Business Case for:

B2B eCommerce platform operational costs

This document contains business requirements and the opportunities related to the Board and Project Approval Committee (PAC) approved projects. The feasibility is expressed in terms of cost vs. benefit.

Configuration Management

Date	Version	Description	Changes Made	Author
2024/04/18	V1.0	First draft		Chantall Samuel
2024/05/30	V1.1	CBA updates	Updating values and changes requested from CFO	Chantall Samuel

Name and Surname	Brand	Position	Signature	Date
Andrew Gardener	Cash and Carry Wholesale liquor	Sponsor	Andrew Gardener (Jul 5, 2024 13:32 GMT+2)	05/07/2024
Gert Boshoff	Cash and Carry Wholesale liquor	Business Owner / BD Manager		06/07/2024
Jaco Engelbrecht	Transpharm & Red Star Wholesale	Sponsor		01/08/2024
Mark Cotton	B2B eCommerce	Head of eCommerce		05/07/2024
Chris Shortt	Shoprite Technology	Chief Information Officer	Chris Shortt (Jul 5, 2024 15:11 GMT+2)	05/07/2024
Debbie Cunningham	Shoprite Technology	Head of Digital Technologies	Debbie Cunningham (Jul 5, 2024 13:18 GMT+2)	05/07/2024

Finance VMO and IT Value Management (PMO) Review and Sign-Off

VMO/PMO comments: Based on the total 5-year costs, this project requires a Board Resolution before the project can be initiated. Under estimation will result in delays in vendor payments due to procurement of additional budget.

Name and Surname	Position	Signature	Date
Deon Thiart	Finance Value Management Officer		
Neil Botha	IT VMO Value Manager		

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Executive Summary

Background	The B2B eCommerce Team supports the Group's strategy to develop future-fit channels, unlock alternative revenue and leverage platform advantage. This is achieved by delivering differentiated online B2B customer (wholesale) experiences, through multiple channels, enabled by scalable and re-usable enterprise capabilities and services. We will maintain Shoprite Cash & Carry and LiquorShop Wholesale, Transpharm and Red Star Wholesale to establish an omni-channel presence cost-effectively and rapidly, to offer their customers access to an extended range and comprehensive services.
Business problem/opportunity	• Shoprite has initiated its strategy for accelerating digital transformation in the e-commerce sector. • As part of a strategic decision made by the group, both Transpharm and Red Star Wholesale transitioned from their legacy platforms. • In conjunction with the Massmart acquisition, Shoprite made investments in small business development as per its commitment to the Department of Trade and Industry. Consequently, the group initiated an endeavour to establish online capabilities for these wholesale stores. • Minimize or eliminate manual processes • Enhance operational effectiveness • An innovative, agile, and responsive eCommerce model
Proposed Solution	A digital transactional platform was built and made accessible via Website and mobile devices. Standard, ongoing activities and operations that ensure the consistent business delivery and maintenance of IT services and infrastructure.
Business Priority	**Priority 1**

Project Classification	**Funding Category** ROI	**Benefit Category** Sales Growth (figures below are nett profit)

Cashflow View

Total Project Costs (5 years): R216,673.120 (excluding the R39m impairment)

Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
R86,370,130	R27,882,913	R24,255,213	R25,121,586	R26,037,493	R27,005,786

Total Financial Benefits (5 years): R106,988,173

Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
R2,225,325	R8,125,288	R16,307,818	R20,580,262	R25,435,023	R34,315,260

NPV (over 5 years)	R -107,309,983
Payback Period (years)	Not applicable
IRR (over 5 years)	-48%

P&L View

	Year 1	Year 2	Year 3	Year 4	Year 5
Income	R10,350,613.58	R16,307,817.6	R20,580,261.98	R25,435,022.85	R34,315,260.20
Expenses (incl. depreciation)	R40,314,034	R30,909,657	R29,036,252	R29,902,625	R30,818,532
Profit /Loss	-R29,963,421	-R14,601,840	-R8,455,990	-R4,467,602	R3,496,728

