



COVID-19 Impacts on Micro-Retail Businesses

Women IN Business (WIN)

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CONTACT

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1 Introduction

As COVID-19 continues to spread across the globe, consumers, companies and governments are responding to the challenge, creating varied economic consequences. Demand for essential goods and services and their distribution has become most important. In Mozambique, 60-70% of retail sales are channeled through micro-retailers – small grocery stores, table-tops and informal market traders. As such, their role in the distribution of food and household goods for consumers is critical.

TechnoServe's Women IN Business (WIN) program has been supporting market-led solutions for micro-retailers, especially women. WIN has learnt also on the experience of its sister program, Business Women Connect, which provides training and market linkages to women-owned businesses.

WIN conducted quick surveys with informal traders in various markets in Maputo and Matola to understand the challenges that the virus presents to them and how government directives to prevent the spread has affected their businesses. This note is intended to provide stakeholders in the fast moving consumer goods value chain with market intelligence on the impact of COVID-19. It also provides some ideas and potential solutions that can be taken forward.

Our findings so far show:

1. Sales in micro-retail have taken a downward turn
2. Some small shops have already closed and others are under strain
3. Wholesale prices have been driven upwards due to lack of supply
4. These higher wholesale prices are ultimately passed on to consumers
5. Lower consumer confidence is exacerbating micro-retailers' challenges, as consumers are unable to meet the new prices and those who can afford to, prefer formal options
6. Micro-retailers are failing to adapt to these challenges
7. Distributors have an important role to play in the solution

A major impact of COVID-19 is that things change very quickly. The information and perspectives shared on this note may rapidly fall out date. This information is up to date as at April 16, 2020.



A micro-retailer is a small shop or market stall, serving local residents or passing traffic. Many are informal or semi-formal in structure. Micro-retailers often work alone, or with a maximum of 1-2 employees.

2 Movement restrictions from COVID-19 are already having an economic impact

Many women in Mozambique work in informal or semi-formal trade and retail, buying and selling household goods, agricultural and other products. Women are prevalent in informal markets and as local shop owners or managers, especially in the South of the country. Since the outbreak of COVID-19 pandemic, these entrepreneurs have been heavily impacted by changes in consumer behaviour and government regulations. This document aims to summarize the impacts in the first weeks of the pandemic and suggest next steps for the companies supplying micro-retailers.

Since the Government of Mozambique (GOM) introduced a Level 3 State of Emergency on 30 March 2019, there is officially a “severe restriction of clustering in the commercial sector”. Notably for micro-retailers, all public and private events (greater than 10 people) are now prohibited, and entertainment businesses (bars, restaurants, etc) have been closed. So far, the municipal authorities have not called for markets to close; however, many markets are implementing restricted hours (6:00 - 17:00 in Maputo), or rotation of market stalls, in order to limit the number of people. If and when the GOM declares a Level 4 State of Emergency (prohibiting people to leave the house and effectively closing down all non-essential public and private sector activity), there may be a decision to more severely restrain economic activity in markets where crowding is difficult to manage.

One concern is a lack of clarity or detail around the GOM announcements so far. We assume that micro-retailers are in the category of selling “essential” goods and will remain so even under a Level 4 scenario. Through INAE, the trading standards regulator, the GOM has announced that it is holding wholesalers responsible for any speculative activity around wholesale goods. WIN has heard reports of items being confiscated from wholesalers for this reason. However, detailed guidance has not been issued, as far as we are aware. Similarly, the GOM has announced it will “regularize” payment of taxes on the import of essential goods and possibly accept late payment.

3 Sales in micro-retail have taken a downward turn

The COVID pandemic is already having several impacts on micro-retailers’ businesses. Supply is down due to movement restrictions, putting upward pressure on wholesale prices. Demand, especially for non-essential products, has fallen as consumer confidence lowers, and is further exacerbated by rising prices. Many micro-retailers find themselves “stuck in the middle” of these two dynamics, reporting lower incomes and in some cases, considering shutting shop altogether.

<i>Data set 1</i>	<i>Data set 2</i>
Micro-retailers in and around markets	Micro-retailers with small shops
18 (11 barracas, 6 table-top, 1 street vendor)	47 fixed establishments (“mercearias”)
No training received	Supported by Business Women Connect (BWC) program
Typically no employees	Typically none but may have maximum 1-2 employees
Largely informal	Semi-formal (pay monthly municipal tax but typically not INSS or IVA)

Given that the majority of sales of household goods occur through micro-retail in Mozambique, these business outcomes are a concern not only for those whose livelihoods depend on micro-retail but also the brands and distributors they represent.

