By Guy Lerner

Navigating the financial rapids

Retail and wholesale finance & insurance in a challenging economic landscape

The South African retail and wholesale landscape is undergoing significant shifts, driven by factors such as economic fluctuations, digital transformation, changing consumer preferences and technological advancements.

While inflation softened from 5.6% in February 2024 to 5.3% in March 2024, the repo rate in South Africa remains at a 15-year high at 8.25%, with the prime interest rate at 11.75% in April 2024. Inflationary pressures from food, utilities (electricity), transport (fuel), and non-alcoholic beverages are the main contributors. It's a tough landscape and retailers and wholesalers are paying more for finance and insurance – and will continue to do so for the foreseeable future.

Yvonne Mhango

According to Yvonne Mhango, Bloomberg's Africa economist, "reducing the inflation rate – currently at 5.6% – to the mid-point of the SARB's 3%-6% target is taking longer than anticipated."

Mhango doesn't expect lower rates until the second half of 2025 at the earliest, while upward pressure on the economy might see short-term rate increases before the dust settles.

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It's a tough landscape and retailers and wholesalers are paying more for finance and insurance.

So what does this mean for retailers and wholesalers looking to tighten and optimise their finance and insurance portfolios while striving to grow their businesses? Let's take a closer look at some of the key finance and insurance trends for retailers and wholesalers as we move through 2024 and into 2025.

Insurance in an evolving risk landscape

The rise of e-commerce and omnichannel retailing introduces new risk factors. Retailers can mitigate these by adapting their insurance policies to cover aspects such as cybersecurity threats, product liability issues related to online sales, and delivery-related damages.

Manage rising costs & economic uncertainty. South Africa's economic climate presents challenges for retailers. Rising fuel prices, inflation, and potential interest rate hikes impact operational costs and consumer spending. Many retailers and wholesalers are focusing on cost optimisation strategies, exploring innovative insurance solutions to mitigate risks, and seeking flexible financing options.

Insurance needs in an evolving risk landscape. The rise of e-commerce and omnichannel retailing introduces new risk factors. Retailers can mitigate these by adapting their insurance policies to cover aspects such as cybersecurity threats, product liability issues related to online sales, and delivery-related damages.

Fintech and data-driven finance. Retailers and wholesalers are leveraging financial technology (fintech) to streamline financial processes, manage cash flow effectively, and access alternative funding solutions. Additionally, data analytics are being used to gain insight into customer behaviour, optimise inventory management, and tailor insurance offerings.

Sumay Dippenaar

Sumay Dippenaar, General Manager Marketing for the Connect Group of companies and Capital Connect, says many merchants find that traditional lenders are reluctant to approve loans for business growth and that their underwriting processes take so long that the opportunity is often gone by the time a business loan is approved. She says …

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> "Fintech lenders are addressing this gap by offering fast access to capital, within 24 hours, so that retailers do not miss out on golden opportunities."

Embrace embedded insurance. Traditionally sold separately, insurance is being seamlessly integrated into the retail experience, such as buying phone insurance at checkout along with your new smartphone.

This 'embedded insurance' trend offers convenience for customers and potential revenue streams for stores. In a recent example, Tiger Wheel & Tyre partnered with Hollard to introduce X-Sure tyre and wheel insurance.

Prioritise sustainability. Consumers are increasingly environmentally conscious and retailers and wholesalers are responding both proactively and reactively by adopting sustainable practices throughout their supply chains. This can impact insurance needs. For example, the use of certain recycled materials in packaging might necessitate coverage for potential issues caused by these materials during transport.

Navigating the financing rapids

The South African business financing landscape can seem complex, especially when it comes to significant investments such as equipment, real estate, and overall business expansion.

Having a clear understanding of your financing requirements is a good starting point for any retailer. There are several resources available online, such as Old Mutual's retail finance portal, to make sense of your different options. For instance, consider the specific equipment or real estate you need, the desired timeline for acquisition, and the potential impact on your cash flow. A thorough financial health check that includes analysing your store's current debt levels, profitability, and credit-worthiness is crucial. This will influence the type of financing you can qualify for and the terms offered by lenders.

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South African retailers have a variety of financing options available. Capital Connect's Dippenaar says established retailers require a one-stop-shop and want to partner with service providers that can help them with broader financial needs, including cash management, card acceptance and value-added products, and services to boost their bottom line.

