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FEATURE ARTICLE

A PESTLE analysis of international retailing in the East African Community

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Although many retail firms from around the world have established a presence in the East African Community (EAC), not all internalization attempts have been successful. Application of the PESTLE model—which examines various political, economic, social, technological, legal, and environmental issues—to investigate the barriers and opportunities in the sector highlights several obstacles to effective and efficient commerce. These include poor infrastructure, inadequate skills and training, and lack of legitimacy. In some cases, these deficiencies also hamper the efforts of locally based retailers to expand in the region. Ultimately, business success may depend on the ability of local governments to design policies and practices that enhance rather than hinder trade and development.

1 | INTRODUCTION

The arrival of international retailers in Africa has changed the nature of doing business on the continent. For instance, in 2012, the global number-one retailer, Walmart, acquired 51% of Massmart, a South African retailer that operates in 13 African countries, and planned to open 90 new retail stores by 2016 (Maylie, 2013). As of the end of 2018, however, only 42 stores in 12 countries outside South Africa had been established (Bavier, 2018). Similarly, English retailers, such as Sainsbury and Marks & Spencer, have targeted the North African nations of Libya, Morocco, Tunisia, and Algeria, while the French retailers Carrefour and Casino have expanded into Francophone countries. In 2016, Carrefour opened its first store in Kenya, and the retailer currently has six stores in the Kenyan capital of Nairobi, the economic hub of East Africa (see **Exhibit 1**). Such moves are not the first, however. SPAR International, a Dutch multinational that manages independently owned and operated food retailers, has been in the continent since 1963. Although it has expanded its reach to nine African countries since 1994, none of its stores are in East Africa.

Cross-border internationalization of retail outlets, which is dominated by Kenyan and South African firms, is also on the rise. For instance, Nakumatt Supermarkets, a Kenyan chain, has expanded into Uganda, Rwanda, and Tanzania. Likewise, various South African retailers have expanded first to Botswana, Namibia, and Lesotho, and then to other countries in the Southern Africa Development Community. Choppies, a Botswana retailer, opened 12 stores in Kenya and 2 in Tanzania.

Although the African market offers great opportunities, international retailers face many difficulties in realizing their goals in the continent. For instance, after 2 years of operation in Egypt, Sainsbury pulled out in 2001 because of a consumer boycott and vandalism sparked by rumors that the company was pro-Israel (Orme, 2001). Carrefour, the number-two global retailer, left Algeria in 2009 after 2 years of operation.

In 2002, Pick n Pay of South Africa, the continent's second-largest retailer in terms of revenue, exited the Tanzanian market.

Retailers from abroad are not the only ones that have failed in Africa. As noted in Exhibit 1, in 2002, Pick n Pay of South Africa, the continent's second-largest retailer in terms of revenue, exited the Tanzanian market. Another South African retailer, Metro Cash and Carry, failed in Kenya in 2005 and in Uganda in 2007. Uchumi Supermarket, a Kenyan retail firm, left Tanzania and Uganda in 2015, and in 2017, Kenya's Nakumatt collapsed in Uganda and Tanzania. These outcomes show that, despite the area's appeal to international investors, there are significant pitfalls associated with doing business in the region.

EXHIBIT 1 Sample of modern retailers in the EAC market

Firm	Origin	Countries of operation	Number of stores
Carrefour	France	Kenya	6
Choppies	Botswana	Kenya, Tanzania	14
Metro Cash and Carry	South Africa	Kenya, Uganda	Closed in Kenya (2005) and Uganda (2007)
Naivas	Kenya	Kenya	26
Nakumatt	Kenya	Kenya, Rwanda, Tanzania, Uganda	Closed in Uganda (2017), Tanzania (2017), and Rwanda (2018); down to 6 stores in Kenya from 62 in the region
Pick n Pay	South Africa	Tanzania	Closed in Tanzania in 2002
ShopRite	South Africa	Tanzania, Uganda	Closed in Tanzania (2014) and Uganda (2015)
Tusky's	Kenya	Kenya, Uganda	48
Uchumi Supermarkets	Kenya	Kenya, Tanzania, Uganda	Closed in Uganda and Tanzania (2015); 12 stores remain in Kenya
Walmart/Massmart	South Africa/USA	Kenya, Tanzania, Uganda	4
Woolworth	South Africa	Tanzania, Uganda	4

Sources: *Business Daily Africa* (2018); Olingo, 2018; Psirmoi, 2018.

