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Choppies' Waters: Retailing in Botswana and Sub-Saharan Africa

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"Transforming African Dreams into Reality"

Choppies 2012 Annual Report

"Democracy, like a little plant, does not grow or develop on its own. It must be nursed and nurtured if it is to grow and flourish. It must be believed in and practiced if it is to be appreciated. And it must be fought for and defended if it is to survive."

Seretse Khama, President of Botswana (1966-1980)¹

INTRODUCTION

By late December 2014, Ramachandran ("Ram") Ottapathu, CEO of Choppies, had every reason to celebrate: year-on-year revenue had increased 24%, with gross profit margins up 31%². High praise from investors, including Standard Chartered Private Equity ("SCPE"), the investing arm of Standard Chartered Bank, also helped. SCPE took a 13% stake in Choppies earlier in the year, the largest ever private equity investment in Botswana's history, suggesting Ram's growth strategy was moving in the right direction³.

Named CEO of Choppies Enterprises in 2004, Ram made the expansion of the Choppies business a centerpiece of his plans. Starting from just a single shop in 1986, located some 70 kilometers outside of Botswana's capital, Gaborone, Choppies today owns 129 stores mostly within Botswana, and recently expanded to Zimbabwe and South Africa⁴. As the largest private employer and mass retailer in Botswana, Choppies held 36% of the country's retail market, which was the highest market concentration of any retailer on the African

continent, surpassing competitors such as Shoprite, Woolworths, and Spar⁵.

No wonder observers quickly came to view Choppies as an important piece of Botswana's impressive transformation. It was, after all, a Botswana brand for the Botswana, established in a country that made headlines for decades owing to its remarkable economic success⁶.

Approximately the size of France, Botswana remains Africa's most-stable and longest running multiparty constitutional democracy. When Botswana obtained independence from Britain in 1966, however, this drought-ridden, landlocked country, did not seem to have a very bright future. At the time, it was the

¹<http://africanhistory.about.com/od/biography/a/Seretse-Khama-Quotes.htm>

²2014 annual report

³<http://www.avca-africa.org/standard-chartered-private-equity-acquires-13-of-leading-southern-africa-grocery-retailer-choppies-enterprises-limited/>

⁴Investor Presentation, October 2015

⁵2014 annual report and investor presentation, October 2015

⁶Botswana refers to the people as a whole. A single person of Tswana origin is a Motswana.

second poorest country in the world, with nearly three-quarters of its landmass occupied by the Kalahari Desert⁷. There was no major industry to speak of besides cattle farming. Moreover, the population was surrounded by countries where white minority powerholders remained hostile to any idea of racial equality.

With a population of 2.1 million people today, Botswana nonetheless enjoyed the world's highest rate of economic growth in its earliest decades. Much of it was double-digit, with an overall GDP per capita of 6.4% for the past 50 years⁸. The country's ample diamond reserves mattered deeply here. Many argued, however, that the state's careful management of this precious resource made the greatest difference⁹. Today, Botswana has reached middle-income country status with GDP per capita on a purchasing parity basis (PPP) reaching \$16,000, putting it ahead of Mexico and Turkey¹⁰.

Similar to the country in which it was founded, the leadership of Choppies attributed a good deal of the company's success to its good governance and keen awareness of social responsibility to Botswana and its citizens. Such efforts had not gone unnoticed. In 2012, Botswana's president awarded Choppies won a medal for its philanthropy. Accolades have continued, including winning the "Africa Awards for Entrepreneurship" in 2014. That same year, Choppies won the "African Leadership Network Award" for its significant socio-economic impact in Africa.

Even so, as Choppies grew, so too did bad press and management difficulties. Some worried that Choppies was expanding too fast. Others pressed the company on its expansion methods, including the nature of its connections to powerful people, but was there really any other way to do business here? Was Choppies, in

other words, just making the best of its business environment? Or rather should Choppies's rise been seen as another indicator that Botswana's model of development was never as perfect as it seemed? The answer had important implications for how Ram needed to proceed over the next few years. With listings now on both the Botswana and Johannesburg exchanges, shareholder interests were at stake. A sharp decline in market value, given expansionary plans, had to be avoided, but at what cost?

DEVELOPMENT'S DARLING: MAKING THE BOTSWANA MIRACLE

Background: On the Road to Tswana Rule

Long before Europe's scramble for Africa began, the area now known as Botswana had been comprised of different tribal groups, with the Tswana now being the largest among them and from which the country's present name "Botswana" (place of the Tswana) originates¹¹. Long prior, however, and descending from the late Stone Age Sangoan people, the San people, mobile, hunter-gatherers, and the early pastoralist Khoi people had occupied southern Africa¹². Later migrations of Bantu[-speaking] people, [originating from West Africa,]

⁷W.A. Edge & M. H. Lekorwe, eds. 1998. Botswana: Politics and Society (Pretoria, South Africa: J.L. Van Schaik Publishers) [ch21,p. 34]3 <?>

⁸Edge chapter 21, p.337 + (p. 15) (World Bank: Botswana: Systematic Country Diagnostic, March 2015)

⁹Diamond management structure

¹⁰<http://www.bloomberg.com/news/articles/2015-02-02/botswana-budget-surplus-to-widen-even-as-economic-growth-slows> and CIA fact book

¹¹<http://trade.botswanaturism.us/about5.html>

¹²The San people are also known as 'Bushmen,' a term that is now considered derogatory in much of Southern Africa, as is the term "Hottentot," which had first been used by the Dutch to describe the Khoi people. These aboriginal peoples are sometimes referred to collectively as the San-Khoi. The Tswana call the San people as Basawara ("those who do not rear cattle") or

expanded the footprint of agriculturalists and herders¹³. Migrations from the north of Sotho-Tswana speakers followed centuries later¹⁴.

Overtime, the Tswana split and further divided into different chiefdoms, largely owing to internal rivalries, environmental conditions, and encroachment from other tribes, including the Zulu. As the Tswana sought new territory, and especially highlands well-suited to raising cattle, they subjugated weaker tribes, including the Khoi-San. Other groups were folded into Tswana tribes, expanding the reach and influence of each. They also continued to fight off intruders, a group that increasingly included Europeans.

