Massmart: The Road to Recovery

Investor Presentation
30 January 2020
PRESENTING TODAY

Mitchell Slape
Chief Executive Officer

Mohammed Abdool-Samad
Chief Financial Officer

Andrew Stein
Managing Director – Game and DionWired

Doug Jones
Wholesale Chief Executive Officer

Richard Inskip
Group Chief Operating Officer
AGENDA

1 Business Context, Challenges and Opportunities

2 Our Turnaround
   • Group operating model
   • Portfolio optimisation
   • Game reset: Back to Basics
   • Wholesale route to market
   • Supply Chain optimisation
   • Cost reset

3 Concluding Comments
PART 1

Business Context, Challenges and Opportunities

Mitch Slape, Massmart CEO
MASSMART HAS STRUGGLED TO CREATE VALUE

While the market has generally underperformed, Massmart has significantly lagged behind peers

TOTAL RETURN TO SHAREHOLDERS 2017 – 2019

Note: Peer median does not include Massmart
Source: Bloomberg; CapitalIQ; Analyst Reports
1 Clicks; 2 Truworths
INDUSTRY ANALYSTS REMAIN SKEPTICAL

While industry analysts project improved revenue growth and EBIT margin for retailers, they remain skeptical of Massmart’s future performance.

MASSMART CONSENSUS ESTIMATES 2018-2021E

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (ZAR bn)</th>
<th>EBIT Margin (pps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>90.9</td>
<td>2.3%</td>
</tr>
<tr>
<td>2019E</td>
<td>95.5</td>
<td>1.0%</td>
</tr>
<tr>
<td>2020E</td>
<td>100.9</td>
<td>1.2%</td>
</tr>
<tr>
<td>2021E</td>
<td>104.7</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

Note: All estimates are taken from Factset as at 21 January 2020 for the next 3 fiscal years.

REVENUE GROWTH 2018-2021E

<table>
<thead>
<tr>
<th>Year</th>
<th>TFG</th>
<th>Spar</th>
<th>Shoprite</th>
<th>Clicks</th>
<th>Pick ‘n Pay</th>
<th>Massmart</th>
<th>Woolworths</th>
<th>Mr Price</th>
<th>Truworths</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>4.8%</td>
<td>5.3%</td>
<td>6.3%</td>
<td>6.1%</td>
<td>(0.9pps)</td>
<td>4.8%</td>
<td>4.2%</td>
<td>2.8%</td>
<td>(0.3%)</td>
</tr>
<tr>
<td>2019E</td>
<td></td>
<td></td>
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<td>2020E</td>
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<tr>
<td>2021E</td>
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</tr>
</tbody>
</table>

CHANGE IN EBIT MARGIN (PPS) 2018-2021E

<table>
<thead>
<tr>
<th>Year</th>
<th>TFG</th>
<th>Spar</th>
<th>Shoprite</th>
<th>Clicks</th>
<th>Pick ‘n Pay</th>
<th>Massmart</th>
<th>Woolworths</th>
<th>Mr Price</th>
<th>Truworths</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>3.6%</td>
<td>3.3%</td>
<td>2.7%</td>
<td>1.7%</td>
<td>(0.3%)</td>
<td>4.2%</td>
<td>1.7%</td>
<td>0.2%</td>
<td>(0.1%)</td>
</tr>
<tr>
<td>2019E</td>
<td></td>
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<td>2020E</td>
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<tr>
<td>2021E</td>
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Note: All estimates are taken from Factset as at 21 January 2020 for the next 3 fiscal years.

Massmart powered by Walmart
Massmart’s circumstances are challenging, but our historical performance indicates the potential to deliver significantly better results.

- Since 2013, Massmart’s sales growth has been under continued pressure.
- Sales contracted for the first time in 2018.
- EBIT margins have been depressed since 2008.
- Despite the declining margin performance, the business has the portfolio to achieve historic EBIT performance.
- To achieve this though, we require urgent and deliberate intervention.
INITIAL OBSERVATIONS

Our initial review of the business has identified both strategic and operational gaps in core elements across the value chain, which are impeding performance.