The East African Community (EAC), which is made of Burundi, Kenya, Rwanda, South Sudan, Tanzania, and Uganda, has a population of 172 million people. Although member states differ economically and in terms of development, they share one thing in common: They each represent opportunity for growth—and that makes them attractive to global organizations.

When entering a new market, retailers have to consider local culture, policies, laws, and consumers' behavior. Some recently enacted retail reforms, for instance, have proven unpopular and, in some cases, have even made growth difficult (*The Economist*, 2013c, September 21). Research on retail modernization in Africa—with the exception of some studies conducted in South Africa—is scarce, however (das Nair, 2018; das Nair & Chisoro, 2017).

2 | MODELS OF ASSESSMENT

There are many models that organizational leaders can use to help them make decisions in different business environments. They include SWOT (strengths, weaknesses, opportunities, and threats) and PESTLE (political, economic, social, technological, legal, and environmental). Whereas a SWOT analysis is helpful in analyzing a firm's internal environment, a PESTLE analysis focuses on the external conditions that affect business operations (Day, 1990; Walsh, 2005). Previously, the model has been used to examine the evolution of retailing in China (Wang, 2011) and the performance of non-life insurance in Malawi (Kampanje, 2014). Similarly, the PESTLE model can serve to investigate the business climate that contemporary retailers face in the EAC and its impact on the retailing sector.

Although the PESTLE tool has been criticized for not having originated in conceptual theory (Kourteli, 2000), it does enable managers to identify ways in which their firm can position itself to ensure survival in a dynamic business environment. It also is linked to seminal research on the process of scanning external market environments that often cannot be easily influenced by the organization (Aguilar, 1967). In practice, PESTLE should show the connection of variables toward expected outcomes (Collins, 2010): For example, an increase in income tax could lead to a reduction in consumption.

Even when managers cannot influence external conditions, a PESTLE analysis can help them set their strategy and reflect on their tactics and internal resources. Scholars and practitioners generally agree that firms whose leaders do not understand the external environment in which they operate are likely to fail.

3 | APPLYING THE PESTLE MODEL IN THE EAC

The parameters that are considered when assessing a firm's external environment can vary. Some managers have used a PEST model that considers politics, economics, society, and technology (Aldehayyat & Anchor, 2008). Others have considered ethics, the overall business environment, and the law in their analyses.

In this study, legal considerations will be examined apart from politics. Previous research has stressed that in the mapping of political terrain, it is useful to distinguish the political from the legal and administrative climates (Thomas, 1974). This is because local laws and regulations cannot keep up with the rapid pace of economic change in many developing countries. For instance, in some countries (China, for example), retailers have been allowed to operate certain businesses, such as hypermarkets, despite local laws restricting them (Wang, 2011). Keeping political and legal considerations separate will result in a clearer analysis of the changes stimulated by each of these factors, as well as their impact on the economic growth of the EAC.

3.1 | Political issues

A focus on political environment once meant paying attention to a single country's politics and identifying who had the power to influence major decisions (Simon, 1984; Thomas, 1974). Concentrating on nationality and national identity, forecasts addressed the possibility of expropriation or confiscation of investments made by multinational enterprises (MNEs) in the host country. Following the introduction of liberalization and privatization policies in developing countries, the focus of managers and analysts at many MNEs has shifted to political unrest and the factors that can lead to it. Meanwhile, African countries struggle to build stable environments for domestic and international investors. Therefore, it is important for MNEs to note the role of the home and the host countries in the international arena so that they can determine the potential for external actors to affect company operations (Simon, 1984).