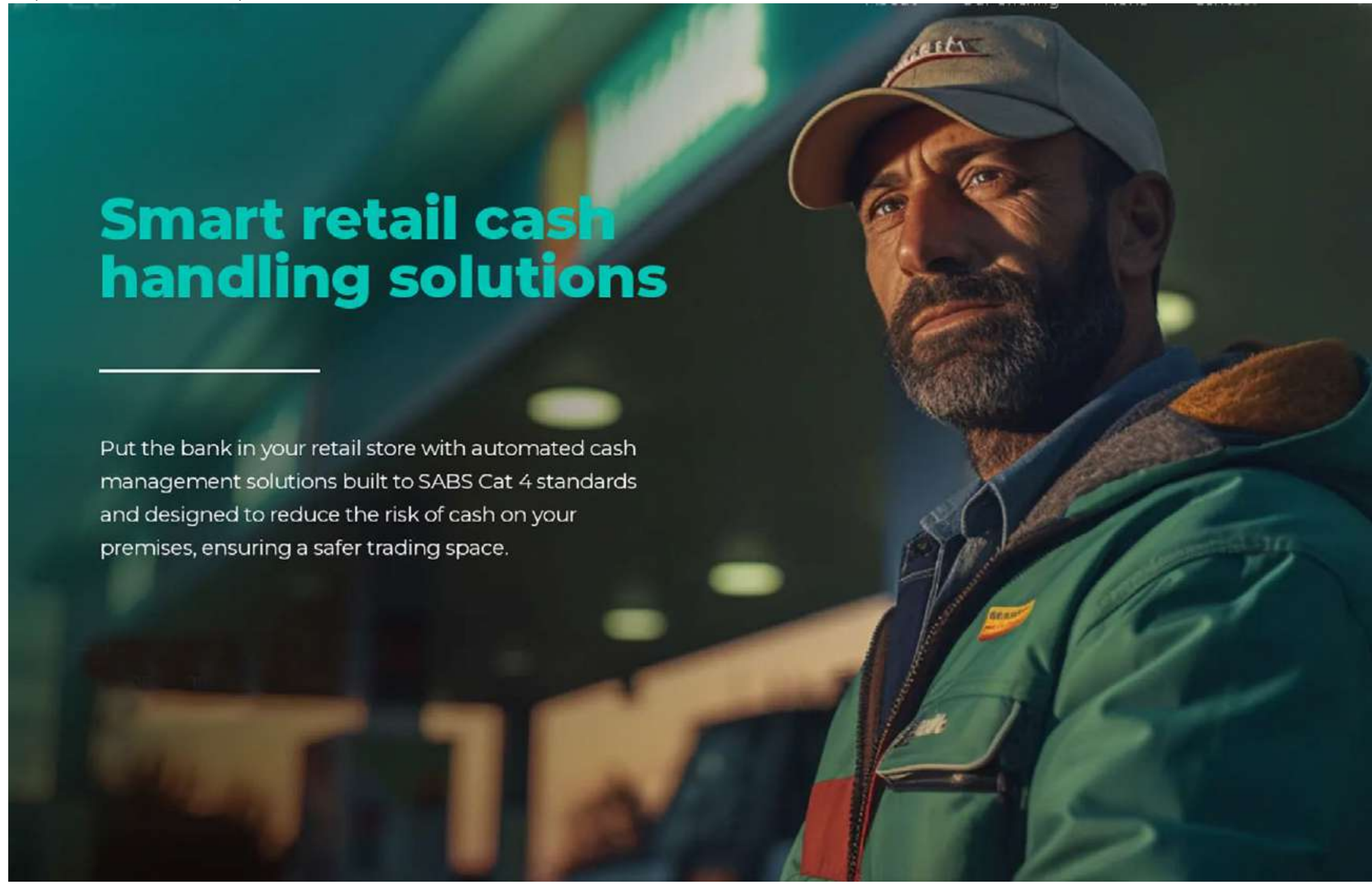
Retailers are looking for loans that are substantial enough to make a real difference in terms of business growth. Many lenders provide smaller business loans of between R15 000 and R100 000, and retailers may need more funding to achieve their goals. She says ...

