

Township industrialists: A case study of Soweto Gold

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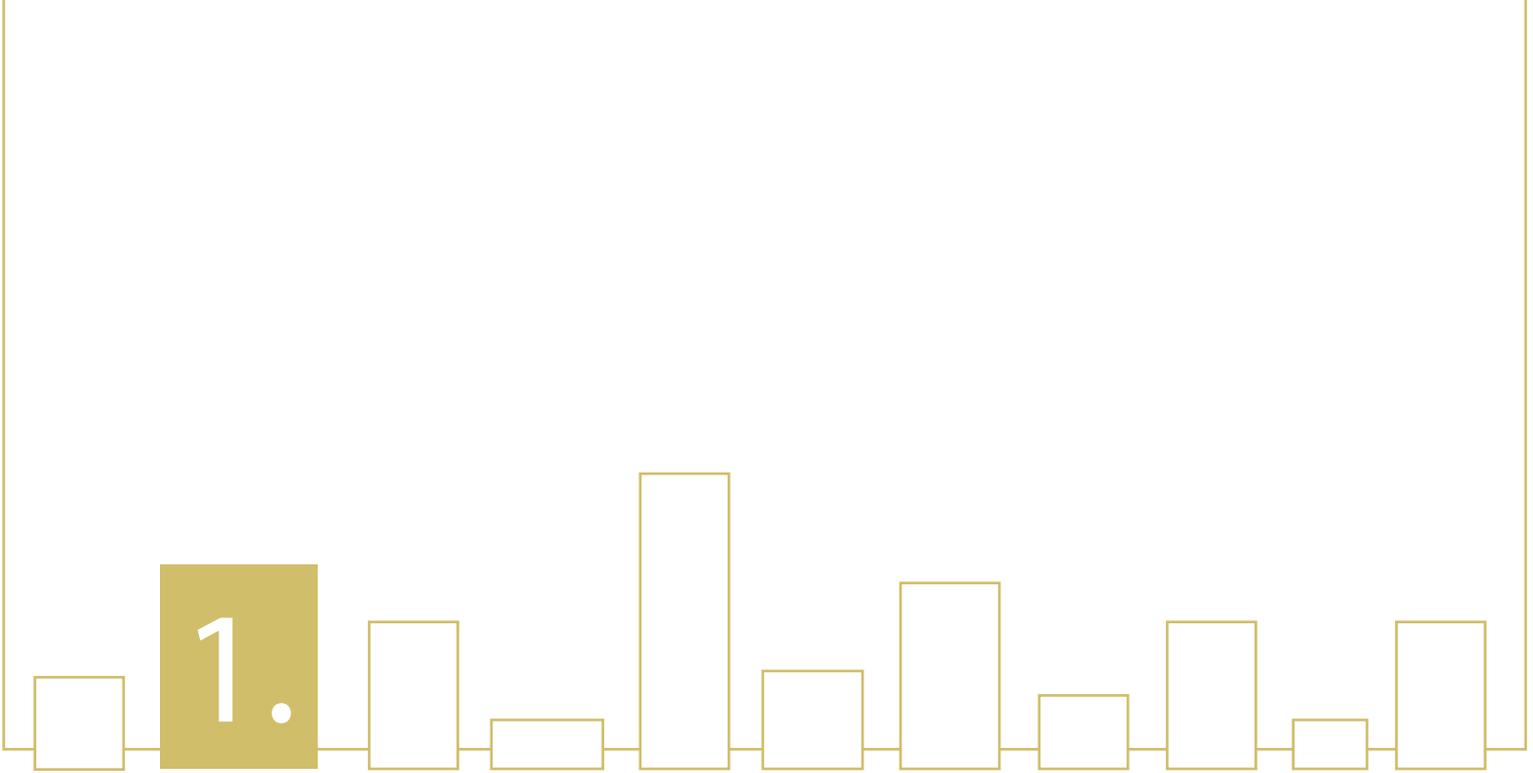
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1.

INTRODUCTION



Twenty-four years after the advent of democracy, little in the structure of ownership in South Africa has changed. There continues to be a strong path dependency in which markets are structured and shaped by previous investment decisions, state interventions and entrenched interests. South Africa's post-apartheid economy is not generating prosperity and economic justice for the majority of the population and suffers from long-standing weaknesses including a lack of structural transformation, premature deindustrialisation and high barriers to entry for smaller firms, which inhibit investment and **dynamism**.¹ Various government policies including the National Development Plan (NDP) refer to the need to reduce barriers to entry but the hurdles remain high, especially for black entrepreneurs.

The Cities Support Programme (CSP) is working to shift policy in a way that makes it easier for cities to work more efficiently; and at the same time working with cities to ensure economic growth and a reduction in poverty (CSP, 2018). This includes a focus on township economic development.

This paper, commissioned from the Centre for Competition, Regulation and Economic Development (CCRED), provides a case study of township-based Soweto Gold and its experience of barriers to entry, not just in relation to its location in Soweto, but also in relation to the wider beer sector and access to finance. The case study illustrates how barriers to entry can influence the structure of a market.

2013

Soweto Gold brewery started by Ndumiso Madlala

2017

Soweto Gold acquired by Heineken

Beer brewing is interesting because it is representative of a traditional consumer goods industry in that firm success depends on marketing and efficient production. Entrants into the beer industry have to overcome challenges of achieving an efficient production, packaging and distribution infrastructure, ensuring reach into retail outlets and consumer awareness. In addition, there is the threat of a reaction by incumbent beer producers. These are challenges that are characteristic of many fast-moving consumer goods industries.

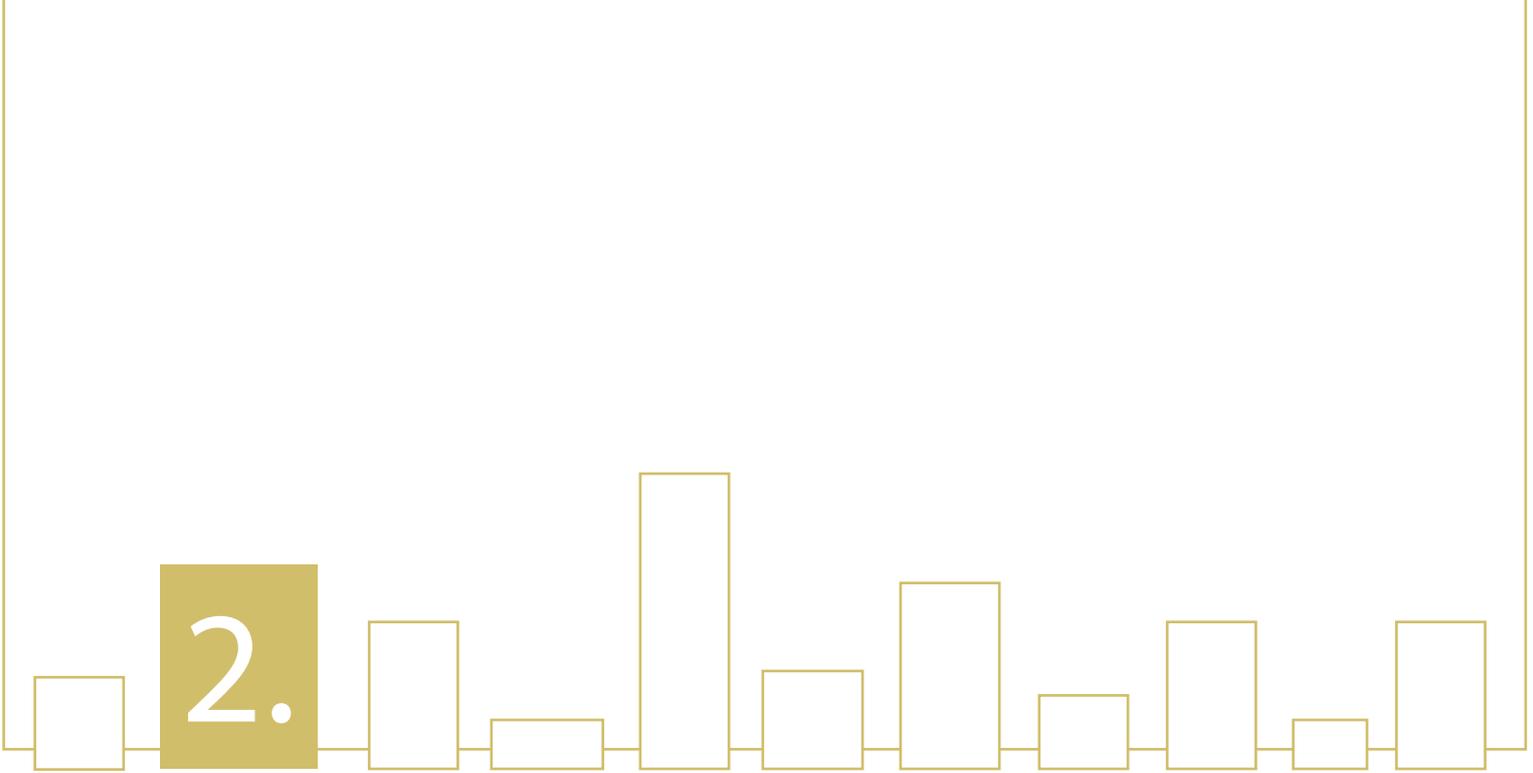
Soweto Gold is a beer brewery located in the biggest township in South Africa, Soweto. The brewery was started by a black entrepreneur, Ndumiso Madlala, an experienced master brewer who had worked at both the incumbent breweries in the country, South African Breweries (SAB) and Brandhouse, in 2013. The vision was to leverage the large Soweto consumer base (by locating in the township) to enter the mass market for beer.² However, barriers to entry in the market meant that in practice, he could only enter as a craft brewer. The brand was then acquired by transnational corporation, Heineken – also the second largest brewing firm in South Africa. In 2017, Heineken launched a Soweto Gold branded beer competing with SAB in the mass market thereby fulfilling Ndumiso's vision for the brand. While this does introduce more competition into the mass market for beer, it is between the two largest incumbents, with no significant change to ownership and control of the industry or entry by black entrepreneurs.

