MEIKLES

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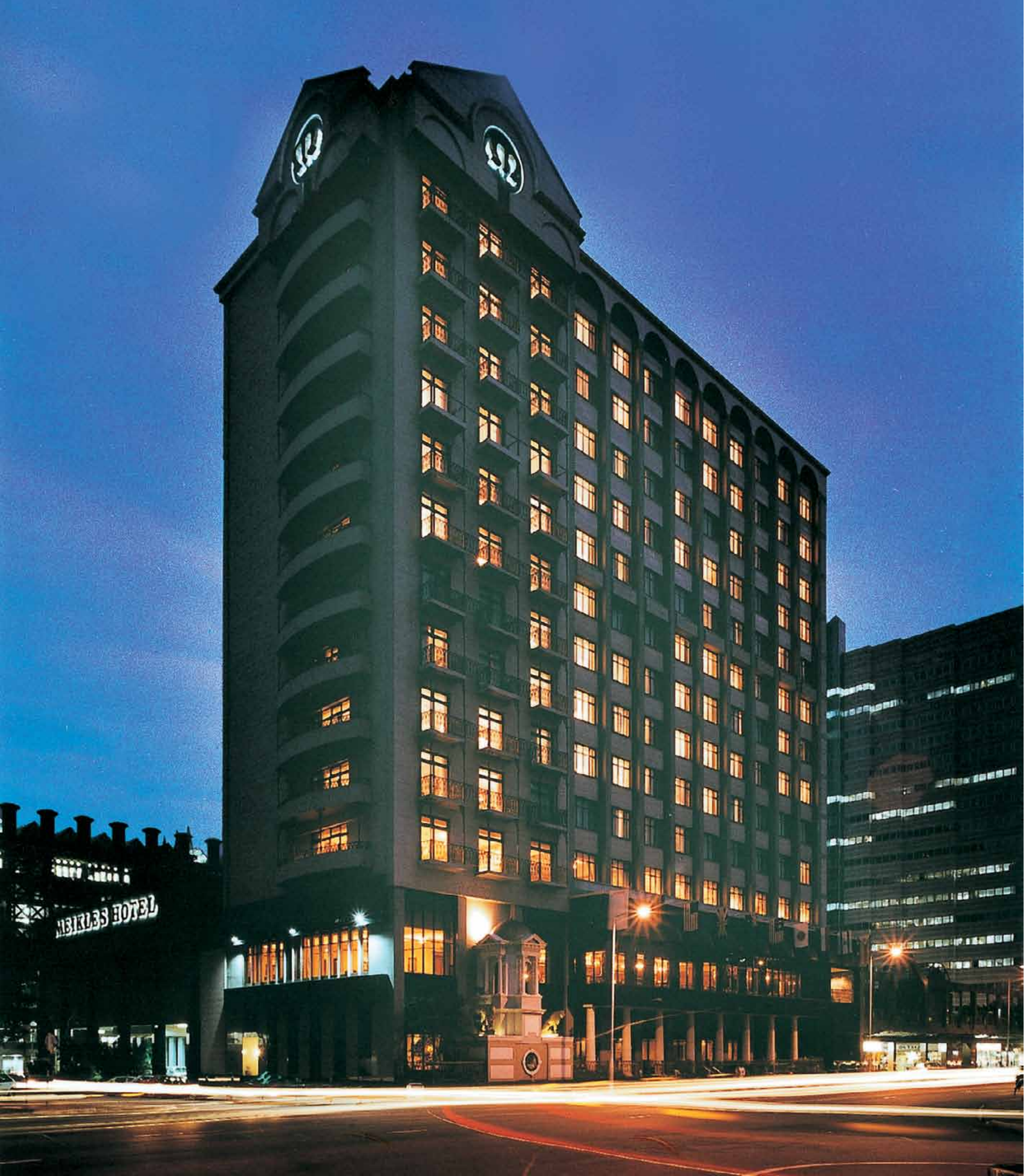

FROM RECOVERY TO GROWTH

Zimbabwe-based Meikles has spent three years rebuilding its retail, hotel and tea growing business in the aftermath of devastating hyperinflation. Executive director Mark Wood talks to Gay Sutton about new business opportunities and plans for growth

The Victoria Falls Hotel

Meikles is a household name in Zimbabwe: 17 Meikles-branded department stores and a luxury five-star Harare hotel form the face of a company that has extensive experience in retail, hospitality and agriculture dating back to 1892.

