trade intelligence

Trade Tatler

NEWS FROM THE CONSUMER GOODS INDUSTRY – **FRESH EVERY WEEK**

23 August 2018

Results season is upon us this week with Shoprite and WW reporting on their annuals and Massmart on its first half. What do they all have in common? The general consensus that trading conditions have perhaps never been more trying. The great thing, however, is that as these businesses come under increasing pressure, they continue to focus on innovation. Enjoy the read.

RETAILERS AND WHOLESALERS

Shoprite

Tough as nails

Those Shoprite results after which you've been hankering, and we'll give you the bad news upfront, as succinctly put by one of our own erstwhile analysts: "A moderate performance from SA's seemingly unshakeable retail giant, in a period of near zero internal inflation combined with ongoing cost pressures, resulting in an increase in Group turnover of just +3.1%, to R145.3bn." Stern words. Perhaps more worryingly, trading profit declined by -1.4% to R8bn, which the business attributed predominantly to increasing costs associated with new stores leases, store refurbs, systems and other future investment expenditures. On the upside, the business grew its share of the South African formal retail market to 31.7%, due, they say, to the success Checkers is enjoying at the upper end. They also opened a net 124 new corporate stores, which is not to be sneezed at. And if you were privileged, as we were, to attend the results presentation, you would have been as impressed as we were by the innovation on offer – in private label, sustainability and shopper marketing, to name but three areas.

Comment: We'll give the last word to CEO Pieter Engelbrecht. Mr E? "This has been a very tough year – the toughest I can recall. I am proud of what has been delivered under very trying circumstances."

Ti Analyst 21/08/18

Woolworths

Up against it

On to Woolies then, whose 52 weeks ended 24 June 2018 resulted in +1.6% growth in turnover and concession sales, with adjusted pre-tax profit slumping -13.8%, results that they themselves describe at "disappointing". How so? Anyone? Anyone? Challenging trading conditions of course, both in SA and Down Under, although CEO Ian Moir was quick to point out that the mistakes made in clothing could not be ignored. On the upside, Food continued to be the key weapon in the WW arsenal, outperforming the market, with sales growth +8.4% and comparable store sales +4.8%, a result attributed to "the continued delivery of quality, innovative product at an attractive price point." The other divisions were a mixed bag, with turnover in WW Fashion, Beauty and Home down -1.5%, Financial Services growing +3.8%, David Jones' full year sales -0.9% (on the back of an uplift in H2 which is hoped will continue into FY2019) and Country Road with sales up +1.7%.

Comment: Let's leave the final word to the boss himself – "No doubt that the economic challenges and the structural changes that are sweeping through retail continue to challenge us. It has been a turbulent year. A story of ups and down. We have gone from Ramaphoria to Rama-reality".

Ti Analyst 23/08/18

Massmart

Easy does it

We couldn't say it better ourselves, so we won't: "Massmart reports interim results in severely constrained consumer environment characterised by soft demand for durable goods and significant major food commodities deflation". That in a nutshell. But if it's the numbers you have a hankering for, here they are: like-for-like sales for the 26 weeks to July grew +1.9% to R41.6bn, while trading profit before interest and tax was down -19.5% to R664.2m. The Group's like-on-like sales declined -1.5% in Food, but grew 9.2% in Liquor, 0.9% in Durable Goods and 7.6% in Home Improvement, proving once again that in good times and in bad, beer will always be king. And just because we like to find a silver lining there's this: online sales climbed +69% with 159% growth in online traffic to Group online platforms indicative of the Group's strong focus on omnichannel retailing.

Comment: Keep on keeping on is what we say. With its pursuit for new revenue streams, surely brighter days lie ahead for the Group… consumer economy and policymakers permitting.

Ti Analyst 23/08/18

SPAR

Act local

Taking the stage at a major industry event last week was our very own SPAR South Africa, whose national fresh produce manager James Lonsdale thrilled the audience at the Purchasing Manager's Association (PMA) Fresh Connection Event in Pretoria with an account of how formal retailers can support emerging black farmers while

addressing food insecurity. If you're a big fan of central distribution, you may want to look away at this point. Anyway, simple idea: SPAR's Rural Hub programme identifies areas with good agricultural potential, some merging farmers and the technical support they need to achieve their potential and – no surprises here – a friendly SPAR. So the local farmer sells her produce to the local SPAR, and … erm, that's it. No expensive 3pl, no massive orders she has no hopes of filling, no extraneous carbon omissions, just a whole bunch of fed and happy punters with a few extra roubles in their wallet.
Comment: Brilliant in its simplicity.
Freshplaza.com 14/08/18

