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Publication		
FINANCIAL MAIL		
Page	Date	AVE (ZAR)
46-47	Thurs 14 Oct 2021	146713.19

FASHION RETAIL

TFG's buy now, pay later push

A tie-up with TymeBank will propel TFG in retail's new credit model as it sets its sights on a major SA expansion drive

Synergy: 600 TymeBank kiosks will be rolled out in Jet stores offering financial products and services

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A seismic shift in the way fashion retailers offer credit is under way, partly due to the buy now, pay later phenomenon that has swept global online retail.

For local chain TFG, that means a tie-up with TymeBank through its recently acquired Jet brand, in what TFG CEO Anthony Thünstrom expects will ultimately replace SA's lay-by market. He calls it the "new retail credit model", and for TFG it means rolling out 600 kiosks in Jet stores offering financial products and services, including a debit card.

Buy now, pay later is exactly that: consumers pay a deposit, take the goods and pay the balance, normally over two or three months, interest free, for which the funder takes a commission.

Valuations of some companies that operate in this space are stratospheric: international financial technology company Afterpay was recently bought in a $29bn deal; Swedish fintech firm Klarna reached a $46bn valuation in a recent private fundraising round, and US business PayPal bought Japanese company Paidy for $2.7bn. Buy now, pay later accounted for 2.1% — or about $97bn — of all global e-commerce transactions last year, according to Worldpay, a processing platform for online transactions.

In TFG's case, the shift will start with Jet, but many of the other brands in the group's portfolio will be able to access to both the buy now, pay later products and the full suite of value-added services.

TFG now owns 29 brands across its portfolio, including Totalsports, American Swiss, Foschini and Markham. Last week it announced it would buy bedding chain Granny Goose and its manufacturing arm, Cotton Traders, which specialises in duvets, pillows and linen. The TFG group plans to roll out about 1,000 stores over the next three to four years, and to reopen all 198 stores that were looted or destroyed in July.

But it's not just about opening new stores. TFG's brand portfolio gives it flexibility to optimise existing space among its various brands as shopping precincts change over time. A recent example is the original Foschini store in Eloff Street, Joburg. It was on the decline, and was replaced a month ago by a Jet, which is already outperforming.

It helps that it has loyal customers. While Clicks and Pick n Pay are well known for their loyalty programmes, TFG has more than 20-million customers on its own loyalty plan.

TFG's growth plans seem to fly in the face of views of SA's muted economic growth prospects.

But the business model is backed by the group's range of brands as well as the spending power of the informal economy, which is cash based and whose strength is underdocumented and underestimated.

"The most conservative estimate of the informal economy in SA is over R300bn a year, which makes it bigger than the whole clothing and apparel industry in the country," says Thünstrom.

TFG itself has nearly doubled its turnover over the past five years, partly thanks to steady store openings of about 200 a year. Thünstrom says: "Some of the most profitable stores are in the least likely places. It comes down to the rent and fixed costs. We've got stores in Mthatha that are more profitable than those in Sandton.

"We are less likely to be opening a lot of new stores in major urban areas, because we already have these fairly well covered. However, there are huge parts of SA that are largely driven by the informal economy where there is a lot of money and a lot of demand for our brands. We just haven't got there yet. You can only move so fast."

It's one reason the company continues to focus on cash sales rather than credit. Where sales were about 72% credit based 10 years ago, now 70% of business is based on cash purchases.

TFG CFO Bongiwe Ntuli says the company does not run its credit book to make profit, but to make products accessible.

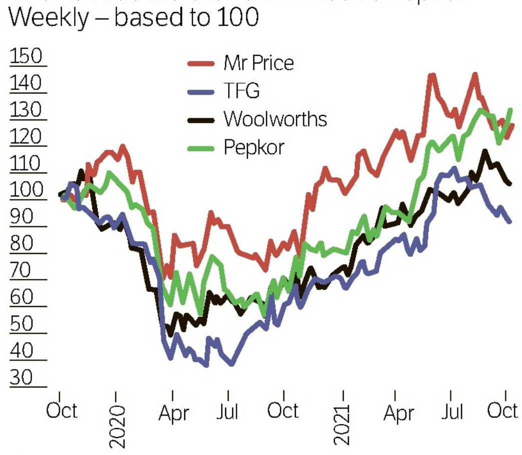
But it's not only value offerings that are sought after. "We can open a Fabiani [branch] pretty much anywhere in SA and it trades well. We just opened a new Fabiani in Richards Bay and it's already flying," Thünstrom says.

Jet, which TFG bought from Edcon's business rescuers last year, is one of the brands in the group with the greatest potential for expansion. Its performance since TFG took over has been better than expected, partly because the brand had been so squeezed under its former parent. When TFG came in, Jet had no banking facilities and no stock, and it was being "drip-fed" money by the business rescue practitioners. Most of its major suppliers had stopped providing merchandise because they didn't believe they were going to get paid, says Thünstrom.

