

Microloans are Cash Converters' best business

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Mention the company Cash Converters and the response is usually: "Doesn't it sell second-hand goods and aren't most of the products it sells stolen?"



Micro-loans are the top-selling part of the Cash Converters business. Image: Cash converters.

The reality is somewhat different. Most of the goods brought to the company's shops are sold by people from more affluent areas who want to replace their kit with the latest TVs or hi-fis, or want a new lounge suite.

One might assume that the shops operate in lower-income areas, but they are common in the wealthier suburbs, close to homes oozing products that are due to be replaced.

Moreover, two-thirds of Cash Converters' business now comes from micro-loans.

The firm has been in South Africa for 20 years, part of a 30-year-old business listed on the Australian Stock Exchange.

The company buys unwanted items, fixes them and sells them. It pays a third or possibly a quarter of the retail price and resells the goods at about half the price of new products.

When South Africa's banks restricted loans to consumers, Cash Converters began offering loans and has been doing so with gusto since 2007.

Second-hand goods

Chief executive Richard Mukheibir brought the franchise to South Africa in 1994 to sell goods in emerging markets: "It's like the McDonald's drive-through for second-hand goods," he said.

The credit options available to clients are cash advances and payday advances. The former, a secured microloan, averages R500 for a 30-day loan and consumers are able to borrow a maximum of R8,000. Payday advances - unsecured microloans - average R1,200 for a 30-day loan and have a maximum of R4,000.

Mukheibir said the business was for people who need cash quickly as well as those who want to upgrade their gadgets. Cash Converters mostly sells electronic items such as TVs, cellphones and even iPads.

Of the 850 stores in 25 countries around the world, the largest is in Hillfox, Johannesburg. It specialises in furniture.

There are 68 Cash Converters stores in the country. The company plans to build 10 more stores in the next six months and double the number of outlets in the next five years.

Mukheibir said the business did better in tough times, so indications are that Cash Converters is in for a buoyant time for the next few years.

Turnover rising

Retail turnover is up 26% over the past year, higher than that shown in the listed universe. Some of the stranger goods Cash Converters has bought include a pair of live ostriches, goldfish and a tombstone.

"We don't want to say no. We want to create in the mind of consumers a place where they can bring anything," said Mukheibir.

There is little doubt that stolen goods do creep into the system. "We will never get it right all the time," said Mukheibir. But he added that less than 0.5% of goods taken in annually had been stolen.

To keep sellers on the straight and narrow, the business does not deal with anyone under the age of 18. It also requires the contact numbers and addresses of the sellers, photographs everything and marks goods with the date of the transaction and the time.

Cash Converters also "matches" a seller with an item. An 18-year-old trying to off-load a hefty diamond ring, for example, would raise a red flag because few youngsters own such an item.

And, to avoid the danger of having too much cash on the premises, money is loaded to a debit card.

Cash Converters has 150 shops in Australia - which has a population of 23.4m - and 240 in the UK, which is home to 63m people.

Source: Business Times via I-Net Bridge

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