

# Independent retailers in South Africa: how do they select their suppliers for survival?

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## **Abstract**

The purpose of this research article was to determine the supplier selection criteria used by independent retailers in Soweto, South Africa. Independent retailers are facing severe competitive pressure from large retailers that have entered the township and rural areas. Some of the independent retailers have closed down due to inability to compete with large and resourceful retailers. Supplier selection could enable the independent retailers to gain competitive advantage.

A survey was conducted among 104 independent retailers in South Africa (SA) to determine the supplier selection criteria they use to evaluate their suppliers. The results showed that the majority of independent retailers still buy their products from wholesalers when they could be buying directly from the manufacturers. They could join buying groups that will buy products on their behalf and negotiate better prices for them. Independent retailers rated price, supplier meets customer specification and quality as the most important criteria, in line with the existing literature. Supplier selection criteria were found to differ across gender, education levels and years of operation but did not differ across age.

## **Key phrases**

*Independent retailers; supplier selection; supplier selection criteria*

## **1. INTRODUCTION**

Due to competitive pressures, consumer demands and changing economic and technological developments, retailers need to adapt their supplier selection strategies in order to survive. As more and more retailers enter the South African (SA) retail space, retailers need to determine how they can survive in the market. This applies particularly to small independent retailers that are facing severe competitive pressure from large retailers

that have been expanding to the township and rural areas (Department of Economic Development 2015:4).

The rural and township market has been regarded as a market for independent retailers since large retailers were reluctant to enter these areas during the apartheid period. This has since changed due to shopping centre developments taking place in those areas in SA. For independent retailers to remain competitive and to survive, they need to select their suppliers carefully to be able to offer consumers what they want. Independent retailers increasingly are losing customers to major retailers in SA since customers are spending less in independent stores compared to large retailers (Durham 2011:34). Independent retailers, therefore, have to determine how they select their suppliers so they can create a competitive advantage against strong competitors.

Businesses can gain competitive advantages through choosing the right supplier (Agarwal, Sahai, Mishra, Bag & Singh 2011:801). To ensure that they are buying the right product at the right time, right price and right quantity, businesses select suppliers from whom they will purchase goods and services. This is because supplier selection impacts on the performance of a business since what the business buys, especially raw materials, affects the quality of products they will produce (Bhutta & Huq 2002:126). Supplier selection is the evaluation of supplier capabilities and performance compared to similar companies with the purpose of improving business performance (Pearson & Ellram 1995:55). Supplier selection has become more relevant for buying businesses since it determines their performance (Kannan & Tan 2003:1).

Largely, a small number of major retail and consumer goods companies dominate the SA retail market (Das Nair & Dube 2015:3). The five largest retailers in the country are Shoprite, Pick 'n Pay, Spar, Woolworths and Massmart and constitute a combined 60 percent market share (Italian Trade Agency 2013:9). Shoprite is the biggest grocery retailer by market share (PWC 2012:11). Major retailers in SA have also increased their market penetration and have increased marketing efforts through brand promotion and advertising (Durham 2011:34), which has created challenges for independent retailers (Das Nair & Dube 2015:5).

Independent retailers face major challenges such as competition from other businesses, costs of buying products, which are too high, as well as high inventory costs and high rental costs (Makhitha 2016:102). These challenges create severe pressure on independent retailers who are facing large resourceful retailers that have penetrated the townships and rural markets. Independent retailers must determine their competitive advantages in order to

survive. To be able to survive, independent retailers should also be able to select their suppliers appropriately in order to source products at competitive prices (Liedeman, Charman, Piper & Petersen 2013:4,5). Koufteros, Vickery & Droge (2012:101) further support the importance of supplier selection in that selecting suppliers based on quality has direct and positive influence on the ability of the businesses to compete based on quality.

## **2. LITERATURE REVIEW**

### **2.1 Independent retailers in South Africa**

Independent retailers are businesses that are privately owned and do not belong to any large chain store (W&R Seta 2011:2). Independent retailers emerged as a result of the colonisation that demarcated shopping and residential zones for minority citizens and black majority citizens, which created opportunities for black entrepreneurs to establish businesses to serve their communities (Chikwekwe 2015:123). Independent retailers are small businesses targeting lower living standard measure (LSM) customers in peri-urban, township, industrial and central areas of the city (Das Nair & Dube 2015:12). They include food and non-food retailers such as cash-and-carry that have both wholesale and supermarket offerings. They also include the spaza shops, spazarettes and superettes.

