

# Retail Sector Report 2022

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TRADE UNION COMPETENCE CENTRE  
SUB-SAHARAN AFRICA



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## Introduction

The Johannesburg Stock Exchange lists 29 companies in the two categories Food & Drug Retailers and General Retailers. Of this list, our sample includes nine companies. These companies are:

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|------------------------------|
| <b>Cashbuild</b>             |
| <b>Foschini</b>              |
| <b>Massmart</b>              |
| <b>Mr Price</b>              |
| <b>Pick n Pay Stores Ltd</b> |
| <b>Shoprite</b>              |
| <b>Spar</b>                  |
| <b>Truworths</b>             |
| <b>Woolworths</b>            |

The retail sector in South Africa is the second largest employer after the government. This makes it a key sector for the LRS to monitor. The rich data extracted from the LRS's [MNC Database](#) enables a retrospective view of company performance over the course of the last eight years. Following this, we analyse the notoriously high remuneration packages received by directors in this sector.

## The Sector

Retail is still not performing at the levels it was before the Covid-19 pandemic: 'During the first 11 months of 2021, total retail trade sales were 3.2% higher than the figure for January to November 2020, but still 4.7% lower than during the corresponding period in 2019 (in real terms).'<sup>1</sup>

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<sup>1</sup> <https://www.dailymaverick.co.za/opinionista/2022-01-25-long-road-ahead-for-the-retail-sector-particularly-e-commerce/>

Retail trade sales represent close to 20% of South Africa's GDP.<sup>2</sup> While this has been good for retailers in the past, the Covid pandemic and Eskom's power cuts have meant that growth in this sector has been slow. More recently, the impact of the war in Ukraine on supply chains and inflation, as well as interest rate changes have put even more pressure on consumers.

The pandemic along with local and international lockdowns has led to a noticeable shift in the way households shop. South Africans are spending less on alcohol, clothing, eating at restaurants, furniture, appliances and hotels. Alongside this, unemployment in South Africa has reached record highs, meaning people simply have less money to spend.

Shoprite is the largest retailer in the country with a market capitalisation of R130 billion – which is more than Pick n Pay and Spar combined. Pick n Pay dominated this same market in the 1980s, but Shoprite has continually grown over the course of the last 20 years to dominate the space. Shoprite is extremely good at centralised distribution and technology, which has enabled this growth over its competitors. The CEOs of these two retailers have played an important role in their growth. Both retailers have recently introduced new CEOs (Pieter Engelbrecht at Shoprite and Pieter Boone at Pick n Pay). Engelbrecht has continued to grow Shoprite by offering competition to Woolworths in the high-end grocery offering and continuing to grow market share at the lower end of market.<sup>3</sup> Shoprite is also in the process of closing some stores in the Rest of Africa and focusing on the local market.

Pick n Pay is rapidly growing its lower end offering with the brand Boxer and are planning on expanding this brand by over 200 stores in the coming year.

Spar, another big competitor in the sector, runs a very different kind of business. Spar doesn't own most of the stores brandishing its name – but does deliver to these stores.

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<sup>2</sup> <https://www.dailymaverick.co.za/opinionista/2022-01-25-long-road-ahead-for-the-retail-sector-particularly-e-commerce/>

<sup>3</sup> <https://www.ghostmail.co.za/jse-retailers-where-is-the-value/>

The biggest news in the sector is that Walmart is buying out Massmart, and subsequently will delist the company. Walmart, the American retail giant, bought control of Massmart 10 years ago. Walmart bought a 51% stake in Massmart for more than USD 2.5 billion. Since then, the company has lost more than 80% in value. Walmart seems to have lost patience with the company and failing the turnaround plan (which was buffeted by ZAR 4 billion in Covid-19 related aid from Walmart to Massmart), has decided to buy the remaining part of Massmart and delist the company. This move was approved by shareholders on Friday 21 October – Walmart had offered a 50% premium on the share price at the time to entice shareholders to the deal. With further conditions still needing to be met, the expected delisting date is approximately 8 November 2022.

This is likely not good news for workers at the company. Firstly, the delisting means that we will not have access to the level of information that the company was previously compelled to make public. This means that we will no longer have access to remuneration packages for executives, and that financial information will be less freely available. Walmart will be able to make more dramatic changes to the company in its unlisted form – like selling off parts of the business that aren't performing well. In its operations in America, Walmart is very openly anti-union. The unions in our alliances will no doubt face challenges when dealing with this company.<sup>4</sup>

Three clothing retailers (Truworths, The Foschini Group and Mr Price); and two hybrid retailers Woolworths and Cashbuild have not performed well in the last five years (aside from Cashbuild). Both Woolworths and Truworths made some bad business decisions. However, despite being aimed at a very high end of the market, Woolworths has a remarkably high market share in terms of food retail (around 10%) – in a country with such high unemployment, it's unlikely that the company will be able to grow substantially with its current offering.<sup>5</sup>

The pandemic forced retailers to increase online capabilities: for the ten days leading up to the lockdown, Pick n Pay saw a significant increase in online orders. This prompted Pick n Pay to

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<sup>4</sup> <https://www.populardemocracy.org/news/how-walmart-persuades-its-workers-not-unionize>

<sup>5</sup> <https://www.ghostmail.co.za/discretionary-retailers-on-the-jse-part-1/>

launch a same-day delivery service, competing with Shoprite's Checkers Sixty60 app, which promises to deliver you online order within 60 minutes. This speaks to an important change in the South African retail landscape – in the last two years, South Africa's online retail has more than doubled.<sup>6</sup> By the end of 2021, however, online retail will likely account for only 4% of all retail in South Africa. However, retail groups Woolworths, Truworths, Foschini and Mr Price recorded online sales ranging from only 2% to 5% of total sales during their latest interim reporting periods.

