

Franchise Consolidated Interview Notes

Wednesday, 20 January 2021 17:40

Trading Entity Overview

Business Overview

The OK Franchise (OKF) business trades under several brands:-

- OK Foods, which are larger stores (> 650 m²)
- Minimark
- OK Express – forecourt stores
- Sentra
- President Hyper – 3 very large sites in Johannesburg
- Also buying partners which don't have OK branding but can buy from catalog

There are over 500 members, most of which have one or two stores. OKF does not encourage members who own large numbers of stores (like e.g. Spar).

Franchisees are seen as the specialists in their areas, and Mauritz sees his BU's role as their support. Members have the advantage of OK Foods Logistics, Range, Supplier Relationships and Pricing.

They don't have to buy *everything* from Shoprite/OK and can source local products to tailor their ranges. They have to procure a minimum of 60% of products via OKF and earn incentives for purchases. In reality, stores acquire on average 74% of product from OKF and for OK branded stores this is >80%. For perishables such as frozen & chilled items or pre-packed meat, OKF don't try to get to 100% and allow for local procurement to help ensure freshness.

Stores in rural areas fulfil the role of a "general store" and therefore carry a wide range of categories and a possible range of 70k items, including foods, fresh, non-foods, homewares, hardware, vet medicines

Strength is in the rural areas – where a Mini Mark might be the only store in a particular town

Aspirations

Closer tie-in with the bigger group:

There will be significant competitive advantage for OKF relative to its competitors (e.g. Spar/PnP) in being more closely tied into Group initiatives (such as X-Tra Savings & 60:60), provided that these are easy for customers to access.

OKF could capitalise on its position in small towns and apply e-commerce to offer an extended aisle range to customers. Instead of them having to go to cities for items not in range, OKF can offer the full Hyper range in the local store. In November 2020, OKF tried a pilot with Shoprite to sell a wider Hyper range, but Shoprite is not geared to support this.

Also aim to extend range actually available in-store, increasing sourcing from existing DC suppliers to optimise price benefits.

Constraints

Lack of Systems & Process Integration

OKF systems are aging and operate outside of the Shoprite & Checkers Group systems with interaction mainly via EDI. Therefore, it is not possible to get a real-time or relatively up-to-date view of stock availability or promotions being planned.

Orders and Invoices are handled via batch EDI. This necessitates significant manual effort to align

and respond to changes during the course of the day.

Establishing best of breed E-Commerce will not help if lack of integration remains, as accurate stock availability is critical for success.

Functional Area Analysis

Merchandising

- Core range exceeds 70,000 SKUs
- Pricing
 - OKF provides guidelines for suggested mark-up, but franchisees set their own selling prices.
 - Only promotional prices are enforced
- OKF requires franchisees to use the core Arch Back-Office and POS system. A new version Arch Enterprise is currently being implemented. Arch gives OKF visibility of what is being sold in the store.
- Data
 - Master records for scannable items are centrally maintained by OK head office, with supplementary items listed directly by the stores themselves
 - Weekly masterdata files are sent from the central Arch instance to stores including products, scannable PLU codes, promotions, cost prices, suggested selling prices
 - Franchisees can list their own unique products and load their own PLU codes. Different stores could have different PLUs for the same product, e.g. Avos.
- Stock availability
 - For online (see Channels below), stock from Arch is uploaded to Snappistore every 5 minutes
- Supply chain
 - OKF has its own Buyers. Product can either be sourced out of Shoprite DCs in which case the cost out of the DC is used, or for other lines, procured directly to the store from suppliers. The DC model is encouraged.
 - Buyers will negotiate specific deals.
 - Currently 24% of items are not procured through Shoprite channels. The tendency is more-and-more to stick to the ranges offered by the DC, and to reduce OKF specific lines.

Marketing

- OKF runs own promotions separate from the rest of Shoprite/Checkers. These are run mainly at regional level and are advertised via leaflets.
- There are national marketing campaigns for basic items. If an item is advertised as part of this promotion, the franchisees *have* to carry it
- Franchisees can opt for full 8-12 page promotion or more limited 4 page leaflet.
- Franchisees can also run their own promotions.
- Loyalty
 - There is an OKF Loyalty program: OK Card (run by Infinity Rewards). The program offers cash-back rather than points.
 - The single OK Card offers savings, gift card, loyalty cash-back. Each card is individually loaded and the rewards are determined by the franchisee/member. (So linked to a specific store)
 - This was introduced ahead of Xtra Savings and is therefore separate – but OKF would see the benefit of links to Shoprite/Checkers loyalty

Digital Content

Promo leaflets

Channels

- In-store sales remain by far the highest proportion of sales.
- An online selling capability has been developed using Snappistore (of Malaysian origin)
 - <https://www.okfoodsdelivery.co.za>
 - Fairly basic functionality: can create basket, which is then integrated to Arch for picking
 - Customers shop at a specific store.
 - 9 stores gone live, 3 large stores trading well, 20 other stores engaging in roll-out
 - 15000 line items are made available for online shopping, but the individual members decide which items to list online and maintain their own stock files.
 - Stock uploaded from Arch every 5 minutes
 - Fresh items pose a challenge. Items are not bar-coded and the availability of stock is not reliably known, therefore limited fresh items are listed online.
 - Generally feedback from customers is positive

Customer

- Mix of B2C & B2B, depending on individual store

Cart & Checkout

- See Snappistore under Channels above

Payments & Financial

- In-store
 - Cash, credit /debit card, account / credit (not big volume, but integral part)
 - Credit sales are important, traditionally rural stores have offered the ability buy on account – and 80% of stores sell on credit.
 - Arch maintains the Debtors book which is separate for each individual store with no centralised view of Debtors.
- Online
 - Multiple payment methods supported, debit card and can buy on account
 - Pay with Loyalty cashback from OK Card supported (confirm?)

Orders

- The Arch systems communicate via EDI with Shoprite DCs for orders and receipts

Fulfilment

- Online (from stores only, not DCs):
 - Delivery
 - Can either be delivered (eg Mr Delivery/UberEats) or by Franchisees own delivery vehicles
 - Not 60:60 style within an hour's delivery but more conservative in setting customer expectations regarding delivery slots
 - distance/remoteness will remain a challenge
 - Click & Collect from stores (makes up the bulk of the orders placed)

B2B

No specific requirements

Marketplace

Not discussed.

Recommendations / Take-outs

- OKF are in the early stages of rolling out a B2C online service, which are largely under the control of the individual members. This is a good tactical approach allowing OKF to counter

the competition by having an online presence.

- Strategic competitive edge will be achieved through being able to offer a more holistic value proposition which leverages Shoprite's advantages in terms of store footprints, logistics and buying power as well as the range of services and products that can be offered.
- The key to this will be process and system integration to allow OKF customers and members to access up to date and holistic data regarding product ranges, inventory availability, services, pricing & promotions available from other entities. DOM would be the layer to provide this, given that they are unlikely to move to Shoprite Group corporate ERP platforms.
- The Snappistore site presented a number of bugs (e.g. unable to complete registration, cart timeouts, address location problem, missing FAQ) when the team investigated.