We also assess how, through its role as policy maker, regulator and development financier, government and its agencies facilitate or frustrate the process of entry and how the actions of incumbent firms facilitate or obstruct new entrants. We then draw on the insights from the case study to identify key issues for strategy.

The research included interviews with Soweto Gold and various stakeholders. We draw on previous research and articles to give context to the data collected from the interviews. In section 2 we provide a brief overview of Soweto Gold's history from its entry to the acquisition by Heineken. Section 3 details the characteristics of the South African beer industry to give context for the case study. In section 5 we evaluate Soweto Gold's experience of the barriers to entry and expansion in the beer industry. In section 6 we conclude and draw policy recommendations for both national and local governments.

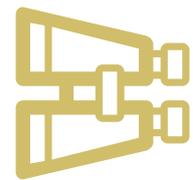
1 Bell, Goga, Mondliwa & Roberts 2018

2 Matumba, C and Mondliwa, P. (2015). Barriers to entry for black industrialists-the case of Soweto Gold's entry into beer. Centre for Competition, Regulation and Economic Development Working Paper 11/2015.



2.

OVERVIEW OF SOWETO GOLD, FROM ENTRY TO ACQUISITION BY HEINEKEN



The history of Soweto Gold dates back to 2010, when the initial idea for the business was formed by Ndumiso Madlala. Madlala has a background in chemical engineering with experience in beer brewing including as master brewer at SAB and Brandhouse. In his time at SAB and Brandhouse, he opened and managed breweries for the incumbent firms, overseeing various aspects of brewing from the brewhouse to cellars, filtration to utilities and ready-to-drink production [units](#).³ The initial strategy was to create a beer for the mass [market](#).⁴ The first challenge encountered was acquiring finance for his business, with some investors fearing that he would not be able to compete against the incumbent [breweries](#).⁵ This is an example of how risk aversion by financial institutions can become a factor constraining the emergence of competition.

The business was later co-founded with Josef Schmid, an entrepreneur and marketing specialist with over 20 years' experience. This entailed some adaptations to the initial strategy including targeting the niche craft beer industry rather than the mass [market](#).⁶ In 2012 Mad Mead Brewing Company was registered and in 2013 sold the first beer.

Soweto Gold beer is currently distributed to 120 restaurants and bars in Gauteng and the Western Cape – an increase from 35 in 2015.

The beer was initially brewed by Nottingham Road Brewery in KwaZulu Natal under license (contract manufacturing).⁷ The beer was sold on tap at bars as well as in cans. In 2014, Soweto Gold opened the doors to its Soweto based brewery, Ubuntu Kraal, with a production capacity of 2 million litres a year.⁸ The location of the brewery was determined by brand name. The founders wanted Soweto Gold to be produced in Soweto in order to maintain authenticity. Mad Mead Brewing Company initially employed 12 people on a permanent basis and committed to using contractors and suppliers from Soweto as far as possible.⁹ The plans were to grow the business and tap into international markets and as a result employ 150 people from Soweto.¹⁰

The brewery was producing and supplying a portfolio of five beers including: Soweto Gold - Superior Lager, its flagship brand; Soweto Gold Lady; Liquid Gold Speciality Beer; Soweto Gold Apple Ale; and Soweto Weiss Gold. There are no canning or bottling facilities at Ubuntu Kraal and as a result the beer was only sold in kegs to bars and available to customers on tap.

Soweto Gold beer is currently distributed to 120 restaurants and bars in Gauteng and the Western Cape and this has increased from 35 in 2015. However, only 4 outlets are based in Soweto. As craft is a premium beer that typically attracts a premium relative to the price of mass market beers, the demand tends to be in middle class suburbs such as Sandton, Fourways and Parkhurst. One establishment based in Parkhurst only sells craft beer and alcohol. In this establishment, Soweto Gold is the best-selling craft beer accounting for just over two thirds of the total sales quantity between 2017 and 2018.¹¹ A big draw card for the brand is the name Soweto which entices international and local consumers alike specifically to consume Soweto Gold beers.

In October of 2017, Mad Mead Brewing company sold all assets and intellectual property to Soweto Brewing Company, a wholly owned subsidiary of Heineken – the second-largest beer supplier in South Africa.¹² Mad Mead Brewing had encountered a number of challenges including an inability to secure the funding required for a packaging facility that was crucial to growing the business. The owners also did not have the funds to finance the growth strategy, including the marketing required to grow awareness of the brand. Again, lack of access to finance was the critical obstacle, limiting the potential emergence of increased competition in the sector.

Heineken was interested in the brand value Soweto Gold had established as a truly local beer whilst laying the foundations for its entry into the international beer market. Soweto Gold presented a number of opportunities. First, Heineken, like SAB and other mass market beer producers, are acquiring or setting up craft breweries to access this growing segment of the beer market. The Soweto Gold acquisition therefore builds on Heineken's craft beer offering. Second, Heineken wanted to have a brand that would compete directly with SAB's lower end beers and opted to leverage an existing brand to do this.¹³ Amstel Lager, its mass market beer, was not making significant inroads into the mass beer market.¹⁴ The Soweto Gold brand was believed to have better potential to register with South African consumers and to allow growth in its mass market offering.

Since the acquisition, Soweto Gold Superior Lager is now produced at the Sedibeng Brewery and is bottled and canned and available nationally with a wider target market including taverns in townships. The original craft superior lager has been rebranded as the Master's Brew and continues to be brewed in Ubuntu Kraal along with the rest of the craft portfolio. Soweto Gold's Superior Lager has since been able to gain a foothold with local Soweto and international consumers alike. The lager is competing directly with SAB's Castle and Hansa brands including on price.

Mad Mead Brewing Company was the first venture into commercial-scale beer brewing by a black South African, following the failed venture by Vivo in 1994, a malt beer brand produced by National Sorghum **Breweries**.¹⁵ It was also the first brewery to locate in a township. This is significant as the Liquor Act of 2003 sought to facilitate entry into the value chain by black entrepreneurs to redress apartheid liquor laws that prohibited black people from producing and supplying liquor in South Africa. The acquisition, while good for the founders and for Heineken, nevertheless begs some questions about the barriers facing entrepreneurs attempting to enter and compete in concentrated markets. Madlala and Schmid together had the requisite capabilities for the beer industry, they built a strong brand and were poised for growth yet still faced significant obstacles. Understanding their entry experience can highlight lessons for policy making that seeks to support black entrepreneurs including those based in townships like Mad Mead Brewing Company. However, before exploring this in more detail, a short overview of the South African beer industry is provided for context.

3 <https://www.sowetobrewing.co.za/ubuntu-kraal-brewery>

4 Interview with Ndumiso Madlala, 2015.

5 <https://www.howwemadeitinafrica.com/south-african-brewer-launches-soweto-gold-craft-beer-brand/34089/>

6 <https://www.sowetobrewing.co.za/ubuntu-kraal-brewery>

7 Contract brewing is a common entry strategy in craft beer.

8 http://www.sowetogold.co.za/#!our_story/c18bc

9 Interview with Josef Schmid, May 2018.

10 <https://www.howwemadeitinafrica.com/south-african-brewer-launches-soweto-gold-craft-beer-brand/34089/>