With all the above restrictions, retailers will likely remain under immense pressure in the near future.<sup>7</sup> Both Shoprite and Pick n Pay seem to be weathering the storm and are making positive changes in their business structures, which will put them ahead of their competitors.

## Financials

### Revenue

On average, this list of companies reported a 3,1% (see *Figure 4*) increase in revenue in what could be termed one of the most difficult years in retail. The effects of the pandemic can easily be seen in the 2021 financials.

The biggest increase in revenue was reported by Truwoths, with an increase of 31,9% or approximately ZAR 4 billion. Cashbuild (25%), Shoprite (9%), Pick n Pay (4%), Woolworths (3,45) and Spar (3%) all reported an increase in revenue as. Shoprite, the biggest employer in the sector, reported revenue growth slowed from the previous year, when it grew by 4,3%. Mr Price reported a small drop in revenue (- 1%); Foschini reported a drop of 7,5% while Massmart fell by another 10,5%.

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<sup>6</sup> <https://www.businessinsider.co.za/sas-online-retail-has-more-than-doubled-in-two-years-but-the-best-is-probably-over-2021-5>

<sup>7</sup> <https://www.ghostmail.co.za/sa-retail-spending-at-risk/>

From the chart below (*Figure 1*), Shoprite remains the biggest company in the retail sector, with Spar and Pick and Pay following. Massmart has been overtaken as the fourth biggest retailer in our sample by revenue by Woolworths, mainly due to multiple store closures the over the course of the last year. *Figure 2* shows a pie chart of the companies in our sample by revenue. This chart shows clearly the size of the sample market that each company has by revenue. Woolworths remains a small competitor when compared to other grocery retailers Shoprite and Pick n Pay.