By the early 19th century, there were several major Tswana tribal groupings that came to dominate¹⁵. Each tribe was headed by a chief, or *kgosi*, traditionally the eldest son of the eldest son, with political authority over the allocation of grazing rights, tribal lands, and the people who occupied them. His status was represented not just by title and leopard skin. His multiple wives and the demonstrated allegiance of all who occupied tribal lands also mattered, and included a chief's right to require labor for community-wide projects¹⁶. A parallel institution, the *kgotla* or public assembly, existed at the same time. Serving as a means by which male Tswana (as women were without status) deliberated issues of significance, including disputes with the chief, these assemblies were conducted in an open, deliberative manner. As a result, some observers have described the *kgotla* as being the institutional roots upon which modern-day Botswana's democratic system and political stability grew¹⁷.

In accounting for Botswana's success, others point to deft political leadership, starting with Khama III ('Khama the Good'), chief of the Bamangwato, the largest Tswana tribe of Bechuanaland ("Botswana") by the late 19th century¹⁸. In his youth, Khama III (1837-1923)

was witness to tremendous changes, most especially the arrival of missionaries, the expanding ivory trade, and competing European claims on southern Africa's lands. Each entangled the Tswana in different ways. In 1860, Khama III had himself converted to Christianity, causing a rift with his father that culminated in the latter's defeat.

Khama III was made Bamangwoto chief (*kgosi*) in 1875. He quickly overturned traditional practices not in line with his Christian values, ending polygamy and banning alcohol. British missionaries were given right to reside on his lands. At the same time, Khama III worked to protect the Bamangwoto's territorial boundaries, prohibiting sale of its cattle or tribal lands to outsiders¹⁹. His legacy and status as a national hero, however, has more commonly been linked to how he navigated the expanding claims of Europeans upon southern Africa and its people.

European explorers and early settlers were a feature of the southern African landscape by the late 16th century. Relations with "native" populations initially centered on trade, including negotiated agreements with tribal chiefs on settlement rights, which in turn put money and guns in local hands. As intentions shifted, strategic alliances and assaults grew more frequent, both among and between Europeans and the local people. So it was with the Tswana.

¹³Jared Diamond [Guns, Steel, 394-397].

¹⁴The Sotho-Tswana peoples are thought to have originated from what is now Tanzania, later splitting around 1500 into three groups: the South Sotho (later known as the Basuto and Sotho), the North Sotho (later known as the Pedi) and the West Sotho (later known as the Tswana). They settled in what at the time was known as the Western Transvaal (now part of South Africa's Northwest province).

¹⁵TBC Bakhurutshe, Bangwato, Bakwena, Bangwaketse, Bakgatla, Batlhokwa, Barolong, Bathaping

¹⁶*Kgosi ke kgosikaa tsetswe* (a chief is a chief by right of birth), Edge p. 3.

¹⁷*Kgosi ke kgosi ka batho* (a chief is a chief by the people), Edge pp 4-6; Acemoglu et al. 'Botswana Success'

¹⁸The Bangwato are also referred to as the Ngwato, the Bamangwato, or the Mangwato.

¹⁹<http://www.geni.com/projects/Ngwato-Royal-Family-of-Botswana/16084>

Like others before him, Khama III sought alliance with other Tswana chiefs to hold back Boer expansion.²⁰ He also allied with the British in their campaign against the Ndebela, going so far as to send Bamangwato troops to fight.²¹ Khama III did so with the recognition that resistance against Britain had failed so many chiefs before him, and was unlikely the best means of survival. At least that was how it seemed until the ascendance of Cecil Rhodes (1853-1902), British imperialist and South African mining magnate, who was intent on laying claim to the Batswana and their land.

Escaping the Scramble for Africa? The Bechuanaland Protectorate

The riches of Africa were well-known to Europe by the 19th century, with growing numbers of them arriving as each decade passed. In southern Africa, as the British laid final claim to the Cape Colony in 1814, former Dutch settlers (*Afrikaans*) sought independence through migration and settlement in what became known as the Boer Republics.²² German expansion, and ultimately its claim of Namibia as a German colony in April 1884 added another layer of complexity.

The scramble for Africa was on. The Berlin Conference of 1884-1885 laid out the rules, stating that “effective occupation” of a territory was the legitimate basis upon which a European country could make its claim. The indigenous populations, it seemed, no longer had a rightful place. By this point, Britain had control over the Tswana’s southern land around Kimberley, including its diamond reserves discovered in the 1860s, turning the area into a bustling town where DeBeers, and its founder Cecil Rhodes, made a fortune.²³

Life was changing rapidly for the Tswana further north as well. In 1885, the British declared their

territory, Bechuanaland (“Botswana”), to be a protectorate. Initially driven by a resident Scottish missionary seeking protection from Boer intrusion, the British worried far more about the Germans. Bechuanaland was regarded as a useful buffer zone between them. In staking their claim, the British sought no consultation with the Tswana chiefs. Khama III nonetheless accepted it, earning a reputation as loyal to the British. Others were more suspicious, as Khama III later came to be.

In 1889, Cecil Rhodes’s British South Africa Company (BASC) obtained a royal charter, granting it the right to control the Bechuanaland Protectorate on behalf of the British Empire.²⁴ To do so, however, meant that all other claims to its lands needed to be eliminated. Tswana chiefs, however, claimed authority over such agreements, and began to resist colonial rule declared in 1890. They recruited lawyers to advocate on their behalf, threatened violence, and ultimately three of them – Bathoen, Khama III, and Sebele – made their way in 1895 to Great Britain with hopes of appealing directly before Queen Victoria. Working in their favor was their status as Christian rulers. It earned them considerable popular support as they presented their case against the BASC to local churches and anti-imperialists alike during their three month visit²⁵.

Although Cecil Rhodes was less able to do as he pleased, Bechuanaland’s struggles had by no means ended. Britain presumed that the protectorate would eventually be folded into one

²⁰The Boer origins/definition

²¹Cite from Edge chapter...

²²List republics

²³DeBeers Consolidated Mines was formed in 1888, with the aid of financial support from the Rothschild family, and as a result of Cecil Rhodes acquisition of smaller mines and land rights. It ultimately resulted in his control of all diamond mining operations in the colony, and later of the entire country.