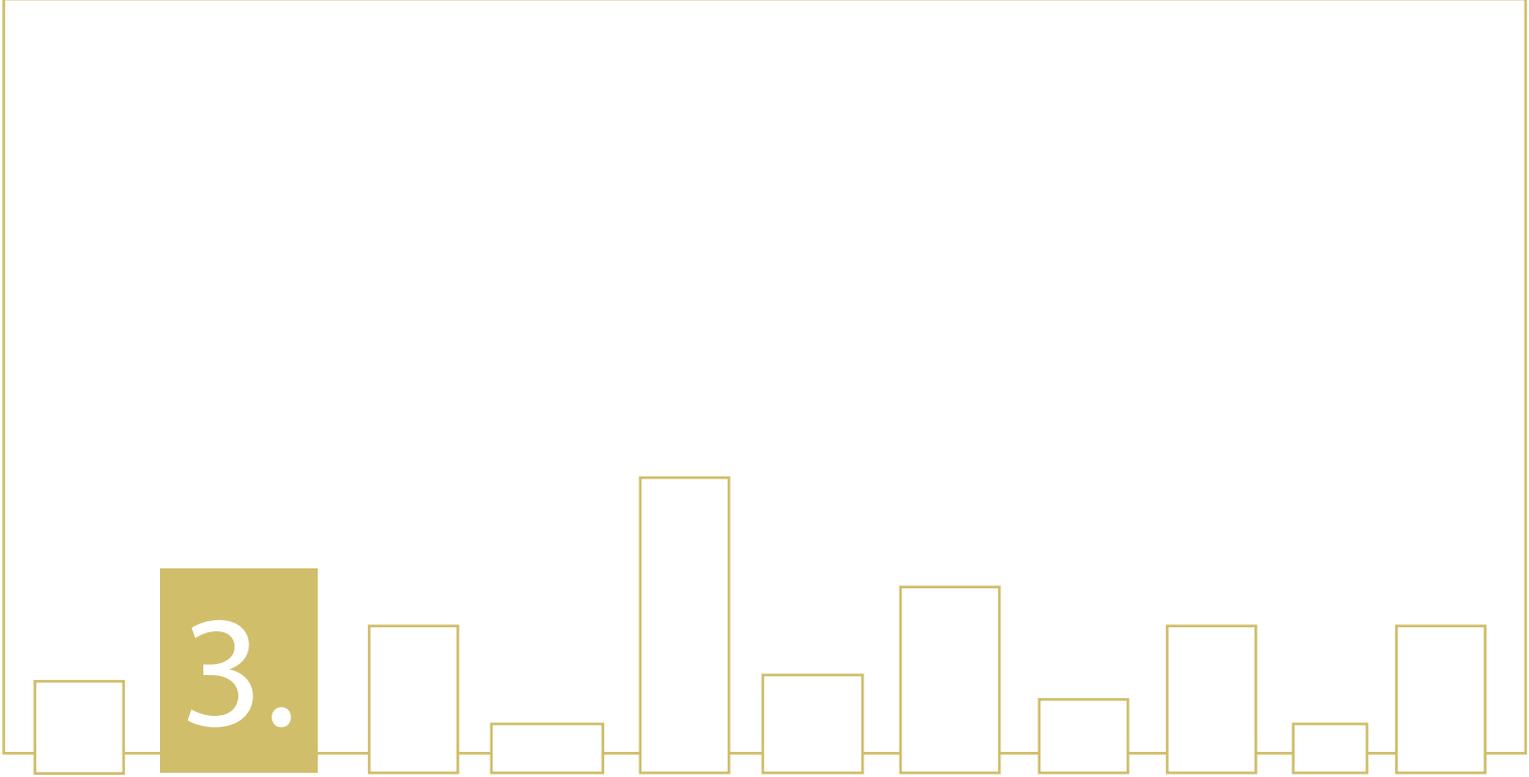
11 Interview with the general manager of Craft Restaurant on the 29th of May 2018 in Parkhurst.

12 Bell, J. (2017).

13 Interview with Heineken sales representative, May 2018.

14 Interview with Heineken Sales Representative, May 2018.

15 There have been other entrants since, including Sharpeville breweries.



3.

BEER INDUSTRY DYNAMICS AND THE SOUTH AFRICAN INDUSTRY



3.1 Concentration and vertical integration

The structure of the beer market has developed as a function of cost and demand conditions and government policy. Increases in economies of scale have meant that particularly in relatively small markets fewer firms can reach minimum efficient scale (Jain, 1995; Sutton, 1991; Ascher, 2012). The main source of changes in minimum efficient scale are ascribed to improvements in the packaging process and the introduction of automated production processes (Sutton, 1991). Economies of scale are also not limited to production. Marketing and distribution are also subject to economies of scale. As a result, entry at minimum efficient scale is expensive and entry below this scale means higher per unit costs. This makes it difficult for new entrants to compete directly with breweries able to reap full scale economies. Economies of scale in production, marketing and distribution are so important to the industry that newcomers generally find that the only way to compete is to focus on niche markets.

The increases in the size of minimum efficient scale plants has led to consolidation in international beer industries, however, micro-breweries have also grown significantly. Though micro-breweries may be too small to take advantage of scale economies, they can be better positioned to serve the different tastes of niche markets. Microbreweries have grown significantly in South Africa, from 40 in 2008 to approximately 215 in 2018.¹⁶ However, if the international experience is indicative of the potential for micro-brewing then it is unlikely that they will grow to a point that they can take up a significant portion of the overall beer market. For example, in the USA the first microbrewery was opened in 1965 and by 2011 there were close to 2000 micro-breweries in operation, commanding less than 6% of the total USA beer market (Tremblay et al, 2011).

Demand conditions can also have an impact on concentration levels in the beer industry. Larger markets usually induce higher expenditure on things like advertising which adds to sunk costs. High sunk costs raise barriers to entry and increase the likelihood of concentration. Understanding the cost structure of the industry needs to take into account both exogenous costs and endogenous sunk costs which are those affected by the conduct of incumbents (Church and Ware, 2000). An example of endogenous sunk costs are advertising costs.

Government policies can also shape the structure of a market through licencing, trade restrictions such as vertical separation and competition policy. Competition laws may impact the structure of a market through merger rules and through their effectiveness in restricting monopolies from exercising their market power to engage in anti-competitive conduct such as exclusionary practices.

The South African beer industry is characterised by the existence of few companies with significant levels of concentration as well as the presence of vertical **integration**.¹⁷ This has as much to do with the history and past regulation of the industry as with the economics of brewing. Beer brewing is about scale economies in production, distribution and marketing. In fact, scale in advertising is such an important factor in the economics of brewing that it has led to consolidation in many markets.

In South Africa the industry structure was arrived at more deliberately by agreement between liquor industry players. It was agreed that SAB would take control of beer brewing and RK investments (Rembrandt and KWV) would take control of wine and spirits. Past regulation was also in place to prohibit black South Africans from producing and obtaining liquor licenses.

A review of the liquor industry by the first post-apartheid government acknowledged the industry structure and racial bias in ownership and recommended vertical separation to facilitate opportunities for entry and transformation. Vertical separation means that the industry cannot be vertically integrated. So for example, an owner cannot own both production and distribution systems. In the USA, for example, vertical separation is required and has enabled the emergence of independent distributors, to which smaller brewers also have access. A new policy was drafted which outlined the government's plans to restructure the industry by unbundling assets to create opportunities for the economic empowerment of historically disadvantaged **individuals**.¹⁸ To this end, licensing was introduced and firms were barred from holding licences to operate in more than one level of the value chain. The licencing regulation was then challenged on constitutional grounds and later redrafted to exclude retail licencing which is now under the control of provincial government. The prohibition on holding more than one licence was also **dropped**.¹⁹ The final version of the National Liquor Act did not require vertical separation, allowing for continued vertical integration of the industry.

In South Africa, the beer industry lobbied against vertical separation, with SAB offering to establish various BEE programmes, including the appointed distributor programme. In a subsequent competition case relating to the position of appointed distributors vis-à-vis independent distributors (where the arrangements were found not to contravene the Competition Act) the evidence during the proceedings illustrated the strategic barriers created by incumbent firms. For example, SAB documents noted that the appointed distribution system design "provides a barrier to entry for competitors". Entrants have to struggle to duplicate SAB's distribution network or find alternative, less-efficient distribution channels. SAB is able to reap all the scale

Most of the malting barley produced in South Africa is procured by SAB Maltings, a subsidiary of SAB Miller. Three firms account for 99% of total volume:

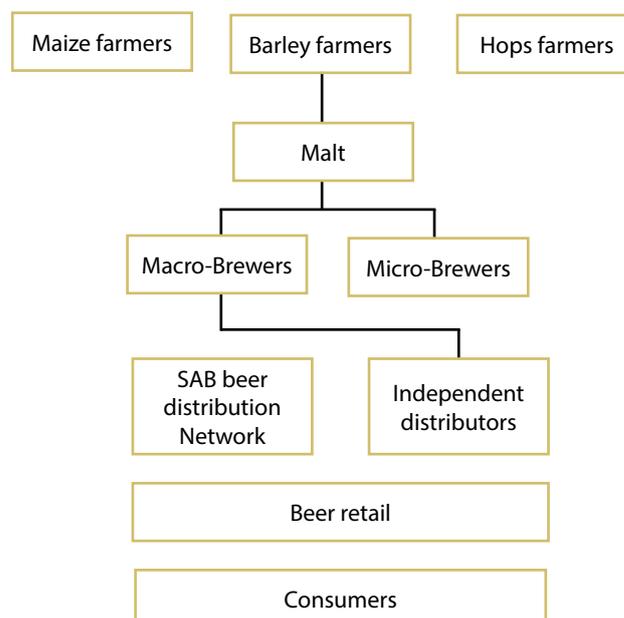


advantages for itself. This has very material implications for new entrants, and directly affected Soewto Gold, as discussed later.

Since 1997, there has been increased participation in certain levels of the beer value chain such as retail and to a certain degree distribution. However, the manufacturing level remains concentrated. The beer industry is still characterised by a virtual monopoly today as it was in 1997. SABMiller is the dominant player and its position in the industry is due in part to the large economies of scale in production, marketing and distribution with estimated market share of 80%.²⁰ In the South African competition law, a firm is regarded as dominant if it holds a market share in excess of 45% of the market. In terms of competition economics the consideration is usually whether a firm has market power, the ability to profitably increase prices above competitive levels. Although high market shares are indicative of the possible existence of substantial market power, a firm with high market shares is unlikely to be able to exercise market power if barriers to entry and expansion are low. Any exercise of market power by increasing prices is expected to trigger entry or expansion in the market thereby limiting the profitability of such a strategy. While significant barriers to entry allow for the durability of a dominant firm's market power. Significant market power also allows the incumbent to adopt strategic exclusionary practices, including those which may themselves raise barriers. Economic literature also shows that where there are economies of scale, imperfect information and strategic behaviour by incumbent firms, entry can be deterred, leading to a lessening of efficiency and overall welfare (see discussion in Banda et al, 2015a).

The industry was and continues to be vertically integrated from the production of the raw materials through to the distribution of beer (figure 1).

