

SPAR
Executive Report
May 2013



Report includes:

SPAR

KWIKSPAR

SUPERSPAR



ti research

Ti analysts engage with retailers, suppliers and commercial stakeholders across the food & grocery sector, to give you the tools to deliver relevant, aligned customer business plans

ti school of retail

From work-readiness to executive on-boarding, the School of Retail curriculum provides the capability, insight and tools to know and engage your retail customer

tradenation

The tradenation team uses retail insight to optimise trade spend through informed and inspiring publishing and communication services



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Contents

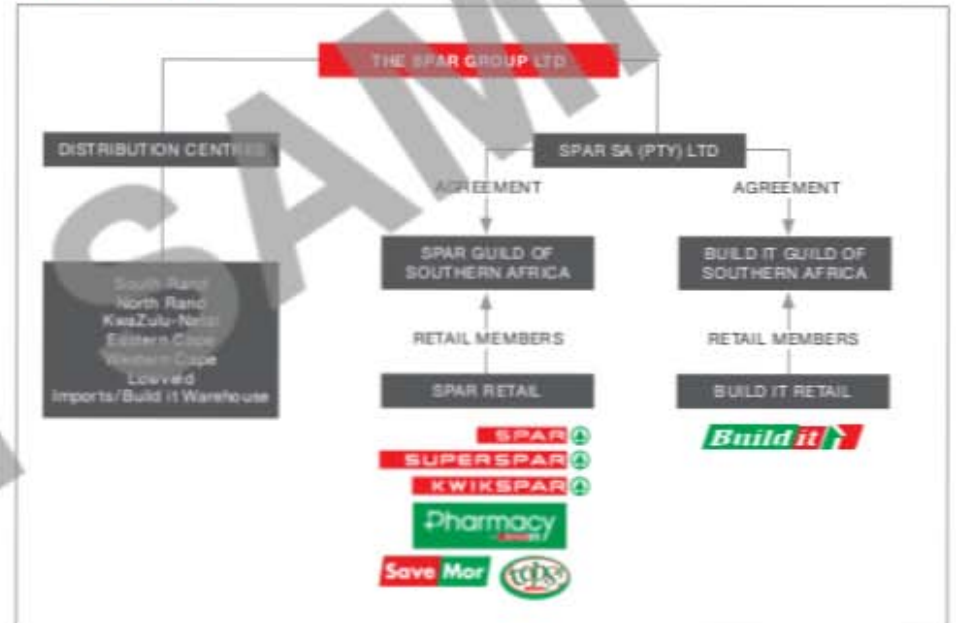
1	Group Operational Structure	6
2	Financial Performance FY2012	7
3	Store Numbers and Geographic Spread	12
4	SPAR Strategic Focus Areas 2013	17
5	SWOT.....	28



1

Group Operational Structure

"Good for you"



Financial Performance FY2012 (Sep 2012)

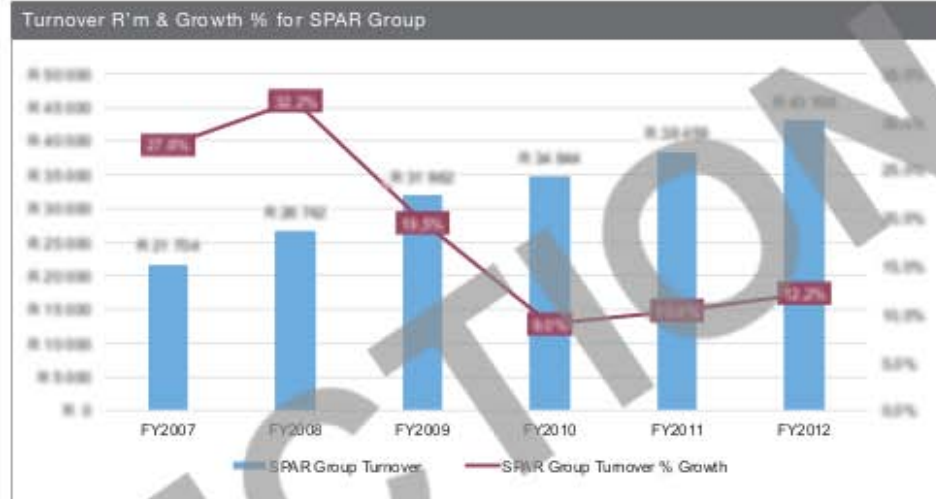
2

Trading Context

The SPAR Group produced solid results despite increasingly tough trading conditions, with consumer spending under pressure due to uncertain economic, political and labour conditions.

