and concentrates on the black retail market which purchases products on a cash and carry basis.

In 1983, another cash and carry wholesaler, Success was established by the Shield Trading Corporation. Success grew rapidly, and five years later already had seven outlets. In July 1987, the Shield Trading Corporation established another cash and carry wholesaler, namely Shield Cash and Carry. The Shield Trading Corporation now had 150 cash and carry wholesale outlets and marketed to approximately 22 000 retailers. During this period, the cash and carry wholesaler was therefore meeting the needs of the retailer, thus justifying its existence in the distribution channel.

#### ***The period of 1991-2004***

During this period, the cash and carry wholesale industry was characterised by a large number of cash and carry wholesalers such as Metro and Makro which were all subsidiaries of large listed groups. During this period, the Wooltru Group controlled the cash and carry wholesalers, Makro and Shield, while die Premier group, controlled, Trador, Bingo and Trade Centre. Furthermore, Pick 'n Pay, had its own cash and carry wholesaler outlets, namely Price Club.

According to the McGregor list, an additional 25 smaller cash and carry wholesalers were established in South Africa during these years. However, in the secondary sources consulted, the starting dates of these smaller cash and carry wholesalers could not be determined. They were relatively unknown because of the lack of information on them. The merger of Metro and Score Foods under the Premier Group in 1991 gave rise to the largest cash and carry wholesale industry in South Africa. This group owns about 28% of the cash and carry wholesale market with a turnover of approximately R6 billion per annum (Premier Groep, 1996, p. 3). According to a report in *Finance Week* (1991, pp. 6-12), Metro, Trador and Trade Centre follow a niche marketing strategy<sup>1</sup>. These cash and carry wholesalers are enjoying exceptional success in implementing a niche

<sup>1</sup> The niche marketing strategy involves specialization in a limited or unique product range (Bowersox & Cooper, 1992, p. 45).

marketing strategy. This possibly shows that the marketing strategies of these cash and carry wholesalers have been altered --- hence another reason to justify the continued existence of the cash and carry wholesaler in the distribution channel.

Owing to stiff competition between Metro and Makro, in 1992, the latter in collaboration with Makroffice, Shield and Drop Inn, formed a new wholesale group known as Massmart. Massmart is a competitive cash and carry wholesale group that owns approximately 18% of the cash and carry wholesale market in South Africa (*Finansies & Tegniek*, 1993, p. 26). This study focuses mainly on analysing the role of cash and carry wholesaler in the South African distribution channel during the period from 1987 to 2004.

### ***The South African distribution channel***

The development of the cash and carry wholesaler increased competition in the South African distribution channel. The cash and carry wholesaler experiences competition primarily from the following distribution channel members:

- the large retailer
- the manufacturer

The competitive position between the cash and carry wholesaler and the above-mentioned members of the distribution channel will now be discussed.

### ***The large retailer***

In South Africa, the three main groups of large retailers, OK Bazaars/Shoprite & Checkers, Spar and Pick 'n Pay are responsible for 63% of all food purchases in retail (*Insig*, 1988, p. 21). This type of retailer is a large enterprise that purchases directly from the manufacturer and is therefore in direct competition with the cash and carry wholesaler. According to McCarthy and Perreault (2003, p. 318), increased growth in the retail sector exacerbates this competitive situation. From the definition of a wholesaler --- an enterprise that obtains 50% of its gross sales from wholesale sales --- one can deduce that wholesalers, like retailers, also market to consumers. Their target markets thus overlap and they are involved in a competitive struggle. According a report in *Marketing Mix* (Pick 'n Pay's tills ring the changes, 1995, p. 63), the spaza shops also buy products from the large retailers --- hence the cash and carry wholesaler cannot lay claim to the total spaza shop target market. The spaza shop market increases the competitive situation between the large retailer and the cash and carry wholesaler even further.

Kotler and Armstrong (2004, p. 376) contend that the distinction between the large retailer and the cash and carry wholesaler is in the process of blurring, and they go on to say that some retailers are being operated as wholesale clubs and hypermarkets that perform wholesale functions. This is possibly another reason why the target markets of the cash and carry wholesaler and the large retailer overlap and cause stiff competition.