Figure 1 Beer Value Chain



Barley, maize and hops are the fundamental ingredients in the production of beer. Most of the malting barley produced in South Africa is procured by SAB Maltings, a subsidiary of SAB Miller. In beer manufacturing three firms South African Breweries Ltd, Heineken South Africa (Pty) Ltd, and Brandhouse Beverages (Pty) Ltd account for 80.1%, 10.9%, and 8% of total volume [respectively](#).²¹

In terms of distribution the incumbent firm has set the rules of the game. It is estimated that 90% of SAB's beer is distributed through its depots and the remaining 10% is distributed by appointed distributors (Truen et al, 2014). SAB's relationship with the appointed distributors is governed by exclusive distribution contracts. SAB's distribution network is a source of competitive advantage for the company. Brandhouse outsources its core distribution and warehousing functions to Imperial Logistics (part of the listed Imperial group), while also making use of various local distributors and wholesalers to distribute down the retail chain, but is not able to distribute directly to market (Truen et al, 2011).

3.2 Craft beer as a niche market

Craft beer is capturing tastes and allowing for entry below minimum efficient scale; however, it makes up a small proportion of the total beer market. There are approximately 215 craft beer brewers in South [Africa](#),²² which together hold less than 1% of the total beer market. Craft brewers in South Africa differentiate their products from those of mass market breweries, however, all beers compete for space on the counter in bars. In previous competition cases, a separate product market for mass market brown beer has been [defined](#).²³ Even though Soweto Gold has also proclaimed that it is not in competition with SAB it will compete with it for this space. As the incumbent firm, SAB can raise the cost of setting up draught beer on tap at bars. The cost of installing a keg for draught beer at bars is estimated at R20 000 and this cost is incurred by all brewers that wish to be available on tap at [bars](#).²⁴ However, interviewed micro-breweries have submitted that SAB offers additional incentives to bars to position SAB kegs at the most visible place at the bars. This means that other breweries including the micro-breweries have to incur similar costs to ensure that their product is positioned at customer's eye level, otherwise most of the space would go to SAB beers. This is only one of the ways that the incumbent can increase the costs of doing business.

Internationally, the mainstream breweries are also entering the craft beer market with others having operated in the market for some years. SABMiller (Britain) acquired Meantime Brewing Company in 2015, a leading craft beer brewery. Similarly, in the United States AB InBev acquired Goose Island, craft beer brand in 2011 and Elysian Brewing in 2015. MillerCoors (SABMiller's US joint venture with Molson Coors) has Blue Moon craft beer on its portfolio of [beers](#).²⁵ Heineken has acquired a range of craft brands including Lagunitas in America, Affligem and Mort Subite in [Europe](#).²⁶

In South Africa, both AB InBev SAB have acquired craft beer brands. In 2014, SAB launched No. 3 Fransen Street, a craft beer competing in the speciality beer category with Soweto Gold and other microbreweries. On promoting this new speciality beer SAB offered bars a sales service package (incentives) including a premium draught tap, branded glassware, branded merchandise, management of aged stock and draught machine services. It is standard practice in the industry to supply the draught tap, but the additional services offered by SAB in this instance may incentivise bars to favour the No 3 Fransen brand. To compete, other breweries would also have to offer similar packages to bars at a cost. This cost is sunk as firms cannot recoup it if they exit. SAB has added a number of other craft beers to its portfolio including Newland's Spring and Carver's Weiss. Heineken has acquired Soweto Gold and Stellenbrau in the domestic market and formed distribution partnerships with Jack Black amongst other craft breweries. The Tap Room, a craft distribution company has also recently been acquired by Signal Hill breweries, which brews and supplies brands such as Devil's Peak.



Cost of entry

Capital and financial regimes also contribute to the ease with which a potential entrant can enter a market. A craft brewery can be set up for approximately R4 million for a production capacity of 10 000 litres per week.²⁸ To make a judgement on whether set up costs raise barriers to entry, the costs must be considered in the context of the industry (Bishop and Walker, 2010). As a super-premium product, craft beer revenues are relatively high such that an investment of R4 million would not raise barriers to entry. Assuming a repayment period of 5 years and an interest rate of 10%, loan repayments for a 10 000 litres a week plant would be R2.12 per litre of capacity.

Other costs associated with entry include compliance with regulations such as registration and licencing. The total cost of setting up a micro-brewery from a compliance perspective is between R20 000 and R30 000.²⁹ A beer brewer is required to register as a manufacturer with the DTI in terms of the National Liquor Act no 59 of 2003. A manufacturing license is granted to a liquor manufacturer who produces more than 100 million litres of malt beer per annum or 50 million litres of sorghum beer per annum. The costs of acquiring and renewing beer manufacturing licences appear to be reasonable and are charged in proportion the production volumes of the firm in question (table 2).

Table 2 Licence fees for beer manufacturing for different volumes of beer

Annual Turnover	< 5 mil	5-15 mil	15-250 mil	250-1000 mil	>1000 mil
Application	R 500	R 1 000	R 7 500	R 10 000	R 25 000
Initial Registration	R 2 000	R 4 000	R 5 000	R 7 500	R 15 000
Notice to review	R 500	R 1 000	R 7 500	R 10 000	R 25 000
Annual Renewal of registration	R 2 000	R 4 000	R 5 000	R 7 500	R 15 000
Variation to initial registration	R 1 500	R 3 000	R 5 000	R 7 500	R 15 000

Source: The DTI (2010), National Liquor Authority Registration procedures and fees

Interviewed firms confirmed that the process of acquiring national licenses is accessible and licences are granted within reasonable time frames. Interviewees also noted, however, that there is a misalignment between the requirements of the national and provincial liquor regulation. This makes compliance onerous for breweries that distribute their products in more than one province. However, the cost of registration and acquiring licences is not exorbitant and would not pose a barrier to entry.



90% of SAB's beer is distributed through
its depots and the remaining **10%** is
distributed by appointed distributors

The costs of entry into the craft beer market in and of itself is not significant. The cost to set up the plant and all regulatory compliance comes to approximately R4 million for an above average sized micro-brewery at a capacity of 500 000 litres per annum.³⁰ However, due to the circumstances of most South Africans access to these monies may be a challenge as was the case for Soweto Gold.

16 South African Craft Brewers association

17 Matumba, C. and Mondliwa, P. (2015).

18 Government Gazette number 18135, 11 July 1997

19 See the Competition Tribunal Decision in the matter of the Commission vs SAB and others, case number: 134/CR/Dec07 for further details.

20 Market share estimates by Euromonitor based on scanner data.

21 Euromonitor International compiled from company reports, company research, trade press, trade sources, and trade interviews.

22 Craft Brewers Association South Africa.

23 See Tribunal decision in the Competition Commission vs SAB and others decision. Case number 134/CR/Dec07.

24 Interview with Josef Schmid, Managing director of Soweto Gold, 2015.

25 Other acquisitions of craft beer breweries by mainstream breweries include; Bend, Ore's Ten Barrel Brewing Co by A-B InBev's (ABI), Blue Point Brewing by Behemoth.

26 Heineken website, <https://www.theheinekencompany.com/Brands/Craft-and-Variety>

27 SAB promotional material given to bars.

28 Craft Beer South Africa

29 Interview with Brian Stewart of Craft Beer Association, 2015.

30 A micro-brewery according to the NLA's definition has a capacity below 5 million litres per annum.

4.

THE SOWETO GOLD EXPERIENCE



Soweto Gold was the first township-based brewery and with the wider emergence of township breweries it is worth understanding their experience. For Soweto Gold, locating its brewery in Soweto was a major part of its strategy of building a genuine brand identity and also to be close to beer demand. The brand 'Soweto' is famous not only in South Africa but is internationally recognised and the brand has successfully leveraged this. Soweto Gold beer is popular with tourists. Proximity to a large consumer base and labour are considered to be the main advantages of locating in a [township](#).³¹

The Soweto Gold location decision was consistent with the initial entry strategy to operate in the beer mass market. There is limited demand for craft beer in townships for a variety of reasons including its relatively higher price. Craft beer typically retails for a premium over mass market beer. Another advantage of locating in a township is proximity to the labour force. Soweto Gold hired and sourced from the township as far as possible. In terms of labour, Soweto Gold was able to find most of the skills required in the surrounding area. However, when specialised skills (that are not available in the township) were required the service providers were reluctant to travel the distance to Soweto, also given perceptions about crime and [violence](#).³²

However, there are negative aspects of locating operations within a township environment. Very often townships, owing to their lower affluence when compared to more urbanised and built-up areas, have higher levels of crime and low police presence. This implies that firms would need to invest in extra security measures to ensure that their facilities are safeguarded in the event of their operation falling prey to criminal activity. Another downside may be that while there are advantages to having the workforce situated near to operations, these are residential areas and manufacturing firms can have a negative environmental impact, compounding the already poor living conditions for people in the townships.

Yet, Soweto Gold, and other possible township industrialists still face large barriers to success because of the significant concentration, not only within the beer industry, but in the larger core economy as a whole.

4.1 Barriers to entry

Barriers to entry and expansion can be broadly classified as those that arise due to the intrinsic nature of the products and activities in question (and which can be viewed as exogenous to the decisions of the firms), and those that may result from strategic decisions by the dominant firm (Banda, Robb, Roberts and Vilakazi, 2015).

