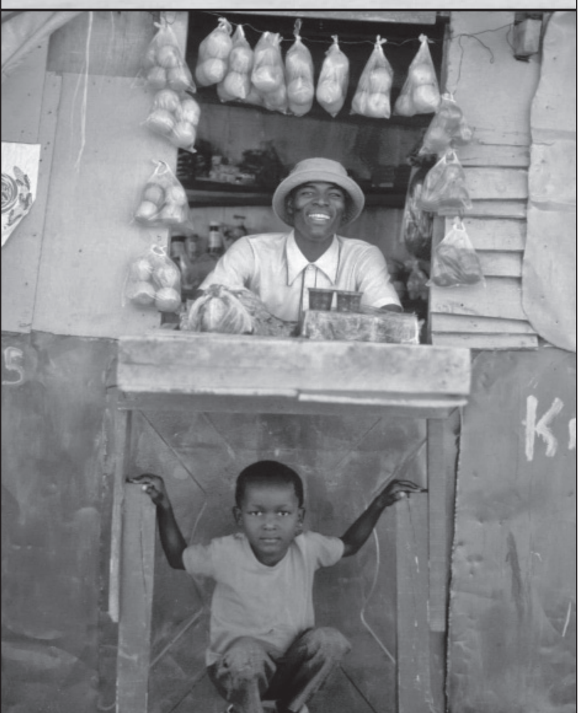

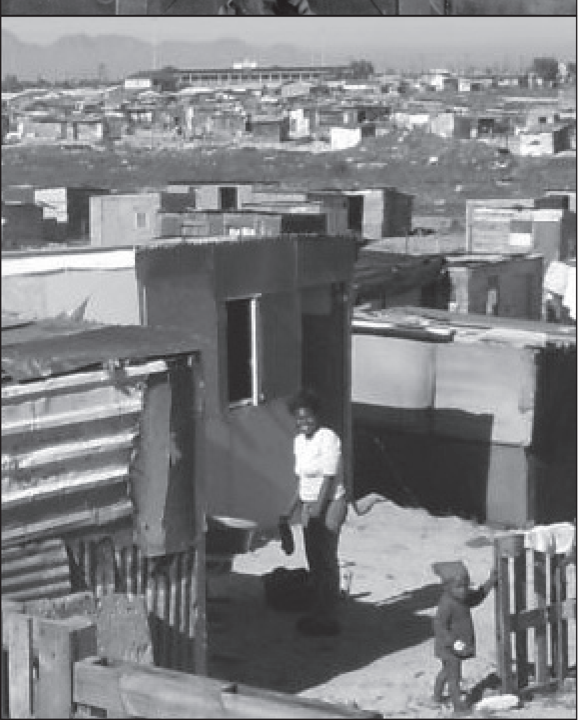

PRACTITIONER LEARNING PROGRAM
IN BDS MARKET ASSESSMENT

CASE STUDY #1

Making Retail Markets Work for the Poor –

Why and How Triple Trust Organisation Decided to Intervene in the Spaza Market in South Africa

Marshall Bear
With Paul Bradnum, Seth Tladi and Donovan Pedro

September 2005

The SEEP NETWORK

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The SEEP Practitioner Learning Program (PLP) in Business Development Services Market Assessment, Case Study #1, Making Retail Markets Work for the Poor – Why and How Triple Trust Organisation Decided to Intervene in the Spaza Market in South Africa

Cover photos: A typical spaza shop, the Zingisa Cash Store, and a spaza shop owner in Cape Town's Khayelitsha township. An overview picture of the Khayelitsha township.
Photos courtesy of Triple Trust Organisation.

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Practitioner Learning Program in BDS Market Assessment

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To all Triple Trust Organisation (TTO) staff members, thank you for welcoming me into your organization to research this case study.

I especially want to thank two TTO staff members, Donovan Pedro and Seth Tladi, for revealing *the story behind the story* of TTO's spaza market research. I hope I have captured the lessons from your market research experience and accurately conveyed them to others who have or will undertake research for project design.

I also want to thank Aly Miehlbradt for her guidance at each stage of researching and writing this case study. Aly has a passion for clarity and rigor in her own research and writing. I hope some of that rubbed off on me in the telling of the TTO experience.

-Marshall Bear

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Definitions

The following terms are defined as they are used in this case study. The definitions may vary from those used in other publications.

"ah-ha" An expression of surprise used in this case study to signify insight gained by Triple Trust Organisation (TTO) during its market research.

bread sale proxy Number of loaves of bread sold per day as a measurement of spaza shop operations and growth potential.

business collaboration network A network of spaza shop owners organized to strengthen the shop owners' position in the spaza market with their trading partners.

business service providers Commercial service providers offering services ranging from security to pest control.

focus group discussion (FGD) A qualitative marketing research method in which a facilitator conducts discussions with respondents in small groups.

"oops" An expression of dismay used in this case study to signify pitfalls encountered by TTO while conducting its research.

product basket Goods most commonly purchased by consumers and sold by spaza shops.

spaza Zulu word for "hidden"; an apartheid-era term used when restrictions were placed on black-owned businesses.

spaza market Value chain that links low-income township consumers of basic grocery items with spaza shop retailers, distributors, wholesalers, and suppliers of products and services.

spaza shop Small, home-based convenience store operating in a disadvantaged community.

township Disadvantaged community of low-income black or colored residents. Townships were established as separate areas during the apartheid era when racial groups were separated into different residential areas.

trading partners Business links between spaza shop retailers and suppliers of goods and services, primarily wholesalers and product manufacturers.

TTO Triple Trust Organisation, a Cape Town based, nonprofit, enterprise development company.

UAI (Usage, Attitude, Image) Method of consumer research in which known users of a product or service are asked about the past use of, satisfaction with, and views of the provider.

value chain The full range of activities required to bring a product from its conception to its end use and beyond; it includes activities such as design, production, marketing, distribution, and support to the final consumer.

Acronyms

BDS	business development services
FGD	focus group discussion
MA	market assessment
NGO	nongovernmental organisation
PLP	Practitioner Learning Program
SEEP	The SEEP Network
TTO	Triple Trust Organisation

Introduction

It is July, 2004. Triple Trust Organisation (TTO), a nongovernmental organisation based in Cape Town, South Africa working to develop markets for the poor, is about to launch a three-year project in the spaza market. The objective of the project is to increase the market share of 3,600 very small spaza shops – home based convenience stores – with black and colored owners serving the townships in which they live[1] with basic grocery items. TTO will intervene in the retail grocery market to improve linkages between spaza shops and their suppliers of products and business services; and to organize spaza shops into informal business networks to improve and strengthen their position in the supply chain.

TTO's market research indicates a strong business case for improving relationships between spaza shops and their trading partners to deliver more value to township consumers. The interests of the spaza shops are aligned with the following groups:

- Township consumers whose product and unit preferences for basic grocery goods could be better served through neighborhood retailers than through more distant supermarket chains.
- Wholesalers who are facing increased competition for market share from large supermarket chains.
- Product suppliers who want to target the township market but don't have the market power to establish their own supply chains.
- Existing or new independent distributors who could be the vital link between manufacturers and spazas shops.
- A limited group of business service providers with specific offers tailored to the needs of spaza shops and their trading partners.
- Other spaza shops to aggregate their purchasing power and make them more attractive trading partners with product and service providers.

TTO's research also indicated a strong development case consistent with its "pro-poor" market development mandate. A more competitive spaza market can generate significant development benefits in terms of more capital circulating within the townships, additional support to black-owned businesses, and wider choice and more competitive prices for low income consumers. Cost-effective intervention strategies proven in the Cape Peninsula spaza market can be replicated in similar markets throughout South Africa.

It is April, 2002. TTO is awarded a Practitioner Learning Program (PLP) grant to undertake market research in the spaza market. The PLP in Business Development Services (BDS) Market Assessment, funded by the U.S. Agency for International Development and implemented by The SEEP Network, is an initiative established to experiment with cost-effective market research methods and tools to design microenterprise support programs. TTO's proposal called for employing a comprehensive approach to understand the spaza market, a value chain approach to understand the market from the perspective of spaza shop owners, their customers and suppliers, and a mix of research methods and tools to capture information on market characteristics and trends. TTO will organize and analyze the information gathered to design project interventions.

Why this Case Study?

This case study presents the story of TTO's market research experience from June 2002 through January 2004. At the end of TTO's market research, the PLP commissioned this case study and a companion technical brief on a qualitative research tool TTO customized for its research.[2] The PLP was interested in capturing TTO's market research experience to examine: (i) the process of getting and using market information to inform project design decisions; and (ii) the research methods and tools proven effective in getting information in weak markets. PLP managers thought lessons from TTO's experience could assist practitioners in conducting more effective market assessments for programs targeting microenterprises and better use the resulting information to design market development interventions.

[1]Townships refer to disadvantaged communities of low income black and colored residents.

[2]Marshall Bear, *The "What If…" Service Concept Test – Triple Trust Organisation's Market Research Tool to Test Microenterprise Interest in New Business Service Ideas*, The SEEP Network, Washington, DC, September 2004.

How is this Case Study Organized?

This case study draws on information from completed market research studies[3] and TTO's internal assessment of these studies.[4] It also draws from interviews conducted with TTO staff in February 2004 to better understand the "story behind the story".

The case study is divided into 4 sections. Section 1 introduces the spaza market and explains why TTO decided to study it. Sections 2 and 3 dissect TTO's market research experience from two perspectives: the first begins at the end – the design decisions – and describes the flow of logic that connects key research findings to these decisions; the second starts at the beginning and traces the process TTO used to arrive at these decisions.

Why analyze the decision-making process? After all, markets are dynamic and there's a better than even chance that the original hypotheses will be superceded by events. Inflation may soar, the value of the currency could take a nose-dive, or a major blow may hit the economy. Even though events are outside the control of the researcher, they are part and parcel of any design process. By unpacking TTO's process, however, Sections 2 and 3 of this case study shed light on those factors the researcher can control in making decisions on planning and implementing market research to design market development interventions. This analysis can assist practitioners I making the best use of scarce funds for project design.

Section 4 offers TTO's recommendations to development organisations and agencies interested in conducting market research to design market development programs.

[3]Strategy and Tactics, *Survey of Spaza Shops in the Greater Cape Town: Final Report*, June 2002.