²⁴EDGE book

²⁵Edge, p. 68-76

of its existing Southern African colonies, but the Tswana chiefs remained ever watchful. In 1910, they made their next forceful appeal against Bechuanaland becoming part of the newly established Union of South Africa²⁶.

They succeeded, arguing through petition and speeches that nothing less than adherence to the 1895 status quo was demonstration of the Queen's protection.

In 1912, a new organization, one that went on to become the African National Congress was established²⁷. Khama III and two other Tswana chiefs, were named honorary vice-presidents owing to their efforts on behalf of "native" peoples²⁸. Khama III rejected the invitation. He died in 1923. With his passing, the question of how best the Batswana should be governed shifted to a debate between traditional and modern ways.

Changing Ways? Political Authority, Old and New, in Bechuanaland

In the decades prior to Botswana's 1966 independence, Britain had appointed a resident commissioner, but relied heavily on indirect rule to maintain its hold over the protectorate. Empowering customary institutions, and particularly chieftaincy, meant that the traditional obligation of any Tswana chief to serve the collective interests of his people was shifting. Chiefs instead needed to carry out the wishes of the Empire. Chiefs who failed to do so were forced out, exiled in some cases, and replaced. Those favored were protected and, to an extent, could evade traditional rules of accountability. The *kglota*, or public assembly, in other words, still existed, but was considerably weakened, existing as it was a tool of a foreign regime.

Empowering chiefs in this way had economic implications, including continued emphasis

on cattle ranching as a means of wealth accumulation. Some chiefs also imposed control over the sale of agricultural goods through the introduction of royal producer cartels, thus limiting others' opportunity for income accumulation. The Hut Tax of 1899, imposed by the British, was an added burden for households. Absent the discovery of mineral resources, however, the British had little interest in developing Bechuanaland beyond what already existed.

As late as 1961, the American Assistant Secretary of State for Africa, Mennen Williams, found little changed, describing Bechuanaland as:

...the poorest of the three areas visited and shows the least evidence of political evolution... In general, people are interested only in cattle and chiefs show little desire for development [of a] political pattern. As one tribal chief put it, "We are not worried about the slow pace of politics here. Tradition is important and [the] constitution is so framed that we do not get too far from tribal patterns."²⁹

Closer scrutiny would have revealed that discontent had been brewing in Bechuanaland for some time. Decades earlier, commoners proposed that an elected council exist to assist a chief in his duties. Even those with royal status within tribal hierarchies, but not yet chiefs, argued that "the despotism of chiefs" stood in the way of "native progress and economic

²⁶The Union included Cape Colony, Natal Colony, Transvaal Colony, and Orange River colony, and was made a dominion of the British Empire.

²⁷The organization, originally known as the South African Native National Congress, was renamed the African National Congress in 1923. (Edge volume, p. 92).

²⁸Bathoen and Sebele, who had accompanied Khama III to Britain, had already passed away.

²⁹Quoted in Edge p. 104.

freedom³⁰.” Resident commissioners frequently heard such pleas through the Native Advisory Council, a political body established in 1921 to facilitate dialogue between the British and tribal chiefs. Neither had any interest in a more democratic system of governance. Created in 1950, the Joint Advisory Council was no less a “federal oligarchy” albeit one better navigating multiracial elitism, comprising top chiefs, Botswana’s few white settlers, and colonial officials³¹.

Much was changing, however, in the post-World War II period. Bechuanaland, while still a place of cattle kings, became South Africa’s “labor reserve.” Uneducated, young men migrated to work in its mining sector, and they were not the only ones leaving. The young sons of chiefs, and the children of well-off royals and commoners, were shipped off to South African missionary schools. Perhaps not intended, but nonetheless yielded was the creation of a new breed of Bechuanaland elite, one that was well-educated, nationalist-oriented, and seeking modern ways to govern their homeland.³²

One of these sons of a royal son was Seretse Khama, grandson of Khama III. His father, Sekgoma, had died when Seretse was only four years old, far too young to be a chief. His uncle, Tshekedi Khama thus served as regent of the Bamangwato tribe. In 1944, having finished his college studies in South Africa, Seretse headed to Britain to begin legal studies. There he met Ruth Williams, a white woman, whom he married three years later, causing a political stir on two continents.

Interracial marriages were uncommon, and one between a commoner and Bamangwato royalty even more so. Tshekedi opposed the union, but Seretse succeeded in persuading tribal elders of his rightful place as chief. The British, however, denied Seretse his claim, banishing him under the Exclusion Act of 1907. As such, he was prohibited from returning to

Bechuanaland. The British feared that the union would spark political action from South Africa’s apartheid leaders, either military or economic. In the wake of international criticism, Britain relented but with the condition that Tshekedi and Seretse forfeit their competing claim to stand as the Bamangwato chief. They did, but neither ceased engagement in political life.

Seretse returned to lead in a new way, founding the Bechuanaland Democratic Party (now the Botswana Democratic Party or “BDP”), pushing the country toward independence, and becoming its first President. None of this would have been possible, however, had the ongoing threat of incorporation into South Africa not ended.³³ Independent Botswana, nonetheless, was a state made in the context of considerable constraint.

A New State: Unity in Diversity, Democracy, and Development

The idea of an independent Botswana was something of an oxymoron during the country’s initial years of economic transition. Not only did the new government have to rely on Britain for its initial budget, but as a member of the South African Customs Union (SACU), Botswana had to agree to a common tariff regime, and with this, open market policies. A member of the Rand Monetary Area (RMA) until 1976, Botswana also began with no currency of its own. Using the rand instead, which itself was pegged to the U.S. dollar, meant that the

³⁰Quoted in Edge 105

³¹Edge p. 102-103

³²David Sedubudubu & Patrick Molutsi 2011. “The Elite as a Critical Factor in National Development: The Case of Botswana,” Nordiska Afrika Institutet, Uppsala.