The success of an investment in craft beer is dependent on a few key factors namely: availability of quality hops, yeast, barley and/or malt; access to capital to construct the brewery and associated packaging facilities; access to distribution network; and, marketing. A combination of these factors should result in acceptable returns to a potential entrant in the market. Below we discuss Soweto Gold's entry and growth experience in the beer market and highlight the barriers that they have faced including those that have been overcome.³³

4.1.1 Access to finance

The first challenge that was faced by Soweto Gold was access to capital. Ndumiso Madlala struggled to find funding for the MadMead Brewing business proposal. He started meeting with potential funders including development finance institutions as early as 2010 without success. Funders were of the view that there was no space in the market for another brewery and SAB, the incumbent firm would compete aggressively with the entrant and could easily drive it out of the market.³⁴ This stems primarily from the incumbent firm's cost advantages deriving from economies of scale.. MadMead Brewing was however able to secure some funding in Europe which was complemented by the two partners' own investment and funding from the Industrial Development Corporation (IDC).³⁵

The funding from the IDC was provided for a combination of working capital, CAPEX, operational cost and start-up losses (IDC, 2015b). Soweto Gold entered the market at a total cost of R10 million.³⁶ The IDC contributed R3.5 million loan from the Agro-processing Competitiveness Fund (Agri-Fund). The Agri-Fund was created from the penalty paid by Pioneer Foods for engaging in cartel activity in the bread and flour markets. As this was a special scheme, the loan was zero-rated with a payment period of 7 years. There are no commitment or cancellation fees attached to the loan since the Agri-Fund is classified as an off-balance sheet fund in the IDC's financial books. Soweto Gold's application was approved for funding on the basis of a strong management team in Ndumiso Madlala as the master brewer and Josef Schmid as the marketing manager; a good business plan with much of the ground work on marketing already done; the fact that it is a majority black owned company entering and promoting competition in a traditionally white industry (craft beer brewing); the fact that Madlala (51 per cent stake holder) is a historically disadvantaged individual who was also classified as youth at the time; and the potential for the project to create jobs in Soweto.³⁷ The main objective of the fund is to promote competition in the agro-processing sector, this was later changed to focus only on the bread value chain.³⁸

50%**equity****50%****IDC funding for start up businesses**

In 2015, Soweto Gold applied for additional funding from the IDC to construct a packaging facility in Ubuntu Kraal. The application was declined as Soweto Gold was required to match the funding and the business was not in a position to do so.³⁹ Soweto Gold no longer qualified for the Agri-Fund, which did not have the same requirements, as the scope of the fund was narrowed to the bread value chain. Soweto Gold attempted to access funding from alternative sources without success. The National Empowerment Fund (NEF) did not approve the application as alcohol was not a priority industry.⁴⁰ The Gauteng Development Agency could not offer funding but assisted the firm by linking it to potential public funders.⁴¹ The firm itself did not have funds to grow the business.

The challenge that Soweto Gold faced is was a mismatch between the design of development funding and the needs of firms like Soweto Gold. The requirement to match IDC funding by smaller firms reflects the IDC's low risk appetite. The IDC is expected to be a fully self-funded parastatal which deters it from anything deemed to be risky lending.⁴² As a result, the strategy adopted has been to limit exposure to start-ups by funding only up to half the costs.⁴³ Because of this, start-up enterprises are requested to bring in 50% of the equity to fund their business while the IDC would aim to cover the other 50%. It was noted that obtaining this initial 50% equity has been difficult for start-up businesses (IDC, 2015b). The banks typically require 3 years of financials for loan applications and start-up firms are not able to produce this. Soweto Gold had not been in operation for 3 years in 2015.

Though there are various interventions that are targeted at supporting small and medium enterprises, research finds that particularly small players find it difficult to access these interventions.⁴⁴ The Soweto Gold experience further raises an additional issue about the appetite for risk and funding rivalry by DFIs. The approach to risk by the IDC in this instance means that a number of good business proposals would not be approved for funding due to the inability of the start-ups to match funding. Also, one of the concerns with the Soweto Gold business proposal was that it aimed to compete in a concentrated industry with a dominant incumbent firm. If businesses that seek to compete in concentrated industries are not funded by public and private funders then there is little hope that there will be more competition in these markets.

4.1.2 Routes to market

The biggest barrier to entry/expansion for Soweto Gold has, however, been access to routes to markets.⁴⁵ First, the inability to package the beer for off-premises consumption in bottles or cans meant that the brand could not access approximately 70% of the beer market.⁴⁶ Most of the more successful micro-breweries also have bottling or canning facilities so as to make the beers available through liquor stores as well as having them available at bars even when there is no space on taps. Through the Heineken acquisition a mass market beer was created, which is manufactured and bottled in the Sedibeng brewery. This mass market beer is now available for off-premises consumption, however, at the time that the interviews were conducted a packaging facility had not been installed in Ubuntu Kraal. Soweto Gold outsourced production of small volumes to a contract manufacturer to bottle for off-premises consumption.

Second, the practice by incumbent firms (eg SAB, Heineken) of offering retailers fridges for exclusive use for own brands raises the cost of doing business for challenger firms, at times denying challengers access to consumers. This is most effective in the shebeen/tavern segment of the market where the retailers are often small and cannot afford to purchase their own fridges.

Soweto Gold, at the time it was producing canned beer, attempted to sell to shebeens and taverns in Soweto but was unsuccessful. The shebeens and taverns indicated that there was no space for Soweto Gold in the refrigerators.⁴⁷ The responses of the shebeens and taverns is consistent with the Commission's allegations that SAB was incentivising shebeen and taverns not to deal with competitors. Interviews with retail establishments conducted in 2015 confirmed this.⁴⁸

The Commission alleged that SAB induces retailers not to deal with other brewers and other distributors using a number of mechanisms. SAB supplies refrigerators on loan to retailers and requires that only SAB beer is stocked in them. The Commission further alleged that this has the effect of tying up the tavern and shebeen markets which account for 70% of volume sales in South Africa. The taverns and shebeens have no countervailing power against SAB as they lack the capital to purchase the fridges themselves and SAB is a must-have brand particularly in this market segment. Also, even if the SAB's upstream competitors could offer fridges to these taverns and shebeens the space in these outlets is limited.

The taverns and shebeens were also required to purchase their beer from SAB and not independent distributors which denies independent distributors economies of scale. As mentioned above SAB brands are must-stock brands in shebeens/taverns and without these the SAB brands distributors are less likely to fill trucks, increasing the cost per unit for distribution.

The Commission alleged that SAB's conduct described above induced retail outlets not to deal with its competitors in the markets for manufacturing and distribution of beer. The Tribunal dismissed the case relating to the effects on upstream rivals, finding it did not have jurisdiction due to differences between complaint and Commission referral. In the press statement announcing the decision, the Tribunal noted that the outcome was regrettable but that it was bound by the decisions of superior courts.⁴⁹ One of the reactions to the decision was that "technical decisions" may be hindering the investigatory role of the competition authorities to the advantage of well-resourced businesses (Bleby, 2011). The merits of this part of the case were never heard.

Interestingly, SAB Miller filed a similar complaint with the Federal Competition Commission (FCC) of Mexico in 2010 alleging that the country's duopoly Modelo and FEMSA were offering payments, loans and refrigerators to restaurants and retailers in exchange for agreeing not to serve/stock other brands (Ascher, 2012). SAB Miller argued that the conduct of the incumbent firms reinforced anti-competitive practices against entrants. The FCC and the respondents reached a settlement agreement in 2013, whereby FEMSA and Modelo were required to limit the exclusive arrangements to 25% of total sales in the market and incorporate new conditions to existing exclusivity contracts to avoid monopolist practices. The directive was expected to make the restaurant and mom and pop stores more accessible competitors.

The issue of exclusivity conditions attached to rent free fridges and particularly in smaller establishment has come under the spotlight in a number of jurisdictions. Authorities in Singapore, Mexico, Chile, Mauritius, Europe and Costa Rica have dealt with similar cases. In all the countries, the competition authorities emphasised the fact that exclusivity has a disproportionate and particularly troubling effect on smaller retailers who have greater limitations on the physical space required to have more coolers/fridges. Also important is that in all cases, the respondents engaged in a number of exclusionary practices in addition to limiting access to fridges. These included loyalty-inducing financial incentives. The exclusivity requirements on the fridges has the effect of increasing the costs of doing business as the shebeens that would allow/have sufficient space for another fridge, would require that microbrewers give them a similar offering. However, often the shebeens have limited space and cannot take another refrigerator, in which case the conduct may result in higher barriers to entry/expansion for other brewers in the biggest segment of beer consumption. Brandhouse and Distell also offer bars and restaurants free branded refrigerators with some terms and conditions. SAB and Brandhouse require that their fridges be used exclusively for their own brands but Distell will allow for other brands to be stocked as long as the Distell brands such as Savanna are packed at eye level. The sales representatives 'police' the fridges to make sure that the terms and conditions are adhered to. Where they are not the other products are removed.

approx
R20 000

to install a keg in a restaurant or bar

The conduct goes beyond restrictions on usage of the refrigerators for other brands to also restricting advertising of other brands in the taverns. While on field investigations, Tseou (2009:93-94) observed an SAB representative visiting a tavern in Soweto and inspecting the premises for non-SAB posters and replacing them with SAB posters.⁵⁰

Whether SAB is guilty of the inducement case would depend on a number of factors such as the efficiencies that arise from the arrangements with the retail outlets and the effect of the conduct on competition. That SAB Miller has also lodged a similar complaint in Mexico may be an indication that the exclusive arrangements between beer manufacturers and retail outlets contribute to barriers to entry by limiting access to a significant group of customers. The Competition Commission has not initiated a new case against the incumbent.