> "Gone are the days of one-size-fits-all. Retailers need choice and they need to be able to choose their short-term loan terms and value to suit their pocket."

"Cash flow is king and in many retail verticals the profit margins are thin. Retailers must be able to repay the opportunity capital in small daily instalments instead of large monthly debit orders, to maintain positive cash flow."

Retailers and wholesalers can also explore leasing options for equipment, which can free up working capital but could come with ownership limitations at the end of the lease term. For example, alternative lenders may offer specialised financing solutions for specific equipment or business needs, often with faster turnaround times but potentially higher interest rates.

https://connected.co.za/capital-connect



Smaller independent stores and informal traders could also consider government initiatives aimed at supporting small and medium businesses, which could offer subsidised loan programmes or loan guarantees.

Beyond interest rates, there are other factors to weigh up. For instance, some lenders might offer flexible repayment options or lines of credit that provide access to additional funds as needed. Find out if the lender requires collateral, which could be existing property or assets. The lender's reputation and customer service should also be considered, ensuring they provide timely support throughout the financing process.

In all cases, always seek professional guidance. Consulting a qualified financial advisor or commercial broker can be invaluable. They can help you navigate the financing landscape, identify the most suitable options for your needs, and negotiate favourable terms with lenders. Their expertise can save you time and money and ensure that you secure the best possible financing solution to fuel your business growth.

Debt – the good, the bad and the ugly

In the retail and wholesale world, debt can be a double-edged sword. Understanding the difference between 'good debt' and 'bad debt' is crucial when considering your finance options.

Good debt is like an investment in your business's future. It helps you acquire assets that generate income or appreciate in value over time. This could include a loan to purchase a new store location, a warehouse to expand storage capacity, or even financing for energy-efficient equipment that reduces operational costs in the long run. These investments contribute to your bottom line, strengthen your competitive edge, and ultimately help you build wealth.

On the other hand, bad debt acts as a financial burden. This is money borrowed to finance short-term needs or depreciating assets that lose value over time. For example, credit card debt used to cover daily operational costs or impulse purchases of non-essential equipment adds a layer of interest payments without any long-term benefit.

Similarly, a loan to buy a fleet of delivery vehicles might seem necessary, but unless the repayment plan is carefully considered, the ongoing loan repayments coupled with the depreciating value of the vehicles can strain your cash flow.

As we get deeper into the financial year, there are examples of South African retailers cutting their debt burdens. Earlier this year, the Spar Group announced that it was exiting some foreign markets to better control its fiscal policies and reduce debt.

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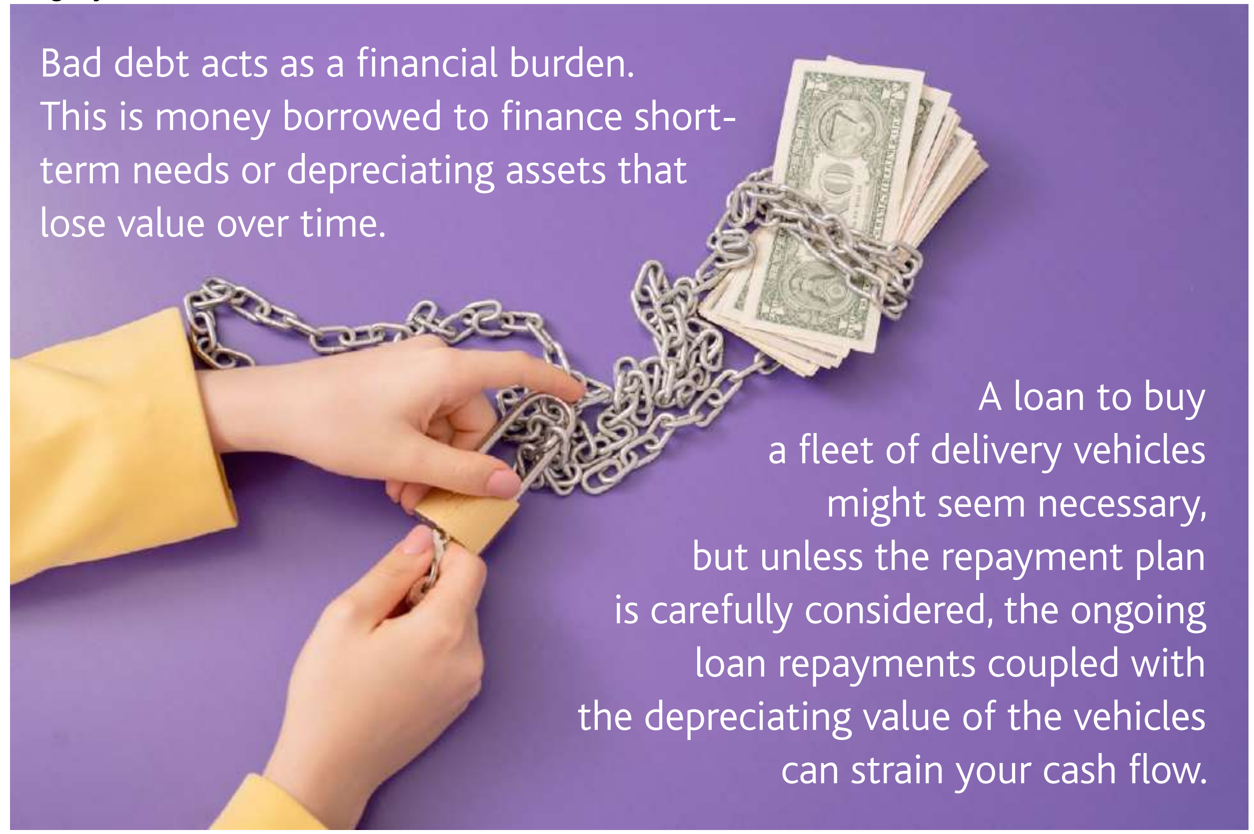