³³Details: 1910-1961: Union of South Africa. 1961-Present: Republic of South Africa left the Commonwealth of Nations in 1961. 1960 there was a referendum in SA open only to whites on whether to become a republic and 52% of them said yes. Had to withdraw from Commonwealth as respect for racial equality was a condition of membership. This rule was established in 1961 as other member countries wanted South Africa barred for apartheid. South Africa not readmitted until 1994.

country's exchange rate did not fluctuate according to market conditions (i.e., "float freely").³⁴ Botswana became one of the highest recipients of foreign aid within its first decade as well, and not the least, it has been said, because the world wanted South Africa to see the feasibility of a multi-racial democracy.³⁵

Shortly after his election, Seretse declared Botswana "virtually alone in [its] belief that a non-racial society can work."³⁶ To make his case, certain policies, and particularly those toward the country's small number of white settlers had to be in place. Seretse began by assuring that private property was to be protected, no matter the owner's skin color. "Anti-whitism," as such, had no place.³⁷ By the 1970s, a number of white cattle ranchers held high-level positions in government.³⁸ Forging alliances such as this was the business of this young statesman.

More broadly, no statesmen could lead Botswana without coming to terms with the country's traditional leaders. In this area as well, Seretse succeeded. He established a House of Chiefs, a consultative body to Parliament, but insisted that no chief engage in party politics.³⁹ In addition, the Botswana Meat Commission (BMC), created in 1965, aimed to constrain elite factionalism in the marketplace. The BMC required that all export-oriented beef run through this parastatal organization, the first of many to be created in Botswana to channel economic resources in line with government wishes. At the time of its creation, beef was Botswana's largest export.

Somewhat more controversial was the 1967 Mineral Rights in Tribal Territories Act which shifted all mineral resource rights to the Republic of Botswana, nationalizing them for the purposes of broad-based economic development. This plan had been announced as part of the BDP's 1965 political platform, positioning Seretse as a leader eager to forge

a broad coalition rather than the narrow ethnic/tribal advantages of his own people, the Bamangwato.⁴⁰

In effect, Seretse was laying a foundation for Botswana to be a place that respected private property, accepted open markets and free trade, and did so while retaining the government's right to channel national wealth, including allocations of natural resources, toward longer-term plans. Ideally, such a system reached beyond any one individual or group of people, and positively affected overall social well-being.

No Curses Here: Riding the Diamond Boom

Riches came to Botswana in a most unexpected way. DeBeers had prospecting rights dating to 1955, but did not make its first diamond discovery until 1967 in Orapa.⁴¹ The discovery was on Bamangwato lands, which served as a litmus test of Seretse's commitment to shared economic development. He succeeded not only in demonstrating his commitment by sticking to BDP platform plans, but also by ensuring the government wisely channeled mineral resource wealth. This necessary meant managing DeBeers as well.

By the mid-20th century, DeBeers was a company best known for its firm hold over the global diamond trade. This achievement was reached by way of significant mine holdings, a

³⁴<http://www.bankofbotswana.bw/index.php/content/2009103010026-history-of-exchange-rate-policy-in-botswana>

³⁵David S, p. 11, wealth sharing for conflict prevention...

³⁶http://africanhistory.about.com/cs/biography/p/bio_khama.htm

³⁷Maundeni, in Edge, p. 129

³⁸p. 237, Beaulier, Botswana Success

³⁹Maundeni in Edge p 129

⁴⁰A. Poteete Is Development Path Dependent or Political?

⁴¹p. 13, wealth sharing for conflict 2011

willingness to withhold product from sale, and brilliant marketing strategies.⁴² Diamonds, after all, were hardly rare, just unavailable as needed. Every new discovery of diamond deposits, as such, posed a risk to DeBeer's business model. The Botswana discovery was no different. To its good fortune, Botswana did not choose to reclaim and nationalize the Orapa mine. It set out to do business with DeBeers instead, a relationship that continues to this day.

Over the next few decades, the Botswana government negotiated and re-negotiated the terms of its business relationship with DeBeers, initially moving from an 85-15 split in DeBeers favor to one of 50-50 when the Orapa mine came online in the early 1970s. The latter was funneled through DeBeers Botswana Mining Company (later "Debswana"), a joint venture that partnered DeBeers with the Botswana Development Corporation, a major parastatal. Discovery of diamond deposits in the Jwaneng area opened another round of negotiations. This time, the Botswana government secured terms guaranteeing nearly 75% of profits. No matter the imbalance, both sides held each other in checkmate; a strongly controlled product release worked to the benefit of each.

In turn, diamonds, and no longer beef, became the engine of Botswana's economic growth, going from 8% of GDP in the early 1970s to more than 50% by the late 1980s.⁴³ Diamonds also continue to be the major source of export earnings, occupying 80% of total export earnings in 2013, and dropping only to 78% by August 2015.⁴⁴

Botswana maintained careful control over its mineral revenues, deploying them under the strict guideline of national development plans, issued each five years. These plans laid out government spending allowances and social development goals, all with the aim of creating a more advanced, and diversified economy. Botswana, in turn, went from a country

without roads, adequate schools, and health clinics to a place where 95% of its population is now within 8 km of a health clinic, primary education is free, and 90% of children attend.⁴⁵ Even so, on-going diamond dependence has yielded a lopsided economic system, and one in which Botswana has had to bear the risk of exogenous economic shocks just as much as DeBeers ever did.

Pushing for Diversification: Diamonds Are Not Forever

For this reason, the push for economic diversification has been a hallmark of Botswana's development planning almost from the beginning. Much of this effort has been channeled through dozens of parastatal organizations, themselves the beneficiary of diamond revenues sent their way. These include everything from Air Botswana to the Botswana Housing Corporation, sitting under the Ministry of Lands and Housing, and existing since 1971 to develop residences for sale to government ministries.⁴⁶ The Botswana Development Corporation, created in 1970, is tasked with facilitating economic diversification through investment in industrial, commercial, and agricultural enterprises. Its hallmark enterprise has been Debswana, the enterprise co-owned with DeBeers. Even in this sector, the government has pursued diversification, and typically through value-added downstream activities. For example, the Diamond Trading Company Botswana, created in 2006, shifted diamond sorting and valuing activities back from London. The move happened as part of

⁴²Deb Spar Cartel book

⁴³Hillbom, Bots Dev 2012, p. 80

⁴⁴http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN_Long_EN/Botswana_EN.pdf

⁴⁵(p.1) (World Bank: Botswana: Systematic Country Diagnostic, March 2015)

⁴⁶For a partial list of parastatals see, <https://www.govpage.co.za/botswana-government-parastatals.html>

Botswana's ongoing cycles of negotiation with DeBeers, with each taking a 50% percent share in this new business.

