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Influence of second-tier retail expansion on micro-enterprise sustainability in Soweto

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Background: This article explores the experiences of micro-enterprise owners in Soweto, focussing on the impact of formal retailers penetrating the informal market. The expansion of formal retailers into townships like Soweto raises concerns for local micro-enterprises.

Aim: The study examines how micro-enterprise owners experience and respond to the challenges posed by formal retailers operating nearby in Soweto.

Setting: The research was conducted in Soweto, South Africa, where the informal market plays a crucial economic role, and formal retail growth influences local businesses.

Methods: A qualitative phenomenological approach was used to explore the lived experiences of micro-enterprise owners. In-depth interviews were conducted with three participants during the pilot study and 25 during the main study. The data were analysed thematically.

Results: Findings showed that micro-enterprises located more than 5 km from formal retailers experienced no negative impact and reported positive interactions. In contrast, those within a 5 km radius reported negative effects, with formal retailers harming their businesses. Other challenges included competition from foreign-owned shops and insufficient government support.

Conclusion: Stronger regulatory frameworks are needed in townships, as current enforcement is inadequate. Micro-enterprise owners must adapt to competition by developing strategies to address these challenges. Collaboration between governments, micro- and macro-enterprise owners and managers is vital for fair competition.

Contribution: This study enhances understanding of the effects of formal retail penetration on informal micro-enterprises in townships and underscores the need for regulatory measures and stakeholder cooperation.

Keywords: business challenges; competition; formal retailer; informal market; micro-enterprise; retail penetration; Soweto township.

Introduction

The retail landscape in South African townships has undergone significant transformations following the removal of trading restrictions between 1994 and 2008. Formal retailers, including Shoprite and Pick n Pay, identified an underutilised market in townships such as Soweto and established their presence in these areas and major commuter hubs. Additionally, large shopping malls, such as Umlazi Megacity and Maponya Mall, have emerged, impacting the informal market (Dlamini & Mbhele 2019; Masojada 2019). The expansion of formal retail chains has resulted in a severe decline in informal retailing, with South African-owned spaza shops either closing or subletting their premises.

This study addresses the social and economic impact of formal retail penetration into the informal township market, a critical source of livelihood for many low-income households. Township micro-enterprises, which contribute significantly to local economies, face heightened competition from formal retailers, foreign-owned spaza shops and other challenges, including a lack of government support, crime and poor infrastructure (Malgas & Zondi, 2021). Understanding how micro-enterprises are affected by second-tier retail penetration, which involves formal retailers setting up smaller stores deeper in townships, is essential for addressing these challenges and ensuring the sustainability of township businesses (Mukwarami & Tengeh 2020). While the effects of large shopping malls (first-tier penetration) on township businesses have been extensively researched (Ligthelm 2012), less is known about second-tier penetration, where formal retailers establish smaller, more accessible stores, such as those in shipping containers, within the townships themselves (Madubela, 2021; Trendtype 2020). This study seeks to fill this knowledge gap by exploring the experiences of micro-enterprise owners in Soweto, providing new insights into the impact of this deeper market penetration.

This study is grounded in Michael Porter's Five Forces framework, which helps analyse the competitive pressures micro-enterprises face because of formal retail penetration. The framework will provide a theoretical basis for understanding how micro-enterprises perceive competition, respond to these pressures and develop strategies for survival in an increasingly competitive environment. This study explores the experiences of micro-enterprise owners in Soweto regarding the second-tier penetration of formal retailers. The study seeks to assess their emotions and attitudes, identify challenges, examine strategies to mitigate competition and evaluate the effectiveness of these strategies in sustaining their businesses.

Literature review

Introduction and pertinent definitions

The South African retail environment comprises formal and informal sectors, each crucial in economic inclusion. Small, medium and micro enterprises (SMMEs) are a critical part of this environment, with micro-enterprises defined by the *National Small Business Act* (Republic of South Africa 1996) as entities with fewer than 10 employees and limited annual turnover. These businesses, which include spaza shops, street vendors and home-based service providers, are essential in creating jobs and fostering economic resilience in townships like Soweto (Willie 2023).

Impact of formal retail on township micro-enterprises

Formal retailers have increasingly established a presence in South African townships, reshaping the retail landscape and intensifying competition with informal micro-enterprises. As Shoprite established the first supermarket in Soweto in 1995, formal shopping malls and chain stores have expanded, putting immense pressure on informal businesses to survive amid new competition (Ligthelm 2012).

Scheba and Turok (2020) observed that formal retail expansion, including developing shopping malls and chain stores, created significant challenges for township micro-enterprises. It forced many informal businesses to lower their prices, which eroded profitability and limited their ability to expand and grow. The researchers found that micro-enterprises often had to compete on price, which placed them at a disadvantage, given the ability of formal retailers to leverage economies of scale and efficient supply chains. In addition, Malgas and Zondi (2021) highlighted that migrant traders dominate township retailing, with 80% benefiting from collective purchasing and economies of scale, giving them a distinct advantage over local micro-enterprises. The study revealed that local retailers face a 65% chance of being outcompeted by their migrant counterparts, particularly in Soweto's competitive retail market.

Michael Porter's Five Forces framework provides a useful analytical tool for understanding these competitive dynamics. The framework consists of five elements: (1) competitive rivalry, (2) threat of new entrants, (3) threat of substitutes, (4) bargaining power of suppliers and (5) bargaining power of buyers. In township economies, micro-enterprises face heightened competitive rivalry because of the penetration of formal retailers. Additionally, low barriers to entry increase the number of informal traders, intensifying market saturation. The bargaining power of buyers is another critical challenge, as consumers may prefer formal retailers offering lower prices and diversified products. Understanding these forces enables micro-enterprises to develop targeted strategies for sustainability and market resilience (Grant 2016; Johnson, Scholes & Whittington 2021; Porter 2008).

Service quality and sustainability of township micro-enterprises

Scholtz, Cronje and Cilliers (2023) conducted a study involving 337 owners and managers of SMMEs in Soweto and Diepsloot and found significant disparities in service quality between the two locations. Small, medium and micro enterprises in Soweto exhibited higher quality service scores than those in Diepsloot, primarily because of increased owner experience and longer operational histories. This underscores the importance of business experience, customer interaction and strategic location as key determinants of service quality and sustainability in the township context.