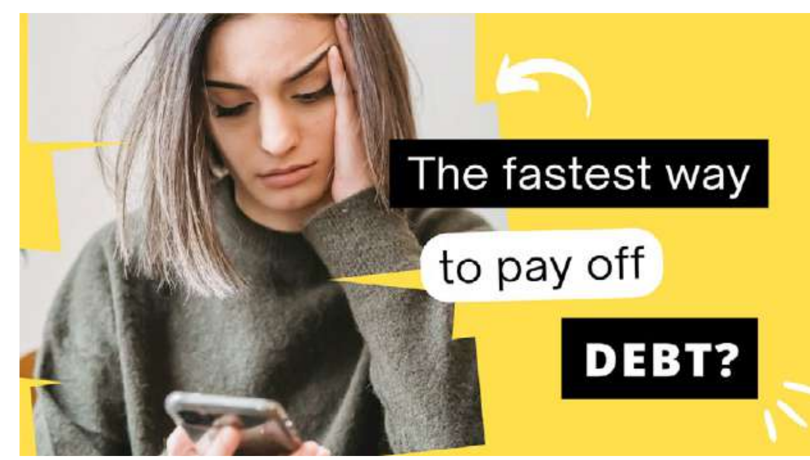
Spar CEO Angelo Swartz was quoted as saying …

> "What we should be doing as all corporates, and Spar hasn't been great at this in the past, is looking at our capital-allocation policy and making sure that it is well thought through, particularly when you are funding expansion."

What other debt traps should South African retailers and wholesalers be wary of?

- **High-interest short-term loans:** these lenders often target businesses in need of quick cash, but the exorbitant interest rates can quickly spiral your debt out of control.
- **Maxing out credit cards:** while credit cards offer convenience for unforeseen expenses, consistently relying on them for everyday operations can lead to a cycle of debt.
- **Unbalanced inventory financing:** financing large amounts of inventory can be risky, especially for seasonal goods or those with unpredictable demand.

Getting stuck with unsold inventory translates into wasted storage space and ongoing loan repayments for stock that isn't generating income.



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By prioritising good debt that fuels growth and avoiding the allure of bad debt that weighs you down, retailers and wholesalers can make informed financial decisions and navigate a path towards long-term success. Responsible debt management is key to building a resilient and thriving store.

Unlocking growth ... Why integrated payments are the future for businesses of all sizes

In the fast-paced world of commerce, staying ahead means leveraging technology for optimal efficiency. Businesses are constantly searching for ways to streamline operations, enhance customer experiences, and ultimately boost sales. One such technology that has transformed the payment landscape is Point of Sale (POS) integrated payments.