MANUFACTURERS AND SERVICE PROVIDERS

Tiger Brands

In the forests of the night
A disappointing trading statement from the Striped One, who expects its headline earnings per share for the year through September to slide up to 37% lower on a still-slowing economy and the ongoing fallout from the listeriosis crisis, which as you know included both the recall of products and the suspension of operations. The recall came through at around R363m after taking insurance into account, no mean sum. But how would listeriosis have affected the rest of Tiger's emphatically non-meat portfolio, like Jungle Oats, Tastic, Black Cat peanut butter, and Jelly Tots?
Honestly difficult to say: as is the case with many of our big manufacturers, it's not clear to what extent shoppers associate the brands with the parent business. Brand like these, however, have been hit hard by competition from private label in the face of declining disposable income, decreasing consumer spend and a hot pot of economic factors that we're all too familiar with.
Comment: Tough times indeed, as has been intimated by CEOs just north of these lines.
IOL 17/08/18

IMPERIAL Logistics

Wheely good move
Listen carefully, this one's got preference shares in it, and we don't want to lose you. Basically, in preparation for its unbundling into two separate entities, IMPERIAL Holdings is buying back all of its issued preference shares for the handsome total of R388m. Preference shares, as you'll know if you have a few under the mattress, do accrue (or lose) value as they are traded, like ordinary shares, but also pay punters fixed returns in the form of dividends, and in that respect are like debt. They were all the rage for a while, but fell out of vogue when it was realised they were clunky and often hard to sell. Punters will now be free to buy shares in the IMPERIAL Logistics business, or in the motor division, Motus, which sounds like a second-string villain from the Marvel universe. The unbundling was a bright idea on the part of Mark Lamberti, who remains in our eyes, a doyen of the South African retail industry, and who unfortunately and perhaps unfairly won't be around to see it through.
Comment: We might pick up a few IMPERIAL ourselves. Motus, not so much.
Business Day 13/08/18

TRADE ENVIRONMENT

Poverty

The devil's arithmetic
Sometimes, the numbers really do tell the full story. According to the August 2018 Household Affordability Index compiled by the Pietermaritzburg Economic Justice and Dignity Group, poor families have been reducing their nutritional intake by as much as 26%, running at a deficit of over a thousand rand a month against what they actually need to simply feed themselves. The group points out that this devastating state of affairs has a knock-on effect in sectors from health to education, but here's another set of numbers: it also leads to stunting levels of 25% for girl children and 30% for boys. Suddenly, the zero-rating of 16 items for VAT, which we covered last week, looks like a drop in a vast, uncaring ocean.
Comment: Numbers like these also explain the difficulties in which our own industry finds itself, and the unspeakably cruel choices faced by poor parents every single day.
Supermarket.co.za 20/01/18

IN BRIEF

Massmart

Game keeper turned poacher (Game keeper, get it?)
Here's an interesting little piece from Massmart which illustrates the value of talent to our retailers, as well as the perils of poaching: when Jacques Theron, head of business intelligence over at Massmart got the offer from African Bank, he jumped at the chance, perhaps desiring a break from the hurly burly of retail at a difficult time for the sector, or perhaps not, we're speculating. In the natural order of things, Massmart threw him a valedictory happy hour, gave him a very nice Casio watch, and appointed his subordinate to succeed him. The subordinate also promptly jumped ship, lured by the greener pastures over at – you guessed it – African Bank. Smelling a rat, Massmart sued Theron for the cost of replacing himself, plus interest, in a rare and successful enforcement of the non-solicitation clause.
Business Insider 14/08/18

Pepsi

A new revenue stream

In the face of declining soda sales, every business has its shtick. Some pretend they were all about healthy life-giving spring water all along. Others go all-in on sugar and caffeine, and sell it to teenage skaters as energy drinks. Pepsi, now, have decided to cash in on the American passion for no-calorie barely-flavoured seltzer waters like La Croix, by buying … Soda Stream? Yes indeed. Punters have figured out that it's cheaper for them and better for the environment if they simply insert bubbles into their very own tap water, and are heading back to every household's favourite gimmick from the seventies in droves, hence the business' $3.2bn asking price. Shrewd move Pepsi, which is now – at last – number one in something.

Tatler Reporter 21/08/18

International Retailers

Aldi right moves

Aldi's current plans: dropping $1.9bn on remodelling existing stores and another $3.4bn to build 800 new ones over the next four years. In the US, it's primary growth market right now, the emphasis is on fresh, organic, vegetarian, and vegan lines, with a goal of putting 20% new items on the shelves by the end of the refresh in early 2019. And here's one final stat: 105. That's how old the business is, founded as it was in 1913 by Frau Albrecht, and split into two by her sons in 1948 over a dispute as to whether to sell cigarettes or not.

Business Insider 14/08/18

THE WEEKLY GURU

"Investing in early childhood nutrition is a sure-fire strategy. The returns are incredibly high."

Anne M. Mulcahy

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