

Massmart 2013 sales rise 9.8%; all divisions perform

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Retailer Massmart on Thursday, 27 February 2014, reported total sales had increased by 9.8% for the 53 weeks ended 29 December, over the previous year's 52-week period.



Boosted by the additional week's sales and the foreign-exchange translation profit caused by the weakening rand, operating profit grew by 26% and headline earnings rose by 29.9%.

The difficult South African consumer environment was reflected in 52-week comparable stores' sales of 3.8%, with product inflation of 2.7%.

Consumers in the middle- to low-living standards measure (LSM) continue to struggle with debt, unemployment and rising food and fuel inflation.

Difficult trading

Retail sales growth in South Africa has slowed and the curbing of credit, including unsecured lending, and a moderation in income growth are worsening the downtrend in consumer activity.

All Massmart's divisions performed well relative to their chosen markets other than Game South Africa, which was caught in the very difficult trading environment of selling durable goods to financially challenged low- and middle-income consumers.

"Commentators are forecasting a difficult South African consumer economy in 2014. The recent interest rate hike seems certain to make things more difficult for middle-income customers who, as suggested by the consumer credit statistics, are in a weak financial position.

By contrast, upper-income customers appear to be in a better financial position but their spending will be dependent on

their confidence levels," the Walmart-owned group said.

The company's Massdiscounters division, which includes Game and DionWired, saw sales for the 53-week period increase by 8.6%. Comparable sales for the 52-week period increased by 1%, with product inflation of 0.5%.

Given the tough middle-income environment, Game South Africa's comparable sales showed a decline of 2.6%, which caused severe pressure on profitability and so Massdiscounters' trading profit before interest and tax decreased by 39.3%.

Food sales

The roll-out of dry groceries and fresh food continued, with 48 Game stores now offering both these categories, the company said, adding that food sales growth in these comparable stores was exceptionally strong. DionWired's total sales growth was 19.5%.

At Masswarehouse, which includes Makro and Fruitspot, total divisional sales for the 53-week period increased by 14.4% and comparable sales for the 52-week period advanced by 4%, with product inflation of 2.1%.

At Massbuild, which comprises 92 stores, trading in DIY, home improvement and building materials under the Builders Warehouse, Builders Express, Builders Trade Depot and Builders Superstore brands, sales for the 53-week period increased by 11.9%. Comparable sales for the 52-week period increased by 8.2%, with product inflation of 4.1%.

Centralising distribution

To own and manage its supply chain and optimise inventory levels that result in improved service levels, the division in 2010 embarked on a centralised warehousing and distribution plan.

In its arsenal lies its newly unveiled regional distribution centre in Midrand. With energy efficient technologies such as solar heating and natural light usage, the 35,000m² facility has the ability to expand to 55,000m² and currently serves the Gauteng and northern region with local stock.

It distributes direct import stock to all Massbuild formats and stores across the country as well as its African stores. The ability to access global giant Walmart's supply chain, intellectual property and best practice has assisted Massbuild with the project.

New format, continued expansion

The group has also launched Builders Superstore to tap into the lower-end cheaper segment of the building material and hardware space. In the first year of operation, Massmart's Massbuild division would open five Builders Superstore test stores in the major townships of Gauteng - two have already been opened in Tembisa and Evaton.

Builders Superstore caters to lower-income home owners and small contractors in the 2-7 LSM target markets.

The company said that year two would see continued expansion in Gauteng as well as Mpumalanga, Limpopo and North West, with another five stores. Within five years, 60 stores in all provinces would make Builders Superstore a national brand.

Massmart CEO Grant Pattison says the new format would allow the group to "aggressively" compete in the lower-income segment of the building supplies market, which was not served through any of its existing formats.

Masscash

Meanwhile, sales at Masscash increased by 6.5% in the period, while comparable sales for the 52-week period increased

by 3.8 %, with product inflation of 4.2%.

The company's African operations sales were up 16.6%, bolstered by the weaker rand.

During the year, 15 stores were closed, one store was sold and 35 stores were opened, resulting in a total of 376 stores at December 2013.

Net trading space increased by 4.8% to a total of 1,481,308m².

Total expenses, excluding foreign-exchange movements and the Walmart transaction, integration and related costs rose by 10.4% over the comparable 52-week period.

Excluding foreign-exchange movements, earnings before interest, tax, depreciation and amortisation (ebitda) grew by 9% to R2.9bn.

A final cash dividend of 275c per share was declared.

For the eight weeks to February 23, total sales increased by 9.5% and comparable sales rose by 7.7%, a much stronger start to the financial year than the group had expected.

Strong start to 2014

Commenting on the sales result for the first eight weeks, Pattison said: "The strong start suggests better prospects for 2014 compared to 2013. While we remain cautious about the state of the consumer, we are more positive about the business as we reap the rewards from the operational focus of last year.

"As the economic landscape is changing, so is the customer environment, particularly in Massmart's historically core categories of general merchandise and wholesale food. The change to tablets and smart phones, for example, is affecting purchasing behaviour in categories such as photographic equipment, PCs and laptops."

Pattison said a key strategic focus for the group would be to diversify the sales mix and expand the company's reach.

"We will continue to prioritise the roll-out and innovation of our fresh offering, grow our home improvement store portfolio and expand our store footprint across sub-Saharan Africa.

"To this end, some new initiatives include the opening of a soft discount supermarket pilot store in Nigeria, ValueMart, which is trading well; launching George baby wear in 40 Game stores and a George Essentials range in 11 Game stores; launching two Builders Superstores last year, with three stores planned for 2014, in Tembisa, Vosloorus and Protea Glen, Soweto," he said.

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