BIZCOMMUNITY

# Retail rewind - a year in review 2011

By Zeenat Moorad 6 Jan 2012

The approval of the Wal-Mart/Massmart deal will go down as the highlight of the retail sector in 2011.

Following a testy six-day hearing, the Competition Tribunal in May gave its nod to the R16.5bn mega-merger, in which big gun Arkansas-based retailer Wal-Mart acquired 51% of Massmart (MSM), owner of Dion Wired, Makro and Builders Warehouse.

A few conditions were chucked in for good measure: a R100m supplier development fund, no merger-related job cuts for two years, continued recognition of union Saccawu for three years post the merger and a re-employment preference to the 503 Game workers sacked in 2010.

The rand strengthened almost 1% on the news as investors lauded the senior watchdog's call, labelling it a "test case", sure to lure other multinationals to SA.


Enter the slew of "WU's" (Fawu, Cosatu, and ringleader Saccawu) - to rain on Wal-Mart's parade by appealing the tribunal's decision.

Their top concerns: job threats, the [phantom] flood of cheap Asian imports into the local market, job threats, the undermining of local manufacturers and lastly... job threats.

Meanwhile in the left corner wearing rainbow trunks, a government triad - Minister of Trade and Industry Rob Davies, Minister of Agriculture, Forestry and Fisheries Tina Joemat-Pettersson, and Minister of Economic Development Ebrahim Patel.

Spooked by Wal-Mart's Herculean ability to topple its local procurement master plan of manufacturing-and-production-based economic growth, the ministers applied to the Competition Appeal Court to review and set aside the Tribunal's approval of the deal.

"It will be a dereliction of duty by the government to stand aside when there is clear evidence for job losses [and] deterioration of working conditions of South African workers due to increased imports due to a transaction," Patel stated.

"It shakes investor confidence... what it says to the world is: here is a country that is anti-investment, one that is driven by agendas - one where its own competition laws are disregarded. This taints our reputation as a country whose economic and political stability is a major draw card," a retail analyst said of the state's spoke in the matter.

Competition Appeal Court Judge President Dennis Davies will announce a decision at the end of this month.

Four scenarios are possible: the court may refer the decision back to the tribunal (anyone for a game of ping-pong?), an upholding of the original approval (likely), a ruling that the deal should be rejected (unlikely) or subjected to different conditions (most likely).

Mixed messages abound, one thing is certainly clear to investors: SA is open for business but the costs and challenges of investing are great.

## Competition heats up

Legal woes aside, the brakes have not been put on the implementation of the Wal-Mart/Massmart deal - the merged entity is steam rolling ahead with its aim to open 100 stores within the next three years.

Apart from the consumer benefit of lower prices on a wider range of products, job creation and SA being thrust into the spotlight as a good investment destination, the deal is being seen as a major game-changer for the South African retail landscape.

The companies' ambitious target of a R20bn food retail business within five years has turned the sector on its head and needless to say, local players are rolling up their sleeves to defend market share.

Shoprite (SHP) in an effort to improve efficiencies and stock availability is spending US$416m upgrading its distribution centres.

And in the face of an industry shake-up, Pick n Pay (PIK) is in the midst of a massive turnaround strategy involving a specialist category buying organisation and hefty investment in centralised distribution.

"Make no mistake, they are not going to lie down and die. They are going to fight back," Absa Investments analyst Chris Gilmour said of Pick n Pay's "Wal-Mart defence strategy".

## PnP: Setbacks could be setup for a comeback

BAD NEWS: SA's second largest food retailer has faced a barrage of criticism over the last two years over its high cost base, outdated IT systems and labour issues that have seen it struggle to keep up with rivals.

It reported a 40% decline in first half profits on the back of start-up costs for its "Smart Shopper" loyalty programme and investment in its centralised distribution system.

Its announcement in July to axe up to 3137 staff was seen by some as a drastic but necessary step.

GOOD NEWS: The company finally put to bed its long-delayed R1.3bn sale of Franklins to Sydney-based Metcash, freeing it up to pay down debt, expand its distribution network and aid its store growth.

And in a big win, the Cape Town-based company also reached a flexible workforce agreement with Saccawu (yes, the anti-Wal-Mart union).

The company will now be able to utilise its labour force in a more efficient manner.

Through its compromise with Saccawu, no forcible retrenchments are on the cards but in a serendipitous victory, Pick n Pay has lost 1200 staff over the last six months for various reasons including dismissal, resignation and retirement, meaning its "overstaffed" reputation might not be one that sticks.

"We acknowledge them [the mistakes]... but it takes a while to change the model in which you operate," CEO Nick Badminton said.

If the adage of admitting one's mistakes is the first step to improving...

## African allure

The search for higher yield and stunted growth in developed economies on the back of the recession has global players turning their attention to the next big thing and the often-quoted one billion African consumers ripe for the picking is being seen as the next hot ticket.

## Local retailers are also hoping to cash in

Woolworths (WHL) will open 16 new stores in Africa, bringing the total number of its stores outside SA to 60.

Rival The Foschini Group (TFG) also said it would embark on an aggressive expansion into the rest of Africa, adding 57 new stores over the next three years in countries like Nigeria and Mozambique.

Even slowcoach Pick n Pay is getting in on the action - it opened its third store in Zambia earlier this month following the launch of the group's entry into Mauritius two months ago.

The company also conducts retail operations in Namibia, Botswana, Zimbabwe, Lesotho and Mozambique.

"We are set to continue along this expansion path in a planned and deliberate way," Pick n Pay's head of group enterprises Dallas Langman said.

## Spanish flair

It is believed that compared to the six-month industry average, Spanish retailer Zara needs only two weeks to develop a new product and get it into stores.

It is also believed that Zara, owned by Inditex, the world's biggest fashion retailer by sales launches around 10 000 new designs each year.

Its arrival on the local scene certainly created a flurry of excitement among fashionistas, but with just one store (for now) in SA, its ability to make a meaningful impact on the sector as a whole is questionable.

"We see their arrival as an opportunity; we are not fearful. The market is elastic depending on what merchandise you've got. If you happen to have what people want, they'll find a way to buy it," Truworths (TRU) CE Michael Mark said.

"In the 20 years since I've been in this business, I've never seen that when one retailer does something well, we do badly. Clothing is unique in that way," he added.