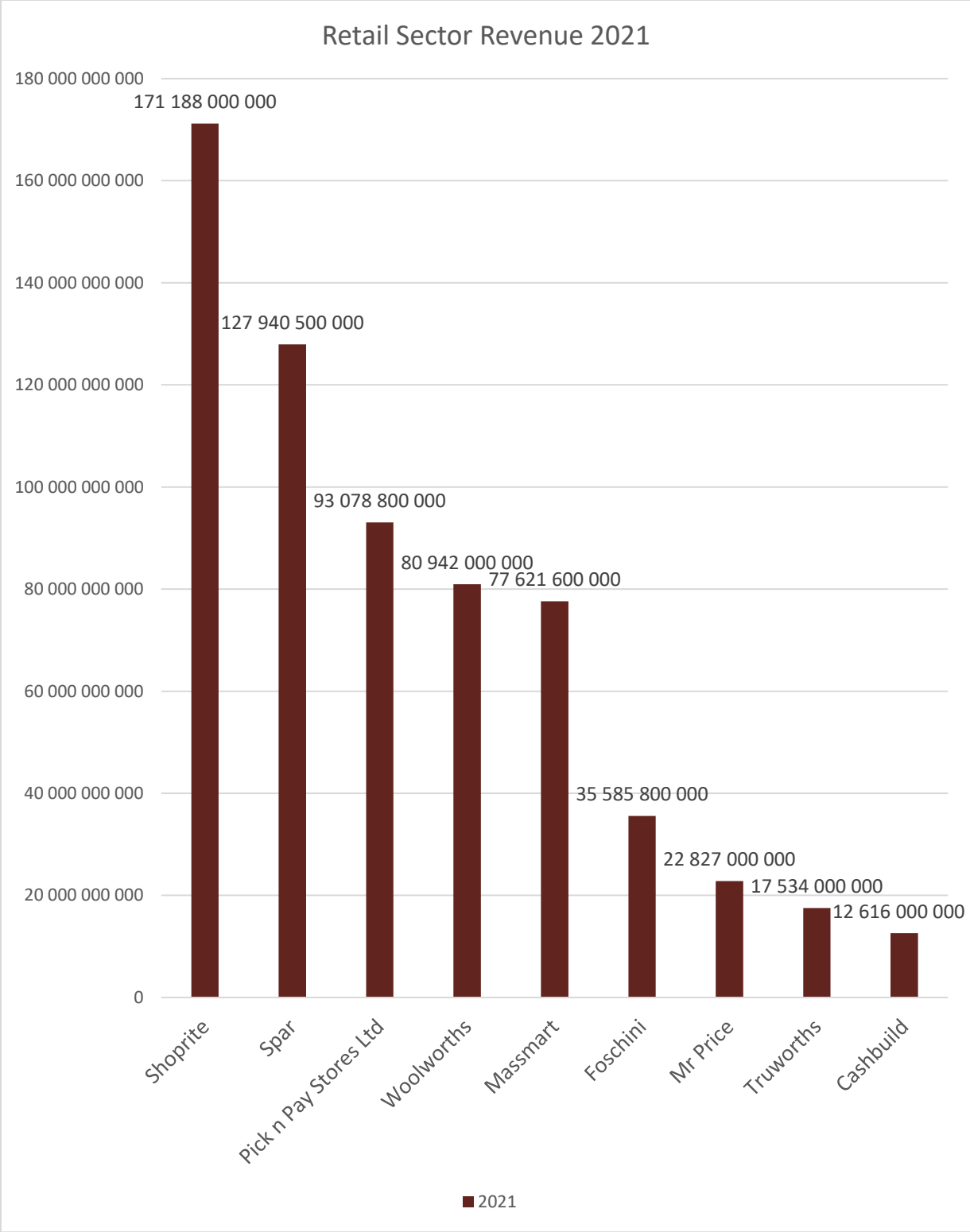


Figure 1 Retail Sector Revenue 2021



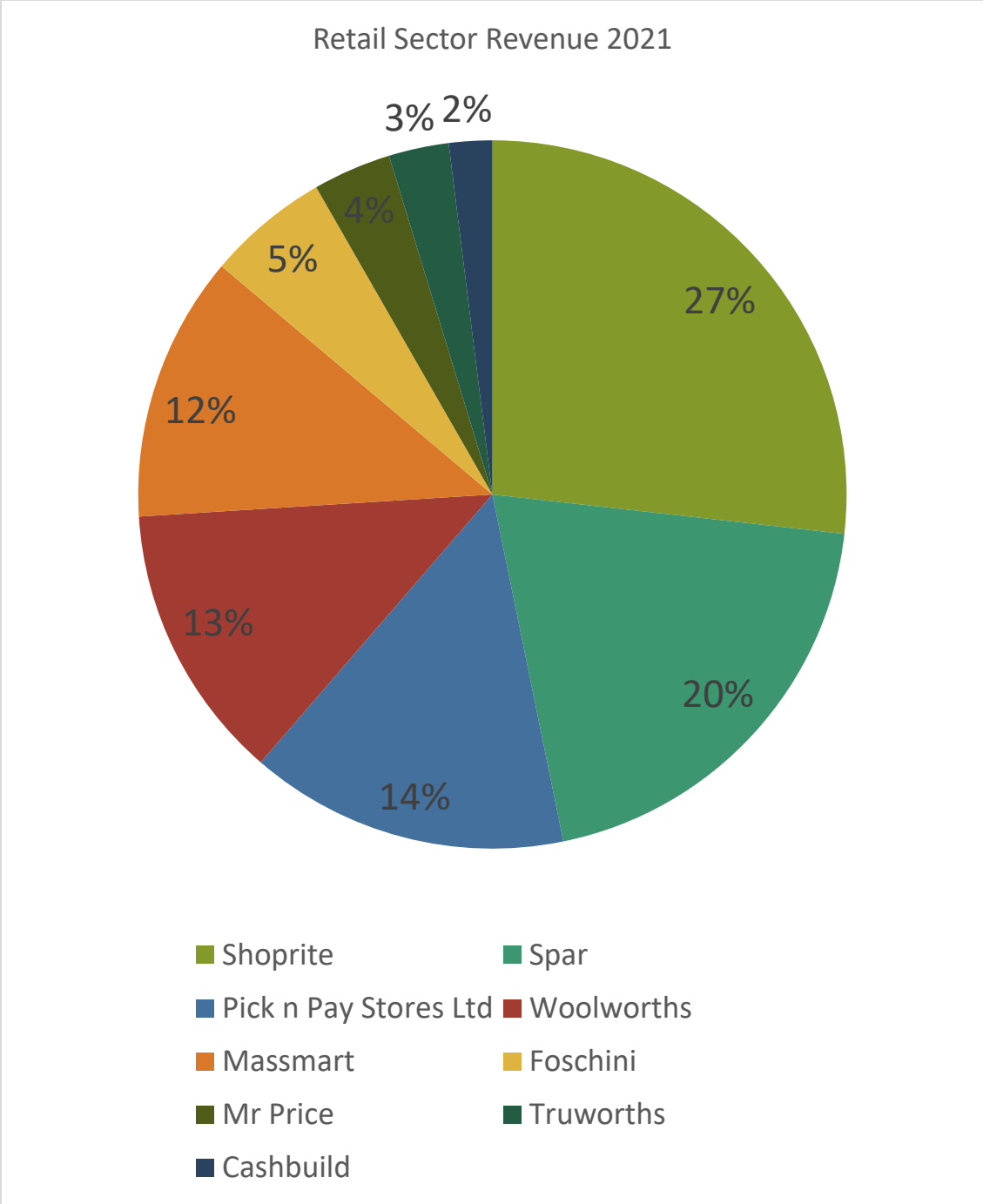


Figure 2 Retail Sector Revenue Pie Chart 2021

## Retail Sector Revenue 2021

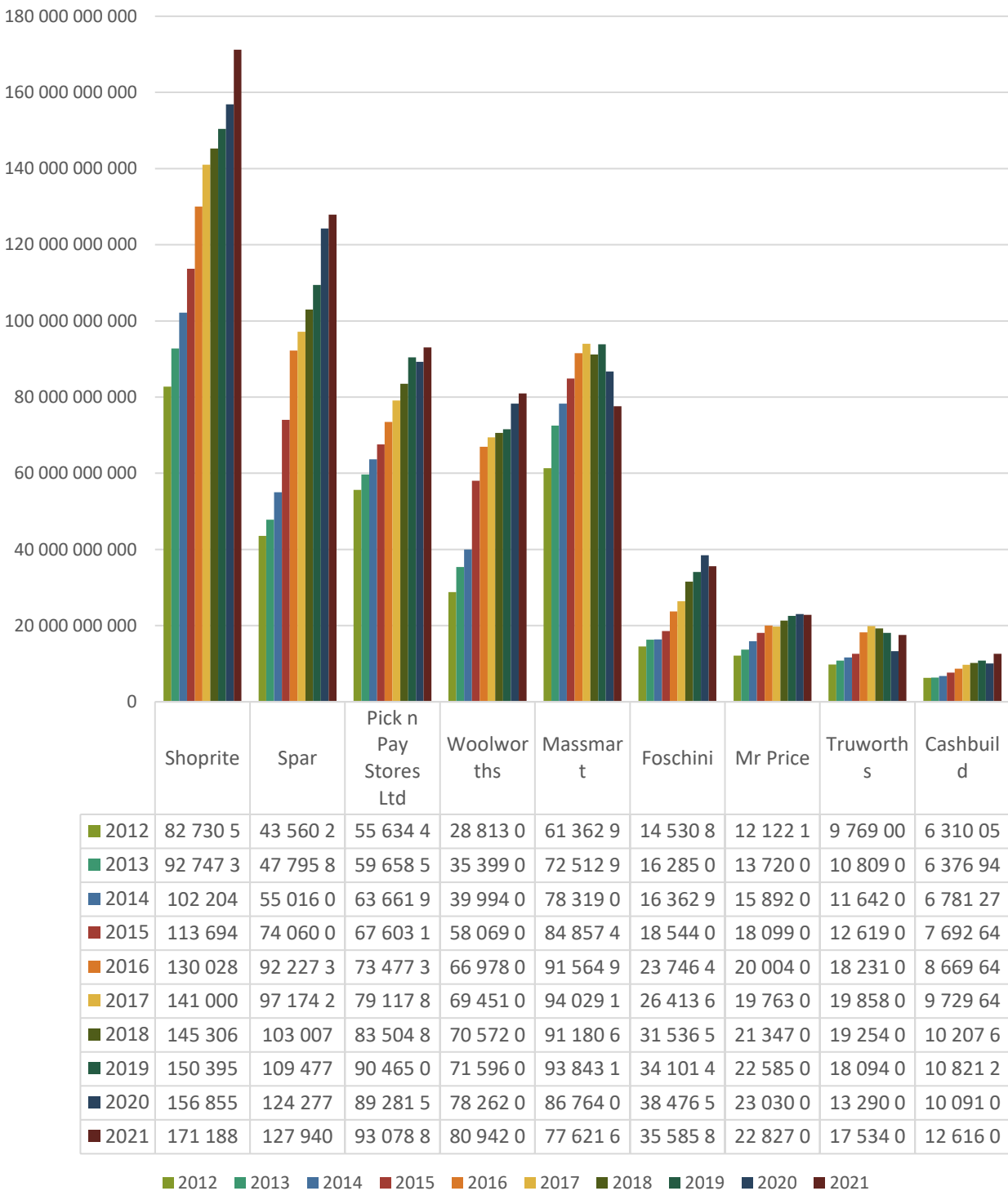


Figure 3 Retail Sector Revenue 2012 to 2021



Figure 4 Retail Sector Average Revenue 2012 to 2021

### Profit before Tax

In 2020 companies in this sample reported some significant losses. Only one company reported an increase in Profit before Tax –Woolworths - who reported a Profit for the first time since 2017. In 2021, five out of the nine companies on the list reported an increase in profit before tax. Cashbuild reported a significant increase of 145%, and Woolworths reported an increase of over 137%. Cashbuild saw a drop in revenue in 2020 that accounts for this large increase, however the company has made some significant increases and have surpassed pre-Covid levels of revenue. For Woolworths, that reported a loss in 2018 and 2019, this increase still does not bring the company back to the profit before tax of 2016.

Foschini reported a massive drop in profit before tax – reporting a loss of ZAR 1,7 billion for the first time. Massmart continued to operate at a loss. For the 2021 financial year, the company reported a loss of over ZAR 1,9 billion (see Figure 5).

Shoprite remains the biggest earner in the sample with profit before tax of almost ZAR 7 billion – however this number is lower than profit before tax in both 2017 and 2018, suggesting that the retailer is still recovering from a difficult trading time in South Africa and in the rest of Africa.