**Good underlying business with high brand recognition**
- Portfolio of very strong brands that are embraced by customers
- High market shares in key categories
- Substantial procurement scale
- Unexploited value

**Blurred go-to-market focus**
- Customer segment, category and format overlap – overlapping customer value propositions across the brands
- Under-performing stores / Low store profitability levels

**Structural complexity and immature support capabilities**
- High duplication of support functions with low levels of standardisation – no use of Centres of Excellence
- High overhead / SG&A costs – cost growth exceeds revenue growth
- Supply Chain in state of transition

**Siloed ways of working**
- History of limited collaboration across the Group
- Incentivisation geared towards individual business performance
- Existing collaboration forums with varying levels of effectiveness

**FINANCIAL IMPLICATIONS**

(H1 - 2019)

- **19.2%** Gross Margin
  - at the low end of peer performance (19% - 24.9%)

- **11.8%** OPEX Growth
  - well above peers at 7% -7.7%

- **0.5%** EBIT Margin
  - while peers have achieved 2.5% - 7.7%

- **57** Inventory days∗
  - compared to 28 - 30 days of local Food retail peers†

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*Note: Competitor set included Woolworths, Pick n Pay and Shoprite. † Given the peer set of Food retailers and differential product mix, we will not be in a position to reach their performance, but provides a view of the potential
PART 2
Our Turnaround
PILLARS OF OUR TURNAROUND

Focus on key strategic questions about our business led to the building blocks of our turnaround

Is the **organisational structure appropriately set** to optimise serving our customers while ensuring competitive market agility and efficiency?

Is the **store portfolio / corresponding customer value proposition** optimised and relevant for each brand?

How do we **turnaround Game**?

How do you leverage our existing assets to disrupt the **Wholesale and B2B market**?

Is the **Supply Chain optimally positioned** for long-term success?

How do we fundamentally **reset Massmart’s cost base**?

**RESULTING IN THE KEY BUILDING BLOCKS OF OUR TURNAROUND**

1. **GROUP OPERATING MODEL**
2. **PORTFOLIO OPTIMISATION**
3. **GAME RESET**
4. **WHOLESALE ROUTE TO MARKET**
5. **SUPPLY CHAIN OPTIMISATION**
6. **COST RESET**
DELIVERING THE TURNAROUND

Through deliberate and urgent focus on key building blocks, we will enhance the profitability of Massmart.

<table>
<thead>
<tr>
<th>Initiative</th>
<th>SGA Improvement (as % of sales)</th>
<th>Margin Improvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>GROUP OPERATING MODEL</td>
<td>80 - 140bps</td>
<td></td>
</tr>
<tr>
<td>PORTFOLIO OPTIMISATION</td>
<td>15 - 35bps</td>
<td>25 - 50bps</td>
</tr>
<tr>
<td>Game reset &amp; Wholesale route to market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SUPPLY CHAIN OPTIMISATION</td>
<td>25 - 50bps</td>
<td>25 - 50bps</td>
</tr>
<tr>
<td>COST RESET - COGS</td>
<td>25 - 50bps</td>
<td></td>
</tr>
<tr>
<td>COST RESET - SG&amp;A</td>
<td>80 - 175bps</td>
<td></td>
</tr>
</tbody>
</table>

* Excludes revenue growth & Game reset contribution
Is the organisational structure appropriately set to optimise serving our customers while ensuring competitive market agility and efficiency?

Mitch Slape, Group CEO
**INITIAL OBSERVATIONS**

The current operating model has led to blurred go-to-market focus, structural complexity, and siloed ways of working.

### TODAY’S CHALLENGES

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CVP overlap</td>
<td>Overlapping customer value propositions across the brands, impacting market share</td>
</tr>
<tr>
<td>Duplication</td>
<td>High duplication of support functions with low levels of standardisation – no use of shared services</td>
</tr>
<tr>
<td>Cost inefficiency</td>
<td>High overhead / SG&amp;A costs – cost growth exceeds revenue growth</td>
</tr>
<tr>
<td>Limited collaboration</td>
<td>History of limited supplier leveraging and end-market focussed collaboration across the Group</td>
</tr>
<tr>
<td>Focus on individual performance</td>
<td>Incentives and culture geared towards chain self-interest</td>
</tr>
</tbody>
</table>
THE OPPORTUNITY

The opportunity is also in our business becoming more agile, efficient and customer-focused.