For much of Botswana, formal employment, in turn, has fallen mostly within the minerals sector, the parastatals, and the state bureaucracy.⁴⁷ Navigating these gatekeepers and their interests thus seems part and parcel of building a private business here. Not many succeed, it seems. As late as 2014, the World Bank reported almost 50% of the 20-24 age cohort as unemployed, with general unemployment hovering around 17%.⁴⁸ More generally, Botswana's Gini coefficient, a measure of the distribution of wealth within a population, has been one of the worst in the world. It reached 0.54 in 1986, and then hit 60.5 in 2010, an improvement on the reported 64.7 figure for 2003.⁴⁹ In addition, only 5%-6% of Botswana's GDP over the past 20 years can be attributed to manufacturing, whereas it typically reaches 20% for a middle-income country.⁵⁰ Collectively, these data call into question the allocative efficiency and returns on the country's resource wealth, as well as the government's ability to meet its own stated plans; diversification always at the top of the list.

THE RISE OF CHOPPIES

Against this backdrop, the rise of Choppies has been a most welcome sign. Starting with a single shop, then known as the Wayside supermarket, the retail chain took its name from its original owners, the Chopdat family, also known as the Choppies Boys of Lobatse [town].⁵¹ Today, it is primarily owned by Farouk Ismail, a member of the family, and Ram Ottapathu, each holding 34% of the business. It is also the largest private employer in Botswana today, having surpassed Debswana.

Choppies' take-off has been fundamentally linked to Ram's involvement, albeit all by way of an unintentional route. Ram arrived in Botswana from India only in 1992. It was to accept a post as a chartered accountant with Mazars, the international accounting, audit, and consulting firm. As fate would have it, he was assigned the Wayside supermarket's (Choppies) account. Ram spent three years working Wayside's books before finally joining the family's business in 1996. At the time, the business had only three outlets – two supermarkets in Lobatse and one superstore in Gaborone. By year 2000, according to Choppies latest annual report, Ram was running operations, and finally was named CEO in 2004.

The People's Store: Understanding the Choppies' Way

Choppies built its business with a keen awareness of its customer base and its own position. At the start, South African supermarkets dominated the retail space, including much of the product that sat on retailer's shelves. The poorest customers often relied on small, informal, open markets to do their trading, especially for foodstuffs, with only major purchases occurring in the equivalent of "big box" shops in the United States.

⁴⁷As late as 2013, around 60% of all formal employment falls within these sectors (see Botswana Statistical Report, 2014).

⁴⁸WB diagnostic p.52-53.

⁴⁹IMF and World Bank data

⁵⁰World Bank Country Diagnostic 2015

⁵¹<https://www.sundaystandard.info/from-lobatse-to-africa-with-love-the-story-of-choppies/>

Value for Your Money: Pricing and Market Positioning

With a specialization in fast-moving consumer goods (FMCGs), Choppies's slogan "Value for Your Money" aimed to appeal to this customer base – large in number, limited in ability to spend, and underserved in many areas. These consumers typically had a small basket size, but shopped frequently, meaning that Choppies needed to locate its stores in high population density areas to ensure foot traffic. Moreover, it needed to keep convenient hours, staying open late for individuals coming off daily work shifts.

Reflecting on Choppies positioning, and particularly to anyone who thinks their success has been easy, Ram had commented:

"Choppies only owns 34% of the market in Botswana. It doesn't operate alone in any town in Botswana, except one [town]. You need to identify your niche, concentrate on that and make sure you differentiate yourself from other operators."⁵²

Small store size was also good enough at the start. The initial targeted competitors of Choppies, after all, were "mom and pop" shops. According to its latest investor report, their "compact stores" averaged 1,500 square meters. The Choppies management also knew that pitting the brand against the big South African players was a losing proposition. Instead, Choppies headed to small towns and rural locations to "immunize itself ... from external market threats."⁵³

According to its chief buyer, the pricing model of Choppies was equally straightforward: "Be the cheapest. Watch what others are charging and undercut."⁵⁴ Consumers welcomed this approach. For them, it meant the arrival of lower prices and competition where there may have been none in their underserved communities.

For others, there was also the prospect of a job. Each Choppies store, on average, hires 60-70 workers. Overall, as of 2014, Choppies employs 11,000 people, 6,000 of them in Botswana alone.⁵⁵

Private Label: On the Way to Trader Joe's

A few years ago, targeting what Choppies calls its "value-conscious" customers, it began to offer private-label goods. Today, Choppies has more than 200 branded items in food, beverage, cosmetics, and cleaning product lines.⁵⁶ Ram has taken German-owned U.S. based Trader Joe's as a model, stating in a recent CNN interview that not only would he like to see Choppies become "a pan-African retailer of substance and size," but that he would "like to see Choppies [move] closer to Trader Joe's [model] in the U.S."⁵⁷ As of 2014, 19% of sales in Botswana were private-label goods.⁵⁸

Full Service Shopping: Banking and Choppies Fried Chicken

To increase footfall, appeal to those with rising incomes, and possibly help with basket size growth, Choppies also began to include several value-added food and service items in its stores. Specialty food items are wide-ranging, including bakery products, specialty curries and take-away goods, such as "Choppies Fried Chicken." These higher-margin goods contribute almost 30% to overall revenue.⁵⁹ Value-added services include third-party ATMs, mobile money payment

⁵²Dana Sanchez, *African Insider*, 10/16/15

⁵³Choppies 2013 Annual Report

⁵⁴Interview, Chief buyer, Choppies

⁵⁵JSE Pre-listing Report (2014/2015)

⁵⁶Choppies 2015 Annual report

⁵⁷Dana Sanchez, *African Insider*, 10/16/15

⁵⁸JSE Pre-listing Report (2014/2015)

⁵⁹JSE Pre-listing Report (2014/2015)

systems, SIM cards, as well as utility payment and pension distribution facilities.⁶⁰

Growing Up: Expanding the Business

The financial achievements of Choppies have been nested within a broader strategy to scale up quickly and reduce costs, without compromising brand value through product quality attrition.

