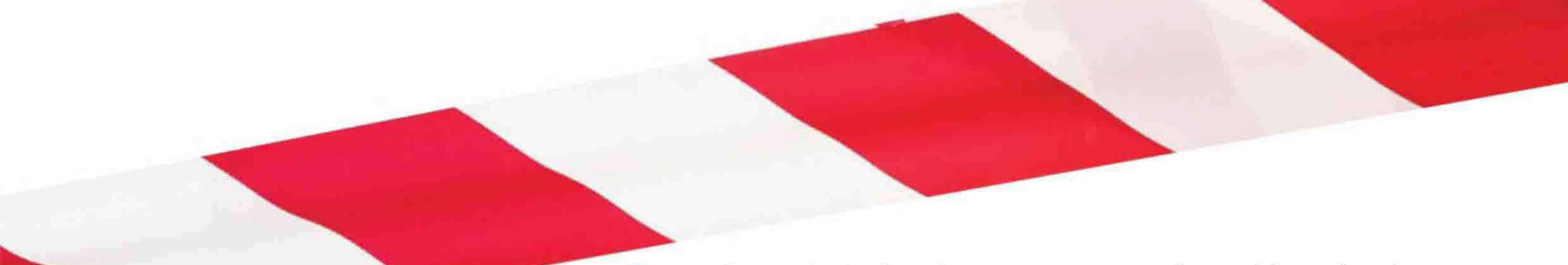
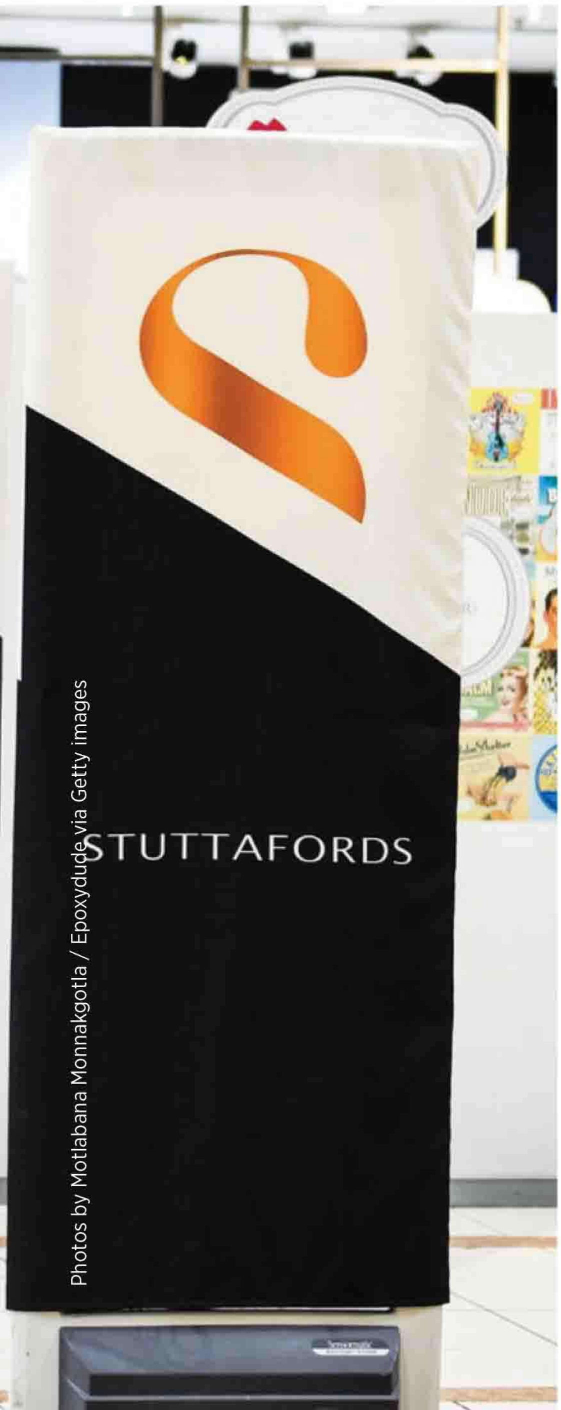
FAILING And FADING Into HISTORY

If you went shopping in a big store in Africa this month there's a good chance it'll be shut down this time next year. The stores of Africa are struggling; to the south more than a century of selling history disappeared into thin air; in the east there are closures and angry workers; to the west there are more struggling stores, yet golden opportunities online. The business of shops – who would invest in it?

