

## **From Peptanic to Peptonic.**

### **A retailers response to the challenges of the New South Africa**

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#### **1. Introduction**

Pep Stores was founded by Renier van Rooyen in 1965 as a retail clothing company. Driven by Van Rooyen's business strategy that he could sell clothing to the lower income groups efficiently and profitably and his belief that he could provide dignity and respect to poor people by selling clothes cheaply but not sell cheap clothing, the Company experienced extraordinary growth for the first quarter of a century of its existence. This growth was underlined by the Company's figures with regard to both the increase in the number of its stores and turnover for this period.

Despite its history of continuous growth Pep Stores missed the financial boat in the nineties and did not achieve budgeted sales figures for five consecutive years in the mid-nineties. This paper describes the Company's assessment of and reaction to this period of stagnation and how this was related to the introduction of a new social and political dispensation in South Africa in 1994. It indicates how this led to a refocused and greater awareness and accommodation of the socio-cultural and economic profile both of their clients and their employees and how this sensitising influence was reflected in a changed management style and business approach. The paper concludes with an evaluation of the success of the above-mentioned changes introduced as the Company's response to the economic and social challenges of the New South Africa.

#### **2. A overview of the origin, founding, establishment and growth of Pep Stores 1965 to c 1990**

The origins of Pep Stores can be traced back to 1955 when its founder and original driving force, Renier van Rooyen, started his career as a retailer with a capital sum of R1 000.<sup>1</sup> In partnership with a friend he bought a small general dealership in Bridge Street, Upington. The small store of approximately 100 m<sup>2</sup> sold, amongst many other items, donkey carts, bicycles, medicines, second-hand furniture, groceries and clothing. Under Van Rooyen (who had already demonstrated his entrepreneurial ability when he started his own accounting business in 1952 at the age of 21) the store that was initially run on a part-time basis gradually changed its focus to selling inexpensive clothing and was so successful that Van Rooyen bought out his partner a year later.<sup>2</sup>

The success of the "dorpwinkel" prompted Van Rooyen to establish a clothing company, Bargain Stores (Pty) Limited, in Upington in February 1957. In this period Van Rooyen's business strategy, partially inspired by the plight of the lower-income groups like the Coloureds, started taking shape, namely "mass turnover at low profit with low costs to the lower- and middle-income groups".<sup>3</sup> He realised that, although

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<sup>1</sup> Pepkor Head Office (PH) Anon.: **PEP Stores. A retailing phenomenon**, p. 31.

<sup>2</sup> Pepkor Head Office (PH) Anon.: Die Ontstaan en Groei van Pep Stores, p. 1 (maatskappy inligtingstuk); (PH) T Ball: Comments by Tom Ball, p.1 (company brochure); **Pep Limited Annual Report 1996**, p. 2.

<sup>3</sup> (PH) Pep Stores Minute Book, 14.10.1965-28.2.1979 (Meeting of directors, 17.4.1967,p. 1).

the individual spending power of these groups was not great, they collectively possessed immense buying power.<sup>4</sup>

In pursuit of this strategy a second company, Upington Volksklere (Edms) Beperk, was founded towards the end of 1959. In 1960 Van Rooyen establish BG Bazaars.<sup>5</sup> In the style of OK Bazaars, at the time the best known brand in the country, the name BG Bazaars was instantly recognisable and easy to spell, read and pronounce.<sup>6</sup> Trading operations were consolidated under one roof and moved into central Upington, launching the new company into a successful expansionist phase. The success of Van Rooyen's marketing recipe was manifested in the opening of new branches of the company in De Aar, Beaufort West and Kuruman between 1960 and the beginning of 1965.<sup>7</sup> During this period Van Rooyen's distinctive approach to clothing retailing and his personal political beliefs manifested themselves in the pioneering of two concepts in BG Bazaars operations. The first concept was self-service, which allowed customers to look at, select, touch and feel merchandise without a service counter separating them from the merchandise. The second concept was allowing people of all race groups to fit clothes using the same in-store dressing rooms. As an outspoken opponent of apartheid Van Rooyen refused to serve different race groups separately.<sup>8</sup>

The success of BG Bazaars attracted capital to the company as friends, family and business associates approached Van Rooyen offering to invest capital and their services in the company. Against this background the idea of a chain store group took form<sup>9</sup>, which led to the founding of Pep Stores (Pty) Limited on 17 August 1965 in Upington.<sup>10</sup> Pep Stores was registered by the Registrar of Companies on 14 September 1965.<sup>11</sup> Shortly afterwards it was decided to move the head office of the company to Albert Road, Woodstock in Cape Town to be in closer proximity to its suppliers, a port for cheap imports and the extensive Cape Coloured market.<sup>12</sup> At the first general meeting of Pep Stores on 14 October 1965 permission was granted to take over the De Aar branch of BG Bazaars, which became the first Pep store in the country.<sup>13</sup> This was followed by a second store in Kimberley, which opened on 1 December and a third in Postmasburg, which opened eight days later.<sup>14</sup>

In November 1966 it was decided to buy industrial land in Kuilsriver for R4 310 for the purpose of building its own head office and storage facilities, a project that was

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<sup>4</sup> **Ibid.**

<sup>5</sup> **Ibid.**

<sup>6</sup> (PH) Anon.: Pep...making it possible for everyone to look and feel good, p. 2 (company brochure).

<sup>7</sup> (PH) Anon.: Die Ontstaan en Groei van Pep Stores, p.1 (maatskappy inligtingstuk); (PH) T Ball: Comments by Tom Ball, p. 1 (company brochure).

<sup>8</sup> (PH) Anon.: Pep...making it possible for everyone to look and feel good, p. 2 (company brochure).

<sup>9</sup> (PH) Anon.: Die Ontstaan en Groei van Pep Stores, p.1 (maatskappy inligtingstuk); (PH) T Ball: Comments by Tom Ball, p. 1 (company brochure).

<sup>10</sup> (PH) L  er: Pepkor Beperk. Akte van Oprigting en Statute voor September 1986 (Memorandum and Articles of Association of Pep Stores (Proprietary) Limited – "A" Memorandum of Association of Pep Stores (Proprietary) Limited, pp. 1, 5).

<sup>11</sup> **Ibid.**, (Certificate of Incorporation, 14.9.1965).

<sup>12</sup> (PH) Anon.: Die Ontstaan en Groei van Pep Stores, p. 1 (maatskappy inligtingstuk).

<sup>13</sup> (PH) Pep Stores Minute Book, 14.10.1965-28.2.1979 (First general meeting, 14.10.1965, p. 1).