Independent retailers are a means by which consumers, particularly low-income consumers in SA, can access groceries. The characteristics of independent retailers that appeal to consumers include lower prices, personalised customer service, credit facilities, availability of specialist products, location advantages and convenience. Independent retailers are usually low-margin businesses that have to manage overheads and other expenses closely (such as wastage and stock shrinkage) (Das Nair 2016:8).

There have been concerns that independent retailers are declining in SA (Durham 2011:34). Around 2009/2010, the Competition Commission evaluated a number of mergers in the independent wholesalers space (which affects independent retailers), reflecting the degree of consolidation. Major supermarkets are indeed moving into the townships and rural areas. Large suppliers often are reluctant to deal directly with small, independent retailers (Das Nair 2016: 9).

There are over 100 000 informal stores in SA (Liedeman *et al.* 2013:2; Minanawe Marketing 2015 cited in Das Nair & Chisoro 2015:11). Although consumers shop at the supermarket when looking for top-up, daily purchases or even weekly purchases, they frequent

independent retailers towards mid-month and month-end. These independent retailers typically stock fast-moving items and operate at very low profit margins (Das Nair & Dube 2015:13). Wholesalers, traditional spazas (independent retailers in large African townships and suburbs), tuck shops and small independent retailers hold the remaining market share (Italian Trade Agency 2013:22).

A study conducted by the Italian Trade Agency (2013:1) reported that more consumers shop at Checkers, followed by Pick 'n Pay, the spaza shops (informal retail outlets) and Spar. Although there has been a rapid decline in consumers purchasing from independent retailers, including spaza shops, consumers are still buying from them to fill-up their grocery items (Strydom 2012:163). Independent retailers, therefore, need to formulate competitive strategies to retain consumers in their businesses. Supplier selection could be beneficial to independent retailers in that through supplier selection they will be able to source quality products at competitive prices. For example, a study on out-shopping in Soweto found that consumers in Soweto shop from retailers located outside Soweto.

One of the reasons for out-shopping was that consumers look for competitive prices from retailers (Strydom 2012:163,170). Liedeman *et al.* 2013:3 found that foreign-owned spaza shops were more competitive than SA-owned spaza shops since the foreign owners are cheaper and are better stocked than SA ones. Liedeman *et al.* 2013:3 further indicated that the foreign-owned spaza shops are involved in group purchasing to secure discounts and operational economies of scale, which make them more competitive. Independent retailers source products from supermarkets (Global Agricultural Information Network 2011:14) and do not belong to a buying group that could source products on their behalf, which disadvantaged them over large competitors (Ravhugoni & Ngobese 2010:7; W&R Seta 2011:11). This supports that supplier selection is crucial for independent retailers to succeed.

The SA retail sector is composed of the formal and informal sector. The informal sector consists mainly of general dealers, spaza shops, tuck shops, hawkers and street vendors, which are found in townships. They are served mainly by the wholesale market. The food and groceries market constitutes 22.5 percent of the informal or independent retailers, which supply 81 percent of households in SA. The informal and independent retail market grew 45 percent from R79.5 billion in 2010 to an estimated R115.6 billion in 2013 (Sustainalytics 2012:19).

Supermarkets provide a wide range of products and services at a lower price and provide goods and services to low-income consumers (Das Nair & Chisoro 2015:7), which independent retailers are unable to match (Liedeman *et al.* 2013:4; Ravhugoni & Ngobese 2010:7).

According to Reardon, Timmer, Barrett & Berdegue (2003:1142), supermarkets offer low prices as compared to independent retailers, especially on food items. Independent retailers find it difficult to compete with supermarkets due to lack of economies of scale, good retail logistics, centralised procurement, consolidated distribution and better inventory management that is inherent with large retailers (Reardon *et al.* 2003:1145). This has created challenges for small independent retailers (both formal and informal independent retailers), who must overcome challenges in order to survive.

## **2.2 Supplier selection criteria used by independent retailers**

Supplier selection is not a new phenomenon but a well-researched topic. Existing studies have investigated supplier selection for different types of retailers and product categories using various supplier selection criteria (Hansen 2001; Kahraman, Cebeci & Lulukran 2003; Kar & Pani 2014; Kim & Boo 2010; Lin & Wu 2011; Sen, Basgil, Sen & Baracli 2008). Few studies have researched supplier selection in SA (Makhitha, Wiese & Van Heerden 2014; Naude 2013). Studies that investigated supplier selection from the SA perspective focused on small businesses (Naude 2013) and craft retailers (Makhitha 2013; Makhitha, Wiese & Van Heerden 2014). This study differs from the other studies in that it seeks to determine the supplier selection criteria of independent retailers from a developing country perspective.