Another reason for the increasing competition is the establishment of larger cash and carry wholesale groups such as the Premier Group which is increasingly encroaching on the target market of the large retailer. However, the latter is also not innocent and endeavours to take over part of the cash and carry wholesale market by sending large trucks with low-priced products into black residential areas (*Weekly Mail & Guardian*, 1995, p. 3). This new trend is not only causing competition for the cash and carry wholesaler but also threatening the very survival of the spaza shop. One of the secondary aims of this study is to determine the exact position of the competition between the cash and carry wholesaler and the large retailer. According to Boyd, Walker and Larreche (2000, p. 321), the ever-growing retailer poses a fundamental and relatively serious threat to the continued existence of the cash and carry wholesaler.

### ***The manufacturer***

McCarthy and Perreault (2003, p. 336) maintain that the large retailer and the cooperative retailer purchase directly from the manufacturer. The negotiating power of these types of retailers is seemingly so strong that the cash and carry wholesaler is being eliminated from the distribution channel. The manufacturer further strengthens the competitive position of the cash and carry wholesaler with the formation of depots (forward vertical integration) in the black residential areas

(*Financial Mail*, 1993, p. 21). These depots supply products directly to the spaza shops and are possibly also eliminating the cash and carry wholesaler from the distribution channel.

#### ***The cash and carry wholesaler's right of existence***

Morris (2002, p. 79) believes that justification for the existence of the cash and carry wholesaler in the distribution channel is twofold. On the one hand, the manufacturer is confronted with increased distribution costs such as delivery costs and the high risk of supplying credit. As a result, the manufacturer tends to pass these marketing functions on to the cash and carry wholesaler, which can perform them more cheaply. The smaller retailers, on the other hand, experience problems purchasing products from the full-service wholesalers because the latter do not sell small consignments.

The cash and carry wholesaler's right of existence can be partly ascribed to the fact that it supplies small amounts of products to the retail sector. Hence the cash and carry wholesaler meets the needs of the manufacturer as well as the retailer and so fills a gap in the distribution channel. The cash and carry wholesaler's existence in the distribution channel is thus justified because the manufacturer and the retailer need it in the distribution channel. Justification for the cash and carry's existence in the distribution channel can possibly also be attributed to the rise of the spaza shop which in fact constitutes one of its target markets. The rise in the number of spaza shops on account of increased population growth, low levels of economic growth and unemployment, has possibly led to a shift in emphasis in the cash and carry wholesaler's target market (*Weekly Mail & Guardian*, 1995p. 3). The increased growth of the spaza shop encourages the cash and carry wholesaler to exploit this target market.

The history of cash and carry wholesalers in South Africa indicates that they definitely have a right to exist in the South African distribution channel but need to adapt timeously to changes in the target market. The target markets of the cash and carry wholesaler will be briefly discussed below.

#### ***The cash and carry wholesaler's target markets***

The place of the cash and carry wholesaler in the South African distribution channel is determined by its target markets which, because of developments in the target market, are undergoing changes. From the literature sources consulted, it would appear that the cash and carry wholesaler can select a target market according to three different requirements --- the size, type and geographical location of retailers. However, little research has been conducted into the target markets of the cash and carry wholesaler --- hence the aim of this study will also determine its precise target markets.

The target market of the cash and carry wholesaler can be defined as a specific group or a potential retailer served by a cash and carry wholesaler. Kotler and Armstrong (2004, p. 374) explain the cash and carry wholesaler's choice of a suitable target market as follows "The cash and carry wholesaler can choose a target group by size of customer, type of customer or need for service." The execution of marketing functions is central to this definition and suggests that the cash and carry wholesaler is prepared to change its marketing functions if so required by the target market.

Schoell and Guiltinan (2000, p. 342) define the target market of the cash and carry wholesaler as follows: "Small grocers and small building contractors are their customers which tend to buy frequently and in small quantities." It is essential for the cash and carry wholesaler to harmonise its abilities and resources with the needs of its target markets in order to identify suitable target markets. By carefully determining its target markets, the cash and carry wholesaler can use its resources optimally so that it can position itself more effectively in the market. It can thus gain a differentiated advantage over its competitors. According to Morris (2002, p. 79), the cash and carry wholesaler's target market comprises retailers from the informal sector such as spaza shops and hawkers. He puts it as follows: "Hawkers, spaza shops and unlicensed or illegal traders from the informal sector have utilised the cash and carry concept to the maximum effect." This definition confirms that because of its limited functions (no deliveries or credit) the cash and carry wholesaler is an ideal position to meet the specific needs of the spaza shop. It therefore forms a

vital link in the distribution of the products to spaza shops (Van Scheers, 1992, p. 154). From the above definitions, the following target markets of the cash and carry wholesaler can be identified:

- formal retailers, and
- spaza shops

Each of these will now be outlined.