Technology adoption as a growth factor

Adopting information and communication technology (ICT) is crucial for enhancing the productivity and competitiveness of township SMMEs. Bvuma and Marnewick (2020) found that only 30% of township businesses in Soweto had adopted ICT, significantly limiting their productivity and market reach. The study emphasised that ICT adoption could improve productivity by up to 50%, suggesting a substantial economic benefit for those township enterprises that can overcome barriers to technology adoption. Despite the potential, the high infrastructure cost and a lack of digital literacy remain significant challenges preventing widespread adoption.

Economic contributions and barriers

Small, medium and micro enterprises are fundamental to South Africa's economy, contributing between 45% and 50% to the gross domestic product and employing approximately 56% of the workforce (Bhorat et al. 2018). However, Wiid and Cant (2021) emphasised that South African SMMEs must catch up to similar economies, where they typically employ around 70% of the workforce. Challenges such as limited access to finance, intense competition from larger businesses and complex regulatory requirements collectively restrict the potential for growth and sustainability of township SMMEs.

Interventions and support

Entrepreneurs operating in South African townships rely on a complex entrepreneurial ecosystem that includes various stakeholders providing financial and non-financial support (Mamabolo & Koape, 2024). These stakeholders include government incubators, training institutions, private companies, private incubators, government business development agencies, peer entrepreneurs, local communities, ward councillors, family members, university incubators, friends and municipalities. Despite the existence of this ecosystem, township micro-enterprises continue to face significant structural and operational challenges that threaten their sustainability.

Government interventions in township economies extend beyond financial assistance to include a range of non-financial initiatives designed to foster business resilience and sustainability. One of the key financial support mechanisms available to township businesses is the Township and Rural Entrepreneurship Programme (TREP), which provides loans of up to R1 million, repayable over 36 months (Department of Small Business Development 2024). Additionally, initiatives such as the Spaza Shop Support Scheme offer financial relief to small retailers. However, research indicates that financial support alone is insufficient for ensuring long-term business survival, as many micro-enterprises struggle with non-financial barriers such as limited managerial skills and inadequate training (Wiid & Cant 2021).

A crucial aspect of non-financial support is business training and skills development, which remain foundational for enterprise sustainability. The Small Enterprise Development Agency (SEDA) and the National Youth Development Agency (NYDA) provide structured mentorship programmes, business incubation and capacity-building initiatives to equip micro-enterprise owners with essential business skills (SEDA 2023). Despite these efforts, township businesses still experience significant barriers to growth, with 57.0% of business owners citing a lack of business training, while 47.8% report inadequate managerial, business and administrative skills as key obstacles (Wiid & Cant 2021). Furthermore, 57.4% of respondents identified a shortage of finance and credit as a significant challenge, limiting their ability to access financial and non-financial support services.

Beyond government-led initiatives, universities and private-sector collaborations are increasingly critical in township economic development. Higher education institutions such as the University of Johannesburg (UJ) and the University of the Witwatersrand (Wits) offer tailored enterprise development programmes aimed at improving financial literacy, promoting digital transformation and supporting entrepreneurial ventures in informal economies (UJ 2022). The University of Pretoria's Mamelodi Business Hub, for example, provides structured support in eight key areas, including business registration, product development, business modelling, bookkeeping and financial management, marketing, human resource management, business strategy and operational management (PwC 2020). Research conducted by UJ highlights that township businesses engaging in structured training initiatives recorded increased business efficiency and improved customer engagement (UJ 2022).

Financial interventions, such as the Spaza Shop Support Scheme, have also demonstrated measurable impact, significantly strengthening township businesses' ability to compete with formal retailers (Gauteng Department of Economic Development 2024). Additionally, the TREP initiative, which integrates financial grants with business training, has reached over 15 000 township businesses, demonstrating the effectiveness of combined financial and educational interventions (Department of Small Business Development 2023).

However, despite these interventions' presence, persistent implementation gaps hinder the effectiveness of support mechanisms. Bureaucratic inefficiencies, corruption and the disconnect between policy ambitions and practical realities prevent many township entrepreneurs from accessing the support they need (Wiid & Cant 2021). Addressing these structural barriers is essential to ensure that interventions translate into tangible benefits for micro-enterprises, enabling them to sustain their operations and thrive in increasingly competitive environments.

Strategies for survival in competitive environments

Micro-enterprises must employ strategic responses that enhance their resilience and sustainability to navigate the competitive landscape shaped by formal retail expansion. Porter's Five Forces framework provides a valuable lens through which these competitive pressures can be examined. Township micro-enterprises must contend with intense competition from large retailers that benefit from economies of scale, supply chain efficiencies and brand recognition. The low barriers to entry in the informal economy further exacerbate competitive pressures as an increasing number of traders enter the market, intensifying price-based competition (Porter 2008). Additionally, the bargaining power of suppliers and buyers influences micro-enterprises' ability to secure favourable pricing and customer retention.

Research highlights that businesses adopting digital tools experience increased operational efficiency and improved customer engagement, with recent studies showing that 98% of small businesses in the United States (U.S.) currently utilise AI-enabled tools. In comparison, 40% have integrated generative AI technologies, doubling from the previous year (U.S. Chamber of Commerce & Teneo 2024). This shift has resulted in significant cost savings and improved business agility. In South Africa, a study by Bvuma and Marnewick (2020) emphasised the crucial role of digital transformation in business resilience.

Collaborative business models offer micro-enterprises a strategic avenue to mitigate competitive pressures by pooling resources, sharing operational costs and expanding market reach. Empirical studies underscore the efficacy of such models. For instance, Mahmud (2020) reported that 43.2% of entrepreneurs in the Eastern Province of Saudi Arabia experienced a significant positive impact on revenue generation through engagement in digital ecosystems, while 33.3% found these ecosystems to be cost-effective, indicating notable efficiency gains. Similarly, He and Liu (2024) conducted an empirical study on Chinese micro-enterprises and found a significant correlation between digital innovation ecosystems and enterprise performance using efficiency models. These findings suggest that participation in collaborative digital ecosystems can enhance operational performance and market competitiveness. Such partnerships enable businesses to co-create innovative solutions, distribute risks and improve access to financial support networks, fostering long-term sustainability. Bvuma and Marnewick (2020) explain that all 21 of the Township Business Entrepreneurs they interviewed used ICT to conduct their business activities.