Intangible Benefits	Increased customer affinity through: • Enhanced product searchability • Brand visibility and enhanced customer experience • Variety of channels to select from to engage through and purchase • Multiple payment methods are available and new methods will be introduced as part of the financial services delivery pipeline. • In store operational efficiencies using the order management solution. • Telesales efficiencies and cross sell / up sell opportunities using the assisted sales mode. • Improved customer engagement with access to inventory and stock management • Time savings achieved through precise delivery systems • Remaining relevant in the digital landscape (digitising the business as well as being market relevant).
Assumptions	• A strategic decision was made to terminate the services of the development partner Dimension Data in July 2024. The assumption is that permanent employees will be onboarded, and we have a seamless transition and handover. • Devices for scanning (Zebra/) hardware will be procured in the project cost centre (central) and the assets moved to the store. The stores need to include the expense in their annual budget (plan). • The same applies for the annual MDM (Mobile Device Management) costs. • The business case was defined using estimates of costs and standard inflation costs. • The income assumptions were notably conservative, and adjustments were made to the original numbers provided by business.
Risks	• Availability and capacity of internal cross-functional resources. • Potential loss of intellectual property following the offboarding of Dimension Data. • Lean IT and business teams. • Extended resolution times due to a smaller support team.
Dependencies	• Successful completion of the knowledge transfer from Dimension Data to internal resources is contingent upon Shoprite Technology.
Exclusions	• Operational costs including picking and delivery. • Marketing, advertising and promotional costs will not be included as part of the platform business case but instead as part of the BU's operational costs.

Background

The B2B eCommerce Team supports the Group's strategy to develop future-fit channels, unlock alternative revenue and leverage platform advantage. This is achieved by delivering differentiated online B2B customer (wholesale) experiences, through multiple channels, enabled by scalable and re-usable enterprise capabilities and services.

We enable our brands to establish an omni-channel presence cost-effectively and rapidly, to offer their customers access to an extended range and comprehensive services.

Business Problem/Opportunity

From 2021 to 2024, the Shoprite eCommerce group successfully onboarded five brands onto the platform. Among the initial brands to gain online capability were Liquorshop and Checkers Food Services, now known as Red Star Wholesale.

A strategic decision was made to consolidated B2C brands onto the Digital Platform and to continue B2B brands on the B2B eCommerce Platform. This resulted in the decision to decommission Liquorshop.co.za and impair Petshopscience.co.za.

A total value of R39 691 252,59 was impaired and reduced the overall capex value in the cost benefit analysis. (Red Star Wholesale R 13 230 417,53, Pet Shop Science R 13 230 417,53 and Liquorshop Online R 13 230 417,53)

Similarly, within the framework of the same business case (project 5665), Red Star Wholesale failed to achieve its business case targets due to a halt in customer migration, attributed to the infeasibility of the Virtual Business Card feature for the business

customers. Instead, the business opted for direct integration into Navision, a transition completed in 2024. All customers have since been successfully migrated, resulting in increased sales on the ecommerce platform and a decline in eShop sales, which is slated for decommissioning.

This left Transpharm, Red Star Wholesale, and the recently added Cash and Carry Wholesale and Liquorshop Wholesale as the remaining brands on the platform. However, the cumulative operating expenses associated with managing the platform with only three remaining brands posed a significant business risk to Shoprite, necessitating immediate action to reduce operating costs and establish a recharge model. This model enables brands to contribute to the ongoing maintenance and support of the platform.

The executive members of Shoprite have requested a comprehensive business case that consolidates all costs associated with maintaining and operating the platform. The directive is to stabilize these brands without undertaking any further major development.

Proposed Solution

No new major features or solutions will be implemented as part of this business case. However, minor fixes, support, and enhancements will be addressed. Please refer to the annexure for the list of features that will be maintained and potentially enhanced.

- System Monitoring and Maintenance
- User Support: Providing helpdesk and technical support to users for everyday issues and inquiries.
- Backup and Recovery: Performing regular data backups and ensuring recovery processes are in place and functional.
- Security Management: Monitoring for security threats, applying patches, and ensuring compliance with security policies.
- Incident Management: Addressing and resolving IT incidents and disruptions promptly to minimize downtime.
- Resource Management: Managing hardware, software, and other IT resources to ensure they are available and used efficiently.
- Performance Monitoring: Tracking system performance to ensure it meets the required standards and adjusting as necessary.
- Routine Upgrades: Implementing minor upgrades and updates to software and hardware to keep systems current and efficient.
- Tier 1 Merchandising support for Cash and Carry wholesale liquor
- Tier 2 Merchandising support for Transpharm and Liquor wholesale
- Sales and Marketing – Driving sales and exploring all revenue streams inclusive of banner advertisements.
- Customer insights and analytics
- Product management and prioritization of key activities.