WIN used two separate surveys to understand how micro-retailers are faring and what measures they are taking to navigate the current crisis. We spoke to 18 micro-retailers running small shops and market stalls in municipal markets. We supplemented this with data from 47 retailers



directly supported by the Business Women Connect program (all with fixed establishments). The overall dataset covers multiple areas within the metropolitan area of Maputo and Matola.

4 Some small shops have already closed and others are under strain

The overall picture is that most micro-retail businesses remain open, but report coming under strain. In the case of the shops supported by TechnoServe’s BWC program, 15% had already closed and a further 23% considered they may have to close in the next month. Most micro-retailers stated that they are managing just to break-even, and a quarter report facing losses.



N = 47; Dataset 2

This is a concern, as 57% of these businesses represent the main source of family income, and only 51% have savings to get them through this time.

5 Lack of supply is driving increased wholesale prices

Access to wholesale supply appears to have been impacted by a reduction in imports from South Africa by informal traders known as *mukheristas*. Unlicensed traders now have greater difficulties in crossing the borders due to restricted entry. This is leading to marked increases in wholesale prices.

When asked what are the biggest impacts of the Level 3 restrictions, 94% of micro-retailers interviewed mentioned rising prices of wholesalers. This ranked as the biggest problem they faced. Additionally, 85% of micro-retailers said they were low on stock, hence, micro-retailers may be purchasing less as a result of rising wholesale prices, or their suppliers themselves may be out of stock if they are not licensed to cross the border.



N = 18; Dataset 1



All of the micro-retailers we spoke to in the markets had maintained the same set of suppliers, despite the price increases, and 89% kept purchasing the exact same products. Some are experiencing stock-outs but are not actively seeing new suppliers, even though terms have changed. Two-thirds of micro-retailers said that their suppliers had stopped providing credit – the combined effect of this with lower sales and higher wholesale price has meant that in some cases they are unable to re-stock.



REPORT CHANGES IN THEIR ACCESS TO CREDIT AS SUPPLIES ARE NO LONGER PROVIDING GOODS ON CREDIT

N = 18; Dataset 1

In the case of the Business Women Connect program, these women are being connected to local distributors who are formal alternatives to *mukheristas*.

Recheio cash and carry, through its call center, is servicing informal traders. With a minimum order value of 5000 MZN, micro retailers get next day delivery wherever they are (Maputo and Matola) on ordered items. The call center is also actively keeping them up to date with current prices.

Each product has its own price dynamic, depending on how it is imported and whether there are shortages in South Africa. Sugar is currently in particularly short supply, although this may be a temporary phenomenon which will be resolved when local sugar companies such as Maragara harvest and re-start production.

Outside of Maputo, anecdotal evidence suggests that shortages and wholesale price increases have been

especially pronounced, although may now be stabilizing. These areas are likely to be the most reliant on informal wholesalers and take time to adjust.

6 Higher wholesale prices are ultimately passed on to consumers

WIN's analysis suggests that on average and for many FMCG goods, micro-retailers are opting to maintain margins and instead deal with lower sales. Since market margins in particular are already very low, retailers have little choice but to increase the sale price.

WIN tracked the prices of five standardized household goods among shops and stalls and compared data back to an earlier data collection round in February 2020. All wholesale and retail prices had increased on average, but the overall picture is varied. In the case of Benny stock powder, MAQ washing powder and Bela spaghetti, retail price managed to increase at the same rate as wholesale price. For sugar (Autopac), the retail price had increased by 6 percentage points more than the wholesale price. For flour (Super White), the retailer's margin was squeezed by 3%.

However, this masks a wide variation in how micro-retailers are handling the situation. Some said they are torn between keeping customers and staying afloat, and some reported selling their stock at a loss because they are afraid to lose customers.

"There is no profit now because the buying prices are higher"

Micro-retailer, Zimpeto



Prices of 5 standardized goods in markets – February and April 2020



N = 18; Dataset 1

For the more formal – yet still micro – businesses, such as small *mercearias* supported by Business Women Connect, margins tend to be higher overall, around 25% in normal trading times. These businesses appear to be absorbing more of the rising wholesale price in order to maintain their customer base. Again, there are wide variations, with products such as oil and sugar maintaining margins of 30% or more, while other products such as rice and fish are now being sold at margins of 7% or lower.

7 A knock to consumer confidence is exacerbating micro-retailers' problems

All of the 18 market-based micro-retailers contacted by TechnoServe have seen a reduction in customers in the past weeks. This is not surprising. Micro-retailers serve the lower-income segment, who want to save their money in times of uncertainty (unlike middle-income consumers, who may choose to “stock up” for fear of future shortages). As retail prices increase, consumers react by directly paring back purchases.