By understanding these market forces and implementing adaptive strategies, including digital adoption, collaboration and targeted differentiation, township micro-enterprises can sustain their operations and improve long-term profitability despite the dominance of formal retail (Johnson et al. 2021).

Contradictory findings and areas of debate

The literature presents conflicting evidence regarding the impact of formal retail penetration in township economies. Scheba and Turok (2020) argue that formal retail expansion negatively impacts informal micro-enterprises, reducing revenue and increasing business closures. Conversely, recent research by Nthoana (2024) highlights that township micro-enterprises can benefit from innovative micro-investment ecosystems such as crowdfunding and entrepreneurial support initiatives, contributing to increased consumer choice and improved service delivery within township markets. Moreover, Wiid and Cant (2021) noted that, despite the challenges, a proportion of township businesses, around 41.4%, could hire new staff between 2016 and 2019, indicating that growth is possible even in a complex environment. This suggests that while the challenges are significant, there is potential for resilience and adaptability among certain township micro-enterprises.

Gap in literature

Despite a substantial body of research on township economies, there remains a gap in understanding how different factors, such as competition from formal retail, technology adoption and government intervention, influence micro-enterprises sustainability in townships like Soweto. Existing studies treat these issues in isolation, and there is limited empirical evidence on the combined impact of these dynamics on micro-enterprises competitiveness and growth (Bvuma & Maverick 2020; Charman 2017). This study addresses this gap by exploring how township micro-enterprises can leverage technology adoption and strategic planning to enhance their sustainability in the face of increased competition from formal retail chains.

Research problem

The problem is that the expansion of formal retail into townships, including mini stores and partnerships with petrol stations, poses a significant threat to the sustainability, growth and economic development of micro-enterprises in Soweto. Formal retail chains, often driven by profit motives, operate with little regard for the existing dynamics of the informal sector, resulting in adverse effects such as reduced employment opportunities, diminished local reinvestment and the impoverishment of communities. Local micro-businesses, mainly South African-owned spaza shops, cannot compete with larger formal retailers' economies of scale and resource advantages, leading to a decline in profitability and ultimately forcing many to close (Malgas & Zondi, 2021). Similarly, Scheba and Turok (2020) emphasise that the expansion of formal retail has reshaped township retail dynamics, pressuring informal businesses to compete on price, undermining their profitability and occurring mainly without government support that could level the playing field. Charman (2017) further underscores that micro-enterprises near formal retail outlets experience significant business decline, exacerbated by a need for governmental and institutional support.

This study explored the perspectives and lived experiences of micro-business owners in Soweto who are navigating these challenging conditions. By focussing on their unique experiences, the study will provide a deeper understanding of the impacts of formal retail expansion on informal businesses and the broader socioeconomic consequences for the community. This qualitative approach is necessary to capture the nuanced challenges faced by micro-enterprises and to generate insights that can inform more inclusive policy interventions to support the sustainability of township businesses.

Research methods and design

The study utilised a positivist research philosophy involving observable social reality (Saunders, Lewis & Thornhill 2019). The researcher adopted an inductive approach, developing a theory based on empirical observations and data collection. It helped to understand better the nature of the issue faced by micro-enterprise owners by analysing the data gathered to derive conclusions and possibly form theories (Bell, Bryman & Harvey 2022). The study employed a qualitative research design to understand the experiences of micro-enterprise owners and managers in Soweto (Creswell & Poth 2018). A phenomenological research strategy was used, which involved implementing in-depth semi-structured interviews to collect primary data that allowed the researcher to comprehend the essence of experiences and how participants interpret them (Ramsook

2018). Three interviews were conducted as part of the pilot study, followed by 25 interviews for the main study. In consultation with the research supervisor, the researcher concluded data collection after 25 interviews, as data saturation had been achieved. Thematic analysis was used to extract insights from the data, uncovering themes that align with the study's objectives (Maguire & Delahunt 2017; Saunders et al. 2019; Venter, van Rensburg & Davis 2017). Convenience non-probability sampling was applied to select the interviewed participants until data saturation was reached (Guest, Namey & Chen 2020).

Interviews were transcribed verbatim to ensure accurate textual analysis (Venter et al. 2017). Thematic analysis was employed to identify recurring patterns within the qualitative data, with themes and sub-themes emerging throughout the analysis. This method was chosen for its adaptability (Maguire & Delahunt 2017). Thematic analysis was conducted using Braun and Clarke's six-phase framework, consisting of data familiarisation, initial coding, searching for themes, reviewing themes, defining and naming themes and producing the report. Coding was verified by the supervisor for consistency with research objectives (Braun & Clarke 2006; Maguire & Delahunt 2017). This six-phase thematic analysis process ensured that the analysis was systematic and comprehensive, providing valuable insights into the experiences of micro-enterprise owners in Soweto. Atlas TI was used to do the coding, but the sentiment analysis was conducted manually to ensure a greater contextual understanding of participant responses (Birjali et al. 2021).

This study's interpretation, data confidence and quality assurance techniques determined trustworthiness (Polit & Beck 2014). The four criteria for establishing trustworthiness in qualitative studies are credibility, dependability, confirmability and transferability. These criteria were adopted to ensure the study's credibility and quality (Enworo 2023). The credibility of the findings was established through member checking and extended interaction with participants (Birt et al. 2016). Dependability was ensured by maintaining an audit trail and providing well-documented methodologies and procedures that could be replicated (Polit & Beck 2014). Confirmability was supported by reflexivity, which involved identifying biases, maintaining an audit trail for decision-making and using supervisor-member checking to validate interpretations with participants. This study addressed transferability by providing detailed descriptions of the research setting, participants and methodologies, allowing readers to assess the relevance of the findings to their contexts (Enworo 2023). Negative case analysis was also applied, where situations that did not align with emerging patterns were identified, further supporting the transferability of the findings (Polit & Beck 2014).

