



30 August 2018

Tough times for South African food retailers continue, which more than some sectors have managed to ride out the economic ups and downs of the last decade or so. Last week's clutch of results showed that even Shoprite has felt the chill economic winds of the current ambit. It's at times like this we take comfort in the words of Conan the Barbarian, or if you prefer, Kelly Clarkson: "What doesn't kill you makes you stronger." Enjoy the read.

RETAILERS AND WHOLESALERS

Woolworths

Simon says

Woolworths have a seemingly effortless genius for food retail (mounting competition notwithstanding), which makes their current struggles in clothing and, Down Under, department-store retailing, all the more puzzling. Their travails with Aussie retailer David Jones are well-documented, here and elsewhere, but they are doubling down on their investment – which has already cost shareholders A\$712m – by investing another A\$124m in the business. The relaunch of their refurbished flagship store in Sydney next year is going to be a test of whether this investment is justified. Back home, in the meantime, food took over from clothing as top performer, with turnover in food rising +9.6% from last year, as the operating profit in clothing dropped -21.3%. Of more concern, of course, is profitability – Woolies recorded a loss of R3.6bn this year, in contrast with a profit of R5.5bn last year. Still, Mr Susman is sanguine. "If in two years' time we are having the same conversation, well, we'd better be rethinking it, but I'm quite confident that we will not be in the same situation," he says.

Comment: Ditch David Jones is our advice, then stick to the knitting and take the food model global.

[Sunday Times 24/08/18](#)

Massmart

A fresh start

True story: when we started Trade Intelligence, retailers complained about "cell phones and the Lotto" as the perfect storm of factors which prevented shoppers spending money in their stores. This results season, the refrain is "slow growth, VAT and fuel price hikes." Massmart (et al) have been hit hard by these this last year, as last week's HY results demonstrated. But there have been other factors, not all of them external – the move of Game Head Office, as an example. And speaking of Game, it seems that its seven-year experiment in fresh food may be scaling back somewhat – at least in the smaller stores, which will get smaller ranges according to CEO Guy Hayward.

Comment: Massmart is a great South African business, with areas of enormous innovation and excellence – hello Makro. Lean times are a great teacher for those positioned to learn their lessons.

[Ti Analyst 27/08/18](#), [Business Times 26/08/18](#)

MANUFACTURERS AND SERVICE PROVIDERS

Distell

Ginning up the support

We haven't heard from booze in a while, those Distell results then: revenue increased +7.7%, with profit for the year up by +28.6% to R1.67bn. Volumes were up +7%, on the back, mainly, of the inclusion in the results of KWA Holdings in Kenya, an acquisition we had somehow missed, apologies. Back home, revenue increased by a pleasing 10.1%, with Gin – the drink du jour of bearded lumberjacks and freshly-minted sleazelords alike, absolutely killing it at volume growth near 30%. And all of this in the face of increased excise duty, which came in at a staggering (oh stop it) 26.4% of sales. Back to Mr Brightside: one area where Distell is completely showing the way is in water savings: in the drought-stricken Western Cape, the business managed to achieve savings of 38.1%, by demand reduction, waste water treatment, and the moving of some production to less arid areas.

Comment: What's that? Sleazelords? Oh, look it up.

[IOL 27/08/18](#)

Food Companies

Brandlords

Three food producers have beaten the JSE all-share index in the last five years: AVI, Astral Foods, and Pioneer Foods. Tiger would have been up there too, if it hadn't been for the fallout from the listeriosis outbreak. And maybe Unilever, if they weren't listed overseas? That's not a huge number, in any case, but it's a fair sampling of the players at or near the top of the industry. And what puts them there? Brands. At a time when consumers are increasingly turning to private label for value, brand owners are somewhat counter-intuitively able to increase their

prices at a level which matches or beats a decline in volumes. Similarly, they're able to factor in increases in input prices, maintaining their profitability even during difficult periods such as the recent years of drought. This is why businesses like Tiger and Pioneer – once commodity grain outfits – have turned to the power of brands to see them through the tough times.

Comment: And in a brand-crazy country like South Africa, that's a pretty strong defensive strategy.

[Moneyweb 23/08/18](#)

TRADE ENVIRONMENT

The Economy

Take to the battlements!

CPI data came through last week, and it had more nervous economists biting their lower lips, exceeding expectations at 5.1%, strengthening the possibility of a rate hike, to the further embattlement of consumers. Speaking of economists, which we are from time to time forced to do, a panel of them convened by Reuters reached the consensus that our economy has a one in three chance of slipping into recession this year, with growth for the second quarter projected at just +0.6% after the decline by -2.2% in the first. On the upside, our new President and great hope will soon be releasing the details of a stimulus package aimed at reigniting growth and creating jobs. Don't underestimate the power of South Africans to rally behind an uncertain cause and a noble project. And the dear old ZAR? It recovered some value after dipping sharply on the news that Donald Trump might be able to locate South Africa on a map.

Comment: Fortunately, this turned out to be fake news.

[Tatler Reporter 27/08/18](#)

IN BRIEF

Proudly South African

Buy, the Beloved Country!

Lucky Star! Lion Matches! Ouma Rusks! Nyala and Iwisa!!! Corstle Lorgers!!!! Who doesn't love South African brands? Not Proudly South African, anyway. They LOVE South African brands. So much so that last week they announced the launch of a website for the sale of products made – proudly one imagines – in the Republic. Have a gander over [here](#) – it looks like it needs some of the more iconic brands to sign up and fast.

[Tatler Reporter 27/08/18](#)

International Retailers

Aldi Rage

In the UK, to no one's real surprise, Aldi has been crowned the cheapest retailer, averaging £9.79 less on a basket of everyday essentials than the competition, which includes Tesco, Asda, Morrison's and Sainsbury's. Over the Pond, Walmart are making big strides into online – buying outdoor online retailer Moosejaw, teaming up with Kobo to punt e-books, and now, officially, becoming the biggest shareholder in the Amazon of India, Flipkart. We've seen this movie, and it usually ends with Wal-Zon or AmaMart.

[Tatler Reporter 27/08/18](#)

THE WEEKLY GURU

“A brand is the set of expectations, memories, stories and relationships that, taken together, account for a consumer's decision to choose one product or service over another.”

Seth Godin

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