> *Following the introduction of liberalization and privatization policies in developing countries, the focus of managers and analysts at many MNEs has shifted to political unrest and the factors that can lead to it.*

Political changes that resulted in various economic reforms in EAC countries—the removal of price controls, direct importation, and nontariff barriers, for example—have led to increased foreign direct investment (FDI) in the region. The main beneficiaries have been the services sector, which received a large portion of that investment, and the retailing sector, which attracted the greatest number of international and cross-border firms. Banks, fashion shops, fast-food outlets, and supermarkets were among the companies that benefitted. Thus, political changes not only attracted international retailers to the area, but also spurred the emergence of indigenous entrepreneurs. On the other hand, four major aspects of the EAC's political environment have hurt retailing internationalization in the region: political instability, terrorist attacks, nontariff barriers, and indigenous entrepreneurs' bad international reputation.

Political instability can result from war; a coup d'état, revolution, or other political turmoil; and even democratic government change (Miller, 1992). All these factors are unlikely to occur in one country or affect a single industry, and each should be considered on a case-by-case basis (Miller, 1992; Thomas, 1974). Although the EAC generally seems to be politically stable, Burundi and Rwanda still face internal rebel conflicts. Leading retailers in East Africa have earmarked Juba, the recently named capital of South Sudan, as a strategic area for investment because it is a center for oil money in the region. Retailers' plans for expansion in that market may be unattainable or will take a long time to implement because of tribal warfare. In fact, political unrest in the area led Uchumi and Nakumatt to suspend their plans to establish stores in Juba.

Terrorist attacks also threaten the growth of the retailing sector in the EAC. For instance, the managing director of Nakumatt estimated that sales fell by 30% after an al-Shabaab attack at the upscale Westgate shopping mall in Nairobi claimed 67 lives in September 2013 (Manson, 2013). The January 15, 2019, attack at Nairobi's DusitD2 hotel, which left 15 people dead, and the attack that took 74 lives during a screening of the 2010 FIFA World Cup final in two locations in Kampala, Uganda, also raised serious security issues for places that attract both locals and tourists and are favored by high-end consumers.

Trade barriers, especially nontariff barriers, limit the expansion of international retailers in the EAC. Some have argued that highly vulnerable markets should be avoided or assigned risk premiums (Czinkota & Knight, 2011). In addition to fomenting fear among consumers, such nontariff barriers are likely to discourage investors, reduce their access to loans, and ultimately hamper economic growth in the region. Installing maximum-security provisions will certainly increase employers' operational costs, but they will have to weigh that expense against the risk of losing employees who would shy away from working with firms that are prime targets of terrorists, unless they are assured of their safety on the job.

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Once its reputation is tarnished in the international arena, a company may find it difficult to recover lost prestige. For instance, the leading retailer in the EAC, Nakumatt, struggled to conduct business after a $20 million business deal in 2009 for Satya Capital to buy Nakumatt fell through and, 2 years later, the US President Barack Obama named one of Nakumatt's major shareholders as a prominent narcotics trafficker (*Forbes*, 2011). In 2017, financial difficulties led the retailer to shut down its operations in Tanzania and Uganda. Such experiences deter reputable firms from associating in the region.

3.2 | Economic factors

In 2017, the economy of East Africa grew 5.9%, continued at the same rate in 2018, and is expected to do the same in 2019 (African Development Bank, 2018). An increase in income has markedly changed the consumption behavior of urban residents, who are now eating more meat and milk instead of such traditional staples as cassava, maize flour, and bananas. The growth of the EAC's middle class, estimated at about 29 million people who can spend $20 a day, is a good indicator of economic vitality (*The EastAfrican*, 2011). Since those in the middle class tend to have fewer children than individuals with more meager incomes (CNN, 2011), it is likely that they would have enough income to spend on other purchases besides food. Although the validity of middle-class estimates in Africa is questionable, the growth of a leading supermarket retail chain like Choppies in the region indicates that the middle class has become a reality in Africa. Consumers increasingly are migrating from open markets to modern retail stores in East Africa (Nandonde & Kuada, 2018). The development of the EAC economy has created a promising market for retailers in the region.

Also of note is the fact that two major cities in the EAC, Nairobi and Dar es Salaam, have each seen their population increase to more than 5 million people. Thanks to low urban transportation costs, this significant customer base can easily be accessed (Knight Frank, 2013). In other words, increased urbanization makes it possible for retailers to avoid the notorious infrastructure problems that have previously limited their reach into unevenly populated zones in Africa.