Top down value potential 80–140bps
Reduction in SGA as % of sales
UNLOCKING VALUE
Evolving our operating model

TODAY
FEDERATED MODEL

MASSMART GROUP

MASSIDCOUNTERS  MASSCASH  MASSWAREHOUSE  MASSBUILD

• Discrete capabilities within each business unit – limited synergies and sharing of scale and skill
• Disparate systems and limited digital capability

TARGET
CUSTOMER FACING INTEGRATED MODEL

MASSMART GROUP

RETAIL  WHOLESALE

• Non-customer facing services through transaction hubs and Centres of Excellence
• Drive to harmonise systems and build digital capabilities
MASSMART OPERATING MODEL OF THE FUTURE

**Massmart Group**

**Massmart Retail**
- Llewellyn Walters
  - CEO Retail

**Massmart Wholesale**
- Doug Jones
  - CEO Wholesale

**Centres of Expertise**
- To leverage specialised and scarce skills

**Transaction Hubs**
- For high volume activities

**Go-to-Market Intimacy**
- To provide local business decision support and insight

**Operating Leverage**

**Group Financial Services**

**Ecommerce and Digital**

**Group Information Technology**

**Group Integrated Supply Chain**

**Group Finance and Indirect Procurement**

**Group Human Resources**

**Group Support Services**

*Massfresh will report to Group CEO*
Is the **organisational structure appropriately set** to optimise serving our customers while ensuring competitive market agility and efficiency?

### GROUP OPERATING MODEL

<table>
<thead>
<tr>
<th>OPPORTUNITY</th>
<th>UNLOCKING THE VALUE</th>
<th>STATUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Create more efficient customer-centric organisation that optimises customer focus, supplier relationships and procurement scale as well a back office efficiencies</td>
<td>✓ Move organisation from four divisions into Massmart Retail and Massmart Wholesale business units</td>
<td>✓ Divisional change communicated and top leadership teams appointed</td>
</tr>
<tr>
<td></td>
<td>✓ Create Group Centres of Excellence for Supply Chain, IT and Finance</td>
<td>✓ COO appointed</td>
</tr>
<tr>
<td></td>
<td>✓ COO to lead IT, Digital and Supply Chain back-bone</td>
<td>✓ Supply Chain, IT and Finance Centres of Excellence announced and transition in process</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Further Centres of Excellence to be established through H1</td>
</tr>
</tbody>
</table>
Is the store portfolio / corresponding customer value proposition optimised and relevant for each brand?

Mohammed Abdool-Samad, Group CFO
INITIAL OBSERVATIONS

Portfolio and format choices have led to underperformance of significant parts of our business.

TODAY’S CHALLENGES

<table>
<thead>
<tr>
<th>Massdiscounters performance</th>
<th>Significant performance deterioration in Game with extreme underperformance in DionWired business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale route to market</td>
<td>Declining profitability in Cash&amp;Carry with unclear strategy in Wholesale route to market</td>
</tr>
<tr>
<td>Format overlap &amp; cannibalisation</td>
<td>Uncoordinated merchandising strategies and lack of customer value proposition discipline in existing brands</td>
</tr>
<tr>
<td>Retail Food</td>
<td>Limited fresh Food offering and limited strategic focus on development of Cambridge</td>
</tr>
<tr>
<td>Ex-SA markets</td>
<td>Unclear articulation of strategy to build profitable scale in Africa</td>
</tr>
</tbody>
</table>

Resulting in poor customer experience, declining financial results and pressure on stronger businesses to compensate.
THE OPPORTUNITY

There are a number of significant drags on our business – a break-even will ensure positive results.

The H1 2019 margin was impacted by:

- DionWired loss
- Game underperformance and the impact of Food and Africa
- Masscash Wholesale route to market and Retail format overlap
- Massfresh Food offering and review
### UNLOCKING THE VALUE

There are operational challenges in our portfolio across geographies, businesses and the store footprint.

### IMMEDIATE FOCUS AREA

#### STORE FOOTPRINT
- Embed a framework and **consistent methodology** to better inform portfolio decisions.
- Conduct comprehensive **store portfolio review** to identify stores that are fundamentally underperforming with no clear prospects for improvement. Take actions to address identified stores.
- Design and establish **Centralised Store Portfolio** capability.

### REMAINING FOCUS AREAS

#### BUSINESS PORTFOLIO
- **Review customer value propositions** of our brands and the “fit” of our category strategies between formats.
- **Maximise the performance** of ancillary businesses.