BY MELITTA NGALONKULU



A sad story; the death rattle of an African legend. On this Friday, the lights shine brightly but the shelves are gloomy. The manikins lay in a pile, stripped of their designer labels and dignity. The shop assistants wear black as sombre as the day. Outside stand the last two flimsy racks of cut-price clothes; like the store itself, everyone wants to see the back of them. A sorry end to more than a century of tradition.



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"When one door closes, another one opens," says one shop assistant, through a smile as empty as the shop.

These were the last heavy hours of 159 years of South African department store – Stuttafords. An economic slump and the shift to online shopping has seen many retail stores shut across the continent. On August 1, the last Stuttafords stores in two Johannesburg malls, Eastgate and Sandton City, took their final bow after years of struggle.

"Stuttafords just became more irrelevant to the customer. There was no individuality to it, it just became a portfolio of global brands. It became a departmental stocking global brands, which were stocked in the centers independently anyway," says portfolio manager at 36ONE Asset Management, Evan Walker.

When the first shop was opened in Cape Town, in 1858, by English immigrant Samson Rickard Stuttaford, the vision was to establish a Harrods-like department store in what was then a Crown Colony. Its main store opened in 1938 in Cape Town. It was designed by in-house Harrods architect Louis David Blanc and echoed the British store's famous frontage in London's exclusive Knightsbridge district.

It went through many hands, including winemaker, Graham Beck, who died of lung cancer in 2010. Beck bought Stuttafords in 1978 with its six department stores from the Stuttaford family for R12 million ($900,000), and shortly thereafter delisted the company from the Johannesburg Stock Exchange (JSE).

However, it stayed focused on the middle- and upper-class market, despite the economy's failure to recover from the deep recession of 2009.

Stuttafords Chief Executive Robert Amoils, who declined to be interviewed, told business website Fin24 that the damage had already been done.

"I believe the path we set was correct. We ran out of time. The market downturn was so swift, so severe," says Amoils.

Then came President Jacob Zuma's surprise removal of South Africa's former finance minister Nhlanhla Nene. In December 2015, the rand dropped, which raised the prices of stock that Stuttafords had committed to buying up to a year in advance.

The company filed for voluntary business rescue in October, cutting 50 jobs – out of 800 employees. The store had 61% independent creditors, and owed R836 million ($63 million). They included Nedbank, Estée Lauder, Levi Strauss, Tommy Hilfiger and Polo.

The rescue plan was amended four times. There was conflict between shareholders and management as well as creditors and management.

Months before its closure, the department chain launched a slew of promotions which were a mix of high discounts and three-for-two promotions. This was to raise money for stock for the winter season.

The single largest shareholder Ellerines Bros, which currently owns 26.4%, withdrew from its commitment to inject R12 million ($900,000) in exchange for a 76% stake.

It left Stuttaford's in liquidation. Its assets would be sold and some creditors will only be paid three cents for every R1. Creditors, whose debt is secured against Stuttafords' assets, would be paid 90 cents for every R1.

The South African Revenue Service (SARS) would be the first to receive its R28 million ($2.1 million) in taxes. Creditors with secured debt and other shareholders, including Ellerines and Vestacor, will also receive what is due to them, leaving the employees last in line.

"I am really worried about finding another job. I am a mother of two and I support my brother as well because our parents passed away. Last year I moved to Stuttafords for greener pastures, little did I know that I would find myself in this crisis," says a distraught employee at the Sandton store.

"They did nothing themselves in turning around the store. They had zero output for the customer. I would say that they have been outdated for the past 10 years. I think what has kept them more relevant is the fact that, I think that they had more relevant regional locations and sub–centers, and the brands in South Africa have taken a long time to get here," says Walker.

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"Big stores, like H&M, Zara and Cotton On, keep introducing new product lines all the time and they keep having different footprints and different handwritings all the time, at way more affordable prices. I do not see any future for departmental stores, there is very little future growth. Globally, we have seen the added footprint of online shopping that is destroying the retail market."

EY's analysis on the 12 largest retailers in South Africa accounts for about R600 billion ($45 billion) in annual sales. The analysis focused on groceries, clothing and speciality items, like stationery.

Last year, return on equity (ROE) was strong for specialty retailers at 51.6%, grocery retailers averaged 22.3% and clothing ROEs were 41.1%.

The grocery retailers had a 62% share of total retail spend, specialty retailers had 23% and clothing retailers achieved 15%. In terms of share of profits, grocery retailers achieved 66%, while speciality and clothing retailers had lower shares at 18% and 16% respectively.

Many of Africa's retailers are gloomy. The sector is trying to recover from weak and declining Gross Domestic Production (GDP) growth, low credit growth, and low investment levels.

In the difficult retail business of Africa there are no sacred cows – just ask Stuttafords.