#### ***Formal Retailer***

Kotler and Armstrong (2004, p. 355) define the retailers in the formal sector as retailers that are managed independently, own a relatively small share of the total market and are operated independently of other enterprises. According to Etzel et al. (2002, p. 374), there are about 53 644 retailers in the South African formal sector. Retailers form a stable market and are the cornerstone of the continued existence of the cash and carry wholesaler. The formal retailer is the retail institution that is most prevalent in South Africa. Initially this type of retailer traded in the coastal towns, but it was only in the densely populated Witwatersrand area where it increased in both size and power, that it became independent of the wholesaler in certain areas. The upshot was that the formal retailer became a strong competitive factor in the distribution channel. The growth of the large independent retailer was the cornerstone of the retail revolution in South Africa. Lambrecht (1967, p. 3) describes the retail revolution as the emancipation of the retailer, the wholesaler and the manufacturer. There was unprecedented growth in the retail sector during the 1960s, which surprised the manufacturers and the larger retailers (currently the large retailers) and caught the smaller retailers on the back foot. The smaller formal retailers had difficulty adjusting to the rapid and radical changes in the distribution structure. It is this group of retailers that currently constitute the target market of the cash and carry wholesaler. During the period 1971 to 1989, the number of formal retailers rose by an average of 4,9 percent per annum, which consequently increased the marketing potential of the cash and carry wholesaler substantially.

#### ***The spaza shop***

The spaza shop or informal retailer is part of the informal sector. The latter can be defined as the sector in which enterprises are not regulated according to the normal, conventional prescribed methods. The term "informal sector" is used to define an economic phenomenon that is widespread in the rural and urban areas of Third World countries (Pick 'n Pays tills ring the changes 1995, pp. 63-64). The right of existence and feasibility of the spaza concept can be ascribed to the convenience shopping trend of black consumers (Black Enterprise, 1989, pp. 15-70). It is important for the cash and carry wholesaler to determine precisely how large the spaza shop target market is in order to justify its own existence in this distribution channel.

However, it is impossible to establish the exact size of the spaza shop market. According to an estimate by Black Enterprise (1989, p. 32), on the East Rand alone, there are about 4 000 to 20 000 spaza shops. Scott-Wilson and Mailoane (1990, p. 10) estimate that there are approximately 20 000 spaza shops in the whole of South Africa. These estimates are probably too conservative. Van Zuydam-Reynolds (Pick 'n Pay tills ring the changes, 1995, pp. 63-64) painted a more realistic picture in his estimate of about 66 000 spaza shops in 1995. These estimates are further complicated by the fact that new spaza shops are continually entering the market, while others again are going under almost daily.

The joint spaza shop purchasing power of about 16 billion per annum is indeed extremely high and therefore constitutes a promising market for the cash and carry wholesaler (Black Market Report, 1991, pp. 2-3). The joint retail purchasing power motivates the cash and carry wholesaler to exploit the spaza shop target market. According to a report in *Finansies en Tegniek* (Stryd om die verskaffing aan spaza's, 1994, p. 27), the cash and carry wholesaler regards this target market as an important outlet for marketing to the black consumer. Preston-Whyte (Pick 'n Pay's tills ring the changes, 1995, pp. 63-64) is of the opinion that through the spaza shop, the cash and carry wholesaler can market a part of the black consumer market which was previously not possible.

Themba (Pick 'n Pay's tills ring the changes, 1995, pp. 63-64), however, holds that too much emphasis is being placed on the spaza shop market and that this concept does not have a future. He goes on to say that it is not a solution to South Africa's unemployment problems and