Getting Acquisitive, Growing Continentally

The acquisition of existing supermarket chains has been a frequent feature of Choppies growth strategy, and started near immediately once Ram assumed the top position. In 2004, Choppies acquired Chathley, Food Mart, and Multisave in Botswana. Years later, it acquired businesses in South Africa and Zimbabwe, complementing its greenfield developments. By late 2014, Choppies had more than 157,000 square meters of shop space under management across 68 stores in Botswana, 26 in South Africa, and 13 in Zimbabwe.⁶¹ It aspired to have 200 stores by December 2016, having begun a move into Kenya and Zambia in 2015.⁶²

Ram has been dismissive of concerns that the company may be growing too quickly, commenting that “we grew this business ... from zero to this decent size by competing with large retailers. We have proven that it can be done.” He added that key ingredient at Choppies is “a great team of people with a single mission of getting this thing done.”⁶³

The Supply Chain: Integrate and Internalize

As illustrated in Figure 1, Choppies has developed an integrated supply chain that includes a number of important features. At its core are seven wholly-owned distribution centers, five located in Botswana and one in South Africa and Zimbabwe each, totaling approximately 41,000 square meters. These centers were created to channel product to stores within a 500-km radius, and were integral to the company’s overall expansion.

Choppies also relies on a number of supporting entities that aim to lower costs and ensure quality. These include a centralized IT system, launched in 2014, to provide Choppies headquarters with real-time information on sales and price-monitoring. Choppies also has a growing truck fleet of 637 commercial vehicles, trailers, and fork lifts. Each truck is Choppies-branded, which serves to advertise the brand even in areas where no shop exists. In addition, there is a maintenance company, Amophora (Proprietary) Limited, that provides handyman and specialized plumbing, electrical, and mechanical services, which reduces the downtime of Choppies equipment and retail areas.⁶⁴

⁶⁰JSE Pre-listing Report (2014/2015)

⁶¹Choppies 2014 Annual report

⁶²Choppies 2015 Annual report

⁶³CNN interview

⁶⁴Choppies 2012 Annual report

Perhaps most innovative has been Choppies integration of fresh foodstuffs into its supply chain, including baked goods, meat, fruit and vegetables. The first item, baked goods, has been produced in-store, where conditions permit, allowing Choppies to tailor offerings to local tastes. In Botswana, the company also owns a meat supply business or otherwise partners with local slaughterhouses to ensure quality and timely deliverables. In addition, Choppies provides financing and guidance to local farmers to ensure a steady, high-quality supply of local root vegetables. Without this, the company felt compelled to source through South Africa, which raises costs considerably. As of 2014, Choppies Botswana was working with nearly 150 farmers. Most, however, were expatriates, specifically Bangladeshi and Indian, according to Choppies's general manager of fruits and vegetables. Other fruits and vegetables are acquired through vendors, and such that 75% of all fruit and vegetables grown in Botswana is said to be channeled through Choppies.⁶⁵

Taking Stock: Public Listings, Public Figures

In January 2012, Choppies listed on the Botswana Stock Exchange. At the time, it was one of the largest non-banking offerings in the exchange's history, and was oversubscribed by more than 400%.⁶⁶ According to one news source, Ismail Farouk and Ram Ottaphathu held 34.2% each. Public shareholders held 25.5%. 5.6% went to pre-IPO minority owners, and 0.4% to employees. According to the Choppies management, the idea behind the IPO was to create a "strategic reserve" for the company to use in support of its acquisitions drive.

Others thought, above all else, the IPO was a politically smart move. Pre-listing requirements and subsequent reporting

imposed a mandatory degree of transparency, something necessary given that suspicions have tended to fester between Indian-owned businesses and the local communities that they serve. It is a problem not unique to Botswana, but one which reflects the historical legacy of South Asians as the entrepreneurial class on the continent, much like the Chinese across Southeast Asia – outsiders who get rich.

Even prior to the IPO, Choppies knew that it needed a strong demonstration of its status as a Botswana-made company, one that was for Botswana, above all else. In 2008, Ram offered Botswana's then sitting President Festus Mogae the opportunity to serve as the company's chairman with no investment required. President Mogae stepped down in April 2008. He agreed to the chairman post, but only on the condition that he be permitted to invest. He did so, using his U.S. \$5 million winnings from the Mo Ibrahim Prize, an award granted for excellence in African leadership and considered quite prestigious.⁶⁷

A few years later, in May 2015, Choppies listed on the Johannesburg Stock Exchange, only the second Botswana firm to do so. One analyst, however, queried the soundness of this listing, noting that in doing so, the three key directors – Ram, Ismael, and President Mogae – were, in fact, reducing their stake in the company's expansion goals, which was regarded as a bad market signal.⁶⁸ After all, food retailers often have a hard time succeeding once they cross borders, as was the case for Wal-Mart in Germany.

⁶⁵JSE pre-listing statement

⁶⁶Choppies to Stay in Regional Market.

⁶⁷For more on the Mo Ibrahim Prize, see <http://www.moibrahimfoundation.org/>

⁶⁸<http://investsouthafrica.co.za/shares/jse/food-retailers/choppies/>

Choppies, the Good Citizen

A second channel by which Choppies sought to demonstrate its commitment to the people of Botswana was through philanthropy. Company activities have been wide-ranging, and include standing as one of the largest contributors to the Lady Khama Charitable Trust Fund. This grant-making organization was created in 2002 by former President Seretse Khama's son, Ian Khama, who is now Botswana's current president. Prior to this, he served as vice president and commander of the Botswana Defense Force. The Trust is named after his mother who had led many charitable efforts during her lifetime. She passed away in 2002.

In addition to the Trust, Choppies has helped build housing, given away cars, and supported youth sports and medical services. The company has also distinguished itself as the top employer of handicapped people in Botswana.

Floppies for Choppies?

Not everyone, however, was a fan of this growing sub-Saharan business. Criticisms have come both from within the firm, and by way of outside observers. The latter typically regard Choppies as a well-connected business above all else.