Formulation of the abuse of dominance provisions: in all of the countries in which exclusivity in access to coolers has been successfully challenged, abuse of dominance provisions are more broadly framed than in South Africa. The EU, Chile, Singapore and Mauritius all use the wording of “prevents, distorts, or restricts competition”. Costa Rica’s competition law has a general prohibition against “...any deliberate act that drives out competitors from the market or bars their entry”. These standards are less burdensome than the requirement in South Africa’s Competition Act.

The draught beer is delivered in kegs. It costs approximately R20 000 to install a keg in a restaurant and bar and breweries compete for space on the counter.⁵¹ It is important for the beer to be available at eye level so that even customers that are not aware of the product can see. The cost of installing the kegs at restaurants also gives established breweries with financial backing an advantage over smaller players with limited funding.

The importance of fridge space in the beverages industry has been highlighted by the conditions that have been placed on the ABInbev acquisition of SAB Miller and the Coca Cola merger.⁵² In terms of the ABInbev/SABMiller merger, one of the conditions of the approval by the competition authorities is that the merged entity should provide at least 10% capacity of fridge/cooler space to South African owned and produced cider brands of competing third parties. Further the merged entity committed to not inducing or precluding outlets from offering fridge space to third parties. Similarly, in the Coca Cola merger the parties agreed to ensure that small retail outlets (smaller than 20 m²) are free to provide 10% of visible space in Coca-Cola coolers to smaller competitor products where there are no other coolers available in the retail outlets.⁵³

In theory, this should alleviate the challenge, however, interviews of bars and taverns in Soweto revealed that the barmen/women and owners were not aware of the condition as a result were not enforcing it.⁵⁴ Compliance with merger conditions is monitored by the Competition Commission. The Commission’s approach to monitoring is reactive in that a customer or third party must first complain before investigation are carried out. The merging parties are required to submit a compliance programme following the approval of the merger and thereafter submit updates on compliance to the Commission. The merger conditions function lies in the merger department.

In Soweto Gold’s case, the acquisition by Heineken meant that the brand would have access to Heineken fridges. In Soweto, Heineken fridges are now branded with Soweto Gold branding which gives the brand prominence and the beer is placed at eye level.

4.1.3 Access to distribution

Distribution costs are the biggest component of a delivered beer in front of the customer. The high cost of distribution requires scale in order to reduce the per unit cost. As such, access to an extensive distribution network is important for entrants in this industry. The discussion on Soweto Gold's experience with distribution is threefold. First, its experience as a craft brewery, second the implications of access to distribution for the strategy to expand into the mass market business and third, how the acquisition by Heineken changes its position.

There are some differences in the distribution dynamics for kegs and bottles/canned beer in the craft market. Beer distribution to restaurants and bars only represents 80% of the total distribution for craft beer.⁵⁵ Keg distribution is either delivered on own truck/vans by the microbrewers or by independent distributors e.g. WineZani, James Agent, Icehouse liquor and the Tap Room. Soweto Gold uses a combination of independent distributors and own delivery. The challenge faced has been the cost of delivery which is also influenced by Soweto Gold's distance from the main craft beer consumption areas.⁵⁶ However, there are a number of craft beers that are based in KZN and the Western Cape with a large consumption base in Johannesburg and Pretoria. In addition, the premium price of craft beer can accommodate the cost of distribution. The challenge that micro-breweries like Soweto Gold may face is scale and as such there would be benefits from utilising independent distributors that would carry various brands from various breweries and reducing the per unit cost of delivery.

In terms of the bottled/canned beers, micro-brewers have taken an innovative approach to distribution by making agreements with the various retail chain stores to distribute their beers through their distribution networks. The retail chain stores that are currently distributing beer on behalf of micro-brewers are Pick n Pay, Shoprite Checkers and Spar all of which have a national presence. This however only serves part of beer demand and excludes 70% of beer sales volumes in South Africa in taverns and shebeens. While SAB is able to deliver to the tavern and/or shebeen, the owner would have to go to a retail stockist to go collect the products of the micro-brewers using retail chain store distributors. Access to an existing distribution network played an important role in the growth of micro-brewers in USA and the challenges in South Africa make it more difficult for firms to successfully enter the market. Soweto Gold entered into a co-marketing and distribution agreement with Shoprite Checkers Liquors, a national chain store. The distribution agreement is relevant for the bottled/canned beer, which Soweto Gold stopped producing in 2014.

Access to distribution was a challenge for Soweto Gold's strategy to expand into the beer mass-market. The beer business is as much about getting the product to the customer as it is about producing the product. For an entrant to have national reach it has to have access to a national distribution network. For the economics of a beer distribution business or division to work there should be sufficient demand for the product such that every truck load is filled to capacity to reduce the distribution costs per unit. As discussed earlier, the South African beer distribution level of the value chain is dominated by SAB which distributes its product exclusively and SAB appointed distributors that also only carry SAB product. There are also independent distributors that can carry all brands but this category of distributors is struggling as SAB brands are the most popular brands in South Africa making it very difficult to fill a truckload with the remaining brands.

SAB's distribution network has been identified as a source of competitive advantage for the incumbent firm. Heineken, its closest competitor, has not been able to duplicate SAB's distribution network and instead outsources its core distribution and warehousing functions to Imperial (Truen et al, 2011). Heineken/Brandhouse also uses various local distributors and wholesalers to distribute down the retail chain.

24c
p/l

**SAB spends on
advertising**

R1.13
p/l

**Brandhouse spends
4.6 times more**

In relation to distribution, the benefits of the acquisition by Heineken are twofold. First, the mass market beer is distributed with other Heineken beers to wholesalers like Big Daddy's at a lower unit cost due to the larger scale. Soweto Gold lager will also be marketed to Heineken's database of approximately 4000 taverns, which pick up at the wholesalers. Second, Heineken is also forming partnerships with a number of craft beers and developing a craft distribution [business](#).⁵⁷

4.1.4 Access to quality ingredients

The main ingredients required for the production of craft beer are malted barley, hops and yeast. Malted barley and hops are produced locally but all the sources are tied to SAB. SAB makes product available to third parties and is currently supplying a few of the craft brewers. Soweto Gold sources some of its malt from SAB and the rest is imported. Micro-breweries either source malt from SAB or import the product through agents.

Economists are often concerned that in markets where a player procures input from a vertically integrated competitor, the competitor may have an incentive to anti-competitively raise the rival's costs. This is not a concern in this case as malt represents a small proportion of the total costs of brewing beer such that any attempts to raise the rival's costs would not have a significant impact on the rival. The cost of producing beer including all ingredients is estimated at 18% of the total selling price of beer. The malt is also used in small quantities for each batch of beer produced. Another potential concern is whether or not Soweto Gold is supplied with appropriate quality malt. Soweto Gold has indicated that they have not had any problems with the quality of the malt received from [SAB](#).⁵⁸

4.1.5 Marketing

Firms' decisions to enter or expand in a given market are based primarily on an evaluation of the costs versus the benefits of such entry/expansion. The main factors that influence this decision are the level of sunk costs and the expected profitability of entry (Bishop and Walker, 2010). Where there is a large incumbent firm with absolute cost advantages, entry is deterred as potential entrants will have higher costs than the incumbent. Incumbent firm(s) can take decisions that determine costs for the industry, with marketing costs a good example of this. If the incumbent firm launches a big advertising campaign competitors need to respond.

Craft beer like other beer products requires investment in marketing to create awareness about a brand. The success of an alcoholic beverage is closely related to its brand, as brand recognition is one of the top drivers of sale volumes (Fieldgate et al, 2013; Jain, 1994). The market for craft beer is highly differentiated with over 400 craft beers that are available in South Africa including locally manufactured and imported beers. As such, every brewer has to use marketing to highlight the characteristics of their particular beer. As most craft brewers do not have large marketing budgets, the commonly used marketing strategies include viral marketing, beer festivals and promotions materials produced in partnerships with [retailers](#).⁵⁹

Soweto Gold's primary marketing medium was viral marketing on social media and internet. This method of marketing is not as expensive as advertising in mainstream media. Though craft brewers have to invest funds and human resources into marketing it is not a barrier to entry into micro-brewing. Since acquiring the Soweto Gold Brand, Heineken has invested in its marketing. This has included billboards, signage at pubs/taverns as well as branding of one of the Orlando Towers.⁶⁰

The scale economies in advertising can be illustrated by the cost of advertising for SAB Miller versus Brandhouse. On average SAB spends 24 cents on advertising for every litre of beer that is sold while Brandhouse spends 4.6 times this amount at R1.13 per litre of beer sold.⁶¹ These are both large scale brewers and the cost of advertising to a micro-brewery would be significantly higher per litre given the low volumes sold. As discussed above, marketing is important in packaged consumer goods and an entrant needs to spend as much as the incumbent firms to be able to compete head on.

The acquisition by Heineken has meant that the Soweto Gold brand benefits from a bigger marketing budget. Heineken has invested in marketing the brand including aggressive campaigns in townships where Soweto Gold branding (banners, umbrellas, and merchandise) and dedicated Soweto Gold branded fridges. The marketing also includes acquiring the rights to advertise on one of the Orlando Towers at a cost of R3 million.⁶² This has helped to solidify and grow Soweto Gold's customer base within the Soweto region.