merely offers a temporary solution. Sithole (1989, p. 34) concurs with Themba and poses the following question: "Are home-based enterprises (spaza shops) worthwhile?" He is convinced that they are not the solution to the country's long-term economic problems. The chances of survival of the smaller spaza shops that are not strategically located are slim. A possible reason for this is too little client traffic. However, according to Rogerson (Pick 'n Pay's tills ring the changes, 1995, pp. 63-64), the larger spaza shops situated near to the highways, definitely have a better chance of survival. New urban areas are continually being developed, and in places where there are no formal retailers, new spaza shops that will purchase from the cash and carry wholesaler, will undoubtedly develop. According to an article in *The Cape Times* (Wooltru R173,4 m capex, 1990, p. 18), the growth of the spaza shop definitely confirms Makro's right of existence in the distribution channel. *The Star* (1997, p. 1) also underlines the importance of the spaza shop and indicates that this industry realises a joint turnover of R107 million per annum. If one considers the incredible growth of the spaza shop target market and the fact that the cash and carry wholesaler supplies most of the products to this target market, the spaza shop can undoubtedly be regarded as a factor that justifies the existence of the cash and carry wholesaler in the distribution channel.

### 3. Hypothesis Formulating

According to Wegner (1999), to test claims or assertions, sample data is gathered and analyzed. On the basis of the sample findings, the hypothesized value of the population parameter is either accepted as probably true or rejected as probably false.

In the formulating process of the research hypotheses, three hypotheses may be considered, namely:

- The null hypothesis;
- The confounding variable hypothesis; and
- The causal hypothesis.

However, the causal hypothesis may only be accepted if you:

- reject null hypothesis (statistical analysis)
- rule out each potential confounding variable hypothesis (based on appropriate controls).

The primary data was analysed, using the descriptive analysis method to construct frequency distribution of the data. The descriptive analysis used survey data to hypothesise. Inferential analysis, where the hypothesis was tested using the significance approach, was used. The steps in the significance approach to test hypothesis are:

- Formulate the null and alternative hypothesis.
- Specify the significance level.
- Select an appropriate statistical test.
- Identify the probability distribution and define the region of rejection. This step involves calculating a critical value of a test statistic, for this research an average. The significance approach is used and assumes a normal distribution.
- Compute the value of a test statistic. This is the observed value obtained from the survey.
- Decide whether to reject or accept the null hypothesis.

The aim of the research is to analyse the cash and carry wholesaler's right of existence in the South African distribution channel therefore the hypothesis is:

*There is a 60% change that the cash and carry wholesaler has a right of existence in the South African distribution channel.*

Next, the research methodology used in this research will be described.

### 4. Research Methodology

Secondary and primary sources were used to gather information. The main secondary sources used were journals, articles, press reports, and books.

A quantitative research study was conducted that creates an opportunity to generalise about the population. The population of the study included all the Cash and Carry wholesalers in South Africa. The sample frame of 28 cash and carry wholesalers was obtained and the whole population was researched.

A structured questionnaire was posted between 2 January 2002 and 30 June 2004 to the managers of cash and carry wholesalers. Of the 28 questionnaires posted, 16 replies were received, which mean a response rate of 57%. This may be considered a good response rate according to Kroon & Moolman (1999, p. 34) considering the sensitivity of the topic, the nature of the problem under investigation and the inhibitions that management might have regarding the survey.

Next the importance of the research will be clarified.

## **5. Research Findings, Conclusions and Recommendations**

### ***Formal Retailer***

Retailers in the formal retail community are an important segment of the South African free-market system. Formal retailers contribute approximately 29% to South Africa's gross national product and form a vital target market of the cash and carry wholesaler (Etzel et al., 2002, p. 374). Economic trends such as unemployment and limited job opportunities in the formal sector generate increasingly more retailers. Although the formal retailer generally showed a small increase during the period from 1988 to 1994, the urban retailer grew by 34% (Pick 'n Pay's tills ring the changes, 1995, pp. 63-64). This explains why the cash and carry wholesaler endeavours to be situated in close geographic proximity to these retailers.

It is also important to note that the spaza shop target market alone cannot possibly justify the existence of the cash and carry wholesaler in the distribution channel. This could be because the spaza shop market is still too small. However, there is a possibility that the increase in unemployment in South Africa and the resultant growth of the informal sector will in the future create a greater marketing potential for the cash and carry wholesaler.

### ***Changes in the target market***

The target markets of the cash and carry wholesaler really seem to be in a state of flux. The inclusion of the spaza shop target market could be advanced as a reason for this. The continued existence of the cash and carry lies in the further exploitation of the spaza shop target market. It is recommended that this target market should be exploited more rapidly to enable the cash and carry wholesaler to obtain a competitive advantage over the large retailer.

