

# From the high street to the dusty street - when formal and informal meet

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8 Jan 2018

Opportunities for economic growth abound within the exchanges between the formal and informal economies.



Kamogelo Mmutlana, CEO of Barloworld Logistics

From street vendors to domestic workers, spaza shop traders, subsistence farmers, taxi operators, small-scale manufacturers, and roadside restaurateurs, the South African informal economy is a bustling, vibrant industry.

No longer viewed as merely a survivalist strategy by those impacted by poverty, informal trade creates economic opportunity for approximately 32% of the local non-agricultural workforce, with this number increasing to as much as 60% globally.

Considering that there are an estimated 90,000 permanent spaza shops and more than 500,000 table-top vendors throughout the country, each generating anywhere from R10,000 to R200,000 in sales per month, the lower-end of the so-called "retail pyramid" accounts for a considerable proportion of local trade.

Leading organisations within the formal economy not only have a responsibility to enable access and opportunity within the informal sector but would be well advised to assess the burgeoning potential within it critically in order to partner in the sector's growth.

Whether corporate South Africa acknowledges it or not, we are inextricably linked to the informal economy. Notwithstanding geographic and cash trade challenges, the potential for value exchange between these sectors of our economy requires focused attention from supply chain organisations.

## Putting practices in place to facilitate formal, informal trade

***“ Gaining traction is the trend of local supply chain businesses putting practices in place to facilitate formal and informal trade, but for such to be successful, a deeper understanding of the dynamics, and indeed psyche, of the informal market is required. ”***

Universal solutions are not necessarily viable within the informal economy. What has successfully worked in India or Vietnam cannot be assumed to work locally.

As this trend continues to evolve, we must remain mindful that our markets have wholly unique requirements and expectations. These nuances require thoughtful consideration, innovative application of technology and sustainable business practices in order to facilitate free access and opportunity.

***“ In South Africa, the trend of the private sector tapping into the informal economy is not new; however, policy and legislature need to play their part. ”***

Attempts to regulate the informal economy through existing mechanisms may, instead of protecting this vibrant marketplace, quash the very entrepreneurial spirit that drives it forward.

Access to credit, bespoke liability, wholesale pricing, and reliable supply are all required to participate in any market economy. These requirements - when overlaid on a landscape of informal trade - pose challenges for both the public and private sectors.

The first step is to critically assess your product offering - from product sizing and pricing right through to distribution model and order financing.

As a business, it is critical to understand where your point of value would be when entering into the informal economy. In most cases, distribution and payment models are key factors when creating market share within this space.

## The shared economy trend

It is important that businesses work with their partners to assess the entire supply chain when hoping to capitalise on this shared economy trend. From ordering mechanisms to delivery and the collection of cash, opening opportunity with informal trade sector requires supply chain partners not only be attuned to these needs but flexible enough to adapt.

The major challenge is that there is no “cut and paste” solution and often these fall beyond the scope of traditional supply chain models.

To realise the opportunities this trend offers, partnering with local, innovative providers that offer limited-basket drops, or technology driven payment mechanisms, for example, are likely to create viable routes-to-market within this space.

“ *As supply chain providers, the onus lies on us to drive this trend by opening opportunities within previously untapped markets.* ”

The ability to action single, small item drops while maintaining the cold chain to a Gogo selling Shisanyama, the collection and reuse of recyclables from waste-pickers, or the provision of cost-effective compost made from organic waste to subsistence farmers create smarter business strategies. These ultimately unlock opportunities to enhance profits and drive growth for both the informal and formal economies.

As economic pressure persists, and the entrepreneurial spirit flourishes, the informal economy will continue to grow, and indeed take its place amongst the most significant contributors to our GDP.

The trend of value sharing and opportunity creation between the formal and informal sectors will thus continue. Those connected to this local zeitgeist, and indeed innovative and agile enough to adapt, will thrive and drive our economy forward.

## ABOUT KAMOGELO MMUTLANA

Kamogelo Mmutlana, chief executive officer of Barloworld Logistics, is a qualified industrial engineer with 21 years of senior business executive experience in operations and management in varied sectors including logistics, industrial, automotive, food services, hospitality and rail. His track record leading complex, blue chip companies and driving innovation spans high profile businesses including Fedics Food Services, BMW SA and Super Group subsidiary SGE - where he was the divisional CEO of Fleet Africa for nine years prior to joining Barloworld.

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