Looking Back: Tiger Brands

Tiger Brands is the leading Fast Moving Consumer Goods (FMCG) producer in Africa, having achieved this status through a complex trajectory that included numerous acquisitions, divestitures, rebranding initiatives, strategic realignments, and responses to various challenges. This article outlines several key milestones that demonstrate how the company continues to pursue innovation and strategic re- finement to maintain its competitive edge within the industry.

Established in 1921 by Jacob Frankel with the support of Joffe Marks, the company was initially known as Tiger Oats Limited and operated as a family-owned business in Johannesburg, South Africa. In 1925, it introduced its first product—Jungle Oats, a breakfast oatmeal recognised for its distinctive "tiger-in- the-grass" logo. Today, Jungle Oats remains a prominent and trusted brand in South African households.

In 1944, Tiger Oats Limited and the National Milling Company Limited, founded by Frederick John Collier, merged and were listed on the Johannesburg Stock Exchange (JSE), where the company continues to maintain its primary listing. Following the merger, the business focused on increasing market share through strategic acquisitions and investment in existing brands. In 1982, Barloworld, via CG Smith, acquired a majority stake in Tiger Oats. Six years later, Tiger Oats became the wholly owned parent of Spar South Africa. In 1993, CG Smith was unbundled from Barloworld.

During the late 1990s, the company adopted a more aggressive acquisition strategy, purchasing ICS Holdings Limited in 1998, followed by the R3.4 billion acquisition of pharmaceutical firm Adcock Ingram in 1999. Upon completion of this latter transaction, Tiger Oats rebranded as Tiger Brands to represent better its focus on branded consumer food and healthcare products.

To further refine its core business, management separately listed the animal feed and poultry operations as Astral Foods in 2001. Four years later, the company's stake in Spar was also unbundled, and Spar was listed independently as a retailer.

With a more streamlined and strategically aligned portfolio, the company continued its acquisition strategy by acquiring Nestlé's sugar confectionery businesses, including the well-known Jelly Tots brand, in 2006. Tiger Brands subsequently broadened its branded product range into beverages through the acquisition of Bromor Foods in 2007, incorporating prominent brands such as Oros, Energade, and Rose's. In 2009, Tiger Brands reinforced its notable expansion throughout the 2000s by acquiring Crosse & Blackwell mayonnaise from Nestlé, a brand that currently maintains a market share exceeding 30%.

Between approximately 1996, when the business initiated its aggressive expansion strategy, and 2016, Tiger

Brands' share price appreciated by nearly 1000%. By 2005, the company had achieved record operational performance, with operating margins surpassing 15%. This strong performance was sustained for over ten years, with average operating margins of 13.8% leading up to the 2016 financial year.

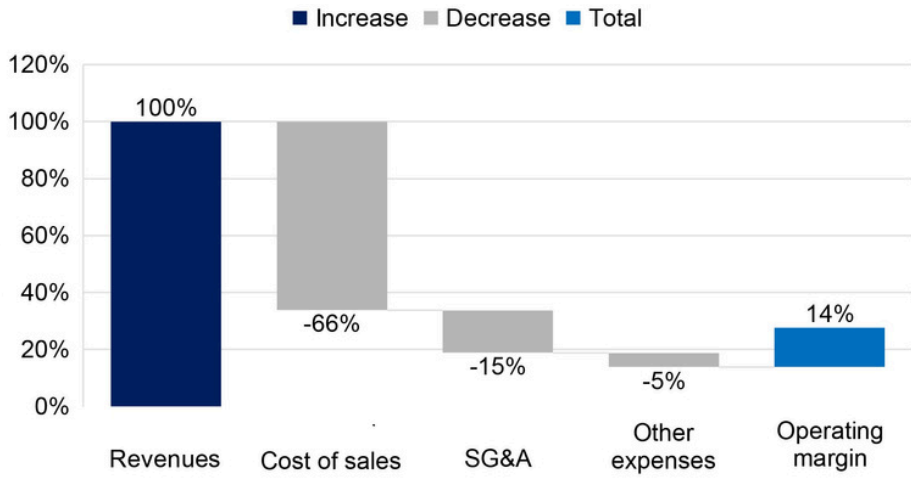
In March 2017, Tiger Brands experienced a significant event when listeriosis, a foodborne bacterial illness, was identified in polony produced by Enterprise Foods, a subsidiary located in Polokwane, Limpopo. By 24 February 2018, the outbreak had affected 872 individuals, with later reports estimating 180 deaths attributed to the illness. The South African National Institute for Communicable Diseases reported the outbreak, which was publicly announced by the then Minister of Health, Aron Motsoaledi. Subsequently, Tiger Brands' share price declined by 7%, resulting in a R5.7 billion decrease in market capitalisation, despite management stating they had not received sufficient evidence tying the outbreak directly to their facility.

