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Retail revenues continue to increase despite economic woes

South African Companies remain in step with the growth of international retailers as five local retailer operations make it into the Deloitte global 'Top 250 retailers' list.

Johannesburg, 11 February 2014 - Times may be tough and household budgets stretched, but that does not mean that South Africans are staying away from retail outlets and malls. In fact, we as a nation enjoy our retail therapy so much that five of our top retailers are featured on the list of the world's 250 largest retailers in the Deloitte 2014 Global Powers of Retailing report, which has just been released.

In reaching the Top 250 on the retail hierarchy, South Africa's top five retailers contributed towards the US $ $4.3 trillion* in total global revenues generated by the 250 largest retailers in the world between June 2012 to June 2013. Woolworths, a new entrant on the list, made a creditable entry at position number 234. The report also emphasises the growing power of e-shopping, by including a list of the world's top 50 e-retailers, of which 39 are now part of the top 250 retailers globally.

"While the global retail landscape is fast changing, the emerging use of technology, market pressures and consumer demands remain a constant. Retailers will be required to review their strategies, optimise their operations and leverage strengths, all while staying current with market trends in order to weather the storms ahead," says Ilse du Toit, Manager and retail specialist at professional services firm, Deloitte.
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From a local perspective, South African shoppers saw the following retailers listed in the Top 250:

- Shoprite was ranked in 94th position, dropping back one position from the 2013 rankings;
- Steinhoff International Holdings, better known to South African shoppers as the JD Group (Bradlows, Timber City, Hi Fi Corporation, Morkels, Incredible Connection etc.) jumped up to position 125 for 2014 (2013: 133rd);
- Pick 'n Pay at 137th position in 2014 (2013:135th)
- The Spar Group. Number 172 (2013: 165);
- Woolworths, entering at position 234.

The overall drop in the rankings of three of the listed South African retailers was due to the growth experienced by emerging market retailers, mainly from Asia and Latin America, and a recovery in developed markets that was experienced during the survey period.

The leading South African retailer however, reported promising results when their revenues were compared to developed markets that were much harder hit by the recent recession.

This was reflected in the Top 250 aggregate, where the 2012 sales growth was reported at 4.9% with a 3.1% net profit margin for developed markets.

In contrast, the seven companies on the list from Africa/Middle East (of which South Africa accounts for five), reported a revenue growth of 13.5% (and a compound annual growth rate, CGAR, of 17%) with net profit margin of 4.4%. These figures were significantly higher than those reported in developed markets with only an emerging market, Latin America, reporting comparable results.

Other major findings highlighted in the 2014 Global Powers of Retailing report were:

- Of the top 10 retailers across the globe, five are based in the USA, one in the UK, three in Germany and one in France (*See Editor's Note*);
- Wal-Mart with an annual retail revenue of US $ 4.6 billion is the world's top retailer;
- Retailers based in emerging markets (excluding South Africa) benefitted from continued strong consumer demand in the previous fiscal year;
- Emerging market retailers accounted for more than half (26) of the world's 50 fastest-growing retailers;
- Organic growth was one of the large contributors to the growth reported in these markets;

- Retailers that successfully adapted to local trends such as a growing middle-class, increased urbanisation and a very young population showed positive results;
- In these markets basic consumer goods, food, clothes, personal care and electronics were some of the high performing categories.

Looking to e-retail activities, the 2014 Global Powers of Retailing found that:

- The rise in the popularity of e-retail is reflected by 39 electronic outlets being listed in the Top 250. Global Powers of Retail report;
- E-commerce sales as percentage of revenue reached 7.7%, with leading retail categories being diversified items, leisure goods and fashion;
- The year- on- year e-commerce growth for those stores ranking in the top 250 averaged 24.8%;
- No South African companies featured in the top 50 e-retail rankings, although several retailers engaged with active e-commerce during 2013 as an alternative channel;
- Pure-play retailers entering the market to offer specific products, combined with fast moving consumer goods manufacturers selling via online channels direct to the consumer, could result in more large retail groups reviewing their strategies and operating models to ensure future growth;
- The challenge for these retailers, as for the global ones, will be the race to the door of the consumer. With rising fuel prices and consumer pressures, time from order to delivery will soon become the differentiating factor.

Looking at the current fiscal period, which began in July 2013, the report states that consumers and retailers in South Africa will face increased market pressures. Key indicators such as GDP, CPI and PPI are not favourable and the consumer confidence index is at a five-year low. The lower than expected growth reported by various large retailers has also resulted in a steady decline in share prices compared to a growing All-Share index on the JSE reported for the same period.

These pressures increased in the last quarter of 2013. Although November and December's trade results reported a higher than expected growth in excess of 4%, this trend is unlikely to continue.

The weakening of the rand during the last year against the major trade and investment currencies has raised concerns that the prices of imported goods and services will rise. In addition, the weak rand will lead to an alarming rise in fuel costs. The levying of toll fees will further impact the continued rise of input prices to levels which retailers cannot absorb. These increases will be reflected in rising sales prices putting further pressure on already constrained consumers.

"Consumer's finances are under severe threat. Interest rates have recently increased and fuel prices are at an all time high. Consumer sentiments and morale are low and recently implemented toll fees across Gauteng are not helping matters much. Retailers looking to maintain market share need to have a clear value strategy beyond the current market practice of discounting merchandise, as trading is likely to remain flat for some time to come," says Rodger George, Deloitte African Consumer Business Industry Leader.

With many highly indebted consumers and with limits to unsecured lending, consumers will soon have no choice but to restrain from buying, especially non-essentials and luxury goods. This will have a direct impact on retailer performance and growth potential.

NOTE TO EDITOR'S:

The table of the world's 'Top 10' retailers is supplied below, with additional notes on the 2014 Powers of Retail report. To download a copy of the 2014 Global Powers of Retailing report, please visit: **http://www.deloitte.com/view/en_ZA/za/industries/consumerbusiness/d84edb5f9b9b3410VgnVCM3000003456f70aRCRD.htm** **or** **http://www.deloitte.com/view/en_ZA/za/industries/consumerbusiness/index.htm**

Retail revenue rank (FY12)	Name of company	Country of origin	2012 retail revenue (US$m)

1	Wal-Mart Stores, Inc.	U.S.	469,162
2	Tesco PLC	U.K.	101,269
3	Costco Wholesale Corporation	U.S.	99,137
4	Carrefour S.A.	France	98,757
5	The Kroger Co.	U.S.	96,751
6	Schwarz Unternehmens Treuhand KG	Germany	87,236[e]
7	Metro AG	Germany	85,832
8	The Home Depot, Inc.	U.S.	74,754
9	Aldi Einkauf GmbH & Co. oHG	Germany	73,035[e]
10	Target Corporation	U.S.	71,960

e = estimate

*Companies were ranked by total retail *revenue*, not just retail *sales*. For purposes of this analysis, retail revenue includes royalties and franchising/licensing fees as well as wholesales sales to affiliate/member stores or other "controlled wholesale space" operations (e.g., in-store shops or identity corners).

**E-retailing, as defined in this analysis, includes B2C e-commerce only (i.e., where the company owns the inventory and the revenue reflects e-retail sales). Companies that primarily operate as e-marketplaces are excluded from the e-50 list as their revenues are largely derived from fees and commissions on sales from third-party sellers (consumers or other businesses that own the inventory) rather than directly from the sale of goods.

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