<sup>14</sup> (PH) Anon.: Die Ontstaan en Groei van Pep Stores, p. 2 (maatskappy inligtingstuk).

completed in the second half of 1967.<sup>15</sup> To meet the urgent need for capital shareholders were requested to comply with the paying arrangements with regard to the shares that they took up.<sup>16</sup> It was also decided in April 1967 to increase the nominal capital of the company from R250 000 to R350 000.<sup>17</sup>

Despite the loss suffered in the 1965/1966 financial year<sup>18</sup>, the company's business philosophy and marketing approach gradually started paying off and in the 1967/1968 financial year the chairman, Renier van Rooyen, had reason to congratulate the board on the Company's efforts and the net profit of R10 653 for the year.<sup>19</sup> The financial results and the increase in the number Pep branches from 3 in 1966 to 18 in 1968<sup>20</sup> vindicated the Van Rooyen business approach as the main reason for Pep's success. Van Rooyen used this period to reiterate and reconfirm his approach, which was strengthened by his experiences during a visit to America and France, namely aggressive mass selling and high turnover at low prices with low costs to the middle- and lower-income groups. The company served the "cheap market" which, according to Van Rooyen, consisted mainly of the Coloured population group. The method followed was to buy clothing that suited their (the Coloureds) taste at prices they could afford. Van Rooyen's attitude was that if the prices did not suit them, Pep had to lower the prices until they did. Pep therefore had to avoid fashion/expensive articles and stick to the bread-and-butter lines. Pep was not interested in percentage profit per article but in profit per volume – in rands and cents profit. This was the policy that gave Pep an advantage over other clothing retailers and they had to stick to it.<sup>21</sup>

The second leg of Van Rooyen's business philosophy was to make employees shareholders and vice versa. According to Van Rooyen, this system held undeniable advantages as it created a united group of people who are bound through their combined capital and labour power and share in its fruits.<sup>22</sup> He also stressed the importance of positive thinking and a positive approach, as negative thoughts and arguments not only harmed individuals but also the company as a whole. The need for co-operation and mutual trust and a combined effort to meet the challenges the Company might face were essential for its future success.<sup>23</sup>

With regard to Pep's marketing strategy, he stressed the importance of pamphlet distribution as the proven recipe for the marketing and advertisement of the Company's merchandise. The principle of close contact between the head office and the branches at grassroots level through the use of area managers was reaffirmed. The

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<sup>15</sup> (PH) Pep Stores Minute Book, 14.10.1965-28.2.1979 (Meetings of directors, 30.11.1966, np, 1.12.1966, np, 22.8.1967, p. 2).

<sup>16</sup> **Ibid.** (Meeting of directors, 17.4.1967, p. 1).

<sup>17</sup> **Ibid.** (Extraordinary general meeting, 19.4.1967, np.).

<sup>18</sup> (PH) Anon.: Die Ontstaan en Groei van Pep Stores, p. 2 (maatskappy inligtingstuk).

<sup>19</sup> (PH) Pep Stores Minute Book, 14.10.1965-28.2.1979 (Annual general meeting of shareholders, 13.8.1968, p. 2).

<sup>20</sup> (PH) Anon.: Die Ontstaan en Groei van Pep Stores, p.4 (maatskappy inligtingstuk).

<sup>21</sup> (PH) Pep Stores Minute Book, 14.10.1965-28.2.1979 (Direksievergaderings, 17.4.1967, p. 1, 22.8.1967, p. 2; 20.6.1968, pp. 2, 4).

<sup>22</sup> **Ibid.** (Board meeting, 20.6.1968, p. 2).

<sup>23</sup> **Ibid.** (Board meetings, 16.11.1967, p.2, 22.8.1967, p. 2).

function of this contact was to establish a more efficient marketing structure and assist branch managers with administration, marketing planning and stock taking.<sup>24</sup>

In March 1970 a decision was taken to change the format of the company from a private to a public company and the Memorandum of Association was changed accordingly by scrapping the term "Proprietary" (Pty) from the name of the company. The old statute was also replaced in its entirety by a statute that complied with the requirements for public companies as set by the Johannesburg Stock Exchange (JSE).<sup>25</sup> This change coincided with the rapid expansion of Pep Stores in the seventies that confronted the Pep management with new challenges. The first challenge was the lack of capacity of Pep's suppliers to cope with the Company's growing mass demand for stock. This led to a decision by the board to investigate the possibility of the Company entering the manufacturing field with the aim of supplying some of its own basic goods/lines.<sup>26</sup> This new division of the Company's activities was launched with an agreement between Pep and Feltex Ltd in June/July 1971 for the eventual acquisition of Budget Footwear (Pty) Ltd.<sup>27</sup> With the official take-over of Budget Footwear on 1 February 1972<sup>28</sup>, manufacturing officially became an integral part of Pep's operations.

A second challenge was the Company's ever-growing need for capital to finance its rapid expansion. In an attempt to obtain more capital 400 000 shares were issued to a nominee of Federale Volksbeleggings, namely Phil Morkel Investments Ltd. in March 1970.<sup>29</sup> This was, however, not enough to make up the capital shortage and the board had to consider its other options, namely listing on the stock exchange, further issuing of shares or acquiring loan capital.<sup>30</sup> A discussion on the possible listing of Pep on the JSE<sup>31</sup> led to the enlarging of Pep's authorised capital and a further share issue in preparation for a listing application on the JSE.<sup>32</sup> The demand for Pep shares was demonstrated by the fact that the 350 000 shares that were issued were 80% over-subscribed, despite the fact that the 50 cent shares were issued at a premium of R1.<sup>33</sup> In June 1972 Pep was listed on the JSE.<sup>34</sup> On the first day of listing Pep shares started at an opening price of R2,75, rose to a maximum of R3,50 and settled at R3,30 at the close of the day.<sup>35</sup> With this step Pep entered the big league and set itself on a course for even more rapid future expansion.

By 1981 Pep Stores had grown from 163 outlets and two manufacturing units in 1972 to 464 outlets and 10 manufacturing units, and had pushed up its turnover from R22 237 000 to R201 779 000.<sup>36</sup> Along the road Pep Stores met various challenges successfully, such as its initial lack of capital, company and management problems,

<sup>24</sup> **Ibid.** (Board Meeting, 20.6.1968, pp. 2, 4).

<sup>25</sup> **Ibid.** (Extraordinary general meeting of shareholders, 21.3.1970, p. 3).

<sup>26</sup> (PH) Pep Stores Minute Book, 14.10.1965-28.2.1979 (Board meeting, 21.8.1970, p. 4; 2.2.1971, p. 3).

<sup>27</sup> **Ibid.** (Board Meetings, 4.6.1971, p.2; 22.7.1971, p. 2).

<sup>28</sup> **Ibid.** (Board Meeting, 28.10.1971, p. 5).

<sup>29</sup> **Ibid.** (Board Meetings, 28.2.1970, pp. 3, 4, 20.3.1970, pp. 1-2).

<sup>30</sup> **Ibid.** (Board meeting, 30.9.1970, p. 5).

<sup>31</sup> (PH) Pep Stores Minute Book, 14.10.1965-28.2.1979 (Board meeting, 2.2.1971, p. 2).

<sup>32</sup> **Ibid.** (Board meeting, 4.6.1971, p. 3; Extraordinary meeting of shareholders, 4.6.1971, pp. 2-3).

<sup>33</sup> (PH) Pep Stores Minute Book, 14.10.1965-28.2.1979 (Board meeting 28.10.1971, p. 5).

<sup>34</sup> **Ibid.** (Board meeting, 25.2.1972, p. 4).

<sup>35</sup> (PH) Comments by Tom Ball, p.2 (maatskappy inligtingstuk).