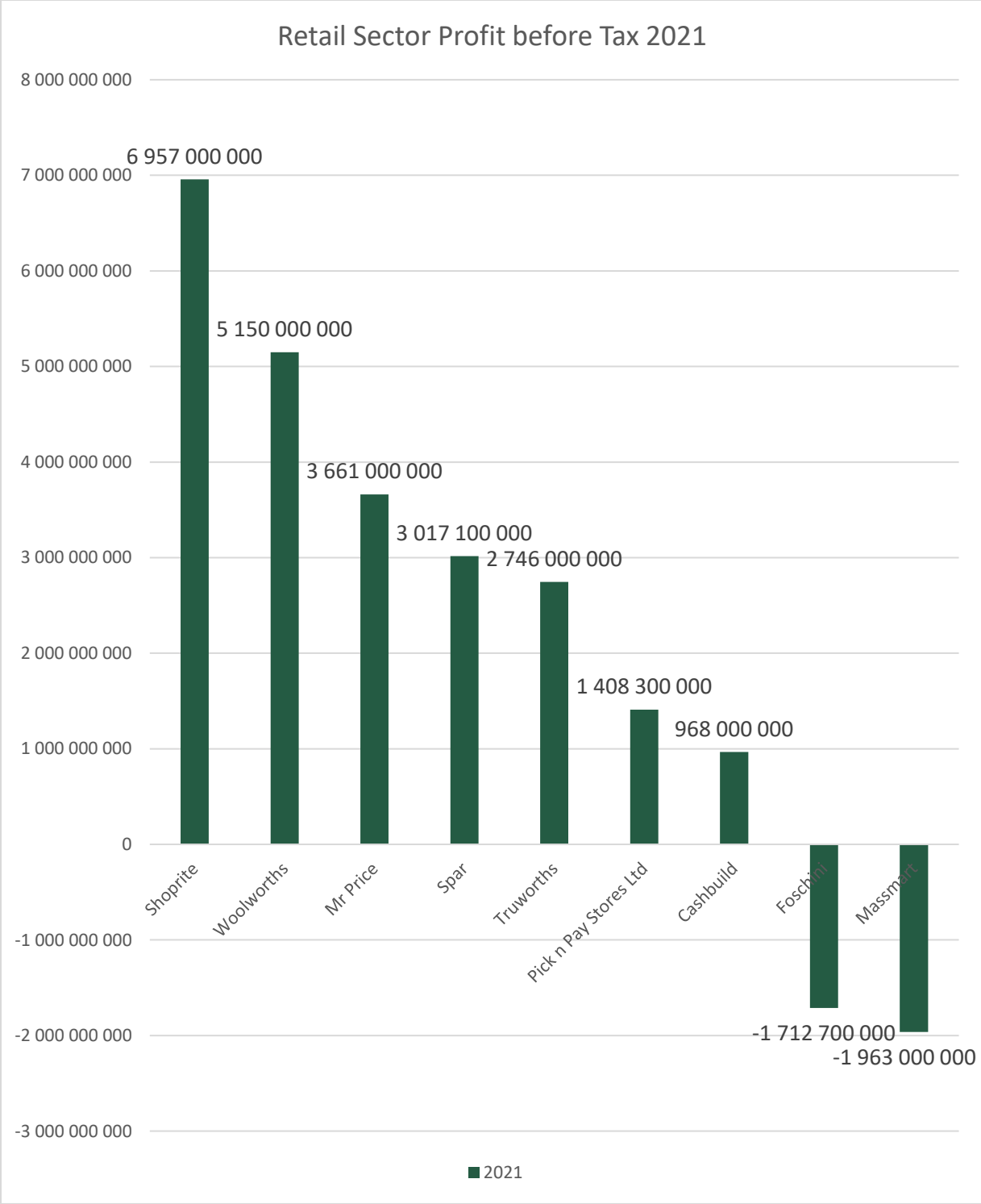


Figure 5 Retail Sector Profit before Tax 2021

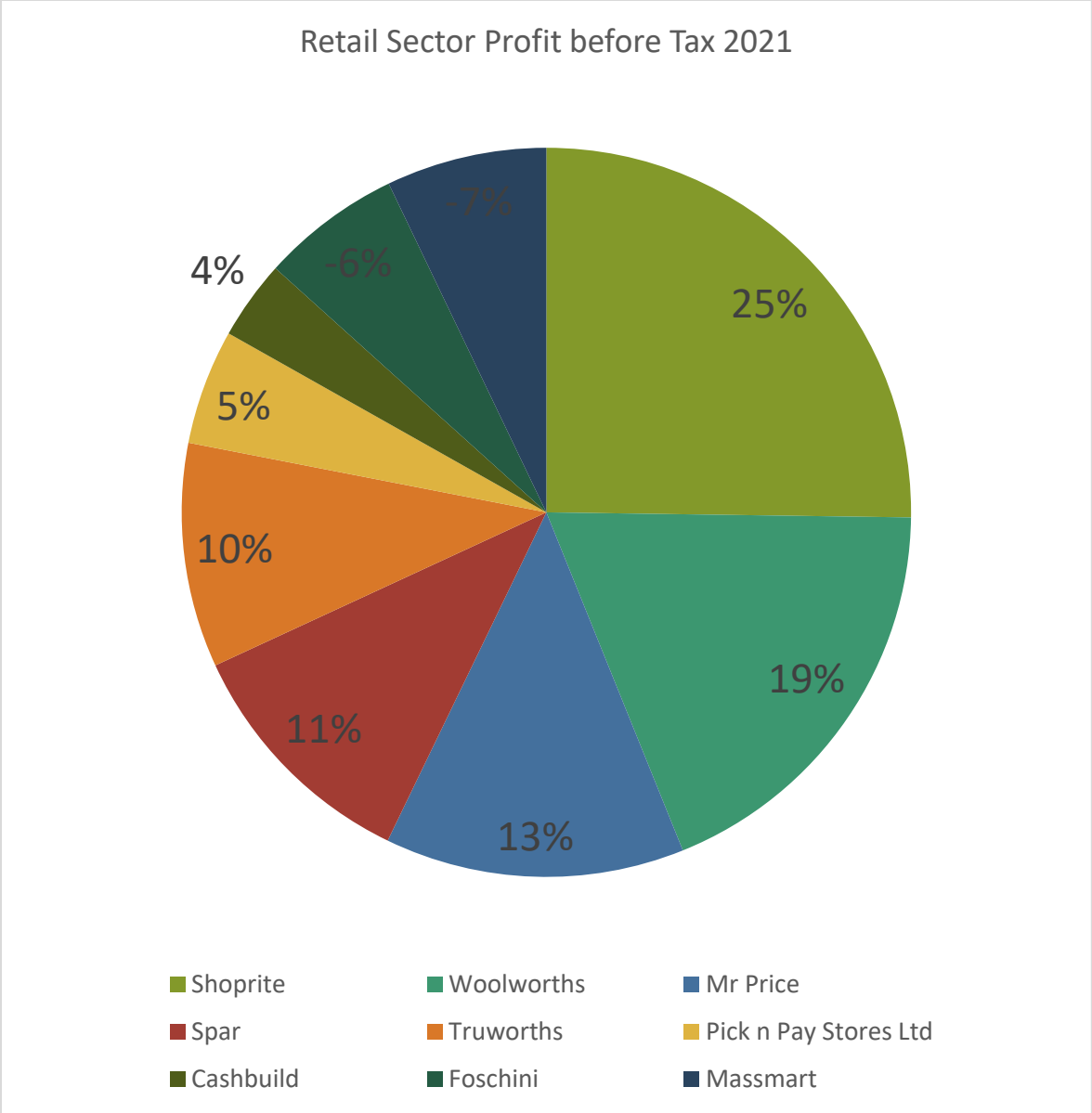


Figure 6 Retail Sector Profit before Tax 2021



Figure 7 Retail Sector Profit before Tax 2014 to 2021

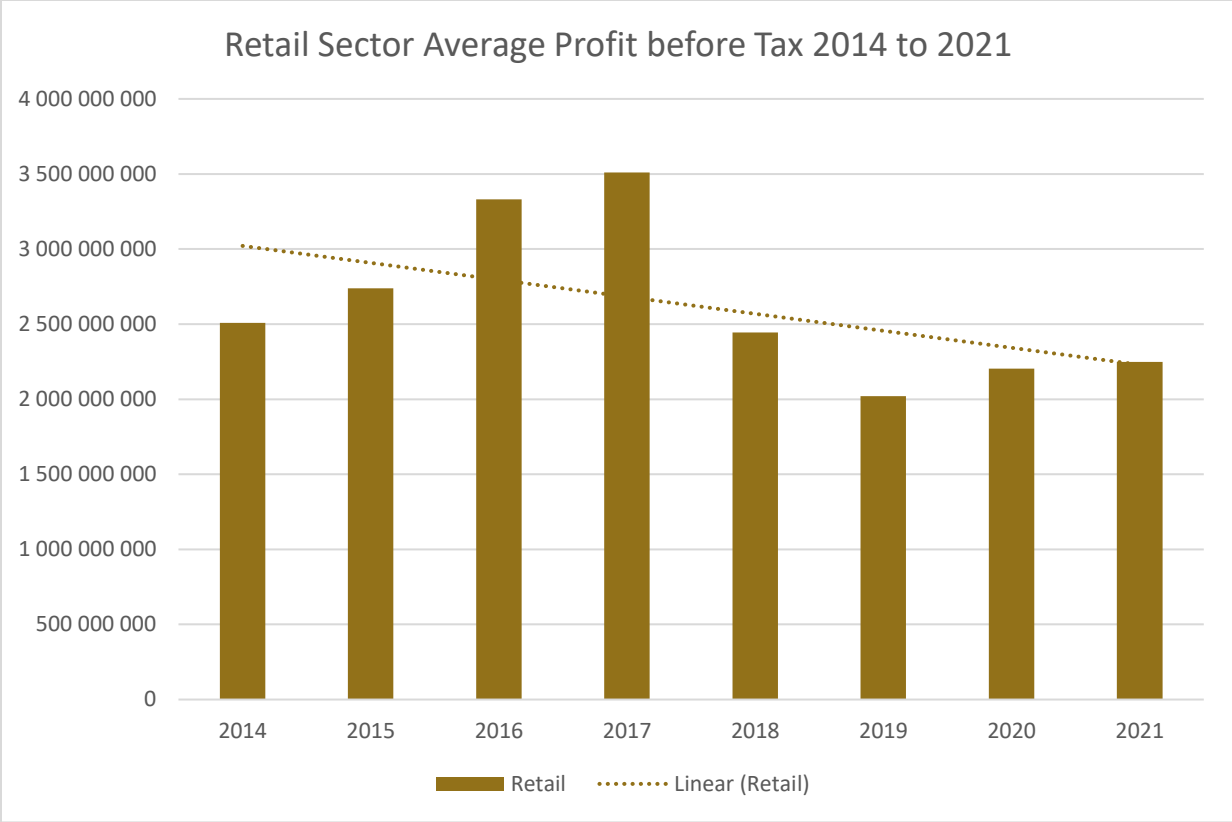


Figure 8 Retail Sector Average PBT 2014 to 2021

## Directors’ Remuneration

The LRS MNC database allows us to look at CEO remuneration over the course of the last eleven years. In the retail sector, and our sample specifically, we see the general trend over time being upwards, with a large spike in 2016 when the then Shoprite CEO retired and was paid a significant LTI (see *Figure 9*). There is another spike in 2021, when CEO of Pick n Pay Richard Brasher retired and received an LTI payment of ZAR 115 million.

When looking at *Figure 9*, we see that in 2017, 2018, and 2019 we can see a large gap between the average total remuneration without LTI and total remuneration including LTI. This shows