100% OF MICRO-RETAILERS REPORT FACING A DROP IN THE N° OF CLIENTS AND A DROP IN THE AMOUNT OF GOODS PURCHASED PER CLIENT

N = 18; Dataset 1

“People now prefer to go to bigger shops because they are controlling the number of customers being serviced. I go to Recheio cash and carry because they only allow a certain number of customers to enter and I can use my card. The markets are still crowded and don’t accept cards so people are avoiding them”

Matola resident

In this situation, the smallest retailers - especially market stalls - are the hardest hit. Customers who can afford to do so will go to cash-and-carry outlets which are less crowded than open-air markets, and also offer better pricing for buying in bulk. Customers also consider them safer. Small shops are able to implement some protective measures, by reducing the number of people in the store at one time; however, this is not available to market stall holders or “table-tops”.

Finally, cash is still the main form of payment in markets, and customers have been advised against touching money which changes hands. Those who have alternative options (e.g. M-Pesa account or bank card) are preferring more formal retail options.

8 Micro-retailers lack business adaptation strategies

Despite these changes in demand, micro-retailers in the Maputo area are generally not adopting more creative sales techniques such as delivery or changing their business location. Mostly they simply follow new guidance on opening hours.

However, all retailers have adopted some safety precautions to protect themselves and/or their clients against the virus, such as using masks, hand-washing facilities and gloves.



N = 65; Datasets 1&2



N = 18; Dataset 1



9 Distributors have an important role to play in the solution

Micro-retailers connect distributors and manufactures to the end customer. When their businesses are disrupted, distributor’s sales suffer and revenues fall. It is therefore in the interest of distributors to take an active role in ensuring that micro retailers continue operating. Below are a number of proposed measures that distributors can take to reduce the impact of COVID-19 on micro-retailers.



Solution	Description of model
Promote products with robust demand	<ul style="list-style-type: none"> Select product lists to promote to micro-retailers (e.g. sanitizer and soap, basic household essentials) Offer promotional pricing for bulk orders
Increase delivery services to customers	<ul style="list-style-type: none"> Reduce minimum order value for delivery Set up new points of sale, especially in smaller cities and peri-urban areas Re-design delivery routes based on customer locations Encourage customers to buy together in groups Increase call centre capacity
Help customers / agents develop new channels to reach end-consumers	<ul style="list-style-type: none"> Provide specific ideas to customers / agents on how to sell in local, residential area (door-step delivery to end consumers) Set up mobile wholesale points in residential areas for re-stock
Business management messages to customers / agents / distributors	<ul style="list-style-type: none"> Provide messaging to customers on how to manage their business through pandemic E.g. ordering, stocking, cash flow, product selection, keeping business area clean and disinfected, ways to serve end-customers Can be sent by recorded message, SMS, whatsapp or other channel
Electronic payments	<ul style="list-style-type: none"> Encourage use of payments through M-Pesa (e.g. Paga Fácil) and agency banking
Lobby to ease business operations	<ul style="list-style-type: none"> Approach INAE and authorities to clarify positioning around price regulation Lobby for specific actions to support demand, e.g. temporary VAT reduction Lobby for clear guidelines on customs and border restrictions

There is a unique opportunity for formal distributors to engage with micro-retailers, given the absence of *mukheristas* and other cross-border traders. They can create relationships that were non-existent, possibly maintain them post COVID-19 and increase their customer base in the informal trade.

10 About us

TechnoServe is a non-profit organization present in 26 countries around the world. For over 50 years (and 20 in Mozambique), TechnoServe has been harnessing the power of the private sector to build competitive farms, businesses and industries in the developing world. In 2018, TechnoServe supported 457,000 people around the world and delivered more than \$188 million in financial benefits to its clients.

Women IN Business (WIN) is a 5-year program implemented by TechnoServe and financed by the Embassy of Sweden in Mozambique, with a mission to economically empower 10,000 women. WIN partners with the private sector to identify and trial solutions that can engage women as clients, distributors and business partners.

Business Women Connect (BWC) is funded by the ExxonMobil Foundation and has been operating in Mozambique for over 3 years. BWC provides training and advisory services to female



micro-entrepreneurs (retailers and others), and links them to financial services companies to become financial agents for their local communities. Over 600 women have graduated from the BWC program so far.

11 Appendix

Types of micro-retailers



Street vendor



Street Stall



Market Stall



Shop