A BUILDER OF great BUSINESSES

How one man took a failing business and turned it into a R12 billion powerhouse that drives entrepreneurship.

Words by Monique Verduyn

PHOTO: MIKE TURNER

In 2001, Jad Pereira founded and headed up a small but phenomenally successful division of Metcash called Unitrade Management Services (UMS). Then in 2004, a few bad decisions made by Metcash management started to cripple the group. Pereira moved quickly and raised R50 million to buy UMS in 2006. Today, under his leadership, UMS is one of the country's top trading groups, providing products and services to 150 independent store owners and turning over R12 billion a year. Unsurprisingly, he says that looking back, there's nothing he would have done differently, except start sooner. **Here's how he did it.**

MILESTONES IN GROWTH

2001 Jad Pereira is appointed MD of UMS by Metcash. The business achieves a turnover of R150 million in year one.

2003 Turnover grows to R1 billion.

2004 A Metcash management buyout leaves the group with insufficient working capital and the future looks very bleak for UMS.

2006 Pereira raises R50 million and buys UMS.

2007 UMS is on a growth path that sees the group growing by an average of 25% to 30% a year.

2013 UMS achieves a turnover of R12 billion.

In a JV between UMS and buying group IBC, ABC is formed and the two groups achieve buying power of R29 billion at store level through more than 220 wholesale and retail members.

Describe your career before you started the business

For some 20 years I was employed in the operations division of Shield Buying & Distribution, which was an independent buying group run by three entrepreneurs. It was during this time that I met a man named Sid Mcglashan who became my mentor. Working with him, I developed an admiration for South African entrepreneurs – men and women who had built substantial businesses from virtually nothing. I had a great desire to become one of them, but I had three young children and at the time would not take the risk.

In 1994 Shield Buying & Distribution was taken over by Massmart, which is Africa's third largest, high-volume, low-margin, low-cost distributor of consumer goods. This was a key factor in my decision to make my move and start a competitor. Corporate culture was simply not for me. Added to that, I did not believe that the buyout was in the interests of independent entrepreneurs in the FMCG industry, as the group would be more likely to focus on its many corporate-owned businesses which would undoubtedly take priority over businesses they did not own but certainly benefitted from. In addition, the group's businesses were competing with its associated independent retailers.

I resigned in 1998 and went to Bible College while serving out my restraint of trade period. I began to plan my vision for a new independent buying group. It was scary as I had given up a top post in a very progressive corporate group and I had nothing concrete ahead of me.

GETTING STARTED

Why did you decide to join Metcash?

To start the business I had in mind, I needed a partner with buying power so that we could provide independent retailers with benefits similar to those that corporate trading groups were offering. Choosing this partner was important as I needed a group that was progressive, had suitable buying power and understood my need to remain autonomous.

After many meetings with numerous groups, Metcash – then under the chairmanship of Carlos dos Santos, an entrepreneur himself – seemed the most suitable. The downside was that I had no ownership, but time was not on my side as independent stores were being snapped up.

The major groups were expanding rapidly into the previously disadvantaged areas. Wholesaler Masscash was buying up the best of independents and opening up stores wherever Metcash was dominant. Market share battles were raging everywhere and business analysts were forecasting doom for the independents.

By 2001, I was the MD of UMS, a wholly owned division of Metcash, and the business soon became known as the miracle baby of the industry. We grew quickly and in three years we went from R150 million turnover per year to R1 billion.

Our success was based on three elements: The model itself, our knowledge of the independents and the team I had built.

In 2004 Metcash management made a significant decision – to buy out the group from its institutional owners. Sadly, this left the group with insufficient working capital and within two years the business was crippled. This had an impact on UMS and we were eventually threatened with a total shut down. It was then that I had to move quickly – after the Metcash board agreed to sell off its non-core assets we began to look for funding.

What was your vision?

To be the leading wholesale and retail group specialising in the lower end of the market. We want to be the group that is trusted by the consumer to have their interests at heart by offering them product at the right price in a safe, comfortable environment.

How did you finance the purchase of UMS?

This was a miracle. I was introduced to two potential investors who worked closely with me and together we approached financial institutions for the R50 million we needed. Understandably, the banks were cautious. What were they buying? We had an income stream but we didn't own the stores so there was no real asset to purchase. I decided to approach our membership base, store owners with whom I had built strong, trusting relationships. Their faith in me was a most humbling experience. Between about 15 members we raised R10 million to put towards the purchase price. Meanwhile, one of the investors had convinced Absa to invest R40 million and in December 2006 we bought the business. Today, those original members own 15% of the group.

Where is the business today?

The number of member stores has grown steadily by about 10% every year. We have a group of 150 stores that have a turnover (sales out) of R12 billion per year. Our 'sales in' number is R3 billion. That has been achieved as the result of a very loyal partnership base, supportive suppliers and a business model that serves the needs of our partners and their customers.

Our member stores are known by the brands Powertrade, Food Town and Best Buy. They are a mix of retail, wholesale and hybrid stores that cater for low income consumers and are entirely community-focused.

THE BUSINESS MODEL

What is your business model and has it changed over time?

