

Why Walmart's intended buyout of Massmart is a good thing

 By [Fred Razak](#)

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Walmart's intention to buy out and delist Massmart is a good thing for South Africa and Africa, and it perfectly positions the American retailer for the next five to 10 years.



Image supplied. Fred Razak, Chief Trading Strategist from CMTTrading

It's been no secret that the South African company has had a difficult few years. Last month it announced a 51% decline in headline earnings for the 26-week period ended June.

This translates to a potential loss of R974.9m compared with an R645.4m loss in the previous comparable period (\$55.8m compared to \$37.5m on the current rand dollar exchange).

Despite this, these figures won't have factored into Walmart's decision to now buyout the beleaguered retailer.

These deals don't happen overnight. Ultimately, they won't be thinking about the business for today or tomorrow, they are thinking five to 10 years down the line.

Amazon's biggest rival

Walmart is Amazon's biggest rival. While Walmart is a retailer and Amazon is a digital presence they are competing for the attention of the same people and Africa is one of the fastest growing population areas in the world.

While Amazon's strength is in its quantity of data and its ability to offer clients 100 examples of exactly what they are looking for, it will be Walmart's contention that the retail experience still has a lot to offer, particularly in emerging markets like Africa, where a traditional retail experience is still preferred.

Amazon is restricted when it comes to feeling, and touching the products. In a fast-paced world, this doesn't matter much, however, when you are dealing with rural or undeveloped areas, people still like to go into a store and see what's on offer.

At Amazon that browsing experience is gone. Walmart is therefore positioning itself to benefit from a rapidly growing market, where most are still inclined towards that retail, touch and explore experience.



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Expansion into Africa

Walmart's vetting regarding the quality of products and brand standards will also help them to expand in Africa.

If I go to Amazon, I am presented with a dozen options from two dozen suppliers and I have to do my own research as to whether these people and brands can be trusted.

With Walmart, it's the other way around. You only get to choose between a few brands of any product, but these have been ruthlessly vetted allowing customers more certainty on their purchases.

This is not to say that the expansion into Africa will be immediate. The current Massmart situation is one made, not only from Covid disrupted logistics and the KZN looting, but possibly long-term mismanagement and it may take some time to fully position the brands for expansion.

The mismanagement doesn't necessarily mean being corrupt about how they allocate the funds.

Mismanagement can be not retaining clients or not maintaining customer satisfaction, a lack of delivery standards or a lack of sales morale. It doesn't need to mean something financial.

Trimming the fat

A company or a business is a living entity and at this point, they have to restart its heart. That said Massmart is a Titanic business and it will take some time to get it all pointed in the direction Walmart want it to go.

For all that, Walmart is not hesitating to take tough decisions. Just a day after I predicted Walmart would "trim the fat" and that brands such as Game would be streamlined and job cuts would be coming, the retailer announced the closure of eight of its stores around the country.

When a company looks to take over another company and use that as a springboard to enter an emerging market they want to focus on doing more of what is already proven to work and they want to decrease doing the things that are not creating wealth.

This won't be a one-day process. We are going to see some form of a makeover for all these brands. It could be a financial makeover or a distributional makeover, but it's going to be slow to allow employees and customers to acclimate to the new

standards that Walmart will be bringing into the market.



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Slow changes

He believes, however, that while changes may slowly be coming for the brands in the Massmart stable, they won't be closed down and won't vanish from the South African retail space.

Building a recognisable brand takes decades and they won't want to give that up. Whatever changes they make will be slow. I don't think they will change the names, but they will do brand refreshes alongside new logos.

It's not by chance that Walmart became the largest retailer in the world. I think Walmart's decades upon decades of accumulated knowledge will add a lot more value to the company both in efficacy and efficiency.

The whole Walmart culture is geared toward maximising retail and that's what we are going to see here. New, highly efficient, versions of the brands we knew before expanding into Africa and potentially dominating the space much as they do elsewhere.

ABOUT FRED RAZAK

Chief Trading Strategist at CMTTrading. Prior to entering Wall Street, Razak studied at Baruch College - City University of New York majoring in Finance and minoring in International Business. He landed his first trading position during the boom and bust of the roaring late 1990's and early 2000's, having witnessed the largest expansion to the world economy as the internet age made its debut.

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