

# CFS Consolidated Interview Notes

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## Trading Entity Overview

### Business Overview

Checkers Food Services (CFS) was started in 2011 to service the hospitality industry. Their focus has traditionally been mostly on B2B, but the focus is shifting to B2C given the challenges growing this market, given the lockdown & alcohol sales restrictions have on the restaurant industry.

CFS operates as a largely autonomous business unit, with its own Buying, Marketing, Administration, Systems Platforms & Supply Chain capabilities.

They have an online sales presence as <https://www.checkersfs.co.za/>, but 55% of their sales volume are driven by the sales team agents, through existing customer account relationships, or by "knocking on doors".

### Aspirations

Lance sees the business unit's future role in the group as an enabler, playing on their strengths in the fulfilment space, sharing the Checkers brand rather than operating as a stand-alone business identity. CFS is well positioned to trial new ideas in the supply chain and fulfilment space, as any complications will not affect the rest of the group's operational ability to trade.

Lance's aspiration would be to reposition CFS as the group capability for the on-line B2C scheduled delivery business in parallel with 60:60 as the on-demand B2C channel, including:-

- Future scheduled delivery timeslots (current feature)
- More picking from dark stores, not retail stores – with high fulfilment rates
- Extended range, including bulky items
- Unlimited basket size
- Extension beyond Gauteng/Western Cape regions – also to towns with no Checkers presence
- Delivery via van fleet with multi-temperature capabilities
- Offer extended range of items not stocked in Stores (endless aisle), e.g. premium whiskeys
- Potential to offer a Marketplace where Vendors can list additional products, fulfilment still via CFS
- Offer limited "one day only" specials, deal of the day, treasure hunts
- Improved features to simplify customer experience (replenishment orders, "restock pantry" orders, subscription services eg curated Wine club, private label

There would be a benefit in introducing a consolidated customer experience, removing the confusion of choosing which brand or channel to buy from and simply choosing the products you need from the group-wide catalogue range and specifying when you want it delivered. The complexity of how the order is then split and fulfilled should not be the customer's problem; it should be seamlessly managed by a distributed order management service based on rules controlled by Checkers as a group.

Barring the above, future growth opportunities are seen to be mainly around the scheduled delivery service to B2C customers, leveraging the strengths of high fulfilment rates and multi-temperature supply chain capability.

### Constraints

There is limited growth potential in the South African B2B market for food services. The hospitality industry is also under severe pressure currently due to lockdown restrictions. Some of the more exclusive establishments will not use CFS due to the brand image being perceived as negative, for example restaurants that want to promote locally sourced, free range or farm to table do not want

to be seen ordering from a supermarket chain.

Thus, there is a move towards increasing the range of consumer goods & liquor lines and scaling back on food services, as more growth is anticipated from B2C. However, there is limited traffic to the CFS site, and no common directive or budget to increase it (each business unit is driving their own marketing strategies and budget).

The lack of a defined group e-commerce strategy and architecture makes investing in technology a difficult and uncertain prospect. CFS has developed its E-Commerce offering on a stand-alone, home-grown basis. Customer offerings are limited by what current systems support rather than what customers want. This should not be the case going forward.

Ability to offer niched/curated products limited by centralised supplier registration. Smaller suppliers can't afford investment in Food Safety, audits and other Group standards.

## Functional Area Analysis

### Merchandising

- Catalog
  - 8000 SKUs (by comparison a small retail store will carry a range of 20,000 SKUs)
  - Stocking larger pack configurations than the rest of the group / retail
  - Baskets (and thus range) are weighted more to wine & Liquor (16% of basket) and less to non-Food than typical Checkers basket.
  - Also carrying more specialist ranges not stocked on stores, e.g. boutique liquor, odd-bin wines
- Stock
  - Keep about 4 weeks' worth of stock on hand
- Pricing
  - Selling prices are about 5% lower than normal retail
  - Support tiered pricing & customer specific pricing
- PIM
  - Did not discuss current process, but Lance is in favour of a shared PCM
  - There is a project underway to move master data to SAP. Debtors and Products.
- Demand tracking
  - According to Lance, there is no info (other than manual agent- or vendor-driven requests) about new products that customers would like to see on their catalogue

### Marketing

- Currently only doing simple discounts - not geared to do bundles, Combos, BoGoFs or order threshold discounts. This is a system constraint (MS Dynamics NAV)
- Coupons introduced to drive sales
- Loyalty
  - No Loyalty program other than the Group-wide store discount card
  - CFS branded, 2.5% in-store discount
- The Xtra Savings platform provides a unique set of consumer data which is leveraged by Group Digital Marketing. CFS does not have its own customer analytics solution.