[4]TTO BDS MA Presentation SEEP PLP, 2002 - S.Tladi; Case study Spaza Shops Market Assessment, Tladi and Miehlbradt, 2003.

Section 1

The Spaza Market and Why TTO Selects to Study It

What is the Spaza Market?

"Spaza" means "hidden" in Zulu. The term arose during the apartheid era, when restrictions were placed on black people running businesses. A spaza shop is a small informal convenience store that operates from a residence or in a separate structure in a residential neighborhood. The "spaza market" refers to the value chain[5] that links low income township consumers of basic grocery items[6] with spaza shop retailers and their trading partners: distributors, wholesalers and suppliers of products and services. Table 1 presents a diagram of the value chain to show the key actors and their relationships.[7]

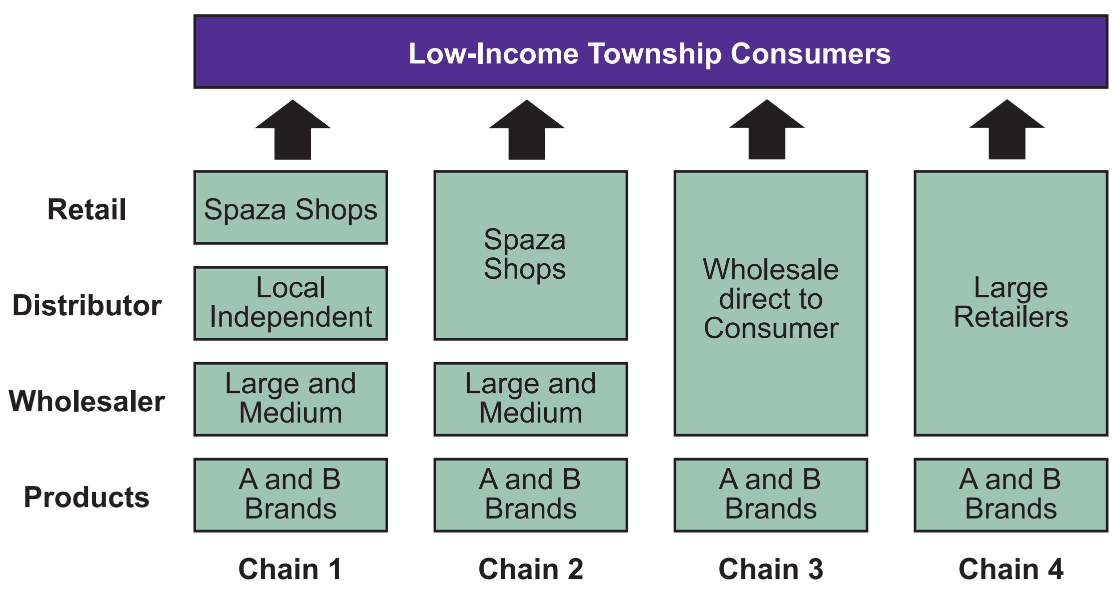
The key actors in the value chain are described below.

Low-Income Township Consumers: Black and colored people who live in large township communities in the Cape Peninsula.[8] They spend their grocery budgets in three places: spaza shops near their homes (chains 1 & 2); large wholesalers located on the periphery of the townships (chain 3); and supermarkets near their work (chain 4).

Spaza Shop Owners: These actors operate 14,200 spaza shops in the Cape Peninsula, according to Triple Trust Organisation (TTO) research estimates. Although spaza shops range in size, they each average a weekly turnover of US$200.00. Most spaza shop owners buy stock from nearby wholesalers, although a few purchase stock directly from a very limited range of product suppliers, supplying beverages, rice and bread for example.

Independent Distributors: These actors are independent operators, many of whom live in townships, who buy directly from product suppliers and/or wholesalers and distribute goods to spaza shops. They own their own truck or delivery van.

Table 1. Key Actors in the Value Chain



[5]A value chain refers to the full range of activities that are required to bring a product from its conception to its end use and beyond; and includes activities such as design, production, marketing, distribution and support to the final consumer.

[6]Typical products include bread, rice, paraffin, tinned fish, milk, tea, matches, etc.

[7]This is a stylized map of the value chain to show the key actors and their relationships.

[8]TTO's consumer survey covered 10 townships. The biggest, Khayelitsha, has 1 million residents.

Wholesalers: These actors are of two basic types in the value chain: 1. those that sell to other businesses only and 2. those that sell to both businesses and consumers. Wholesalers range in size and sophistication from family-owned businesses to subsidiaries of large South African or multinational corporations.

Product Suppliers: These actors are categorized by product type (beverage to bread), by brand (well-known A brands and lesser known B brands), and by firm size (small and medium-sized family-owned manufacturers to subsidiaries of large national or multinational corporations).

Business Service Suppliers: These value chain actors are specialized suppliers who offer a range of services from business management to pest control. They do not appear in Table 1 because business services cut across all functions and all players in the value chain. However it is important to note that TTO's research examined the role business services do or could play in addressing spaza market constraints.

Why did TTO Select the Spaza Market to Study?

TTO chose to work in the spaza market because of the potential for impact on poor people. Spaza shop owners and customers are poor, and improvement in the spaza market could assist both. Before TTO conducted the market research, the organisation knew the market was very large. A previous study[9] on the Cape Town retail industry had estimated the value of the spaza market sales at US$110 million, or about 13 percent of the entire retail industry in the Cape Peninsula.

TTO thought that the market suffered from inefficiencies that reduced benefits to both spaza shop owners and their customers. It also knew that spaza markets existed in many different urban centers in South Africa. Therefore, a successful program in Cape Town could be replicated elsewhere.

When TTO began its research, it had some notions about the market, such as: educated consumers, inefficient spaza operations, poor linkages between spaza shops and potential trading partners, and emerging competition from large supermarket chains. TTO, however, needed to make informed decisions about whether or not it should intervene and if it did intervene, how to go about it.

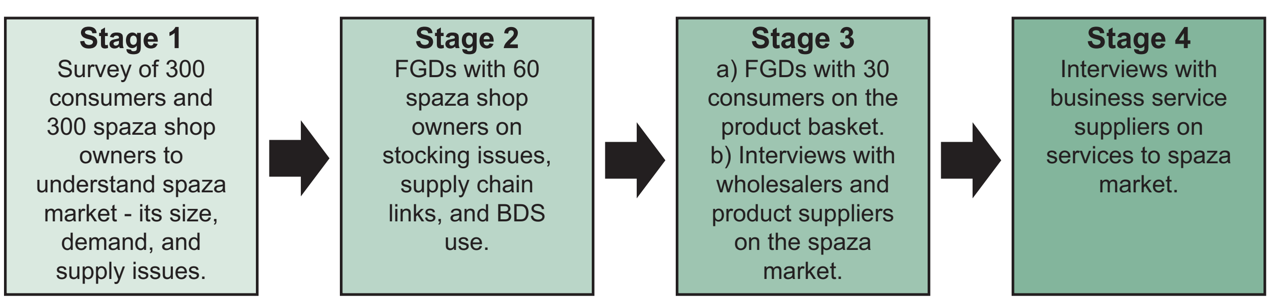
What Market Research did TTO Undertake?

TTO undertook four distinct but related stages of market research over a period of 18 months. TTO started its research with a structured survey of township consumers and spaza shop owners. Each subsequent stage of the research focused on getting information from different actors in the spaza market and using this data to make project design decisions. Figure 1 illustrates these four stages.

The objective of this multistaged market research was to assist TTO in deciding if and how best to intervene in the spaza market.

- *Is the spaza market working?*
  - *If yes, is there a justification to intervene?*
  - *If no, what are the priority market problems (demand, supply, or both)?*

Figure 1. TTO's Market Research Stages



[9] A national grocery retail industry study conducted by The University of South Africa's Bureau of Market Research.

- *What are the factors driving change and their effects on value chain actors?*
- *Where in the system can TTO leverage desired market change on behalf of poor people?*
- *How does TTO's mandate/capacity fit with potential market development interventions?*

For information on TTOs sequential market research activities, including the key questions asked at each stage, see Annex A, "Market Research Activities in Chronological Order."

Stage 1: A specialized market research company, contracted by TTO, conducted focus group discussion (FDGs) to design a survey instrument that this firm administered to 300 township consumers and 300 spaza shop owners. The survey revealed quantitative data on the overall market, the interaction between spazas and their customers (amount spent, frequency of use, products purchased), and spaza operations (turnover, constraints to growth and hopes and fears about the future).

Stage 2: TTO conducted FGDs with 60 spaza shop owners on stocking issues, supply chain links and past use of and future interest in business services. The Stage 1 survey revealed gaps in TTO's understanding of constraints to spaza shop operations, the shops' links in the supply chain and past use of and future interest in business services to solve business problems. These FGDs were designed to fill these gaps. TTO staff performed the research with specialized technical support.

Stage 3: TTO facilitated FGDs with a small sample of 30 consumers from the Stage 1 survey. TTO wanted to learn from consumers what the spaza shops could do to capture a greater share of their grocery budgets. TTO also conducted individual interviews with wholesalers, independent distributors, and product manufacturers to determine their interest in targeting the township market and their attitudes about serving this market with spaza shops as their trading partners.

Stage 4: TTO interviewed business service suppliers individually. The survey and FGDs with spaza shop owners revealed a demand for problem-solving solutions to business problems (e.g., better stock, security, pest control). Supplier interviews enabled TTO to determine the suppliers' past experience with and attitudes about targeting the spaza market with offers tailored to spaza shop owners' needs.

Section 2

Market Research for Project Design: Starting with the Design Decision and Working Backwards

It is July, 2004. Triple Trust Organisation (TTO) is about to launch its spaza market project. Based on its research, TTO decides to focus on three interventions: (1) improve linkages between spaza shops and their direct trading partners, product manufacturers and wholesalers of goods, (2) organize spaza shops into informal business networks to leverage better deals with their trading partners, and (3) link business services offered by specialized providers into the supply chain.

