

Shoprite feels the pinch in battle for consumers

By [Colleen Goko](#)

11 Apr 2016

The past two years have been tough for JSE-listed retailers, although some companies are doing better than others.



Image credit: Bloomberg/Waldo Swiegers

Source: [BDive](#)

Shoprite, a former darling of the retail sector, is under pressure from all sides. On the domestic front, competition is intensifying and becoming more aggressive, while in its other African operations, economies are struggling as the consequences of the global economic slowdown give scant indication of abating.

Shoprite's share price has remained flat in the past year. Compared with other companies in the Food & Drug retailers index on the JSE, it is the worst performer in the past 12 months. In the same time frame, Pick n Pay's share price has risen 39%, and Spar's has increased 9%.

Absa Investments retail analyst Chris Gilmour says the biggest retailer in Africa is battling to retain market share.

"Though there is no official data to this regard any more, it is widely accepted that Shoprite has the biggest market share in SA at about 35%. When you have that degree of market share, it is hard to add on to it, especially since there is such a high level of competition."

Gilmour says under new CEO Richard Brasher, Pick n Pay has become increasingly aggressive in its bid to gain more consumers.

"For the first time in many years, Shoprite is losing market share to Pick n Pay."

Conditions in the retail sector are now the toughest in a long time. A glimpse of the general retailers index on the JSE paints a bleak picture. In the past 12 months, Massmart's share price is down 17%. Woolworths has lost 4%.

Sasfin Wealth's senior equity analyst, Alec Abraham, says the retail sector is going to experience harsh realities for at least another year.

"Local inflation is on the rise, wage increases are minimal, employment is low, and (economic) growth is depressed. Consumers are also highly indebted.

"Add to that the fact that SA generally does not have a savings culture, and you will see there is no kitty to dip into. The year ahead is looking difficult. We have already seen some subdued sales numbers."

Abraham says the retail sector remains a good investment in the long term because SA has a growing population.

Looking at Shoprite's share price, the short-term factors are playing a part in its performance, says Gilmour.

"The lower and middle market is taking a lot of strain. Only the high-end consumers are unaffected," he says.

In June last year, Shoprite Holdings had 1,104 supermarkets across its brands.

Of that number, 541 belonged to Shoprite, while 333 belonged to Usave.

Shoprite, which is the original business of the group, has a target market of living standards measure (LSM) 4-7. Usave is the company's "no-frills" discounter that focuses on lower-income consumers.

The target market for Usave is LSM 1-5.

New entrants are also nipping at Shoprite's heels. These include Choppies and Massmart's Cambridge stores.

"They are all focusing on the low end of the market," says Abraham. "But Shoprite has poured a huge amount of money into opening stores.

"In terms of domination, Shoprite is still there. I don't think any of the newbies have a chance in that regard."

Choppies Enterprises, the Botswana-based supermarket chain, listed on the JSE in May. It plans to open about 30 stores by year to end-June and may also expand via acquisitions, as it seeks to increase market share in the region. Year to date, the company's share price has tumbled 16%.

Gilmour says in the long term, Shoprite is a company with good fundamentals.

"Although Shoprite was widely applauded for moving over in Africa, short term that's going to hurt them a bit.

"At an investor presentation not too long ago, CEO Whitey Basson said their main thrust was going to be in the oil producing countries, (and) that's not looking good right now. But long term, they will probably reap some serious benefits."

Shoprite began its expansion into the rest of Africa in 1995. A number of other retailers have since followed, tying up with shopping mall developers to secure quality retail space.

In its interim results, Basson said the economies of oil-rich Angola and Nigeria, in particular, showed surprising resilience, despite the challenges brought about by the steep drop in the oil price.

"We expect to deliver reasonable results in the second half, provided the current economic climate does not deteriorate further."

Abraham says out of all the food retailers, Shoprite was streets ahead, with the greatest exposure in Africa.

"The African growth story really pushed the share higher. It's run quite hard on that. Now, it seems investors have been given a bit of a reality check."

Source: Business Day

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