### ***Future trends for cash and carry wholesalers***

Greater involvement in spaza shops, marketing aimed at the consumer and adjustments to the credit and delivery functions appear to be the future trends that can be expected in the wholesale sector. The cash and carry wholesaler is currently undergoing structural changes, is performing increasingly more retail functions of the large retailer and is marketing to the consumer to a greater degree, all of which are impacting the basic characteristics of the cash and carry wholesaler. The cash and carry wholesaler itself is also even willing to give credit and deliver products, and is thus increasingly impinging on the terrain of the full-service wholesaler. Innovation is unavoidable. Fortunately, a new kind of wholesaler is being formed, that can optimally satisfy the needs of the target market. In the process, cooperation with the full-service wholesaler will be of inestimable value. The function of the cash and carry wholesaler in the South African distribution channel will be briefly highlighted below.

## **6. The Function of the Cash and Carry Wholesaler**

Traditionally, the cash and carry wholesaler operates between the manufacturer and retailer to supply products to the consumer. The transfer of products generates marketing functions that are performed by the cash and carry wholesaler. The latter should carry out these functions in



such a way that there is a saving for both the manufacturer and the retailer. The efficient performance of marketing functions justifies the cash and carry wholesaler's existence in the distribution channel. The marketing functions of the cash and carry wholesaler will be touched on in the next section.

### *The marketing functions of the cash and carry wholesaler*

According to Schoell (2002, p. 338), the primary marketing function of the cash and carry wholesaler is to organise the market for the manufacturer. The cash and carry wholesaler renders a specialised, indispensable and essential service to the manufacturer and the retailer and therefore forms a vital link in the distribution channel. Restructuring and repackaging are additional marketing functions performed by the cash and carry wholesaler for the manufacturer and the retailer. The cash and carry wholesaler purchases products in bulk which enables the manufacturer to produce in bulk so that economies of scale can be utilised (Kotler & Armstrong, 2004, p. 370). The cash and carry wholesaler is also in a position to combine small orders from retailers into one large order. These wholesale functions save both the manufacturer and the retailer distribution costs and therefore justify the cash and carry wholesaler's existence.

Furthermore, the cash and carry wholesaler provides the manufacturer with inventory-holding facilities so that it can carry less stock. The upshot is that the manufacturer requires less capital that is used unproductively. The cash and carry wholesaler therefore bears the risks of fire damage, price fluctuations and changes in fashion or damaged goods. However, cash and carry wholesalers give no credit to retailers. The latter are also compelled to make their own delivery arrangements because the cash and carry wholesaler does not deliver products. The retailer is prepared to perform these functions itself in an effort to keep costs low. The wholesale functions are therefore passed on to the retailer (Schoell & Guiltinan, 1993, p. 342). Stern and El-Ansary (2002, p. 148) explain that the savings on the marketing functions that are passed down, enable the cash and carry wholesaler to supply products more cheaply than the traditional full-service wholesaler. Changes in the marketing functions of the cash and carry wholesaler are the next topic of discussion.

### *Changes in specific marketing functions*

As indicated earlier, changes to the marketing functions as a result of the inclusion of the spaza shop target market impact on the role of cash and carry wholesaler in the distribution channel. It would appear that some of the respondents have already made changes to their packaging, sales representatives, credit and delivery functions. Each marketing function will now be discussed in turn.

#### *Changes in the packaging functions*

As indicated earlier, the spaza shop purchases products mainly in small quantities. According to Van Scheers (1998, p. 279), it would seem that 77,8% of the cash and carry wholesalers have already adjusted their packaging functions to accommodate the spaza shop. This response is regarded as significant because it shows that most cash and carry wholesalers already regard the spaza shop as an vital target market and have therefore made changes to accommodate the specific target market.

#### *Changes in the function of sales representatives*

Traditionally, the cash and carry wholesaler does not employ sales representatives to visit retailers. The study shows that one-third of the respondents do in fact send out sales representatives (Van Scheers, 1998, p. 279). Further changes are also anticipated since retailers would welcome more personal contact with the cash and carry wholesalers, which would give them a competitive advantage.

#### *Changes in the credit functions*

Granting credit is traditionally regarded as a full-service function and definitely not one of the functions of the cash and carry wholesaler. If the respondents do in fact grant credit to their clients, this could be a sign that the cash and carry wholesaler's marketing functions are indeed chang-

ing drastically. The study shows that 27,8% of the respondents have already changed their credit function (Van Scheers, 1998, p. 279). The respondents concurred that the purpose of the changes they have made to their credit functions are to improve their service to better meet the needs of the spaza shop, and that further changes are anticipated. This opinion ties in with the discussion in section 1.3 which indicated that the cash and carry wholesaler does not traditionally grant credit, but that in the interests of new target market development, is willing to consider doing so.