Additionally, supply chain inefficiencies and certain portfolio businesses not aligning with strategic objectives contributed to operational challenges. As a result, the company's operating margin conversion declined from an average of approximately 14% between 2005 and 2016 to an average of 10% from 2017 to 2024. The increase in the cost of producing goods from 66% to 70% over the recent eight-year period was cited as a contributing factor to these changes.

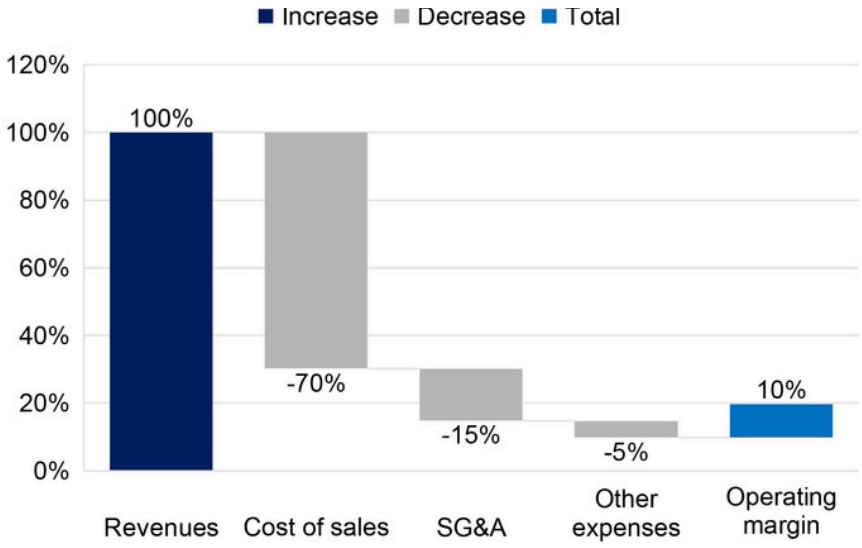
In response to low consumer confidence, Tiger Brands implemented a new operating structure in 2023, known as the "Federated Operating Model." The primary goal of this model is to achieve cost leadership, focusing on improving both gross

OPERATING MARGIN

MARGIN CONVERSION 2005 -2016



MARGIN CONVERSION 2017 -2024



BLUEALPHA INVESTMENT MANAGEMENT

and operating margins. The company employs six principal strategies; each is outlined below with practical examples that management has already introduced to improve cost efficiency.

The first strategy, value engineering, aims to increase margins by designing for value and reducing costs in various processes. For example, the Black Cat peanut butter prod- uct line now offers non-salted and no-sugar options, which reduces ingredient use and costs while expanding consumer choices.

Secondly, procurement optimisation targets reductions in spending on select raw materials and packaging. In the Black Cat range, some products have shifted from bottled to plastic packaging as a cost-saving measure.

The third approach, supply chain optimisation, seeks ways to reduce distribution expenses by digitis- ing supply chain operations and streamlining route management. An example includes adopting real-time route monitoring technology to support delivery efficiency.

Fourth, SKU complexity reduction seeks to simplify recipes, production, and packaging. The company plans to reduce the number of SKUs by 20% over the next two years and is currently reporting a 23% reduction. Examples include separating the international businesses of Carozzi and Chococam, as well as selling the Baby Care division, resulting in a net profit of R84 billion from discontinued operations in 2024.

Fifth, process innovation and automation involve investments in targeted automation projects to lower production costs and waste. This also includes time motion analysis to enhance workforce productivity.

The final strategy, manufacturing footprint optimisation, intends to maximise asset use by increasing demand and production output, and, where possible, consolidating operational sites.

Following these activities, Tiger Brands' share price increased by 143% from its 2023 low, and margins have remained above 8% for the last two years. Ongoing evaluation of the business will track progress and potential developments associated with this strategy.