<sup>36</sup> **Pep Stores Limited Annual Report 1981**, pp. 6-7.

systems control deficiencies (particularly with regard to the logistics of stock management) and placing its formerly very successful informal style of planning on a more formal basis.<sup>37</sup> In this period it also acquired the clothing retail group Half Price Stores (August 1978) and entered the food retailing business by acquiring Shoprite (May 1979), a chain of eight shops in the Western Cape.<sup>38</sup> The movement into food retailing complicated the management of the company structure in which the retail clothing company Pep Stores Limited also served as the holding company of the group. As this structure made it increasingly difficult to handle aspects like corporate image and group management<sup>39</sup>, it was decided in 1982 to create a new holding company, namely Pepkor Limited, and to structure the group into four operating units (non-food retail, food retail, manufacturing and property), each with its own strategy and decentralised management accountable to corporate supervision.<sup>40</sup> This also coincided with Renier van Rooyen's resignation as chairman of the Company and the appointment of Advocate CH Wiese as his successor.<sup>41</sup>

Although the business philosophy of Pep Stores in the beginning of the eighties was still that which Renier van Rooyen determined in the sixties, the Van Rooyen approach had also been fleshed out over the years. Pep Stores developed a characteristic sensitivity to the changing needs of its target market and a willingness to accommodate and adapt to those needs. In the early eighties this meant that, although their product ranges and the markets they served were still essentially similar to what they were during the foundation phase of the Company, factors such as the rising standard of living of its original market and the decreasing wage gap between blacks and whites, with the concomitant increase in the affluence of its market, necessitated a change of emphasis. This was symbolised by the change in the original Company motto of "Always cheaper, always better" to "Value for money". The essential elements of the Pep Stores marketing policy, however, remained the same, namely being an aggressive "discounter" with price and value for money as the most important factors. The Company also responded to these changes through a programme of upgrading and relocating its Pep stores. In the early eighties this upgrading entailed: enlarging and relocating Pep stores; entering the lucrative central city markets largely under-utilised by Pep; improving the interior layout of its stores with the aim of providing a more sophisticated presentation of merchandise and placing a greater emphasis on value and quality; adapting their product mix with a 10% extension of lines on top and a concomitant 10% reduction at the bottom and including branded merchandise like their Student Prince school clothes range for value reference purposes.<sup>42</sup>

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<sup>37</sup> (PH) Comments by Tom Ball, p. 4 (maatskappy inligtingstuk).

<sup>38</sup> **Pep Stores Limited Annual Report 1979** (Chairman's Report, pp. 7, 8); **Pep Stores Limited Annual Report, 1981** (Directors Report, p.14); (PH) Pep Stores minute book, 14.10.1965-28.2.1979 (Board meeting, 23.8.1978, pp. 1-2); (PH) Pep Stores minute book, 20.4.1979-11.5.1984 (Board meeting, 20.4.1979, p. 8).

<sup>39</sup> (PH) Pep Stores minute book, 20.4.1979-11.5.1984 (Board meetings, 18.4.1980, p.11, 2.6.1981, p. 2).

<sup>40</sup> (PH) Comments by Tom Ball, pp. 5-6 (Company brochure); (PH) Pep Stores minute book, 20.4.1979-11.5.1984 (Board meetings, 29.1.1982, pp. 4-5; 10.3.1982, p. 6).

<sup>41</sup> (PH) Pep Stores minute book, 20.4.1979-11.5.1984 (Board meeting, 9.11.1981, pp. 1-4).

<sup>42</sup> (PH) Comments by Tom Ball, pp. 5,7-8 (Company brochure); **Pep Stores Annual Report, 1981** (Chairman's report, pp. 2, 4; Directors report, pp. 14, 15); (PH) Pep Stores minute book, 20.4.1979-11.5.1984 (Pepkor board meeting, 16.7.1982, p. 8).

Also distilled from Van Rooyen's original business philosophy to maximise the human potential of the Company by making employees shareholders and shareholders employees, Pep explicitly recognised the human element as the most important part of the company. A policy of strict but fair personnel management, with the emphasis on benevolence and caring for employees both within and outside the workplace, became characteristic of the Pep approach. This also included a policy of staff development through development and training programmes and the recognition and rewarding of excellent performance.<sup>43</sup>

With this underlying approach Pepkor expanded its activities further in 1986 with the acquisition of the discount clothing chain Ackermans. With this acquisition the group decided to list its clothing interest (Pep Stores and Ackermans) on the JSE as Pep Stores Limited and its food interests as Shoprite Holdings Limited.<sup>44</sup> By 1990 Pep Stores Limited consisted of Pep Stores Retail (the original Pep Stores), Ackermans Retail, Pep Manufacturing and Pep International. It was therefore decided (in 1990) to change the name of Pep Stores Limited to Pep Limited in an attempt to strengthen the corporate identity of the company and to prevent it from being associated and equated with the Pep Stores Retail division of the group. By 1990, in its 25<sup>th</sup> year of existence, Pep Stores Retail (from here on referred to as Pep Stores or Pep) had grown into a clothing retail chain with 669 stores and 5 697 employees.<sup>45</sup>

### **3. "It was the best of times, it was the worst of times": Pep Stores and clothing retailing 1990-1997**

In South Africa the nineties represented a decade of profound political, social and economic change, heralded by FW de Klerk's parliamentary speech on 2 February 1990 in which he unbanned the ANC and PAC, and announced the release of Nelson Mandela and other political prisoners.<sup>46</sup> The instabilities and uncertainties, but the also opportunities of the transitional period did not bypass Pep Stores. In contrast to the extended period of dramatic growth in the eighties, crowned by record results at the close of the decade<sup>47</sup>, the nineties confronted Pep with some of the most difficult times in its history.

The pre-1994 election period was characterised by the longest recession since the thirties, growing unemployment and accompanying decreasing consumer spending. Political violence and lawlessness, with the consequent uncertainty among the buying public, the upheaval associated with Codesa and the negotiations process, the worst drought in living memory in Transvaal, Free State and Northern Natal, intimidation and theft leading to extra costs to provide security for shops and their merchandise, and the closing of shops after political incidents like the murder of Chris Hani, further complicated this period of Pep Stores' history.<sup>48</sup> References in Pep's annual reports

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<sup>43</sup> **Pep Stores Limited Annual Report 1981** (Chairman's report, p. 4).

<sup>44</sup> **Pepkor Annual Report, 1999**, p. 3.

<sup>45</sup> **Pep Stores Limited Annual Report, 1990**, pp. 3, 14.

<sup>46</sup> BJ Liebenberg: *Towards the end of apartheid* (BJ Liebenberg and SB Spies (eds)): **South Africa in the 20<sup>th</sup> Century**, p. 525).

<sup>47</sup> **Pep Stores Limited Annual Reports, 1989**, p. 1 and (Chairman's report, p. 9); **1990**, (Managing Director's report, p. 6).

<sup>48</sup> **Pep Stores Limited Annual Reports, 1990** (Managing Director's report, p. 6); **1991** (Group Managing Director's report, p. 8); **1992** (Chairman's report, p. 7); **1993** (Chairman's report, p. 6); **1994** (Chairman's report, p. 6).

such as “the most difficult trading conditions in the 26-year history of the company”<sup>49</sup> and descriptions of the 1993 financial year as the most difficult in the 27-year history of the Company bore testimony to the effect of the above circumstances on the Company.<sup>50</sup> For the first time since 1978<sup>51</sup> Pep’s pre-tax profit in the 1994 financial year did not improve on that of the previous year.<sup>52</sup>

The successful completion of the process of political negotiation and the ensuing general election in 1994 led to an upswing in consumer confidence, especially among the Pep Stores target market, whose confidence in the future increased considerably. This growing credibility and acceptance of the Government of National Unity in the months after the election backed up by promised RDP-related expenditure and the state’s proposed large expenditure on social upliftment targeted at the very sectors that Pep Stores traditionally served, bode well for Pep’s future. The optimism of the immediate post-election period found resonance in the Pep Stores 1995 annual report both in the announcement of a 21 percent net profit increase for the financial year and in the chairman’s statement that Pep “shares the view of those economists who believe that the current upswing in the economy...will continue for quite some time. The economic tide has indeed turned in the country’s favour and we foresee that this will have a favourable impact on Pep’s traditional market”<sup>53</sup>.

