OKF/H&H Consolidated Interview Notes

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Trading Entity Overview

Business Overview

OK Furniture (OKF) and House & Home (HH) are two distinct store brands within the group, with separate Buying, Inventory, Logistics and Store Operations. The business has been operational for more than 20 years. They operate in 9 countries in Africa, targeting low-to-mid LSM customers. They target (and are more successful in) outlying areas rather than upmarket city centres such as e.g. Sandton.

OKF accounts for 85% of the total annual revenue of R6.5Bn, with HH much smaller at 15% while catering for a slightly higher LSM customer.

Online sales is a very small percentage for both chains (0.15 - 1.3%), but is showing a much higher than average growth (66% vs 20%).

Only insurance and debtors functions is shared with the group - the rest are distinct.

Aspirations

A number of stores in South Africa were closed recently and a few new stores were opened outside of SA, and Paul believes that there is limited scope for organic growth by increasing retail space, especially in South Africa. They are likely to continue opening new stores outside of SA.

Online is seen as a big opportunity, but overall it is still a small drop in in the ocean, and currently only available in South Africa. The growth opportunities are likely to come from increased online presence to grow market share, capitalizing on strengths such as everyday low prices delivered anywhere in SA, allowing a wider reach for a bigger range.

Given the low current online volumes, Paul believes they can easily grow online 2- or 3-fold without having to invest in any major infrastructure upgrades.

Paul can see some advantages in allowing customers who enter any online Shoprite channel to be offered a full range of products of services.

Constraints

Current systems (Argility ERP) are old and do not integrate to other back-end systems, with the consequence of not having real-time stock visibility. During Black Friday 2020, OKF over-sold 8000 beds, some of which are still being fulfilled now (2 months later).

OK and H&H systems are separate. It is not possible to sell or view inventory across brand

Economic fulfilment to remote locations where there is no Store presence represents a challenge to achieving growth aspirations. This could be addressed by partnering within the Group or with external 3rd Parties.

Functional Area Analysis

Merchandising

- Biggest categories
  - OKF: Appliances ("plugs"), bedding, lounge
  - HH: Lounge, bedding, appliance, patio (with regional variances, e.g. in Gauteng where Lounge is bigger)

- Biggest Margin is in Bedding
- Biggest customer for KIC/Whirlpool, 2nd biggest for Defy
- Participate in group-wide Connect sales program with Vodacom for Cellular business.
- Small overlap with Shoprite ranges – tend to have own suppliers and unique range to avoid brand confusion with the rest of the Group.
- PIM
  - Majority of FABs and images are sourced directly from suppliers.
  - External agency 99c holds media & FABs
  - Some product images (also marketing material) maintained in-house via photo-shoots. Important to maintain "the look"

Marketing

- Marketing strategy relies most heavily on printed catalogue circulated in hard-copy and online formats, but also television & radio, google AdWords, and social media (FB, Instagram are active, but Twitter mostly used for complaints management)
- There are some online exclusive campaigns (e.g. Swan Nordic)
- Partner with Media24, D6 Schools (e.g. back to school campaigns),
- Collaboration with CFS, advertising on their platform, e.g. B2B targeted. Also participate in Heyday campaigns (Checkers / group?)
- Promos
  - Rely on "Everyday low prices" as the biggest driver for increased sales
  - Not really using bundling, BoGoFs or other deals - margin too low (e.g. 10% on fridges). Baskets tend to be single-line, so this could be seen as an opportunity to increase cross- and up-selling.
  - NOTE FROM TECH SESSION on 23/03: They do have combo deals and free gifts, coupons with category restrictions
- No Loyalty program. Don't participate in group Xtra-Savings because would erode their margins.