Inside the Firm: Getting Human Resources Wrong

Starting first with internal criticisms, they broadly have had to do with employee matters and the supply chain. Of special note has been the considerable gap in salary between Choppies top leadership and that of its employees. Although most of them are low-skilled workers, reports of 900x differentials between themselves and top management have drawn ire. Indeed, Choppies is not considered to be an especially

high-paying firm. Another issue is the lack of local managers in Choppies stores. Instead, most managers hail from India. A similar criticism has been leveled by Botswana's farmers. They contend that Choppies is either sourcing its product from South Africa or relying on a set of expatriate producers. Finally, there are growing complaints of channel conflict as Choppies begins to internalize its supply chain further, leaving existing vendors to seek opportunities elsewhere.

Consumer Care: Not Always There

For every bit of applause that Choppies has earned for reaching out to underserved low-to-middle income customers, others highlight sub-par provisions and treatment. Particularly damaging have been accusations of selling mislabeled, expired, or contaminated product. In all cases, Choppies has responded swiftly, including a lawsuit against a major newspaper for defamation, which subsequently issued an apology. Nonetheless, there is a sense in some segments that low-quality provisions are enriching Choppies owners instead of showing true customer care.

Friends in High Places

Far more severe have been complaints that Choppies has enriched those in power to ensure its smooth expansion. The first wave of criticism came with the "Kgosi Affair," referring to Botswana's Directorate of Intelligence and Security Services (DISS), Isacc Kgosi who was offered shares in advance of Choppies listing, which earned Kgosi a handsome return. Of special concern was that these shares were channeled through a company that lacks any physical office and put in the name of a low-level employee unaware of the scheme.

In trying to assess why Choppies gave away shares of its company away for free, some have noted that the DISS is charged with issuing all work and resident permits for expatriates, and Choppies is “the biggest importer of Indian expatriate workers.”⁶⁹ Nonetheless, Botswana law does not prohibit the giving of dividend-earning shares if this is what a company chooses to do.

Choppies sustained its investment strategy in Zimbabwe with a similar nod to existing laws and requirements. Specifically, Zimbabwe’s indigenization laws dictate that at least 51% of any business must be owned by a local Zimbabwean. In Choppies’ case, that Zimbabwean was to be Phelekezela Mphoko, named the majority sharing-holding partner of the consortium created to buy a string of stores from Raj Modi, a well-known figure in Zimbabwe’s business scene, described as a “mogul” by some. After the purchase, Phelekezela Mphoko was named the chairman of Choppies Zimbabwe. Quickly thereafter, and after Mphoko accepted a position as Vice-President of Zimbabwe, he placed his ownership in his son’s name.

Expansion within Zimbabwe has also resulted in a clash with a religious group, the Christlove Church, which has petitioned the courts against its removal from their current facilities to make way for a Choppies store.⁷⁰

Putting Choppies View on Things

Despite these criticisms, the Choppies top management has been adamant that it is simply doing as any business would in an environment where sharp differences in access to resources exist not just within the general populace, but as well for businesses. In addition, each of the countries in which they do business are distinguished by a singularly powerful political party which carries influence.

Choppies has also had to contend with sharply varying abilities among their workers. The 2009 decision to offer workers free lunches in their Botswana stores, for example, was more accurately a recognition that they were otherwise stealing it, according to one source. Zimbabwe’s human resources and abilities, in contrast, have proven to be a surprising gain. A shortage of high-quality, trainable low-salaried workers in Botswana remains a continuing struggle, making internal promotions difficult. In South Africa, the long legacy of worker activism and unionization has also posed some challenge, including strikes that have affected the company’s bottom line.

Still, to ensure that the business does not fall afoul of the bigger picture, and with hopes of someday listing on the London Stock Exchange, Choppies has made some significant appointments to its board, including that of Peter Baird, appointed in 2013, who holds responsibility for Standard Chartered Private Equity across Sub-Saharan Africa, and facilitated its later investment in Choppies. In 2014, Sydney Alan Muller, the former executive chairman of Woolworth Holdings was also appointed to the board. Both of these individuals have a deep understanding of the context of doing business in this region, while keenly aware of what is needed to stay the course.

Neither addition, however, has been able to stem the rumors that Choppies Botswana is a major funder of the Botswana Democratic Party (BDP).⁷¹ The clearest signal to all was the BDP

⁶⁹“Kgosi’s shares in Choppies Worth Pula 17 million”

⁷⁰<http://nehandaradio.com/2015/05/07/vp-mphokos-choppies-church-fight-over-premises/>

⁷¹Choppies Duo Turndown Offer to Serve on BDP Sub-Committee

invitation for both Ram and Ismail to accept positions on the party's finance sub-committee. Both refused, and more significantly, the Choppies board subsequently decided that "political donations have to be made transparently and BDP should not be favored over all other political players." Still, how this might make any difference, others asked. After all, the Choppies chairman, while still standing as President of Botswana, had hand-picked the country's current leader, Ian Khama, to be his Vice-President, and in so doing, restored the House of Khama to its current top position.

HOUSE OF KHAMA: THIRD TIME'S THE CHARM OR NOT

By all accounts, Ian Khama (born 1953) has been a rather different leader than his father, Seretse Khama, and his great-grandfather Khama III. Some attribute it to his privileged upbringing, one that sent him to the Royal Military Academy Sandhurst for his training, studying along with the British army. Others focus on his temperament, said to be prickly if not downright politically incorrect. When asked why he had yet to marry, he pointed to the rounded figures of Botswana women, saying he'd like someone skinny.

Ian Khama learned to pilot, but what he did prior to his appointment as Commander of the Botswana Defense Forces in December 1997 is unclear. A few months later, in March 1998, he stepped down. Rumors swirled. There was about to be a change in the Presidency as Masire had resigned. Festus Mogae replaced him in April 1998, naming Ian Khama as Vice-President, alas with the small glitch that Khama needed to win a seat in the national assembly to occupy his post. He did, roundly defeating his competition: 2,986 votes to 86. He replaced Mogae as President in 2008.