### Digital Content

- Limitation with current site: cannot show B2B ex VAT and B2C including VAT
- ? • Did not discuss Content Management tools in use, or to what extent new content is generated for use on the site

### Channels

- Online:
  - There has been a move towards online self-service sales channels which means that 45% of B2B sales are now via digital channel and the remainder via sales agents.

- nopCommerce shopping cart (plugin on MS Dynamics)
- Direct (sales agents)
  - (55% of B2B sales)
  - Microsoft Dynamics NAV (formerly NaVision)
  - No intent to expand this channel.

## Customer

- B2B (80% of sales)
- B2C (20% of sales)
- Take-on
  - Current B2B registration can take up to 6 days from start of Onboarding – Managed currently by Call Center or Sales Rep to backoffice
  - B2C can register Directly

## Cart & Checkout

- Fulfilment Methods
  - Delivery
  - Collect from CFS DC (Not actively promoted - DC not very accessible)
- Lance sees value in introducing Subscription services e.g. odd bin wines club; automatic pantry restocking

## Payments & Financial

- Payment methods supported
  - Credit / Debit card + Masterpass
  - On terms (account)
- Lance expressed a need to move away from credit
  - At the moment, not cost effective to extend credit
  - Potentially considering using a Bank-partnered debit card.
- Order splitting (as a future service requirement) could be based on a large number of factors, including
  - range (e.g. stationery not stocked in stores),
  - special transport needs (chilled & frozen or controlled substances, e.g. pharmaceuticals),
  - item size,
  - order size,
  - region / distance,
  - pick success rate,
  - delivery time,
  - customer type

## Orders

- Average basket size
  - 55-60 items
  - More than R3000 avg value
- 16% of sales in Wine and Liquor, weighted more to food & liquor and less to non-food than typical Checkers stores

## Fulfilment

- Shipping about 2000 orders or 120,000 line items per week
- CFS fulfils all sales out of its 2 DCs located in Western Cape and Gauteng
  - 85% of products are procured by CFS' own buyers directly from suppliers. 15% of products are sourced from Shoprite DCs (the ones that usually service the stores).
  - It has multi-temperature supply chain capability (frozen, chilled, ambient)
  - Servicing a 200km radius
- Completeness of order (i.e. a high successful pick rate) is more important than speed of delivery for food services.

- Delivery
  - R100 (free over R1000), (for B2C)
  - Serviced via own fleet: 60 vehicles, typically 6-8 ton trucks
  - Customers are able to book delivery for a future date, using 2 hour time slots
- Only fulfill what is currently in stock, i.e. no consignment- or future stock (back-) orders.
- Picking success rate of >99% - achieved by keeping ring-fenced stock levels sufficient to cover 4 weeks
- Vendor direct-to-customer deliveries is an option that should be explored.

## B2B

- Not currently able to do replenishment orders, but Lance agrees it would be valuable

## Marketplace

- Discussed 2 options for consideration to get new vendors trading on the storefront: Vendor fulfilment, or CFS fulfilment

## Recommendations / Take-outs

- To achieve the above aspirations will require an investment in new system platforms, ideally part of a wider Group E-Commerce platform
- The Navision ERP/Sales platform and nopCommerce have a number of shortcomings, are not scalable and would be a constraint on CFS achieving the above aspirations. Shortcomings include:-
  - Limited master data options impacts on flexibility (eg promotions). CFS are already embarked on a process to re-platform Product Master, Inventory, Debtors and Customer data to Shoprite SAP ERP. Supplier master is already on SAP
  - Limited sales support capabilities, no back-orders, substitutions, repeat/replenishment orders
  - Limited range offered – so customer cannot fulfil total requirement and will still have to visit store
  - Limited WM capabilities to support extended Dark Store picking
  - Limited Transport Management capabilities
  - Pricing inflexibility – can only display VAT exclusive, would want Vat inclusive for B2C
- Scalability
  - CFS provides a proven model for a scheduled delivery B2C service but is currently limited in scale in terms of geographic reach, product range, customer value propositions, supply chain capacity.
  - To achieve the aspiration will require investment in both supply chain infrastructure (more space, more DCs, more Vans) and in more robust shared system platforms where investment can be leveraged by the Group.
- Lance is aligned with the need for Group wide alignment and guidance around the future Shoprite E-Commerce strategy, organisational positioning and architecture.
- His viewpoint is that CFS could provide a proven model for a broader B2C scheduled delivery service. CFS would move to becoming a cost center providing this service to the broader Group. It will still need to be ascertained whether this is aligned with Shoprite's broader E-Commerce vision and strategy.
- The current back-end & front-end platforms are not scalable and would need to be replaced if the future aspirations are to be met.
- In reality even if CFS remains with its current focus, the underlying front-end and back-end platforms will still need to be replaced. Already the master-data components are being migrated to the corporate SAP ERP systems.