#### *Changes in the delivery function*

Traditionally the cash and carry wholesaler does not deliver products. This marketing function is regarded as a typical function of the full-service wholesaler. Changes in the delivery functions can be regarded as further evidence of the fact that there is innovation. The study by Scheers (1998, p. 279) shows that 22,2% of the cash and carry wholesalers are already delivering products. This implies that although most cash and carry wholesalers do not deliver products some are already adapting their delivery functions to meet the needs of the spaza shop target market. Changes have been introduced because of stiff competition in the target market.

## **7. Conclusion**

In conclusion, there is no doubt that the cash and carry wholesaler is playing a vital and active role in the South African distribution channel, but that there are also signs of drastic innovations. The inclusion of the spaza shop target market guarantees the cash and carry wholesaler a definite place in the distribution channel. However, structural changes and innovation have resulted which goes against the basic principles of the industry. The driving force behind innovation has been changed in the target market. The cash and carry wholesaler is in the process of changing into a new type of wholesaler that manifests characteristics of the larger retailer and the full-service wholesaler, and is better able to satisfy the needs of the target market. The successes that have already been achieved and will be achieved in time, will depend largely on the cash and carry wholesaler's ability to make timeous adjustments to its marketing functions.

## **8. Recommendations Based on the Conclusions**

According to the discussion of the main findings regarding the place and function of the cash and carry wholesaler, it is clear that the latter does in fact deserve a place in the distribution channel. However, the findings show that the cash and carry wholesaler is going to be eliminated from the distribution channel if it does not make timeous adjustments to its target markets. To assist the cash and carry wholesaler with these adjustments, the following recommendations are made:

- The main recommendation is that the cash and carry wholesaler needs to make additional drastic changes to the spaza shop target market to increase its own chances of survival.
- This study shows that the large retailer is the cash and carry wholesaler's main competitor. The large retailer also has a competitive advantage because it is already firmly entrenched in the consumer target market. It is recommended that the cash and carry wholesaler position itself in such a way that the consumer target market can be optimally marketed.
- It is further recommended that the cash and carry wholesaler should pursue an intensive price competition strategy in an effort to be more competitive towards the large retailers.
- Intratype competition was also identified as a problem in the industry and the South African cash and carry wholesaler has been labelled as overconcentrated. From this perspective, it is recommended that a mechanism be developed in collaboration with government to ensure orderly competition. A possibility that could be investigated is the Robinson-Patman legislation used in the USA to control the power position of the distribution channel members.

- It is also recommended that the smaller cash and carry wholesalers join forces or conclude agreements to be more competitive in the distribution channel.
- The target markets of the cash and carry wholesaler are extremely sensitive to price changes --- hence direct competition with the large retailer is inevitable. It is recommended that the cash and carry wholesaler competes directly for price in so doing to capture a greater part of the target market.
- It is also recommended that the cash and carry wholesaler becomes actively involved in the consumer target market so that it is less vulnerable to changes in the distribution channel.
- It is generally accepted that innovation in the cash and carry wholesale sector has occurred in response to the changing needs of the target market. Because of these changes, the cash and carry wholesaler began marketing to the spaza shop. However, the inclusion of the spaza shop target market effected drastic changes in the credit function. Adjustments were made to the credit function in particular. It is recommended that the cash and carry wholesaler introduce a credit card system to give spaza shops easier access to credit.
- Further changes need to be made to the delivery function. It is recommended that the cash and carry wholesaler acquire delivery vehicles so that it can deliver more efficiently to spaza shops. It is also recommended that the cash and carry send trucks with products into black residential areas to ensure that they and the spaza shops are not forced out of the distribution channel.

These definitions show that the cash and carry wholesaler's existence in the distribution channel is definitely justified because the retailer is willing to perform the particular market functions usually carried out by the full-service wholesaler in an effort to save costs. The retailer is thus prepared to perform specific wholesale functions itself which has led to the development of the cash and carry wholesaler.

These advantages give the cash and carry wholesaler the edge as far as price competition is concerned and ensure its survival in the distribution channel.

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