

GO PRO

Try it free for 4 weeks.

- Limited Brands' International Promise
- South Africa Brings Opportunities,...
- Mango to Boost Stores in China

THE WALL STREET JOURNAL
PROFESSIONAL EDITION WITH FACTIVA

11:28am TRY IT FREE

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

[See a sample reprint in PDF format.](#)

[Order a reprint of this article now](#)

THE WALL STREET JOURNAL

WSJ.com

Wal-Mart Checks Out a New Continent

Buying Massmart Would Give Giant Retailer a Head Start Over Rivals in Sub-Saharan Africa

By **ROBB M. STEWART**

JOHANNESBURG—It's another sunny Saturday morning, and car trunks are open, ready for loading, in the parking lot here as South Africans return from shopping.

"Shopping? Yeah, people here love it," says a saleswoman in the electronics department of giant discount retailer Makro, a unit of [Massmart Holdings Ltd.](#) "By midday," she says, "there is a stampede through the doors."

Similar scenes across South Africa help to explain why [Wal-Mart Stores Inc.](#) is considering making a 32 billion rand (\$4.63 billion) bid for Massmart, which operates warehouse-sized stores that sell goods ranging from food and liquor to clothing, gym equipment and home furnishings.

Wal-Mart is now in its fifth week of conducting due diligence on Massmart. Executives are inspecting each of Massmart's 288 stores, which are located in 14 African countries, though mostly in South Africa.

If the company proceeds with a formal offer, the acquisition would be the Bentonville, Ark., retailer's biggest in more than a decade. It would also give Wal-Mart a head start in sub-Saharan Africa over European rivals Carrefour SA and [Tesco PLC](#), which don't have any stores in the region.

Carrefour owns supermarkets in Morocco, Egypt and Tunisia with partners, but spokeswoman Amandine Cuinet declined to comment on the retailer's strategy for the rest of the continent. Tesco also declined to comment on markets where it doesn't operate.

South African labor unions have spoken out against Wal-Mart's potential arrival, but the country appears to offer friendlier and more familiar terrain than China and India, where Wal-Mart made earlier forays.

For starters, South Africa has embraced shopping malls. They dot cities, suburbs and, increasingly, the townships where a new and increasingly affluent black middle class has emerged over the past decade. In townships like Soweto, in southern Johannesburg, megamalls have largely displaced street traders.

"There is a new middle class of savvy consumers," says Simon Susman, the chief executive of clothing, homeware and food retailer Woolworths Holdings Ltd. "A shopping mall in South Africa is not very different from an Australian shopping mall or a British shopping mall."

Massmart itself has grown through acquisitions, according to Grant Pattison, Massmart's chief executive. Founded with Makro and six stores in 1990, it has bought a number of other brands, including upmarket Dion electronic stores in 1993. Last year it bought Cambridge Foods, a price-competitive supermarket chain catering to the millions of poorer South Africans who have to commute to their jobs from townships and villages. If a deal goes ahead, Wal-Mart is expected to keep Massmart management to guide its entry into the continent.

"South Africa forces you down a multiplatform route," Mr. Pattison says. Decades of apartheid rule, when blacks were kept out of the mainstream economy and the suburbs, ended in 1994. But the legacy is a two-tier economy

that is only slowly eroding. The country boasts the presence of multinational companies, a wealth of mineral resources and the emergence of a middle class. But unemployment remains at about 25% of the working age population.

The two-tier approach has allowed Massmart and other retailers to do well even when the rest of the economy hasn't. In the 12 months through June, Massmart managed to increase its revenue 10% to 47.55 billion rand even though the country continued to lose jobs.

The Congress of South African Trade Unions, the country's biggest labor federation and a political ally of the ruling African National Congress, said it would fight the "Walmartization" of the retail sector. But Wal-Mart's Andy Bond, a former chief executive of Wal-Mart's U.K. subsidiary Asda who is spearheading the purchase, has said the company would work with Massmart's existing unions.

Mr. Pattison says that labor unions have a strong position in the country and the labor laws are very clear, something that wouldn't change with foreign ownership of Massmart.

Of course, Wal-Mart hasn't always managed to get its expansion into new markets right. In 2006, it had to abandon its German operation after spending eight years trying to crack one of Europe's most competitive discount-retailing environments. Last decade, it pulled out of South Korea.

Wal-Mart opened its first store in mainland China in 1996. In a country mired in bureaucracy, it has had to navigate a commercial environment that favors local companies and a distribution system closed to foreign firms. The retailer has also stumbled on its own, with failed efforts in its early days to sell extension ladders and a year's supply of soy sauce to customers living in tiny apartments.

In India, where it plans to use its discount, big-store model to capture a slice of a retail market that has annual sales of more than \$350 billion, Wal-Mart has been waiting for years for the government to ease restrictions on foreign investment in the retail sector. There, it must also compete in an industry made up of small merchants.

By contrast, South Africa has relatively little regulatory oversight, executives in the country say. "Although like any business we like to complain from time to time, you can do business in South Africa and you can open a store in South Africa," says Woolworths' Mr. Susman. In the rare instances where licenses to trade are required, they are easy to obtain, he says.

There is an established infrastructure of roads and ports for the movement of goods, and a modern banking system and effective telecommunications to run the business, he adds.

The challenge is that for all its potential, South Africa remains a relatively small market of only about 50 million people.

But some like Wal-Mart now see the country as a gateway into another huge continental market. "You have to take the long view on Africa," says Massmart's Mr. Pattison.

—Eric Bellman in Mumbai and Laurie Burkitt in Beijing contributed to this article.

Printed in The Wall Street Journal, page B1

Copyright 2009 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com