Ethical considerations

The study received ethical clearance from the Faculty of Management Sciences Research Ethics Committee (FCRE-ECO) at Tshwane University of Technology, registered as an Institutional Review Board (IRB 00005968) with the S.U.S. Office for Human Research Protections (IORG# 0004997), with approval number FCRE2023/FR/05/062-MS (17 August 2023). Verbal informed consent was obtained from all participants. Participants' identities were anonymised to ensure confidentiality, and all data were handled in line with ethical guidelines and applicable national legislation.

Results

This section reports the biographical information, codes, sub-themes, themes and supporting direct quotes.

Description of the participants

The study collected data from micro-enterprise owners and managers in Soweto, Johannesburg, South Africa. The researcher interviewed 28 participants, of whom three were part of the pilot study, all giving verbal consent.

Table 1a and Table 1b summarises all participants interviewed in the study, with business types self-identified by the participants rather than determined by the researcher, ensuring that the data authentically reflects their lived experiences and individual perspectives. In qualitative research, allowing participants to self-identify their business types ensures that the data authentically reflects their personal experiences and perceptions (Silverman 2017). In this study, participants described their enterprises using familiar terms, such as 'spaza shops' and 'tuck shops'. This approach captures the nuanced differences in how entrepreneurs perceive and operate their businesses within the township economy.

The researcher coded the 25 participants of the main study using ATLAS.ti software and then categorised codes into potential sub-themes and themes, representing overarching patterns of significance as shown in Table 2 (Maguire & Delahunt 2017).

The grouping of codes into sub-themes provided a solid foundation for thematic analysis. Themes were refined iteratively to ensure consistency, with supervisor consultation for relevance (Braun & Clarke 2006). The final eight themes and 23 sub-themes are listed in Table 3.

The themes and sub-themes outlined in Table 3 provided a structured representation of the data, reflecting the

TABLE 1a: Summary of interviewed participants.

Type of business	Number of participants
Spaza shop	8
Tuck shop	6
Fruit and vegetables	4
Butchery	2
Food business	2
Mini market	2
Retail business	2
General dealer	1
Supermarket	1
Grand total	**28**

TABLE 1b: Participant identifiers.

Type of business	Age range (years)	Years in business
Participant 1	31–35	6
Participant 2	31–35	4
Participant 3	Over 40	5
Participant 4	Over 40	20
Participant 5	26–30	3
Participant 6	Over 40	43
Participant 7	Over 40	4
Participant 8	31–35	26
Participant 9	20–25	2
Participant 10	*information undisclosed*	-
Participant 11	36–40	5 months
Participant 12	*information undisclosed*	-
Participant 13	*information undisclosed*	-
Participant 14	31–35	2
Participant 15	Over 40	40
Participant 16	36–40	3
Participant 17	31–35	2
Participant 18	Over 40	40
Participant 19	Over 40	2
Participant 20	36–40	2
Participant 21	26–30	undisclosed
Participant 22	Over 40	8
Participant 23	Over 40	4
Participant 24	36–40	3
Participant 25	Over 40	10

participants' experiences and broader contextual influences. This categorisation enabled a clear and comprehensive analysis of the complexities involved.

Demographics of the participants

The charts below provide demographic and business information from section A of the interview questions, including participants' responses, age group, operating period and notice of formal retailers opening stores deeper into townships.

Figure 1 shows the participants' age groups. The majority, 54% of all respondents, were over 40 years.

Figure 2 shows the duration of participants' businesses, ranging from 5 months to 43 years, with Participant 6 having the most prolonged duration of operation.

The data presented in Figure 3 indicate that most formal retailers were noticed after they were established (32%) and 18% before they were established.

Themes

This section presents a cohesive research report, incorporating illustrative participants' quotes to support interpretations (Braun & Clarke 2006). This narrative approach enhances the comprehensiveness of the results, providing insights.

Theme 1: Experience and feelings

The first objective of this study was to assess the experience, feelings and attitudes of micro-enterprise owners since the second-tier penetration of formal retailers in their area of

TABLE 2: Codes and sub-themes.

Sub-themes	Codes
Emotional responses	Acceptance Dismay Envy Frustration Mixed emotions Optimism Positive Resentment Sadness Unsettled Unhappiness
Business impact	Decline in sales Increased in sales Stability
Family impact	Reliance on micro-enterprise income for family and community
Perception of formal retailers	Criticism of business laws Perception of formal retailers Views on competition Views on operations
Operating distance	Proximity advantage
Community cohesion	Community cohesion Outsider perceptions vs. local business perceptions
Adaptation	Adaptation Bulk purchase Business diversification Business hours Business pricing Changing business models Engage with community Giving credit to customers Maintain status quo Negotiation with wholesalers Partnering with local businesses Unique local products
Strategy outcome	Effective strategies against competition Increased marketing efforts
Lobbying and advocacy	Support from local government
Success stories	Healthy competition Ethical considerations
Innovation	Business expansion Business growth Business transformation Innovation New products, services and technologies New services, technologies
Business	Persistence in business Providing credit
Employment	Seeking alternatives Seeking jobs in formal sectors or other industries
Relocation	Moving to different areas or regions Relocation
Support and assistance	Government support for micro-enterprises Renting space
Crime	Crime as an alternative
New business avenues	Exploring various markets or sectors New business avenues
Street vendor	Becoming a street vendor
Economic shift	Community financial flow
Outsider vs. insider	Outsider perceptions vs. local business perceptions
Competition	Competition Unhealthy competition
Financial dependency	Reliance on micro-enterprise income for family and community
Perceived support	Support from local government Criticism of government

TABLE 3: Sub-themes and themes.