Linkages between Spaza Shops and their Suppliers

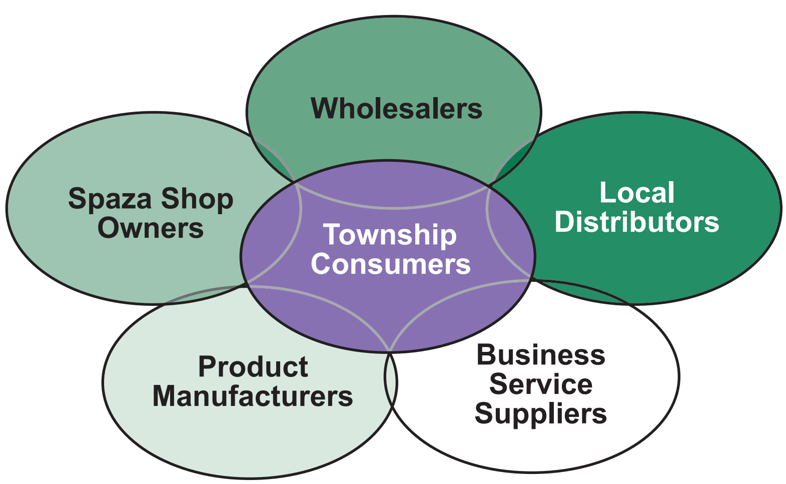
Improved linkages between retailers and their trading partners are critical: better connections improves spaza shop stock; better stock delivers enhanced customer value, which leads customers to spend more at spaza shops, and in turn, leads to spaza market growth; and, finally, growing spaza shops reinforces better linkages in the supply chain.

TTO aimed its market research at understanding past and current relationships among all value chain actors and how their business interests of all actors could be aligned - as Figure 2 illustrates - to better serve the township consumer of basic grocery items. The following section describes what TTO's market research revealed about the interests of all spaza market actors and how this information influenced TTO's linkage offers to the spaza market.

At US$110 million per year, the township market is sizeable - about 13 percent of the total grocery market in the Cape Peninsula. TTO's research indicated that virtually all township residents use spaza shops, primarily because they are convenient. Customers are dissatisfied, however, with many features of spaza shops: stock choice is limited, their unit preferences are not always available, prices are perceived as high relative to alternatives, and the overall shopping experience could be much more customer-oriented.

The above story line evolved as TTO learned more about consumers' attitudes and purchasing behavior. The initial survey revealed information on the frequency of use (75 percent of consumers use spaza shops every day), the average amount spent (US$23 per month), items most regularly purchased (e.g., milk, bread, and paraffin), customer demographics (more women than men), and economic profiles of buyers (the higher the income, the lower the total spent in spaza shops). The FGDs explored the reasons behind consumers' use (convenience) and non-use (expensive, not customer-oriented) of spazas shops and demonstrated that consumers have choices and are unlikely to increase spending without better product choices and a more customer-

Figure 2. Spaza Market Actors



oriented shopping experience. The consumers' message to spaza shop owners can be summarized this way:

> *We are willing to spend more of our grocery budget at spaza shops because we do not have to stand in long grocery lines after work, we do not have to pay to transport our groceries home, and shopping closer to home makes us less of a target for thieves. Even though we are frequent users of spaza shops, we have choices. You do not have to replicate the same shopping experience as the supermarkets. But, you've got to give us more reasons, beyond convenience, to shop at spazas: the right product mix, the right brands and unit sizes, the right price for the brands we want, and better customer service are some of those reasons.*

This message is not necessarily being heard by spaza shop owners. The survey of spaza shops and their customers revealed that customers were willing to spend more but spaza shops were not responding with more product choices, better value for the money, and improved customer service. Spaza shop owners perceived that their customers used spaza shops because of price (1), good service (2), convenience (3), and credit sales (4). In contrast customers said that they overwhelmingly use spazas because they are close by (1) and open longer hours (2). In fact, customers ranked spazas low on price (many thought spaza shops were expensive because they sold Brand B – not well known – products at Brand A – well known – prices) and very low on service.[10]

Developing the business case for an intervention to improve linkages among spaza shops, their customers and trading partners starts with an understanding of consumer demand. TTO learned that consumer demand is large but sales in the spaza chains (see Table 1, chains 1 and 2) are not growing relative to the other chains (see Table 1, chains 3 and 4). The disconnect or gap between customers' and spaza shop owners' perceptions of what makes for an effective transaction offers insight into explaining why the spaza market is not working. The implication of this gap for all firms serving the township consumer in chains 1 and 2 is clear: their share of the market will continue to decline unless they can induce a shift in consumer spending away from supermarkets and large wholesalers toward spaza shops. The convenience that characterizes the spaza chains is not enough to increase market share: to remain competitive with supermarkets, these chains must deliver more customer value in terms of

Box 1. Profile of Mrs. Ramba, a Spaza Shop Owner, and Sour Milk

Mrs. Ramba is the owner of Better World Spaza, a 10 sq meter addition to her house located on the corner under a street light. She started her shop three years ago. Mrs. Ramba sells about 40 different product lines, some behind the counter and others displayed on metal shelves arranged in a way that only she understands. She has customers all day with peak times before work and after school. Mrs. Ramba takes up the story:

According to Mrs. Ramba, *"Sour milk moves!"*

"My friend, Virginia, she says, can't move sour milk. I can sell all the sour milk I can buy. Buying sour milk is the hard part.

"The closest source – on the taxi route from here -- doesn't have enough sour milk when I need it, before 8:00 am. So, I have to go to the big wholesaler. I usually buy four crates – 48 bottles – at a time and I pay the same price as a normal shopper who buys just one bottle at a time. I buy about half my weekly stock at the wholesaler, and like sour milk I pay and shop like everyone else. I wait in long lines to check out, and then hire a taxi to bring my stock home. It's expensive!

"If I had a fridge I could buy more milk at a time and save time and money to shop. But, I can't afford to buy a fridge just for sour milk. Akbar Dairy told me if I could sell 12 crates a week, they would give me a fridge. The Akbar Dairy van used to come to my shop. They don't anymore. I don't know why.

"I know my customers. They like sour milk but they don't like fresh peas. Virginia can sell fresh peas I can't. So, I've got to sell something else. Now if there is a rep or whatever who is monitoring us, seeing what sells, putting in the special offers, those things will be rectified."

[10]Data from the survey and additional information provided during FGDs with spaza shop owners and their customers.

product and unit choices, better prices, and a more customer-friendly shopping experience.

Spaza Shop Owners: An outsider driving through a township community in Cape Town can see many spaza shops like Mrs. Ramba's Better World Spaza (see Box 1, previous page). The number of spaza shops is growing because of the ease of entry into this business and the rising rate of unemployment. They operate as isolated businesses with few links to product manufacturers, no special treatment from wholesalers and almost no support from government, trade associations or business support programs.

Most spaza owners view their home based activity as a business – as opposed to a survival/temporary activity – and are confident about the future. Like Mrs. Ramba they face a number of critical constraints to growth: limited stock, limited inventory space, stock losses due to theft and environmental problems.

Spaza shops rank limited choice of stock as the most critical constraint to growth. As Mrs. Ramba said, "You make profit when you buy, not when you sell." FDGs TTO conducted revealed that many spaza shop owners could buy more stock at one time but they do not buy more because they either have limited space or they risk losing stock from theft, damage, or spoilage (caused by pests). And, like Mrs. Ramba, the links between spaza shop owners and their trading partners are weak:

- Few spaza shops have direct links with product manufacturers even though the shops could sell more of the manufacturers' products. Coca-Cola delivers directly to some spaza shops who pay cash on delivery. But most other manufacturers do not because they are concerned that their delivery trucks will be robbed.
- Many spaza shops have links with wholesalers but they get no special discounts or services. Spaza shop owners or their family members go by taxi or bus to buy stock from the wholesalers in the morning and bring the goods to their shops themselves. These steps add costs and increase time away from the business.

TTO's research determined that the main problems with the spaza market are on the supply side. This may seem counter-intuitive given the low income profile of the township consumers, the high rates of unemployment, and no evidence that their grocery budgets are getting any larger. Yet, spaza shop owners who are most familiar with the market believe they can make money by serving township consumers and want to relay the following message to their trading partners:

> *The township market is a large viable market. My customers are your customers. I know them better than you do because I'm in the township while you are on the outskirts and can serve only a fraction of this market. Consumers are ready to spend more. I need more and better stock at discount prices so I can offer more value to my customers. You need to assist me so I can assist you. I'm aware that I need to offer more customer service. You can assist me with that too through point of purchase displays and costing/pricing advice to assist me in making better stock decisions.*

Product manufacturers and wholesalers have been slow to respond for a number of reasons:

- Very little information exists in the system about the purchasing behavior of the township consumer.
- The spaza market is a cash and carry business that opens all supply-side actors to threat of loss from theft.
- The network of spaza retailers is highly fragmented and perceived by their trading partners to have little understanding of the retail business.

The business case for a TTO intervention to improve linkages between spaza shop owners and their trading partners is a case of allies finding competitive strategies to protect and expand their market share from the emerging threat of the large supermarket chains. TTO could strengthen market signals from consumers to spaza shops and from spaza shop owners to their trading partners by filling information gaps on these topics:

- Consumer purchasing behavior and preferences.
- Qualified spaza shops interested in expansion.
- Effective linkage strategies among spaza shops and with their trading partners.
- Specialized business service providers with appropriate service offers.

By filling information gaps and facilitating linkages among market actors, TTO could improve efficiency in the value chain, as explained below.

Product manufacturers: Manufacturers can use more quantitative and qualitative information about consumer purchasing behavior to assess the commercial potential of the township market and, in turn, devise viable marketing and distribution strategies to reach this market through spaza shops. This information will attract small- and medium-sized product manufacturers seeking to diversify markets because of the difficulty in dislodging "big name" companies from shelf space in supermarkets.

Wholesalers: More information about spaza shop owners—turnover, business attitudes, and practices—will enable wholesalers to identify good trading partners and devise strategies that target the township market through a network of spaza shops. These strategies include: (1) in-store systems of dedicated stock/location for spaza, (2) discounts on product mixes that assist spaza shops in attracting customers (loss leaders, high margin), and (3) phone-in order system—prepacked for pickup or stock delivery directly to spaza shops.

Local Independent Distributors: More information about business opportunities in product distribution could leverage the few existing distributors to expand outreach or encourage township entrepreneurs with pickup trucks to enter this market. TTO will have to get the word out, package the opportunities, and link them with wholesalers and product manufacturers.