that large LTIs were paid in these three years. This gap closes in 2020, which was arguably a very difficult year for retailers. In 2021, this gap widens significantly – mainly due to the LTI paid to the outgoing CEO of Pick n Pay.



From 2020 to 2021, average total remuneration (including LTI) went up by over 100% - almost no LTIs were paid in 2020 due to the effects of the pandemic, so the increase is from a low base, However, the average is the highest it's been since 2016.

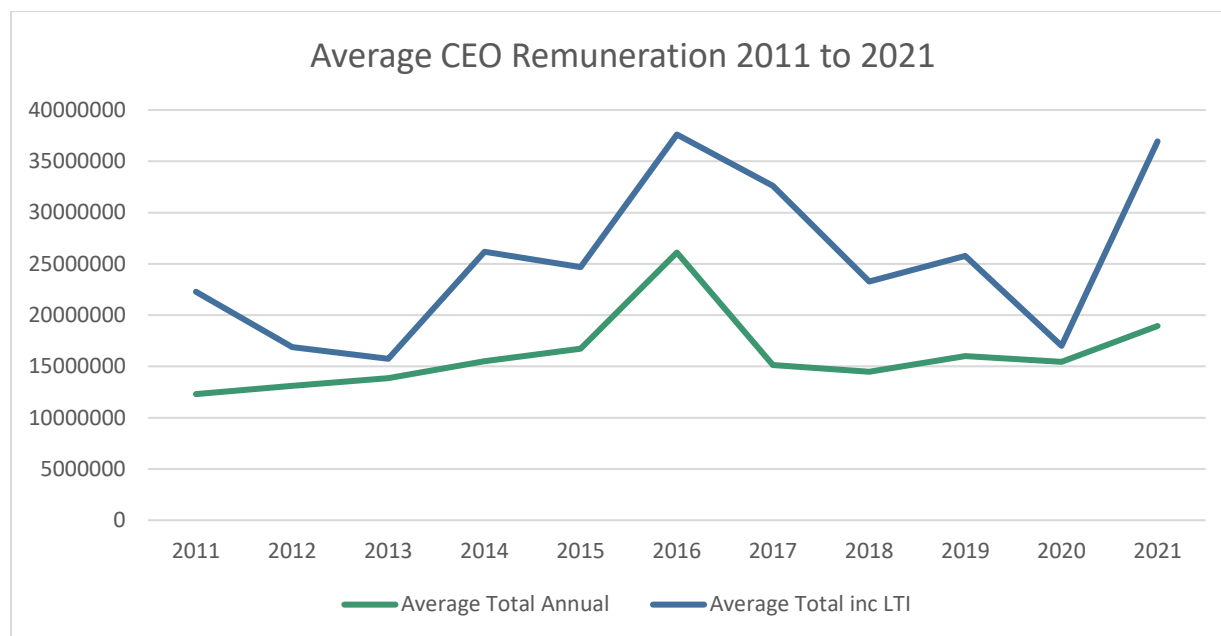


Figure 9 Retail Sector CEO Remuneration 2011 to 2021

## CEO Remuneration 2021

In the retail sector, the outgoing CEO of Pick n Pay, Pieter Engelbrecht, received total remuneration of ZAR 153 million, which includes an LTI payment of ZAR 115 million and a cash bonus of ZAR 20 million. This makes him the highest earner in the sample for the 2021 year. The new CEO of Pick n Pay is Pieter Boone, who was appointed as the CEO on 20<sup>th</sup> April 2021.