Themes	Sub-themes
1. Experience and feelings	1.1: Emotional responses
	1.2: Business impact
	1.3: Family impact
2. Attitudes	2.1: Perception of formal retailers
	2.2: Operating distance
	2.3: Community cohesion
3. Interventions and strategies	3.1: Adaptation
	3.2: Strategy outcome
	3.3: Lobbying and advocacy
4. Effectiveness of interventions	4.1: Success stories
5. Future plans	5.1: Innovation
6. Alternative options	6.1: Business
	6.2: Employment
	6.3: Relocation
	6.4: Support and assistance
	6.5: Crime
	6.6: New business avenues
	6.7: Street vendor
7. Local economic dynamics	7.1: Economic shift
	7.2: Outsider vs. insider
	7.3: Competition
	7.4: Financial dependency
8. Government and legislation	8.1: Perceived support

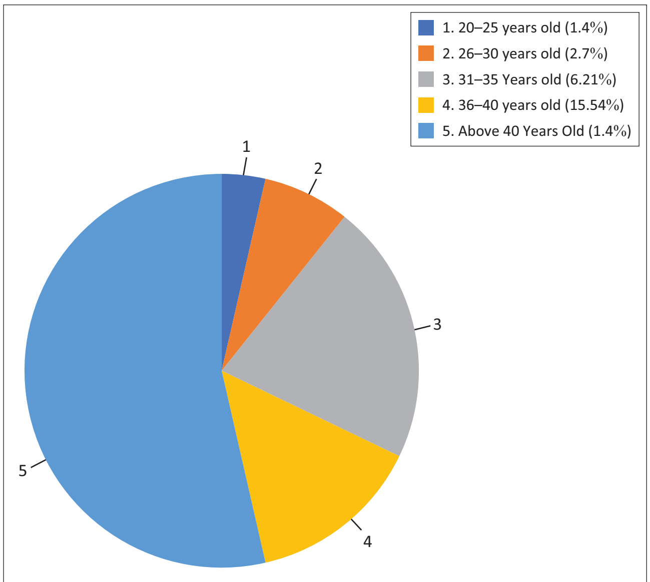

FIGURE 1: Participant's age group.

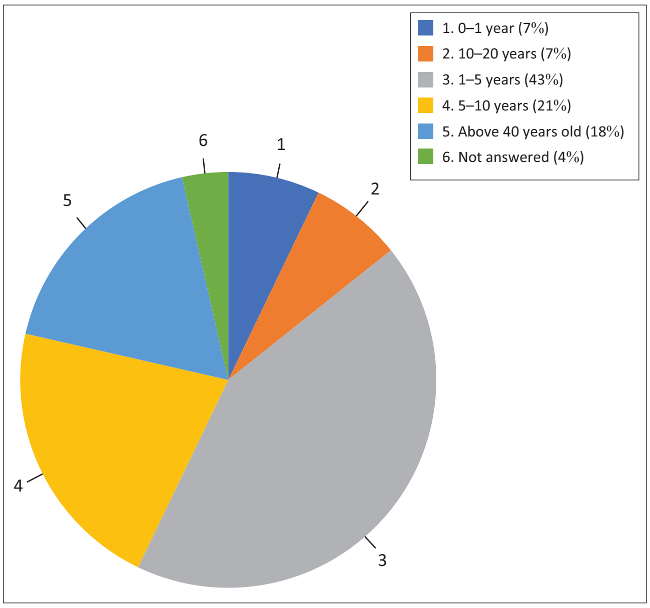

FIGURE 2: Duration of the business.

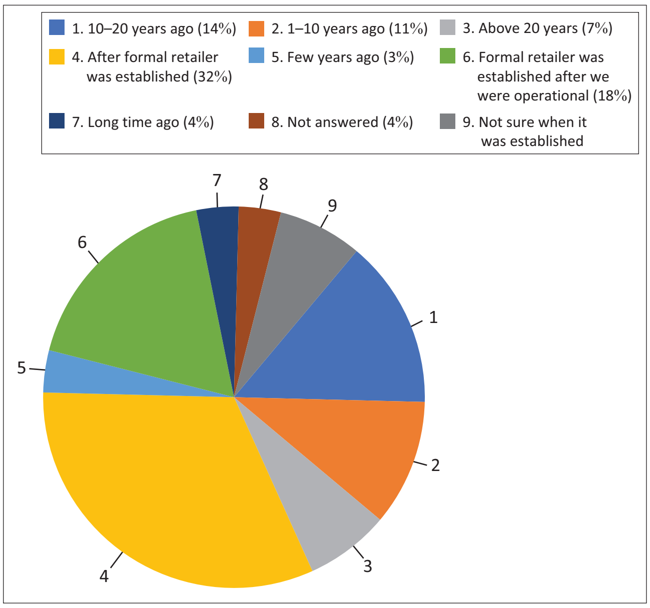

FIGURE 3: Notice of formal retailers opening stores deeper into townships.

operation. The three emerging sub-themes are emotional responses, business impact and family impact. These sub-themes are discussed in this section.

Emotional responses

Negative emotions

Participants 2, 4, 6, 7, 8, 9, 13, 19, 22 and 23 indicated negative emotions towards the formal retailers operating near their business. The sentiments expressed by the participants paint a picture of frustration, sadness, dismay and concern regarding the impact of formal retail companies on their micro-enterprises; the participant responded, 'It was not nice, totally not nice at all' (Participant 2) … 'Yeah, it has been a bad experience because of unfair competition' (Participant 8) and:

> '[*A*]lready told you that attitude was bad, and the business went down, and then you try to improve there and there, but the thing is people flock to them than us, so can it be a good attitude? [*disappointed*], no, it will not!' (Participant 4)

'Small businesses are struggling. Because of this suffocation, these giant businesses do not add value to our townships … we are affected negatively [*that is how I feel*]' (Participant 8). They cited financial losses, reduced customer traffic and difficulties competing with larger retailers, feeling that these businesses had unfair advantages. The dominance of these larger enterprises led to a sense of injustice, helplessness and anger among the participants.

Positive emotions

Participants 1, 9 and 11 positively viewed formal retailers. Participant 1 acknowledged the limitations of their shop and recognised the role of formal businesses: 'Formal businesses cater for people who want to buy big groceries, and our shop is too small'. Participant 9 viewed it as an opportunity for growth, 'an opportunity for us to grow'. Participant 11 found the presence of formal retailers beneficial: 'It helps me with some of the things I need for my business'.

Participants 15 and 16 showed pragmatic acceptance. Participant 15 saw both advantages and disadvantages, 'for me as a fresh produce business, it has its advantages and disadvantages'. Participant 16 accepted competition as inevitable: 'Business is about competing, so if you do not compete, you cannot run business'.