As with any business involved in the buying process, retailers go through a lengthy buying process. It is during the buying process that they make decisions on what to buy (the type and assortment of merchandise/products) and from whom to buy. Suppliers must be identified, evaluated and selected (Sanayei, Mousavi, Abdi & Mohaghar 2008:736) from whom retailers will purchase products. These decisions are influenced by the store's merchandise/product policy, which differs from store to store and includes the price range to be offered, the quality of merchandise/products, the exclusiveness of merchandise/products, variety, timing of introduction, merchandise/product assortment and price policy (Diamond & Pintel 2008:113).

The decision on what to buy and from whom to buy is part of supplier selection. An efficient supplier selection leads to decreased costs, increased profit, improved quality and a

guarantee of on-time delivery (Naude 2013:12). Identifying suppliers with the highest potential is essential for meeting a firm's needs (Pitchipoo, Venkumar & Rajakarunakaran 2013:3903) since supplier selection helps businesses produce high-quality products and attain customer satisfaction (Liou, Chuang & Tzeng 2014:199). Supplier selection determines how businesses select strategic suppliers to enhance their competitive advantage (Karsak & Dursum 2015:83).

The supplier selection criteria that will be used to evaluate suppliers and their products must be determined (Ormuca, 2013:691). Supplier selection involves an evaluation of suppliers against a predetermined set of criteria to establish if suppliers meet set business requirements (Karsak & Dursum 2015:92). Good suppliers allow enterprises to achieve good business performance and get the maximum benefits for the business industry or for the firm (Pitchipoo *et al.* 2013:3903).

Table 1 portrays the supplier selection criteria of independent retailers.

**TABLE 1: Supplier selection criteria of independent retailers**

Author	Independent retailer	Country	Supplier selection criteria
Abbad & Pache (2013:20)	Food retailers	Morocco	<p><b>Logistical criteria:</b> Presence or absence of Electronic data interchange type information systems in the supplier's, premises., regular monitoring of stock-outs by reference and by supplier, supplier's capacity to deal with periods of high product demand, supplier's competences in logistics: use of standardized pallets, creation, of bar codes to identify products, availability of products at ordering, compliance with delivery times.</p> <p><b>Marketing criteria:</b> adequate level of discounts accepted by suppliers during annual and centralized negotiations to guarantee the lowest prices to consumers, acceptance by suppliers of price conditions defined in trade cooperation agreements, participation of suppliers in the organization of trade marketing operations, in function of stores' selling plans and marketing management plans.</p>
Da Silva, Davies & Naude	Clothing and textiles retailers	UK	Cost, work quality, delivery time, responsive ness to request, innovative ability, good design ideas.

Author	Independent retailer	Country	Supplier selection criteria
(2002:1335)			
Hansen (2001:64)	Supermarket	China	High product quality, the supplier's reliability, policy regarding return/handling complaints, high service levels, willingness to cooperate, ability to supply products based on demand, products certified by authorised organisations, competitive prices, broad product range, flexibility of the supplier.
Kannan & Tan (2003:474)	Large businesses	USA and Europe	Quality level, service level, on-time delivery, quick response time in case of emergency, problem, or special request, the flexibility to respond to unexpected demand changes, correct quantity, price/cost of product, willingness to change their products and services to meet your changing needs, communication skills/systems (phone, fax, email, internet).
Kar & Pani (2014:99)	Across 8 industries –	India	Product quality, compliance with the delivery schedule, price of the product, technology capability, production capability, financials of the supplier, e-transaction capability.
Lin & Wu (2011:12520)	Supermarkets	Taiwan	Price, product quality, product consistency, food safety.
Makhitha, Wiese & Van Heerden (2014:273)	Craft retailers	SA	Product quality, product is exciting and attractive, product styling and design, product distinctiveness/unique, supplier's willingness to cooperate with us, product's sales potential, i.e. product will sell, the ability to supply products based on our demand/requirements, supplier capacity i.e. the ability to supply needed quantity, delivery reliability, i.e. the ability to deliver on time, total cost of acquiring the product.
Nanonde & Kuanda (2016:1171)	Food retailers	Tanzania	Reliability, quality, trade credit, legal certification, consumer feedback, reliability, return policy, packaging, price, quality and well-promoted product.
Naude (2013:8).	Small retailers	SA	The distance between the buyers and their suppliers, the timeous delivery of goods, transportation and logistical costs, flexibility with regard to the frequency of deliveries