The strong upsurge in the economy (real and predicted) following the 1994 change in government was not sustained as predicted. A number of factors contributed to this situation, among which was the government’s inability to combat serious social problems such as crime and unemployment effectively. The fact that the lawlessness found its most extreme expression in the black residential areas that housed the majority of Pep’s customers seriously affected the Company’s performance. Pep’s woes were further compounded by market factors such as the over-availability of credit (which lured its traditional customers away to credit clothing retailers), drought, continuing political violence in KwaZulu-Natal, the disappearance of the old homelands and the crumbling of their infrastructure and the accompanying disappearance of large numbers of civil servants and their buying power. Competition from the informal sector, mainly because of the lack of control by local authorities regarding how and where the informal sector does business, and also the low sales price inflation with its negative influence on turnover and profitability further complicated matters. Against this background Pep could show no growth in its net profit in the 1996 financial year.<sup>54</sup>

The Pep Stores management did not accept the challenges of the nineties passively, but continuously evaluated the different elements of its business operations with the aim of improving the Company’s profitability. This resulted in a broad marketing strategy that rested on three pillars. First, its geographical operating area was enlarged by expansion into Africa, which was manifested in its presence in countries like Botswana, Namibia, Zimbabwe and Zambia.<sup>55</sup>

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<sup>49</sup> **Pep Stores Limited Annual Report, 1992** (Chairman’s report, p. 6)

<sup>50</sup> **Pep Stores Limited Annual Report, 1993** (Chairman’s report, p. 6).

<sup>51</sup> **Pep Stores Limited Annual Report, 1978** (Chairman’s report, p. 5).

<sup>52</sup> **Pep Stores Limited Annual Report, 1994**, p. 1.

<sup>53</sup> **Pep Stores Limited Annual Report, 1995** (Chairman’s report, p. 6).

<sup>54</sup> **Pep Stores Limited Annual Report, 1996** (Chairman’s report, pp. 6-7).

<sup>55</sup> **Pep Limited Annual Report, 1995** (Chairman’s report, p. 8).

The second pillar comprised the upgrading and repositioning of its existing branches in South Africa in terms of profitability, changing customer needs with regard to merchandise and shop size and location as influenced by factors such as urbanisation. The continuous evaluation of branches resulted in initiatives such as branches being closed and others repositioned; the urban store project, which entailed the development of a new type of Pep store (in the light of the changing profile and requirements of customers, based on market research) which was larger than the average Pep outlet and in which the standard range of merchandise was offered in a more consumer-friendly environment, but without sacrificing Pep Stores' image as a discount chain; extending their product range downwards through the introduction of additional price categories below those that were previously available, while simultaneously trying to keep the price increases of its existing price categories to a minimum in an attempt to increase the affordability of the whole product range; redesigning some of its clothing ranges to give them a more fashion-orientated, stylish image without increasing prices in the process.<sup>56</sup>

The third pillar of the marketing strategy was the development of sophisticated information systems. A project was launched stretching over two to three years to evaluate and improve existing stock and merchandising systems with the aim of reducing stockholding while increasing the availability of merchandise. In order to shorten the supply line and expedite deliveries to branches computer systems in the group's central warehouses were upgraded to keep stock flow in line with requirements. Administration of individual stores was also computerised and directly linked to the Company's head office so that stock requirements could be regularly determined and met. In addition, 3 500 check-out points in Pep outlets were computerised. This new technology represented an investment of R70 million.<sup>57</sup>

On a non-marketing level the company also attempted to maximise its human resources. Staff members were trained on an ongoing basis for absorption into the management hierarchy to fulfil the expectations of the new SA. A restructuring of the group in 1993 by selling Ackermans to Pepkor so that the top management could focus exclusively on Pep Stores were complemented by a redefining, refocusing and strengthening of the management structure by *inter alia* the appointment of a managing director for Pep Stores in 1994. In the light of the introduction of the new electronic information and stocking systems and, in an attempt to facilitate and speed up two-way communication between management and staff in order to achieve a greater degree of participatory management, special attention was given to the training of branch managers. The new electronic operational system made it possible to be in continual and direct touch with staff in outlying parts of the country, thus involving them more closely in the Company's activities.<sup>58</sup>

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<sup>56</sup> Pep Limited Annual Reports, 1993 (Chairman's report, p. 7); 1994 (Chairman's report, p. 7); 1995 (Chairman's report, pp. 6-7); 1996 (Chairman's report, pp. 7-8).

<sup>57</sup> **Pep Limited Annual Reports, 1994** (Chairman's report, p. 7); **1995** (Chairman's report, pp. 6-7); **1996** (Chairman's report, p. 8); **Pepkor Annual Report, 1997** (Operational review: Pep, p. 15).

<sup>58</sup> **Pep Limited Annual Reports, 1992** (Managing Director's report, p. 11); **1993** (Chairman's report, p. 6); **1994** (Chairman's report, pp. 6, 8-9); **1995** (Chairman's report, p.9); **1996** (Chairman's report, pp. 9-10); **1997** (Managing director's report, p. 9).

These valiant attempts by Pep's management that created "an undertaking that was much better equipped at all levels to meet the challenges presented by the market and to take advantage of opportunities"<sup>59</sup> led to optimistic expectations about the Company's future. Although the 1997 financial results (net profit was up by 122% from R68,2 million to R151,2 million<sup>60</sup> and were hailed and heralded by management as "Pep's turnaround"<sup>61</sup>) seemed to vindicate the optimism that Pep was back to more acceptable levels of profitability, the company hit rock bottom in 1998. In a financial year described as "one of the most difficult in its history"<sup>62</sup> the Company's operating profit dropped 42% from R192 million in 1997 to R102 million in 1998.<sup>63</sup>

#### **4. "Pep is like the Titanic. Only, the Peptanic is already leaking, it is on its way to an iceberg...": the real turnaround, 1998-2000.**

The dramatic and unexpected 1998 downturn in the fortunes of the South African economy and specifically the clothing retailing business were mainly caused by the weakening of the rand against the currencies of its main trading partners, the collapse of the share market and the resulting depressed stock exchange and the sharp increases in interest rates. This led to increased job shedding and unemployment and forced consumers to tighten their belts in an attempt to meet their existing financial obligations, with the resulting reduction in their disposable income. Apart from these general factors, more Pep-specific factors contributed to the sharp decline in profitability in the 1998 financial year. The socio-economic results of the general factors – namely increasing violence, crime, unemployment and impoverishment – manifested themselves most profoundly amongst Pep's traditional client base. The growth of the informal sector selling merchandise that was in many cases obtained illegally at unrealistically low prices in tandem with credit on easy terms offered by certain retail chains lured away traditional Pep customers. A mild winter resulting in slower winter stock sales and a serious limit on import permits for shoes further inhibited a growth in turnover.<sup>64</sup>

Although disappointing, the difficult trading conditions and resulting poor financial results indicated that despite attempts at a sharper focus and a large investment in technology by management in the previous years, Pep was faced with more deep-seated shortcomings and problems than previously believed.<sup>65</sup> Corporate management's general assessment of the Company's problems was that they mainly had to do with focus. Pepkor's chairman, Christo Wiese, came to the conclusion that "it is clear that the business already began losing focus early this decade and started moving sideways. Growth stagnated and remained below the inflation rate, initial management changes did not provide a solution and profits started tumbling".<sup>66</sup> Almost unnoticed, Pep had shifted away from its original focus and image as the retailer offering the lowest prices (symbolised by the pay-off line "Low prices for the

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<sup>59</sup> **Pepkor Annual Report, 1997** (Report of the chief executive officer, p. 10).

<sup>60</sup> **Pep Limited Annual Report, 1997** (Managing director's report, p. 6)

<sup>61</sup> **Pepkor Annual Report, 1997** (Operational review: Pep, p. 15).

<sup>62</sup> **Pep Limited Annual Report, 1998** (Chairman's report, p. 1)

<sup>63</sup> **Ibid.** (Financial review, p. 8).

