Pick n Pay turnaround still a long way off, analysts say

By Zeenat Moorad

25 Oct 2012

Pick n Pay's (PIK) ambitious turnaround strategy, due for implementation in 2014, will take far longer to materialise, leaving room for its competitors to grab market share, analysts say, *Business Day* reports.

The beleaguered grocer, which has lost market share to Shoprite and Woolworths, is facing a barrage of criticism about its high cost base, outdated information technology systems and labour issues that have led to lacklustre performances over the past few years.

Pick n Pay on Tuesday, 23 October, reported a 34% drop in first-half profit driven by operational and cost headwinds associated with its restructuring plan and cautious consumer spending.

Its chairman, Gareth Ackerman, said the company was "very disappointed" with its trading results, and would no doubt look back at this time as one of the most trying in the group's history.

"We are taking the pain now, but it's necessary pain and critical that we remain focused on improving trade while bedding down the number of strategic changes in the business," Ackerman said.

"In terms of trading, we can and must do much, much better. We are confident that we will meet our target of completing the foundation phase of our transformation programme by 2014."

The retailer was planning a more centralised business model to cut costs and improve customer experience.

But Nedbank Securities analyst Syd Vianello on Wednesday said that this deadline was wishful thinking.

"I don't see a turnaround for another three years, and that means 2016. Competitors now have an open road to entrench their positions. During the next three years Massmart will seek to achieve a far more meaningful exposure to the middle-end of the market, which is Pick n Pay's core market," Vianello said.

Chris Gilmour, an analyst at Absa Investments, said that while the group's results were "truly dreadful", they had realised that they were well behind the curve.

"We are looking at the best part of another five years before they get back," he said.

"In an operation like this, where you're operating with wafer-thin margins, you need to get top-line growth. At this point in time there's absolutely no indication whatsoever of any kind of material top-line growth.

"We are going to have to be very patient. We have to inject a dose of realism here."

Pick n Pay planned to arrest the decline in its market share by beefing up its presence and adding 225 stores in 18 months.

Its rescue hopes have also been pinned on incoming CEO Richard Brasher, Tesco's former CE of UK operations.

Natalie Berg, of London's Planet Retail, said it was clear Pick n Pay had been drawn to Brasher by his ability to beat Walmart in the world's most competitive market.

"He will use his expertise to make Pick n Pay a leaner and more formidable competitor," she said.

Vianello said that "unfortunately" with Brasher only taking over in February, "it stood to reason that Pick n Pay would be in limbo for another six months".