The operations are divided into four divisions. The supermarket division encompasses the leading TM Supermarket chain with more than 50 stores spread across all the major urban areas nationwide. The hotel division includes not only the 360-bed Meikles Hotel in Harare, but also the splendid and historic Victoria Falls Hotel and the Cape Grace Hotel in South Africa. Meanwhile the Meikles department stores countrywide have been augmented by the acquisition of Greatermans and the two Barbour stores in Harare. The final division of the business is the Tangada Tea Company, a tea growing enterprise comprising five tea estates.

Today, Meikles is in the process of change. Not only is it fighting to rebuild the business after the devastating cycle of hyperinflation that has ravaged Zimbabwe over the past 10 years, but it's also reshaping each area of the business to take advantage of the upturn and the emergence of new markets.

For most of us, the global economic difficulties of the last few years have been challenging enough. For businesses in Zimbabwe, the sheer scale of inflation over the last 10 years and the hardship caused is hard to grasp. "To give you an example of how bad it became," explains executive director Mark Wood, "if we received a quote to buy something, the price was good for just a couple of hours and then went up again. Goods sold one day could not be replaced the next day at the price we had received for them. By 2009, through a combination of inflation and imposed price controls, our departmental stores were empty and the supermarkets only stocked with locally produced meat, vegetables and bakery goods. We had shops with virtually nothing to sell and a full array of staff to pay."

By the time dollarisation occurred in February 2009—the Zimbabwean dollar was replaced by the US dollar—and inflation abruptly came to a halt, "it had wiped out the entire group's liquid working capital," Wood continues.

Through a series of hard-won short term loans from the cash-starved national banks, the company has worked hard to fully restock both the supermarkets and department stores. "On a day-to-day trading basis we have recovered," Wood says. "And

"WE BELIEVE THERE IS HUGE POTENTIAL FOR EXPANSION IN THE TOURIST SECTOR"

PROBRANDS

Probrands is one of three strategic business units making up Progroup Holdings and was established in 2009. Probrands are food specialists in basic household consumable goods, focused on delivering value to the consumer. We currently distribute our product to over 150 leading retail outlets country-wide in Zimbabwe!
We value our business relationships and our approach is based on building mutually beneficial relationships with our trade partners. We would like to take this opportunity to congratulate Meikles Ltd (TM Supermarkets) on their achievements to date. We will continue to align ourselves with and support them in their future growth plans.
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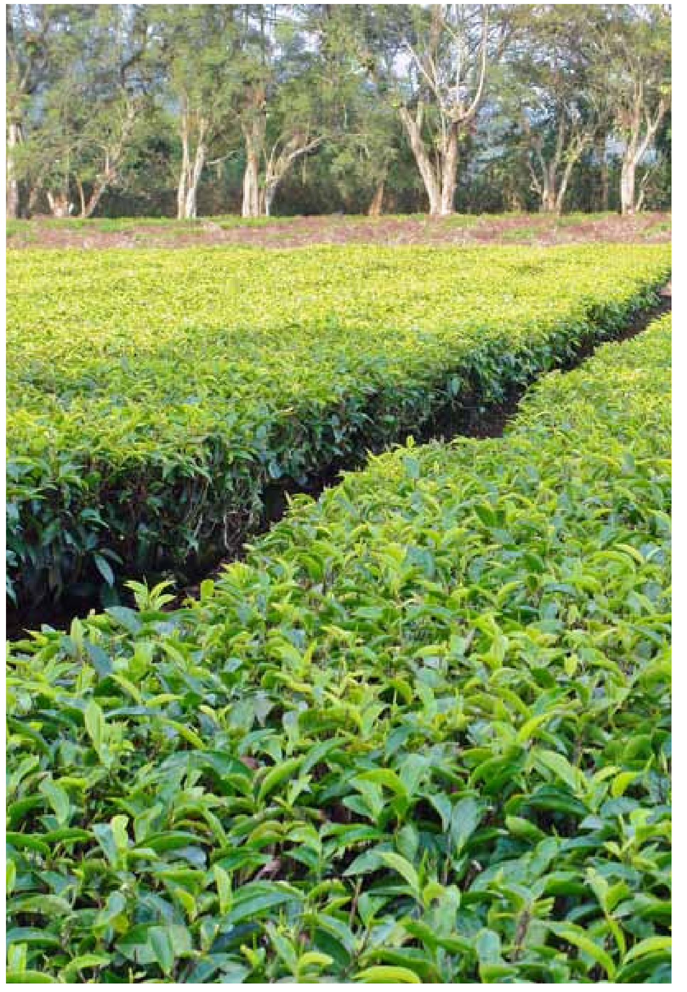

Tea plantation

Meikles' flagship supermarket in Borrowdale suburb, Harare

we now have plans for all four divisions of the company. For example, we see massive potential for growth in the supermarket side of the business."