SPAR Group Performance

- Group (DC) turnover increased by 12.2% to R43.2bn, fuelled by strong performance in TOPS & Build it
- Turnover growth in line with the total major retail market, which saw growth at an estimated 12.5%
- Gross margin down slightly from 8.1% to 8%
- Trading margin up 7% to R1.5bn, but behind turnover growth (operating margin declined marginally to 3.5%)



Source: SPAR Group Ltd

“ Turnover growth in line with the total major retail market, which saw growth at an estimated 12.5% ”



“ TOPS had another very good year with 12.2% retail growth to R5bn, 7% value share of total SPAR Group and wholesale growth of 18.3% to R3bn ”



TOPS Kensington



Source: SPAR Group Ltd

SPAR Retail Performance

- Estimated retail turnover was R53.7bn, 11.5% up on FY2011
- Turnover of existing retail stores grew a significant 10.6%, which coupled with a 6.4% increase in the numbers of cases despatched from DC, indicates good underlying volume growth in the business
- SPAR wholesale (DC) turnover grew 11.5% to R35.5bn

TOPS Performance

- Another very good year with 12.2% retail growth to R5bn, 7% value share of total SPAR Group and wholesale growth of 18.3% to R3bn

Build it Performance

- 11% value share of total SPAR Group DC sales. Also had a strong year growing 17% to R7.5bn at retail level and 18.5% to R4.6bn at wholesale level

3

Store Numbers and Geographic Spread

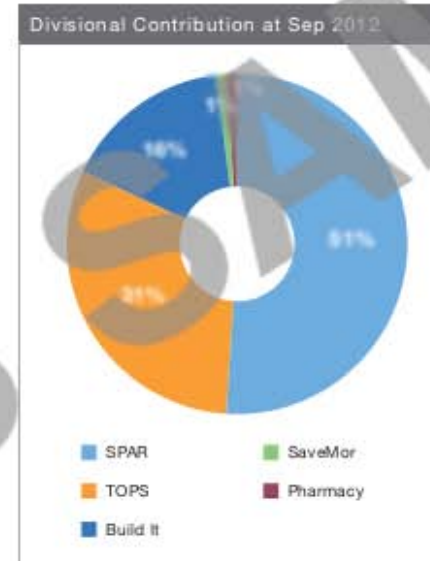
3.1 SPAR Group Divisional Store Numbers – September 2012

SPAR Group Stores

- SPAR overtaken by Shoprite in terms of biggest store footprint, although SPAR still has more stores in South Africa than Shoprite

SPAR Group Store Growth

- SPAR Group opened 122 new stores in FY2012
 - SPAR: 23
 - Build it: 20
 - SaveMor: 16
 - Pharmacy: 16
 - TOPS: 47 opened, 10 closed
- SPAR store formats are growing behind total Group store growth at 1.0% vs 4.8%
 - SPAR is driving trading space increases through store revamps and conversions to larger formats
- TOPS is driving store growth for the Group
- SaveMor and Pharmacy experiencing good growth, but off a low base, with both divisions contributing 2% to the Group in store number terms
- The Group owns 11 corporate stores

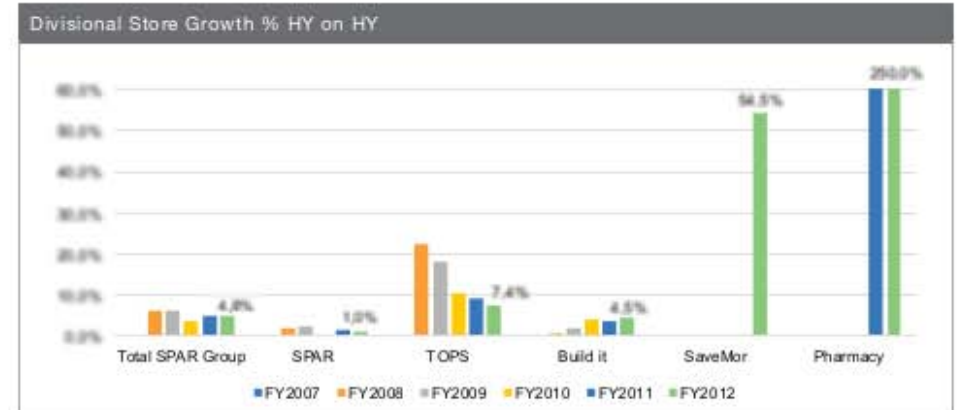


SaveMor and Pharmacy experiencing good growth, but off a low base, with both divisions contributing 2% to the Group in store number terms

Source: SPAR Group Ltd



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SPAR's vision:

"To be the first choice brand in the communities they serve"

SPAR is focused on creating positive consumer interaction with their brand. This is achieved through building world-class brands and developing the best retailers.