#### GEOGRAPHIC FOCUS
- **Leverage profitable scale** in Africa.
STORE PORTFOLIO REVIEW

We have completed a disciplined store portfolio review and identified store rationalisation opportunities

A THREE-STAGE APPROACH WAS USED DURING THE STRATEGIC PORTFOLIO REVIEW

The following options are being considered for the identified non-performing stores:

• Continue operations
• Repurpose leases
• Sell or transfer leases
• Close stores

Is the store underperforming?

Can it be turned around?

Is closure strategically viable or are there other commercially viable alternatives?

LAUNCH CONSULTATION PROCESS

DionWired
23 stores

Masscash
11 stores

Store closure decisions will only be made pursuant to the finalisation of the Section 189 consultation process
Disciplined portfolio strategy, driven by clear strategy of where we will play and how we will win. Careful monitoring of store performance with appropriate follow-up action.

Conduct comprehensive store review within the portfolio to identify under-performing stores.

Evaluate businesses within the portfolio to determine fit with the Group and opportunity for future success.

Evaluate geographies – where to play and how to win.

Completed store portfolio review and initial business review resulting in launch of consultation process on 34 stores - including all DionWired stores and 11 Masscash stores.

Initiated review of the Game customer value proposition and execution against the proposition.

Is the store portfolio / corresponding customer value proposition optimised and relevant for each brand?
Game Reset – Back to Basics

How do we turnaround Game?

Andrew Stein, MD
## INITIAL OBSERVATIONS

**Game has poorly delivered to customers’ needs**

| Weakening brand relevance       | • Customer value proposition unclear  
|                                 | • Lack of resonance with key growth segments |
| Assortment proposition          | • Assortment lacks coherence, innovation and relevance  
|                                 | • Competitors making inroads into historic “ownership” categories  
|                                 | • Fresh and Frozen not working |
| Trading model                   | • Over-reliance on promotions  
|                                 | • Price position lacks distinctiveness  
|                                 | • High aged stock holding  
|                                 | • Overhead cost structures too high |
| Operational execution           | • Inconsistent customer service experience  
|                                 | • Out-of-stock in core and promotional lines  
|                                 | • Long queues, slow check-out and inefficient returns process |

Better retail execution by getting back to retail basics
INITIAL OBSERVATIONS

Reason to believe: the Game brand remains strong and has enduring value

First choice in 12 of 15 non-Food categories in mass-market consumer survey

Winner of Best Appliance Store in the Star Reader’s Choice Awards, the Daily Sun reader’s Choice Awards, and the Sunday Times and Sowetan 2019 Shopper Survey

99% of online shoppers have shopped with Game

Voted SA’s Top Retailer in 6 out of 8 categories in ROOTS 2019 consumer survey

1 in every 3 large appliances purchased in South Africa is sold at Game

Most Google-searched retailer during Black Friday 2019

1 in every 3 TVs purchased in South Africa is sold at Game

Source: ROOTS 2019 Consumer Survey (27,000 interviewees); November 2019 Consumer survey (5,204 respondents); Google Analytics; GfK; The Star 2019; Sowetan 2019; Daily Sun 2019

Massmart powered by Walmart
UNLOCKING THE VALUE
What we have done thus far and our focus looking ahead

BACK TO BASICS
NOW

Assortment
- Phasing out poor performing categories, e.g. Fresh and Frozen, Movies and Music
- Reinroducing strong performers, e.g. Clothing basics
- Cutting range and SKU breadth

Everyday low cost
- Initiated rental re-negotiations
- Reducing IT outsourcing costs
- Leveraging Massmart scale to reduce COGS and Goods Not For Resale

Winning at discounting
- Launched EDLP in select categories, e.g. DIY & Clothing basics
- Reduced promotion participation
- Win on price perception drivers

Operational execution
- Improving stock availability through improved planning and on-shelf merchandising disciplines
- Piloted Happy-to-Help customer service programme
- Accelerating clearance of aged stock

BACK TO BASICS
TO COME

- Re-invigorate groceries proposition
- Strengthen “ownership” categories, e.g. Multimedia, Baby
- Introduce new solution offerings, e.g. Wellness, Party
- Review Africa store portfolio
- Extend Everyday Low Price proposition to additional categories
## Game Reset - Back to Basics

### IN SUMMARY

**OPPORTUNITY**

- Refocus the assortment on growth and high-margin categories
- Improve margin management by reducing reliance on promotions and reducing COGS through sourcing scale
- Achieve everyday low cost operating model through spend discipline and lean store practices
- Improve stock availability
- Improve online execution

**UNLOCKING VALUE**

- Phasing out poor performing categories and reintroducing winners in Q1
- Making headway in margin management through lower promotion participation and higher promotion margins
- Accelerating clearance of aged stock
- Advancing cost management initiatives e.g. rental re-negotiations

**STATUS**

- How do we turnaround Game?