<sup>64</sup> **Pepkor Annual Report, 1998** (Chairman's review, p. 4 and Report of the chief executive officer, p. 7); **Pep Limited Annual Report, 1998** (Chairman's report, p. 1 and Managing director's report, p. 3).

<sup>65</sup> **Pepkor Annual Report, 1998** (Report of the chief executive officer, p. 8); **Pep Limited Annual Report, 1998** (Chairman's report, pp. 1, 2).

<sup>66</sup> **Pepkor Annual Report, 1999** (Chairman's report, p. 6).

people”<sup>67</sup>) to that of a value retailer offering low prices<sup>68</sup> and probably best symbolised by the pay-off line “So much more than just a bargain”.<sup>69</sup> In the process product ranges were extended and the number of price points significantly increased without the customers actually benefiting. This approach made merchandising and stocking more difficult and, as a result, cumbersome and expensive.<sup>70</sup>

### **The “Founding Fathers”, second generation.**

Corporate management reacted to Pep’s poor financial performance by changing and reorganising the Pep Stores top management with the aim of affecting the refocusing of the Company to return it to its former levels of profitability. André Labuschaigne was appointed managing director in February 1998 with the task of assembling a management team to effect Pep’s repositioning. Labuschaigne’s preference for multi-disciplinary management resulted in a considerably changed team that contained a blend of renewal and years of retail experience. Apart from himself, Johann Cilliers (operations director) and Pieter Erasmus (financial director) represented the most strategic new faces in the team.<sup>71</sup> In Labuschaigne Pep Stores had a managing director with a historical consciousness and feel for as well as connectedness with the Company that had been developed through his previous formal and informal association with Pep. In his student days he received a bursary from Renier van Rooyen (founder of Pep Stores) to further his studies, worked at the Company during university holidays and in later years was involved as auditor at Coopers & Lybrand in the auditing of the Company’s books. Conscious of the uniqueness and world-class status of the Pep of the past, he was inspired by the ideal of regaining that uniqueness, albeit in a modernised, New-South-Africa, 21<sup>st</sup>-century format. As a self-declared “people’s person” he brought to Pep Stores an intensely people-orientated approach guided and structured by his respect for Renier van Rooyen, the ultimate Pep role model in this regard.<sup>72</sup>

Labuschaigne and his management team adopted a listen and learn approach<sup>73</sup> to acquaint themselves with the status quo in the Company and to make an assessment of its ills. It was decided to avoid short cuts and instead reorganise all aspects of the business in depth in order to position Pep in a new league.<sup>74</sup>

### **People and Passion**

In line with Labuschaigne’s people-orientated approach the management’s immediate concern was staff morale. The exceptionally high turnover in Pep branch managers and unacceptably high stock losses were an indicator of low staff morale.<sup>75</sup> On the strength of Van Rooyen’s belief that “ordinary people can do extraordinary things”

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<sup>67</sup> **Pep Limited Annual Report, 1998** (Managing director’s report, p. 4).

<sup>68</sup> **Ibid.** (Chairman’s report, pp. 1-2).

<sup>69</sup> **Pep Limited Annual Report, 1997** (Managing director’s report, pp. 8-9).

<sup>70</sup> **Pep Limited Annual Report, 1998** (Chairman’s report, pp. 1-2).

<sup>71</sup> **Pep Limited Annual Report, 1998** (Chairman’s report, p. 2 and managing director’s report, p. 3); Pep Limited Minute Book, No. 16 (Pep Stores management meeting, 30.7.1998, p. 6).

<sup>72</sup> G.Cloete: Pep moet weer uniek word (**Finansies & Tegniek**, 8.5.1998, p. 40); **Die Burger**, 23.11.2001 (Mense is ‘beste bate’ – Pep).

<sup>73</sup> G Cloete: Pep moet weer uniek word (**Finansies en Tegniek**, 8.5.1998, p. 40); R Stadler, Company secretary, May 2003.

<sup>74</sup> **Pepkor Annual Report, 1999** (Chairman’s Report, pp. 6-7).

<sup>75</sup> Pep Limited Minute Book No. 16, 3.12.1997-28.1.1999 (Pep Stores management meetings, 3.12.1997, p. 3; 4.3.1998, pp. 2, 7).

the initial strategy of management was therefore to focus on staff and related issues to motivate and refocus them and to involve them in the restructuring process. In pursuance of Labuschaigne's ideal to re-inculcate a human-centred culture in Pep, all staff members including store assistants were consulted in the discussion on the future strategy of Pep and in the formulation of a vision, mission and value system for the Company. This consultation process also involved close contact between the management team and the stores, with Labuschaigne setting the example by visiting more than 500 of the 1 200 stores in a year.<sup>76</sup>

This exercise culminated in a new Pep vision (Delighted customers: our focus and pleasure), mission (We are the friendliest and most exciting retailer offering value at low prices) and set of values (honesty, passion, resourcefulness) that described the way Pep wanted to do its business. By living and promoting these values, Pep's vision and mission could be achieved.<sup>77</sup> The management also introduced the concept of Pep's staff being dynamos: a dynamo being a member of the Pep team who adds value by delivering friendly and effective customer service, lives the values of Pep and sees Pep's business and interests as his or her own and not as just another job. The Company's dream was that all its employees would become dynamos who enjoy their work and fulfil their potential. A strategy was also formulated to realise the vision, mission and dream of the company. The main elements of this strategy were the empowering of dynamos, the effective buying and distribution of stock, the winning of more customers and selling more to each customer, limiting stock losses, cutting costs, and working smarter and combating old stock.<sup>78</sup>

To implement and effect the cultural change in the company, the *Sikhula Kunye* project/process was launched.<sup>79</sup> *Sikhula Kunye*, meaning "We are growing together", was chosen because Pep's customers and staff are predominantly black. A mature oak tree was chosen to symbolise *Sikhula Kunye* and the symbolism that was constantly used in employee communications was interpreted as follows:

"Each person in Pep has the potential to grow from an acorn into a tree. The roots of the tree and the fertile earth in which it is planted are our solid foundation. They represent our value system. Just as the earth needs to be watered regularly, so our leaders need to coach their team members and we all have to contribute resourcefully to ensure growth for our business. We are a people's company and it is only our people who, with honesty, passion and resourcefulness, will ensure our prosperity.

The strong trunk symbolises the strength of teamwork. We need one another to grow as human beings and as a business. The green branches and leaves of our tree symbolise our people reaching out for one another – growing to make our dream, our vision and our mission a reality – like the branches reaching up towards the sun.

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<sup>76</sup> Pep Beperk Minute Book No. 16, 3.12.1997-28.1.1999 (Pep Stores management meeting, 4.2.1998, pp. 1, 4 and 30.7.1998, p. 6); Anon: Pep...making it possible for everyone to look and feel good, pp. 6-7 (Company Brochure).

<sup>77</sup> **KWA PEP**, April 1999 (From the desk of *Sikhula Kunye*, p. 16).

<sup>78</sup> Pep pamphlet entitled *Sikhula Kunye*. We are growing together, nd., np.; Pep Limited Minute Book, No. 16, 3.12.1997-28.1.1999 (Pep Stores management meeting, 30.7.1998, p. 7).

<sup>79</sup> Pep Limited Minute Book, No. 16, 16.3.12.1997-28.1.1999 (Pep Stores management meeting, 1.10.1998, p. 10).