Business Service Suppliers: Spaza shop owners understand they must make better stock purchase decisions (e.g., costing and pricing) and offer a more customer-friendly shopping experience (improve displays of merchandise, give correct change, keep the shop and area outside shop cleaner). Product manufacturers and wholesalers recognize the importance of upgrading the knowledge and skills of spaza shop owners to be more effective trading partners. Business service providers—from pest control to costing/pricing—will need to be linked into the value chain as either clients of or trading partners with spaza shops.

Spaza Shop Trading Partners: Product Manufacturers and Wholesalers

In Stage 3 of its research, TTO interviewed product manufacturers and wholesalers to understand their perspective on the spaza market: What potential did they see? What was their experience in this market? What future plan did they have to serve it? TTO selected product manufacturers to interview based on the results of its prior research on the basket of basic grocery items most commonly purchased by township consumers. Table 2 shows examples of products **in** the basket: the products most commonly bought and sold and products consumers buy but spaza shops do not sell. Excluded are products that spaza shops sell but consumers do not buy in significant volumes.

With this information, TTO was able to identify the product lines on which to focus a linkage intervention among spaza shops, their trading partners, and local distributors. At the time this case study was written, TTO had conducted interviews with the manufacturers of bread and milk products, two product groups **in** the basket. TTO also conducted interviews with a few large and small wholesalers identified by spaza shops as their main source of stock.

Box 2. Profile of Jacky S., Independent Distributor

Jacky S. sells only to spaza shops. He loads his van with 20 different snack food items—chips, candy bars, chewing gum—and calls on his clients, about 300 spaza shops from Cape Town to Mossel Bay, 300 kms away. Jacky S., formerly a mid-level executive in an international company, knows everything there is to know about distribution and logistics. He negotiates with manufacturers to buy stock at deeply discounted prices and resells directly to spaza shops at wholesale prices. Jacky knows he's cheaper than the wholesaler because when he delivers, spazas save money in terms of time and transport costs.

As goes spaza shops, so goes Jacky S. Jacky S. assists his customers in upgrading their costing and pricing skills so they can stock more high-margin, fast-moving goods, like the items he sells. Jacky allocates 15 minutes per call for established customers and 45 minutes to recruit a new customer. Because his business is growing, he has less time to offer this service. He is thinking of teaming up with a business trainer to whom he could refer his customers. Jacky figures his customers would pay because improved costing means more money for them.

Jacky S. has found his niche. He's not likely to add sour milk to his product line, however, which is too bad for Mrs. Ramba.

Table 2. Product Basket

BUY \ SELL	YES	NO
NO	**OUT** Eggs, Beef Stock, Meat	**OUT**
YES	**IN** Rice, Samp Bread, Fish Oil, Tinned Fish, Tea, Milk Products[11]	**IN** Butter, Cake Flour

TTO found that product manufacturers were aware of the township market potential but they were reluctant to target the townships because of the lack of a viable distribution system for their products. Small and medium-sized enterprises (SMEs) do not have the resources of very large companies, such as Coca-Cola, to invest in a distribution system designed to overcome security problems.[12] SME suppliers must outsource distribution; however, very few firms specialize in distribution in the townships.

> *"Our sour milk product could be a big seller in the black townships. We are a small, black-owned dairy producer, and we think we could increase volume and capture more margin there than by competing with the big dairy producers for space in the supermarkets. We see the potential, but we tried once and stopped because our truck was robbed. Our biggest problem is logistics—which spazas to serve and how to distribute our products in a cost-effective way."* —Akbar Dairy

TTO found that wholesalers—especially the outlets of very large corporate chains—had a heightened awareness of the threat posed by the largest supermarket chains in South Africa opening outlets directly in the townships. Their attitudes about spaza shops as customers dramatically shifted over the course of TTO's research. They were much more interested in developing spazas as business partners to protect and build their share of the township market.

> *"Spazas could be our best friends in the townships,"* replied Mrs. K, assistant manager of Metro, a large grocery wholesaler located on the periphery of Khayelitsha, when asked by the TTO interviewer about her views on spaza shops. *"We have always considered spaza shops an important customer segment. We send them flyers with coupons in advance of sales. We have a buyers club and offer members bulk discounts. But we have not thought of spaza shop owners as our business partners in serving township consumers, and we need to. Pick 'n Pay has just opened a store in Khayelitsha and has plans to open more in other townships."* The TTO interviewer noted that spaza shops might not be ready-made business partners; they might need some training. *"We'd be more than willing,"* said Mrs. K, *"to include training, a streamlined ordering process, bulk discounts on loss leaders or fast-moving items, and other more business-related services bundled with the sale of inventory."*

TTO can leverage its market research on consumers and spaza shops to address this market problem in meaningful ways by taking the following steps:

- **Identifying future spaza partners.** Information on the number and turnover of spaza shops by locations to product suppliers and wholesalers would enable them to identify the spaza shops required to achieve sales targets.
- **Identifying community-based distribution models.** Information on the volume, brand preferences, and frequency of product sales to product suppliers enables them to assess the viability of various distribution models listed in Table 3. With this information, wholesalers could adjust their inventory purchases, such as

Table 3. Distribution Models

PRODUCTS \ SUPPLIERS	ONE	MANY
MANY	**A** Bread Products	**C** Snack Foods
ONE	**B** Sour Milk	**D** Baked Beans Different Brands

[11]Ultra-high temperature and sour milk

[12]Big companies hire security firms to accompany their truck on deliveries.

brands and unit size, and promotions to meet the requirements of spaza retailers. TTO could also use this information to profile new business opportunities in distribution and promote new business startups in the townships. TTO found that the risk of theft was lower when distributors were owned and operated by township residents. Spaza shop owners might be interested in becoming distributors.

Business Collaboration Networks

TTO's spaza market research underscored the importance of organisation and collaboration among spaza shops to leverage better relationships between themselves and their trading partners. The initial survey identified the degree of the challenge: the spaza segment is disorganized with each spaza shop owner operating on his/her own, and spaza shops receive no support from their trading partners or local government support agencies. TTO's research into the value chain revealed the alignment of interests among spaza shops, product manufacturers, and wholesalers in protecting and expanding their share of an increasingly competitive township market for basic grocery items. Some form of collaboration among spaza shops would be critical to improve supply chain linkages in serving township consumers, strengthen the market position of spaza shops in getting better deals with their trading partners, and make the network of spaza shops a more attractive partner for providers of goods and services. A business network among spaza could also strengthen their collective voice and put pressure on local authorities to address the critical issues of crime and sanitation that threaten their business interests.

As part of the research process, TTO tested the idea of a business collaboration network by asking spaza shop owners this question: "What if you were able to belong to a network or association in which you, as a spaza shop owner, could derive business benefits such as better stock and preferential treatment from stock suppliers?"

TTO found—somewhat surprisingly—that spaza shop owners possessed these characteristics:

- An awareness of some form of organisation and its importance to them.
- An understanding of the potential benefits—better deals and preferential treatment—only possible through organisation.
- A willingness to organize to achieve business goals.

In the course of its research TTO did more than simply confirm the importance of better organisation between spaza shops. TTO gathered information required to identify the business case for an intervention in network development and prepare the ground for project implementation. When project implementation begins TTO can move quickly to test the feasibility of different business collaboration models based on information critical to its success:

- A profile of spaza shops more likely to see the benefits of organisation.
- Awareness and understanding of the range of benefits possible by being organized.
- The degree of interest among spaza shop owners in organisation as a strategy for business improvement.

Business Services in the Spaza Market

TTO's research into the spaza market started with a focus on identifying stand-alone business service solutions to problems faced by spaza shop owners. In the initial survey, TTO found that spaza shops consumed no business services other than the using an informal transport service to trolley their goods from the wholesaler to their shop. Yet, the survey also revealed that the priority business problems, as perceived by spaza shop owners, were limited stock, stock loss from pests, lack of transport/goods delivery, lack of storage facilities, and risk of loss associated with crime/theft in the townships. Although past use was quite limited, might spaza shops become future users of business services if these services could offer benefits and value in addressing their business problems?

Next, TTO assessed the market potential of four different service ideas it formulated from discussions with business service providers who were serving or who could serve the spaza market. In FDGs conducted with spaza shop owners, TTO posed the business problem and probed past attempts to solve it was probed to determine if the problem was solved or persisted. Respondents were then asked, "What if there was a service that could help you solve this problem?." Table 4 lists the "what if" scenarios discussed in the focus groups.

TTO concluded from its research on past and future use of business services that some service ideas are more important and urgent than others (see Annex B for a summary of the findings and conclusions from the service concept tests). From a project design perspective, the services urgently required could be delivered in a more cost-effective manner when embedded in the commercial linkages between spaza shops and their trading partners:

- A debit card payment service could be offered by distributors and paid for by the product manufacturers as a necessary cost to solve distribution problems associated with theft.
- Transportation of goods could be offered by wholesalers to fill and deliver bulk orders made possible by buyers clubs of spaza shops.
- A more hygienic environment could be accomplished by improved municipal waste management services advocated by a spaza association.

Summary: Research Links to Intervention Strategy and TTO's Offer to the Spaza Market

This section of the case study traces the threads of logic linking TTO's market research to core project design decisions: to intervene or not? If it intervened, TTO had to formulate a vision of spaza market change and a set of interventions to facilitate these changes in line with TTO's poverty reduction mandate. TTO concluded that there was a strong and justifiable business case to intervene in the spaza market and facilitate improved relationships between spaza shops and their trading partners in delivering more value to township consumers. The research enabled TTO to understand the alignment of business interests between spaza shops and all market actors, as Figure 3 illustrates.

At the start of the research, TTO had some preconceptions about problems in the spaza market and a theoretical vision of reducing its inefficiencies. The research enabled TTO to formulate a practical and informed vision for how the spaza market could work better for poor people. Table 5 outlines TTO's vision.

