

News

Tap into township markets

● Success depends on how well businesses adapt

BY HENDRIK FOLSER

The majority of small and medium enterprises (SMEs) in Gauteng ignore the largest and potentially most lucrative market in the province. Townships present a gold mine for SMEs that are willing to adapt to, and adopt, new markets.

Soweto has stolen most of the thunder and investment in recent years, but many other townships in the province remain largely ignored by established SMEs.

The majority of Gauteng's population live in these areas and several new shopping centres, such as the Moponyo Mall, demonstrate the viability of business opportunities.

These developments are backed on commitments from large chain stores, such as Pick 'n Pay and Edgars, and small businesses should follow their example.

Researchers believe SMEs that enter these markets wisely will benefit significantly for years. They also say that SMEs have a significant advantage over larger competitors due to the flexibility of their business structures.

Opportunities exist across the spectrum and include retail, transport, business and personal services and manufacturing, as well as logistics.

Melani Prinsloo of the market intelligence consultancy, Infusion, says business decision makers who can overcome their prejudice and perceptions of townships will find themselves engaged in a large and untapped market.

Another market that deserves attention is the established township business community. Being able to tap into these businesses' supply chain will create considerable opportunities.

TOWNSHIP HOMOGENEITY

At the heart of the problem of thinking into township business opportunities, lies the belief that all townships are homogeneous. This could not be further from the truth as various townships have different 'personalities', in the same way that Sandton and Ekurhuleni West are different.

Jo Schwilke, the managing director of Business Partners, says "you cannot compare Soweto to Sandton". He adds that SMEs must do their

homework and thoroughly understand specific areas.

"Ultimately it comes down to whether there is a demand for your product and someone to pay for it. You also need to ask yourself if this market will be there in a couple of years, and why."

Schwilke believes that many Gauteng townships will follow Soweto's path, as developers become more comfortable with the idea of township investment.

"It's about getting comfortable, and developers have become comfortable with Soweto," he says, adding that new commercial and retail developments create business premises which attract opportunities.

"There is a perception of risk that is greater than reality," Schwilke says.

UNDERSTAND THE MARKET

Alister Duff, the strategic planning director of McGinn, Erickson SA, says SMEs need to change their business practices to successfully enter township markets.

McGinn recently released the research report Township Stories, which explores the differences and similarities between Soweto, Alexandra and Umlazi Town.

"There is a belief that once you enter a community, there is a responsibility to actively support and develop the community. This goes beyond spending money on corporate social responsibility - the community must also see the development."

"You can do simple things that help their perceptions, such as eating locally. You need to be seen lifting the people."

Duff adds that smart community investment will also bear fruit. "Instead of putting up a large billboard that people will simply walk past, rather speak to the local community. They can pinpoint a high crime area, because there is no street lighting. Instead of a big billboard, you can set up illuminators, bonding on that crime and improve the area's safety."

"It sounds simple, but it has a high impact and it will also be attributed to your company. Duff says SMEs must also look at the history of a township when deciding to enter it.

"In Orange Farm, informal trades have become an integral part of society and it will be

very difficult for formal businesses to enter. But in Soweto, consumers do not really care about informal traders and have welcomed formal businesses."

Prinsloo says businesses that want to impose their 'first economy value system' on consumers in townships, without reviewing their strategy, are making a mistake.

She uses traditional door-to-door sales techniques as an example. "You cannot enforce your own distribution model in many townships, because of the residents' urban system. In some townships sales people are not trusted and are seen as outsiders, whereas a product recommendation from an elderly female relative will carry more weight."

"Decision makers need to realise that there is no such thing as the 'black market' as is a single homogeneous township market does not exist. In townships, you find very rich people and very poor people, and you have to move away from generalisations," Prinsloo says.

David Murobe, the chief executive of Gauteng Enterprise Trapperley (GET), the provincial SME development agency, says several levels exist, never be responsible as business in townships has evolved over the years.

"Being in a township does not mean, suddenly, you get world class businesses in townships. In essence, you have to ask how you can bring a world-class service to a place that has historically not had those services," Murobe says.

TARGET MARKET

As with any new market, SME decision makers need to investigate the size of possible township markets.

Residents have varying income and education levels, and the maturity of consumers differ considerably.

Soweto's middle class tend to spend their money outside the area, and most of these people have indicated that they wish to leave the township.

"But Tembisa has a large population earning more than R8 000 a month, and who do not wish to leave the area. As a result, it is a potentially lucrative market," Prinsloo explains. She says that you cannot focus exclusively on one market segment. Most formal businesses target the less



Many opportunities exist in Gauteng's townships for SMEs that are willing to adapt to new markets. As the pace of development in townships increases, so too will access to these markets.

possible entrepreneur group - the middle class. "But everyone targets this market and the debt to income ratio continually increases. The market exists right now, but you do not want to destroy it," Prinsloo says, advising to "have respect for the people that make up the market. They are the people who will pay for your holiday home. Look at the market responsibly and you will be able to make money in the long term."

Duff echoes this, saying that mass markets will develop as more people are incorporated into the formal economy. These massive markets are potentially more lucrative than a select middle class.

UNDERSTAND THE AREA'S ENTREPRENEURS

As many entrepreneurs in townships do not have much choice about where they procure goods and services, an opportunity exists for SMEs that actively try to understand these potential clients.

Thabo Sesebe, the owner of Tshilo-Khobee, a restaurant in Orankwena, says his suppliers do not understand him as a businessman operating in this area. "If they understood my business environment, it would improve our relationship."

Sesephe adds that established townships with suppliers that are willing to adapt will lead to business growth, and he uses credit payment options as an example.

Duff says this market will only become more competitive and valuable over time if suppliers proactively create relationships with businesses in townships.

"There is a strong drive by (local) businesses to improve themselves." He adds, explaining, "I am active and involved, suppliers have a better chance of creating loyal customers."

"I think investment opportunities in Gauteng's townships will be unlimited," Duff says.

Murobe says GRP looks at different factors when dealing with businesses, such as education levels and financial literacy. He believes SMEs can employ the same methods and tailor their approach to effectively trade with township businesses. To push at the value chain, "you have to have a set criteria of what you are looking for, similar to a franchisor's pre-qualification criteria."

● **McGinn's Township Stories will be freely available over the Internet by the end of year. Visit www.mcginn.com for more information.**