30 A micro-brewery according to the NLA's definition has a capacity below 5 million litres per annum.

31 Interview with Josef Schmid of Soweto brewing Company, May 2018.

32 Interview with Josef Schmid of Soweto brewing Company, May 2018.

33 Note that though Soweto Gold entered the beer market as a craft beer brewer, however, as beer is a differentiated product it is difficult to draw the boundaries of the relevant market. Craft beer is a niche segment of the market and though the players in this market may not be actual competitors to mainstream beer overtime they may pose a potential competitive threat.

34 Interview with Josef Schmid, of Soweto Brewing Company, May 2018.

35 Interview with Ndumiso Madlala, 2015.

36 Interview with Josef Schmid, date, Johannesburg.

37 Interview with the IDC on the 7th of April 2015.

38 The total value of the fund was R250 million where, R225 million was earmarked for loans to the agro-processing industry, R12.5 million was set aside for business support and R12.5 million as a research grant. The loans from this fund bear 0% interest and the fund had achieved reflows of R7.5 million as of March 2015.

39 Interview with Josef Schmid, May 2018.

40 Interview with Josef Schmid, May 2018.

41 Interview with Josef Schmid, May 2018.

42 Bell, Bosiu & Goga (2018).

43 Interview with the IDC, April 2015.

44 See for example Beare et al, 2014 and Small Enterprise Development Agency, SEDA (2013).

45 Interview with Josef Schmid, May 2018.

46 The proportion was calculated based on Euromonitor data on beer sales volumes. The share may lower for craft beer as tap is more important for craft beer than mass market beer.

47 Interview with Josef Schmid, 2015.

48 Interview with Chaf Pozi, 2015.

49 <http://www.comptrib.co.za/publications/press-releases/the-competition-commission-and-sab-07-april-2011/>

50 The researcher worked at three different shebeens in Soweto (in the suburbs of Dlamini, Silvertown and Dobsonville) for ten to fourteen days each as part of her research (Tsoeu 2009).

51 Interviews with craft beer brewers

52 Mondliwa and Roberts (2018).

53 <http://www.ccbagroup.com/post-three/>

54 Interviews with Chaf Pozi, May 2018.

55 Interview with Mitchells, 2015.

56 Interview with Josef Schmid, May 2018.

57 Interview with Heineken sales representative, 2018.

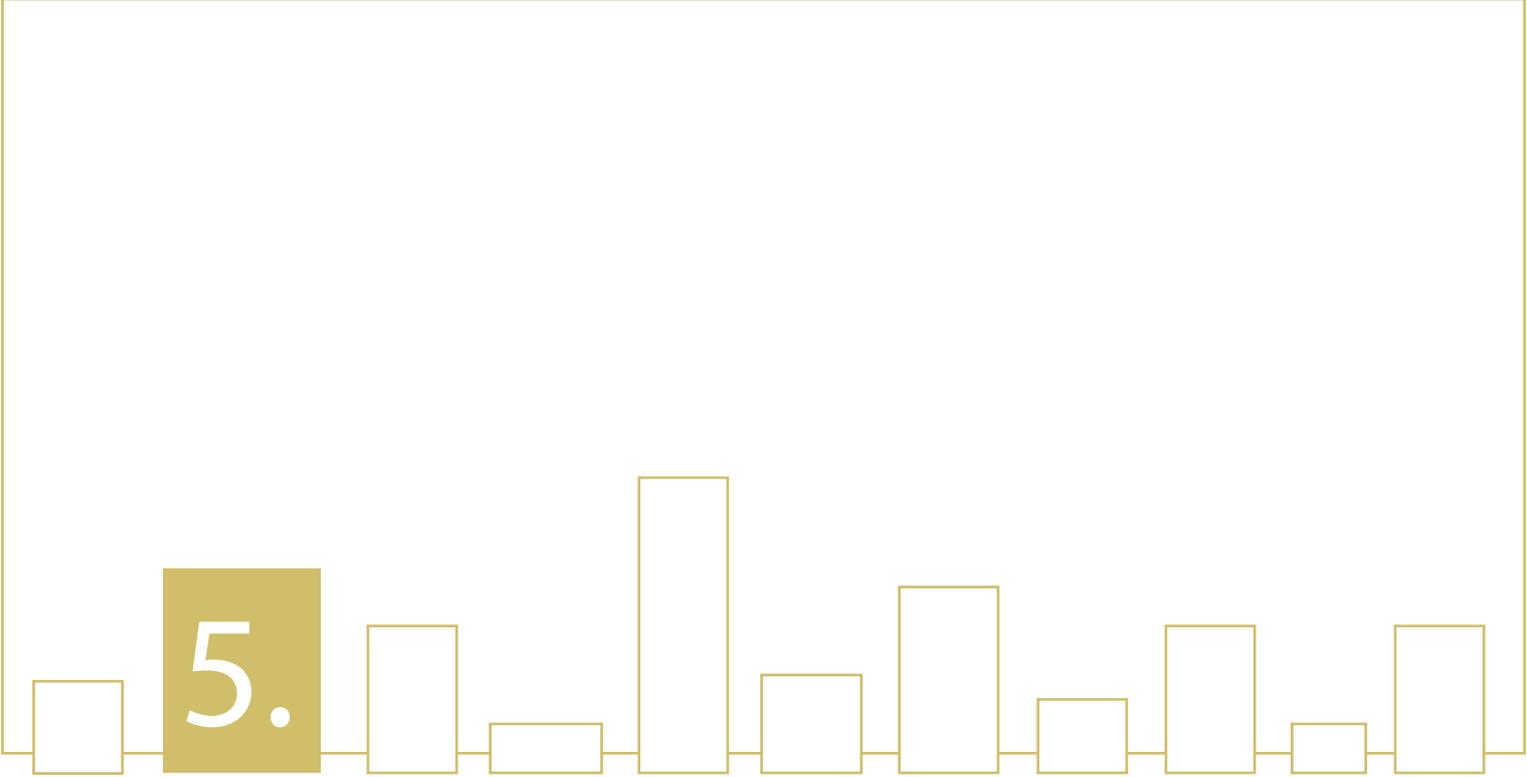
58 Interview with Josef Schmid, May 2018.

59 Green, L.G., 2016. Crafting a South African Brew: A descriptive Analysis of South African breweries and their marketing strategies. Master of Arts in Theory and Practice Thesis. University of Cape Town. Cape Town.

60 Interview with Heineken, Johannesburg, May 2018.

61 Authors calculations based on AC Nielsen advertising data.

62 Interview with Josef Schmid and w



5.

CONCLUSIONS



This case study of Soweto Gold illustrates the barriers to entry in a highly concentrated industry, even in a context in which the new entrant brought strong capabilities, was able to raise initial finance, to build a brand and was poised for growth: with wider implications for how barriers to entry are understood in the South African context and how they are impacting on overall economic performance.

While the acquisition of Soweto Gold by Heineken allows the brand to overcome a number of the challenges that it was facing, including access to capital, routes to market and distribution, the brand is however no longer majority black owned and the production of the mass market beer is in an industrial area in Sedibeng rather than in Soweto. The case study raises a range of issues related to concentration and also to transformation of the racial profile of ownership in the South African economy.

High levels of market concentration and barriers to the entry and to the growth of rivals are part of the explanation for the disappointing performance of the South African economy. Rivals (including those based in townships) bring new products and business models, and spur incumbents to invest in improving their own offerings. Dynamic rivalry drives competition and growth, and leads to expanded capabilities.⁶³ However, barriers to entry tend to sustain and reinforce the market power of incumbent firms at the expense of greater rivalry. How barriers to entry/expansion manifest in different sectors is nuanced and an understanding of the mechanism of competition in the industry is critical for understanding these. This is especially the case when considering the strategic behaviour of incumbent firms.

Powerful incumbents can block rivals through various strategies and are also able to lobby for policies and regulations which make it more difficult for challenger firms. The industrial structure thus goes along with low levels of effective competition and poor productivity. The structure of the economy is linked to the ability of individuals and groups to accumulate resources (wealth). The concentration in some markets often associated with a lack of rivalry denies opportunities for dynamism which entrants from townships and elsewhere can bring about. Thus, decisions and non-decisions that reinforce the structure have implications on accumulation that are not well understood.

For entrants to overcome entry barriers and become effective competitors, they need to simultaneously overcome a number of challenges, in each of which incumbents may be able to block them. In practice, there are a range of barriers to entry relating to the ability to reach consumers which are not well appreciated. Firms need to be able to build brands and to reach consumers. Studies of consumer behaviour have highlighted the importance of perceptions and brand awareness, as well as consumers' reluctance to switch to new suppliers.

Access to finance is also crucial. Under the requirements of the standard IDC funds Soweto Gold would not have been financed, however, it was able to access the concessionary finance under the Agro-processing Competitiveness Fund. Finance for rivals or 'challengers' needs to be provided on a basis which allows for the time to establish the business and build a brand and market presence. Yet Soweto Gold was unable to raise the finance required for growth.

Often incumbents are vertically integrated, further raising entry barriers, and providing opportunities for strategic behaviour. These incumbents have substantial lobbying ability, including to influence regulations in their favour. If South Africa is to achieve increased participation then policy and regulation needs to balance the interests of incumbents and entrants. For example, it is imperative for competition policy in developing economies like South Africa with a skewed structure of economic power to play a dual role that uplifts disadvantaged agents as the same time as setting rules for free and fair competition. The abuse of dominance provisions and their interpretation by the courts have given little if any consideration to the former. The proposed amendments to the Competition Act have been justified primarily on the need to increase participation.