Author	Independent retailer	Country	Supplier selection criteria
			and service levels.
Sheth (1981:5,6)	Retailers – small and large	All	Product assortment, financial position, business negotiations, relative marketing effort of the organisation, price, delivery, packaging
Skytte & Blunch (2006:121-2)	Food retailers	Western European	Long-term relationship with retailers, traceability, presence on various markets, sufficient quantities, consistency in product quality, market information, product range
Sternquist & Chen (2006:251)	Food retailer	China	Supplier role performance, price, trade assistance, and relationship with supplier.
Thomas & Marr (1993:23)	Supermarket	New Zealand	Financial aspects, company profit and sales objectives, promotion and advertising commitment, ability of product to maximize profit, likely consumer demand  supplier track record/performance, unique product benefits/features, potential growth in product category

Source: Own compilation

It is clear from the above table that the most common supplier selection criteria are quality, cost and price and delivery. Table 1 also shows that there are varieties of supplier selection criteria across types of retailers, industries and countries. According to Hansen (2001:164) and Sheth (1981:5) supplier selection criteria differ for different store size, type of retailer and location. Independent retailers must determine the supplier selection criteria suitable for their businesses and market they serve if they want to succeed. The supplier selection criteria related to use of technology appears in few research studies such as those of Abbad & Pache 2013:20, Kannan & Tan 2003:474 and Kar & Tan, 2014:99 which indicates that independent retailers have not fully adopted the use of technology for their day to day operations. .

The demographic factors of independent retailers impact on supplier selection criteria they use to evaluate suppliers. For example, Park and Krishna (2001:267) found that demographic factors such as age, education, and type of work experiences influence the supplier selection criteria used by small businesses. Da Silva *et al.* (2002:1335) also found



age, gender and experience to have impact on the supplier selection criteria. Furthermore, Da Silva *et al.* (2002:1335) found that the more experienced the businesses are, the more they see cost as an important supplier selection criteria. In addition, Fairhurst and Fiorito (1990:97) found that experience and training impact on supplier selection criteria used by businesses when selecting suppliers. Yu, Fairhurst and Lennon (1996:20) found that years of experience affect the decision on which supplier selection criteria to use when evaluating suppliers. The afore-mentioned discussion led to the following hypothesis:

**H<sub>1</sub>:** There are significant differences between the demographic variables such as age, gender, education, operational experience of independent retailers and the supplier selection criteria they use.

### **3. PROBLEM STATEMENT AND RESEARCH OBJECTIVES**

There have been a number of shopping centres entering the townships in SA. As a result, independent retailers in SA are facing severe pressure from resourceful large retailers that are entering the townships. The entrance of these large retailers in the townships has influenced consumer behaviour since consumers have reduced their spending in independent retailers (Durham 2011:34). This is due to the large retailers offering a larger product assortment than independent retailers. Large retailers also offer promotional discount and other marketing strategies to sustain their positions in the market. The penetration of large retailers into townships has affected small informal independent retailers, leading to a decrease of these retailers, with some of these retailers experiencing a decline in profitability (Department of Economic Development 2015:4).

Supplier selection is key to market access. Independent retailers could compete successfully in the market with large retailers if they select their supplier accordingly since selecting the correct suppliers has a significant impact on purchasing cost and also improves corporate competitiveness (Ghodsypour & O'Brian 2001:15). Selecting the right supplier would reduce unit prices and improve corporate price competitiveness (Ting & Cho 2008:116).

Since supplier selection deals with assessing the performance of supplier, in order to retain those suppliers who meet the requirements of buying organisations (Bruno, Esposito, Genovese & Passaro 2012:170), independent retailers could create competitive advantages through supplier selection. The price at which the products are sourced, affects the profitability of the business since the high cost of acquiring products and services could

reduce profitability (Makhitha 2013:82). The purpose of this article is to determine the supplier selection criteria used by independent retailers in SA. The objectives are:

- to determine the supplier selection criteria used by informal independent retailers in SA
- to determine if supplier selection criteria differ across demographic factors of independent retailers.