If we take care of our *Sikhula Kunye* tree, we will all grow within a dynamic and winning company – our Pep! The *Sikhula Kunye* tree perfectly symbolises our living, vibrant company.”<sup>80</sup>

The *Sikhula Kunye* process consisted of three phases. The first phase aimed at creating the capacity for improvement that entailed all employees internalising the Company's vision, mission, values and strategy to ensure that everyone knows what Pep stands for, where the company is heading and what its values mean. The second phase envisaged the creation of a working environment and processes wherein and whereby people could excel. Finally, Pep should become a learning organisation, constantly revitalising itself – a goal that could be achieved through continuous feedback, higher levels of training and stretch goals.<sup>81</sup>

In the roll-out programme to introduce the *Sikhula Kunye* culture the Pep Song (called “Sikhula Kunye”) was created,<sup>82</sup> songs were sung at conferences and Company events and staff spontaneously started greeting each other with an energetic “high five” – now an established use among Pep employees. To further enhance the idea of the Pep family, a more informal dress code was introduced among staff to symbolically break down previous barriers between management and staff.<sup>83</sup>

Labuschaigne and his management team used the General Patton saying, “If you tell people where to go, but not how to get there, you'll be amazed at the results”, to implement a philosophy of open communication and the utilisation of personal initiative. Company performance, strategy, new initiatives or action plans, packaged as themes to make them more focused and easily understandable, were communicated to staff. In this regard the “Sikhula Kunye” theme of 1998 was followed by “The second leap to world class status in” 1999 and “The positive revolution” in 2000. Various communication media ranging from the staff newsletter to Labuschaigne's practice of recommending books and articles to senior and middle management for reading and discussion and his weekly e-mail entitled “Pep-permits”, consisting of two motivational quotations, were used to facilitate communication and raise the level of corporate conversation. To symbolise the new Pep culture a competition was launched to find a new name for the staff newsletter, *Pep News*. The new name *KwaPep*, meaning “At the home of Pep”, blended in well with the new Pep culture.<sup>84</sup>

To support management's belief that Pep could become a world-class company if the full potential of its employees were utilised, a variety of training programmes were instituted which included a co-operative venture with UNISA in which two retail courses were developed for interested staff without tertiary-level education.<sup>85</sup>

## **Merchandise, stores and customers**

<sup>80</sup> Pep pamphlet entitled *Sikhula Kunye*. We are growing together, np., nd.

<sup>81</sup> **KWA PEP**, April, 1999 (From the desk of *Sikhula Kunye*, p. 16).

<sup>82</sup> Pep pamphlet titled *Sikhula Kunye*. We are growing together, np., nd.

<sup>83</sup> Anon.: Pep...making it possible for everyone to look and feel good, p. 7 (Company brochure); Pep Limited Minute Book, 3.12.1997-28.1.1999 (Pep Stores management meeting, 4.3.1998, p. 10 and 5.11.1998, p. 10).

<sup>84</sup> Anon.: Pep...Making it possible for everyone to look and feel good, p. 8 (Company brochure); Pep Limited Minute Book, 3.12.1997-28.1.1999 (Pep Stores management meeting, 3.12.1998, p. 4).

<sup>85</sup> Anon.: Pep...making it possible for everyone to look and feel good, p. 9 (company brochure).

In the process of determining the ills of the company, aspects concerning the inseparable combination of customers on the one hand and Pep stores and the merchandise offered on the other showed up prominently. On the strength of market research the management came to the conclusion that the needs and the aspirations of the Company's clients had changed. They had become more sophisticated.<sup>86</sup> Pep Stores' slow response to the changes lost the Company "feet" (customers), something which eventually manifested itself in lower turnover as well as profit. Pep's management traced these changes to the introduction of the new political dispensation and its profound political and socio-economic impact; they came to the conclusion that:

"Before 1994 Pep's customers were disenfranchised resulting in lack of dignity and self-respect. After the first democratic election in 1994 the mindset of these customers changed completely. They were liberated and had the world at their feet. They were citizens of South Africa in the fullest sense. Their aspirations increased and status became important. They still did not have the means to own cars or homes, but they could gain status by dressing smartly.

Other retail chains offered credit facilities which encouraged them to buy much more expensive products on credit. The cellular phone industry also had an effect. Not only did a cellular phone confer status on the customer, it was also an important alternative communication medium to the service offered by Telkom, which was either too expensive or inadequate.

Pep was slow to react to the change in the mindset of its traditional customer. The company was involved in the implementation of a complicated computer system that sapped a lot of energy. The focus was directed on systems and procedures, rather than the customer. They failed to recognise that their customers had changed and now wanted more stylish and durable products than before."<sup>87</sup>

Market research also indicated that the changed mindset of its customers compromised Pep's well-known pay-off line "Low prices for the people". "People" was not an acceptable term any longer because of its past association with a poor and disenfranchised group of people. Customers did not want to be referred to as the "people" any longer.<sup>88</sup> These changes, intensified by and in tandem with increasing urbanisation, led to a larger proportion of Pep's traditional buying public also increasingly preferring to shop in shopping centres in which Pep was still poorly represented.<sup>89</sup>

In an attempt to accommodate the growing aspirations of its customers as manifested in their changing expectations and shopping patterns, Pep's management thoroughly investigated and reorganised all aspects of the Company's merchandising and outlets. Market research indicated that Pep's customers had an image of the Company that could be described as "cheap and nasty" and that their products were the main

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<sup>86</sup> Pep Limited Minute Book, No. 16, 3.12.1997-28.1.1999 (Pep Stores management meeting, 29.1.1999, p. 2).

<sup>87</sup> Anon.: Pep...making it possible for everyone to look and feel good, p. 5 (company brochure).

<sup>88</sup> *Ibid.*, p. 12; Pep Limited Minute Book, 3.12.1997-28.1.1999 (Pep Stores management meeting, 28.1.1999, pp. 2, 5).

<sup>89</sup> **Pepkor Annual Report, 1999** (Operational Review, p. 15).

contributors to this image.<sup>90</sup> To get rid of the “nasty” image immediate steps were taken to upgrade Pep’s product range to make it more fashion-oriented without prices being increased in the process. As part of its policy to unleash the potential of its employees with the aim of empowering them, the buying department were given the opportunity to buy products they believed in and whose performance they were prepared to guarantee. In the process ranges were reviewed and dramatic changes made. The result was more fashionable and durable products with correct sizing specifications. It was made clear to suppliers that poor-quality products would not be accepted and every effort was made to address manufacturing problems that prevented Pep from offering the best value for money at the lowest prices.<sup>91</sup>

The management and distribution of stock was also tackled. Pep’s 1200 outlets covered a vast geographical area that included many cultural and climatic variations. To get closer to the ideal of getting the right products in the right quantities to the right stores at the right time Pep installed the Retek stock distribution software package. This enabled the Company to supply every store according to its unique clientele and weather pattern. This system also assisted in addressing two other acute problems, namely excessive stock levels and shrinkage (loss of stock), both of which compared poorly with the rest of the retail sector.<sup>92</sup>

The 1997 annual report referred to the Pep Stores urban outlets as “slightly shabby with goods difficult to locate”<sup>93</sup>; this pinpointed another Pep problem that had to be addressed in order to achieve management’s goal of a more pleasant “shopping experience”<sup>94</sup> for customers. The previous management’s approach to cut down on running costs in an attempt to boost profits had a negative effect on the general appearance of Pep stores. Maintenance programmes and the revamping of stores were compromised in the process. The new management’s assessment of the situation was “That there are assets in the branches (F&F) that are falling apart”.<sup>95</sup> That accounted for the shabbiness. “The goods difficult to locate” aspect was the result of accumulated slow-moving stock due to lower than expected sales that overcrowded Pep stores. At the beginning of 1999 30% of the Company’s stock valued at R160 million was older than 12 months.<sup>96</sup> Because obsolete stock inhibited the introduction of new product ranges intended to boost sales, management’s first reaction was to aggressively dispose of old stock valued at R90 million *inter alia* by means of temporary stores specially created for this purpose.<sup>97</sup> In their quest to make shopping at Pep a pleasurable experience and to get rid of the “shabby” image, the layout and appearance of stores were also improved. Pre-printed price cards and more professional point-of-sale material replaced hand-produced price cards and stricter

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<sup>90</sup> Pep Limited Minute Book, No. 16, 3.12.1997-28.1.1999 (Pep Stores management meeting, 28.1.1999, p. 2).

