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InNumbers **4,000** The number of stores TFG has in 35 countries





**Speciality brands and those with wider appeal contribute to the TFG mix. Above, a Hobbs store in the UK, and a Foschini outlet in SA. Below is a Connor store in Australia.** Pictures: Bloomberg and Muntu Vilakazi


# What's in TFG's secret sauce?

## Some surprises in winning recipe for SA retail success story, both here and abroad

By **ADELE SHEVEL**
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● Fashion retailer TFG is outwitting locally listed competitors in domestic and overseas markets, which raises the question: what is it doing differently?

Well-thought-through investment in IT and retail, consolidation of back office behind speciality brands, quick-response vertically integrated manufacturing and careful offshore acquisitions are all playing a part in differentiating the retailer.

TFG owns 22 retail brands, including Foschini, Markham, DueSouth, Colette and Fabiani. It has more than 4,000 stores in 35 countries on five continents.

On the offshore front, TFG is expanding in the UK and Australia. But while Woolworths spent A$2.1bn (R21.5bn) buying the David Jones department store chain in Australia and has had to write off almost half that investment, TFG is looking at "double-digit top-line growth" this year on the back of 14.5% turnover growth last year at Australia's largest menswear specialist retailer, Retail Apparel Group (RAG), which it bought for A$302m two years ago.

The brands in RAG include Johnny Big, Connor, Yd and Tarocash, each aimed at a different market segment. Having opened five American Swiss jewellery test stores, there are plans to open more in this jewellery-loving market. RAG also benefited from the closure of competitors such as menswear retailers Roger David and Ed Harry.

TFG CEO Anthony Thunström says people have a very negative view of the potential in Australia and "it's one that we don't share".

"Australia hasn't been in recession since 1990. They sit around 5% unemployment, almost record lows. We have a young consumer base in Australia; we don't see Australia as an overly difficult place to trade, provided you have the right local management team on the ground."

TFG plans to grow its Australian business to about 10 brands, but it lets those who run the businesses overseas guide the decision as to what brands they want to open and run. The philosophy at the group is that the businesses run autonomous sectors.

Thunström says the cost of doing business is high and the margin for error in Australia is probably zero – "You either get it right or you get it wrong." But other than department stores, Australian retail is doing well: "It isn't doom and gloom."

TFG Australia now has 483 stores, and he sees further opportunities in New Zealand.

The UK retail market is tough and many retailers have been placed in administration or liquidation. Truworths had to write billions off the value of its investment in that market, as did New Look, until recently majority owned by Brait.

TFG continues to trade ahead of the market in that country. The group is expanding, taking up 9,200m² of additional space for its three brands, Whistles, Phase 8 and Hobbs, though a lot of this space consists of turnover-only rentals or concessions.

Critical to the success of going overseas has been applying strict criteria to its purchases. All have been from personal referrals and recommendations, and none from investment bankers. Management needs to be committed for about five years after the purchase, with incentives in place. Of all the major purchases TFG has made overseas, there have been no changes at senior executive level.

**TFG CEO Anthony Thunström**

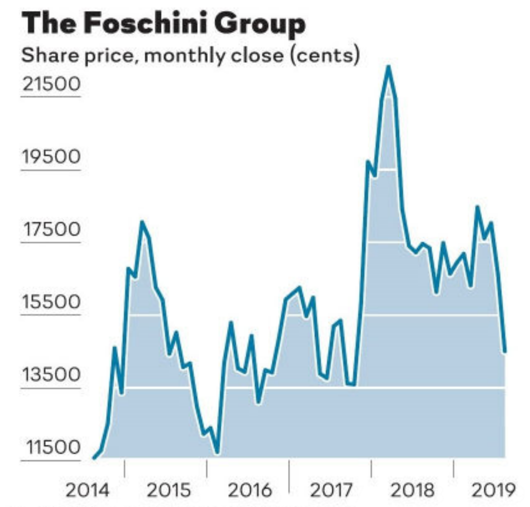
"We know that if we went to Australia or the UK and tried to run any of those businesses ourselves I can almost guarantee it would end in tears," says Thunström.

The group has been trading well above its peer group in SA for several years and has expanded store space roughly twice as much as other retailers have done over the past four to five years. But even so, its share price has come under pressure.

Evan Walker, a portfolio manager at 36One Asset Management, says TFG is doing exceptionally well in an environment where earnings are down, "but the share price is too expensive for that growth, it's overvalued. It needs to come down to reflect the low-growth environment, and the other retailers need to fall even more."