#### **4. RESEARCH METHODOLOGY**

The study targeted small independent retailers in Soweto, Johannesburg, SA. According to Das Nair and Chisoro (2015:11), independent retailers are small businesses that target lower LSM customers in peri-urban, township, industrial and central business district areas of cities. Soweto was selected because it is the largest township in Johannesburg and consists of an amalgamation of several different townships. Over 43 percent of the population of the City of Johannesburg lived in Soweto in 2004 (City of Johannesburg 2005 cited in Ligthelm 2008:37). The study targeted formal and informal independent retailers situated in Soweto and included general dealers, tuck shops and spaza shops, street vendors and those selling and providing services.

Interviews were conducted with the owners or managers of the businesses since it was believed they possessed the knowledge to provide the required information. A convenience sampling method was adopted owing to lack of access to a database of independent retailers in Johannesburg, SA. Convenience sampling is a sampling method that allows a researcher to choose whoever is available at a lower cost (Cooper & Schindler 2006:245).

Data were collected using two fieldworkers who were trained prior to data collection. The questionnaire was pre-tested with 20 independent retailers. Feedback from the pilot test was used to adapt the wording of the questionnaire. The questionnaire was of a self-completion nature and fieldworkers distributed the questionnaires to retailers who were responsible for completing the questionnaire. Over 200 questionnaires were distributed; however, only 102 of them were completed, yielding a 51 percent response rate. This was due to the lack of willingness from independent retailers to participate in the study. The questionnaire was designed using information collected from the literature.

Respondents were requested to indicate how important each of the 22 listed supplier selection criteria is on a five-point Likert-type scale, where (1) indicated not important at all and (5) extremely important. Respondents were given an opportunity to add more supplier

selection criteria adding the item 'other - please specify' on the questionnaire. There were 10 demographic questions listed in the questionnaire. The Cronbach's alpha for the scale was 0.78, indicating satisfactory internal consistency reliability. No incentives were provided for participation, as participation was voluntarily.

Data were analysed using SPSS, version 24. Descriptive statistics were generated and the results are reported and discussed in the next section. The frequencies and percentages of the supplier selection criteria were determined during statistical analysis. Descriptive statistics were used to identify supplier selection criteria informal retailers use to select their suppliers.

## **5. ANALYSIS AND DISCUSSION OF THE RESULTS**

### **5.1 Demographic variables**

Table 2 shows the demographics of the retailers. The majority of respondents were males (60.8%, n=62), which shows that retailers are either owned or managed by males. Over 50 percent (52.9%, n=54) of the respondents are 25 to 40 years old, which implies that the businesses are owned by the younger generation. Over 80 percent (85.5%, n=87) of the respondents have either completed grade 12 or a certificate/diploma.

The respondents are well distributed among the different operational period options with the majority of retailers having been in operation for between one and three years (24%, n=27), followed by those who have been in operation for less than one year (21%, n=23) and over 10 years (22%, n=25). Almost 50 percent (48.6%, n=35) of the respondents are owners of their business and manage them. Eight of the respondents specified that their position in the business is something other than the owner/manager.

The buying is done mostly by the owner-manager or the manager (97.3%, n=111). One of the respondents indicated that some other person is responsible for buying, while another two indicated that some selling person is responsible for buying. More than 90 percent (92.8%, n=103) of the respondents have 1-10 suppliers. Only two respondents indicated that they have more than 20 suppliers.

**TABLE 2: Demographic profile of respondents**

Demographic		N	Percentages
<b>Gender</b>	Male	62	61%
	Female	40	39%
	TOTAL	102	100%
<b>Age</b>	20-24 years	8	8%
	25-29 years	15	15%
	30-40 years	31	30%
	41-50 years	30	29%
	51-59 years	17	17%
	60+ years	1	1%
	TOTAL	102	100%
<b>Level of education</b>	No matric or grade 12	15	15%
	Completed grade 12/matric	52	51%
	Post school qualification - diploma/certificate	28	28%
	Post school qualification - degree	6	6%
	Post school qualification - post graduate	1	1%
	TOTAL	102	100.0%

Source: Survey results

Close to 40 percent (37.8%, n=28) of the respondents specialise in the sale of groceries. The second largest group are those that specialise in sports goods (27.0%, n=20). More than 85 percent (85.3%, n=97) of the respondents buy their stock/merchandise directly from wholesalers. The second largest group are those that buy their stock/merchandise directly from the manufacturer (21.1%, n=23).

## 5.2 Supplier selection criteria of independent retailers in SA

As evident from Figure 1, meeting customer specification, price and product quality are the top three reasons why the independent retailers buy from a supplier.