In order to realise this vision, the Group is focused on delivering the following four strategic imperatives:

- A World-class Replenishment System for Retailers
 - Optimising the supply chain, from supplier through to the retailer
- Developing the Best Retailers
 - Being leaders in the retail community
 - Providing expert retail leadership and support to the retailers
- Building World-class Brands
 - Competitive pricing of products
 - Creating a competitive price perception with consumers
 - Provide a comprehensive product range
 - Delivering excellence in fresh food departments
 - 2013 is a big year for SPAR as it celebrates its 50th birthday
- Realise New Business Growth
 - Sustaining SPAR's future growth through identifying and realising new business opportunities



“ SPAR does not operate like the other major players. We are essentially a wholesaler or distributor, offering a full range of support services to the SPAR stores in the country ”

Wayne Hook | CEO - The SPAR Group



SPAR DC KZN



“ Over the last five years, volumes through SPAR DCs have increased by over 50% ”

The SPAR South Africa services summary:



5

SWOT

The below SWOT analysis focuses on retailer strengths, weaknesses and threats and the corresponding supplier opportunities and threats. Utilise these as a tool to custom develop your own aligned customer business SWOT.

STRENGTHS



Growth

- Good growth in headline earnings
- Good growth from comparable stores as SPAR continues to sweet the assets trading formats up
- Largest store footprint in South Africa
- TOPS continues to show significant growth
- Relevant lower barrier to entry for members with SaveMor format
- Growth in the number of Pay Zones (an efficient profit mechanism)
- Highly motivated store owners / operators
- Desirable anchor tenant for developers
- Growing private label
- Category revamps seen as potential profit drivers



Shopper Marketing

- Strong emotional bond with shoppers – success of My SPAR
- Ongoing store refurbishment / modernisation programme
- Innovation in KOKO SPAR format
- Starting to do value added / meal solution promotions
- SPAR Food magazine
- Strong marketing branding through in-store in-aisle spreads and out of store magazines

- Aspirational across LSMs 1-10

- Price is important, but emotional connection and engagement with shoppers is more important



Offering

- Member model enables tailoring of offering to local community
- Innovation / expansion across categories
- Category leadership e.g. long-life milk
- Store experience and customer service



Relationships

- Masters of retail member relationships
- Potential of Retail Studio
- Ownership of head-lease
- Store management and retail support services
- Geographic exclusivity to members
- Strong, constructive supplier relationships



Operations

- Efficient DC operations and flexible distribution and expansions
- Outbound service level to retail at 95%

WEAKNESSES



Growth

- Slowed store growth vs competitors
- Slow rate of transformation in franchisee base
- Basket size remains a challenge



Shopper Marketing

- Consumer price perception



Operations

- Member compliance: Pricing, promotion, category management
- Speed to market of new products
- A resource hungry account for suppliers to service due to number of contact points



Profit

- SPAR only benefits from profit made at DC level

THREATS



Growth

- Availability of new sites and increased competition for high calibre franchisees
- Rapid growth of competitor liquor outlets (PnP and Shoprite)
- High cost of entry for independent retailers to acquire sites and build stores
- Choppies play for SPAR stores in Polokwane / Northern Province
- Uplift growth in rural areas – traditional SPAR ‘strongholds’



Operations

- DC pricing sometimes undermined by wholesalers
- Erosion of supply chain dominance



Intelligence is information in action

Information becomes intelligence when it is applied to your operational strategy, communicated through your business and translated into bottom-line performance. Trade Intelligence provides insight, capability building and commentary on the South African food and grocery industry and its major retail and wholesale players. We promote effective and profitable retailer-supplier trading relationships and inspire interest in the industry



- Know your market
- Understand the trade
- Improve the performance of your team

**BOOK YOUR
SEAT NOW!**