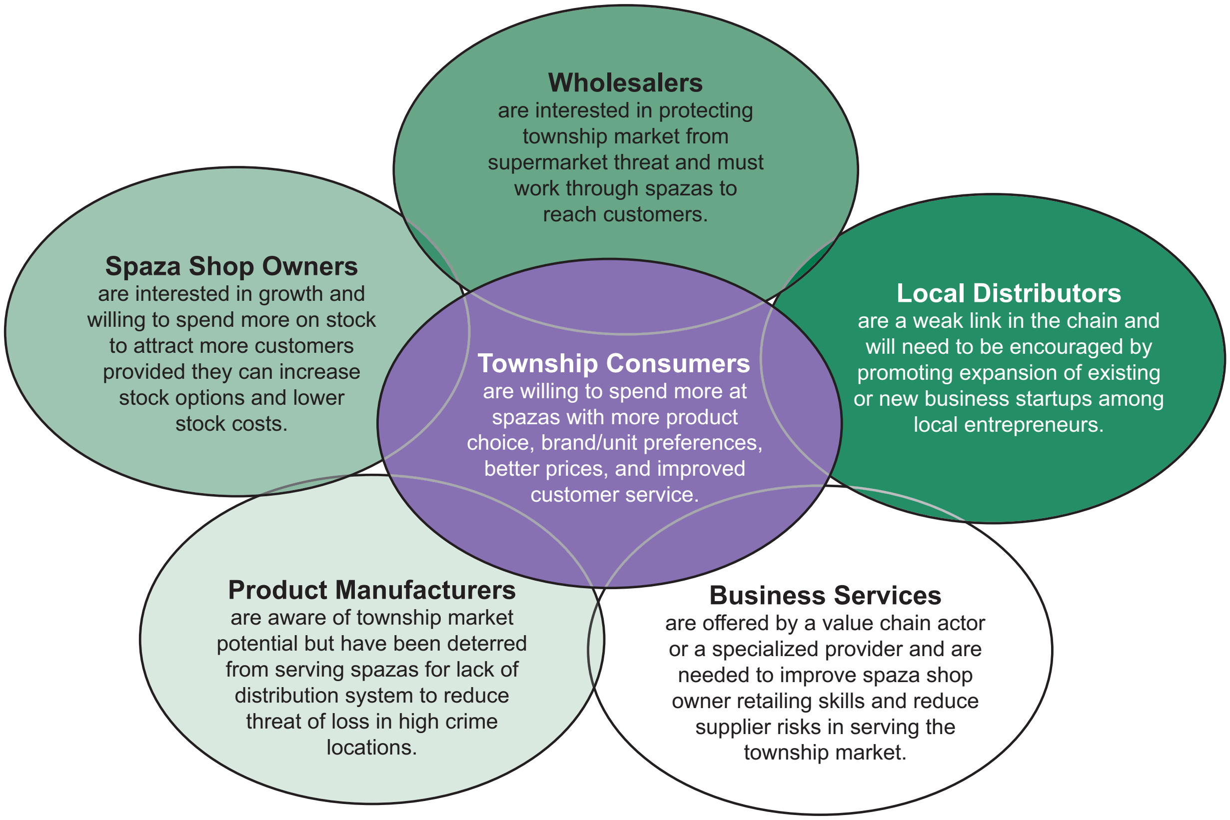
TTO's vision for the spaza market includes the following elements:

- The spaza market is a viable, growing segment in the retail grocery sector that offers value to **township consumers** and competes effectively with the formal sector for market share.
- Approximately 3,600 **spaza shops** will be linked directly with mainstream **manufacturers** and **wholesalers** that seek retail partners to penetrate the township market with a wider range of products and services.
- Spaza shop owners will be supported by **business service suppliers** that offer a range of

Table 4. Potential Business Services in the Spaza Market

Problem	Business Service Solution
Lack of stock and risk of loss from theft	What if you were able to pay for all goods delivered to your shop using your debit card linked to your existing bank account? The benefits of the service to you would be to minimize the cash on your business premises, minimize the possibility of cash losses due to robberies and theft, and increase the willingness of manufacturers to deliver goods to your shop.
Loss from pests	What if there was a fee-based business solution to minimize stock losses as a result of pest problems and thereby save your business money, increase customer satisfaction, and possibly contribute to your business profits?
Lack of storage	What if there was a locally based facility stocked with a wide range of products that are normally sold by spaza shops? You would save time and money when sourcing stock because the service will be based locally. You could replenish stock more frequently and reduce stock losses caused by environmental problems.
Lack of transport	What if there was a service to safely and reliably transport your goods from the supplier/wholesaler to your shop for a fee? You could then spend more time at your shop, save money by not using more expensive taxis, and have the flexibility to move from one supplier to the other when stocking your business.

Figure 3. Alignment of Business Interests



effective and affordable business services. **Consumers** will reward customer-oriented spaza by shifting 2 to 5 percent of their total grocery budgets from formal large supermarkets to spaza shops. A more competitive spaza segment will generate significant development benefits in terms of more capital circulating in the township, more support to black-owned businesses, wider choice of products, and more competitive prices for low-income consumers.

If TTO can effectively intervene in the Cape Peninsula spaza market, it could replicate its approach and benefits to similar markets throughout South Africa.

Guided by this vision, TTO defined a set of offers to facilitate improved linkages among key actors in the spaza market. The feasibility of better linkages would also require: (1) spaza shop owners to be better organized, and (2) business service providers to enter the spaza market with relevant services. Therefore, TTO's project design included interventions in these two areas as well.

Figure 4 shows what spaza shops and manufacturers will need to do to improve linkages with TTO's support. TTO's role and tasks will center on filling key information gaps critical to enabling spaza shop owners and manufacturers to form and build mutually beneficial business relationships. TTO will also assist entrepreneurs with research and market testing new distribution enterprises.

Figure 5 illustrates TTO's offer to spaza shops and wholesalers. Again, TTO's primary role will be to provide information to spaza shop owners on alternative network models and sources for business services. TTO plans to assist spaza shops with initial organisation and business service providers to market-test offers targeting spaza shop owners.

Figure 4: TTO's Offer to Spaza Shops and Manufacturers

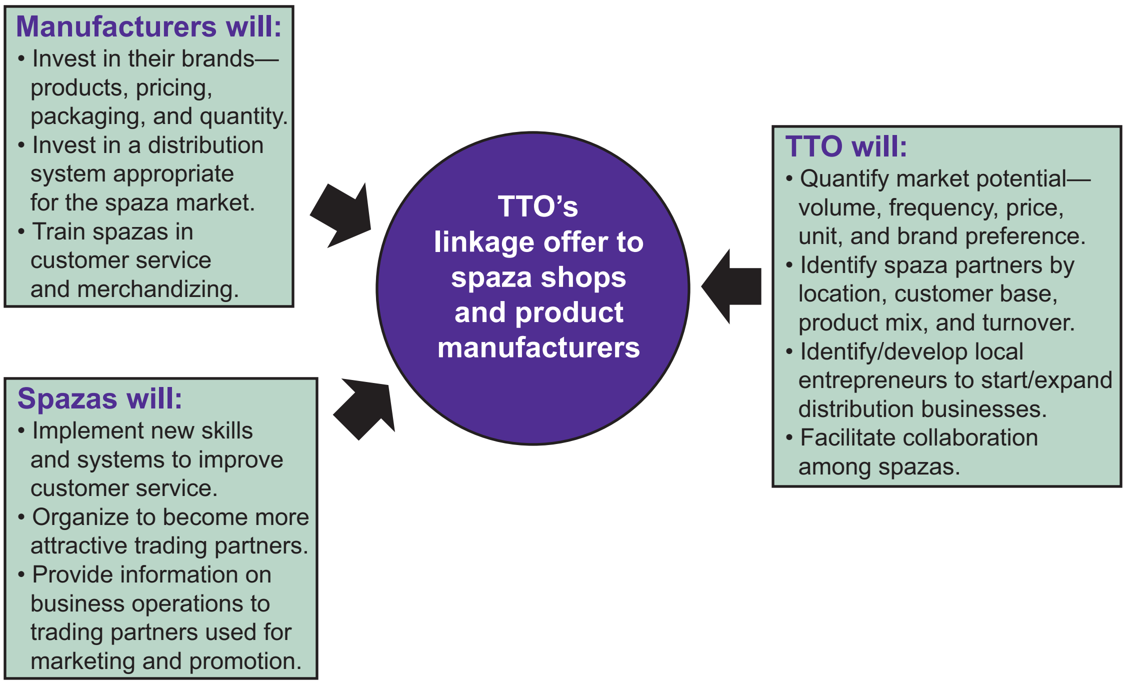
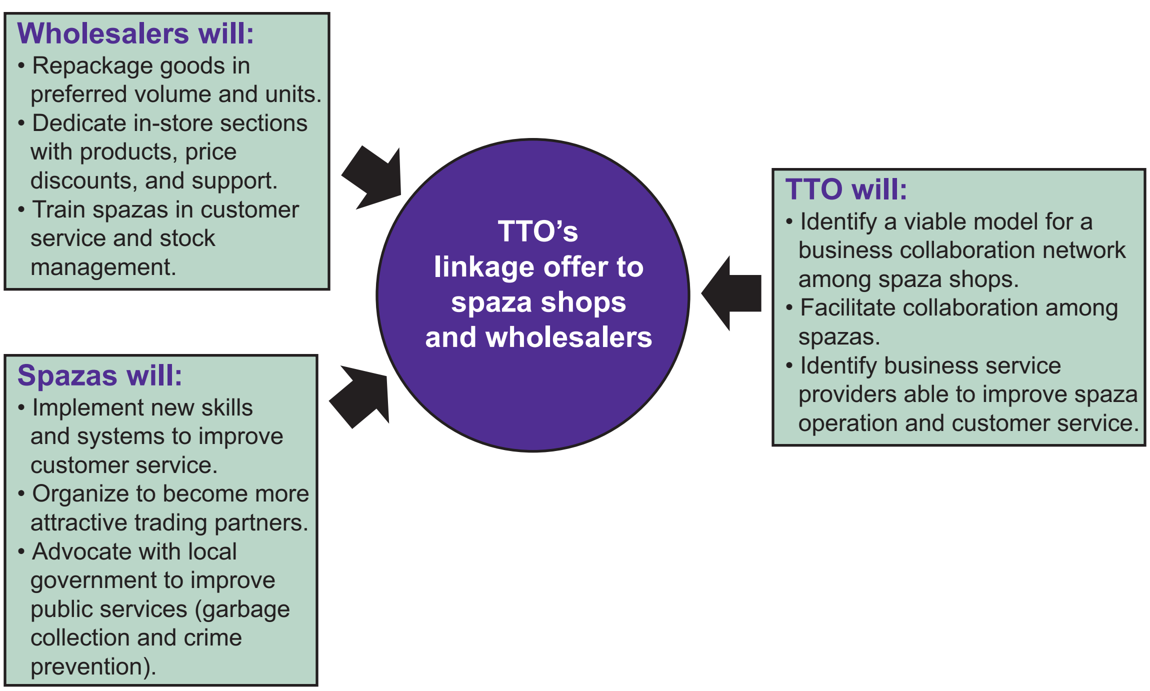


Figure 5: TTO's Offer to Spazas and Wholesalers



Section 3

Market Research for Project Design: Unpacking the Process

Section 2 traces the links between Triple Trust Organisation's (TTO's) research and how it influenced project design decisions on (1) a practical vision for change in the spaza market, (2) an intervention strategy, and (3) a set of TTO offers to the spaza market. Section 2 may leave the reader with the impression that market research for project design is a linear, step-by-step process that inevitably leads to an obvious set of conclusions on difficult project design decisions. The reader may even wonder at this point whether TTO had all the answers to its questions before starting its market research and simply used the process to validate what it planned to do anyway. The pieces of the design puzzle always seem to fit so much better with the benefit of reflection.