**FIGURE 1: Supplier selection criteria of independent retailers: mean scores**

Source: Survey results

The least popular reason for buying from a supplier is the provision of transportation. This could be that retailers have their own transport or that the suppliers are in close proximity to the retailers. Makhitha (2013:212) found supplier meets customer requirements as the seventh most important supplier selection criteria by retailers. Price was considered the most

important criterion by some researchers (Dandeo, Fiorito, Giunipero & Pearcy 2006:35; Lin & Wu 2011:1252; Sternquist & Chen 2006:260). Previous studies on supplier selection criteria also identified product quality as the most important criterion (Hansen 2001:164; Kim & Boo 2010:512; Skallerud & Gronhaug 2010:204). Kim and Boo (2010:512) argue that product quality is more important for buyers who are selecting suppliers for the first time.

### 5.3 Factor analysis

To reduce the dimensionality of the data, principle component analysis (PCA) with IBM SPSS Statistics 24 was used to examine patterns of correlations among the questions used to measure the importance that respondents attach to various supplier selection criteria. The factorability of the correlation matrix was investigated using Pearson's product-moment and Spearman correlation coefficients. The correlation matrix, demonstrated a number of coefficients of 0.3 and above. The Kaiser-Meyer-Olkin value was 0.799, well above the recommended minimum value of 0.6 (Field & Miles 2010:560). The Bartlett's test of sphericity (Hair, Black, Babin & Anderson 2010:92) reached statistical significance,  $p < .001$ . Thus, the correlation matrix was deemed factorable.

Varimax rotation was performed. Factor loadings of less than 0.4 were excluded from the analysis. Hair *et al.* (2010:117) consider factor loadings of 0.30 acceptable. However, factor loadings depend on the sample size. For example, Stevens (cited in Field & Miles 2010:557) indicated that, for a sample of 200, a factor loading of 0.364 is acceptable and for a sample of 1000, a factor loading of 0.162 is acceptable. Although variables with a loading of 0.3 can be interpreted, it should be noted that the higher the loading, the more the variable is a pre-measure of the factor.

The Cronbach's alpha coefficient of 0,78 was achieved with constructs loading a Cronbach alpha of between 0.62 and 0.92. Malhotra (2010:319) deemed a Cronbach's alpha of 0.60 acceptable and 0.70 to be an indication of satisfactory internal consistency reliability. To determine the validity of the instrument, the threshold of 0.39 to 0.80 was maintained on the communalities, as well as a cut-off point of 0.30 on the Pearson's correlations as guided by Kim and Mueller (1978). This resulted in four items being dropped from factor analysis after they loaded unsatisfactorily in the initial scale refinement procedure, suggesting that those items may be incapable of differentiating between factors. This resulted in 18 items being factor analysed. Four factors/components were identified from the factor analysis, with two factors loading two items each. The components were named as follows: Quality and price

(factor 1), supplier services (factor 2), supplier innovativeness (factor 3) and reputation of the supplier (factor 4). The eigenvalue for the factors was 65.15.

Factors are shown in Table 3.

**TABLE 3: Factor analysis – supplier selection criteria**

	Factor 1: Quality and price	Factor 2: Supplier services	Factor 3: Supplier innovativeness	Factor 4: Reputation of a supplier
Offering low prices	0.878			
Geographical location of the supplier	0.874			
Willingness to negotiate prices	0.830			
Price is the most important criteria for us when buying	0.801			
Responsiveness to my requests	0.801			
Products will sell	0.760			
Meet customer specification	0.751			
Product quality	0.751			
Total cost of buying the products	0.750			
Supplier reliability	0.688			
Supplier can deliver in sufficient and correct quantity		0.729		
Supplier provides transportation		0.724		
Delivery time – deliver on time		0.675		
Supplier provides promotional		0.502		

	Factor 1: Quality and price	Factor 2: Supplier services	Factor 3: Supplier innovativeness	Factor 4: Reputation of a supplier
support				
Supplier introduce new products from time to time			0.817	
Suppliers are up to date with trends and developments			0.808	
Supplier's experience (time on market)				0.808
The selling history of the suppliers' products				0.775
Eigen values =65,15	38.155	12.640	8.233	6.126
Cronbach alpha	0.929	0.640	0.704	0.640
Mean score	4.796	3.747	4.573	3.982
Standard deviation	0.425	1.099	.865	1.261

Source: Survey results

Factor 1 loaded 10 items, which consisted of items relating to price and product quality. It was named quality and price. It appears that independent retailers value price and cost as the most important criteria. This supports existing findings on supplier selection that price and quality are important for businesses when evaluating their suppliers (Dandeo, Fiorito, Giunipero & Percy 2006:35; Kim & Boo 2010:512; Lin & Wu 2011:1252).

