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COMPANY NEWS

Second-hand chains lock in profit

Perception shift helps to lift store sales
July 28, 2010

By Florence de Vries

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Cash-strapped South African consumers were turning to second-hand goods retailers Cash Converters and Cash Crusaders for everything from cash loans to new and used goods in the past year, helping the industry shrug off its perceived image as "stolen goods collectors".

Richard Mukheiber, the managing director of Cash Converters, said South African second-hand dealers had been dealt a bad hand as national theft statistics cast these stores in a negative light.

"The source of the product is second hand and with the country's high degree of robberies, assumptions are natural. However, there are various procedures and systems in place to ensure we don't buy stolen goods," he said.

Cash Crusaders chief executive Sean Stegmann said the company prided itself on respectability in the second-hand

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industry: "We have worked closely with the police to enact stricter controls over stolen goods entering the market. Much of our testing for stolen goods goes around matching the seller to the goods through various techniques."

The two competitors are incorporating new strategies to draw customers and both are reporting handsome returns.

Cash Crusaders has 137 stores nationally, while Cash Converters has 48 outlets.

Stegmann expected a 20 percent leap in profits for the year to February on the sale of new goods, which had taken off since being introduced in 2009.

"We have a very loyal customer base and have seen a 22 percent increase in sales since we started selling new goods. Our Dixon appliance brand is seen as a value brand for price-conscious customers," Stegmann said.

The new goods division was one of several profit centres in the Cash Crusaders business model and was competing strongly with second-hand goods and buy-backs, he said.



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Nino Frodema, a Metropolitan Asset Managers portfolio manager, said he expected the price points between second-hand appliances and new appliances to have narrowed with the stronger rand making imports of new goods cheaper.

"So even though pricing would be a big driver of sales for second-hand appliances, we would anticipate that it was less of a driver now that the price points differential between new and second-hand has narrowed," he said.

But while selling new goods has stood 13-year-old Cash Crusaders in good stead, its biggest rival, Cash Converters, has already seen a 30 percent increase in the amount of money it has lent cash-strapped consumers this year.

"Our retail sales have grown in excess of 20 percent this year so far, but most significantly, our cash loans are surpassing retail sales," Mukheiber said.

Cash Converters started its cash advance strategy last year, offering a cash advance and a payday advance to its clients.

"The fees for both these loans are charged as set out by the National Credit Act, which include the initiation and service fees as well as a maximum interest rate of 5 percent a month," he said.

"The customer has to give us an item as surety that the money will be returned. If we don't receive the money after following procedures, we keep and sell the item."

Frodema said it was plausible that South African consumers were under strain and therefore had to borrow more to fund their cost of living.

"Look at Capitec, which grew its gross loans and advances by 73 percent to R5.6 billion... It comes as no surprise that Cash Converters' money lending business also doing relatively well," he said.



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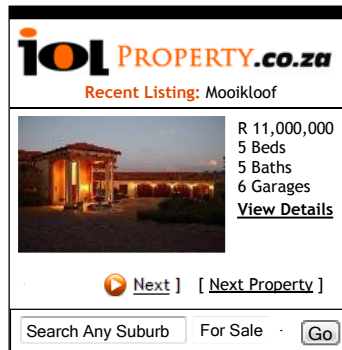
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