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**Game Reset - Back to Basics**

Return Game to profitability by restoring sales growth, recovering margins, and operating as a low-cost discounter.
How do we leverage our existing assets to disrupt the Wholesale and B2B market?

Doug Jones, Wholesale CEO
INITIAL OBSERVATIONS

Unexploited opportunity to lead in the Wholesale and B2B market

TODAY’S CHALLENGES

<table>
<thead>
<tr>
<th>Area</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fragmented Cash&amp;Carry store systems</td>
<td>• Poor visibility of customer and category performance</td>
</tr>
<tr>
<td></td>
<td>• Insufficient control of merchandise processes</td>
</tr>
<tr>
<td></td>
<td>• High cost of maintain multiple systems</td>
</tr>
<tr>
<td>Wholesale customer base underserved</td>
<td>• Profitability impacted by trading competition</td>
</tr>
<tr>
<td></td>
<td>• Shield customer base not fully leveraged</td>
</tr>
<tr>
<td>Not leveraging Wholesale Food and Liquor scale</td>
<td>• Sub-optimal route to market for suppliers</td>
</tr>
<tr>
<td></td>
<td>• Wholesale inbound Supply Chain underutilised</td>
</tr>
<tr>
<td>General Merchandise under-represented</td>
<td>• Massmart’s General Merchandise scale and expertise not deployed</td>
</tr>
<tr>
<td>Inefficient investment of capital and capability</td>
<td>• Under-utilisation of expertise, particularly merchandise</td>
</tr>
<tr>
<td></td>
<td>• Siloed investment decisions</td>
</tr>
</tbody>
</table>

Addressable challenges, to deliver unexploited Wholesale and B2B opportunity
THE OPPORTUNITY

Strategic merger to create R50bn+ Wholesale and B2B African powerhouse

- Integrated 
  customer data to improve revenue and margin
- One system for single view of customer and to provide suppliers with single view of us
- Single buying team to unleash procurement scale
- Using strong B2B foundations to build on market-leading positions in Food and Liquor wholesale
## Wholesale Route to Market

How do we leverage our existing assets to disrupt the Wholesale and B2B market?

<table>
<thead>
<tr>
<th>OPPORTUNITY</th>
<th>UNLOCKING THE VALUE</th>
<th>STATUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Create consolidated, low-cost Wholesale route to market, with high relevance for suppliers and customers</td>
<td>✔ Unified Wholesale leadership and buying team</td>
<td>✔ S189 store closure consultation process initiated</td>
</tr>
<tr>
<td></td>
<td>✔ One ERP, merchandise and POS system</td>
<td>✔ Divisional change communicated and top leadership teams engaged</td>
</tr>
<tr>
<td></td>
<td>✔ Add Cash&amp;Carry volume to existing inbound network</td>
<td>✔ Chief Integration and Strategy Officer appointed</td>
</tr>
<tr>
<td></td>
<td>✔ Build out Cash&amp;Carry General Merchandise offering</td>
<td>✔ Makro Food Director has been embedded in Masscash since November 2019</td>
</tr>
<tr>
<td></td>
<td>✔ Reduce operating costs</td>
<td>✔ Merger and system migration milestones defined</td>
</tr>
</tbody>
</table>
Supply Chain Optimisation

Is the Supply Chain optimally positioned for long-term success?