This section unpacks TTO's research process in a different way. It reports the "ah-ha's" (revelations) and the "oops"(obstacles or pitfalls) encountered while obtaining and using market information to make valid and justifiable project design decisions during the research process itself. This section describes the iterative process TTO used: plan and conduct some research, analyze how far the results took the organisation toward project design, and identify new questions needed to obtain additional information for project design, plan and conduct a little more research. Unpacking the process, offers practitioners some useful lessons in using market research to design market development projects.

Before Stage 1: A Potentially Costly "Oops" Avoided

Before starting the research, TTO presumed that facilitating access to a differentiated mix of business services would play a central role in its project design. TTO originally planned to conduct a survey spaza shops to determine past use of and future interest in business services ranging from advertising to business planning. TTO believed that this type of survey would enable it to identify the business services on which to focus to assist spaza shops owners to improve and build their businesses. TTO planned to address the following design and related research questions first:

- *Which services should TTO focus on?*
- *What is the level of business development service (BDS) consumption by spaza shop owners?*

The first "oops" was avoided when TTO decided to abandon a BDS survey as a means for answering these questions. This decision was based partly on the disappointing results from TTO's desktop survey of the spaza market that revealed almost no information on the market's characteristics or business services used by spaza shops. TTO also knew that informal businesses tend to underreport services consumed because they are unaware of the services hidden in transactions with other market players. TTO decided that a structured survey instrument on BDS use by spaza shops would likely reveal little insight on business services and not get TTO any closer to understanding the opportunities and threats in the spaza market. TTO decided to switch gears; it would conduct a survey not on BDS use but on the interaction between spaza shops and their suppliers and customers. TTO hoped that this type of spaza market survey would yield information on market size, market relationships and, through this lens, business services in use by spaza shop owners.

Research Stage 1: Survey the Spaza Market "Ah-ha, the market is huge!" and "Oops, if only we had asked!"

TTO contracted a specialized market research company to conduct a survey of 300 consumers and 300 spaza shops to better understand the spaza market.[13] This actual survey was preceded by focus group discussions (FGDs) to design the survey instrument. The design and related research questions were broadened beyond BDS use by spaza shop owners to focus on the following topics:

- *What are the characteristics of a typical spaza shop including its interaction with various market players?*

[13]The survey report is available through TTO.

- *Which business problems in spaza shops should TTO focus on addressing?*
- *What are the constraints to business growth faced by spaza shop owners?*
- *What are the customers' perceptions of their local spaza shop?*

TTO decided that, to identify the market problems on which TTO should work, it needed to first understand the constraints to business growth by spaza shop owners. Are the constraints the results of demand-sided problems? The survey of spaza shop consumers would reveal information on consumer attitudes and purchasing behavior vis-a-vis their neighborhood spaza shop. Or are the constraints the results of supply-side problems? The survey of spaza shop owners would reveal information on spaza operators and how they perceived their constraints to growth.

The most important "ah-ha's" in TTO's effort to get and use information for project design purposes included the following:

- The significance and scale of the spaza market justifies outside intervention—a market size of $110 million per year and an estimated 14,200 spaza shops underscore the critical importance of this market to poor people as consumers and business owners.
- Disconnects between consumers and spaza shop owners reveal market problems—consumer willingness to spend more at spaza but spaza shops' lack of response to offer more product choices and customer service revealed supply-side problems on which TTO could focus.
- Strengthening the supply chain suggests priority intervention—spaza shop willingness to satisfy customers but was constrained by lack of stock, theft, transport costs, and stock loss from environmental issues reveals the primary problems to business growth as perceived by spaza shop owners.
- Market opportunities for leveraging the collective purchasing power of spaza shops.

Although the survey yielded information critical to design decisions, it also revealed important gaps in TTO's knowledge that would need to be filled. With the benefit of hindsight, some of these gaps could have been filled by including a few more questions in the survey – "oops, if only we had asked…," – for example:

- Asking customers about the total amount and characteristics of their expenditures on a basket of basic goods at sources other than spaza shops. TTO knew what township consumers spent at spaza shops but not what they spent elsewhere on a basket of goods that spaza shops could also provide. If the spaza market was going to grow, spaza shops and their trading partners would have to encourage township consumers to shift their expenditures from large retailers near their work to spaza shops near their homes. New research questions emerged:
  - *What is the total amount and characteristics of township consumer spending?*
  - *What items should be included in the basket of goods favored by township consumers?*
- Asking spaza shop owners more about business operating factors—e.g., turnover, product and customer mix—to differentiate spaza shops by size and growth potential. To design its project, TTO needed to know which spaza shop owners, among the more than 14,000, were more likely to respond to market development interventions. If TTO could find a means, directly or through proxies, to identify growth-oriented spaza shop owners, it could more effectively facilitate improved linkages between spaza shops and their trading partners. Additional research questions emerged and customer mix – to differentiate spaza shops by size and growth potential - To design their project, TTO needed to know which spazas, among the many thousands, are more likely to respond to market development interventions. If TTO could find a means, either directly or through proxies, to identify growth-oriented spaza shop owners then it could more effectively facilitate improved linkages between spazas and their trading partners. Additional research questions emerged:
  - *What is the business profile of the different size/types of spaza shops?*
  - *What reliable proxy correlates with spaza size?*
  - *How can this proxy be used to target TTO interventions?*

Gaps in TTO's Knowledge of the Market

Although the survey gave TTO a better understanding of the retail function of the spaza market, it did not provide an understanding of the entire value chain—the flow of goods and services from product manufacturers to consumers through wholesalers, distributors, and retailers. More questions, such as the following, needed to be asked:

- *How do product suppliers and wholesalers perceive the opportunities/threats of serving the township market?*
- *What policy/plan for targeting the township consumer through spaza shops is in place?*
- *How experienced are they with spaza shops as their business partners?*

Regarding business services in the spaza market, the survey confirmed what TTO already knew – few transactions existed between spaza shop owners and fee-based business service providers except with informal transporters. TTO's question on hidden BDS in the market remained unanswered; however, TTO had a much better understanding of key business constraints as perceived by spaza shop owners to explore possible business service solutions.

With the Stage 1 research results in hand, TTO was confident that it had justification to intervene, and that intervention could benefit the poor. The organisation realized, however, that it did not know enough about the market system in which spaza shops operate to identify and design effective interventions. TTO had taken a narrow view that centered on spaza shops, their problems, and their customers. Instead, a broader, systemic perspective was needed that encompassed the entire market system in which spaza shops operate—the trading relationships, practices, attitudes, and interests of all firms in the grocery market value chain and the low income customers they served. Only by taking a broader view could TTO assess how specialized business services could improve the competitiveness of the whole value chain. By adopting a systemic perspective with the low income consumer at the center, TTO could design a project that would alter market structures and result in commercially sustainable benefits for the poor.

Research Stages 2, 3 and 4: Leverage Information to Identify Future Implementation Partners

After the first stage of its market research, TTO concluded that fostering improved linkages between spaza shops and their trading partners should be its main intervention focus. Thus, TTO focused the next two stages of its research on examining the feasibility of linkage interventions from the perspective of all market actors in the spaza market. This examination required TTO to broaden its research canvas and engage product manufacturers, wholesalers and commercial BDS providers in its market research activities in order to determine their interest and motivation to link with spaza shops.

Engaging Product Manufacturers and Wholesalers in Market Research

Stage 1 of the research yielded useful information on the overall spaza market and specific constraints to growth faced by spaza shop owners. This information was useful but insufficient to engage private sector actors in the research to get their perspective on the spaza market.

TTO invested in the product basket research, described in Section 2, to effectively select the product manufacturers to interview and be prepared to speak knowledgeably about the potential of their product lines in the spaza market. TTO knew that few spaza shop owners had direct supply links with manufacturers and received little preferential treatment from wholesalers; therefore, the organisation presumed it would have to offer useful commercial information to stimulate interest among reticent manufacturers and wholesalers to discuss their views and plans in serving the spaza market.

Two key lessons can be drawn from TTO's experience in engaging the private sector in its market research:

- **Attitudes about the spaza market change:** A dramatic turnaround in how wholesalers and manufacturers viewed the spaza market occurred after Stage 1. As wholesalers began to feel the competitive pressures from the big supermarkets chains, they started to see spaza shops as key allies in protecting and building market share. Local manufacturers – albeit from a small sample – saw the potential in the spaza market and were more interested in evolving a cost-effective distribution model tailored to their product characteristics. Perhaps, the "ah-ha" derived from this lesson is to be vigilant on changes in the market context because this will influence the research objectives.

- Engage the private sector with commercially useful information: Although TTO may not be required to make the case for market potential, it still had to engage prospective private sector players with useful and relevant information they would not have without TTO's input. The intent behind the product basket research was to get TTO's foot in the door and speak knowledgeably with value chain actors. Researchers need to ask themselves if they know something market actors will find useful. The "ah-ha" for TTO was the requirement to gather quantitative information on product brands, and sales volumes specific to a product line; for example bread has different distribution considerations than sour milk.

A better understanding of the perspectives of other spaza market actors influenced TTO's project design priorities to include identifying feasible distribution models for different products, encouraging spaza shop owners to network to achieve distribution economies, and finding a means to screen spaza shops for their eligibility to participate in trading networks.