If Jet's performance continues on its present

ROCKING RETAIL

TFG vs Woolworths vs Mr Price vs Pepkor
Weekly – based to 100



Source: Infront

Trial run: TFG will pilot its buy now, pay later scheme in Jet stores
Freddy Mavunda

TFG
BUY
Target price: **R148.42**
Potential upside: **13.6%**
* Based on analysts' consensus forecast

track, it will be "nothing short of incredible", he says.

At the same time, Jet was the most affected of the TFG brands by the looting in July, as it had a more rural store base. The company lost about 11% of its stores, while the average loss for the rest of TFG was 5%-6%.

While the looting and violence have left deep scars on many business owners, Thünstrom appears optimistic about SA's prospects.

"You look around the world, there aren't that many great places," he says.

The group has invested hundreds of millions in retail technology, and this shows no sign of abating. TFG hired the two joint founders of online fashion firm Superbalist at the beginning of April to drive technology and innovation through "TFGLabs" across the group. The performance of the past 12 months shows that an online customer spends about 250% more than a store-only customer. And it says an omnichannel shopper spends 520% more than a store-only shopper.

The group also bought mobile app developer Flat Circle to replatform its websites and redesign its mobile shopping app.

Thünstrom says the group's online offering is already profitable because most costs are already sunk, but the real question is whether it can become as profitable online as at store sales. He says it will take a few years to get there.

Whereas 5% of its SA sales are now online, TFG is aiming for this to increase to 20% in three to four years, once all products are available online, which is not the case now.

But the focus on technology is not purely about e-commerce. About a month ago, TFG started rolling out automated changing rooms in Markham. These allow customers in a changing room to request different sizes or products through a digital screen, which communicates through a mobile device with sales assistants on the floor. Thünstrom says this service has been running for just over a month, and the sales have done well.

He says there's a view that online shopping is a rich person's sport, but argues that this isn't the case. Over a particular period in Cape Town, TFG had a similar number of deliveries to Khayelitsha as to the Atlantic seaboard.

Under Thünstrom, TFG has pushed hard to source its products locally, and the group is now the largest quick-response clothing manufacturer in the country.

That's a big change from four years ago, when it was sourcing more than 40% of its clothing offshore, mostly from China.

Now clothing imports constitute just 28% of local sales, which means that just over 70% of all the clothing the group sells in SA is from local sources. TFG says this has made economic sense, and was prompted by the need for a fast turnaround on fashion trends. At the same time, sourcing from overseas markets has become less competitive because of creeping labour costs, rocketing shipping prices and erratic delivery.

TFG says lead times on orders before the pandemic were 42 to 52 days for quick-response products in SA. From overseas it was taking 150 to 180 days at best; now it's about 200 days.

There are huge parts of SA, largely driven by the informal economy, where there is a lot of money and a big demand for our brands

Anthony Thünstrom

And if you make the wrong fashion calls, you're stuck with stock that nobody wants.

"You try make a fashion call on what is going to sell six months out. You'll get it right two seasons out of four, or maybe if you're brilliant, two seasons out of three," says Thünstrom.

As for TFG's ambitions outside SA, the group has a dedicated Africa team, but the view is there are far more opportunities close to home. Still, TFG retains its overseas assets in the UK and Australia, notwithstanding the "sleepless nights" Thünstrom says he had over the future of the UK business due to Covid. The company closed more than 200 of its 900 stores in the UK, but it is now trading ahead of its own forecasts.

Australia, on the other hand, made record profits last year, though sales were "mixed" over the first two quarters this year as the country experienced a series of localised lockdowns. Still, says TFG, every time the country reopens an area, there's a shopping frenzy.

Overall, TFG expects a return to headline profit for the first half ended September, after recording its first ever loss in the 2021 financial year.

TFG shares have rallied 26% year to date, with analysts maintaining a "buy" on the stock. **x**

Cosy with Covid

Jet Home was launched six weeks ago as a store within a store in 150 of its shops, and TFG CEO Anthony Thunström says it's trading well. Between now and the end of March, 10 stand-alone test Jet Home stores will open, taking on established operators such as Mr Price Home and Pep Home, with a team Thunström says is committed to the segment and experienced in it.

The big shift for retailers has, of course, been the pandemic, which sparked a home improvement and decorating boom.

But TFG has lost out in the lower-income sector. "We've just never had home in the value segment; it's always been mid to upper. Value retailing is different from mid to upper retailing — it just wasn't in our DNA. If you wanted someone to design something at price point, they always came in too expensive[ly]," he says.

Jet Home will initially do soft and decorative products, as opposed to furniture. "It's a much simpler business than fashion clothing," says Thunström, adding there are far fewer variables to deal with.

TFG has previously said the market opportunity in this category is about R12bn. x

Make yourself at home: Jet Home store