Richard Inskip, Group COO
## INITIAL OBSERVATIONS

### TODAY’S CHALLENGES

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aged stock</td>
<td>High levels of aged and discontinued stock impacting stock replenishment efficiency</td>
</tr>
<tr>
<td>Demand forecasting</td>
<td>Variable demand <strong>forecast accuracy</strong> resulting in poor OTIF, high stock holding and poor availability</td>
</tr>
<tr>
<td>Duplicated costs and infrastructure</td>
<td>High duplication of costs and facilities across divisions</td>
</tr>
<tr>
<td>Maturity differences</td>
<td>Improve <strong>immature divisional Supply Chains</strong> to minimum Group benchmark to leverage scale</td>
</tr>
<tr>
<td>Product mix / scale</td>
<td>Opportunity to lower costs impacted by <strong>varied product range</strong></td>
</tr>
<tr>
<td>Low DC network penetration in aggregate</td>
<td>Significant <strong>opportunity for network growth</strong> from Masscash and Masswarehouse</td>
</tr>
</tbody>
</table>
THE OPPORTUNITY

Driving an integrated end-to-end Supply Chain will enable cost effective on-shelf availability, supporting sales growth whilst reducing operating cost and total stock holding and improving supplier income.

- 100bps reduction of total cost-to-serve
- Reduce working capital by between R504m - R1.7bn
- Reduce unfunded component of network through supplier income (rebates)
- Double the network volume with the same amount of DC space (343,000m²)
# UNLOCKING THE VALUE

## Immediate action

<table>
<thead>
<tr>
<th>WORKING CAPITAL</th>
<th>OPERATING COSTS</th>
<th>MARGIN</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Reduce the aged stock within the network</td>
<td>• Reduce secondary transport costs</td>
<td>• Grow the volume in the network to 38% (target 70%)</td>
</tr>
<tr>
<td>• Implement economic order quantities</td>
<td>• Centralise master data and resolve the design for an integrated IT platform</td>
<td>• Increase supplier logistics rebates</td>
</tr>
<tr>
<td></td>
<td>• Consolidate 15 to 7 DCs including 2 purpose built facilities in 2021</td>
<td>• Implement temperature controlled network</td>
</tr>
</tbody>
</table>
ONE GROUP END-TO-END SUPPLY CHAIN

Move from divisional Supply Chain infrastructure to integrated Group capability & facilities

1. Establish integrated, augmented demand forecasting and supply planning capability
2. Build an integrated IT platform including master data
3. Create diversified channel strategy to maximise inbound Retail and Wholesale product flow and outbound fulfilment

Format CVP | Demand Forecasting | Sourcing | Channel Strategy | Supply Planning | Logistics Execution | Store Operations
---|---|---|---|---|---|---
Space planning & assortment management | “What and how much” | “Where from” (Import vs local) | “How it’s going to move” | “When it moves to store & how much” | “Move it” | “Get it on shelf”

Supplier

DC Network

Direct to store

National vs Regional | Stocked vs Flow

Store

Format CVP

Demand Forecasting

Sourcing

Channel Strategy

Supply Planning

Logistics Execution

Store Operations

“What and how much”

“Where from” (Import vs local)

“How it’s going to move”

“When it moves to store & how much”

“Move it”

“Get it on shelf”

1

2

3

Massmart powered by Walmart
Is the Supply Chain optimally positioned for long-term success?

**OPPORTUNITY**
- Improve on-shelf availability, reduce operating costs and working capital (stock), and improve supplier income

**UNLOCKING THE VALUE**
- Create one integrated Supply Chain leveraging skills, systems and physical assets (trucks and sheds)
- Improve demand planning and forecast accuracy
- Develop capability and capacity in DC network
- Implement integrated suite of systems providing single view of stock in real time
- Evaluate Africa Supply Chain for consolidation and efficiencies

**STATUS**
- Created Group capability for DCs, transport, imports and exports; balance of capability in progress
- Well progressed with aged stock reduction
- Identified and underway with transport efficiencies, transport management system implemented
- Network participation at 34%
- 2 DCs closed with construction of 2 purpose built DCs underway (Johannesburg and Cape Town)
- Rationalisation of outbound delivery fleet
Cost Reset

Mohammed Abdool-Samad, Group CFO

How do we fundamentally reset Massmart’s cost base?
INITIAL OBSERVATIONS

SG&A costs are growing faster than revenue, at 9.6% and 3.8% 3-year CAGR, respectively.

TODAY’S CHALLENGES

1. COST INEFFICIENCY
   Focus of current savings initiatives is on product price reduction, rather than a holistic focus on price, consumption and specification.

2. LACK OF VISIBILITY
   Lack of transparency and consolidated Group view of costs.

3. LIMITED COLLABORATION
   Misaligned approach to managing costs across the Group.

Source: Massmart Annual Financial Statements
Notes: Excludes employee costs and GNFR reported under Cost of Sales

The rate of cost growth is exceeding revenue growth resulting in unsustainable margin compression.