Project Priority, Classification & Timeline Details

- Priority

  N/A

- Project Classification

Funding Category	Benefit Category
• **ROI** – Has Benefits and ROI is positive	• **Sales Growth** – New / Incremental Sales

- Project Timelines Details

The proposed Timelines for the Project implementation – Initiation to Close Out is as follows:

Project Start Date:	July 2024
Project End Date:	June 2029
BRP* End Date:	June 2029

Notes:

- *Depreciation of the Non-Depreciable Assets (Resource costs) will start on the End Date as indicated above. Depreciation of all other expenses will start when the Invoice is processed in SAP.*
- **Benefit Realization Period (BRP)*

The Company will derive economic benefit from the implemented functionality for the following number of years:

Useful Lifespan
Ten

Financial Summary

- Cashflow

1..1. Expenses

The following are the expenses over a 10-year period:

Expense Category	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Capex	R45,089,776	R1,754,294				,
Opex	R38,571,954	R26,128,618	R24,255,213	R25,121,586	R26,037,493	R27,005,786
Total	R83,661,731	R27, 882,913	R24.255,213	R25,121,586	R26,037,493	R27,005,786

The following assumptions were used to calculate these expenses:

Cost	Description
C1 - External resources	Features Include: POS Injection into SAP CAR , Quick Links, B2B Rewards, include CAPEX Spend and Impairment
C2 - ER Travel and Expenses	10310 Cash n Carry Dimension Data Internal Development
C3 - Furniture and Office Equipment	
C4 - Hardware	
C5 - Internal resources	
C6 - IR Travel and Expenses	
C7 - Software and licenses	
E1 - ER Training	
E2 - ER Training Travel and Expenses	
E3 - External support contract	
E4 - IR Training	Printing and Training Cost for 10310 Cash n Carry Features
E5 - IR Training Travel and Expenses	
E6 - Maintenance	Device Support, License: SAP, Endpoint Management, ECOM Business ECOM Business Licenses (Figma, and crazy egg.
E7 - Operating expenses	Webhosting, Geolocation, SMS Services and ECOM Team Support Business team: 1x Head of eCommerce, 1 x Lead Demand & Delivery manager, 2 x Group Merchandising Manager, 1 x Product Manager, 1x Online Merchandiser.

1..2. Benefits

The following are the benefits over a 5-year period:

Benefit Category	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Sales Growth	R1,214,73	R7,054,065	R15,172,32	R19,376,63	R24,159,17	R32,962,86	R99,939,803
Digital Acceleration		R0,00	R0,00	R0,00	R0,00	R0,00	R0,00
Margin Expansion		R0,00	R0,00	R0,00	R0,00	R0,00	R0,00
Maintain the Business	R1,010,58	R1,071,223	R1,135,497	R1,203,626	R1,275,844	R1,352,39	R7,049,173

1..3. Cost / Benefit Analysis

Based upon these costs and benefits, the analysis shows the following in terms of NPV, Payback Period and IRR:

NPV (over 5 years)	R -107,309,983	Years	Months
Payback Period (years)		N/A	N/A
IRR (over 5 years)	-48%		

- ### Profit & Loss

The following table represents the Profit & Loss over 5-years:

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Total Income	R10,350,614	R16,307,818	R20,580,262	R25,435,023	R34,315,260	R106,988,97
Controllable Expenses	R40,314,034	R30,909,657	R29,036,252	R29,902,625	R30,818,532	R160,981,10
Depreciation	R0	R4,781,039	R4,781,039	R4,781,039	R4,781,039	R19,124,156
Staff Cost	R35,000	R0	R0	R0	R0	R35,000
Prof Services and Legal Expenses External	R0	R0	R0	R0	R0	R0
Software Maintenance	R6,434,424	R1,857,124	R849,669	R900,649	R954,688	R10,996,554
Maintenance	R609,769	R2,239,065	R2,373,409	R2,515,813	R2,666,762	R10,404,817
Other Expenses	R33,234,841	R22,032,42	R21,032,136	R21,705,124	R22,416,043	R120,420,57
Profit/Loss	-R29,963,421	-R14,601,840	-R8,455,990	-R4,467,602	R3,496,728	-R53,992,124

Benefit Realisation

- ### Intangible Benefits

The following are the intangible benefits:
- Increased customer affinity through:
- Enhanced product searchability
- Variety of channels to select from to engage through and purchase
- Multiple payment methods will be available

