

PERFORMANCE REVIEW

CUSTOMER VALUE-ADDED PRODUCTS

AFRICA



Customer value-added products highlights

TFG remains the biggest publisher of monthly magazines in South Africa. The publishing portfolio increased to 15 titles with an average of approximately 1,5 million subscriptions billed monthly. The portfolio is segmented into lifestyle offerings covering the interests of men, women, children, the youth and family. Our publishing categories include cooking, motor, sports, fitness, technology, décor, fashion and travel.

The insurance portfolio, which offers long-term and short-term insurance products mainly to account holders, repositioned and enhanced existing products to

meet changing consumer needs. An enhanced TFG retrenchment plan and a fraud alert offering were launched, increasing the portfolio to 15 insurance products.

The One2One (O2O) portfolio, which provides airtime and data contracts to existing account holders via the telemarketing channel, achieved positive growth amid fierce competition.

Performance overview

Publishing portfolio

The past year proved challenging, characterised by difficult macroeconomic conditions coupled with the impact of the new Affordability Regulations. This continued to limit growth in new accounts, with an adverse effect on the size of the account base available as a market for value-added products. Currently, most of the customer value-added products are offered to credit account holders.

The consumption of media across a variety of digital platforms remains a challenge for the publishing industry as advertisers shift their allocation of advertising spend to keep up with consumer media consumption trends. Consumers are also becoming more selective in their spending.

Our efforts to launch new products and activate new sales channels assisted in stabilising the performance of the portfolio. Net income achieved for the year was R180,6 million, down slightly from last year.

The *FitLife* magazine, which was launched in the second half of the year, exceeded expectations with a subscription base of approximately 21 500. An agreement was reached with Caxton magazines whereby the publishing portfolio on-sells *Bona* magazine. The TFG subscription base for this magazine is now approximately 16 500. *Motor* magazine subscriptions continue to grow strongly with the latest count being approximately 42 000.

Balanced Life, *Sports Club*, *Soccer Club*, *MyKitchen*, *Kids SuperClub*, *ClubX* and *Tech* magazines remain category leaders in Audit Bureau of Circulations' (ABC) figures.

Production and distribution costs continued to be adversely impacted by volatile exchange rates. The third quarter of the year saw the introduction of a 360 strategy whereby print is supported by a strong digital and social media presence. The strategy is starting to deliver early positive results, particularly through the generation of significant advertising revenue.

Customer value-added product performance

PUBLISHING
NET INCOME**R180,6m**

(2016: R182,1m)

(0,8%) CHANGEINSURANCE
NET INCOME**R196,0m**

(2016: R198,1m)

(1,1%) CHANGEONE2ONE (O2O)
NET INCOME**R67,4m**

(2016: R57,4m)

17,4% CHANGETOTAL NET
INCOME**R444,0m**

(2016: R437,6m)

1,5% CHANGENUMBER OF NEW
PRODUCT/SERVICE
LAUNCHES**4**

(2016: 3)

Late in 2016, the portfolio concluded agreements on the distribution of some of its magazine titles via external retailers. The benefits of this strategy will only be evident in the new financial year.

Insurance portfolio

As was the case with the publishing portfolio, challenging macroeconomic conditions, coupled with the negative impact on the volume of new accounts due to the Affordability Regulations, added significant pressure on performance. Net income for the year at R196,0 million was down 1,1% from the previous year.

The insurance portfolio experienced good growth in policy billings following the opening of a new outsourced sales channel. Where appropriate, existing products were repositioned from a value proposition point of view to better meet market demand.

O2O portfolio

The portfolio saw growth of 17,4% in net income, largely due to changes in the business model and the introduction of a more relevant value proposition in the form of bundled products. We successfully launched a bundled product offering that includes airtime, cellphone and insurance options.

New sales strategies in the telemarketing centre contributed to growth in an industry that continues to face significant competition with the major networks competing on price and putting pressure on margins.

Future focus

01

The publishing portfolio is evolving from a traditional print publishing model to a more comprehensive media model. Signs of additional revenue growth followed the launch of the 360 strategy. The new value proposition will be augmented with the portfolio's digital initiatives, which support TFG's e-commerce strategy.

02

Following the successful launches of *Bona* (Caxton magazines) and *SARugby* (Highbury Media) magazines, we will consider similar strategic partnerships with third parties in the next year.

03

The insurance portfolio continues to operate in an industry where the regulatory environment changes and evolves, with a myriad of new requirements to be implemented in the next two years. We will remain vigilant with regard to compliance and will be on the lookout for opportunities arising from any market disruption.

04

The launch of insurance products into the cash market is planned for 2017 following a delay in a new system implementation. The portfolio will be launching new products while extending current products to include family and spousal benefits. We are also considering third-party strategic partnerships, particularly where the third party is able to contribute unique product, service or supply chain competencies to the value proposition.

05

For the O2O portfolio, the challenge remains ensuring a differentiated value proposition in an uncertain economic climate.

06

The O2O portfolio will focus on leveraging the TFG stores environment, including *hi* stores as sales channels. We are also researching the possibility of launching additional value-added services.