SG&A PERFORMANCE

% Growth

Revenue
SG&A
EBIT


-15 -10 -5 0 5 10 15 20
THE OPPORTUNITY

We started by creating visibility across the Group and identified an addressable indirect spend baseline of R10.4bn

TOTAL ADDRESSABLE SG&A SPEND BREAKDOWN BY CATEGORY (Rbn), July 18 – June 19
Savings opportunities have been identified, but targeted spend and culture initiatives need to be developed and executed to realise and sustain value.

**1. Immediate execution of quick wins and kick off value targeting**
- Appoint cost category owners and sponsors
- Provide additional skills and capacity to the team to execute and realise the value
- Start embedding the Smart Spend culture across the organisation

**2. Enhance group integrated spend management capability**
- Recruitment of an Indirect Spend Management (ISM) Lead (in progress)
- Centralisation and upskilling of ISM capability
- Establishment of eAuctions programme
UNLOCKING THE VALUE

We applied local and global benchmarks, and identified savings opportunities in the range of R0.6bn – R1.5bn

IDENTIFIED VALUE OPPORTUNITY (Rbn)

SG&A Addressable: 10.4
Massmart Inflight Savings: 0.3
Identified Smart Spend Savings: 1.3
Target SG&A: 8.9

-15% SG&A Addressable

SG&A benchmarking and cost category classification has highlighted a value opportunity of R1.5bn across cost packages

Package Savings Potential

- Rent (Real Estate)
- Store/DC/HQ Services
- Utilities & Sustainability
- Professional Services
- Technology Infrastructure
- Marketing/ Advertising
- Supply Costs
- Travel & Events
- Credit Card Fees, Bank Charges
- Applications & Software
- Risk & Casualty
- Equipment Lease & Vehicle
- Associate Relations, Training & Recruitment
- Building/ Facilities Maintenance
- Equipment/ Machines Maintenance
- Compliance/Legal Fees and Services
- Public Affairs & Contributions / Donations
New approaches and new ways of working to reset the cost structure

**OPPORTUNITY**
- Review existing cost structure, including identification of “addressable spend” and target reductions
- Create a culture of cost consciousness through ‘Every Rand Matters’
- Initiate a group-wide Smart Spend project to deliver cost savings
- Centralise Indirect Spend Management under Group CFO to manage procurement

**UNLOCKING THE VALUE**
- Completed review and quantified addressable spend
- Launching Smart Spend project in February with package owners identified
- Saved R240 million in H2 of 2019 through ‘Every Rand Matters’ efforts
- Extended offer to Indirect Spend Management Lead will centralise procurement in the group in H1

**STATUS**

How do we fundamentally reset Massmart’s cost base?
PART 4
Concluding Comments
KEY INTERVENTIONS

How do we restore Massmart to its historical levels of financial performance?

1. Is the organisational structure appropriately set to optimise serving our customers while ensuring competitive market agility and efficiency?
   - Launched new operating model: from federated model to focused Retail / Wholesale business units supported by Centres of Excellence

2. Is the store portfolio / corresponding customer value proposition optimised and relevant for each brand?
   - Completed initial review resulting in DionWired and Masscash closure proposal

3. How do we turnaround Game?
   - Back to basics with Game. Early actions to remove Fresh Food / move into Apparel among assortment interventions

4. How do we leverage our existing assets to disrupt the Wholesale and B2B market?
   - Creating a consolidated low-cost Wholesale route to market with high customer and supplier relevance

5. Is the Supply Chain optimally positioned for long-term success?
   - Centralising Supply Chain; consolidating Distribution Centres and introducing Group-wide process discipline

6. What cost savings opportunities, if any, are available?
   - Identified R10.4 billion in addressable spend; implementing Indirect Spend Management Team to deliver at least 10% savings
BEYOND THE TURNAROUND: GROWTH OPPORTUNITIES

We believe that there is “white space” for us to further innovate our business in key areas; these will be areas of further strategic review.

- How do we win online?
- How do we disrupt the Food market?
- How do we leverage profitable scale in Africa?
The underlying business is strong:

Brands

Market share

Procurement scale

The landscape has changed and we have been slow to adapt.

We are now changing and we are acting with urgency!