More research? Enough research? In the case of TTO, the work on the feasibility of different distribution and spaza network models will be carried over into the project implementation plan. The organisation's research on the product basket will need to be corroborated; when this is completed, however, the information will be vital in identifying the package of mutual benefits between spaza shops and their trading partners.

Identifying Spaza Shops with which to Work: Bread Sales as Proxy Indicator for Spaza Shop Operations

In the course of its research, TTO learned that some market actors use daily bread sales as a proxy indicator for spaza operations and growth potential. Jacky S., profiled in Section 2, targets spaza shops with bread sales between 50 and 300 loaves per day: fewer than 50 loaves, the spaza shop cannot purchase enough to merit sales calls; more than 300 loaves, the spaza shop can buy directly from the manufacturer. TTO was interested in a proxy indicator useful in segmenting the thousands of spaza shops for a number of reasons:

- Screen spaza shops as future partners in a linkage intervention.
- Match spaza shops with similar operations and interests in a future business collaboration network.
- Monitor and evaluate the impact of its interventions against a baseline.

The bread sales proxy points to an important "ah-ha" in TTO's research process: the information gathered for making design decisions can also be used by TTO at different points along the design to implementation to evaluation continuum—as a baseline to track the impact of project interventions on spaza shop performance, a screening criterion of spaza interest to enter spaza networks, and a tool by other market actors to target spaza shops as trading/business partners.

Identifying Business Service Priorities: Testing Service Ideas and Relationships

At this stage of the research, TTO was able to ask more direct questions of spaza shop owners to understand the importance of business services in the spaza market. Having identified the key constraints faced by spaza shops, TTO probed these problems and tested interest in five new service ideas using a modified product concept testing tool.

At a minimum, TTO wanted the service concept tests to yield information to inform design decisions in several ways:

- Immediate service priorities, such as costing/pricing and customer service, that will improve linkages between spaza shops and their trading partners.
- Delivery methods that embed knowledge/skills in commercial transactions over promoting fee-based transactions between spaza shops and BDS suppliers.
- Future service interest, such as debit card and other finance sector technologies that merit continued research for possible use to improve supply chain efficiencies.

TTO also wanted the service concept tests to induce spazas shops to try services with two objectives in mind: trials would yield more information on service benefits and features useful for service suppliers; and trials would foster new relationships between users and service suppliers in advance of project implementation. TTO used the service tests as both an information gathering and market facilitation exercise. Perhaps the "ah-ha" at this stage is to note the role of research in advancing a process of building market relationships in the course of understanding them.

As a research method, the design and use of the service concept tests yielded a number of "ah-ha's" and "oops" that are explained in the companion technical note to this case study with the reference noted in the footnote below.[14]

Choosing Among Intervention Options

As TTO neared the end of its market assessment phase, it had a variety of potential intervention ideas. TTO's weighted its decisions in favor of its pro-poor approach to market development and evaluated each idea against responses to the following questions:

- *Is it geared to poverty alleviation?*
- *Will it have an economic benefit for poor communities?*
- *Does it involve the development of markets?*
- *Will it create financially viable business opportunities?*
- *Does it involve commercial transactions?*
- *Could TTO participate as a facilitator?*
- *Can it be taken to scale?*

Table 5 summarizes the tool TTO used to guide project design decisions against these criteria. In the matrix, the user assigns a weight to each criterion. Then, each option is scored, and the pros and cons for improving the competitiveness of the spaza market (all firms linked in Table 1, chains 1 and 2) are assessed. Finally, the relative risks and rewards of each option from the perspective of the spaza shop owner are evaluated.

TTO chose to focus its interventions on linkages and better spaza organisation, but only after formulating several different possible options, assessing them against the decision criteria in Table 5, and deciding which to include and which to drop. TTO's options (and decisions) were the following:

- Link manufactures direct to spaza shops (keep).
- Facilitate new independent distributors in different product lines (keep).
- Create new distribution points in the townships (drop).
- Encourage wholesalers to offer spaza shops preferred services (keep).
- Promote independent BDS service providers (drop).[15]

Table 5. TTO's Decision-Making Matrix

			Intervention Options							
			A		B		C		D	
Weighting (1,2,3)	Score (S)	Weighted (WS)	S	WS	S	WS	S	WS	S	WS
	Decision Criteria									
	1									
	2									
	N									
	Score									
	Pros and Cons									
	Risk and Reward (H,M,L)									

[14] Marshall Bear, *The "What If…" Service Concept Test – Triple Trust Organisation's Market Research Tool to Test Microenterprise Interest in New Business Service Ideas,* The SEEP Network, Washington, DC, September 2004.

[15] Rather than working on stand-alone BDS provision, TTO decided to focus on embedding services into other trading relationships.

- Promote the concept of turnkey spaza businesses (drop).
- Facilitate the establishment of a business collaboration network (keep).

This final step brings the design process full circle and back into the intervening organisation. The lesson learned from TTO's decision-making process is that intervention choices vis-à-vis spaza shop owners were framed by competitive opportunities for and threats to the spaza market. In other words, TTO's choices were determined by how the system—the spaza market—could work better for all key actors, not only spaza shop owners. This implies that not all spaza shop owners will be able to compete and grow. TTO's decision criteria framed some difficult choices between market requirements and agency mandates. This process underscores the importance for development agencies to adopt a comprehensive mix of decision-making criteria and a rigorous decision-making process to make full use of investments in market research.

This section of the case study unpacked TTO's experience in using market research to make project design decisions. TTO's research process could be characterized as one of false leads (not much BDS in use), darkly lit pathways (understanding spaza shops is partially illuminating), and encouraging leads (product manufacturers and wholesalers see potential in the spaza market). All market research undertaken by market outsiders, like TTO, will be a process of investigation and discovery as they identify where the interests of key market actors are aligned or in conflict. After all, the objective of the research and design process is to determine if and how best an external market facilitator can move market actors from their specific positions to their mutual interests in improving their competitiveness.

In summary, some specific lessons can be learned from TTO's market research to make project design decisions:

- Start with a better understanding of the value chain.
- Gather information about end user purchase behavior as early in the research as possible.
- Identify how businesses solve problems as the entry point to service use in weak markets.
- Engage the private sector in the research with commercially relevant information.

Section 4 of the case study presents these lessons in detail.

Section 4

Lessons Learned

Perhaps the number most remembered is 18, which is the number of months it took the Triple Trust Organisation (TTO) to conduct its research. Is so much time required to make informed project design decisions? The concluding section of the case study offers TTO's recommendations to agencies interested in conducting market research to design projects.

If applicable, keep the following questions in mind while reading this Section:

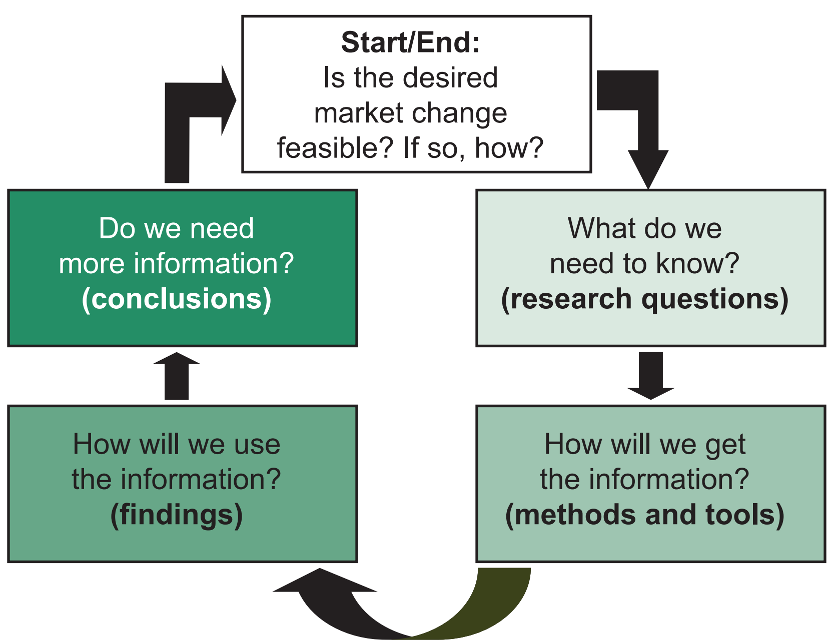
- What is the starting point of your market research?
- What decisions will you have made at the end of your market research?
- What information will you need?
- How will you get it and use it to make design decisions?

The amount of time an agency may require will be market-, context-, and agency-specific; however, the lessons from TTO's experience may result in time-saving, but more important, high-quality outcomes in getting and using information to design, implement, and evaluate market development projects.

Start at the End

Figure 6 shows the starting and ending points of a general market research process. TTO ended its research at a very different point than where it started. TTO started its research narrowly focused on removing constraints to spaza shop growth by promoting the commercial use of business development service (BDS). At the conclusion of its research, TTO's focus dramatically shifted to promoting a more efficient grocery market for low-income consumers that benefits the poor as consumers and business owners. The change from a narrow, firm-based level to a broader, systemic focus was made incrementally over the first 12 months of the research. This shift partly explains the length of time required for TTO to conduct its research. Other explanations might also include TTO's previous orientation in working with individual small businesses instead of market systems and a desire to ensure that expected outcomes benefit poor, small business owners. As TTO learned more about the spaza market, its own confidence in the role of markets to deliver benefits to poor people increased. The organisation could envisage the benefits of linkages between very small spaza shops and very large wholesalers and product manufacturers. The "start

Figure 6. Market Research Process



at the end" method asks agencies to envisage change at the level of the system and organize research activities that support this vision.

The Questions – not Methods – Drive the Research

Figure 6 illustrates a second and related lesson from TTO's research: the questions, not the study methods, direct the research process. At the beginning of the research, TTO was about to contract with a market research company to undertake a standard Usage, Attitude, and Image (UAI) survey on BDS in the spaza market. When TTO dropped this idea, the organisation worked with the contractor to design the survey for consumers and spaza shops. This instrument followed standard socioeconomic survey methods but did include a set of questions on spaza linkages and support. The more TTO learned about the spaza market, the information it sought became more specific, and the research methods required to gather the information needed to answer research questions became increasingly specialized and custom designed.

Commercial BDS, while less prominent in TTO's thinking, continued to be important; UAI research was dropped in favor of undertaking service concept tests. Direct supply links between product manufacturers and spaza retailers were critical to improve the value chain; TTO designed the product basket research to get information from manufacturers on their perspective of the spaza market.