On the other hand, the nations of the EAC are dealing with high inflation and tax rates, which reduce consumers' purchasing power. In some countries, the inflation rate has gone as high as 20%. Inflation is also likely to be fueled by power crises, severe infrastructure bottlenecks, and tariff increases (Asongu, 2013). Thus, Africa's inflation can be viewed as structural in nature. The food sector is highly sensitive to inflation, for higher prices reduce the purchasing power of consumers and alter their shopping patterns for even the most basic products. This trend limits retailers' ability to offer customers incentives, such as weekly promotions, in developing economies (Alexander & de Lira e Silva, 2002).

The arrival of international retailing firms and their modern systems in the EAC market offers local suppliers good opportunities to contribute to the restructuring of the region's retailing industry.

Empirical evidence shows that the emergence of modern retailing in Africa has led to reductions in the price of food (Dehil, 2011). Yet, ensuring the availability of locally sourced food year-round remains a challenge. Therefore, international retailers often must rely on imports, weakening their relationship with local suppliers. The relationship between international and local firms may further deteriorate if the foreign entity introduces a monthly payment system, as opposed to the daily system that suppliers favor.

Interestingly, the arrival of international retailing firms and their modern systems in the EAC market offers local suppliers good opportunities to contribute to the restructuring of the region's retailing industry. Economically (and socially), retailers in the EAC are under pressure to integrate local food suppliers into the distribution supply chain. One of the major obstacles has been the risk of opportunistic behavior (such as cheating and making false promises) by small-scale local suppliers. This has resulted in the marginalization of these suppliers, although modern retailing is supposed to help reduce poverty in Africa.

A study in Tanzania found that native Africans have a low level of trust and social skills compared with Asian-Africans, which limits their business performance (Kristiansen & Jenssen, 2004). In East African countries, contract law enforcement generally is very weak, which makes foreign businesspeople wary of working with native small-scale entrepreneurs. Links between local, small-scale entrepreneurs, and large foreign-based operations are more likely to be made if governments enforce contract laws so that area businesspeople will be encouraged to avoid opportunistic behaviors.

3.3 | Social conditions

Social conditions, which encompass culture, are crucial parameters in any analysis of a business environment because they constitute the context in which all interpersonal actions and business activities take place (Thomas, 1974). Thus, the broader societal and cultural context in which retailers operate is an important consideration (Nandonde, 2016).

The rise of modern retailing in the EAC has led to increasing pressures from regulatory agencies, NGOs, and consumers on the retail community. Social tensions have arisen between local unemployed youths and expatriates working with multinational firms in the region. Many African consumers perceive foreign investors as representing a new form of colonialism (Nandonde, 2016), and business research has documented various manifestations of this issue. Some studies have associated the failure of Walmart and Home Depot in various countries to their policy of employing expatriates in higher positions and marginalizing local workers (Arnold & Bianchi, 2004; da Rocha & Dib, 2002; Suh, 2005).

Meanwhile, the number of university graduates in the EAC has been growing since the upgrading of mid-tier colleges and the emergence of private universities. For instance, in the EAC economic hub of Kenya, university enrollment increased 34% between 2012 and 2013: from 250,551 to 324,000 students (*Business Daily Africa*, 2014). This trend has created the expectation that the inflow of FDI would promote local employment. When cross-border retailers hire foreigners over local talent, however, social tensions increase, presenting a potential obstacle to retail operations. Yet, multinational employers must contend with the fact that workers in the EAC region often lack management skills and retail expertise. The only retail management course offered in the entire continent of Africa is at the University of South Africa.

Some steps have been taken to address this shortcoming. For instance, in 1976, the Kenyan government signed a contract with Standa SPA, an Italian retailer, to train Kenyans in the management of Uchumi Supermarkets. As the sector continues to grow, however, it is still likely to be characterized by insufficient staff expertise in modern retail operations. Studies have shown that, probably because of limited resources, education is consistently having an insignificant effect on economic growth in Africa (Adu & Frimpong, 2013), and lack of trained staff threatens the growth of the retailing sector in developing economies (Lau, Lin, & Lo, 2001). Clearly, it will be impossible to nurture the progress of the sector without properly trained human resources.