- Tangible Benefits

1..1. Key Outcome / Benefit #1

Description:	Generate additional revenue (incremental sales) by enabling online trading for: **Cash and Carry Wholesale liquor (24 Stores)** - Liquor 3 % Net operating profit - Wholesale 2% Net operating profit **Red Star Wholesalers 1% Net operating profit** **Transpharm 1% Net operating profit**	
Benefit Type	**Financial Status:**	**Financial**: Can be translated into Rands but may not be reflected in the current balance sheet.
	Continuity Status:	**Lasting benefit**: A benefit that is achieved early and continues, e.g., software maintenance fee no longer required.

1..2. Measurement Detail and Capability

#	Cash and Carry Baseline Measure	Target Measure	Target Start Date	Frequency	Target Finish Date
1	R0	R1,462,320.00	July 2024	Annual	June 2025
2	R0	R6,760,530.00	July 2025	Annual	June 2026
3	R0	R9,126,715.50	July 2026	Annual	June 2027
4	R0	R11,712,618.23	July 2027	Annual	June 2028
5	R0	R17,888,362.38	July 2028	Annual	June 2029

#	Transpharm Baseline Measure	Target Measure	Target Start Date	Frequency	Target Finish Date
1	R0	R 4,392,250.00	July 2024	Annual	June 2025
2	R0	R 6,858,200.00	July 2025	Annual	June 2026
3	R0	R 8,242,976.00	July 2026	Annual	June 2027
4	R0	R 9,834,410.56	July 2027	Annual	June 2028
5	R0	R 11,666,021.11	July 2028	Annual	June 2029

#	Red Star Wholesalers Baseline Measure	Target Measure	Target Start Date	Frequency	Target Finish Date
1	R0	R1,582,753	July 2024	Annual	June 2025
2	R0	R 1,820,166	July 2025	Annual	June 2026
3	R0	R2,093,191	July 2026	Annual	June 2027
4	R0	R 2,407,170	July 2027	Annual	June 2028
5	R0	R2,768,246	July 2028	Annual	June 2029

Benefit Realisation Ownership

Responsibility	Name	Title and Business Unit		Signature
Outcome Owner	Gert Boshoff	Divisional Manager: Wholesale	06/07/2024	
Measurement of Outcome	Etienne Van Zyl	Divisional Finance Manager	06/07/2024	Etienne Van Zyl (Jul 6, 2024 09:23 GMT+2)

Responsibility	Name	Title and Business Unit		Signature
Reporting of Outcome	Gert Boshoff	Divisional Manager: Wholesale	06/07/2024	
Responsibility	**Name**	**Title and Business Unit**		**Signature**
Outcome Owner	Werner Uys	Divisional Manager: Wholesale	07/08/2024	Werner Uys (Aug 7, 2024 12:50 GMT+2)
Measurement of Outcome	Francois van der Merwe	Divisional Finance Manager	08/07/2024	Francois Van Der Merwe (Jul 8, 2024 10:15 GMT+2)
Reporting of Outcome	Werner Uys	Divisional Manager: Wholesale	07/08/2024	Werner Uys (Aug 7, 2024 12:50 GMT+2)
Responsibility	**Name**	**Title and Business Unit**		**Signature**
Outcome Owner	Wayne Keating	Divisional Manager: Wholesale	03/08/2024	Wayne Keating (Aug 3, 2024 20:24 GMT+2)
Measurement of Outcome	Francois van der Merwe	Divisional Finance Manager	08/07/2024	Francois Van Der Merwe (Jul 8, 2024 10:15 GMT+2)
Reporting of Outcome	Wayne Keating	Divisional Manager: Wholesale	03/08/2024	Wayne Keating (Aug 3, 2024 20:24 GMT+2)

Report and Measurement Process

- **Monitoring Capabilities**
  - No additional technology needs to be developed to track, measure and monitor Profit & Loss. The BPC GP analysis income statement will be used. This report can be extracted on a departmental level.
- **Risks**
  - No known material risks on monitoring profit & loss exist
- **Actions**
  - The Divisional Financial Managers should regularly (monthly) review the BPC GP Analysis Income Statement to monitor that the Trading Profit achieved remains on track for the Target Measure to be realised. Corrective action should be taken to address issues with the Trading Profit achieved.