**The Foschini Group**

Share price, monthly close (cents)




Graphic: Ruby-Gay Martin Source: Investing.com

TFG shares have fallen just over 15% from a year ago, while Truworths, for example, is down nearly 40%. TFG sales are growing at 8% to 9% in a stagnant local market, they are holding their own in a tough UK market, and in Australia – where GDP growth is about 2% – they are growing at over 10%.

The key measure TFG uses is same-store like-for-like growth. Last year, same-store growth was about 7%. "We haven't seen that kind of same-store growth in SA probably in 15 years," says Thunström.

The single biggest strategic move the group embarked on over the past year and a half was the digital transformation across the group.

E-commerce last year across the group grew 59% and stands at about 9% of group turnover, with about 2% in SA and a far higher proportion in Australia and the UK.

The group is installing radio frequency ID (RFID), aimed at improving stock management by reducing the amount of time taken to manage this and improving the accuracy of keeping stores in stock.

You can now take a wand, walk through the store and check store stock with 99% accuracy within 25 minutes to half an hour. Before, it would have taken six to eight hours to count stock, and it would be disruptive and expensive and could not be done more than a few times a year.

"It's an absolute game changer," says Thunström.

Conversion counters have been put in place. These cameras in the ceiling count how many "unique people" walk into the store and allow the company to determine the number of staff needed.

"Since we've started rolling it out we've seen a massive improvement in same-store sales," says Thunström. These counters will be installed in most stores within the next year.

Over and above what's already been done, the group will be investing more than R500m over the next two to three years.

TFG's model involves consolidating its back office. In the UK, it moved from three head offices to two and it put in common IT and finance systems. In Australia, it has already consolidated offices. It's a "shared service model with multiple brands".

Across the spectrum are speciality brands, which Thunström explains bring more loyalty and higher margins in what is a less competitive space.

The group is aiming to generate half of its turnover from overseas and should get there in the medium term. Profit percentage will be more SA-weighted, as SA still has one of the highest-profit operating margins.

TFG has a contrary view of online growth potential in this country, with Thunström seeing it outstripping forecasts. The consensus is that online in SA will grow incredibly slowly because of high data costs, among other factors.

"We don't really buy into that," says Thunström. At present 2% of TFG's business is done online, and the general market view is that it will get to about 5% five years from now, but Thunström says he expects this to be more like 7% or 8%.

Another differentiator is that the group manufactures much of its product in SA, so long lead times have been reduced and fashion risk is reduced.

"We've got to the stage now where in Cape Town on basic items we can manufacture at below landed costs out of the Far East, which is something we never thought possible," he says.

In the past financial year the group produced 9-million units. This is expected to increase to more than 20-million units over the next five years. The group produces 22% of its product locally, and this is expected to get closer to half over time.

## Rental deals swing in favour of retailers

By **ADELE SHEVEL**

● Last year, the retailer was paying a negative 12% in rental reversion, "the first time I think we've ever gone negative", says Anthony Thunström, CEO of TFG.

The retailer's average lease period is five years, and it renewed one-fifth of its leases last year.

"The average rate was 12% less than what we were paying the year before. They were too expensive to start with and this reflects the current state of the economy, which we don't expect to rebound over the next 12 months."

TFG has about 800,000m² of retail space across the country, second only to Edcon. Property owners are no longer in the pound seats as tenants reduce space or close stores; Edcon is closing about one-third of its space nationally.

Thunström says it's not only in SA that the company is seeing rental reversions. "In Australia, rentals got totally ridiculous. In some cases rentals in Australia were 20% of turnover, even 22% or 23%. It's unrealistic."

He says over the past couple of years leases have been renewed at rates up to 20% cheaper.

Overseas retail markets are, more than in SA, feeling the impact of consumers abandoning the malls and shifting online.

While the UK high street is under huge pressure with administrations, liquidations and closures knocking retailers, TFG continues to roll out more stores in that country.

But the model is different, in that rentals are turnover-based.

"We used to sign five-year leases in the UK, we're now signing 12- or 24-month leases so you're not signing up for any long-term risk and these are profitable."

Thunström says the clothing brand Hobbs, for instance, didn't have an adequate number of stores.

"They've never had enough money to spend on stores in the right places. So every time we open a new store it's profitable because rentals are based on turnover only."