In the past, MNEs used joint ventures to minimize the risk of expropriation (De la Torre & Neckar, 1988). Because of an increase in the availability and speed of communication, MNEs—particularly retailers—may now be required to court and win community support over political support. This underscores the importance for retailers to pay careful attention to the social environment in which they seek to grow.

In the EAC economic hub of Kenya, university enrollment increased 34% between 2012 and 2013: from 250,551 to 324,000 students.

Research has shown that adapting to the local culture can help international retailers succeed in a foreign market (Alexander, Doherty, Hutchinson, & Quinn, 2009). Since even consumers with similar incomes are not alike in their buying habits, international retailers need to create culture-specific retailing strategies (de Mooij & Hofstede, 2002). The failure of the fashion retailer Deacons in Tanzania, for instance, can be attributed to the firm's lack of understanding that Tanzanians prefer to buy clothes from boutiques rather than from supermarkets.

3.4 | Technological developments

The diffusion of information communication technology (ICT) has been slow in Africa. The reasons include a lack of qualified ICT personnel, poor infrastructure, the high cost of services, and security problems.

Empirical evidence shows that there are various ways for firms that are affiliated with international retailers to access knowledge and use e-commerce (Coe & Hess, 2005). To encourage agri-food suppliers to use e-business, some international retailers have threatened to stop hiring suppliers who do not use ICT. One study conducted in Kenya actually found instances where companies in the agri-food value chain without ICT facilities were dropped (Neven & Reardon, 2004). Some studies have indicated that in Africa the diffusion of new ideas takes time. For instance, the 2005 introduction of a mobile payment system by the network operator Safaricom generated 1.5 million users and 6,000 agents within a year in Kenya, but only 280,000 users and 1,000 agents in Tanzania during the same period (Bangens & Soderberg, 2011).

Retailers have introduced various electronic payment systems in Africa, including mobile payment, credit and debit cards, and loyalty cards. Not surprising in a continent where 60–70% of the population have mobile phones, mobile payment seems to have become the favored electronic method (*The Economist*, 2013a, September 14). Yet, cash is still predominantly used in business transactions in Africa, although the risk of robbery is high (Bangens & Soderberg, 2011).

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While firms in Africa, especially retailers, are spearheading the use of e-commerce, most of the countries in the continent have no cybercrime laws. For instance, regardless of the efforts of retailers like Uchumi Supermarkets and ShopRite to encourage e-commerce via the use of loyalty cards and mobile payment in Tanzania, the country still has no cyber law (Ubena, 2009).

Empirical findings show that African consumers avoid making online purchases because of concerns over inadequate security (Bhowan & Gordon, 2005), and this lack of security can have a significant impact on an organization's reputation and competitiveness (Castaldo, Grosso, & Premazzi, 2013). A more synergistic approach among policy makers and service providers to provide safety measures would enable consumers to trust ICT (Edoho, 2013). With ICT comes the need for well-trained staff. Although the private sector has been working hard on investing in ICT and training staff in Africa, lack of law enforcement response to fraud and appropriate legislative support jeopardizes these efforts.

3.5 | Legal considerations

Food retailers across the globe often contend with the unpredictability of food policies in the countries in which they operate and from which they source their raw materials (Bianchi, 2009). In Africa, business growth has been paralyzed by taxation, certification requirements, and other policies.

Meanwhile, food production in Africa remains low. This means that there is a need to facilitate the mobility of goods across the continent to curb supply shortages. In these situations, retailers are faced with the challenge of sourcing products from different parts of the world and within the continent while developing a competitive local value chain. With the formation of various regional economic blocs, however, the import and export of various commodities may be limited by tariffs and other legal barriers. For instance, imported rice is subject to a 75% tax in the EAC (*Business Daily Africa*, 2010). Kenya bans chicken importation, and this policy also limits the movement of poultry products throughout the region (Hinshaw, 2013).