The study has also illustrated that transformation at the level of black ownership in the industry has been very limited, with slow progress in transformation and diversity of ownership with regards to the objectives of the National Liquor Act. In recognition of this, the National Liquor Act was amended in 2015, inter alia to address this lack of progress. Yet it is unclear whether the proposed enforcement of the BBBEE codes will be effective in changing ownership structures.

The Soweto Gold case study also highlights some of the challenges faced by smaller firms in accessing finance including the low appetite to fund firms that intend to enter in markets with large incumbents. In fact, most of Soweto Gold's funding before and after the acquisition by Heineken came from outside of the country. There is a need to finance for risk and rivalry and this may require a reconsideration of the approach of DFIs to risk. The success of the Agri-Fund suggests that with lower interest rates and appropriate payment periods firms do pay back the loans.

The case study also emphasises that finance is not the silver bullet and firms need a number of things to be able to come together to support entry by black entrepreneurs. Though finance was a challenge for Soweto Gold, issues like access to routes to market and distribution as well as the ability to advertise influence the success or failure of entrants. Particularly in consumer goods, getting the product in front of the consumer at the right price and with beverages at the right temperature is crucial. Marketing is important because consumers are 'sticky' and do not easily switch from their usual consumption to new goods. As such entrants have to invest in marketing to try to sway customers.

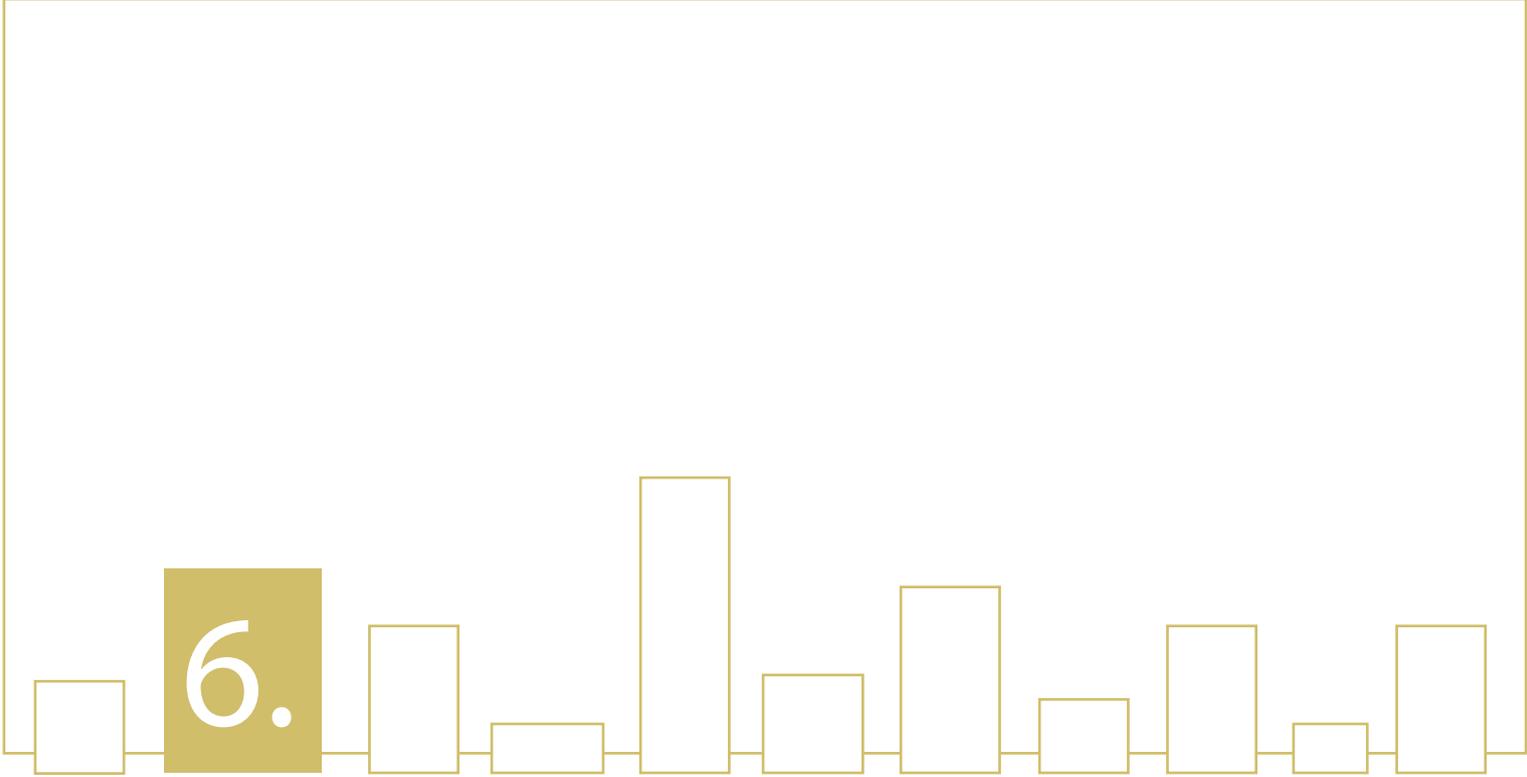
The Soweto Gold case study challenges the conventional understanding of a township business as necessarily primarily producing or servicing the township, given Soweto Gold's penetration of markets beyond the township.

The question that arises is how do policy interventions to support increased participation stack up against the challenges or barriers to entry that firms like Soweto Gold face and where are there gaps?

A stylised fact of development posits that economies which are more equal grow at faster rates relative to more unequal societies. Participation from the broader population is thought to be a vital precursor to successful industrialisation for any economy. Access to markets, resources and financing is often earmarked as a major stumbling block for black-owned and managed companies.⁶⁴ As such, an important part of the route to success of the programme was to ensure that the relationships between development finance institutions (DFIs), state-owned corporations (SOCs), economic development agencies, and the private sector are working seamlessly and with as few inefficiencies as possible.

64 Roberts (2017)

65 Black Industrialists Policy document (2014, p4)



6.

RECOMMENDATIONS FOR THE ROLE OF METROS



The Soweto Gold case study provides insight into the problems that other township-based enterprises may also face, in particular, in understanding how high levels of concentration in a market can restrict the ability of potential entrants to thrive. Another major issue, specifically related to Soweto Gold, but with wider implications is the apparent risk aversion of development finance institutions, which has the effect of limiting competitive challenges to incumbent firms.

Although metros have limited levers with which to impact on levels of concentration or competition in the wider economy, there are nevertheless a range of ways in which they can support new entrants, including with the context of township economies. This include ensuring that township and small suppliers have access to markets. For example:

Fridges/cooler space: The case study highlighted the importance of access to fridge or cooler space in outlets. One of the conditions of the ABInbev and SAB merger approval was that the merged entity had to make space available in their fridges to third parties. This is not being enforced, so there is no compliance. Municipalities can raise awareness about this and also take on the enforcement of competition conditions like these. Local departments of economic development often have units for sectoral development. The compilation of competition remedies can be done by such units, which have the responsibility of supporting industry within the municipal boundaries. This can include developing verification methodologies. The Tribunal decision will be helpful for this and the Competition Commission's compliance team can review the methodology or collaborate in the development process. The actual field work for verification can then be outsourced, potentially creating employment opportunities for youth. This would require a smart phone application to be developed that can capture the GPS coordinates of establishments, take a photograph of the fridge and assess the proportion of space allocated to various brands and then the field worker can input reasons for deviations from the conditions. Such an application could be developed through a hackathon, which could be done by the Tshimologong Digital Innovation Precinct run by the Joburg Centre for Software Engineering. There are also private service providers that would be able to develop the application. The cost can be covered by the municipalities or a fund can be created using a portion of the competition fines levied by the Tribunal. Funding from competition fines would need approval by National Treasury.

Supermarkets shelf space: Supermarkets represent an important route to market for most fast-moving consumer goods; this includes beer in their liquor stores. The beer case study has illustrated the importance of gaining access to consumers for these fast moving consumer goods. A wider recommendation that could benefit township producers and suppliers would be to develop strategies to support firms gain access to supermarkets. The typical policy solutions for routes too market tend to be focused on public procurement which only covers goods consumed by the state - a limited range.

Supermarkets have also grown in township areas and at times crowd out local retailers. Currently, supermarkets as the anchor tenants can place conditions such as that no store competing directly with them can be located in the mall. These conditions are typically in place for 20 years. There is potential for municipalities to use zoning regulations as a tool for ensuring that new malls and shopping centres located in townships make allowance for local produce in their stores. Where suppliers do not meet the supermarkets quality requirements then supplier development programmes should be set up. There are successful examples of this in in Namibia, Australia and the UK. In Namibia, Woolworths worked with farmers to upgrade quality to meet its standards. Once the farms were able to meet these standards they were also able to export products.

Accessing national incentives: The case study has highlighted the difficulties accessing funding and other government incentives. The challenges include the assessment of risk by both private and development financing institutions. Other research has also found that smaller firms battle to access government [incentives](#).⁶⁵ Firms that have successfully accessed incentives often use consultants which take a percentage of the grant. Though larger firms are able to cover this smaller firms typically would need the full grant/incentive that has been awarded and battle to fill the gap after paying the commission. This is something that needs to be addressed. There is potentially a role for municipalities to facilitate applications for funding. In Soweto Gold's experience, the provincial development agency played this role. However, more resources will be required to be invested into these municipal agencies in order for them to successfully facilitate this role.

65 Beare et al, 2014.

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