Digital Content

- mypanoramic.com for Google 360 virtual tours, WhatsApp Business

Channels

- In-store in 9 African Countries (South Africa, Lesotho, Swaziland, Namibia, Mozambique, Angola, Zambia & Botswana)
  - By far the highest proportion of sales
  - They trade through 432 stores (330 in SA).
  - H&H has larger format stores 2500-3000 Sq
- Online
  - Only in South Africa, with plans to extend to other African countries
  - Roughly equivalent to a HH store.
  - Current platform is Magento 2.1 in the cloud. Able to grow bandwidth as we need (peaks), easily extendable, good dev team (Tradelink, Dev9) - happy to grow on Magento
  - Full catalogue is available online, apart from discontinued / end of range stock.
- Telesales are very small and almost exclusively inbound (i.e. responsive to customer queries)
- WhatsApp Business used for customer communication? Mentioned by Sheridan, not clear to what extent it carries catalogue content, or if just used for customer comms.
- Paul: "would like to become omni-channel capable

Customer

- Mostly B2C, with a small portion B2B (mostly hospitality with an overlap with CFS)
- Typical customers are aged between 25 and 44 and are typically formally employed
- H&H targets a higher LSM than OK.
- Only capture detailed customer info for credit sales (i.e. 11%)

- No customer Datawarehouse for analytical purposes. They can access sales history for customers from the Argility database if required.

Cart & Checkout
- Basket size - mostly single line item orders
- Guest Checkout allowed

Payments & Financial
- Credit / debit / cash (in-store)
- Buy on Credit / Lay-by (11% of sales)
  - Good source of income
  - low relative to competitors like Lewis stores where 66% of sales are via credit.

Orders
- Mostly single line-item orders

Fulfilment
- Modes
  - Deliver anywhere in South Africa
    - Mixture of own fleet, and third parties (2x couriers).
    - Small percentage of own fleet fulfils from store to customer, but mostly via 3rd party courier
    - Will ship from DC or store
  - Collect from stores or DCs
    - 432 stores, 330 in SA
  - No direct deliveries from suppliers to customers – all via OK/H&H DCs and stores.
- Speed of Delivery is less important than low cost
- Not sharing fulfilment services with any other BUs. Perceived to have very different shipping requirements
- Recognise that the Furniture logistics has unique attributes that would not be supported by Food orientated logistics. For example, warehouses have larger bays and are non-palletised. Therefore, the front-end would have to be able to seamlessly split orders to separate our Furniture items to be fulfilled through a specialised logistics chain.
- Stock
  - 95% of sales from in-stock items
  - Availability checking is problematic because Argility only updated in Batch overnight. However, there is generally good stock availability across the network (95%) but may not be in the right place.
  - Some endless aisle capability already (sourced on request, e.g. Samsung), with view to grow
  - Make-to-order being introduced now
- Supply Chain
  - HH stores in the bigger centres are serviced by DC's, else serviced by Supplier to Store
  - Each brand maintains its own DCs in larger cities with regional "cluster" warehouses servicing multiple stores in rural areas.
  - OKF is mainly Supplier to Store delivery. OK has a regionalised model for Suppliers to deliver direct to branch because volumes are low and cannot afford to have daily branch deliveries.
  - DC to store is delivered by own fleet

B2B
- Very small volumes, so not using any B2B-specific features

Marketplace

- Not discussed

Recommendations / Take-outs

- While online is currently a small proportion of sales it is growing and seen as key to future growth since it can help leverage OKF & HH inherent strengths in Buying and in Distribution to win greater market share without increasing Store footprint.
- Targeted Marketing & Analytics
    - OKF and HH rely on the "Everyday low prices" adage and do not have many complex promotions. While the margins are low, there should still be an opportunity for more targeted marketing campaigns
    - Most orders are for single line items, which hints at cross- or up-selling opportunities through better promotional mechanics. Buying a bed? Get 5% off any of our mattress protectors / pillows / sheets. TV Remote? Add batteries for only R15. Bundle a couch with throw cushions and the customer's choice of ottoman for a fixed price… etc.
    - Customer data is mostly restricted to those who buy on credit - not much is known about other individuals and their behaviour, context or needs.
- Shared fulfilment model
    - While groceries requires chilled and frozen capabilities and might have smaller bays or pallet handling capabilities, there are a number of products (like bedding & small appliances) that could be widely shared, and CFS has capabilities to ship even large appliances
    - Would help address the challenge of getting economic distribution of deliveries to remote areas where there is no store presence.
- Online selling capabilities should be extended to support multi-country & -currency
- The current Magento web-shop is seen as fit for purpose and is not an obstacle to achieving future aspirations – although in the longer term there may be benefits in moving to more of a shared platform
- The current Argility platform does have constraints in terms of visibility and lack of integration. It is a specialised furniture ERP and instead of replacing it, it could be front-ended by the DOM layer to allow for better ATP and optimised fulfilment?