According to the annual integrated report, Pieter Boone is praised for his strong leadership in difficult times as he was 'on the ground' in KwaZulu-Natal in the immediate aftermath of the unrest, directing operations and ensuring food delivery and essentials to the communities of KwaZulu-Natal from other parts of the countries with exceptional efficiency.<sup>8</sup>

<sup>8</sup> Pick n Pay Integrated Annual Report 2022: <https://www.picknpayinvestor.co.za/downloads/annual-report/2022/fy22-integrated-annual-report-single-pages.pdf> [Page 10]

The previous CEO, Richard Brasher, received a huge remuneration in 2021, which mostly consists of an LTI payment. Excluding both short-term and long-term incentives, the CEO's (Boone and Brasher) total guaranteed package increased by about 26.38%, from ZAR 14.6 million in 2021 to ZAR 18.4 million in 2022.

Despite significant and ongoing losses, Massmart CEO Mitchell Slape earner total remuneration of over ZAR 29 million. This is inclusive of a ZAR 8 million LTI as well as over ZAR 10 million in 'benefits'. This is concerning given the ongoing losses the company is facing, the retrenchments and store closures. The CEO of Truworths has retired after being in the position for 30 years. His 2021 remuneration included a ZAR 15 million cash bonus and a ZAR 19 million LTI payment.

On average, from 2020 to 2021, average total executive remuneration went up over 100%. In the same time period, average non-executive remuneration went down by 1,8%.