Factor 2, loaded four factors that included items such as delivery reliability and that supplier provides sufficient and correct quantities. The delivery reliability also was found to be an important criterion by most authors (Hansen 2001:164; Makhitha 2013:214;). The next factor, factor 3, loaded two items that relate to suppliers developing new products from time to time in response to trends in the market. This factor was named supplier innovativeness.



Kim and Boo (2010:512) identified products that meet current trends as one of the most important supplier selection criteria.

The last factor, factor 4, also loaded two factors and was named reputation of suppliers since items loaded related to history and supplier experience. The fact that factors 3 and 4 loaded 2 factors each is consistent with existing studies. For example, Kannan and Tan (2003:481) studied 30 supplier selection criteria of US and European business. Two factors, communication and delivery, as well as contractual and cultural fit, loaded two items each. Furthermore, Fairhurst and Firitto (1990:94) identified seven factors during the factors analysis of supplier selection criteria. Of the seven factors identified, three of them loaded two items each. In another research, Kannan and Tan (2002:16) identified six factors during the factors analysis, with one factor, information sharing loading two items.

#### 5.4 Hypothesis testing

To test whether gender has an effect on how important the respondents rate the four factors, namely quality and price, supplier services, supplier innovativeness and reputation of a supplier, a Mann-Whitney U test was used. The test results showed that gender has a significant effect on supplier services only. Gender has a significant effect ( $Z=-1.990$ ,  $p<.05$ ) on how important the respondents rate the supplier services when selecting a supplier. More specifically, it is more important for male respondents ( $MR=60.64$ ,  $n=76$ ) than for female respondents ( $MR=47.76$ ,  $n=36$ ).

A Kruskal Wallis test was used to explore the possible effect that age has on the importance attached to the four factors. The Kruskal Wallis test did not find any significant effect of age on any of the four factors.

A Kruskal Wallis test was used to explore the possible effect that education has on the importance attached to the four factors. The test found that education has a highly significant effect ( $\chi^2=16.909$ ,  $p<.01$ ) on how important the respondents rate the supplier reliability when selecting a supplier. The other three factors are not affected by the level of education.

Pairwise comparisons using Mann-Whitney U tests resulted in the following post-hoc results: More specifically, those with no matric or grade 12 ( $MR=72.26$ ,  $n=19$ ) rate supplier reliability more important than those who completed grade 12/matric ( $MR=42.17$ ,  $n=36$ ) as well as those with post-school qualification – diploma/certificate ( $MR=53.03$ ,  $n=29$ ).

Those with post-school qualification – diploma/certificate (MR=53.03, n=29) consider supplier reliability to be less important than both those with post-school qualification – degree (MR=64.82, n=11) and those with post-school qualification – post graduate (MR=72.17, n=18).

Those with post-school qualifications – diploma/certificate (MR=53.03, n=29) marginally consider convenience of buying to be less important than those with post-school qualification – post graduate (MR=72.17, n=18).

A Kruskal Wallis test found that years of operation has a highly significant effect ( $\chi^2=15.418$ ,  $p<.01$ ) on how important the respondents rate quality and price when selecting a supplier.

Pairwise comparisons using Mann-Whitney U tests resulted in the following post-hoc results:

More specifically, those whose businesses have been in operation for over 10 years (MR=70.50, n=25) consider quality and price to be more important than those whose businesses have been in operation for less than one year (MR=45.89, n=23), between one and three years (MR=53.09, n=27) and between three and five years (MR=50.79, n=17). This could be that they understand what is important for them to survive in the business compared to large retailers.

Those whose businesses have been in operation for less than one year (MR=45.89, n=23) consider quality and price as less important when selecting a supplier than those whose businesses have been in operation between five and 10 years (MR=63.14, n=21). This differs from findings by Makhitha (2013:221) who found that years of operation has no impact on the criteria retailers use when selecting suppliers. Furthermore, Johansson and Burt (2004:810), reported that the years of operation of the business is only important when buyers select suppliers from the existing supply relationships and not when looking for new ones. Thomas and Marr (1993:27) also found age and years of operation of retailers affect the supplier selection criteria they used to evaluate suppliers.

The above results show that there are significant differences between the demographic variables of independent retailers and the supplier selection criteria they use.

