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Thinking small to go big

Pick n Pay is strategising to create two distinct brands to cater to middle-class and upper-end markets, while Boxer will remain focused on the lower end

Pick n Pay is revamping some stores as part of its Ekuseni strategy to make further inroads into different market segments. Picture: Alaister Russell

By **THABISO MOCHIKO**

● Pick n Pay is reviewing its hypermarket model as consumers increasingly opt to shop at neighbourhood stores or online. At the same time, the retailer is adding more clothing stores to gain market share in the fashion industry.

Pick n Pay, which this week reported 11.5% growth in turnover to R51.3bn in the six months to end-August, is revamping some stores as part of its Ekuseni strategy, a programme adopted in May to turn its core stores into two distinct brands. This as it looks to make further inroads into the discount, convenience and premium market segments.

The plan involves converting some stores to QualiSave for the middle-class market and revamping others to cater for high-end consumers. Boxer will focus on the lower-end market.

Pick n Pay has 21 hyper stores. They are bigger and offer a wider range of products than its smaller shops.

CEO Pieter Boone said the group had no plans to open hypermarket-size stores and would reduce the space of those that exist.

"We are seeing consumers veering online and also to more convenient, smaller stores. Hypers will play a role as hubs for deliveries," said Boone.

Online sales grew 82%, primarily through Pick n Pay asap!, the company's food delivery platform. Growth is set to accelerate further after the recent launch of Pick n Pay's groceries on the Mr D app, with national coverage set to be achieved by the end of the year, the retailer said.

Boone said the group will ramp up marketing of its products on the Mr D platform in the coming weeks. He said grocery delivery is a competitive space and customers' shopping patterns are changing, hence "it is essential to compete strongly in this area".

According to Boone, Mr D is giving the group 10 times more customers than its online platform and its logistics coverage has soared as it has more delivery personnel.

He said there is an "integrated value proposition [of Mr D and asap!]".

Pick n Pay Clothing, though still making a small contribution to group revenue, is one of the group's star performers, recording 14.8% sales growth for the 26 weeks to August 28 when it opened 28 standalone stores compared with eight in the first half of the previous comparative period.

Pick n Pay Clothing has 302 standalone stores and a presence in selected QualiSave and Pick n Pay supermarkets and hypermarkets. Pick n Pay will open a further 39 stores by the end of the 2023 financial year.

Boone describes the clothing business as a "key growth engine for the group".

"I am impressed by the ability to maintain market-share gains.

"We are covering a wide demographic of customers. We continue to partner with small independent designers to further enhance our value proposition," he said.

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> **Pieter Boone**
> Pick n Pay CEO

Pick n Pay Clothing sources 40% of its items locally.

Chris Gilmour, an investment analyst at Salmour Research, said while the clothing business "is tiny, it is a nice margin enhancer". Alec Abraham, senior equity analyst at Sasfin Wealth, said Pick n Pay Clothing does not differentiate itself too much from competitors, but provides "good value, is less complicated, less fashionable and more basic, as opposed to Mr Price's arguably more youthful, fashionable" merchandise.

All Weather Capital portfolio manager Chris Reddy said Pick n Pay Clothing has a simple, affordable offering that provides consumers with value on essential items.

"As part of Ekuseni they are also able to reformat existing space in some of the grocery stores to offer clothing, thereby increasing the store offering by targeting additional footfall."

In six months to August Boxer South Africa delivered 27.2% growth in turnover to R15bn, while Pick n Pay South Africa, including QualiSave, grew sales 5.4% to R34.5bn.

"It's been a long wait to get some decent sales growth out of Pick n Pay," Gilmour said. "Obviously Boxer is the big factor here and by deduction Pick n Pay/QualiSave must have done proportionately worse than Boxer. It would have been nice to get a profit breakdown from all three chains."

Mohamed Mitha, investment analyst for Camissa Asset Management, said among the more notable features of the results is the first-time disclosure of sales for Boxer. This division has shown strong growth for a long period and now accounts for 30% of group sales.

"While the extra disclosure is certainly welcomed, it also draws attention to the sustained underperformance of the Pick n Pay branded stores. The extent of their market share losses over many years within this division is now clearer to see. Regaining market share will be difficult, especially when up against formidable competitors like Shoprite," he said.

Abrahams said the Ekuseni project is "ambitious [and] certain aspects will likely be more difficult to achieve than others".

However, "stepping up [Boxer store] openings in areas where the company [does not have] a presence will add to market share, or at least offset some market share losses in Pick n Pay's legacy upmarket areas".

As for QualiSave/Pick n Pay positioning, "I am less convinced, as attempts to segment stores and tweak product ranges in recent years hasn't been a resounding success. My perception is Pick n Pay has been slow to extract major cost savings in its long journey to central distribution."

Pick n Pay is targeting R3bn in savings in the next three years through its cost-savings programme Project Future.

In the half year to August, it saved R315m by, among other things, better buying and collaboration with suppliers to deliver greater value to customers.

Mitha said that while it is still early days to appraise Ekuseni, creating separate brands to cater for different ends of the market is positive.

"Pick n Pay is a big ship to turn around and the corrections require going much deeper than just revamping store formats. Previous turnaround attempts yielded mixed results and thus effective execution of their new strategy will be key."