Under his watch, a new government division, the Directorate of Intelligence and Security Services was established, with Isaac Khosi, a close friend, its leader. Some have claimed that Khama uses this office to spy on opponents. In addition, a new law, the Media Practitioners Act, passed in 2008, allowing that all media outlets be subject to oversight. In 2014, Botswana's Sunday Standard editor Outsa Mokone found himself charged with sedition, and arrested. Other people have been banished, reminiscent of the 1907 Exclusion Act, although this time it is expatriates and foreign journalists who must be careful.

Even before Ian Khama's rise, however, Botswana's electoral process, others argue, was hardly the democratic dream depicted. Specifically, each president is allowed by law to name his successor upon resignation. All did, meaning that there has been a steady state of Presidents resigning before their terms are up, thus placing their Vice-Presidents in the top spot. Not only has this meant that the BDP consistently wins subsequent elements, but genuine multi-party competition has been weakened, at least until recently. Amy Poteete, a long-time observer of Botswana politics, finds that the BDP's rural base of power is not as influential as it used to be.⁷² Part of this can be attributed to a better-educated, diverse urban population. A subset within is also fighting for minority rights, resenting that their identities have been muffled in a place that seems only to want to see Tswana people. Another factor is growing factionalism within the BDP itself.

Others contend that Botswana has never been a free and open society, pointing especially to the case of Kenneth Good, an Australian academic who sat of the faculty of the University of Bot-

⁷²<https://www.washingtonpost.com/blogs/monkey-cage/wp/2014/10/20/does-botswana-deserve-its-reputation-as-a-stable-democracy/>

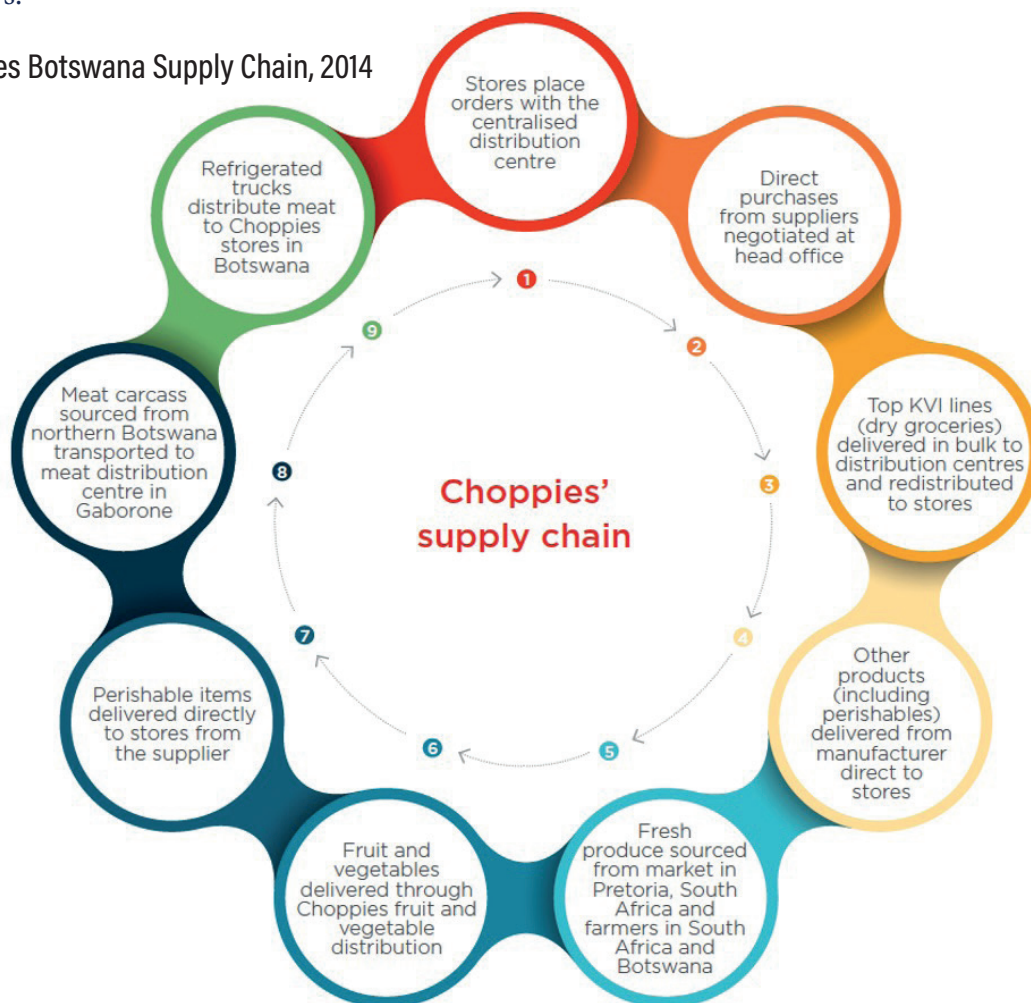
swana for 15 years, that is, until he began to criticize the government’s treatment of the Khoi-San people, and particularly their right of access to land. He was expelled and lost his case in the court system.

Ian Khama, like the Presidents before him, has also expressed strong interest in fostering economic diversification, albeit in his case with the initiative now being a call for “Innovation Hubs” and the like. Perhaps different for him, however, has been the rounded criticisms coming his way, and not just with regard to his leadership style. The World Bank’s March 2015 Diagnostic Report paints a rather dismal picture of Botswana’s future, a place that it sees as marred by woefully ill-skilled workers, devastating and chronic income inequality, and demonstrated challenges to fostering entrepreneurship despite seemingly having all the right laws.

LOOKING AHEAD

By now, of course, Ram is a seasoned Botswanian. Yet even he has to think what the right next step needs to be. Already, plans for expanding into Zambia and Tanzania are underway. In 2015, Choppies also acquired a few shops in Kenya, but if the company is to stay the course, and to be Botswana’s brand, what has to be different? Already a “retail academy” has been created to harness and train the most promising local employees, but what more is needed? If the Botswana government is so capable of controlling things, what risks exist for Choppies existing business model? Does it have to be different? Was Choppies, in other words, part of Botswana’s solutions, or instead one of its growing problems?

Figure 1: Choppies Botswana Supply Chain, 2014



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