Operational review

Supermarkets RSA

The core South African Supermarket operation, trading through 1 610 outlets and representing 74.0% of total sales, did well in an extremely tough environment, increasing sales by 5.7% and trading profit by 1.8%.

Taking into account the low levels of internal inflation, which dropped to only 0.3% from 5.9% last year, the improved pace on real turnover growth combined with positive volume and customer growth reflects a strong performance.

The South African operations continue to experience positive customer growth in terms of number of customers and number of customer trips to stores. We are also selling more products, with a 3% increase in units sold, a positive increase somewhat masked by the effect of deflation and cost pressures.

A total of 13 241 of our products were selling at lower prices than last year, easing the burden on our customers but putting some pressure on the Shoprite operation in particular. Integrated planning, strict cost disciplines and an extensive and sophisticated supply-line infrastructure have helped the Group to successfully manage the effect of deflation and the poor economy, although the sales increase at Shoprite was limited to 4.3% – a creditable performance given the circumstances.

The Group's strategy to capture a greater proportion of the higher LSM consumer segments' grocery expenditure has seen Checkers, excluding the larger format Hyper stores, increase sales by 8.2%.

Checkers' revamped stores and fresh and convenience offerings have been well received by customers, and our higher LSM shoppers are spending more and shopping with increased frequency.

Checkers has converted 13 stores to the new look FreshX concept, accelerating market share gains in the affluent market segment. The Group aims to revamp at least a third of its Checkers stores to the new look in the medium term.

Innovation, improved customer service and increases in convenience and fresh ranges have been significant draw-cards for Checkers, which continues to lead the Group's gain in market share.

The Shoprite brand, with its focus on middle and lower-income consumers, continued to subsidise basic food prices to assist the most vulnerable. Notwithstanding its shopper base being the hardest hit by prevailing economic conditions, Shoprite grew sales by 4.3% (2017: 6.0%) to R54.2 billion.

The Group's small format, hard discounter Usaves offering the lowest possible prices on a limited assortment, continued to perform well with a 7.5% increase in turnover, despite deflation in most of its major product categories. A net 33 new Usave stores were opened in the year as reach was extended to consumers in traditionally underserved areas.

The Group's LiquorShop stores in South Africa recorded a strong performance, with a 20.6% increase in sales and new store expansion which met our aspirations with a new store opening almost every week of the year.

The implementation of our new SAP IS Retail system, the biggest IT project ever embarked upon by the Group, has almost been completed which will see all stores and distribution centres in all countries on one common technology platform. The herculean effort to deploy such a significant change to our technology platform was not without growing pains, however it will enable better inventory accuracy and improved efficiencies whilst addressing scalability.

Supermarkets Non-RSA

Trading in 14 countries in the rest of Africa and Indian Ocean Islands, the Group's Supermarkets Non-RSA operating segment produced disappointing results in line with those reported at the interim stage, mainly driven by the Angolan operation that faced many headwinds.

Supermarkets Non-RSA recorded a 7.0% decrease in turnover in rand terms which impacted overall Group sales performance. The slower Supermarkets Non-RSA sales are mainly attributed to the normalised performance of the Angolan Supermarkets operation, the Group's biggest operation outside South Africa, following the 65.0% compound growth in turnover over the prior two years and the 50.2% devaluation of the Angola kwanza against the US dollar since December 2017.

Trading in Nigeria continues to be hampered by foreign exchange fluctuations, although Nigerian stores are showing growth in local currency, albeit at reduced margins.

A significant drop off in Supermarkets Non-RSA internal inflation from 14.4% in the previous year to only 1.1% for the current year was also experienced.

The Group's imminent expansion into Kenya provides an exciting opportunity and reflects its ongoing commitment to the African continent, where it has a significant competitive advantage.

Furniture

The Group's Furniture division's ongoing refinement continued to bear fruit and it achieved a pleasing 9.8% increase in sales and profit growth in excess of 100% for the period. This was achieved despite credit sales participation dropping by almost a third to 14.7% (2017: 20.8%) of total sales and only a marginal increase in product inflation.

Sales growth in its 396 South African stores was 9.5% up, while its 88 stores outside South Africa increased sales by 11.0% on the back of improved distribution and merchandising decisions. Angola recorded a particularly strong performance where the OK Furniture brand is establishing strong customer loyalty.

The division's enhanced integration into the wider Shoprite Group has been particularly beneficial outside South Africa, with it benefitting from opening stores in Shoprite shopping centres.

The division opened 20 new stores, but it is a net four stores lighter than the previous year as unprofitable stores were closed.

Other operating segments

Other operating segments, which include OK Franchise, Computicket, MediRite Pharmacy and Checkers Food Services achieved turnover growth of 5.2%.

The OK Franchise division recorded a net gain of 30 new members as its restructuring continued to enhance the OK brand among customers as well as potential and existing franchisees.

The Group has seen a strong uptake of its extended number of private label products and general merchandise ranges available to franchisees.