Neutral emotions

Participant 3 expressed a range of emotions about the impact of formal retail stores. Participants 5 and 14 showed mixed emotions. Participant 5 noted customer behaviour shifts depending on finances: 'When customers have money, they go to larger retail stores, but when they are low on funds, they turn to the smaller, local shop', while Participant 14 stated, 'I have mixed emotions'. Participants 10, 12 and 24 maintained neutral perspectives, indicating that larger retailers did not significantly affect their businesses. Participants 17 and 18 were also neutral, stating, 'My feeling is neither negative nor positive since they also assist my business' and 'I do not have any problems with the retail shops'. Participants 21 and 24 showed practical acceptance, acknowledging the convenience formal retailers provide customers. They stated, 'Normally when people want something quick, they will come here rather than going to Shoprite' and 'I do not have a problem with the retail store existing in our townships'.

Business impact

Affected negatively

Respondents negatively affected by formal retailers operating in deeper townships shared common concerns, particularly regarding declining sales. Participant 5 described fluctuations in their customer base, 'Customers flock to retail stores when financially stable but return to local shops when struggling'. Participants 7, 15, 17, 19, 21 and 22 also reported declining sales because of competition from larger stores. Participant 7 noted, 'Most people here … cannot afford to relocate'; Participant 19 observed, 'Most of the businesses that were here before they came, they are even now closed', highlighting the severe impact on local enterprises. Participants 23 and 25 acknowledged the challenges and emphasised the need for action. Participant 23 stated, 'We need to upgrade our services to do better', while Participant 25 expressed frustration: 'It is killing our business, and there is no one doing anything about it'. These responses emphasise the urgency of addressing the situation to sustain their businesses.

Affected positively

Participant 1 adopted various strategies to increase sales and stay competitive against formal retail stores, emphasising, 'First, it's the attitude you provide to customers. Secondly, it's the quality of food you provide'. This approach highlighted the importance of customer service and product quality to enhance customer experience and attract loyalty. Participant 5 focussed on cost-conscious customers by selling single eggs and reducing the product range, offering smaller, more affordable options to manage costs effectively.

Participant 15 benefited from USave's limited product range by offering vegetables that USave did not stock, 'When people are buying their groceries, USave does not have all the vegetables, so alternatively they come to buy at my store'. This strategy leveraged gaps in the larger store's offerings to attract customers seeking specific items.

Affected neutral

Participants who indicated a neutral stance, such as Participant 24, expressed stability despite competition from larger retailers, stating, 'I still get people to come buy from me'. This suggests they continue to attract customers, demonstrating resilience and loyalty as key factors in sustaining their business.

Family impact

The family impact sub-theme reflects participants' experiences regarding the effects of formal retailers on their families. Participant 1 highlighted financial strain, stating, 'This is my only income source', underscoring their heavy reliance on the business for financial stability. This emphasises the vulnerability and pressure to make the shop profitable, especially when competing against larger retail stores.

Theme 2: Attitudes

The three emerging sub-themes in this section include the perception of formal retailers, operating distance, views on competition and adaptation (Eiser & Van der Pligt 2015).

Perception of formal retailers

Participants indicated that businesses operating closer to formal retailers were negatively affected, while those farther away experienced less impact. Some responses were neutral, and there were additional concerns about foreign shops and unfair competition. Participant 2 noted, 'Because they operated nearby my shop and customers would opt for them', highlighting the competitive disadvantage experienced by micro-enterprises near large retailers. In contrast, businesses located farther away reported minimal disruption, with Participant 20 stating, 'My brother, those retail businesses did not disturb me that much, simply because they are a bit far away from me … my business is still running as it used to'.

Positive attitude

In discussing the views of shop owners, various perspectives emerged on the impact of external operations. Participant 1 felt that USave had little negative impact: 'The USave business did not affect us negatively'. In contrast, Participant 5 emphasised understanding the context of the competition, adding, 'For me, when comments such as those coming from South Africans, it does not anger me', highlighting the role of nationality in perceptions. Participant 6 echoed this sentiment by expressing no issue with larger retail shops like Pick n Pay but pointed out a specific concern with foreign-owned shops, stating, 'I do not have a problem with the retail shops Pick n Pay and Spar, the problem I have is with the Pakistan's shops', which suggests a potential element of xenophobia in the local retail community.

Negative attitude

Many participants expressed negative attitudes towards formal retailers operating near their businesses. The prevalent sentiment was that businesses close to these retailers faced harmful effects. Participant 2 remarked, 'USave and the foreign shops were a problem'. Participant 3 echoed this sentiment, questioning if it 'was their aim to kill small business' and noting that 'people have resorted to gambling because of the struggling'. Participant 4 voiced frustration over consumer favouritism towards formal retailers:

> 'Already told you that attitude was bad, and the business went down, and then you try to improve there and there, but the thing is people flock to them than us, so can it be a good at attitude? No, it won't!'

Neutral attitude

Some participants expressed a neutral stance regarding formal retailers. Participant 5 voiced a desire for greater local support, stating, 'South Africans can start to support tuck shops in the townships … if people around can start being loyal to us and support us …' . This reflects a longing for increased community loyalty rather than a complete rejection of formal retailers. Similarly, Participant 7 acknowledged the advantages of established formal retailers, stating:

> 'I don't have a problem with them having an advantage. It is an unfair advantage, in the sense that, maybe not even unfair, but they have an advantage of coming in here, like your Spars and Pick n Pay have been here for years.'

Operating distance

Business owners' perspectives on operating distance from competitors reveal insights into local commerce dynamics. Participants 11, 18 and 20, whose shops were located away from formal retailers, shared a sense of acceptance regarding their presence. Participant 11 stated, 'It does not affect me, it does not even influence me, cause it far'. Similarly, Participant 20 acknowledged the presence of nearby retailers. However, it remained untroubled, attributing this peace to the distance, saying:

> 'My brother, those retail businesses did not disturb me that much, simply because they are a bit far away from me … my business is still running as it used to.'

On the other hand, Participant 2, whose shop was close to formal retailers, mentioned, 'Because they operated nearby my shop and customers would opt for them …' indicating a negative impact. The researcher observed that the distance between micro-enterprises and formal retailers significantly influenced the perceived impact, with businesses farther away generally not affected negatively.