<sup>91</sup> Anon.: Pep...making it possible for everyone to look and feel good, p. 9 (company brochure);

**Pepkor Annual Report, 2000** (Review of operations, p. 14).

<sup>92</sup> **Pep Limited Annual Report, 1998** (Managing director’s report, p. 4); **Pepkor Annual Report, 1999** (Operational review, p. 15).

<sup>93</sup> **Pep Limited Annual Report, 1997** (Managing director’s report, p. 8).

<sup>94</sup> Pep Limited Minute Book, No. 16, 3.12.1997-28.1.1999 (Pep Stores management meeting 28.1.1999, p. 2).

<sup>95</sup> Pep Limited Minute Book, No. 16, 3.12.1997-28.1.1999 (Pep Stores Management meeting, 4.3.1998, pp. 3, 7).

<sup>96</sup> **Ibid.**, p. 2.

<sup>97</sup> **Pepkor Annual Report, 2000** (Review of operations, p. 14).

guidelines were issued in respect of store housekeeping. This was done without sacrificing Pep's low-price discount image. In addition red, a strong discounting colour, was introduced to rectify the lack of a consistent colour scheme in stores, while window displays were adapted to project a more friendly and cheerful external appearance. Although the original font and colours of the Pep logo and signage were retained, they were modernised as part of the overall revamping programme.<sup>98</sup>

On the human level measures were also taken to improve customer service. Store assistants were issued with new uniforms enhancing their own appearance and dignity in the store environment, while simplified procedures like the introduction of pre-priced products boosted staff morale. Previously store assistants had to price each product (about 200 million per year), which made them dread the arrival of new stock because of the hard work involved.<sup>99</sup> The issue of store location was also addressed. This entailed a continuous process of store location evaluation against the background of a basic point of departure: not to increase the number of stores but rather to follow the movements of Pep's target market by relocating existing stores. In the process 167 unprofitable stores were closed or relocated. The tendency among urbanised Pep customers to gravitate in their shopping patterns towards buying in shopping centres forced management to establish more of its stores in these centres, with 11 such stores being opened in the 2000 financial year.<sup>100</sup>

As advertising was one of the areas in which the previous management tried to cut costs to the long-term detriment of the company, Labuschaigne took charge of marketing and advertising in an attempt to rectify the situation. As the effective communication of the above changes and the image of the "new" Pep to its customers was of vital importance, the whole advertising and marketing department was outsourced to Zoom, an advertising agency. In addition, a marketing manager, who could also handle the public relations of the company, was appointed internally.<sup>101</sup> A new media plan, with more emphasis on price consciousness, led to a more effective advertising campaign in which more customers were reached with less money. Pep's traditional reliance on leaflet distribution to customers was retained, but the look and feel of leaflets were improved by using bright colours, a large variety of products and better-quality paper. Other mediums used were Pep's display windows, megaphones to advertise special promotions and store openings and word-of-mouth – because of the more community-oriented nature of Pep's customers.<sup>102</sup>

Management's assessment of the ills of the company also reconfirmed its inherent strengths. In this regard Pep's size (1200 outlets) and vastly spread geographical presence was recognised as a strength that could be exploited to the company's advantage, even outside the field of its traditional core products. Among the factors influencing the spending patterns of South African consumers in the nineties, the need for cellular products featured prominently. Accepting the fact that Pep would not be

<sup>98</sup> Anon.: Pep...making it possible for everyone to look and feel good, p. 10 (Company brochure).

<sup>99</sup> *Ibid.*, pp. 7, 12.

<sup>100</sup> **Pepkor Annual Reports, 2000** (Review of operations, pp. 14-15) and **2001** (Review of operations, p. 10).

<sup>101</sup> Pep Limited Minute Book, No. 16, 3.12.1997-28.1.1999 (Pep Stores management meetings, 3.12.1997, p. 3, 4.2.1998, p. 10; 4.2.1998, p. 7, 30.7.1998, p.7, 5.11.1998, pp. 1, 4).

<sup>102</sup> Anon.: Pep...making it possible for everyone to look and feel good, p. 11 (Company brochure); Pep Limited Minute Book, No. 16, 3.12.1997-28.1.1999 (Pep Stores management meetings, 4.2.1998, p. 10 and 22.7.1999, p. 3).

able to beat the hold of the cellular companies on the disposable income of their traditional client base, management decided to negotiate agreements with cellular companies to the benefit of both the company and its customers. Using its wide distribution network and strong rural presence as a competitive advantage, Pep became the first retailer to sell cellular airtime electronically (as opposed to selling physical recharge vouchers) and at a discount. This also held the added advantage of luring new customers into Pep stores and exposing them to its merchandise.<sup>103</sup>

In a similar non-core initiative Pep and BOE Bank joined forces to make banking accessible and affordable for everyone by establishing Pep Bank. Pep supplied its strong brand name, wide distribution network and its knowledge of the target market, with BOE contributing the banking expertise and license. Branches of Pep Bank were either located within Pep stores or close to them. Pep's management, however, was not involved in the running of the bank. With its affordable services and savings accounts that could be opened with a deposit of a mere R10, the bank is gaining support as a friendly bank where people of modest financial means are afforded dignity and respect – an approach that corresponds with Pep's basic philosophy.<sup>104</sup>

In its restructuring process Pep Stores did not neglect its corporate social investment. Renier van Rooyen's original marketing concept was at least partly based on a social consciousness of the plight of the poor and the Company's main objective to offer all products at lowest prices to everyone is evidence of this approach. In line with Labuschaigne's belief that "A company that only conducts business to make money is a poor company", the new management continued Pep's social investment programmes with a special focus on education, health and grassroots involvement of its staff on a community level. In an attempt to reduce the cost of education, Pep not only sold its school wear at reduced profit margins but, through Labuschaigne, also took the lead in an initiative for a standardised (and therefore more affordable) school uniform for public schools in South Africa.<sup>105</sup>

### **The turn around. Real or imagined?**

The extensive reconditioning of every aspect of Pep's business that started in 1998 did not produce immediately improved financial results. With a slight decrease in turnover in 1999 compared to 1998 and a further drastic drop in profits, Pepkor chairman, CH Wiese, had to defend the new management's approach in his 1999 annual report. "The turnaround in Pep is taking longer than originally anticipated despite the committed and hard work of its young management team. There was, however, much that had to be corrected in this core business of the group...Although somewhat disappointed with the slow rate of progress I, at the same time, only have praise for management's decision to avoid short cuts and instead reorganise all aspects of the business in depth in order to position Pep in a new league."<sup>106</sup> The 2000 financial year brought the long-awaited financial turnaround, with a 180 percent

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<sup>103</sup> **Financial Mail**, 24.11.2000 (Tinsel looking tattered, p. 64 and Spending shift to services, p. 66); Anon.: Pep...making it possible for everyone to look and feel good, pp. 9-10 (Company brochure); Pep Limited Minute Book, No. 16, 3.12.1997-28.1.1999 (Pep Stores management meeting, 5.11.1998, p. 3).

<sup>104</sup> **Pepkor Annual Reports, 2000** (Review of operations, p. 15); **2001** (Review of operations, p. 11); Anon.: Pep...making it possible for everyone to look and feel good, pp. 13-14(Company brochure).