Essentially, our model is like that of a franchisor, but we do not charge our partners any fees. Our core business model has not really changed at all. Our mission remains to be a business dedicated to the task of building better businesses. Other groups are what the industry terms as 'buying groups'; they provide buying power for their members and they do that well. We did not want to be just another buying group. We wanted to build a business that provides all the services and products that any 'head office' would give to its own stores:

» Skills development and training
» Marketing that is uniquely tailored to their communities
» Administration support and a top buying team negotiating the best deals
» Credit facilities
» Sales and operational support
» Store development
» Private label programmes
» Business development plans
» Customised promotional plans.

We do not take away the entrepreneurial factor from the individual – we simply add to it. Each of our partners is a business owned by the entrepreneur, but with the added benefit of being part of a group without the associated costs.

Because of the market we serve, we have to keep costs as low as possible. The industry norm is to keep as much as possible. Our norm is to give as much as possible without compromising the much-needed range of products and services we provide to independents. Our profits are less than 1% of our turnover where the industry norm is anything from 2,5 to 5%.

“Being owner-run, our stores are all quite unique and the members are fiercely competitive. What we add to these independents results in a formidable partnership.”

What's the worst knock you've taken?

In 2008, Orient Cash ‘n Carry in Kliptown went into liquidation and we lost R60 million. Fortunately, we have great relationships with our bank and our suppliers. It's not in their interest for a group like ours to go bust, so they helped us to get through this very bad patch.

Give an example of the ongoing value-add you provide for UMS members

One of the most exciting recent developments is the launch of our state-of-the-art classroom-based training facility for the UMS Academy, which is one of the most innovative added value initiatives in the history of UMS. This will help to address the lack of formal, focused skills development initiatives for independent retailers and wholesalers, their management and their staff. There is a massive need for knowledge transfer and skills development in our market. The UMS Academy will provide training for business growth, and will ultimately facilitate community upliftment through the development of people. This is our way of giving back to the communities we serve.

How has your business strategy evolved?

We have to compete with large corporate buying groups like Shoprite, which has a more than R90 billion turnover. One of the ways we are doing that is by creating the Amalgamated Buying Consortium (ABC) 18 months ago. It's a 50/50 joint venture between UMS and buying group IBC. ABC has a combined turnover of R29 billion at store level through more than 220 wholesale and retail members. IBC and UMS have similar business models and are two of the few trading groups (excluding Massmart's Shield) that offer central accounting to suppliers and guarantee payment on their members' purchases.

How is it possible to operate like a franchisor without charging fees?

We take our partnerships with our members very seriously. We may not own their stores, but we behave as if we do. These people are men and women who are without doubt amongst the finest entrepreneurs in the country. We don't just take anyone on as a partner. We take members who are progressive in their thinking, dedicated to their businesses and understand the need to always evolve.

There is a cost to the business, but not to the members. Where other corporately owned buying groups make more profit than we do, we choose to be less profitable and invest more back into the members' businesses by producing products that enable them to compete far more effectively. By building a brand that has become well known in their respective communities, having an academy that constantly upgrades their skills, and employing buying and field operational teams, we don't just survive in the communities, we succeed.

What impact has the economy had on the business, and how have you responded?

There isn't a business in this country that has not been impacted by the economy. Because we deal only with the lower end of the market, we have probably been impacted more than others. Strikes and the rising costs of electricity and transport have seriously impacted us all. How do we respond? We work harder and smarter and we keep the independent competitive. If the cake is smaller, we fight for a larger slice for every individual member. Our marketing initiatives at both a group and an individual level remain the most innovative in the industry. We have many examples that have worked well.

Describe your organisational structure.

We are extremely careful about who we employ. Our culture and values are paramount to our success and we seek out people who are passionate. Mediocrity is not tolerated at UMS. Great companies are not built by average people, and good is not good enough in our culture.

The organisational structure is a flat one divided into operations, IT, merchandise, financial, marketing and academy. Each of these is led by people who live the business, three of them are my own sons. No division is more important than another and we all understand how interdependent we have to be to achieve greatness.

KEY DIFFERENTIATORS

How do you differentiate the group in such a competitive market?

‘United Yet Unique’ is our payoff line. We build our business through building the brand, and we build members' businesses within the community by helping them to run community-based promotions in conjunction with our suppliers. We do not have the budget for expensive advertising, so we do lots of in-store promotions. This works well because it results in direct contact with that target market. Instead of competing with corporates that have millions to spend on advertising, we go local. Over and above this, members also have their own strategies within the local market. Being owner-run, our stores are all quite unique and the members are fiercely competitive. What we add to these independents results in a formidable partnership.

How do you ensure the business generates a profit?

We have a financial team led by a financial director that matches any big corporate organisation. We manage our costs well and we provide sales services to our suppliers and members, always ensuring turnover remains at a maximum level. As a team we ensure that the productivity level from each and every person is at its best.

How has your management style contributed to UMS's success?

I live the business when it comes to culture, values and discipline, and my team is committed to the same. I continuously seek to improve my own leadership skills. I also have ongoing contact with many of our members and I believe those relationships are the business's greatest asset.

What advice do you have for other entrepreneurs?

Write the vision down. See the business in your mind's eye before you start, then remain focused on your goals. Surround yourself with the best. **EM**