Community cohesion

Participants' attitudes towards competition from formal retailers varied. Participants 6 and 7 expressed concerns about 'unhealthy competition', with both noting the challenge of competing with formal retailers' lower prices: 'It's still difficult since they sell their product at a lower price that we cannot compete with' and 'their better prices, makes people go to those prices, cause sometimes they cannot afford to compete with them'. Participant 8 adopted a pragmatic stance, stating, 'Nothing can be done. It's either we adopt or die', highlighting the necessity for adaptability to survive. Participant 14, however, viewed competition positively, saying, 'It has forced us to think outside the box', reflecting an opportunity for innovation and creativity in response to challenges. Participant 8 responded to the second-tier penetration of formal retailers by maintaining the status quo, stating, 'We just carry on and continue doing what we are doing'.

Theme 3: Interventions and strategies

Under the interventions and strategy's theme, three sub-themes are identified and discussed in this section.

Adaptation

This section outlines the adaptation strategies employed by business owners to face the challenges posed by formal retail businesses nearby. Participants emphasised changing business models, diversifying product ranges, maintaining customer service and engaging with the community. For instance, Participant 1 aimed to 'Expand the shop, to add more products and services', while Participant 9 focussed on community engagement: 'We engaged with the community, for instance'. Participants 13 and 14 highlighted the significance of negotiating with wholesalers to manage costs effectively. Overall, the strategies displayed resilience, flexibility and a focus on customer relationships.

Collaboration

Participant 5 stressed partnering with local businesses, specifically those selling Kotas (a popular South African township fast food made from a hollowed-out quarter loaf of bread filled with ingredients such as polony, eggs, cheese and chips). The participant mentioned receiving support from these similar businesses, illustrating a collaborative community effort: 'Similar to these other shops that sell Kotas, we do get support from them …'

Strategy Outcome

In addition to adaptation and collaboration, participants reflected on the long-term effects of their strategic responses. Some business owners noted moderate success, highlighting increased customer retention, and enhanced financial stability. However, concerns were raised regarding the sustainability of these measures, particularly due to ongoing challenges from formal retailers. As Participant 17 remarked, 'Our strategies work for now, but we are uncertain if they will sustain us in the future'. This indicates that although adaptation strategies are effective for maintaining competitiveness in the short term, there is a need for ongoing reassessment and innovation.

Lobbying and Advocacy

A recurring theme in participants' feedback was the critical importance of collective action in influencing policies and regulatory frameworks that affect small businesses. Several micro-enterprise owners indicated they had engaged in discussions with local authorities and business associations to advocate for fairer market conditions. Participant 22 stated, 'We have raised our concerns with the councillor, but we need stronger policies to protect township businesses'. This emphasises the power of lobbying and advocacy in creating a more supportive business environment for micro-enterprises.

Theme 4: Effectiveness of interventions

The findings indicate that some participants perceived the strategies they implemented to address business challenges as effective, categorising these as success stories. These participants shared that their interventions helped them remain competitive and achieve positive business outcomes. The outcomes were grouped into two sub-themes: success stories and neutral stories, highlighting varying degrees of effectiveness in the interventions applied by micro-enterprise owners and managers.

Success stories

The participants generally expressed confidence in their strategies against competition. Participants 3, 4, 5, 13, 17, 18, 19, 20, 24 and 25 affirmed the effectiveness of their strategies, sharing positive outcomes such as attracting customers and maintaining market presence. Participant 25 noted, 'They are currently working, even though it is not easy, but they are working'. Similarly, Participant 7 acknowledged the effectiveness of their strategies but also pointed out the challenge posed by job losses, stating, 'They are working, it is just that uh, as we, more and more people are losing jobs … ' Meanwhile, Participant 23 offered a measured perspective, explaining, 'Yes, the strategies are 60% working'.

These responses indicate that while many micro-enterprises have successfully implemented strategies to sustain their businesses amid competition, external factors such as unemployment and resource limitations continue to present challenges. Participants conveyed optimism regarding their ability to adapt, but some recognised the need for further adjustments to enhance their competitiveness.

Neutral stories

Some participants provided neutral responses regarding the effectiveness of their strategies. Participant 2 took a cautious stance, stating, 'I cannot comment much on whether the strategies are working or not since we just re-opened today, and I can only evaluate this over a period of time'. Participant 1 expressed uncertainty with 'Not sure', indicating a lack of clarity about the impact of their strategies. Participant 8 admitted, 'None since no strategies were employed', indicating an absence of intentional measures against competition. These responses reflect a range of perspectives: uncertainty because of recent changes, a lack of employed strategies and inconsistent effectiveness.

Theme 5: Future plans

Innovation

Participants discussed various plans for future business development. With Participant 1, the focus was on offering cooked food like 'pap & stew', suggesting a catering approach. Participant 2 planned to introduce fruits and vegetables to provide healthy options and expand the shop, while Participant 3 hinted at secret plans. Participant 4 admitted, 'We do not have plans', indicating uncertainty. Participant 5 was optimistic about expansion, and Participant 7 planned improvements dependent on funds. Participant 8 hoped for financial support, Participant 9 aimed to develop their business into a pub and catering place and Participant 11 wanted to create a family restaurant where people could 'chill'. These varied strategies reflect different approaches to addressing challenges and enhancing their businesses.

Theme 6: Alternative options

Participants explored alternative income options and shared their coping strategies in case their businesses failed. Participants 17 and 19 considered seeking employment in other industries, using their skills and qualifications: 'I would like to expand my business, but things are a bit difficult at the moment' (Participant 19). Others contemplated relocating but lacked resources (Participant 22): 'Relocating to another place would be a good idea, but do not have resources or money'. Participants 9, 12, 14 and 23 discussed alternatives like becoming street vendors, renting out business spaces or diversifying their products. Some participants also cited crime as a factor influencing business survival.

Support and assistance from the government emerged as a recurring theme (Participants 23 and 24): 'We need more support in a form of funding from government'. Participants 7 and 25 expressed reliance on pensions or grants: 'Pension, we just have to wait for pension and survive on it'. Innovative ideas like opening Internet cafes (Participant 21) or exploring new business strategies (Participants 15 and 16) were also suggested: 'Nothing I can do if I can't compete with them using the methods that I currently apply, I will then ultimately close down and try something else'. New business avenues, such as alternative service models and technology-driven businesses, were also considered. This range of responses highlights both the challenges faced and the varying levels of resilience among participants.