## 6. RECOMMENDATIONS

The findings in this research revealed that the majority of independent retailers buy from wholesalers. This could disadvantage them over their competitors. Independent retailers are competing with major retailers for the customer's share of the wallet and, therefore, need to

be competitive. These competitors buy in large volumes from suppliers and are able to negotiate lower prices, which independent retailers are unable to match. Small retailers need to consider buying from manufacturers. Companies such as Coca Cola and SA Breweries, in SA, supply directly to customers, including small retailers. For example, Coca Cola even sponsor some of the small retailers such as spaza shops and general dealers by painting the shops with the company colours as a promotional tool and a support mechanism for small retailers.

Independent retailers can survive by joining a buying group for independent retailers. According to Ravhugoni and Ngobese (2010), there are buying groups in SA that buy on behalf of independent retailers who are members of the group. Independent retailers can benefit from group buying, which could create an advantage for them to compete on prices compared to competitors,

The fact that independent retailers rate price highly when buying from suppliers is a step in the right direction since independent retailers' ability to source products in lower prices will enable them to price their products more competitively. . Independent retailers, therefore, must evaluate the total costs of buying and not only the purchasing price they pay for goods and services to determine how much they are spending on buying certain products and services. This way, they will be able to identify possible solutions to reduce the total costs of purchasing. It is also important that they select the right suppliers since this leads to reduced costs of purchasing, which in turn increases competitiveness of the business (Ebrahimipou, Shoja & Li 2016:656).

Product quality is also important for consumers who would rather buy from major supermarkets than small retailers. Therefore, small retailers may also use this as an advantage since they consider this an important criterion for selecting suppliers. This implies that they will be able to offer consumers product quality that matches that of their competitors. According to D' Haese & Huylenbroeck 2005:106, consumers with high incomes buy from large retailers compared to those with lower incomes who buy from independent retailers. The food prices in independent retailers were found to be higher than those in large retailers, which implies that independent retailers need to seriously pay attention to prices they pay suppliers (D' Haese & Huylenbroeck 2005:107).

The retail market is highly competitive. Small retailers need to understand their customer needs and use these to formulate supply selection strategies that will enable them to source what consumers want at a price they are willing to pay. This is because their competitors,

the large supermarkets, provide a variety of products at relatively cheaper prices, given economies of scale and global sourcing strategies, compared to independent (often just local) retailers (D'Haese & Van Huylbroeck 2005:107). Therefore, independent retailers must overlook their weaknesses, which result from the size of their businesses, and find innovative ways in which they can source products from the suppliers.

It is also important that small retailers meet customer specifications. This is more relevant since consumers have other retailers from whom they may buy. Supermarkets and most grocery retailers offer the supplementary service of arranging a wide assortment of other non-food products, selling concurrently in a convenient setting and location with a focus on quality, service, one-stop shopping and an overall shopping experience, which small retailers are unable to provide (Das Nair 2016:7). Therefore, independent retailers should up their games and provide appropriate products and service to their customers. Independent retailers should find ways in which they can source products that are of high quality and low prices so that they can match those of their competitors.

## **7. LIMITATIONS**

The main limitation for this study was that it focused on independent retailers in Soweto. The study also adopted convenience sampling due to the unavailability of a database of independent retailers in Johannesburg. The findings of this study cannot be generalised to all independent retailers in SA. Another study could investigate independent retailers from other provinces. Other studies could also investigate the attitudes of consumers towards independent retailers and the products and services that they provide compared to large retail stores.

## **8. CONCLUSIONS**

The findings of this research revealed that independent retailers rate supplier meets customer specifications, price and product quality as the most important criteria when selecting suppliers. Although the criteria supplier meets customer specifications has not been listed in many studies, the price and product quality criteria has been listed by many studies as important for various types and sizes of retailers. It is important to note that majority of small retailers buy from wholesalers followed by those buying from manufacturers. This disadvantages them against their large competitors who are able to source products directly from manufacturers at competitive prices. Although independent

retailers select price as one of the important supplier selection criteria, they might not be getting the lower prices they should if they were buying products directly from manufacturers or buying in groups where they could negotiate lower prices. Independent retailers need to change their selection system and rather join buying groups or source directly from manufacturers where possible.

Independent retailers differed in how they rated supplier selection criteria across gender, education and years of operation. Males were found to prefer supplier reliability than males. Those with extensive experience in operating a business preferred quality and price compared to those who have been operating for less number of years.

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