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RETAIL

Foschini brand owner TFG keeps the faith in SA Inc

Lisa Steyn

The country's dire economic situation has not deterred TFG, owner of the Foschini brand, from investing in its SA business in anticipation of better days.

This comes at a time when SA retailers are struggling as the optimism sparked by the appointment of President Cyril Ramaphosa has all but disappeared and the local economy stalls, with the SA Reserve Bank forecasting GDP growth of just 0.6% for 2019.

Speaking on Thursday, TFG CEO Anthony Thunström said the company, SA's fourth-largest general retailer by market value, was standing by its philosophy of investing throughout the cycle even though the SA market was tough at the moment.

"Over the past 24 months, it's gone from the depths of depression through to total Ramaphoria, then back to where we are today," he said. "Retail changes so quickly, the cycles come and go so quickly, if you fall behind it's very difficult to get back on the bandwagon."

SA's retail sector is increasing sales at only about 1% to 2% a year, but TFG said it was growing at 8% to 9% as it won over market share from its struggling competitors. TFG has also proved itself to be more resilient than rivals Truworths and Mr Price in terms of share price performance for the year to date, down only 9.84%.

Truworths has lost 34.28% and Mr Price 28.5%.

TFG now plans to invest an additional R500m over the next two to three years on game-changing technology to aid in the group's digital transformation.

Some of the money would be spent on a hi-tech stock tagging system, or Radio Frequency ID, aimed at improving inventory management by quickly and accurately showing the garments that need to be reordered.

This technology allows for stock counting – which ordinarily takes several days when done manually – to be done within 30 minutes and with 99% accuracy.

TFG operates in 32 countries across the world. In SA, it has 2,500 stores, which contribute more than 50% to the group's turnover. While the company expects this to be overtaken by the international business in coming years, SA is expected to remain the largest contributor of profits for the foreseeable future as the country boasts one of the highest operating margins in the world, thanks to lower rental and salary costs.

In the UK, the turmoil stirred by its intended exit from the EU, has weighed on consumer confidence. "When you talk to consumers in the UK, they really don't know what the future holds, they don't want to part with money. They tend to avoid shopping overall. You can see that in the stats," Thunström said.

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In the rest of Africa, most of the economies in which TFG operates tend to be linked to the commodity cycle and are struggling. While other retailers are having a tough time of it, "we are actually okay in the rest of Africa for the moment".

Despite a number of SA retailers having burnt their fingers in the Australian market, TFG does not see that country as a difficult place in which to trade. However, the cost of doing business there is very high, and store rentals and salaries can run into 40% of turnover, compared with 15% in SA. "So your margin of error in Australia is zero. You either get it right or you get it wrong.

"TFG's foremost investment criteria, and the key to its success abroad is to have great strong local management teams.

"We know for a fact that if we went to Australia or to the UK and tried to run any of those businesses ourselves I can almost guarantee you it would end in tears," Thunström said.

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