Assumptions / Risks / Dependencies / Exclusions

- Assumptions
- The model defined and costed above is for the three remaining brands namely Transpharm, RSW and Shoprite Cash and Carry Wholesale liquor and its 24 stores.
- The completion of the Shoprite Cash and Carry and Liquor Wholesale roll out inclusive of the Nova roll out.
- Product enrichment costs will be part of the normal group BAU process.
- Picking devices and maintenance thereof will be part of the brands operational costs.
- All fulfilment and delivery costs will be incurred by the relevant brands and not as part of the platform operational costs.

Risks

- The agreement between Shoprite Technology and Dimension Data is set to expire in July 2024. However, one development resource has been employed.
- As we transition away from our vendor Dimension Data, there will be a loss of intellectual property (IP) in the absence of a thorough knowledge transfer.
- Reducing the size of the development team will inevitably lead to slower delivery times, thereby impeding brands' ability to swiftly introduce new features to the market. The proposed development team will consist of 2 developers.
- Securing and retaining SAP Hybris developers, who possess a scarce skill set in the market, may pose a challenge for the organization, particularly given Shoprite's existing issues with staff retention in its technology sector.

- Deployment cadences may experience delays as they rely on internal resources, further compounded by the challenge of competing with higher-priority initiatives from other teams
- The B2B business team consists of six members who are already operating under constraints. Staff retention continues to pose a significant risk for the team.
- The costs associated with infrastructure and platform may prove to be overly burdensome for brands to cover independently without support from the group.

- ## Dependencies
- The successful implementation of the Cash and Carry wholesale project with all features as per its business case.
- IT Banking and Financial services business as usual support.
- Store adoption and continuous training and development of store staff.

- ## Exclusions

- Marketing expenses will not form part of this business case.
- B2B eCommerce will not address the existing business risks associated with Group payment methods such as Traders Card, Money Market Account, and EFT.
- All forthcoming project developments will be omitted from this business case. If any brands require project development, they will need to adhere to the Shoprite PMO process.
- Staff expenses related to expanding the business team, including critical roles identified to support the brands, have been put on hold.
- Brands will need to cover the costs of picking devices or tablets required for business-as-usual operations under their respective operational cost centres.
- Operational costs for printers and all in-store hardware will not be accounted for in this business case.
- Costs associated with the SAP Cloud Migration or infrastructure upgrades are not considered in this business case.
- Wi-Fi and internet upgrades will not be part of the eCommerce business case.
- Normal billing processes will apply to Product Enrichment (SILO) business-as-usual costs, which will not be included in the eCommerce business case.

Platform Features

Site Set up

- Super Navigation
- Footer
- Info Pages
- Category Pages
- Grid & List View
- Pagination
- Store Front Set-up
- Searchandising
- Search Engine Optimisation

Sales Channel

- Self Service
- Assisted Service Mode
- Telephone
- Email

Profile

- Personal Profile
- Business Profile
- Store Selector
- Find a Store
- Geo-Location
- Address Validation
- Order History

Log In

- Personal & Business Profile
- Xtra Savings Member
- Non Xtra Savings Member
- ASM Agent

Shop

- Range
- Product Enrichment
- Pricing
- Promotions
- Pack Size Selector
- Best Price Indicator
- My Lists
- Quick Add

Cart

- Cart Summary
- Complete The Deal
- Delivery Method
- Date Selector
- Lead Time Calculator
- Quote
- Delivery Documentation

Marketing

- Discount Code
- Banners
- Leaflet Dispaly
- Abandon Cart Reminder
- Back in Stock Alert
- Promotion Alert

Analytics

- Google Analytics
- Sales Reports
- Order Reports
- Shopability Reports
- Lost Sales Report
- Unpaid Orders Report*
- SAP Back Office Order Management Portal

Stock

- Stock indicator
- Low Stock Alert
- Safety Stock
- Store Replenishment
- Order Quantity Limit

Order Management

- Order Creation
- Fulfilment Node Selection (Split Order)
- Order Confirmation to Customer
- Order Alert to Store
- Post Paid Order*
- Payment link*

Pick & Pack

- Pick Instruction
- Pick Exception
- Quality Control
- Order Picking Completion
- Order Cancellation
- Order Payment notification
- Invoice Generation
- Customer Milestone Messages

Pay & Finance

- Pay Instore
- Pay Online
- Price Over ride (ASM)
- POS Injection
- Bank Reconciliation
- Financial Reconciliation
- Reconciliation Reports