Although a well-established technology, the benefits it offers are extensive, especially when it comes to unlocking value-added features for businesses. adumo provides a comprehensive suite of integrated services that go beyond the traditional, offering a seamless and enriched payment experience.

A Game-Changer for Businesses of all Sizes

An integrated payment solution seamlessly connects the card payment device (PED) directly to the POS system for efficient transaction processing. This integrated process eliminates the need for manual intervention, resulting in a faster, more accurate checkout experience with no reconciliation required between POS and payment device.

For example: When tender type 'card' is selected on the POS, it automatically sends the payment details to the connected payment device. The device then displays the amount, processes the transaction and, upon completion, automatically communicates back to the POS. This seamless integration finalises the sale and prompts the POS to print the transaction slip.

The benefits are numerous ...

- **Efficient transaction processing:** Allows for fast and accurate transaction processing, reducing checkout times and improving overall customer satisfaction.
- **Diverse payment options:** Supports multiple payment options, catering to the preferences of a wide range of customers, utilising existing payment hardware.
- **Tighter financial controls:** Automated payment processing eliminates errors associated with manual entry and reduces refund fraud risk.
- **Automated reconciliation:** Effortless and accurate transaction reconciliation and reporting enables you to easily balance sales reported by your POS with your bank settlement and gain greater visibility into your finances.

Bridging the Gap for Growth

However, integrated payments are not just for the large players, as smaller businesses stand to benefit, too. Such solutions can level the playing field, empowering small businesses to compete more effectively.

By consolidating payment systems, they can reduce costs and mitigate risks associated with errors and fraud. In addition, integrated systems enable small businesses to offer diverse payment options and streamline the payment process, allowing them to remain relevant and concentrate on their growth.

Elevate Your Payment Experience with adumo

In the dynamic world of payments, integrated solutions are not just necessary but a strategic advantage for businesses of all sizes. adumo caters to a broad spectrum of industries, and as an official reseller of PAX Android-powered payment devices, delivers a comprehensive suite of integrated payment services supporting all merchant needs. These range from queue busting to self-service kiosks.

With an impressive client list including Sportsman's Warehouse, Cape Union Mart, Builders Warehouse, Queenspark, OK Foods, and more, adumo provides tailored solutions that empower businesses to thrive in a fiercely competitive market. Embrace the future of payments with adumo, where innovation meets efficiency, unlocking your true potential for growth.

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Insurance to protect your business*

Having a viable finance strategy and line of credit in place is just one side of the coin when it comes to navigating strategic retail and wholesale growth. The other side is making sure your business – and staff – are adequately protected in times of need.

When it comes to insurance, retailers and wholesalers should consider a comprehensive approach, focusing on a combination of short-term specific coverages such as vehicle and potentially third-party, alongside income protection for key personnel.

Here's a breakdown of the priorities ...

Short-term insurance: This is crucial for protecting physical assets and mitigating financial losses from unforeseen events – consider coverage for buildings, inventory, and equipment against fire, theft, and other perils.

- Business interruption insurance further protects against loss of income due to a covered event that disrupts operations, while product liability covers legal costs and damages if a product causes a customer injury or property damage.
- Cyber insurance protects against financial losses due to data breaches, cyber-attacks, and business interruption caused by cyber incidents. Retailers and wholesalers with e-commerce offerings should especially prioritise this.

Vehicle insurance: if you're a retailer or wholesaler that relies heavily on a delivery fleet, comprehensive vehicle insurance is essential. Third-party insurance: while not mandatory in South Africa, third-party insurance can be a cost-effective way to ensure coverage for any injuries or property damage caused to others by a company vehicle.

Income protection: Income protection insurance ensures that a portion of an employee's salary is covered if they become disabled or unable to work due to illness or injury.

*Always consult a qualified insurance broker who can help tailor a comprehensive insurance plan that provides optimal coverage at a competitive price.