Tailor Market Research to the Context

The TTO case study illustrates the importance of mixing and matching various tools that may be required at different stages in the research to address particular research questions, especially in weak markets for which information is sorely lacking. TTO adapted tools to be relevant and appropriate for the decisions to be made. The initial survey on consumer attitudes and purchasing behavior proved invaluable for TTO to gauge the size and significance of the market and quantify consumer demand in ways useful at later stages in the research. Yet, the survey only scratched the surface of the intersection of interests of the various market actors in the spaza market. TTO created its own tools to get useful information on the product basket, the market potential of problem-solving business services, and the interests of spaza shops' trading partners. The lesson for researchers is that tools/methods are rarely ready-made; instead, researchers must be creative in adapting tools to fit their particular research needs.

Engage in the Process

Outsourcing research for use in project design has its plusses and minuses.[16] Although TTO outsourced the initial survey, TTO used the survey process to build its own research capacities. The organisation managed the process very closely, and TTO staff members actively participated in gathering and analyzing information. When TTO shifted to qualitative research methods, the staff received training in conducting focus group discussion. The TTO case highlights how the process rewards the researcher in subtle but important ways: it challenged TTO's own biases about spaza operations, it developed TTO's confidence to work with large private sector companies on behalf of poor people, and enabled TTO to better make sense of conflicting information gathered from multiple sources—consumers, spaza, and their trading partners—when making design decisions.

More Research is Needed in Weak Markets than in Stronger Ones

Why even perform research in markets weak in terms of information available to make decisions—why not just dive in? A lesson learned from TTO's research experience suggests the opposite: a relationship appears to exist between the weakness of the market and the degree of investment required to understand it sufficiently to make considered decisions. Why? Precisely because of the lack of available secondary information on weak markets. Even market actors themselves tend to understand weak markets less clearly than stronger ones. Strong markets have been studied extensively by the large corporations that operate in them. Markets for the poor have been largely ignored by most large corporations and, to a lesser extent, by governments and researchers.[17] Program designers must step in and provide this lack of existing information and understanding.

[16]For a review of what to look for in a market research firm, see Alexandra Miehlbradt, Guide to Market Assessment for BDS Program Design, A FIT Manual, International Labour Organisation 2001, Section X. available at www.ilo.org/dyn/bds under Market Assessment, then Guides to Market Assessment.

[17]C.K. Prahalad and S Hart, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*, 2003.

Postscript

This case study returns to where it began: it is July 2004 and Triple Trust Organisation (TTO) is about to launch a three-year project to assist in making the spaza market work better for poor people. The spaza market was something of an enigma to TTO when it initiated its research two years earlier. Now TTO believes that it knows enough to commence its interventions, which are aimed at increasing the market share of 3,600 spaza shops by facilitating improved linkages between the shops and their suppliers and organizing spaza shop owners in informal business networks to strengthen their position in the supply chain.

The project design turned out to be completely different from how TTO originally envisaged it at the start of its research. TTO attributes this not only to the crucial information that it uncovered about the spaza market, but also to the way that the organisation conducted the market research.

Thinking ahead, TTO's interventions may need to be modified to achieve the goal of improved spaza market competitiveness. Any modifications to the interventions, however, will be based on information TTO has systematically gathered from its ongoing research into a dynamic and changing market.

Annex A

Market Research Activities in Chronological Order

<table>
<tr><th>Project Design Decisions</th><th>Stage 1
Focus Group Discussions (FGDs) to Design Survey Administered to 300 Consumers and 300 Spaza Shops</th><th>Stage 2
FGDs with 60 Spaza Shops on Stocking Issues, Supply Chain Links, and Business Development Service (BDS) Use</th><th>Stage 3
(a)FGDs with 30 Consumers
(b) Interviews with Wholesalers and Product Suppliers</th><th>Stage 4
Interviews with Business Service Suppliers</th></tr>
<tr><td>Understand the market: What did Triple Trust Organisation (TTO) learn about the economic system in which poor people participate as consumers and business owners?</td><td>1. Market size?
2. Consumer purchase behavior?
3. Spaza shop operations?
4. Spaza and system-wide constraints?
5. Support services?</td><td>6. Stocking practices and constraints?
7. Links in the supply chain?
8. BDS demand and supply?</td><td>Township consumers:
9. Product and unit preferences?
10. Improve shopping experience at spaza shops?

Suppliers/wholesalers:
11. Township strategy?
12. Spaza shops included?
13. Past experience with spaza shops?</td><td>14. Serve spaza market now?
15. Offers tailored to spaza market?
16. Interest in serving spaza market?</td></tr>
<tr><td></td><td colspan="4"></td></tr>
<tr><td>Identify priority market problems: Which problems should TTO address to leverage desired market changes?</td><td colspan="4">Process for drawing conclusions from the research findings against these questions:
• Is the market working?
  • If yes, is there any justification to intervene?
  • If no, why does demand from township consumers and spaza shops not come together?
    – Is it a lack of demand? Is it the inability of spaza shops to satisfy demand?
• How does the competitive environment affect the spaza market in terms of opportunities/threats for consumers/spaza shops?
• Where in the value chain can interventions leverage desired change in terms of making this market work better for poor people (consumers and micro and small enterprises)?</td></tr>
<tr><td>Identify intervention choices: What can TTO do to facilitate solutions to market problems?</td><td colspan="4">This decision relates to the mandate and capacity of the intervening agency. TTO's decision-making criteria included responses to the following questions:
• Is it geared to poverty alleviation?
• Will it have an economic benefit for poor communities?
• Does it involve the development of markets?
• Will it create financially viable business opportunities?
• Does it involve commercial transactions?
• Could TTO participate as a facilitator?
• Can it be taken to scale?
• What is the level of effort for adequate research?</td></tr>
</table>

Annex B

Findings and Conclusions from Service Concept Tests with Spaza Shop Owners

Payment Mechanisms for Stock Purchase from Suppliers	
What	What if you were able to pay for all goods delivered to your shop using your debit card linked to your existing bank account?
Why	More stock purchase options are crucial to spaza growth; theft is a major deterrent to suppliers to serve spaza shops; shift from cash to debit card transactions could leverage more suppliers to serve spaza and contribute to business growth of both parties.
How	Mobile “speedpoint” machine (battery-operated devices that uses radio signals) invented to sell prepaid phone time using debit cards (and eliminate cash); two service concepts: (1) specialized provider with machine coordinates payment service with distributors or (2) distributors carry machine on truck and transact with spaza shops using debit cards.
Findings	Greater willingness to pay if service offered more benefits beyond attracting suppliers to compensate for added transaction costs (fees) to pay for the service. Added benefits desired include customer convenience (to pay using debit cards) and new business opportunity for spaza as selling point for range of prepaid services (e.g., phone time, electricity use).
Conclusion	Service important but not urgent. Linkages with suppliers can be improved without necessarily reducing cash by increasing awareness of market potential and promoting local distributors as lower cost/lower risk alternative to in-house distribution. Include spaza financing and technology as a research component of the project.
Business Collaboration Network	
What	What if you were able to belong to a network or association in which you, as a spaza shop owner, could derive business benefits such as better stock and preferential treatment from stock suppliers?
Why	Spaza are disorganized and prior research confirmed they receive no preferential treatment from stock suppliers. Better organisation among spaza shop owners could enable them to leverage better deals with their trading partners and make it more economical for their trading partners to serve them.
How	Basic concept was a fee-based membership organisation from which members derived business benefits. No specific form or type of organisation was tested. Possible models ranged from formal to informal, local to national, structured to flexible.
Findings	High awareness of importance to organize; perceived benefits in bringing pressure on trading partners and local authorities (regarding crime, environment); willingness to organize provided a third party takes leadership.
Conclusion	Service important and urgent. Awareness of possible business benefits through organisation indicates important role of TTO facilitation; must present concrete examples of different organisation types and get feedback.
Pest Control Service	
What	What if there was a fee-based business solution to minimize stock losses resulting from pest problems and thereby save your business money, increase customer satisfaction, and possibly contribute to your business profits?
Why	Prior research revealed that stock loss was high and due mostly to pest problems; self-help solutions were not working; professional pest control services existed elsewhere, but townships were not being served.
How	“Rentokil on a bike”—mobile pest eradication service offered by a licensed individual in association with a well-known pest control brand.
Findings	Willing to pay fee for a service if the service provider offered a guarantee to control pests and stand by the guarantee with follow-up service; less willing to pay for a service offered by an informal operator without the backing of a professional service company.
Conclusion	Reassess feasibility of service idea because the barriers to entry in this profession (e.g., licensing and training) higher than practical for business model envisaged to deliver service; shift away from fee-based business service to lower cost alternative such as storage containers; petition local council to improve waste collection; possibly embed environmental services in new arrangements with trading partners.

Transport Stock from Wholesaler to Shop	
What	What if a service was available to safely and reliably transport your goods from the supplier/wholesaler to your shop for a fee? You could then spend more time at your shop, save money instead of using more expensive taxis, and have more flexibility in moving from one supplier to another when stocking for your business.
Why	More than 50% of spaza shop owners do not own their own vehicles. An informal transport service has emerged to cart shop owners' goods from the wholesaler to their shops. This service costs less than a taxi but prices are not standard and potential time-saving benefits are lost because transport service waits for full loads.
How	Informal transport services could increase service benefits with better organisation and offer time- and cost-saving benefits to spaza shop owners without vehicles.
Findings	• Benefits greater than moving goods sought by spaza shop owners; want a reliable way to reduce need to visit the source of goods; want preferential treatment from wholesalers in return for their loyalty—phone-in ordering, stock delivery for specific orders. • Transport service useful if service providers are better organized and more customer-oriented.
Conclusion	Not urgent: fee-based transport offers limited benefits relative to benefits sought—better to explore other higher priority options to assist in improving supply relationships; when this occurs, transport will probably take care of itself.
Local Storage Facilities	
What	What if a locally based facility stocked with a wide range of products that are normally sold by spaza shops was available? You would save time and money to source stock because the service will be based locally. You could replenish stock more frequently and reduce stock losses due to environmental problems.
Conclusion	This service idea was dropped after the first focus group discussion because spaza shop owners did not see the value this service would add to their businesses. The same benefits could be realized with better links between spaza shop owners and their trading partners.