<sup>105</sup> Pep Limited Minute Book, No. 16, 3.12.1997-28.1.1999 (Pep Stores management meetings, 3.6.1998, p. 5; 30.7.1998, p. 9; **Cape Argus**, 13.3.2003).

<sup>106</sup> **Pepkor Annual Report, 1999** (Chairman's Report, pp. 6-7; Operational Review, p. 15).

increase in its operating profit and its profit margin virtually doubled. A much more confident and satisfied Wiese could therefore proclaim that "Pep managed to extricate itself from the doldrums in which it has been for several years ... Clearly this business is regaining its lost reputation in its target market and is once more honouring its name as the chain offering the best value for money."<sup>107</sup> This financial turnaround was not just a flash in the pan, but the start of an upward curve in Pep's performance as the increases in operating profit (R118 million in 2000 to R220 million in 2002) and on capital employed (16,8% in 2000 to 33,7 in 2002) indicated.<sup>108</sup>

The success of Pep's turnaround, however, was manifested on a much wider terrain than just the financial statistics. On the operational level Pep's stock distribution system won a national award for the best logistics system.<sup>109</sup> At staff level Pep was ranked third in the 2002 Deloitte & Touche annual Best Companies to Work For survey, achieving management's goal that employees must queue up to work for Pep.<sup>110</sup> This new popularity also manifested itself among its customers, when market research showed that Pep has increased its market share by 20% in the period 2000-2002, while confidence in the trademark increased from 59% in 1999 to 80% in 2002.<sup>111</sup> In its contact with other business concerns the new Pep also made an impression. A supplier of professional services that presented Pep with a "Best Client of the Year" award described the new Pep as follows: "Who else has such a unique culture of family-ness, but Pep? Who else demonstrates such loyalty and integrity, but Pep? No other group of people that we deal with demonstrates such diligence, sacrifice and commitment to their common goal. Their focussed commitment is a sure sign of an extraordinary group of people – forming a brilliant business. And all of this takes place in an atmosphere of incredible friendliness, jovial warmth and determined striving. It is an absolute and true pleasure to work with the PEP family and its leadership."<sup>112</sup> All these accolades also counted where it matters most in the uncompromising capitalist world, namely in the share market – the acid test – where confidence in the new Pep was expressed as follows by the chief investment officer of a listed financial services group: "We are buyers of (shares of)...the new Pep group, which knows its target market and is performing well."<sup>113</sup>

## 5. Conclusion

A review of the response of Pep to the birth and growth of the New South Africa in the nineties and the retailing challenges it brought reveals two clearly defined periods, namely pre- and post-1998. A superficial attempt at labelling the two periods makes it easy to typify the pre-1998 period as one in which Pep drifted sideways, returned unacceptable levels of profitability and lost its traditional zest and focus. Opposed to that the post-1998 period signalled the "new" Pep regaining its former vitality, focus, vibrant growth and accompanying acceptable levels of profitability. In pure capitalistic terms the pre- and post-1998 management teams could also be labelled

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<sup>107</sup> **Pepkor Annual Report, 2000** (Chairman's review, p. 8).

<sup>108</sup> **Pepkor Annual Reports, 2000** (Review of operations, p. 15); **2002** (Review of operations, p. 8).

<sup>109</sup> **Pepkor Annual Report, 2000** (Review of operations, p. 8).

<sup>110</sup> **KWA PEP**, March 2003 (Our Dynamos say: "We Enjoy Working For Pep!", p. 1); **Die Burger**, 23.11.2001 (Mense is 'beste bate' – Pep).

<sup>111</sup> **Pepkor Annual Report, 2002** (Review of operations, p. 9).

<sup>112</sup> Anon.: Pep...making it possible for everyone to look and feel good, p. 9 (Company brochure).

<sup>113</sup> M Joubert: Apportioning Blame. But are retailers failing to read what their customers want? (**Financial Mail**, 24.11.2000, p. 65).

unsuccessful and successful, respectively. This superficial labelling would, however, be an over-simplification of the real situation.

A more exhaustive enquiry reveals that the pre-1998 management was aware that changes were occurring in their world of retailing and they tried to meet these changes (seasonal as well as those of a more long-term nature) with all the retailing remedies traditionally used to restore nose-diving financial results to former levels of profitability. In line with their systems and procedures approach, one finds attempts at decreasing stock levels, improving stock turn, combating shrinkage, improving stock distribution systems, training courses for staff, closing unprofitable shops, experimenting with shop sizes and trying to read what their customers wanted. Despite these valiant efforts, they failed to achieve the much sought-after Pep turnaround and became the victims of the ultimate capitalist remedy, namely replacement by corporate decree. Although not ultimately successful, they contributed to a possible future Pep turnaround by leaving a legacy of an already "more sharply focused...leaner and more tightly structured"<sup>114</sup> Pep, with the processes of streamlining operations, reducing overheads and a major investment in information technology underway – a legacy of systems and procedures. In this regard they supplied the stabilising continuity needed by the incoming Labuschaigne management team to affect the changes needed for Pep's ultimate turn-around.

Why did the new management team succeed where their predecessors failed? Using a political analogy of the time might help to explain this. In their approach to Pep's problems the pre-1998 management team can be compared to the pre-1990 attempts at political "reform". Management decided what was good for the company and introduced tricameral parliament-like "reform" measures: too little too late; top down; according to traditional retail terms; and packaged in a culture and language increasingly foreign to the constituency they were hoping to capture. This was an approach focused first and foremost on systems and procedures to attain the required results. In the process they did not afford their target market the much sought-after dignity and respect they hungered for. This left the company vulnerable to, and at the mercy of, trade cycles and market forces. This approach is best symbolised by the introductory line of the Pep philosophy of the time, namely to "conduct a profitable and expanding business in its chosen fields of retailing and the manufacture of commodities allied to its retailing activities".<sup>115</sup>

In contrast, the Labuschaigne management team approached Pep with a different mindset. In terms of the political analogy a more "freedom struggle, mobilising the people"-approach. By unpacking the company's past, they rediscovered what made it unique and great in the first place – in its founding phase. By harking back to the original Van Rooyen recipe – mobilising the people – and reinterpreting and communicating it in new millennium terms and in a New South African culture and language (inclusiveness, participatory management, transparency, empowerment, diversity, social involvement, a sense of ownership and dignity and respect), they transformed the company from a retailer selling clothing to a retailer selling dignity and respect through clothing. By focusing first and foremost on the people of Pep and unlocking their potential, they generated an inherent dynamic and strength that made the Company less vulnerable to trade cycles and market forces. The first sentence of

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<sup>114</sup> **Pep Limited Annual Report, 1997** (Chairman's review, p. 4).

<sup>115</sup> **Pep Limited Annual Report, 1996**, p. 1.

the vision of the “new” Pep, namely “Delighted customers: our focus and pleasure”<sup>116</sup> best demonstrates this new approach. The way that their employees, customers and business partners took to this “new” Pep recipe confirmed that the new management had found the right mix and once again succeeded in turning Pep into an example of a successful merchandising idea applied to a specific market. Pep once again had a very definite idea of its customers and that it was correctly geared to meet the needs of its market and its vast future potential.

In the final analysis it was the enthusiasm and passion with which Labuschaigne and his team embraced the realities of the New South Africa that distinguished them and made them successful. This is an approach best demonstrated by Labuschaigne's wish for the rest of South Africa to be like Pep – “We are really a microcosm of South African society. There is an unbelievable level of harmony, camaraderie and trust within the company”.<sup>117</sup>

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<sup>116</sup> **KWA PEP**, April 1999, p. 16.

<sup>117</sup> **Die Burger**, 23.11.2001 (Mense is 'beste bate' – Pep).