Although these policies were implemented in an effort to protect local small-scale food processors and growers, they can lead to trade wars and other forms of economic retaliation that have a negative effect on the local agricultural and business sectors. For instance, Tanzania is the leading rice producer in the EAC, so the region's 75% import tax on rice favors Tanzanian rice growers. At the same time, the import duty hurts Pakistan, which is not only a rice exporter, but also a major buyer of tea from Kenya. Pakistan retaliated by increasing its tax on Kenya's tea. To avoid disrupting its tea business with Pakistan, the Kenyan government does not enforce the EAC's decision on taxing rice imported into Kenya from Pakistan.

3.6 | Environment for local business

The local business environment includes policies or practices that support or hinder the growth of the sector in the region. Retailers in the EAC inherited problems associated with restrictive economic models that most of the countries in the region had followed. For instance, Tanzania was a centrally planned economy between 1967 and 1985; now it is in transition. Kenya and Uganda were once free-market economies, but now they have introduced such planning-economy principles as market protectionism. Two of the most significant environmental factors to consider with regard to retail internationalization in the EAC are infrastructure and land management.

Poor infrastructure and land management have limited retailers' internationalization efforts in the EAC. Because of inferior land management, buildings have been constructed without essential utilities like water and electricity even in areas that have access to them. Such poor urban planning has negatively affected retailers in the EAC. For instance, in 2008, a Nakumatt Thika store in Nairobi was demolished to accommodate road expansion. The demolition is estimated to have cost the company $793,000. In another instance, ShopRite was unable to develop a plot of land in Nigeria for its first store after three people each claimed to hold the title to the property. Although ShopRite had planned to open 700 stores in African countries outside South Africa, it has just 7 (*The Economist*, 2013b, November 11).

High rents, coupled with a low level of investment in the construction industry, also impede the retail sector's growth in the region. Tanzania, for example, relies exclusively on the National Housing Corporation (NHC), a state-owned enterprise, for the construction of houses (Mbogo, 2014). Budget reductions have cut the funding available to various parastatal organizations, depressing the housing sector. Furthermore, the NHC has failed to collect rents and operates at a loss (Komu, 2011). This has resulted in higher rents for the few available offices and commercial spaces in Tanzania: $30 per square foot, compared to $18 per square foot in the rest of the region (*The Guardian*, 2016).

Poor infrastructure and land management have limited retailers' internationalization efforts in the EAC.

Convenient locations are essential for retailers to realize the potential of the economy in developing countries (Maruyama & Trung, 2007). To counter the shortage of commercial premises in major cities, some companies have embarked on real estate collaborations. For example, ShopRite and the Game/Walmart invested $6 million for the construction of a mall in Kampala, Uganda.

4 | LOOKING TOWARD THE FUTURE

While the retailing sector has been rapidly growing in Africa, there recently have been calls for tariffs and other barriers to protect local manufacturers. Although such moves can be beneficial, they need to be designed to be both “pro-poor” and “pro-growth.” Otherwise, African consumers ultimately will suffer if such policies increase inflation and reduce domestic production. Producers in Africa would benefit from access to technology and training to improve their skills and operational capabilities. Rather than threaten their existence, international retailers can serve as a bridge to link local producers with markets around the world. This connection cannot be made via protectionist policies. Rather, it requires capacity building to help producers conform to global food standards.

Although previous studies have noted that African countries are attractive to foreign investors, the issue of widespread corruption on the continent has to be resolved (Darley, 2012). Deficiencies in infrastructure and human resource training are also among the most significant barriers to the expansion of international retailers in the region. Construction is another major concern in the EAC, for the local authorities are inclined to focus on residential rather than commercial structures.

Deficiencies in infrastructure and human resource training are also among the most significant barriers to the expansion of international retailers in the region.

There is much that the governments of the EAC nations can do to address these challenges. For example, local agencies that are responsible for issuing building permits can require developers of multistory buildings to provide ground-floor space for offices or other business purposes. In addition, loans can be designed for developers who build retail and office spaces, and tax incentives can be offered to those who invest in such commercial facilities.

Finally, additional research into the various contributors to economic growth is needed. Not only will it broaden the understanding of the retail sector in the EAC, but it also will shed light on the political, economic, social, technological, and business environment benefits and challenges of the region.

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