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Use debt to your advantage

This is a good time to investigate debt consolidation as well as more innovative and flexible fintech options that enable retail and wholesale businesses to pay back loans with less impact on cash flow. Some examples of wise use of debt include:

- Managing cash flow better to ensure a consistent supply of inventory.
- Using credit to procure inventory in bulk, take advantage of discounts, and negotiate favourable terms with suppliers. This allows stores to maintain optimal stock levels, offer a wide range of products and respond rapidly to customer demands.
- Expanding retail operations. Retailers and wholesalers can use debt capital to open new stores, renovate existing ones, purchase warehouse space or invest in marketing and promotions.
- Adapt to consumer trends – whether by implementing new technologies such as point of sale systems or e-commerce capabilities, upgrading store layouts, purchasing delivery vehicles, or diversifying product offerings.
- By having quick access to credit, retail and wholesale stores can pay suppliers promptly and negotiate better terms, such as extended payment periods or bulk purchase discounts. The benefits include better pricing, and increased flexibility in managing inventory levels.

Source: Sumay Dippenaar, General Manager Marketing for the Connect Group of companies and Capital Connect

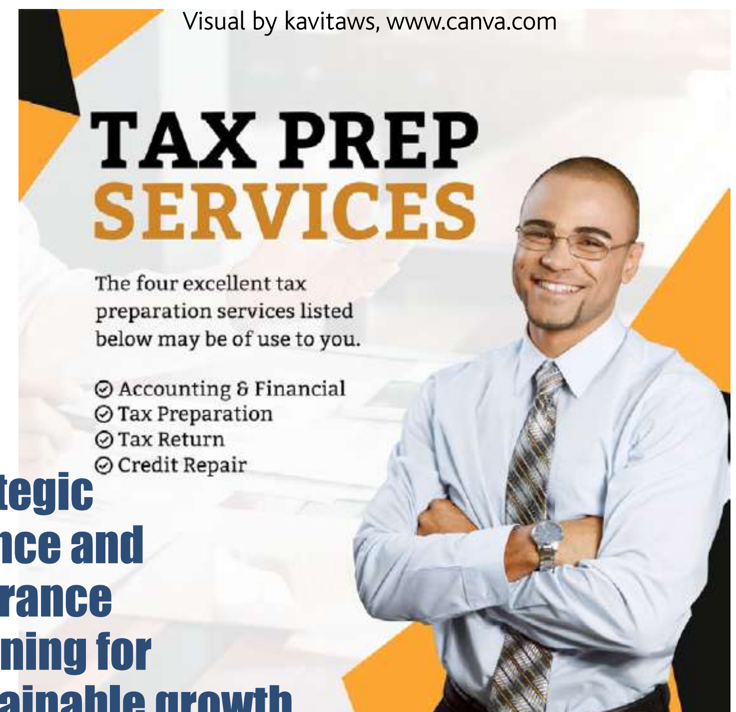
Insurance for your staff

Retailers and wholesalers can create a win-win situation by offering competitive insurance programmes that address their employees' needs. This can include health, dental, vision, and life insurance, as well as coverage for accidents and disabilities. Providing a variety of plans with different premiums and deductibles allows staff to choose the option that best suits their budget and family situation.

Beyond the financial benefit, offering a robust insurance programme demonstrates that the store or retail/wholesale group cares about its employees' well-being. This can lead to higher employee satisfaction, engagement, and productivity.

When employees feel secure knowing their health and finances are protected, they are more likely to be invested in their work and stay with the company for the long term. Competitive insurance programmes can also be a significant advantage when attracting and retaining top talent and skills in a competitive job market.

In addition to traditional insurance, some retailers and wholesalers are going a step further by providing access to wellness programmes and resources. This can help employees stay healthy and reduce healthcare costs, further demonstrating the company's commitment to its employees' well-being. By offering a comprehensive insurance programme, employers can create a more loyal and productive workforce.



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Strategic finance and insurance planning for sustainable growth

South African retailers and wholesalers have a growing arsenal of financial tools at their disposal. By strategically using debt, exploring innovative financing options, and implementing a comprehensive insurance plan, retailers and wholesalers can navigate uncertainty and position themselves for sustainable growth. With careful planning and a proactive approach, retailers and wholesalers can weather any financial or insurance storm and thrive in the years to come.

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Guy Lerner, writer and photographer, writes across diverse topics in business, technology, and retail, including consumer technology, telecommunications software, user experience technology, security, and power systems. He has worked with multinational companies in South Africa and Australia and is currently based in Cape Town. Guy holds a B.Sc. Honours degree from the University of Witwatersrand). Contact Wilkins Ross Communications (www.wilkinsrossglobal.com) or guy@wilkinsross.co.za.