

Liquor Consolidated Interview Notes

Tuesday, 16 February 2021 22:00

Trading Entity Overview

Business Overview

This is fully bricks and mortar retailer trading out of 543 outlets all adjacent to Shoprite & Checkers stores, branded as Checkers Liquor Shop and Shoprite Liquor Shops. Because of regulations, supermarkets are highly restricted in their ability to sell liquor - hence the need for separate Liquor shops.

On average, they are currently open 52 stores per year with the objective of having a one-for-one match with the Supermarket footprint (achieved 65% coverage so far).

Currently has a 25% share of the national off-premise alcohol sales which has been achieved with no online presence. In a non-Covid year, they should achieve revenue of R8.5Bn per annum (down to R7.3Bn in 2020 due to lockdown).

Liquor shops operate in Namibia, Botswana, Lesotho where regulations are similar to SA. In other African countries supermarkets can stock liquor.

Aspirations

Growth

B2C E-commerce is seen as a big growth driver. Bricks & Mortar will continue to grow as the number of Liquorshops increases. But Liquorshop will lose out to competitors unless it can present an attractive B2C online experience. Generally online is growing in this category. Convenience of online delivery is a key factor.

To scale the business in what is likely to become an even more restricted market, they need "another button to push" to generate new revenue streams and grow profitability. E-commerce has hardly been touched to date.

The following benefits would flow from this: _

- 60:60 will continue as on-demand channel, but a new B2C site could manage scheduled deliveries, larger / bulky orders, bulk orders for events, speciality products (e.g. private label whiskeys with small quantities which cannot be sensibly allocated to stores)
- Value adding services to position Liquorshop as a premium brand can be promoted (Wine & Whisky Clubs, stock your bar services, pairing of recipes, Sommelier master classes)
- Related products – glassware, bottle-openers, non-food ranges present cross-selling opportunities

Constraints

Lack of a B2C E-Commerce Platform & Presence

Liquorshop is behind competitors like Takealot, Makro, Liquor City, Norman Goodfellow's in terms of on-line presence.

- An online search for Klipdrift Brandy would probably not even list Liquorshop
- There is very little content on the Shoprite.co.za site to drive traffic, and you can't transact on the site.
- Quality of product data: No FABs, very little product information, no value added offers on the sites. This content exists within the business, but there is no platform to expose it.

There is no B2C platform currently available to Liquorshop and no dedicated IT/E-Commerce resources with knowledge of the technology required.

This presents a clear threat to Liquorshop's market share over the next 5 years.

No B2C Fulfilment Capability (apart from on-demand)

They would need to establish home fulfilment mechanisms and decide on picking models. Various options are likely (courier, store pick & delivery, pick from dark-store). A dark store would need the appropriate licences (NLA, Retail, E-Commerce).

The decision on fulfilment mechanism would depend on what is most cost-effective. If a store exists within 5km of a delivery point then store delivery makes sense rather than fulfilling 100km from the DC. They would need a flexible model which can provide national reach.

Functional Area Analysis

Merchandising

Liquor is highly regulated in South Africa and other African countries. In SA retail liquor legislation is managed at a provincial level

- It can sometimes take 18 months to obtain a new licence – so store expansion can take time.
- Some supermarkets can carry beer and wine ranges via a grocers wine license (up to 14.5% alcohol) – except in Eastern Cape where no liquor is allowed in supermarkets;
- Supermarkets cannot stock stronger liquor – hence the need for separate Liquor shops each of which needs a separate liquor licence
- Provincial rules vary, mainly in terms of documentation, but basic principles similar.
- There is currently no specific legislation covering E-commerce liquor sales specifically, although Western Cape had introduced a draft bill
- Likely to be future changes to legislation to ensure liquor not abused, minors can't buy – age potentially raised to 21 , advertising limited , BEE requirements.

Marketing

- Liquorshops have their own marketing team and brand managers. They piggy-back on Group-wide campaigns like Heydays and align with the Group marketing calendar.
- They run their own month-end campaigns via printed leaflets, and also run events like whisky tastings. Influencers are used.
- Liquorshop is included in the X-tra Savings program and are able to glean customer data. However, the proportion of customers swiping in in Liquor stores is relatively low.
 - Running campaigns to encourage greater participation – for example specials exclusive to X-tra Savings card.

Digital Content

- Lots of opportunities for content creation to drive traffic - currently no real channel other than <https://www.checkers.co.za/liquorshop>, which isn't utilised effectively.

Channels

- There is no online store for Liquor Shop for B2C sales.
 - <https://www.checkers.co.za/liquorshop> is non transactional
- For home deliveries, 60:60 and Mr D will identify the nearest supermarket which has an adjacent Liquorshop. If no Liquorshop within the catchment area then Liquor will not be offered on 60:60.
- The Group also sells liquor via Checkers Food Services.
 - CFS has provincial and national licences for wholesale distribution. It has its own buyers, ranges and inventory – seems to be little overlap with Liquor Shop.

Customer

- Primarily B2C. B2B this hasn't been a focus for Liquorshop because:-
 - Stores aren't licensed to sell to other businesses, DCs are
 - CFS covers this market

Cart & Checkout

- Liquor restrictions need to applied

Payments & Financial

Orders

Fulfilment

- 60:60 and Mr Delivery cover 120 of the Liquorshop sites for on-demand orders.
- Picking is the same for any other 60:60 order and will be out of the Liquorshop.
- There is a centralised buying office for Liquor that procures for Liquorshop and wine sold through the supermarkets.
- 50% of business is in cooled products, e.g. beer/ciders/coolers – in store/on demand these are typically bought out of the fridge, but for scheduled deliveries it would be ok to deliver at ambient temperature.
- The normal Shoprite supply chain used for distribution. DCs licensed to hold and distribute liquor and can sell B2B.

B2B

- See Customer above.

Marketplace

Recommendations / Take-outs

- It is vital for this business to quickly develop a specialised and value-adding Liquorshop B2C e-commerce platform to cater for sales and interactions over and above the on-demand 60:60 value proposition.
- This will require a holistic approach covering branding, value added services, rich content and media, world class CX and e-commerce transacting capability, logistics & fulfilment capabilities that would also enable extended isle for long tail, rare items.
- This would make a good test case for leveraging a Group reference architecture and its Core capabilities while delivering a highly tailored and flexible front-end with a rapid deployment timeframe.
- This business unit is highly tied into the Supermarket corporate business so integration to central ERP and Catalogue capabilities will be required.