Working with business partner Pick n Pay, a large South African retailer, Meikles is updating and refurbishing the TM Supermarket chain and two new stores will be opened in the next four months. In the long-term, the aim is to derive synergies of scale with Pick n Pay by taking part in combined purchasing, and tapping into the company's expertise and experience across Africa.

"We also believe there is huge potential for expansion in the tourist sector," Wood continues. The iconic Victoria Falls Hotel is currently in the process of being refurbished. Standing on a unique 13-acre site overlooking the falls and the railway bridge, it has already enjoyed a tremendous recovery in tourist interest. Occupancy levels have risen from just 10 per cent five years ago to 60 per cent today; and that trend looks set to continue. "It's a prime location, and the only hotel in the area with views of the falls," Wood says. "At the moment we're examining possible options for expansion, and we're currently bouncing ideas off our partner, African Sun Hotels." Meanwhile, the Meikles Hotel in Harare, although largely reliant on business clients, is also to be refurbished.

One of the most interesting areas of diversification and expansion within Meikles is taking place in the tea business. Currently some 2,500 hectares of land are cultivated for tea across the company's five estates, and by marshalling underutilised land on the existing properties, the company is planting 200 hectares of coffee, 600 hectares of macadamia nuts and 400 hectares of avocado pears. The avocados and

> "OUR AIM IS TO ESTABLISH NEW SUPERMARKET PARTNERS AND PROVIDE PACKAGED TEA FOR THEIR IN-HOUSE BRANDS"


Zimbabwe's economic situation is improving

macadamia nuts will be exported to Europe while the coffee—top quality Arabica—will not only be exported but also sold locally.

"All three crops will take three to four years to reach a fully productive state. So we're planting during quiet times when we can utilise our spare staff for land clearance and planting," Wood says. "However over the next three years we expect to create maybe 400 new full-time jobs and invest in plant and equipment for sorting, grading and packaging."

Changes are also on the cards for the tea-producing side of the business. "Traditionally we've exported 70 per cent of our tea as bulk tea and blended and packaged the remaining 30 per cent for sale locally. But we believe it will be far more profitable for us to turn those percentages around and process and pack 70 per cent of our tea. To achieve that we are busy developing markets in Zambia, Botswana and Namibia, and in a couple of months we'll be looking at Angola. Our aim is to establish new supermarket partners and provide packaged tea for their in-house brands."

The department store division of the business has been the slowest to revive. "Historically the stores have survived on credit sales, and sourcing funding for the debtors' book is still very difficult. We've done a lot of work on pricing and we're certainly competitive in the market but we're basically in a holding operation until liquidity in the local market improves," Wood says. However, the company is currently examining its business model for the department stores, and evaluating the prospects of migrating to a destination store model and retailing well-known brands. "By working with some of the big brand names and using the size of their orders to reduce purchasing costs, we believe we can get a much better deal for ourselves and a lot better deal for our customers," Wood reveals.

"WE'VE DONE A LOT OF WORK ON PRICING AND WE'RE CERTAINLY COMPETITIVE IN THE MARKET"

Finally, the company is looking to its logistics and supply chain operations to improve efficiency and reduce costs. Centralisation of purchasing has already increased accountability and financial control of the business; meanwhile, the company has recently embarked on a huge $10 million to $15 million project to create a central distribution centre to handle goods for all divisions of the business. Within the one 22,000 square metre warehouse complex there will be a 12,000 square metre hypermarket, a packaging plant for fresh produce, and a diesel-powered bakery to supply bakery products for the Harare area which should help overcome the problems caused by an erratic power supply. If the project proves a success, it may well be replicated in Bulawayo.

As things have improved in Zimbabwe, Meikles has not only striven to recover from the disastrous effects of hyperinflation, but to position itself at the forefront of business development. If the energy and business acumen displayed over the past few years is continued into the future it will be interesting to chart the company's course as it expands its horizons and develops its footprint in the wider region. BE

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