Theme 7: Local economic dynamics

The local economic dynamics theme includes five sub-themes: economic shift, outsider vs. insider, competition, community engagement and financial dependency. Most responses were focussed on 'outsider vs. insider' and competition.

Participants expressed mixed views on competition, with most feeling negatively affected by formal retailers and foreign shops. A participant reported that the USave business 'did not negatively impact them', suggesting they were not directly affected. However, Participant 2 indicated the negative impact of USave on their competition: 'USave store was also part of the challenges I faced when it came to competition…' Other participants highlighted foreign shops as a problem: 'The foreign shops were a problem because they operated nearby…' Participants from shops 3 and 4 also raised concerns about the impact of foreign shops.

Participant 5 mentioned the challenges of stocking items that do not sell quickly: 'It is not an easy business, as sometimes the products we stock stay longer'. Participant 7 emphasised affordability and its importance to the community. Some participants also noted financial dependency as a concern, highlighting their reliance on informal credit, savings, or external financial assistance to sustain operations. Participant 9 suggested engaging local business forums, highlighting a desire for community collaboration: 'Maybe also invite businesses, like Protea Glen business forum. I think they need to be included'. Participant 15 expressed confidence in their business model but was concerned for others, while Participant 17 raised questions about combating challenges from foreign shops, underscoring the need for strategic solutions. These responses illustrate the complex interplay of outsider competition, community engagement and various economic challenges for local businesses. This reflects the broader economic shift in township retail dynamics, where traditional micro-enterprises must continuously adapt to formal sector expansion.

Theme 8: Government and legislation

Perceived support

Most participants expressed disappointment in the government's role in supporting township businesses. Issues raised included a lack of protection and funding and frustration with corruption, as government officials reportedly took bribes instead of offering protection. This lack of government support made some participants feel resigned to their situation.

Participant 1 highlighted the difficulty in obtaining funding: 'To get funding is a huge challenge'. Participants 3 and 4 expressed a desire for government intervention: 'I wish the government would listen to us' and 'Our businesses should have been protected a long time ago'. Participant 8 called for more serious interventions to regulate businesses. Participant 11 criticised the government for inadequate assistance: 'But you know that government does not help us with anything, they just control you'. Participant 13 noted problems with minimum wage and tax laws. Participant 14 hoped for organisational support, indicating a need for community help beyond the government. Lastly, Participant 17 highlighted weak legislation concerning foreign businesses in townships: 'Legislation in South Africa is very loose, in terms of foreign business in townships'.

These statements collectively illustrate township businesses' varied challenges and desire for stronger and more effective government support and regulation.

Implications and recommendations

The following recommendations are intended to provide actionable strategies for micro-enterprise owners to tackle the challenges posed by second-tier businesses' encroachment effectively. They focus on practical steps to enhance competitiveness, ensure legal compliance and foster sustainable business growth.

Recommendation 1: Strengthening business strategies through targeted training

Micro-enterprises affected by formal retailers should prioritise structured training and mentorship to develop competitive business strategies. Institutions such as SEDA, NYDA and university entrepreneurship centres offer training in strategic tools such as Porter's model, the '5 Ps of Marketing', agile business practices, financial management and digital marketing techniques. These skills will enable micro-enterprises to adapt quickly, improve customer engagement and leverage e-commerce opportunities, ensuring long-term sustainability in competitive markets.

Recommendation 2: Enhancing professional development through networks and incubators

Professional development is crucial for sustaining competitiveness and fostering innovation. Micro-enterprise owners should participate in business incubators, accelerator programmes and mentorship networks such as those provided by SEDA, the Small Business Institute (SBI) and sector-based chambers of commerce. These platforms offer structured workshops, hands-on training and business advisory services. Networking with experienced entrepreneurs and industry professionals will enhance problem-solving skills, provide market insights and facilitate business expansion.

Recommendation 3: Leveraging collaborative business models for market resilience

Forming strategic alliances among micro-enterprises can strengthen bargaining power and reduce operational costs. Collaboration in bulk purchasing, supplier negotiations and shared distribution channels can help businesses withstand the pressures of formal retailers. Township businesses should engage in cooperative models, local business associations and digital trading platforms that facilitate collective growth. Additionally, participation in government-supported initiatives such as the TREP and Spaza Shop Support Schemes can provide access to both financial and operational support.

Limitation of the study

Establishing a good relationship between the researcher and participants is crucial for gathering rich data in qualitative studies. However, because of the time constraints of this project, the relationship might not have been fully established. Yet, it could have affected the collected data's depth and richness. Another limitation is that qualitative research results are not generalisable to the population.

Directions for future research

To gain broader insights, the authors recommend that future research focus on micro-enterprises experiences regarding second-tier retail expansion in different township environments. Additionally, research could explore the impact of government policies on these businesses, particularly regulatory support and economic interventions tailored to township-specific challenges.

Conclusion

This study delved into micro-enterprises' experiences in the informal market, particularly examining the challenges second-tier businesses pose. It highlighted the emotional and practical impacts on micro-enterprise owners, providing crucial insights into the strategies needed to ensure sustainability in an increasingly competitive environment. Key recommendations for micro-enterprises include understanding local regulations, adopting effective competitive strategies and remaining adaptable in their business models. Emphasis was placed on improving customer service, gaining a deep understanding of the local community and actively engaging in training and mentorship to enhance competitiveness.

The findings underscore the need for micro-enterprise owners to view competition as a catalyst for professional development. They should encourage active participation in networking and mentorship opportunities and report unethical practices to promote fairness in the market. Additionally, the research emphasises collaboration among similar businesses, a continuous adaptation of business models and the implementation of innovative approaches such as bricolage and the business model canvas. Ultimately, the study provides recommendations for micro-enterprises to navigate the complexities of their market effectively.

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Authors' contributions

S.N. and J.R.R. devised the project, including the main conceptual ideas and proof outline. S.N. handled nearly all the technical details and collected data through interviews. Together, S.N. and J.R.R. co-coded the data and developed themes and sub-themes. J.R.R. supervised the project, while S.N. wrote the first draft of the article. J.R.R. then reviewed and finalised the article.

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Data availability

The data that support the findings of this study are available from the corresponding author, J.R.R., upon reasonable request.

Disclaimer

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