### CEO Remuneration 2021

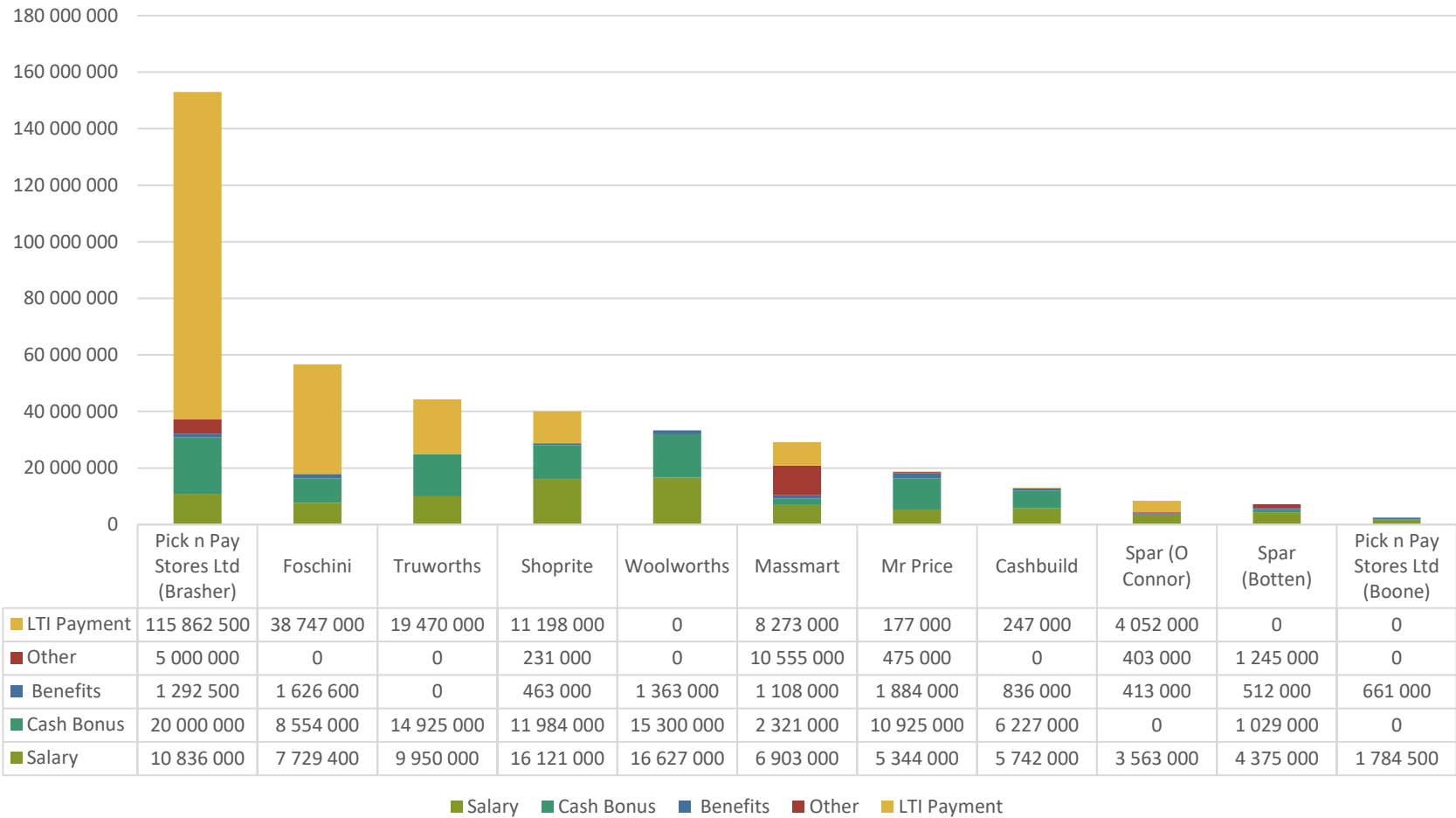


Figure 10 Retail Sector CEO Remuneration 2021

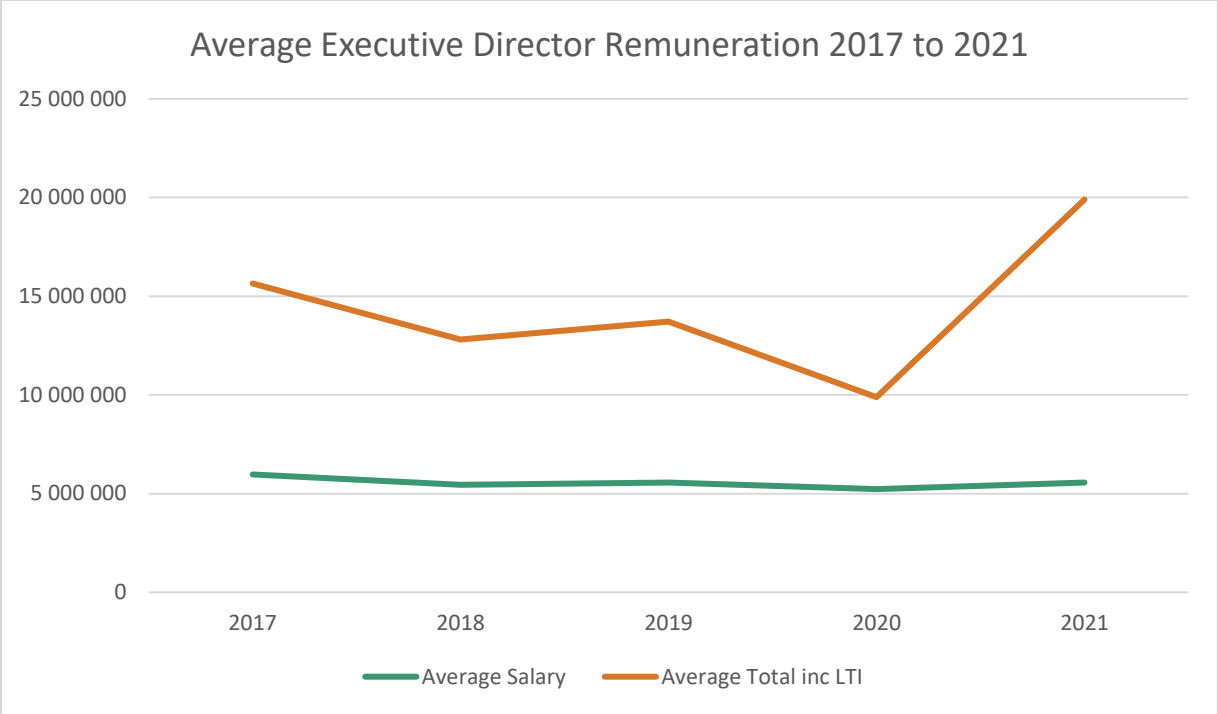


Figure 11 Retail Sector Average Executive Director Remuneration 2017 to 2021

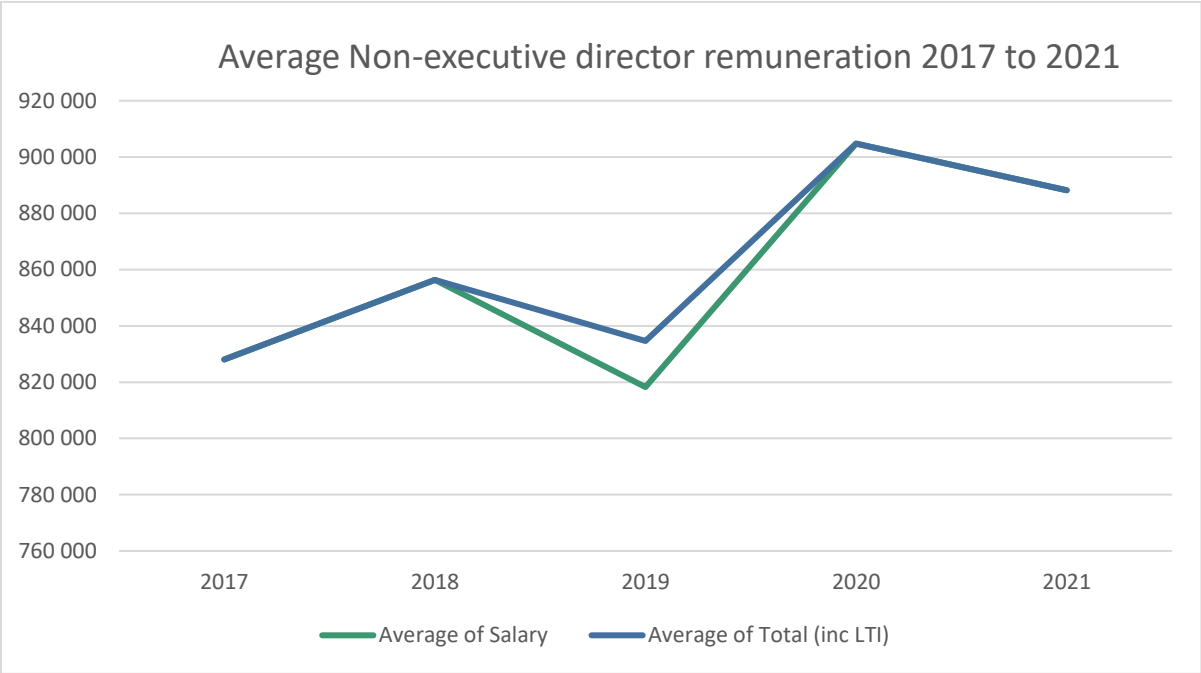


Figure 12 Retail Sector NED Average Total Annual Remuneration 2017 to 2021